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The Impact of KORUS on the Future of Asia Pacific Trade Integration

By Abigail Healani Trenhaile

I. INTRODUCTION

In 2011, the Korea-U.S. Free Trade Agreement (KORUS) was ratified after seven years of negotiations despite difficult domestic challenges on both sides. The passage of KORUS, the most significant U.S. trade agreement since the North American Free Trade Agreement (NAFTA), is a testament to both governments' perseverance, political will, and attention to detail. According to the 2012 World Bank *Doing Business* rankings, the U.S. and Korea already rank as the fourth and eighth best places to do business respectively. With KORUS's tariff and tariff-rate quote (TRQ) provisions alone, U.S. Gross Domestic Product (GDP) is expected to increase by \$10 billion, according to a study by the International Trade Commission (ITC). Similarly, the U.S. Trade Representative predicts Korea's GDP to rise by 0.42 percent to 0.59 percent.

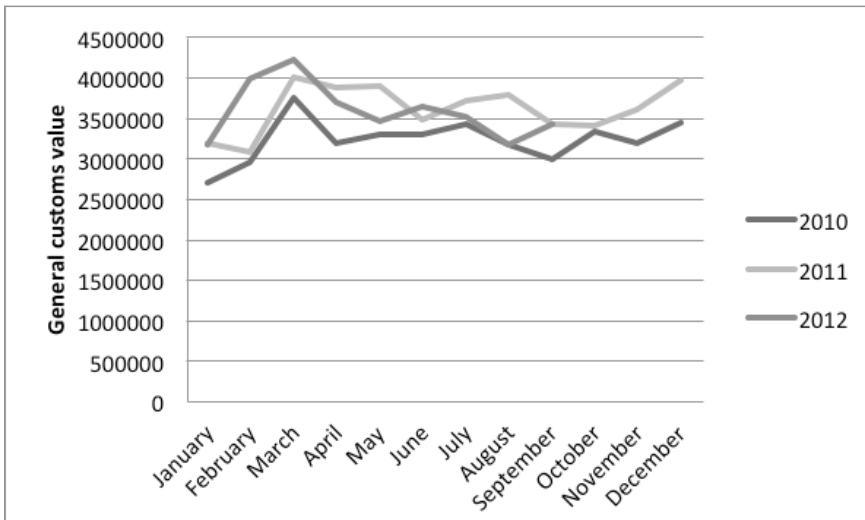
In many ways, KORUS is representative of the future of trade agreements. While the United States already possesses some of the lowest traditional trade barriers in the world, agreements must address elements beyond tariffs in the 21st century. In the context of the failure of the World Trade Organization's Doha round, bilateral and regional trade agreements will play an even more important role in free trade promotion, and KORUS was the first step in the U.S. government's strategy of pivoting toward the Asia Pacific region. At the heart of this greater strategy is the Trans-Pacific Partnership (TPP), which would create a free trade area between nine Asia Pacific economies, with more expected to join. According to the American Chamber of Commerce, sections of KORUS have already been used as U.S. proposals for the TPP. This incorporation is thanks to the comprehensive scope and detailed rights and provisions of KORUS. Thus, KORUS is a technically sophisticated agreement that changed the paradigm through which the U.S. and Korea view trade and provides a model for greater trade integration in the Asia Pacific region. This paper examines factors that make KORUS forward-looking and different from current trade agreements and regimes, and how KORUS can be an example for TPP negotiations and further Asia Pacific trade integration.

