Korea FTA Outcomes on the Pact's Second Anniversary

U.S. Exports to Korea Are Down, Imports from Korea Are Up, Auto and Meat Sectors Hit Particularly Hard

www.tradewatch.org

March 2014

Public Citizen's Global Trade Watch

Published March 2014 by Public Citizen's Global Trade Watch

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Acknowledgments: This report was written by Ben Beachy. Thanks to Lori Wallach for comments. Errors and omissions are the responsibility of the author.

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Korea FTA Outcomes on the Pact's Second Anniversary: U.S. Exports to Korea Are Down, Imports from Korea Are Up, Auto and Meat Sectors Hit Particularly Hard

The Rising U.S. Trade Deficit with Korea under the Pact Used as the TPP Template Is Bolstering Opposition to Obama's Bid for Fast Track Authority

In 2011 the Obama administration sold a "free trade" agreement (FTA) with Korea to a skeptical Congress with promises that it would mean "more exports, more jobs."[1] Two years after the pact went into effect, the actual outcomes are exactly the opposite of what was promised: U.S. monthly exports to Korea are down 11 percent, imports from Korea have increased and the U.S. monthly trade deficit with Korea has swelled 47 percent.[2]

Since the 1993 battle over the North American Free Trade Agreement (NAFTA), time and again the U.S. public and Congress have been promised that the latest trade deal will expand our exports – creating U.S. jobs and new profits for U.S. farmers and ranchers. For the Korea pact, the Obama administration promised that modifications had been made to ensure it would not repeat the job loss record of NAFTA. The pact was passed with strong GOP support, while two-thirds of House Democrats opposed it.[3]

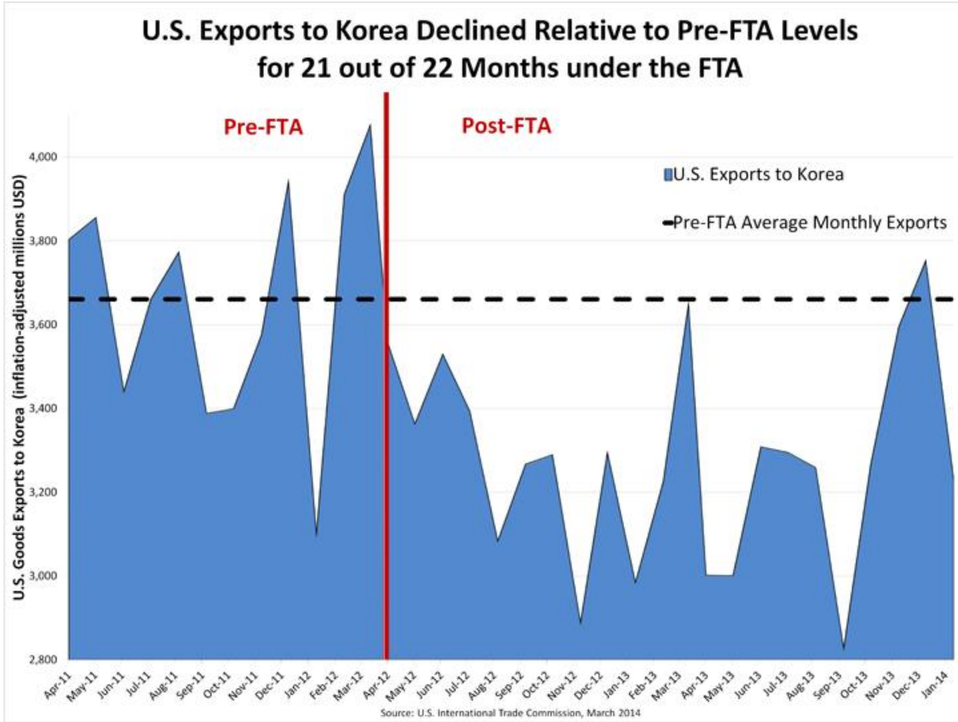
Now, once again, the administration is using the same export growth claims to sell the controversial Trans-Pacific Partnership (TPP), a massive deal being negotiated with 11 other nations. The administration used the Korea FTA text as an opening U.S. offer for many TPP chapters.

