



INTERNATIONAL
TRADE
ADMINISTRATION

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

Tennessee www.export.gov/fta/korea/state

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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.

Tennessee Depends on World Markets

Tennessee's export shipments of merchandise in 2007 totaled \$21.8 billion, the 16th largest figure among the states. Tennessee's export shipments grew 73 percent from 2003 to 2007. By comparison, the total U.S. growth in merchandise exports over this period was 61 percent.

Exports Support Jobs for Tennessee Workers –

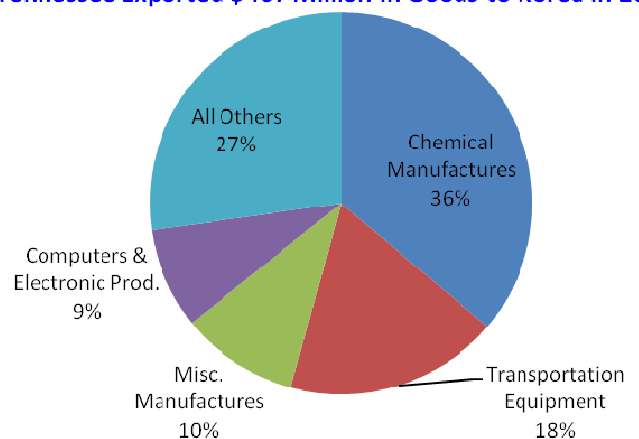
Export-supported jobs linked to manufacturing account for an estimated 5.7 percent of Tennessee's total private-sector employment. One-sixth (16.7 percent) of all manufacturing workers in Tennessee depend on exports for their jobs. (2006 data are the latest available.)

Exports Sustain Thousands of Tennessee Businesses – A total of 4,295 companies exported goods from Tennessee locations in 2006. Of those, 3,446 (80 percent) were small and medium-sized enterprises (SMEs), with fewer than 500 employees.

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

SMEs generated 14 percent of Tennessee'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.

Tennessee Exported \$467 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 Tennessee Exports

Chemical Manufactures – Chemical Manufactures was Tennessee's third leading export category in 2007, accounting for \$3.2 billion in merchandise exports. Tennessee'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. Tariffs on high-trade U.S. products such as halides and copper oxides will be eliminated immediately upon implementation of the Agreement. Current Korean chemical tariffs average 6 percent and can be as high as 50 percent.

Transportation Equipment – Transportation equipment was Tennessee's largest export category in 2007, accounting for \$4.1 billion in merchandise exports. Tennessee'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.

Paper Products – Paper products accounted for \$659 million in merchandise exports in 2007. Tennessee's paper and paper products producers will benefit from the immediate elimination of Korean tariffs on 100 percent of U.S. paper products. Korean tariffs in this sector currently average 0.2 percent. The top U.S. exports to Korea in this sector included graphics paper and paperboard, chemical woodpulp, kraftliner, and newsprint.

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

In 2006, Tennessee's agriculture exports to the world amounted to \$924 million (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 Tennessee such as beef, poultry, and soybeans. 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 Tennessee

Since the North American Free Trade Agreement's (NAFTA) entry into force in 1994, Tennessee's combined exports to Canada and Mexico have grown by 281 percent. Since the entry into force of the U.S.-Morocco FTA in 2006, Tennessee's exports to Morocco have grown by 63 percent. Also, Tennessee's exports to Chile have grown by 134 percent since the entry into force of the U.S.-Chile agreement in 2004.

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.