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South Korea's Fateful Decision on the Trans-Pacific Partnership

MIREYA SOLÍS



The transformation of Korea's FTA policy towards an ambitious trade strategy, inking deals with major economic partners, minimizing exclusions, and tackling non-tariff barriers, was largely the result of important institutional changes to the trade policymaking setup at the dawn of the 21st century. However, trade policy has been a hot button political issue, and the South Korean government has found it difficult to navigate the challenges of ensuring greater inclusivity, transparency, and the development of an effective safety net for disadvantaged sectors. The country today is at a critical juncture in its trade policy. A recent bureaucratic reshuffle reverting trade negotiation authority to the commerce ministry has generated concern about its implications for

the continuation of Korea's proactive trade policy. On the other hand, South Korea is currently in the midst of negotiating mega trade agreements in East Asia and faces the very important decision on whether to seek entry into the Trans-Pacific Partnership (TPP) trade negotiation. For South Korea, the benefits of TPP membership are multifold: sizable gains from trade, greater bargaining power in ongoing negotiations with China and Japan to tackle non-tariff barriers, the rationalization of its FTA noodle bowl, and the consolidation of a forward-leaning alliance with the United States. For a country with ambitions to become an international trade hub, absence from a major platform to promote Asia-Pacific economic integration would be a lost opportunity.

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Mireya Solís
*Senior Fellow and Philip Knight Chair in Japan Studies
The Brookings Institution*

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INTRODUCTION

South Korea has negotiated free trade agreements (FTAs) of great ambition putting itself at the forefront of the FTA trend in Asia and elsewhere in the world. This feat is all the more remarkable given that South Korea's FTA policy was initially a reactive response to the rapid proliferation of preferential trade agreements in the world, and Korean trade negotiators initially played defense, trying to limit market opening in sensitive sectors. The transformation of Korea's FTA policy towards an ambitious trade strategy, inking deals with major economic partners, minimizing exclusions, and tackling non-tariff barriers, was largely the result of important institutional changes to the trade policymaking setup at the dawn of the 21st century. Presidential leadership, the entrusting of trade policy to an elite cadre of public officials housed in the Ministry of Foreign Affairs and Trade (MOFAT), and the efficient coordination of bureaucratic interests have allowed South Korea to deploy a strategy to become an international trade hub. However, trade policy has been a hot button political issue in South Korea, and the government has found it difficult to navigate the challenges of ensuring greater inclusivity, transparency, and the development of an effective safety net for disadvantaged sectors.

The country today is at a critical juncture in its trade policy. On the one hand, the decision by newly inaugurated President Park Geun-hye to revert trade negotiation authority to the commerce ministry has generated concern about the implications for the continuation of Korea's proactive trade policy. On the other hand, South Korea is currently in the midst of negotiating mega trade agreements in East Asia and faces the very important decision on whether to

seek entry into the Trans-Pacific Partnership (TPP) trade negotiations. This paper makes the case that for a country like South Korea, with ambitions to become an international trade hub, absence from a major platform to promote Asia-Pacific economic integration is a lost chance. If South Korea seizes the TPP opportunity, it stands to benefit handsomely from sizable gains from trade, greater bargaining power in ongoing negotiations with China and Japan to tackle non-tariff barriers, the rationalization of its FTA noodle bowl, and strengthening of relations with the United States by supporting President Obama's signature trade policy initiative. It is a fateful decision indeed.

This paper is organized as follows. Section 1 discusses the evolution of South Korea's FTA policy, highlighting the transformation of a low-key FTA approach mostly concerned with minimizing the costs of trade adjustment into a high-yield trade strategy that has secured preferential market access in large industrialized nations while drastically reducing the number of sectoral exclusions. Section 2 focuses on the central role that presidential leadership, centralized decision making, and effective bureaucratic coordination mechanisms played in the emergence of this proactive trade policy. Section 3 underscores the tradeoffs of such centralization in trade policymaking as the demands from greater inclusiveness and transparency have generated heated ratification battles and widespread grassroots mobilization. Section 4 discusses the trade adjustment programs that the Korean government has put in place to quell opposition to market opening, and draws attention to the challenge of designing compensation programs that

do not extinguish the incentives for reforms necessary to boost competitiveness in low productivity sectors. Section 5 analyzes the expected benefits for Korea of joining TPP in terms of reaping gains from trade, improving its bargaining power in concurrent negotiations with China and Japan, pressing for

higher quality FTAs, streamlining the complicated web of its trade agreements, and strengthening relations with the United States. The conclusions offer policy recommendations to the American and Korean governments to ensure South Korea's meaningful participation in the TPP.

THE EMERGENCE OF A PROACTIVE FTA POLICY

South Korea's economic rise in the postwar period has been impressive: it currently ranks as the 7th largest exporter and 15th largest economy in the world. Moreover, South Korean automobile and electronic firms boast significant global market shares ranging from 9 percent for automobiles, 37 percent in LCD TVs, and 33 percent of hand-held phones.¹ The foundation of this success has been an export-led model requiring unfettered access to world markets.

For most of the postwar period, Korea relied exclusively on the multilateral trade system to sustain its export drive, and only belatedly did it begin experimenting with preferential trade agreements in the late 1990s. A number of international and domestic factors encouraged the South Korean government to launch an FTA track in its trade policy. For starters, the Asian financial crisis of 1997 exposed the institutional deficit in the region and paved the way for formal government initiatives to promote cooperation in trade and finance through FTAs and currency swaps among East Asian countries. But for South Korea in particular, the financial upheaval delivered an urgent wake-up call on the need to promote structural reforms to enhance domestic competitiveness and retool the developmental model. Developments

in the multilateral trading system also helped change minds in South Korea and elsewhere regarding the wisdom of negotiating FTAs. The failure to launch a new multilateral round at Seattle in 1999 raised doubts about the ability of the World Trade Organization (WTO) to move the liberalization agenda forward, prompting many governments to negotiate bilateral agreements as an insurance mechanism.² Finally, the rapid proliferation of FTAs worldwide created a sense of urgency among East Asian nations, including South Korea, to play catch up and avoid the possible negative effects of trade discrimination.

Hence, South Korea attached utmost priority to the negotiation of free trade agreements to promote structural reforms and boost competitiveness, to ensure that its trade-reliant economy—with a 60 percent trade/GDP ratio—enjoyed unobstructed access to markets abroad, and to avoid any potential discriminatory treatment from the multiple preferential trade agreements negotiated by other countries.³ However, as South Korea launched its new FTA policy, it proceeded cautiously by negotiating at first with smaller trading partners unlikely to generate a sizable domestic adjustment. In 1999, South Korea launched negotiations with Chile in order to tap into its extensive

¹ Stephen S. Roach and Sharon Lam, "The Resilient Economy," in *South Korea: Finding its place on the world stage*, McKinsey & Company, April 2010, http://www.mckinsey.com/insights/winning_in_emerging_markets/south_korea_finding_its_place_on_the_world_stage (downloaded September 11, 2013).

² Edward D. Mansfield and Eric Reinhardt, "The Multilateral Determinants of Regionalism: The Effects of the GATT/WTO on Preferential Trade Agreements," *International Organization* 57, no. 4 (2003): 829-862.

³ Yukiko Fukagawa, "Nikkan no chiiki shugi to 'higashi ajia kyodotai' no keisei" [Regionalism in Japan and Korea and the formation of an "East Asia Community"], in *Higashi Ajia chiiki chitsujo to kyodotai koso* [Regional order in East Asia and the community concept], ed. Masao Onokogi and Chung-in Moon (Tokyo: Keio Gijuku Daigaku Shuppankai, 2009); Hidetaka Yoshimatsu, "Political Leaders' Preferences and Trade Policy: Comparing FTA Politics in Japan and South Korea," *Asian Politics and Policy* 4, no. 2 (2012): 196.

network of trade agreements and to learn the ropes of FTA negotiation.⁴ At the same time, the vast geographical distance and opposite seasonal climates were deemed enough to mitigate a sudden increase in agricultural imports.⁵ Nevertheless, the trade agreement with Chile did generate significant backlash (discussed in more detail below), and it took four years for South Korea to launch its next FTA talks with Singapore in 2003 and the European Free Trade Area (EFTA) a year later. Singapore did not pose a challenge in terms of agricultural exports, and the trade volumes with EFTA were very minor (0.3 percent of total exports).