But time and again, the reality has proven to be the opposite of what was promised. As the Korea FTA's initial results have come in, the wide gulf between the administration's promises for the pact and its disappointing realities has fueled congressional skepticism toward similar export growth promises now being used to push for Fast Track authority for the TPP. By the end of 2013, 19 of the 50 House Democrats still in office who had supported the Korea FTA had signed a letter in opposition to Fast Track.[4] In 2014, more Korea FTA-supporting House Democrats have come out in opposition to legislation introduced to reinstate Fast Track for the TPP.

U.S. Goods Trade Deficit Swells and Services Exports Slow under the FTA

In 21 out of 22 months since the Korea FTA took effect, U.S. goods exports to Korea have fallen below the average monthly level in the year before the deal, as indicated in the graph on the next page. Under the FTA, the United States has lost an average of $385 million *each month* in exports to Korea, given an 11 percent decline in the average monthly export level in comparison to the year before the deal. That amounts to an estimated, cumulative loss of more than $9.2 billion in U.S. exports to Korea under the FTA's first two years.[5]

As U.S. exports to Korea have declined under the FTA, average monthly imports from Korea have risen 4 percent and the average monthly trade deficit with Korea has ballooned 47 percent in comparison to the year before the deal. The total U.S. trade deficit with Korea under the FTA's second year is projected to be $8.6 billion higher than in the year before the deal.[6] Using the administration's export-to-job ratio**, this drop in net U.S. exports to Korea in the FTA's first two years represents the loss of more than 46,600 U.S. jobs.**[7]



Meanwhile, U.S. services exports to Korea have slowed under the FTA. **While U.S. services exports to Korea increased at an average quarterly rate of 3.0 percent in the year before the FTA took effect, the average quarterly growth rate has fallen to 2.3 percent since the deal's enactment – a 24 percent drop.** The pre-FTA year used as a baseline was not an anomaly – taking into account the full 13 pre-FTA years for which data are available, the long-term average pre-FTA quarterly growth rate for U.S. services exports to Korea was 2.9 percent, 21 percent higher than the post-FTA rate.[8]

U.S. Exports Decline under the FTA despite Growth in Korean Demand

Some may argue that the fall in U.S. exports to Korea is simply part of a global decline in trade flows. It is true that in 2012 tepid overall demand and falling international prices did put a damper on global export growth. But they did not cause global exports to decline (i.e. as seen in the global recession following the 2007-2008 financial crisis). Instead**, global exports in 2012 rose by 2 percent even as U.S. exports to Korea fell.**[12]

Another possible explanation for the exports decline is that Korean domestic demand has ebbed in the post-FTA period, causing a generalized decrease in consumption, including for imported goods. However, Korean domestic demand has not faltered: gross national income grew 2.3 percent in Korea in 2012 and final consumption expenditures grew 2.2 percent.[13] Koreans are purchasing more, not fewer, goods.

Export Growth to Non-FTA Partners Exceeds Growth to FTA Partners by 30 Percent

The decline in U.S. exports under the Korea FTA contributed to an overall zero percent growth in U.S. exports in 2013,[9] rendering virtually impossible Obama's stated goal to double exports by the end of 2014.[10] At the export growth rate seen over the past two years, the export-doubling goal would not be reached until 2054, 40 years behind schedule. While U.S. exports to Korea actually declined after the Korea FTA's enactment, sluggish export growth under U.S. FTAs is common. Overall growth of U.S. exports to nations that *are not* FTA partners has exceeded combined U.S. export growth to nations that *are* FTA partners by 30 percent over the last decade.[11]