II. BACKGROUND ON KORUS

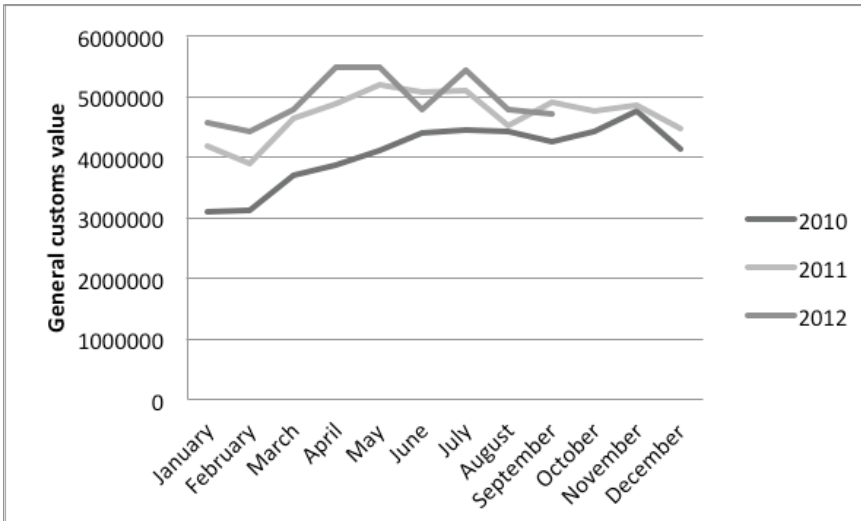
Since KORUS came into effect in March 2012, trade between the U.S. and Korea increased markedly. The FTA utilization rate, which measures the increase in

exports covered by the agreement, increased from 44 percent in April to 65 percent in September, rates much higher than those of other Korea FTAs in the first year of their enactments, according to the Korea International Trade Association (KITA). The utilization rate for the Korea-ASEAN agreement was 3.5 percent, while the Korea-India rate was 17.6 percent. For the U.S., the most dramatic benefits have been for agriculture, thanks to the lowering of Korean tariffs and TRQs, which were over 30 percent before the agreement according to ITC. U.S.-Korea Connect also reports that 56.8 percent of U.S. exports to Korea benefited from KORUS, with orange, walnut, and almond exports increasing by 32.8, 54.3, and 75.9 percent respectively. While overall Korea exports decreased due to decreased demand from China and the European Union, Korean exports to the U.S. increased. From April to September of 2012, Korean exports to the U.S. totaled \$30.6 billion, increasing 2.9 percent from 2011, according to KITA. Specifically, Korean exports to the U.S. in automobiles, machineries, and petroleum products increased by 20.1, 10.6, and 25 percent, respectively. In examining the statistics since KORUS came into effect, the overall U.S. exports to and from Korea did not change markedly as shown in Figure 1 and 2. However, the utilization rates suggest that certain goods covered under the agreement did experience increases in demand, despite an overall globally depressed economy.

Figure 1. U.S. Exports to Korea



Source: U.S. International Trade Commission, 2012

Figure 2. U.S. Imports from Korea

Source: Data courtesy of U.S. International Trade Commission, 2012

III. KEY ELEMENTS OF KORUS

However substantial these tariff benefits are, the greatest gains will come from the agreement's non-traditional elements—services liberalization, regulatory transparency, intellectual property rights, and trade facilitation. KORUS is an agreement that is forward looking in that it creates a framework to prevent non-tariff barriers and a mechanism to address future grievances.

Services

Perhaps the area of most promise for the U.S. is the liberalization of Korea's \$580 billion services market. While the U.S. services market is already open, the Korea market will gradually liberalize, creating opportunities in exports, such as legal and financial services, where the U.S. holds a comparative advantage. In 2008, U.S. exports of services to Korea totaled \$15.4 billion, making Korea the seventh largest U.S. market for cross-border trade in services. U.S. imports of \$9.6 billion in services are considerably less allowing for services to be one of the few areas where the U.S. maintains a trade surplus, according to a 2010 congressional

report. Thus, reducing barriers to U.S. exports in services—particularly in the professional, financial, and telecommunications sectors—is a key advantage of KORUS that moves the agreement beyond simplistic tariff reductions.

Under KORUS, commitments between the U.S. and Korea increase beyond the World Trade Organization (WTO)'s General Agreement on Trade in Services (GATS). While Korea under the GATS affords to WTO members most-favored nation treatment (MFN), national treatment, and market access commitments, these commitments are still relatively limited with many sectors still restricted, such as insurance, telecommunication, financial and business services, and tourism. Other sectors are completely excluded from the GATS schedule, such as legal services, education, and health care.