Negotiations with ASEAN soon followed, as well as trade talks with India in 2007. While these agreements were important to consolidate Korea's position in Southeast and South Asia, these agreements were very thin in the so-called WTO-plus rules. For instance, reflecting ASEAN's preferences, the agreement with Korea did not incorporate new obligations on government procurement, investment, intellectual property, and only minimal commitments in services.⁶ In fact, the turning point for South Korean trade policy came with the decision to negotiate with large industrialized nations: the United States (2006) and the European Union (2007). These trade negotiations were significant given the much larger size of the economic relationship, the higher adjustment costs to be expected by low productivity sectors in Korea, and the incorporation of far-reaching binding commitments to address non-tariff barriers (NTBs).

South Korea, therefore, has been able to fashion a high-yield trade strategy. It currently boasts nine FTAs in effect, which cover 38 percent of its exports, with 12 more trade deals under negotiation that would bring the total export coverage to 77.6 percent (see Table 1). Of these negotiations under way, the FTAs that involve China and Japan are by far the

most significant. The bilateral trade agreement with China will cover a quarter of Korea's exports, and the trilateral with the addition of Japan will represent 31.4 percent of exports. The Regional Comprehensive Economic Partnership (RCEP) with 16 nations stands out as it will cover almost half of all South Korean exports. Hence, South Korea has joined the mega FTA trend, with one exception: It has not made the decision to join the TPP.

Another very important measure of the quality of Korean FTAs is the actual degree of market opening achieved. One first such measure is the liberalization ratio which shows the percent of tariff lines that will be eliminated 10 years after the enactment of the agreement. The figures for several of South Korea's FTAs appear in Table 2. While the WTO mandates vaguely that trade agreements liberalize "substantially all trade," in the absence of a more specific guideline, trade experts consider that at least 90 percent of all tariff lines should be eliminated to comply with the WTO standard (the dotted line in the table). South Korean FTAs, with the exception of the agreement with EFTA, pass this test and in several cases the liberalization ratios are very high (96-99 percent range).

Nevertheless, a closer look at the agricultural carve-outs in Table 3 provides a more nuanced reading of the difficulties that South Korea has experienced in opening a farming sector characterized by small-scale production and lack of international competitiveness. Agriculture has been a contracting sector, representing only 2.6 percent of GDP in 2010 and employing 6.2 percent of the workforce in 2012. Korean farmers have had great difficulty competing internationally given the very small size of their operations (75.6 percent of farm households operate tiny plots of 0.1-1.5 hectares of land) and the advanced age of many farmers (currently a third of all farm household members are 65 years of age or older). Full-time farmers in Korea still represent a

⁴ S.H. Park and Mingyo Koo, "Forming a cross-regional partnership: The South Korea-Chile FTA and its implications," in *Cross-Regional Trade Agreements: Understanding Permeated Regionalism in East Asia*, ed. Saori Katada and Mireya Solís (Berlin: Springer, 2008), pp. 27-46.

⁵ Dukgeun Ahn, "Legal and institutional issues of Korea-EU FTA: New model for post-NAFTA FTAs?" SciencesPo, Policy Brief, October 2010, http://gem.sciences-po.fr/content/publications/pdf/AHN_KOREU%20FTA%20201010.pdf (downloaded August 5, 2013).

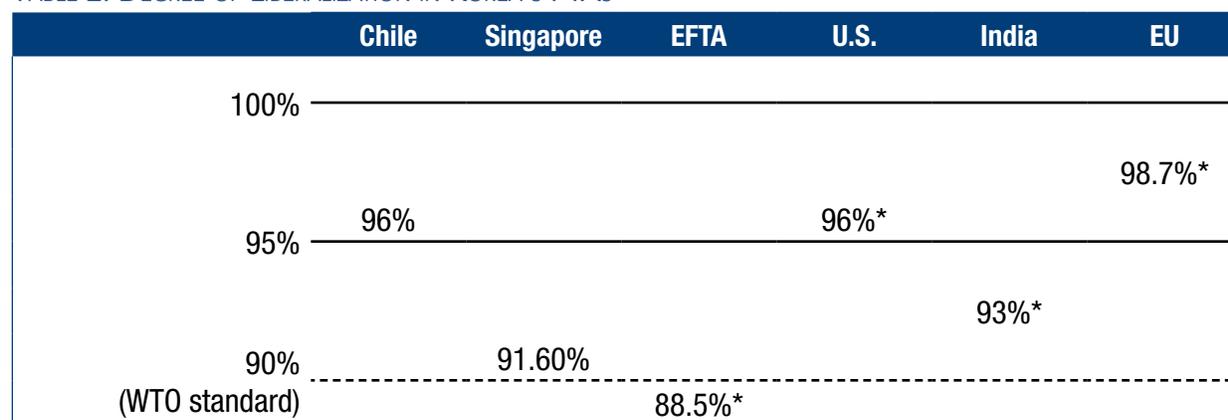
⁶ Yoshifumi Fukunaga and Ikumo Isono, "Taking ASEAN+1 FTAs towards the RCEP: A Mapping Study," ERIA Discussion Paper Series (January 2013), <http://www.eria.org/ERIA-DP-2013-02.pdf> (downloaded August 22, 2013).

TABLE 1. SOUTH KOREA'S FTA NETWORK

Korean FTA Activity		Share of Korean exports in 2012
In Effect/Ratified	Chile (2004)	0.4%
	Singapore (2006)	4.1%
	EFTA (2006)	0.3%
	ASEAN (2007)	14.3%
	India (2010)	2.2%
	EU (2011)	9.0%
	Peru (2011)	0.3%
	U.S. (2012)	10.7%
	Turkey (2013)	0.8%
Subtotal: 9		38.0%
Under Negotiation	Japan (Dec. 2003; suspended 2004)	7.0%
	Canada (July 2005)	0.9%
	Mexico (Feb. 2006)	1.6%
	GCC (July 2008)	3.5%
	Australia (May 2009)	1.7%
	New Zealand (June 2009)	0.3%
	Colombia (Dec. 2009; signed 2013)	0.3%
	China (May 2012)	24.3%
	Vietnam (Sept. 2012)	2.9%
	Indonesia (July 2012)	2.5%
	China-Japan-Korea (March 2013)	31.4%
	RCEP (May 2013)	49.8%
	Subtotal: 12	
Total: 21		77.6%
Potential Agreements	TPP	31.3%

Source: Ministry of Foreign Affairs, Republic of Korea; IMF Direction of Trade Statistics

TABLE 2. DEGREE OF LIBERALIZATION IN KOREA'S FTAs



Liberalization ratio: number of tariffs line that will be eliminated in five to ten years.

*Excludes some or all agricultural goods

Source: WTO Policy Review of Korea, 2008, 2012

sizable segment of the farming population: at 42 percent of the total it is a much higher share than the 11 percent represented by full-time growers in Japan (where agricultural interests have also staunchly opposed trade liberalization).⁷

Not surprisingly, in its earlier FTAs South Korea exhibited a defensive zeal to set aside a large portion of agricultural tariff lines from liberalization commitments (in the FTA with EFTA, the number of exemptions is a very high 65.8 percent). In South Korea's trade talks with Chile, the government set aside 26 percent of agricultural lines for renegotiations after the conclusion of the Doha Round, and in the negotiations with Singapore and ASEAN, Korea excluded multiple agricultural products, so much so that Thailand initially abstained from signing the agreement.⁸

However, starting with U.S.-Korea Free Trade Agreement (KORUS FTA) negotiations and thereafter, South Korea displayed a very different disposition towards agricultural liberalization. In the agreements with the U.S. and EU, Korea only set aside as outright exclusions 16 tariff lines that are related to rice production, while other sensitive sectors are opened more gradually through long liberalization calendars and tariff-rate quotas (TRQs).