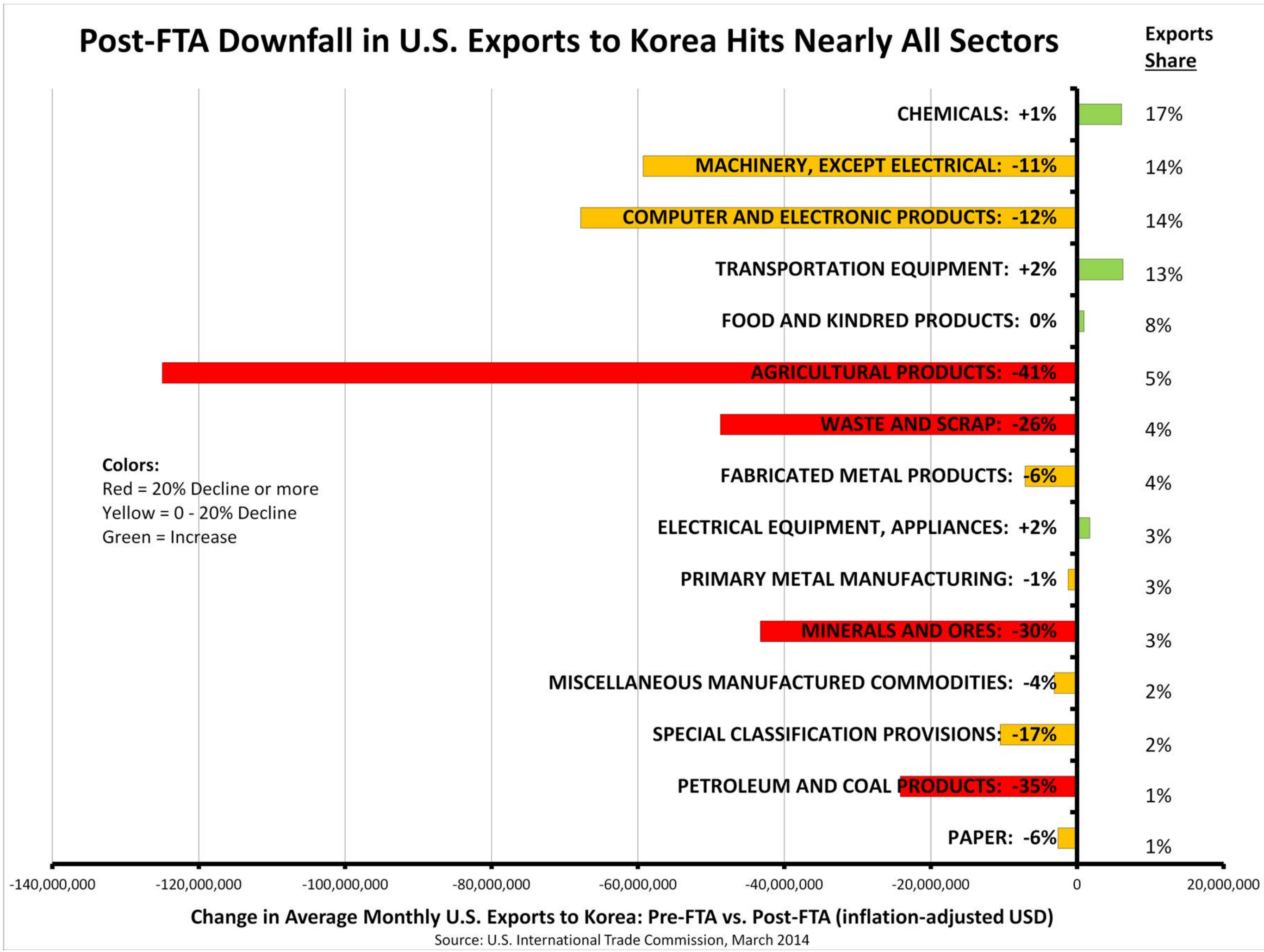
Post-FTA Downfall in Exports to Korea Affects Most U.S. Export Sectors

Since the FTA took effect, U.S. average monthly exports to Korea have fallen in 11 of the 15 sectors that export the most to Korea, relative to the year before the FTA. See the graph below.

- Average monthly exports of machinery and computer/electronic products, collectively comprising 28 percent of U.S. exports to Korea, have fallen 11 and 12 percent respectively under the FTA.
- Average monthly exports of agricultural products have fallen 41 percent – a decline of $125 million per month.