However, KORUS makes unprecedented steps toward services liberalization, granting MFN and national treatment to all services sectors and providing for market access without local presence requirements, according to a 2012 working paper by the Peterson Institute for International Economics. An innovative aspect of KORUS is its “negative list” approach to services, in which the agreement automatically includes all services unless specifically exempted. Under GATS, Korea has a schedule of specific commitments, in which Korea “identifies the services sectors to which it will apply the market access and national treatment obligations of the GATS and any exceptions from those obligations it wishes to maintain,” according to the WTO. Thus, the negative list approach covers considerably more ground. Another innovative element to KORUS is its ratcheted approach, in which new services that emerge are automatically covered by the agreement. Also, automatic preference is given to service providers if either the U.S. or Korea provides preferential treatment to service providers from a third country under another FTA. Before KORUS, new services that wanted to enter the market may have faced barriers, such as excessive regulations or requirements for service. These barriers would not be lifted unless industry lobbied for change and raised it as an issue between both governments. Now, new service providers are considered covered by the FTA from fruition and can expect to receive non-discriminatory treatment. As for preferential treatment, for example, if Korea lowered barriers for EU service providers, they would be required to lower barriers for U.S. providers as well.

KORUS responds to concerns in the services market in several areas. In general, besides the GATS commitments, Korea and the U.S. commit “to prohibit limits on market access, such as caps on the number of service providers, on the total value of services provided, on the total quantity of services provided, and on the total number of persons that can be employed; (and to) prohibit foreign direct

investment requirements, such as export and local content requirements and employment mandates,” according to the Congressional Research Service (CRS). These commitments can also be analyzed at a sectoral level.

First, cross-border services offer the broadest definition of services, and therefore liberalization, in the agreement. Although these exclude financial services, which will be discussed later in this paper, the FTA commits the U.S. and Korea to prevent unnecessary barriers to trade in services. Because defining barriers in services is complex and sometimes indiscernible, KORUS is groundbreaking in that it creates a framework for addressing possible barriers. Regulations will be transparent and based on objective criteria, and mechanisms will be established to respond to inquiries relating to regulations.

Within cross-border services are professional services, an area severely ignored under former trade regimes. While KORUS does not immediately liberalize professional services, it takes important steps toward greater mutual recognition of professional service credentials (e.g. licensing, education, or certification). First, the FTA creates a Professional Services Working Group to recommend procedures for temporary licensing arrangements, which are then sent to a joint committee for approval. Each party would commit to keeping their recognition procedures transparent and to allow for further negotiation. Although difficult to quantify, greater exchange in professional services should increase competition in the domestic market, allowing for the development of diversified and innovative services and increased efficiency, according to the Peterson Institute. A professional service that would almost immediately make inroads in the Korean domestic market is legal services, which were formerly excluded from the GATS. Korea will now allow U.S. law firms to establish offices and joint ventures with Korean firms. The opening of legal services is expected to help revive the U.S. legal market, and also open the door for increased U.S. legal expertise in Asia.

Second, the U.S. is expected to increase its cross-border exports in financial services, according to the International Trade Commission. Under the GATS, Korea kept all of its financial services “unbound,” meaning Korea maintained measures inconsistent with market access and national treatment under the WTO. For financial institutions, Korea restricted the management and operation of assets, requiring that they be kept within the country. Similarly, trust services and loan and related services were unbound across all supply modes. Financial leasing businesses, securities services, and actuarial businesses were also unbound, but with additional restrictions, including provisions requiring top executives to reside in Korea. Under the GATS agreement in securities specifically, Korea implemented ceilings and required certain operating conditions

KORUS on the other hand, offers almost a complete reversal of the GATS conditions. According to the Peterson Institute, Korea, under KORUS, allows “U.S. financial services companies 100 percent ownership of Korean financial institutions, including the establishment of bank branches and insurance companies.” Under the GATS, only minority stake joint ventures are allowed in select sectors, the establishment of branches is restricted, and foreign investment is restricted to 49 percent of total voting shares.

A provision that will be implemented in 2014 is the ability to transfer information electronically by U.S. financial service providers located in Korea. Firms will be able to transfer information, like accounting and human resources data, that is currently restricted because of the host government’s concerns over violations of domestic privacy laws. This new provision allows companies to improve efficiency in information sharing through electronic transfer, rather than having to process and keep information at separate locations, according to a 2012 CRS report.