Rice is at the core of Korean farming, and remains heavily protected through quantitative measures as the government will not move towards tariffication in its WTO commitments until 2014. Korea's shift towards jealously guarding only its core commodity (rice), however, allowed it to achieve very large liberalization ratios and to negotiate trade agreements with important agricultural exporting nations.

This overview of results achieved by South Korea in its FTA policy generates some important questions: How was South Korea able to launch in recent years a much more ambitious trade strategy? What explains the shift from extensive agricultural protection to a more focused defense of rice? In which ways has the government sought to develop a safety net to address the demands of sectors disadvantaged by market opening, and how effective have the strategies to engage civil society to generate broader support for trade policy been? An analysis of the institutional setup for trade policymaking, of the role of the legislature and civil society, and of the programs on trade adjustment assistance helps answer these questions. Such analysis also throws light on the opportunities and challenges that the government currently faces as it negotiates major regional trade agreements in East Asia and ponders the TPP option.

TABLE 3. AGRICULTURAL CARVE-OUTS IN KOREAN FTAs

(number of agricultural tariffs exempt from elimination)							
Korea's FTAs	Chile	Singapore	EFTA	ASEAN	U.S.	Peru	E.U
	29%	33.3%	65.8%	30.9%	2%	7.1%	5.4%

Source: Doo Bong Han, "Korean Agriculture and Progress of Agricultural Trade Liberalization," presentation at Woodrow Wilson International Center for Scholars, February 13, 2012.

⁷ Statistics Korea, "Statistical Database," Korea Statistical Information Service website, <http://kosis.kr/eng/> (accessed August 29, 2013); OECD, "Korea," in *Agricultural Policy Monitoring and Evaluation 2012: OECD Countries* (OECD Publishing, 2012), http://dx.doi.org/10.1787/agr_pol-2012-14-en.

⁸ Won-Mog Choi, "Aggressive regionalism in Korea-U.S. FTA; The present and future of Korea's FTA policy." *Journal of International Economic Law* 12, no. 3 (2009): 604.

EXECUTIVE LEADERSHIP AND TOP-DOWN DECISION-MAKING IN FTA POLICY

As a presidential system, South Korea has long been characterized by strong executive leadership. Even after democratic transition brought about direct elections for one-term presidents and a set of constitutional checks and balances that prevented the executive from dissolving the National Assembly, the president has centralized a significant amount of power. As the head of state and government, the Korean president has used presidential decrees to dominate legislative output—for instance between 1988 and 1995, 90 percent of bills originated from the president⁹—as well as his powers of oversight over the bureaucracy to push for policy departures.¹⁰ However, in the area of trade policy, decision making in post-democratic South Korea had remained fragmented with the line ministers (industry and agriculture) pushing for policies that protected their core constituencies, and acute inter-ministerial conflicts that frequently bogged down the process of bureaucratic coordination.¹¹ Centralization of trade policymaking was, therefore, essential to the emergence of a proactive South Korean FTA strategy.

In the aftermath of the Asian Financial Crisis, President Kim Dae-jung made the fateful decision to launch a new FTA policy in order to further the process of domestic reform and secure export markets. Kim enjoyed a critical political window in that the

deep economic restructuring following the financial crash had disorganized the traditional opponents of market liberalization (farmers and unions).¹² Kim, however, did more than capitalize on this temporary advantage by reforming the trade policy apparatus in March 1998: the Ministry of Foreign Affairs was reorganized into the Ministry of Foreign Affairs and Trade, and within it a new Office of the Minister of Trade (OMT—a Cabinet level position) was tasked with strategic planning and negotiations on foreign trade.¹³

Through presidential decree, therefore, Korean trade policymaking was greatly centralized with a clear assignation of responsibility in a single bureaucratic agency *prior* to the initiation of FTA negotiations. However, as Choi and Oh point out, while the establishment of the OMT did much to correct the previous fragmentation of trade policymaking, line agencies still had the ability to delay trade initiatives they deemed ran counter to their narrow sectoral interests (e.g., the Ministry of Agriculture opposed most concessions on primary commodities in negotiations with Chile).¹⁴ It was the establishment of an inter-ministerial coordination body (the Ministerial Meeting on External Economic Affairs) in 2001 which succeeded in breaking down the resistance of recalcitrant ministries, since it would require too

⁹ Aurel Croissant, “Strong Presidents, weak democracy?” *Korea Observer* 33, no. 1 (2002): 1-45.

¹⁰ Yoshimatsu, “Political Leaders’ Preferences and Trade Policy,” p. 197.

¹¹ Byung-il Choi and Jennifer Sejin Oh, “Asymmetry in Japan and Korea’s agricultural liberalization in FTA: domestic trade governance perspective,” *The Pacific Review* 24, no. 5 (2011) 515.

¹² Min Gyo Koo, “South Korea’s FTAs: Moving from an Emulative to a Competitive Strategy,” in *Competitive Regionalism: FTA Diffusion in the Pacific Rim*, ed. Mireya Solís, Barbara Stallings, and Saori Katada. (Houndmills, Basingstoke: Palgrave Macmillan, 2009), p. 181.

¹³ Sang-young Rhyu, “South Korea’s Political Dynamics of Regionalism: A Comparative Study of Korea-Japan FTA and Korea-U.S. FTA,” in *Trade Policy in the Asia-Pacific, The Role of Ideas, Interests and Domestic Institutions*, ed. Vinod K. Aggarwal and Seungjoo Lee (New York: Springer, 2011), p. 76.

¹⁴ Choi and Oh, “Asymmetry in Japan and Korea’s agricultural liberalization in FTA,” p. 515.

much political capital to block important trade initiatives in the monthly meetings and risked incurring the entire blame for failed negotiations (hence during the KORUS FTA talks, the Ministry of Agriculture shifted their strategy from direct opposition towards securing safeguards, protracted liberalization calendars, and side payments).¹⁵

Within the Ministerial Meeting on External Economic Affairs, MOFAT chaired the FTA committee and its central role in charting Korea's trade policy was evident in its release in 2003 of an FTA roadmap. This document identified a long-term strategy of sequential FTA negotiations that would elevate Korea's status as a trading nation. MOFAT's power of initiative reached new heights when it advocated for leapfrogging its own roadmap and negotiating sooner than originally planned with a major economy like the United States. The trade minister Kim Hyun-chong made a strong argument for using a trade agreement with the United States to enhance domestic structural reforms and shift the developmental model further towards a liberal market economy.¹⁶ Despite the fact that incoming President Roh Moo-hyun's base of support was largely on the anti-FTA camp, he was swayed by these arguments. Roh in particular was concerned about the competitive pressures facing Korea as it was 'sandwiched' between competition from low-wage cost China and advanced-manufacturing Japan. Moreover, Roh also looked at the trade talks strategically, as a way to improve relations with the United States.