In contrast, of the four critical export sectors that have seen increases in average monthly exports to Korea under the FTA, none has experienced an increase of greater than 2 percent.[14]

Other sectors experiencing export declines include fabricated metal products, minerals and ores, primary metal manufacturing, petroleum and coal products, waste and scrap, paper and other manufactured products. The broad-based drop in U.S. exports to Korea under the FTA casts doubt on industry-specific explanations for the downfall, pointing instead to economy-wide factors.



Surge of Auto Imports Swamps Auto Exports to Korea under the FTA

In arguing for passage of the Korea FTA in 2011, the Obama administration claimed the deal would bring "more job-creating export opportunities in a more open and fair Korean market for America's auto companies and auto workers," while a special safeguard would "ensure[] that the American industry does not suffer from harmful surges in Korean auto imports due to this agreement."[15]

Though U.S. auto exports have risen under the FTA, that increase has been swamped by the surge in auto imports from Korea that the administration promised would not occur. **While U.S. average monthly automotive exports to Korea under the FTA have been $12 million higher than the pre-FTA monthly average, average monthly automotive imports from Korea have soared by $263 million under the deal – a 19 percent increase.**[16]

In January 2014, monthly automotive imports from Korea topped $2 billion for the first time on record.[17] About 125,000 more Korean-produced Hyundais and Kias were imported and sold in the United States in 2013 (after the FTA) than in 2011 (before the FTA),[18] while sales of U.S.-produced Fords, Chryslers and Cadillacs in Korea increased by just 3,400 vehicles.[19] The post-FTA flood of automotive imports has provoked a 19 percent increase in the average monthly U.S. auto trade deficit with Korea.[20]

U.S. Meat Exports to Korea Go Bad under the FTA

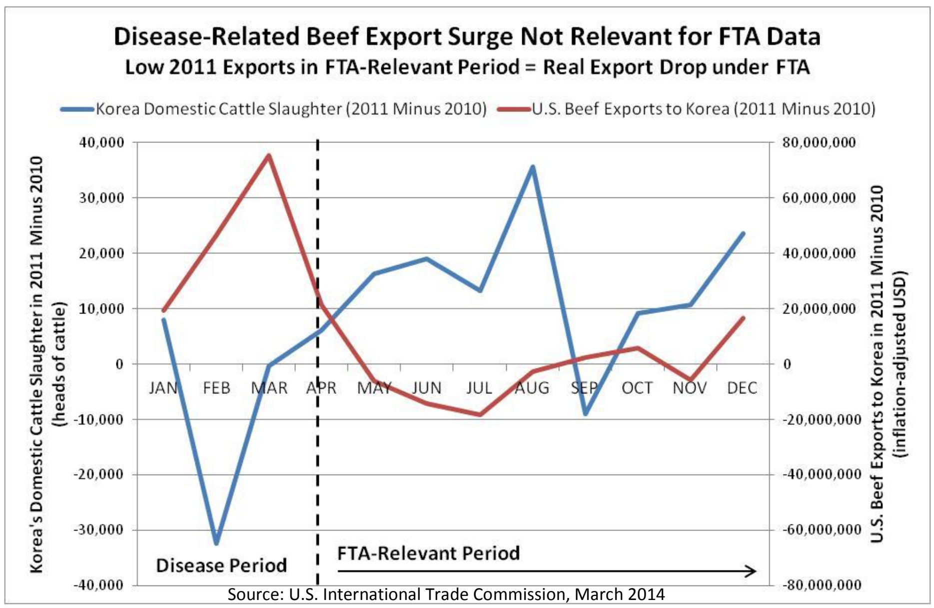
The Obama administration also promised that U.S. exports of meat would rise particularly swiftly under the Korea FTA, thanks to the deal's tariff reductions on beef, pork and poultry. For example, in a factsheet used to promote the FTA, the White House claimed: "Tariff eliminations on Korea's existing 40 percent tariff will further boost beef exports, saving an estimated $1,300 per ton of beef imported to Korea – savings that would total $90 million annually for U.S. beef producers at current sales levels."[21] Ironically, U.S. meat exports to Korea have plummeted even faster than many other exports.

