

## **United States-Korea Free Trade Agreement (KORUS FTA) Wisconsin Impact**

**March, 2011**

### **Overview:**

The U.S. and Korean governments announced that the free-trade agreement between the two nations will take effect March 15, 2012. Congress approved the United States-Korea Free Trade Agreement (KORUS FTA) in October 2011. The United States and the Republic of Korea signed the KORUS FTA on June 30, 2007. On December 3, 2010, the United States and Korea concluded new agreements, reflected in letters signed on February 10, 2011 that provide new market access and level the playing field for U.S. manufacturers and workers.

Under the KORUS FTA, almost 80 percent of U.S. exports to Korea of consumer and industrial products will become duty free on March 15, 2012, and nearly 95 percent of bilateral trade in consumer and industrial products will become duty free within five years of that date. Most remaining tariffs would be eliminated within 10 years.

For agricultural products, the KORUS FTA will immediately eliminate or phase out tariffs and quotas on a broad range of products, with almost two-thirds (by value) of Korea's agriculture imports from the United States becoming duty free upon entry into force.

For services, the KORUS FTA will provide meaningful market access commitments that extend across virtually all major service sectors, including greater and more secure access for international delivery services and the opening up of the Korean market for foreign legal consulting services.

Benefits of the KORUS FTA include:

- Tariff elimination for over 95 percent of U.S. exports of consumer and industrial products within five years.
- Tariff elimination for nearly two-thirds of U.S. agricultural exports immediately on entry into force.
- Significant new market access for U.S. service suppliers. Open Korea's \$580 billion services market – supporting jobs for U.S. workers in sectors ranging from delivery and telecommunications services to education and health care services.
- Extensive elimination of non-tariff barriers, including in the autos sector.
- Tariff eliminations and strong transparency obligations will facilitate SME exports.

### **Impact on Wisconsin:**

Key U.S. exports that will gain immediate duty-free access to South Korea include almost all products in these sectors:

- aerospace equipment
- automotive and parts
- consumer goods

- electrical equipment
- environmental goods
- medical equipment
- paper and paper products
- scientific equipment
- shipping and transportation equipment
- wood and lumber

### **Top Wisconsin Exports to South Korea:**

South Korea is Wisconsin's 11<sup>th</sup> largest export destination. Wisconsin's exports to S. Korea for 2011 totaled \$419.6 million, a 16.48% increase over previous year.

Product	Exported from WI in 2011 (\$ million)	% of Total WI Exports	Δ 2010-2011 ( %)
Industrial Machinery	\$101.1	24	6.8
Medical and Scientific Equipment	\$84.1	20	16.8
Electrical Equipment	\$47.5	11	5.7
Meat	\$29.9	7	27.8

### **Opportunities for Wisconsin Companies:**

S. Korea is the 13<sup>th</sup> largest economy in the world with GDP of \$1.55 trillion. The estimated GDP growth for 2011 was 3.9%. The KORUS FTA will enhance U.S. access to this high growth market.

U.S. is the 3<sup>rd</sup> largest suppliers of products to South Korea (after China and Japan). S. Korea imported \$68.3 billion of products from the U.S. in 2011, a 6.2% increase.

### **Industrial Machinery**

- Primary Wisconsin exports from this category include refrigeration compressors, valves, renewable energy equipment, air pollution control equipment, pumps, water filtering and purifying equipment, and piston engines and engine parts.
- Korean machinery tariffs average 7.5 percent, ranging from zero to 13 percent. The elimination of Korean tariffs on U.S. machinery manufactures will provide a competitive boost to exporters, who will no longer face tariffs as high as 13 percent.
- Over 48 percent of machinery exports to Korea would receive duty-free treatment immediately upon implementation of the trade agreement; tariffs on an additional 38 percent of machinery exports to Korea would be eliminated over three years and tariffs on nearly 3 percent of machinery exports would be eliminated over five years. Tariffs on the remaining 10 percent of U.S. machinery exports would be eliminated in equal cuts over ten years.
- One hundred percent of agricultural and construction equipment, including tractors, lawn mowers, straw balers, conveyors, loaders, bulldozers, mechanical shovels, boring and sinking machinery, derricks, and dumpers, will continue to receive duty-free treatment.