President Roh offered full political cover to MOFAT to undertake these ambitious trade negotiations, as he instructed his minister of trade: "I will take the political burden myself and you sit at the negotiation table like a deal-maker."¹⁷ The high level of centralization of Korean trade policymaking was evident by the fact that President Roh and MOFAT largely orchestrated the move towards KORUS FTA, while other government agencies—like the National Economic Advisory Council—were reportedly not briefed about this decision.¹⁸ When the government announced in early 2006 that it had decided to launch trade talks with the United States and had agreed to four preconditions (screen quota, beef imports, drug price review mechanism, and car emissions) it greatly surprised the Korean public as the original FTA roadmap had contemplated negotiations with the United States only in the distant future.¹⁹

Upon assuming office in 2008, President Lee Myung-bak corroborated the centrality of FTA negotiations to Korea's foreign economic policy. In addition to pushing for the approval of the KORUS FTA (and agreeing later on to a renegotiation of some terms in 2010 to appease the concerns of the U.S. Congress²⁰), Lee launched the concept of "Global Korea" and sought to establish a net of trade agreements that would comprise 70 percent of the country's exports.²¹ The negotiation of a trade deal with the European Union, as well as important trade initiatives in Asia—a bilateral agreement with China, the trilateral China-Japan-Korea (CJK) FTA,

¹⁵ Ibid., pp. 516, 520. At a Brookings conference, "Japan and the Trans-Pacific Partnership," held on December 2, 2011, Richard Katz underscored another element that facilitates top-down decision making: "in Korea the ministries serve the president. In Japan, the ministries do not serve the prime minister. They do not regard themselves as being under the orders of the prime minister." Full transcript available at: <http://www.brookings.edu/events/2011/12/02-transpacific-partnership>.

¹⁶ Min Gyo Koo, "Partisanship and South Korea's Trade Policy: New Soul Searching between neo-developmentalism and neo-liberalism," paper prepared for the workshop on Democratic Accountability and Diplomacy in Asia, Tokyo, September 16, 2011, p. 10, http://www.iss.u-tokyo.ac.jp/democracy/doc/Koo_Paper.pdf (downloaded August 14, 2013).

¹⁷ Rhyu, "South Korea's Political Dynamics of Regionalism," p. 82.

¹⁸ Sang-bok Moon and Im-jae Cho, "The role of domestic factors in international trade policy: Demystifying the sudden start of the Korea-U.S. FTA," *Korea Observer* 40, no. 3 (2009): 602.

¹⁹ Byung-il Choi, "Wither the KORUS FTA? The Moment of Truth," in *Navigating Turbulence in Northeast Asia: The Future of the U.S.-ROK Alliance*, Joint U.S.-Korea Academic Studies Series (Washington DC: Korea Economic Institute, 2010), http://www.keia.org/sites/default/files/publications/JAS-Byung-il_Final.pdf.

²⁰ The automobile industry was a critical issue in this renegotiation, and South Korea agreed to extend the tariff phase out for autos, to accept a special safeguard, and to increase the quota of American cars that could be imported in compliance with American safety standards. See William H. Cooper et al., "The U.S.-South Korea Free Trade Agreement (KORUS FTA): Provisions and Implications," Congressional Research Service Report, March 7, 2013, <http://www.fas.org/sgp/crs/row/RL34330.pdf> (downloaded August 12, 2013).

²¹ William H. Cooper et al., "The EU-South Korea Free Trade Agreement and its implications for the United States." Congressional Research Service Report, December 1, 2011, p. 6, <http://www.fas.org/sgp/crs/row/R41534.pdf> (downloaded August 12, 2013).

and RCEP—agreed upon in the last months of his administration were all important components of this campaign.

Although just recently inaugurated, President Park has already left a mark in the institutional setup for trade policy. As part of a large bureaucratic reorganization effort, President Park devolved trade negotiation authority to the renamed Ministry of Trade, Industry and Energy with the stated goal of integrating further trade and industrial policies.²² When this ministry revealed a new FTA roadmap in June 2013, it attached utmost priority to the negotiation of the bilateral trade agreement with China and RCEP as this would allow South Korea to become “a linchpin that links the integrated market of East Asia centered around China and the pan-Pacific market led by the United States.”²³ However, the bureaucratic reshuffle has generated strong concerns about the ability to continue with the proactive trade policy that had characterized South Korea for over a decade. Rushford worries that in stripping away the control over trade negotiations from MOFAT,

which had enjoyed autonomy from protectionist interests and was staffed by elite bureaucrats capable of articulating a larger geostrategic vision to trade policy, South Korea may be reverting to a past when the commerce ministry was attuned to the protectionist demands of the large *chaebol*.²⁴ A recent *Wall Street Journal* op-ed captured this concern: “Putting the fox in charge of the trade henhouse might stall, if not reverse, progress made by the professional diplomats who understand the strategic and economic benefits of free trade.”²⁵

The centralization of the trade bureaucracy, the efficient coordination of ministries, and the support of bold trade initiatives by the political executive have been essential elements in Korea’s ambitious trade strategy. And the most recent bureaucratic shakeout also underscores the clout of Korean presidents in setting the overall direction of trade policy. However, the top-down decision making process has also generated significant pushback from the legislature and civil society with charges of non-transparent deliberations and little inclusion of stakeholders.

²² “Hyun Says Korea is ‘cautious’ on TPP Talks,” *Korea JoongAng Daily Online*, July 6, 2013. For instance, the ministry will launch a new type of FTA with emerging economies that will include developmental assistance in the areas of industry, energy, and resource exploration. See “Seoul to Become Bridge Between U.S, China Through FTAs,” Yonhap News Agency, June 14, 2013.

²³ “Seoul to Become Bridge Between U.S, China Through FTAs.”

²⁴ Greg Rushford, “Seoul’s Bureaucracies Have Consequences,” *Wall Street Journal*, February 7, 2013.

²⁵ “Park’s Trade Fumble: A new president endangers Korea’s market-opening,” *Wall Street Journal*, February 8, 2013.

THE TRADEOFFS: PARLIAMENTARY POLITICS AND SOCIAL CONTESTATION OF FTA POLICY

The National Assembly has not played a dynamic role in FTA policy due to insufficient resources and technical expertise, but most fundamentally because it has only played a post-facto role at the ratification stage. A sharp disagreement between the two branches of government has in fact emerged on whether it should be mandatory for the administration to disclose information on FTA negotiations to the National Assembly, and whether the legislature should be involved before and during the negotiations.²⁶

Korean legislators have resorted to three broad strategies to try to curb executive power in FTA policy. First, individual politicians from agricultural electoral districts have crossed party lines to establish an informal “farmers’ party” that has vocally opposed market access concessions. These politicians first mobilized during negotiations with Chile and have continued to defend agricultural interests since then.²⁷ Second, some politicians have attempted a legal challenge to the centralization of trade policymaking. On September 2006, several members of the National Assembly filed a complaint in the Constitutional Court that the administration had infringed on the prerogatives of the legislature.²⁸ Third, several member bills have been proposed over time (the so-called Trade Procedures Acts) to rebalance executive-legislative

prerogatives. Some of the envisioned reforms would give the legislature greater control over nominations (the National Assembly was to vote on the appointment of the director of the Trade Negotiation Headquarters and select half of the participants in the Private Advisory Committee) and would mandate full disclosure of FTA policies before, during, and after the negotiations. MOFAT, in turn, argued that these reporting obligations would hamper the executive’s ability to negotiate trade agreements.²⁹

As in other countries, the debate about the right balance between transparency (briefing members of the National Assembly) and confidentiality (on trade issues still in the midst of international negotiation) has figured prominently in South Korean inter-branch relations. A case in point is the leak of a confidential document in January 2007 used to brief the Special Committee of the National Assembly at a delicate time in the KORUS FTA negotiations.³⁰

As the disagreement over the proper division of labor between the two branches of government on trade policy continues, periodic ratification crises have characterized Korea’s FTA policy. It took four attempts for Korea’s first trade agreement with Chile to come to a vote in the National Assembly; at one

²⁶ For instance, according to Hyun-Chool Lee, the government only made available one English copy of the KORUS FTA to 20 members of the Korea-US Special Committee in the National Assembly, and refused to make more copies or allow wider circulation. Hyun-Chool Lee, “Ratification of a Free Trade Agreement: The Korean Legislature’s Response to Globalisation,” *Journal of Contemporary Asia* 40, no. 2 (2010): 298.