Compared with the exports that would have been achieved at the pre-FTA average monthly level, U.S. meat producers have lost a combined $442 million in poultry, pork and beef exports to Korea in the first 22 months of the FTA – a loss of more than $20 million in meat exports every month.[22]

- **Since the FTA, U.S. average monthly exports of poultry to Korea have fallen 39 percent below the pre-FTA monthly average. U.S. poultry exports to Korea have been lower than the pre-FTA monthly level in every single month since the FTA's implementation.** Compared with the exports that would have been achieved at the pre-FTA average monthly level, U.S. poultry producers have lost $96 million in exports to Korea in the first 22 months of the Korea deal.
- **U.S. average monthly exports of pork to Korea since the FTA have fallen 34 percent below the pre-FTA monthly average.** Compared with the exports that would have been achieved at the pre-FTA average monthly level, U.S. pork producers have lost $277 million in exports to Korea in the first 22 months of the Korea deal – a loss of $12.6 million in pork exports every month.
- **U.S. average monthly exports of beef to Korea since the FTA have fallen 6 percent below the pre-FTA monthly average.** Compared with the exports that would have been achieved at the pre-FTA average monthly level, U.S. beef producers have lost $69 million in exports to Korea in the first 22 months of the Korea deal.[23]

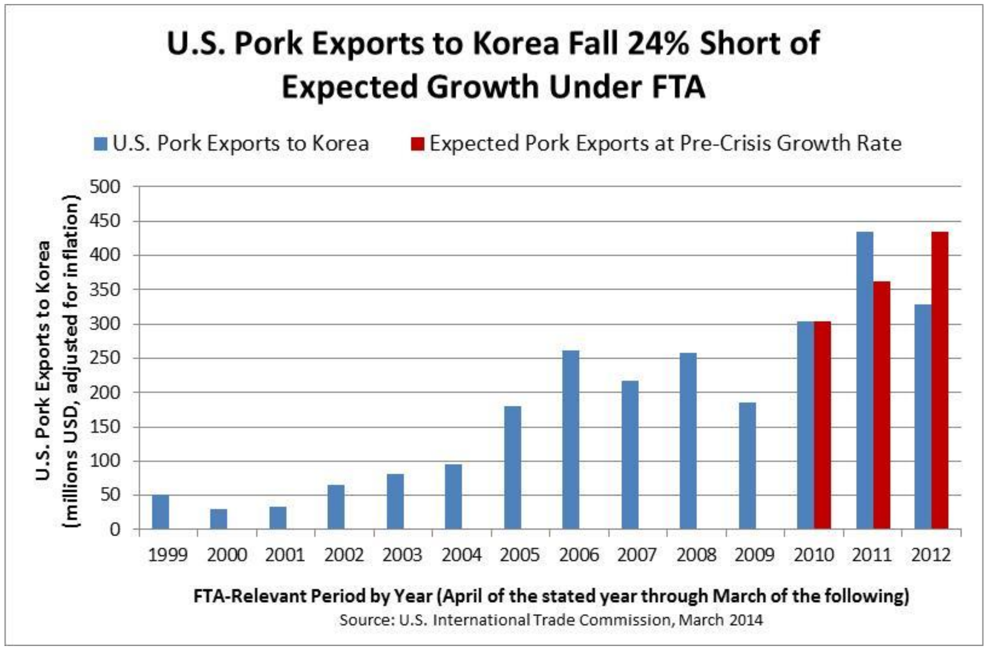
Some U.S. beef industry groups allege that the downfall in U.S. beef exports to Korea under the FTA is due to an anomalous spike in exports that occurred in 2011 as Korea's domestic beef supplies suffered from a foot-and-mouth disease outbreak. The U.S. Meat Export Federation suggests that the end of the outbreak spelled a predictable "rebound" of Korea's domestic beef production in 2012, resulting in an understandable downfall of U.S. exports.[24] But the foot-and-mouth disease outbreak, the drop in Korea's domestic supply, and the associated 2011 spike in U.S. beef exports all occurred *before* the period in 2011 that we are examining. To assess U.S. export performance under the Korea FTA, we take data for the months since implementation of the FTA – starting with April 2012 as the first full month of implementation – and compare to the months in the year before the FTA – starting with April 2011. The U.S. beef export surge associated with Korea's foot-and-mouth disease outbreak was already subsiding by April 2011, which is when the last case of foot-and-mouth disease was reported.[25]