While KORUS reduces barriers in the financial and cross-border service sectors, it also recognizes the need for regulation in order to prevent another financial crisis. Neither the U.S. nor Korea would give up its sovereignty to monitor transactions that may be harmful. While transfers and payments under cross-border services are to be made freely and without delay, each party may still prevent or delay payments if such payments could be harmful to financial markets—such as dealings in securities, futures, or derivatives, or to investigate criminal or penal offences. Likewise, the agreement states that under financial services, each party is allowed to intervene to protect investors and depositors, and “to ensure the integrity and stability of the financial system.”

In addition to financial services, the FTA addresses investment-related concerns. In the World Bank’s *Doing Business* Rankings, Korea ranks forty-ninth for protecting investors, as opposed to the U.S. which stands at sixth. This is largely because Korea ranks below average on the director liability index; that is, it is harder to hold directors accountable for violating plaintiffs’ rights in Korea. KORUS, therefore, outlines investors’ rights for companies and provides a way for them to enforce their rights. Such rights are expanded through “minimum standard treatment,” meaning Korea and the U.S. cannot deny plaintiffs due process and must provide protections to investors. Possible protections include restitutions or compensations for investments that are destroyed or requisitioned. Investors’ rights are strengthened also through the institutionalization of an investment dispute procedure. If an investor charges the other country’s government with violating its investor rights under the FTA, KORUS delineates arbitration procedures and provides for the establishment of a tribunal. By creating a process for the resolution of disputes, KORUS lowers technical barriers

to trade, which could be a significant deterrent for businesses in deciding whether or not to expand operations. Besides the increased protection and enforcement of investor rights, the FTA prohibits performance requirements, disallowing barriers like export ratios, import limits, and domestic content requirements.

Intellectual Property

Intellectual Property (IP) is of particular importance to the U.S., where IP accounts for more than half of U.S. exports, according to the ROK Embassy in the United States. Like the GATS, KORUS builds on the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS). According to a 2010 CRS Report, additional commitments include provisions that extend national treatment to IPR holders; facilitate the registration and protection of trademarks; protect the right of authors, performers, and producers to determine use of copyrighted products; increase copyright protections to U.S. standards for a minimum of 70 years; combat piracy through penalties; and protect copyrighted performances on the internet. Furthermore, the agreements address patents, requiring each party to make patents available for any invention, standardizing procedures for patent applications, and aspiring toward increased cooperation between each party's patent office. For the U.S., where \$200 billion per year is lost in sales due to IP theft, enforcement of IPR is of particular interest. In the FTA, both countries pledge to aid IPR holders by increasing transparency for civil and administrative procedures related to IPR and outlining remedies for those whose rights have been infringed upon. Criminal procedures and penalties would be mutually applied for cases of willful IP infringement on a commercial scale, meaning each country would treat trade in counterfeit or pirated goods as illegal and subject to criminal penalties, such as imprisonment and monetary fines, or both.

Transparency

According to the World Bank, transparency is perhaps one of the greatest complaints among U.S. exporters to Korea, as its legal system can be difficult to navigate, especially in trade and regulatory systems. Hence, lack of transparency acts as a barrier to trade by increasing the transaction costs of doing business and discouraging exporters. Responding to these criticisms, KORUS negotiators made increasing transparency a priority. In almost every chapter of the agreement, there is a section on transparency, most notably in key sectors such as intellectual property, financial services, and investment. The transparency sections commit each party to ensuring that laws and regulations, as well as administrative decisions, are easily accessible and clearly written. As part of this endeavor, the U.S. and Korea also committed to make trade administration

documents electronically available. Moreover, other parties are allowed to comment on administrative proceedings and request to review and to appeal administrative decisions.

E-Commerce

Korea possesses some of the most advanced IT infrastructure in the world and therefore provides a framework for policies in e-commerce, an area with great potential for economic growth. Outlining rights in the new frontier of e-commerce facilitates trade by lowering barriers to entry. While other sections in the services emphasize the importance of unrestricted cross-border information, the agreement in the section on e-commerce particularly provides for duty free treatment and non-discriminatory treatment for digital products sent electronically or on a carrier medium. These include computer programs, text, video, images, and sound recordings. The agreement also includes a section for enhancing online consumer protection through increased cooperation between U.S. and Korean consumer protection enforcement agencies.