²⁷ Hyun-Seok Yu, “Political Institutions and Protectionism in Korea: The Case of Korea-Chile FTA Ratification Process,” *Korea Observer* 37, no. 4 (2006): 643-673.

²⁸ Yong-Shik Lee, “The beginning of economic integration between East Asia and North America? – Forming the third largest free trade area between the United States and the Republic of Korea,” *Journal of World Trade* 412, no. 5 (2007): 1118.

²⁹ Lee, “Ratification of a Free Trade Agreement,” pp. 302-305.

³⁰ Ahn, “Legal and institutional issues of Korea-EU FTA,” p. 30.

point legislators opposing the agreement physically blocked the podium.³¹ A similar problem ensued over the ratification of the EU FTA with the main opposition party boycotting the vote.³² The ratification of the KORUS FTA created a major rift among parties in the National Assembly. The ruling party called a surprise, closed plenary session on November 22, 2011, with only 170 of 295 lawmakers present, among them only a handful of legislators from the opposition. This was the first time that the ratification of a treaty with another country had been presented for a vote using such a method. A lawmaker from the opposition Democratic Party detonated a tear gas canister in the chamber to delay the vote—again an unprecedented action. The trade agreement passed with 151 votes in favor, seven against, and 12 abstentions.³³

After the enactment of KORUS FTA, the Democratic United Party (DUP)³⁴ shifted tactics to advocate a renegotiation of key components of the trade agreement, including the automotive safeguard, the investor-state dispute settlement mechanism, the patent linkage system for pharmaceuticals, and the treatment of outward processing zones (Kaesong).³⁵ In a February 2012 letter to President Obama, Vice President Biden, and House Speaker Boehner, the DUP urged a renegotiation, noting that once it regained control of the legislature in the upcoming elections it would make the implementation of KORUS FTA contingent on such revisions. However, the failure of the Democratic United Party to win the majority in the April 2012 National Assembly elections put an end to this political maneuvering.³⁶

Centralized decision making in Korea's FTA policy has also frayed relations with civil society. Following the tortured ratification process in the agreement with Chile, a Private Advisory Committee was established through presidential decree to generate input from non-governmental sources. However, most of the dialogue has taken place with business interests in favor of liberalization, and not with the expected losers from market opening (farmers and unions) and NGOs. So, for instance, the heads of the Federation of Korean Industries, the Korean Chamber of Commerce and Industry, the Korean International Trade Association, and the Korean Federation of Small and Medium Business are active members of this advisory group.³⁷

As is the case in many other countries, South Korea has had difficulty in expanding the range of inclusion in the FTA consultative process beyond industry groups.³⁸ Hence, many civil society groups have criticized their lack of access and have resorted to outsider group strategies, such as mass mobilization and protest activities. For instance, the Federation of Korea Trade Unions decried the lack of consultation with civil society, arguing that only one public hearing took place on the eve of the KORUS FTA negotiations. It further charged that this agreement would bring about massive deregulation of the Korean economy and an increase of irregular workers.³⁹ Farmer organizations see in FTAs a critical challenge to the survival of small scale Korean farming and have mobilized to oppose agricultural concessions in every trade agreement.

But the anti-FTA movement in Korea goes beyond a blue-green coalition to incorporate an eclectic mix

³¹ Yu, "Political Institutions and Protectionism in Korea," p. 663.

³² "Korea-EU FTA Ratified," *Korea Times*, May 4, 2011.

³³ "GNP railroads KORUS FTA in surprise plenary session," *Hankyoreh*, November 23, 2011.

³⁴ So renamed after the Democratic Party merged in December 2011 with two minor factions: the Citizens Unity Party and members of the Federation of Korean Trade Unions.

³⁵ Cooper et al., "The U.S.-South Korea Free Trade Agreement," p. 44.

³⁶ "Ruling party win in South Korea effectively ends debate over FTA's future," *Inside U.S. Trade*, April 13, 2012.

³⁷ Young Bae Park and Sang Bok Moon, "Korea's FTA Policy Structure," unpublished manuscript, 2006, p. 6, <http://faculty.washington.edu/karyiu/confer/seoul06/papers/park-moon.pdf> (downloaded August 4, 2013). The big business trade association (Federation of Korean Industries) actively used this mechanism to lobby for a trade agreement with the U.S. and to repair relations with MOFAT after they had withdrawn support mid-course on trade negotiations with Japan. See Moon and Cho, "The role of domestic factors in international trade policy," 605.

³⁸ Peter Newell and Diana Tussie, eds., "Civil Society Participation in Trade Policy-making in Latin America: Reflections and Lessons," IDS Working Paper 267, May 2006, Institute of Development Studies, http://www.dfid.gov.uk/r4d/PDF/Outputs/CentreonCitizenship/1052734521-newell-et.al.2006_civil.pdf (downloaded February 14, 2012).

³⁹ Chol Lee, "FTA, KORUS FTA and challenges of the labor movement," bilaterals.org website, August 31, 2006, http://www.bilaterals.org/spip.php?page=print&cid_article=6355 (downloaded January 25, 2012).

of activist students, NGOs, civil society organizations, and opposition party politicians. This opposition movement coalesced with the establishment in 2006 of the Korean Alliance against the KORUS FTA with 300 member organizations. This Alliance criticized the agreement with the United States as a loss of sovereignty.⁴⁰ Mass mobilization, strikes, and street protests (sometimes violent) have been in the repertoire to contest this trade deal. The level of protest activity has been high. For instance, large worker strikes (between 74,000 and 100,000 people) took place in July 2006 and June 2007, and by

May 2008, 620 anti-FTA demonstrations had taken place.⁴¹ When President Lee suddenly announced the end of restrictions on American beef imports (to pave the way for American ratification of the agreement), massive protests ensued during the summer of 2008. The protests, in the form of candlelight vigils, mobilized a new wave of “netizens,” mostly students and women, and went beyond the traditional pattern of NGO activism.⁴² Lee had to backtrack through a face-saving, voluntary restraint on imports of cattle older than 30 months to end the political paralysis that gripped his administration.

⁴⁰ Mi Park, “Framing free trade agreements: The politics of nationalism in the anti-neoliberal globalization movement in South Korea,” *Globalizations* 6, no. 4 (2009): 451-466.

⁴¹ *Ibid.*, p. 457.

⁴² Yong Cheol Kim and June Woo Kim, “South Korean Democracy in the Digital Age: The Candlelight Protests and the Internet,” *Korea Observer* 40, no. 1 (2009): 53-83.

FTA SUBSIDIES: APPEASING TRADE LIBERALIZATION OPPONENTS

In order to gain broader social acceptance of trade agreements, the Korean government has resorted to side payments for disadvantaged sectors. Farmers were the first targeted group, given their virulent opposition to the Chile negotiations. As the government moved to bring the FTA to a vote in the National Assembly in the spring of 2003, it offered to set up a FTA fund of 800 billion won (around \$668 million) for seven years to compensate farmers. Since farming organizations did not consider this enough support and rural legislators continued to delay the ratification vote, the government had to raise the amount of side payments to 1.2 trillion won over 10 years.