For the remainder of 2011 (the portion that is relevant for comparison to the export performance since the FTA), Korean domestic production was actually higher – not lower – than normal, and U.S. exports were actually lower – not higher – than normal, as indicated in the graph below, making the further drop in U.S. beef exports under the FTA all the more concerning.



According to U.S. Department of Agriculture (USDA) data, the downfall of Korean domestic beef production occurred in February 2011, when Korean slaughter of domestic cattle fell to half the level of February 2010.[26] The corresponding spike in U.S. beef exports to Korea occurred in February and March, soaring to 207 and 263 percent of the levels seen in the corresponding months of 2010, respectively.[27] Korea's domestic slaughter levels returned to normal in March 2011, and actually rose above the 2010 levels in every remaining month of 2011 except one.[28] In response, U.S. beef exports to Korea in the FTA-relevant portion of 2011 subsided to levels that, far from being anomalously high, were actually lower on average than the export levels of 2010.[29]

The U.S. pork industry similarly blames the post-FTA downfall of U.S. pork exports to Korea on a foot-and-mouth disease-related surge in U.S. pork exports in 2011.[30] But this narrow focus on foot-and-mouth disease ignores the broader growth trajectory of U.S. pork exports, a trajectory that should have continued after the FTA but did not, as shown in the graph on the next page. In the 10 years before the financial crisis-spurred global downfall in exports in 2009, U.S. pork exports grew at an annual rate of 20 percent (using the FTA-relevant 12-month period).[31] Starting from the 2010 level (the first post-crisis year) and applying this pre-crisis growth rate, U.S. pork exports under the FTA in 2012-2013 would be expected to surpass $430 million. Instead, they fell short of $330 million, 24 percent below the level that historical growth would predict.[32] Had the foot-and-mouth disease outbreak not occurred, it is indeed possible that U.S. pork exports to Korea would not have been as high in 2011. But even if this is the case, it cannot explain why U.S. pork exports under the FTA have fallen significantly below the long-term growth trend.



Regarding U.S. poultry exports to Korea, USDA notes that Korean consumption of chicken hit record highs in 2011 as Koreans substituted beef and pork consumption (given the foot-and-mouth disease outbreak) with increased chicken consumption, driving a surge in poultry imports from the United States.[33] Some industry groups may try to use this data to explain away the downfall in U.S. poultry exports to Korea under the FTA, framing the 2011 increase as an anomalous spike and the subsequent post-FTA reduction as an expected result of the end of the foot-and-mouth disease outbreak.

But while Korea's poultry consumption and importation levels indeed increased in 2011, they increased to an even greater degree in 2010, when foot-and-mouth disease was not a significant factor in the poultry market. According to USDA's own data, Korean poultry consumption rose 11 percent in 2010 compared to 8 percent in 2011, while Korea's poultry imports from the United States climbed 86 percent in 2010 compared to 58 percent in 2011.[34] As such, the 2011 increase in U.S. poultry exports to Korea, far from being an anomalous disease-related spike, seems to fit a larger growth trend. Indeed, USDA notes that the increase in Korea's poultry imports in 2010 and 2011 has been "attributed to the growing number of chicken franchise chains since 2 to 3 years ago and the various chicken menu options for the young generation."[35] Such growth in demand for chicken would be expected to continue after the FTA's implementation – indeed, USDA estimates that per capita chicken consumption in Korea rose in 2012 and again in 2013.[36] Such sustained growth in Korean poultry consumption indicates that the growth in U.S. exports in 2011 cannot be simply dismissed as an anomaly and provides further reason to be disappointed in the dramatic drop in U.S. poultry exports to Korea since the FTA took effect.