IV. BACKGROUND ON THE TRANS-PACIFIC PARTNERSHIP

In the era of a failed Doha round, regional and bilateral trade agreements are the mechanism of choice for trade liberalization. Especially when traditional barriers are already low in Organization of Economic Cooperation and Development (OECD) countries, the more complex issues, such as services and logistics, are easier to negotiate and pass politically if liberalization occurs at an incremental level, according to a 2011 study by the East West Center. The TPP is perhaps the main instrument of the Asia Pacific Economic Cooperation (APEC)'s goal of a free trade area for the Asia Pacific region. While TPP negotiations currently include only nine economies—Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and the U.S.—the agreement, with the U.S. at the helm, encompasses countries with a combined GDP of \$21 trillion and provides the most realistic pathway for greater Asia Pacific trade integration, according to a 2012 article by the Center for Strategic and International Studies (CSIS). The TPP offers significant economic and strategic potential. According to a 2011 working paper at the East West Center, if the projected thirteen members (with Canada, Japan, Korea, and Mexico as additions) were to enter the agreement, the countries involved would account for 50 percent of U.S. trade. Also, the TPP would give the U.S. an important voice in Asia, where regional free trade agreements, especially among ASEAN countries, have proliferated within the past decade. Thus, the agreement would allow the U.S. to retain its competitiveness in Asia while also helping to consolidate what a trade economist Jagdish Bhagwati called the “noodle bowl” of agreements, which describes the hundreds of FTAs that often overlap and create inconsistent rules of origin.

V. KORUS AS AN EXAMPLE FOR THE TRANS-PACIFIC PARTNERSHIP

The TPP is the most comprehensive FTA currently under negotiation, and, like KORUS, targets new areas for negotiation: services, investment, competition rules, and regulatory coherence. This comprehensiveness can be attributed partly to KORUS. Among Asian FTAs, KORUS is the most wide-ranging agreement for services. Services are the most difficult aspect of negotiating a free trade agreement, as their intangibility makes them difficult to quantify, complicating what counts as discriminatory or as having protectionist intent.

KORUS, however, made great strides in defining and addressing protectionist measures in services, as well as in creating a framework to address future barriers. KORUS is comprehensive in both its breadth and depth in that it covers unprecedented services through its negative list and offers unconditional MFN and national treatment, the features which will be included in the TPP. KORUS, above all, is a high standard agreement, especially in financial services, insurance, and express delivery services. As the TPP strives also to be a high standard agreement, *The Hankyoreh* reported in 2012 that, according to scholars and private interests involved in negotiations, provisions from KORUS will be a template for TPP negotiators.

For instance, following KORUS's example in financial services, the TPP will likely distinguish between financial services traded across borders and those sold by a provider with a commercial presence in the host country, according to 2013 congressional briefings. In the latter case, as summarized above, a negative approach was used; in the former, coverage was limited to specific banking and insurance services. As KORUS allowed for the free transfer of customer data in and out of Korea for service providers, this provision should be followed in the TPP as well. Financial services would also benefit from loosening of restrictions surrounding Foreign Direct Investment (FDI), which relates to services since they increase when providers are directly invested in a commercial presence in the host country, according to the East West Center. As investment and services are examples of "cross-cutting issues," strides that KORUS made in investment provide an example for the TPP. Finally, like KORUS, the TPP should allow for regulation to a certain extent in financial services. What the TPP should imitate is the way KORUS balanced provisions in both regulation and deregulation. KORUS did not simply deregulate trade but deliberately deregulated overprotected areas and increased regulation in under-protected ones—such as IPR—or those with increased risk—such as financial services.