As a first exercise in FTA compensation policy, the deal with farmers over the Chile trade agreement has been criticized on two grounds. First, the amount of compensation is excessive: “Considering the expected damage to Korean farmers as a result of the Korea-Chile FTA is estimated at about 5.6 billion won for the next 10 years, the government’s huge compensation plan is nothing but the result of farmers’ interest politics.”⁴³ Second, the assistance funds were released without imposing restructuring obligations since the money was available “regardless of any damage from the FTA.”⁴⁴ The indemnity for closing fruit orchards was too high, it benefitted too many

farmers, and it risked triggering a “balloon effect” as farmers reopened their orchards just a few years after receiving payment.⁴⁵

The impact of the FTA with the United States on Korean agriculture is anticipated to be sizable: an annual reduction of \$626 million in production value.⁴⁶ In response, the government came forward in 2007 with the largest compensation package to date: 20.4 trillion won (approximately \$20 billion). The concern with fostering agricultural reform is much more palpable in this FTA subsidy program. Of the 20.4 trillion won, only 1.2 trillion won will be allocated for immediate losses, 7 trillion won will be directed to improve the competitiveness of agriculture, and 12.2 trillion won will be targeted at agricultural fundamentals (stabilizing farming income and developing the food industry). Only full time farmers will receive income stabilization benefits and subsidies will be provided to elderly farmers that sell or lease their land, to encourage their retirement and thereby facilitate large-scale farming.⁴⁷

The Korean government also sought to pave the way for the KORUS FTA by introducing in 2007 a trade adjustment assistance (TAA) program in the manufacturing sector. As in the case of the American

⁴³ Yu, “Political Institutions and Protectionism in Korea,” p.664.

⁴⁴ Inkyo Cheong and Jungan Cho, “Reforms of Korea’s Trade Adjustment Assistance Program for Its Bilateral Free Trade Agreements with the European Union and the United States,” *Asian Economic Papers* 10, no. 1 (2011): 36.

⁴⁵ Sei-Kyun Choi, Tae-Hun Kim, and Dae-Hee Chung, “Evaluation of Compensation Measures and Impacts of Implemented FTAs on Agricultural Sector,” Korea Rural Economic Institute Research Report, October 2009, p. 61, http://www.krei.re.kr/eng/publication/reports_view.php?reportid=R597&cpage=9&skey=&sword= (downloaded March 17, 2012).

⁴⁶ The EU FTA is only expected to inflict a loss of one third that amount on Korean agriculture, mostly in livestock. So the government adopted a \$2 billion compensation fund. All figures from Doo Bong Han and Kyung Min Kim, “Progress, Issues, and Prospect of Agricultural Trade Liberalization in Korea,” PowerPoint presentation, March 18, 2011, http://bbs1.agr.kyushu-u.ac.jp/foodsci/ppt_Han.pdf (downloaded March 22, 2012).

⁴⁷ “20 Trillion Won Agricultural Compensation Deal for Korea-U.S.FTA,” *Dong-A-Ilbo*, November 7, 2007.

program, the key goals of the Korean TAA are to foster social peace around trade liberalization by cushioning the blow of opening the market, and to promote industrial restructuring. There are, however, some marked differences between these two national programs for trade adjustment assistance. In the case of Korea, the core of the program is support for enterprises, with much less emphasis on workers.⁴⁸ In addition to consulting services, the Korean government provides financial support to firms receiving TAA in the form of discounted loans, while the United States phased out the financial component of its assistance several years ago. The Korean program is not designed to enforce a restructuring obligation as a precondition for receiving state subsidies. In a survey of Korean firms, Cheong and Cho found that frequently firms that were not damaged by FTAs obtained support, that no firm received consulting services to retool their production strategies, and that many firms did not know that restructuring was a prerequisite and would not have applied to the TAA program if they were expected to change their business strategy.⁴⁹

The Korean TAA is but a fraction of the American program with a budget allocation of \$26 million in 2009 (30 billion won), and so far only a handful of Korean firms have been certified, given the strict eligibility criteria (25 percent decrease in sales).⁵⁰ There are calls to relax this condition, and with the entry into force of the trade agreements with the EU and the U.S., the number of applications is expected to increase. The key question is whether the Korean program can evolve from its current incarnation as an “industrial policy that protects small and medium enterprises from import competition” to a program that can deliver genuine industrial upgrading.⁵¹ Likewise, it is still too early to know whether the agricultural fund for the FTA with the United States will indeed achieve its purported structural improvement goals. But the first decade of Korea’s FTA compensation politics shows that disadvantaged sectors have repeatedly extracted compensation from the state, have mobilized politicians on their behalf and made the National Assembly the bargaining arena, and that the practice of compensation has not eliminated the contentious character of Korea’s FTA policy.

⁴⁸ For example, in the Korean program workers must choose between unemployment and TAA benefits, while in the United States qualifying workers can enjoy both. See Cheong and Cho, “Reforms of Korea’s Trade Adjustment Assistance Program,” p. 35.

⁴⁹ Cheong and Cho, “Reforms of Korea’s Trade Adjustment Assistance Program,” pp. 38-39.

⁵⁰ *Ibid.*, p. 40.

⁵¹ Yoon Heo, “Trade Adjustment Assistance in Korea: Theory and Practice,” in *The Korean Economy in the Era of Globalization: Issues and Policy Implications*, ed. MoonJoong Tcha, paper presented at the 2007 KDI International Conference (Seoul: KDI, 2007), pp. 1-2, http://210.114.108.30/kdi/report/report_read05.jsp?1=1&pub_no=10284.

WEIGHING THE TPP OPTION

South Korea has been able to negotiate ambitious trade deals that cover a sizable amount of the country's exports and has, over time, significantly narrowed its core defensive interests to the exclusion only of rice. These remarkable policy departures were greatly facilitated by South Korea's ability to centralize the trade policy apparatus at the *onset* of FTA policy so that the most fateful decisions on FTA strategy were in the hands of a small circle of policymakers (the President and MOFAT), and the process of reconciling bureaucratic differences was entrusted to the Ministerial Meeting on External Economic Affairs. However, the recent decision by President Park to restore trade negotiation authority to the Ministry of Trade, Industry and Energy has raised concerns about the ability to insulate trade policy from domestic demands for protection.

While centralized decision making has enabled South Korea to deploy a nimble trade negotiation strategy, the demands for wider participation from other stakeholders and increased transparency in the trade decision making process have grown over time. Trade agreements have often triggered ratification battles, and the discussion over the merits of FTAs has politicized civil society. Ensuring society "buy in" of trade policy has been challenging for the government as it has had difficulty in expanding its consultation mechanisms beyond producer groups to a full blown dialogue with civil society. In order to pave the enactment of FTAs, the government has launched trade compensation programs especially for farmers. In its earlier

FTAs, however, the subsidy program did very little to instill necessary reforms among recipients. Subsequent FTA-subsidy programs slated for the KORUS FTA seem to have improved on that score by encouraging competitiveness and full-time commercial farming, although their ultimate success in encouraging structural reforms in the agricultural sector is not yet known.

The institutional setup for trade policymaking and patterns of mobilization and subsidization of disaffected sectors will influence the way in which South Korea negotiates important trade deals in the region (bilaterally with China, trilaterally with Japan and China, and minilaterally with 15 other countries in RCEP). Although these East Asian trade agreements are expected to make allowances for sensitive sectors, South Korean farmers have already mobilized to oppose the negotiations with China. For example, on July 2, 2013, 3,200 farmers protested a meeting of trade negotiators with the charge that the "Korea-China FTA is the death sentence to Korean farming."⁵² These domestic constraints have weighed heavily on the decision of whether to join TPP given its much more ambitious liberalization targets, and also due to the fatigue from the arduous battle to ratify the KORUS FTA. Moreover, pressing domestic issues, such as slowing growth, high unemployment, and deepening income inequality, have dominated the economic agenda of President Park. Wealth distribution efforts, therefore, seem to have gained greater saliency than the structural reform campaigns of previous administrations.

⁵² "South Korean farmers hold huge rally against FTA with China," Yonhap News Agency, July 2, 2013, <http://www.globalpost.com/dispatch/news/yonhap-news-agency/130702/s-korean-farmers-hold-massive-rally-against-fta-china>.