Conclusion

One thing remains clear from the Korea FTA track record: the administration's argument that FTAs provide the path to increased exports – a claim used to push the Korea FTA that is now being recycled to sell the TPP – is simply not supported by the evidence. The official U.S. government trade data documenting a decline in U.S. exports, a ballooning trade deficit and related U.S. job loss plainly undercut the administration's tired and counterfactual FTA sales pitch.

As the disappointing results of the Korea FTA become manifest, the utility of that pitch is likely to diminish with its veracity. In the end, the administration may find that one of the bigger obstacles to its controversial bid to Fast Track the TPP is the outcome of the Korea deal it chose as the TPP blueprint.

Endnotes

[1] The administration still uses this slogan to promote the Korea FTA. *See* Office of the U.S. Trade Representative, "U.S. Korea Trade Agreement: More Exports. More Jobs." accessed March 10, 2014. Available at: http://www.ustr.gov/uskoreaFTA.

[2] In this paragraph and throughout this report, figures concerning average monthly trade levels compare data from the year before the FTA's implementation and from the 22 post-implementation months for which data are available. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/. All data in this report is inflation-adjusted according to the CPI-U-RS index of the U.S. Bureau of Labor Statistics (which provides indices up through 2012) and the online inflation calculator of the U.S. Bureau of Labor of Statistics (which provides approximate indices for 2013 and 2014). U.S. Bureau of Labor Statistics, "Consumer Price Index Research Series Using Current Methods (CPI-U-RS)," U.S. Department of Labor, updated March 29, 2013. Available at: http://www.bls.gov/cpi/cpiursai1978_2012.pdf. U.S. Bureau of Labor Statistics, "CPI Inflation Calculator," U.S. Department of Labor, accessed March 10, 2014. Available at: http://www.bls.gov/data/inflation_calculator.htm.

[3] Global Trade Watch, "Job-Killing Trade Deals Pass Congress Amidst Record Democratic Opposition," Public Citizen press release, Oct. 12, 2011. Available at: http://www.citizen.org/documents/gtw-statement-job-killing-trade-deals-pass-10-12-11.pdf.

[4] *See* Congresswoman Rosa DeLauro, "DeLauro, Miller Lead 151 House Dems Telling President They Will Not Support Outdated Fast Track For Trans-Pacific Partnership," November 2014. Available at: http://delauro.house.gov/index.php?option=com_content&view=article&id=1455:delauro-miller-lead-151-house-dems-telling-president-they-will-not-support-outdated-fast-track-for-trans-pacific-partnership&Itemid=21.

[5] The estimate of cumulative export losses in the FTA's first two years assumes that the average monthly decline in exports seen in the FTA's first 22 months continues in the remaining two months for which data are not yet available. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/.

[6] The projection for export losses under the FTA's first two years assumes that trends during the FTA's first 22 months continue for the remaining two months for which data are not yet available. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/.

[7] Michael Froman, "2014 Trade Policy Agenda and 2013 Annual Report of the President of the United States on the Trade Agreements Program," Office of the U.S. Trade Representative, March 2014, at 2. Available at: http://www.ustr.gov/sites/default/files/2014%20Trade%20Policy%20Agenda%20and%202013%20Annual%20Report.pdf.

[8] U.S. Bureau of Economic Analysis, "International Data: Table 12: U.S. International Transactions, by Area," accessed March 11, 2014. Available at: http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&isuri=1.

[9] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/.

[10] The White House, "Remarks by the President in State of the Union Address," January 27, 2010. Available at: http://www.whitehouse.gov/the-press-office/remarks-president-state-union-address.

[11] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed February 11, 2014. Available at: http://dataweb.usitc.gov/. The statistic is a comparison of the average annual growth rate of the combined inflation-adjusted exports of all non-FTA partner countries versus that of all FTA partner countries from 2004 through 2013 (adjustments have been made to account for the changes in these two categories as non-FTA partners have become FTA partners).

[12] World Trade Organization, "International Trade Statistics 2013," 2013, at 47. Available at: http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf.

[13] "World DataBank," The World Bank, accessed February 27, 2014. Available at: http://databank.worldbank.org/data/home.aspx.