The TPP will also closely follow KORUS's handling of state-owned enterprises, an issue that is common among TPP members. During KORUS negotiations, the postal system, which is state owned and operated in Korea, was considered to have an unfair advantage over private companies in express delivery services. To increase market access, KORUS required that a "postal system cannot use its monopoly power in providing postal services to give an express delivery subsidiary an unfair advantage," according to CRS. Each party's postal system is also not allowed to subsidize express delivery services. In addition, Korea Post's insurance sales were subject to less stringent regulation than private insurance companies'. Because of American concerns over Korea Post having an unfair competitive advantage, KORUS subjected Korea Post to the same regulations as other insurance companies. As the TPP includes countries with state owned enterprises, such as Vietnam, KORUS could be used as a model for increasing market access.

Other KORUS elements that are useful for the TPP relate to technical barriers to trade (TBT), which are standards and regulations to protect consumers' health and safety that can sometimes act as trade barriers. KORUS increases transparency related to TBT provisions by allowing partners "to comment on proposed standards and regulations and the implementation of regulations," according to CRS. This ensures that regulations and standards are not more restrictive than necessary and are applied indiscriminately.

Most importantly, though, KORUS changed the precedent and paradigm through which trade agreements were negotiated, a legacy from which the TPP will benefit. Previous efforts to liberalize services trade, especially among Asian countries, were token obligations, merely symbolic with dull teeth. "These commitments have codified current practice and have not helped propel domestic economic reform," writes Jeffrey Schott in a 2012 Peterson Institute article, "Prospects for Services Trade Negotiations." By using elements of KORUS in negotiating, the TPP will be a high standard agreement, as it aims to improve transparency across sectors and streamline regulations. On a political level, KORUS provides another benefit to TPP negotiators: by increasing the fear of being left behind in the face of increasing U.S.-Korea economic cooperation, KORUS compels other countries, particularly Japan, to join in on TPP negotiations, according to a 2011 *Asahi Shimbun* article, "Japanese Businesses Fear Impact of U.S-South Korea FTA." Thus, KORUS is not only a textual, legal template, but also a powerful catalyst for greater economic integration in the Asia Pacific region.

VI. BARRIERS TO ASIA PACIFIC TRADE INTEGRATION

While KORUS can be a template for the TPP, the same obstacles faced in negotiating and passing KORUS will remain for the TPP and greater Asia Pacific economic integration. Regional integration is complicated due to special characteristics in East Asia, such as large income disparities that makes domestic support for free trade difficult to muster. The diversity of the region, which is made up of both developing and developed states, also complicates integration. As the TPP will be made up of many countries, the main tension will exist between the competing desires to create an inclusive agreement, cognizant of differing levels of development and concerns over jobs and wealth distribution, and to maintain the U.S. goal of a high-quality, comprehensive agreement, according to a 2012 article by Yul Sohn at Yonsei University titled “The U.S. and China’s FTA Networks in Northeast Asia: How Should South Korea Respond?” This section discusses how Korea and the U.S. were able to cooperatively pass KORUS despite obstacles, as well as broader, strategic issues in the region.

During KORUS negotiations, automobiles were a controversial issue, and American automakers blocked the passage of the agreement for three years until the agreement was revised in 2010. The revisions made in 2010 can serve as lessons for drafting the TPP. By making concessions related to regulatory standards in Korea and slowing down tariff liberalization on both sides, U.S. automakers changed their stance toward the agreement. Of these regulatory reforms, which basically gave U.S. carmakers more leniency in conforming to higher Korean emission and fuel economy standards, two significant changes would likely be useful in future TPP negotiations: (1) an auto safeguard procedure and (2) commitments to greater regulatory transparency. For the first, each party would be allowed to use protective measures to counter import surges. This provision ultimately gave U.S. automakers insurance for market disruptions. Korea agreed also since Korean automakers already source a greater share of U.S. sales from U.S. manufacturing plants, making the likelihood of the measure going into effect low, according to a 2010 *Reuters* article. The second provision made the regulatory process more transparent and gave U.S. firms 12 months to comply with newer, substantially tougher Korean standards. These reforms were useful both economically and politically, creating the eventual pathway for full liberalization while providing leeway in implementation, and thus making KORUS more politically feasible. Likewise, the TPP should emphasize transparency and provide for similar mechanisms for safeguards, at least in instances where such a mechanism would not invalidate the agreement.