On the trade front, the South Korean government has attached utmost priority to negotiations with China, given its importance as Korea's number one trading partner, and has expressed its intention to cautiously study the implications of TPP membership. According to Jeong, a comparison of economic benefits justifies Korea's focus on East Asian trade initiatives. Using a CGE model, he calculates that the gains from trade for Korea are larger in the negotiation of the 16-nation East Asian FTA (RCEP) than in the negotiation of a TPP with 13 countries: 2.69 percent in GDP growth versus 1.44 percent. However, as the author himself acknowledges, these estimates are only partial since they do not factor in the impact of non-tariff barriers which are a major focus of the TPP talks.⁵³ Petri, Plummer, and Zhai provide a more comprehensive estimate which factors in non-tariff barriers, obstacles to foreign direct investment, and utilization rates of tariff preferences. They estimate that for South Korea the TPP track would yield income gains by the year 2025 equivalent to 2.2 percent of GDP, and the Asian track benefits would amount to 4.1 percent of GDP. The larger gains from the Asian track reflect the opening of the Chinese market, with which there is no pre-existing FTA, and the benefits of eliminating the larger external barriers of many Asian countries.⁵⁴

However, comparing the income gains from different trade negotiations should not create the impression that South Korea faces an "either/or" situation. In fact, South Korea, like Japan and other Asian countries, can concurrently seek participation in both Asia-only trade initiatives and the TPP. The synergy effects of acting as a "bridge" in these mega trade negotiations could be substantial. South Korea will be

able to improve its market access even in countries with which it already has FTAs in place, given that many of these older trade agreements are considered to be of inferior quality.⁵⁵ And even though South Korea is in the midst of negotiating separate trade agreements with several TPP nations (Japan, Australia, New Zealand, Vietnam, and Canada), its participation in the TPP will strengthen its bargaining leverage in these other trade negotiation fronts.

In other words, with TPP in hand, South Korea can expect better outcomes in opening foreign markets with higher quality trade agreements. Cases in point are trade negotiations with Japan and China, respectively. A previous attempt to negotiate a bilateral trade agreement with Japan came to naught with negotiations suspended since November 2004. At that time, South Korean trade negotiators cited the lack of market opening in agriculture and pervasive non-tariff barriers in Japan as the reason for the negotiation breakdown.⁵⁶ The TPP offers a unique opportunity to address these long-standing concerns. The Asia-only trade negotiations (trilateral CJK and RCEP) will likely have more leniency towards sensitive sectors and fewer WTO-plus commitments. In contrast, Japan has accepted to partake in an unprecedented level of agricultural liberalization and NTB elimination. But those benefits of Japanese market opening will only be available to TPP partners. The Japanese TPP entry has in fact prompted growing interest in Korea in the TPP, for the potential of negotiating more substantive market access with Japan as well as for the possibility of trade and investment diversion if Japan is a TPP member but South Korea is not, given the strong rivalry among Japanese and Korean enterprises in sectors such as automobiles

⁵³ Hyung-Gon Jeong, "South Korea: Which way will it go on Asian integration?" in *Asia at a tipping point: Korea, the rise of China, and the impact of leadership transitions*, ed. Gilbert Rozman, Joint U.S.-Korea Academic Studies Series 23 (Washington DC: Korea Economic Institute, 2012), p. 213, <http://keia.org/publication/south-korea-which-way-will-it-go-asian-integration> (downloaded August 14, 2013).

⁵⁴ Peter A. Petri, Michael G. Plummer, and Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment*, Policy Analysis in International Economics Series 98 (Washington DC: Peterson Institute for International Economics, 2012), p. 41.

⁵⁵ David A. Parker and Matthew P. Goodman, "Korea: TPP Beckons," *Global Economics Update* 1, no. 5 (July 2012), <http://csis.org/publication/global-economics-update-korea-tpp-beckons> (downloaded August 4, 2013).

⁵⁶ Saori Katada and Mireya Solís, "Domestic sources of Japanese foreign policy activism: loss avoidance and demand coherence," *International Relations of the Asia-Pacific* 10, no. 1 (2010): 149. However, from the Japanese point of view, South Korea's reluctance to move forward with this trade negotiation was due to its concern with an increase in the trade deficit vis-à-vis Japan and the fear of industrial competition, especially for small and medium sized enterprises.

and electronics.⁵⁷ Participation in TPP would help achieve both these offensive and defensive goals in Korean trade policy.

Some analysts have cautioned that South Korea's participation in the TPP could hurt relations with China and the ongoing bilateral trade negotiations since they impute to the TPP the intention to curb China's role in Asia (Kim, 2013).⁵⁸ However, the containment thesis falls flat on several scores. The goal of marginalizing China through the TPP is counterproductive and unfeasible given the central role of China in the world economy and regional supply chains. Rather, the aim of the TPP is to develop an Asia-Pacific platform that can eventually encourage further market reforms in China.⁵⁹ Moreover, Japan's entry into the TPP played a critical role in spurring trade negotiations (CJK FTA and RCEP) that had long stalled as China sped up the feasibility study of the agreement among North-east Asian countries and agreed to the 16-member configuration for RCEP long advocated by Japan.⁶⁰ These examples demonstrate the positive synergy that South Korea could expect from TPP membership in its negotiations with China. This would be particularly important in expanding the scope of the bilateral FTA beyond the focus on tariff elimination

for commodity trade that China envisions towards a broader agreement that tackles non-tariff barriers which would benefit South Korea.⁶¹ A more ambitious bilateral FTA would help address the concerns of Korean companies regarding Chinese compliance with rules on intellectual property, government procurement, competition policy, and anti-dumping.⁶²

Therefore, South Korea can expect to reap the benefits of greater bargaining power on multiple negotiation fronts, while the adjustment costs of TPP membership should not be too onerous. South Korea is already well prepared to embrace the rigorous standards of the TPP, as they closely reflect provisions negotiated in the KORUS and EU FTAs,⁶³ and it is not inconceivable that a similar exemption to rice liberalization could be carved out in the TPP.⁶⁴ Moreover, South Korea stands to benefit from the novel elements of the TPP not included in the KORUS FTA, such as rules to enhance supply chains, promote small and medium sized enterprises, boost competitiveness, and promote development and regulatory coherence. Finally, to the extent that the mega trade agreements currently under negotiation can streamline the unwieldy web of crisscrossing bilateral trade agreements, the Korean business sector will be able to compete more efficiently, unhindered

⁵⁷ Jeong, "South Korea," 221. The KORUS FTA helps diminish the negative impact of greater competition with Japan in the American market. In the Petri, Plummer, and Zhai analysis, the trade diversion effects from Japan's TPP membership are much lower for South Korea than for China: a drop in the value of exports of \$7.0 billion 2007 dollars for the former versus \$43.70 billion 2007 dollars for the latter. But to the extent that the TPP offers more substantial market access in other countries with which Korea has no FTA or a lower quality FTA, the competitive position of Korean enterprises could suffer. See Peter A. Petri, Michael G. Plummer, and Fan Zhai, "Adding Japan and Korea to the TPP," research note, Asia-Pacific Trade website, March 7, 2013, <http://asiapacifictrade.org/wp-content/uploads/2013/05/Adding-Japan-and-Korea-to-TPP.pdf> (downloaded August 21, 2013).

⁵⁸ Gyupan Kim, "Japan's participation in TPP negotiation: Prospect and policy implications for Korea," *KIEP World Economy Update* 3, no. 21 (May 6, 2013), [http://www.kiep.go.kr/include/filedown.jsp?fname=Japan's Participation in TPP Negotiation Prospect and Policy Implications for Korea.pdf&fpath=EASTWORLD&NO=131805&FNO=27](http://www.kiep.go.kr/include/filedown.jsp?fname=Japan's%20Participation%20in%20TPP%20Negotiation%20Prospect%20and%20Policy%20Implications%20for%20Korea.pdf&fpath=EASTWORLD&NO=131805&FNO=27).

⁵⁹ Mireya Solís, "The Containment Fallacy: China and the TPP," Brookings Up Front Blog, May 23, 2013, <http://www.brookings.edu/blogs/up-front/posts/2013/05/24-china-transpacific-partnership-solis>.

⁶⁰ Mireya Solís and Saori Katada, "Unlikely Pivotal States: Japan and Competitive FTA Diffusion in Asia-Pacific," article manuscript under review (2013).