[14] For this section, sectorial divisions are defined at the NAICS-3 level. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/.

[15] The White House, "The U.S.-South Korea Free Trade Agreement: More American Jobs, Faster Economic Recovery through Exports." Available at: http://www.whitehouse.gov/sites/default/files/09272011_wh_overview_fact_sheet_us_korea.pdf.

[16] For this report, auto exports and imports are defined as code 3 in the one-digit End Use classification system. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/.

[17] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/.

[18] Timothy Cain, "Hyundai-Kia Sales Figures," GoodCarBadCar.net, 2014, accessed March 10, 2014. Available at: http://www.goodcarbadcar.net/2012/10/hyundai-kia-group-sales-figures.html.

[19] Korea Automobile Importers & Distributors Association, "New Registration," 2014, accessed March 10, 2014. Available at: http://www.kaida.co.kr/en/statistics/NewRegistList.do.

[20] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/

[21] The White House, "The U.S.-South Korea Free Trade Agreement: More American Jobs, Faster Economic Recovery through Exports." Available at: http://www.whitehouse.gov/sites/default/files/09272011_wh_overview_fact_sheet_us_korea.pdf.

[22] For this report, beef is defined as SITC 011; pork is defined as SITC 0122, 0161, and 0175; and poultry is defined as SITC 0123 and 0174. All data are inflation-adjusted. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/.

[23] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed March 10, 2014. Available at: http://dataweb.usitc.gov/.

[24] Philip Seng, "An Outlook for 2013 – Part 1: Top 5 Opportunities," U.S. Meat Export Federation, 2013. Available at: http://www.usmef.org/an-outlook-for-2013-part-1-top-5-opportunities/.

[25] Park J-H, Lee K-N, Ko Y-J, Kim S-M, Lee H-S, Shin Y-K, et al, "Control of foot-and-mouth disease during 2010–2011 epidemic, South Korea," Centers for Disease Control and Prevention, Apr. 4, 2013. Available at: http://wwwnc.cdc.gov/eid/article/19/4/12-1320_article.htm.

[26] Foreign Agricultural Service, "Korea – Republic of: Livestock and Products Semi-Annual," Global Agricultural Information Network report, U.S. Department of Agriculture, March 6, 2012, at 3-4. Available at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_Seoul_Korea%20-%20Republic%20of_3-6-2012.pdf.

[27] U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed Apr. 16, 2013. Available at: http://dataweb.usitc.gov/.

[28] Foreign Agricultural Service, "Korea – Republic of: Livestock and Products Semi-Annual," Global Agricultural Information Network report, U.S. Department of Agriculture, March 6, 2012, at 3-4. Available at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_Seoul_Korea%20-%20Republic%20of_3-6-2012.pdf.

[29] U.S. beef exports in April 2011 remained 62 percent above the April 2010 level as they continued to subside from the February-March spike. From May through October (the period in which foot-and-mouth disease was not occurring in either 2010 or 2011), average monthly U.S. beef exports in 2011 were 10 percent lower than in 2010. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed Apr. 16, 2013. Available at: http://dataweb.usitc.gov/.

[30] "U.S. Meat Exports to Korea Decline Year-On-Year, Due To One-Off Factors," *Inside U.S. Trade*, Jan. 24, 2013.

[31] The growth rate is determined using the compound annual growth rate method. "FTA-relevant period" refers to the 12-month period that is comparable to the first year of FTA implementation: April of one year through March of the following year.

[32] These numbers reflect year-on-year comparisons of inflation-adjusted U.S. pork export values in the first year of FTA implementation compared to the prior year (e.g. April 2012 – March 2013 vs. April 2011 – March 2012). Data are not yet available for the April 2013 – March 2014 period. U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb," accessed May 6, 2013. Available at: http://dataweb.usitc.gov/.

[33] Foreign Agricultural Service, "Korea: Republic of, Poultry and Products Annual," Global Agricultural Information Network report, U.S. Department of Agriculture, Sept. 4, 2012, at 4. Available at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Annual_Seoul_Korea%20-%20Republic%20of_9-5-2012.pdf.

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