On the Korean side, the most contentious issue concerned U.S. beef and agricultural imports. Tens of thousands of Koreans protested against the pact,

claiming concerns over mad cow disease and that domestic farmers would suffer as a result of cheaper agricultural imports. To assuage these concerns, the U.S. agreed to exempt rice from the agreement and the Korean government promised to provide monetary support for farmers affected by increased U.S. competition, according to a 2008 article, "Implementing the KORUS FTA: Key Challenges and Policy Proposals," by Jeffrey Schott. For beef, a voluntary industry-to-industry agreement was struck, which would allow the U.S. only to import beef from cattle younger than 30 months, which is considered the safest from mad cow disease. In addition, in exchange for the 2010 automobile concessions, the U.S. also agreed to delay the lowering of Korean tariffs on U.S. pork. However, concerns over U.S. beef and agriculture were never fully resolved in Korea, and the Democratic opposition still opposes the agreement regarding these two products. Similarly, TPP members could have similar bents toward agricultural protection. While KORUS was passed by a standing majority of Korea's Grand National Party, a similar political situation may not always present itself during TPP negotiations.

Perhaps the greatest struggle for the TPP, and Asia Pacific integration in general, is fundamental disagreements over trade between developing and developed economies. A 2011 study by the East-West Center, "The Trans-Pacific Partnership and Asia-Pacific Integration," outlines areas that could pose obstacles to negotiations: (1) IPR standards that are too high; (2) tension over state-owned enterprises; and (3) provisions over labor standards. If standards are made too stringent in any of these areas, it could prevent other members from joining the TPP in the future, especially China, the country with which most countries want to expand trade. In terms of intellectual property, the TPP would do well to follow the example of KORUS in terms of making commitments beyond TRIPS, an approach that is favored by U.S. companies. KORUS elevates Korean IP standards to U.S. standards; however, many TPP members may be unfriendly to this idea. New Zealand has publically announced its support of TRIPS standards but nothing beyond the status quo. As for state-owned enterprises, the conflict is similar to the U.S. disapproval of the Korea Postal System, and many TPP members, like Vietnam, have similar state-owned enterprises that could create discord among negotiators.

Related to this idea of a divide between the developing and developed countries are several other issues that decrease the incentive of cooperating with the U.S. in a trade regime. First, the U.S. market is already open, so nations see little reason to cooperate with the higher, stringent standards that a high quality trade agreement would require. Moreover, areas in which KORUS excels, and to which the TPP aspires, are behind the border issues, or matters that are traditionally dealt with domestically, like regulation over health, competition, investment, and IPR. While these non-traditional areas are essential for deeper economic

integration, countries fear losing their sovereignty, warns the same 2011 study by the East West Center. Second, slower U.S. growth has decreased U.S. domestic demand for exports from other countries, and TPP countries' exporters have shifted their attention toward the more rapidly growing economies.

Finally, an obstacle that may be common to all partners is the political will for passing the TPP. While the U.S. has made the TPP a priority through the Obama administration's "pivot toward Asia," other countries may possess less ambition, especially if smaller, private interests block national aggregate interests for trade liberalization. Thus, a great challenge for TPP members will be marketing the agreement to the public to raise political support for passage.

VII. SOUTH KOREA'S FUTURE IN THE TPP

China, Japan, and South Korea's economies are required for any meaningful integration in the Asia Pacific. China and Korea are notably absent from TPP negotiations, and Japan declared its intentions to join negotiations in April 2013. Japan's entry will likely cause Korea to strongly reconsider its position on the TPP. According to a 2012 article "South Korea Prioritizes Asia Trade Pacts over Pacific Partnership" by the *Asahi Shimbun*, Korea's Ministry of Foreign Affairs and Trade (MOFAT) has made it clear that Korea is monitoring TPP negotiations and weighing the benefits of joining. However, since Korea already has a number of agreements in place with current TPP members, it has little incentive to join the negotiations. For Korea, the most economically impactful agreements would be with the U.S., China, and, albeit to a lesser extent, Japan.