## **Medical Equipment**

- Top Wisconsin medical equipment exports to Korea include X-Ray and diagnostic equipment
- Korea's medical equipment market, which is currently valued over \$2.5 billion, is forecast to grow 10-15 percent annually in the next several years. In addition to an aging population, continued economic growth will result in demands for better healthcare in Korea.
- Korean medical equipment tariffs average 5.4 percent, ranging from zero to as high as 50 percent.
- More than 43 percent of U.S. medical equipment exports to Korea would receive duty-free treatment immediately upon implementation of the trade agreement. Tariffs on an additional 47 percent of medical equipment exports to Korea would be eliminated over three years and tariffs on a further 3 percent of medical equipment exports would be eliminated over five years. Tariffs on the remaining 7 percent of U.S. medical equipment exports would be eliminated in equal cuts over ten years.

## **Electrical Equipment**

- Top Wisconsin electrical equipment exports to Korea include electrical apparatus, electric switches, electric generating sets etc.
- Korean electrical equipment tariffs average 7.4 percent, ranging from zero to 13 percent.
- Nearly 96 percent of U.S. electrical equipment exports to Korea would receive duty-free treatment immediately upon implementation of the trade agreement. Tariffs on an additional 3 percent of electrical equipment exports to Korea would be eliminated over three years and tariffs on less than 0.1 percent of electrical equipment exports would be eliminated over five years. Tariffs on the remaining 1 percent of U.S. electrical equipment exports would be eliminated in equal cuts over ten years.

## **Environmental Goods**

- With Korea's "Green Growth Strategy", opportunities for U.S. exporters will likely increase in the years ahead.
- Korean environmental goods tariffs average 5.8 percent, ranging from zero to 16 percent.
- Nearly 71 percent of U.S. environmental goods exports to Korea would receive duty-free treatment immediately upon implementation of the trade agreement. Tariffs on an additional 25 percent of environmental goods exports to Korea would be eliminated over three years, and tariffs on a further 1 percent of environmental goods exports would be eliminated over five years. Tariffs on the remaining 3 percent of U.S. environmental goods exports would be eliminated in equal cuts over ten years.

## **Paper and Paper Products**

- The paper and paper products sector accounted for about \$3 million in Wisconsin exports to Korea in 2011.
- Korean paper and paper products tariffs average 0.2 percent, ranging from zero to 7 percent.
- All U.S. paper and paper products exports to Korea would receive duty-free treatment immediately upon implementation of the trade agreement.

### **Consumer Goods**

- Korean consumer goods tariffs average 7.0 percent, ranging from zero to 13 percent.
- Approximately 80 percent of U.S. consumer goods exports to Korea would receive duty-free treatment immediately upon implementation of the trade agreement. Tariffs on an additional 19 percent of consumer goods exports to Korea would be eliminated over three years, and tariffs on a further 1 percent of U.S. consumer goods exports would be eliminated over five years.

### **Wood and Lumber**

- The wood and lumber sector accounted for \$4 million in Wisconsin exports to Korea in 2011.
- Korean wood and lumber tariffs average 5.9 percent, ranging from 1 to 12 percent.
- Nearly 83 percent of U.S. wood and lumber exports to Korea would receive duty-free treatment immediately upon implementation of the trade agreement. Tariffs on an additional 10 percent of wood and lumber exports to Korea would be eliminated over three years and tariffs on a further 3 percent of wood and lumber exports to Korea would be eliminated over five years. Tariffs on the remaining 4 percent of U.S. wood and lumber exports would be eliminated in equal cuts over ten years.

The U.S.-Korea Trade Promotion Agreement will provide Wisconsin companies with excellent opportunities to expand their export markets. The Wisconsin International Trade Team at the Wisconsin Economic Development Corporation (WEDC) is available to assist Wisconsin manufacturing companies expand exports to South Korea. Businesses interested in trade activities and programs in South Korea and Asia should contact:

Beng Yeap  
Market Development Director – Asia Pacific  
[Beng.Yeap@wedc.org](mailto:Beng.Yeap@wedc.org)  
608-266-1480