⁶¹ Si Joong Kim, "Economic and Trade Relations as an Arena of Korea-China Contention," in *Asian Perspective*, 36 (2012): 237-262.

⁶² Nakgyoon Choi, "Impacts and main issues of the Korea-China FTA," in *Korea's Economy 2012* (Washington DC: Korea Economic Institute, 2012), 32. <http://keia.org/publication/impacts-and-main-issues-korea-china-fta> (downloaded August 5, 2013).

⁶³ Some observers have made the case that South Korea should consider TPP membership if it is possible to obtain better terms than what is available in KORUS in the areas of duty drawback and rules of origin affecting the outward procession zone Kaesong, which is jointly administered by North and South Korea. On the former issue, in the agreement with the European Union duty drawback was allowed, facilitating the import of components for assembly by Korean car companies. However, this provision was very controversial during the negotiations and its continuation will be reviewed five years after enactment of the agreement. On the question of Kaesong, different Korean FTAs have varying rules, but in KORUS the only compromise was the future establishment of a bi-national committee to address this issue. Hence it is debatable whether South Korea can achieve the renegotiation of these clauses.

⁶⁴ Jeffrey J. Schott, Barbara Kotschwar, and Julia Muir, *Understanding the Trans-Pacific Partnership*, Policy Analysis in International Economics Series 99 (Washington DC: Peterson Institute for International Economics, 2013), p. 50.

by the significant transaction costs of scores of market access schedules and inconsistent rules of origin. For that reason, Ambassador Ahn Ho-young on the eve of his dispatch to the post in the United States stated that South Korea should “pay close attention and monitor the TPP” as a way to correct the noodle bowl effect that hinders the benefits of multiple bilateral trade agreements.⁶⁵ And on August 8, 2013, Deputy Prime Minister Hyun Oh-seok instructed relevant ministries to study the effects of TPP on South Korea’s economy and diplomatic security.⁶⁶

South Korea, therefore, is at a critical juncture on whether to seek TPP membership or not. As the government ponders this important decision, it

should factor in that for a self-proclaimed international trade hub like South Korea, the absence from a major platform to promote Asia-Pacific economic integration would be a lost opportunity. Moreover, to the extent that TPP participation advances a key priority for the Obama administration in promoting the trade agenda and rebalancing towards Asia, South Korea can further consolidate a “forward-leaning alliance” with the United States. Importantly, this would be a collaborative effort to establish a multilateral framework for deeper integration that goes beyond the existing bilateral trade agreement, and that rests upon the principle of inclusion of other APEC economies that wish to abide by the more exacting liberalization standards.

⁶⁵ “South Korea pays ‘close attention’ to talks on U.S.-led Pacific Trade Pact,” Yonhap New Agency, May 23, 2013.

⁶⁶ See “Hyun Oh Seok ‘Ha Ban Ki Aehn Soo Chool Yi Kyung Ki Hweh Bok Joong Shim Ae Suhl Gut’” [Hyun Oh Seok “Exports Will be at the Center of Recovery in the First Half of the Year”], Yonhap New Agency, August 8, 2013, <http://news.naver.com/main/read.nhn?mode=LSD&mid=sec&sid1=101&oid=001&aid=0006417283>.

POLICY RECOMMENDATIONS FOR THE UNITED STATES AND SOUTH KOREA

The governments of both countries should:

- **Endeavor to facilitate South Korea's entry into the TPP.** For South Korea, the benefits of TPP membership are multifold: sizable gains from trade, greater bargaining power in ongoing negotiations with China and Japan to tackle non-tariff barriers, the rationalization of its FTA noodle bowl, and the consolidation of a forward-leaning alliance with the United States. For the United States, the benefits to be accrued go beyond the positive but modest gains from trade (given the pre-existing KORUS FTA) to the achievement of other important goals:
 - a) The consolidation of the TPP project as an expansive platform of economic integration encompassing leading regional economies, and the strengthening of the partnership with South Korea through the creation of a regional economic architecture in the Asia-Pacific;
 - b) The encouragement of higher level integration in ongoing Asian trade negotiations. As the TPP gains political visibility and economic heft through an expanded membership, there will be a greater incentive for other trade negotiations (RCEP and the trilateral CJK FTA) to adopt more rigorous liberalization standards if they want to remain competitive. Moreover, greater membership overlap as more Asian nations join TPP will also facilitate the dissemination of standards across trade negotiations.

The new South Korean government must:

- **Signal its commitment to a proactive trade policy.** The rationale from stripping MOFAT of its trade negotiation authority has not been articulated clearly and the government must send reassurances that this bureaucratic reshuffle does not augur a reversion to a less ambitious trade strategy.

The American government must:

- **Reauthorize trade promotion authority (TPA).** The ability of the United States to ratify trade agreements in a timely fashion and without extracting further concessions from its trade partners is central to its negotiation credibility. Even with TPA, assuring South Korea that the TPP will not be hostage to Congressional politics will be a tall order given the tortuous process of ratification for the KORUS FTA. But absent TPA, this task will be a lot harder.

The *timing* of South Korean entry into the TPP is also very important. Hence, two distinct scenarios are conceivable:

1. **South Korea enters as the last country in the founding stage of the TPP.** The Obama administration has signaled its strong commitment to conclude the TPP negotiations by the end of 2013. However, given the substantive disagreements among TPP negotiators on market access, intellectual property protection, and state-owned enterprises, to name a few issues, it is conceivable that the

TPP negotiations could extend into 2014. This would create an opportunity for South Korea to join as a founding member. To that effect,

- **The United States (and other TPP countries) should adopt a flexible approach on South Korea's core defensive interest (rice) similar to the KORUS FTA.** This will reassure South Korea that the trade adjustment cost of TPP membership will not be too onerous generating a major political fight at home, while at the same time ensuring that the high level of ambition of the TPP (with a targeted liberalization rate of 98 percent) is not compromised.
- **South Korea must demonstrate that it is prepared to negotiate the TPP quickly without becoming a source of major additional delays.** To this effect, South Korea should not try to advocate for the inclusion of clauses that have been controversial in other trade negotiations, such as the Kaesong outward processing zone and the duty drawback for automobiles.

2. **South Korea enters as the first country in the implementation stage of the TPP.**

If the TPP countries manage to finalize the negotiations by the end of 2013, and South Korea does not make up its mind on TPP membership quickly, then South Korea may become the litmus test on how to expand membership for non-founding members. To that effect:

- **The United States and South Korea should develop a mechanism to consult closely in the final stages of the TPP negotiations.** Through this bilateral consultation mechanism, trade officials can work to ensure that TPP rules do not create an unsolvable obstacle to South Korea's future accession to the TPP.
- **The United States (and other TPP countries) should endeavor to develop a transparent and expeditious docking mechanism for new members.** This is essential for the TPP to live up to its promise of evolving as a "living agreement" capable of accepting new countries and tackling new issues.

THE AUTHOR

MIREYA SOLÍS is a senior fellow and the Philip Knight Chair in Japan Studies at the Brookings Center for Northeast Asian Policy Studies, as well as an associate professor at American University. An expert in Japan's foreign economic policies, Dr. Solís's main research interests include Japanese politics, political economy, and foreign policy; international and comparative political economy; international relations; and government-business relations.

She also has interests in broader issues in U.S.-Japan relations and East Asian multilateralism. She is the author of *Banking on Multinationals: Public Credit and the Export of Japanese Sunset Industries* (Stanford University Press, 2004) and co-editor of *Cross-Regional Trade Agreements: Understanding Permeated Regionalism in East Asia* (Springer, 2008) and *Competitive Regionalism: FTA Diffusion in the Pacific Rim* (Palgrave Macmillan, 2009).



The Brookings Institution
1775 Massachusetts Ave., NW
Washington, D.C. 20036
brookings.edu