As KORUS already secures Korea's free trade with the U.S., the Korean government is pushing for a separate trilateral agreement with China and Japan. Although Korean officials have noted their desire to merge the TPP with a trilateral agreement, their priority remains China. China is perhaps the greatest variable in the success of the TPP, since scholars see the trilateral agreement as a Chinese move to counteract the TPP and, by extension, U.S. regional influence. As Korea is also negotiating an FTA with China, Korea's decision ultimately comes down to pursuing an FTA network led by the U.S. or China.

On the other hand, the TPP offers non-quantifiable benefits to Korea. While Korea has aggressively pursued and completed 46 trade agreements, most of these agreements, with the exception of those with the U.S. and the European Union, could be considered low quality. That is, what matters in trade liberalization is not the number of markets but how each is opened. Deeper integration is key to tapping into trade benefits, a strategy Korean presidents have pursued to address distressing demographic changes and increasing energy dependence. However, unlike the high standard TPP, where the U.S. pushes for

liberalization in non-traditional areas, a trilateral China-Japan-Korea agreement is unlikely to be high quality, as investment and agriculture would likely remain protected, according to CSIS.

Joining the TPP, therefore, would allow Korea to update its current, low-quality agreements with TPP members Chile, Malaysia, and Vietnam and to avoid problems associated with the noodle bowl of FTAs. The TPP encompasses countries Korea is currently negotiating with as well, so Korea would achieve a single agreement instead of three separate agreements with Canada, Australia, and Mexico. Moreover, the opportunity cost of not joining the TPP would be much greater than joining, especially if Japan comes into play. As Japan and Korea are export competitors, particularly in electronics and automobiles, Japan clinching a high quality agreement with the U.S., along with the other TPP members, could impact Korean exports dramatically.

However, much of Korea's future in the TPP depends on its executive branch, which determines the direction of trade policy through the president and MOFAT, according to a 2010 study by Lee Hyun-chool in the *Journal of Contemporary Asia*. The new president, Park Geun-hye of the Saenuri Party, supported KORUS throughout its negotiation and ratification. However, Park may still face opposition from the Democratic United Party, which includes members who vowed to renegotiate KORUS over beef and agriculture concerns, according to a 2012 article by *Diodeo News*. Moreover, deteriorating relations with Japan over Dokdo and past Japanese imperialism make cooperation with Japan less likely, especially in the context of the TPP, according to the 2012 article "Where the Center Holds: The 2012 Election in Korea and U.S.-ROK Relations" by the Council on Foreign Relations. Japan also recently underwent a leadership transition, with Prime Minister Shinzo Abe and the Liberal Democratic Party coming to power again. Given the hawkish stand of the LDP and Abe, Japan's political situation could further exacerbate regional conflicts—which are further complicated by China's new leadership—and prevent economic cooperation. Moreover, with the Bank of Japan weakening the yen, thereby strengthening Japanese exports and hurting Korean exports, the Park administration has vowed to use domestic policy to soften the blow to Korean companies, according to 2013 Yonhap News article, "Korean gov't, exporters on alert against yen's slump." Thus, future Asia Pacific trade integration will hinge on domestic sentiments within Korea and other TPP-related countries.

VIII. CONCLUSION

KORUS was an important step in greater economic integration in the Asia Pacific region and in the Obama Administration's "pivot toward Asia." Given the rapid growth of developing countries and the region's dynamism, the U.S.

must work hard to remain competitive and not become excluded. The TPP is a key part of the U.S.'s economic rebalancing strategy, but the U.S. must also consider KORUS, which set a high standard for trade agreements, particularly in services, transparency, and other 21st century issues. Although KORUS' impact, particularly in trade facilitation and services liberalization, is long run and difficult to measure, KORUS confers other immediate impacts. It is a model for the TPP and an impetus for greater Asia Pacific free trade, and therefore holds great economic and geostrategic benefits for the U.S. KORUS sets the standard for trade in the Asia Pacific region, pushes for meaningful reform, and symbolizes America's continuing, strengthening presence in the region.



JOHNS HOPKINS
UNIVERSITY



U.S.-Korea Institute at SAIS
1717 Massachusetts Avenue NW, 6th Floor
Washington, DC 20036
www.uskoreainstitute.org