Korea’s Perspectives on the TPP

Jin Kyo Suh

1. Introduction

Recently, there is a subtle sign of a new change in the economic regionalism of the Asia Pacific area. Japan formally joined the negotiation of the Trans-Pacific Partnership agreement (TPP), in which the U.S. plays a major role in leading the negotiations. China does not feel comfortable with Japan’s participation in the TPP because the TPP still can be regarded as the U.S.’s effort to encircle to China in Asia. In fact, it is obvious that the current TPP contains many provisions that China would find unacceptable at least in the near future such as state owned enterprises (SOE) regulations and increased intellectual property rights (IPR) protection.

Another new movement in the regional economic integration of East Asia is the RCEP (Regional Comprehensive Economic Partnership), which emerged suddenly last November, supplanting either ASEAN+3 (ASEAN plus China, Japan, and Korea) and ASEAN+6 (ASEAN+3 plus Australia, New Zealand, and India). The second formal negotiation of the RCEP was held in September 2013 in Brisbane, Australia. The RCEP pursues ASEAN centralism and thus the RCEP can be considered as ASEAN’s attempt to reduce the influence of the U.S. as well as China, on the East Asia area.

Finally, the trilateral free trade agreement (FTA) negotiations among China, Japan, and Korea (CJK), which remained elusive until the end of 2012, were launched and even finished the second meeting in July 2013. Although the CJK FTA negotiation is smaller than the above two regional economic integrations in terms of size of GDP or trade values, the CJK FTA is regarded as a step-stone for a successful conclusion of the RCEP negotiations.

1 This short paper is prepared for a Conference on the Trans-Pacific Partnership and Taiwan’s Future Development Strategy at Stanford University which is held on October 11~12, 2013.
I am grateful to John Dyck of ERS/USDA and Troy Stangarone of KEI for very valuable comments on this short paper. Responsibility for the views expressed and all remaining errors is solely mine.
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3 The GDP of CJK, three countries is 73 percent of total GDP of the RCEP countries.
With those complicated competing negotiations among the U.S., China, and ASEAN in the East Asia region, this paper describes Korea’s view on the TPP and searches for the direction of trade policies for Korea toward the peaceful progress of Asia Pacific Economic Regionalism. In doing so this paper focuses both on what Korea thinks about the TPP in terms of global trade flows and on why Korea is conflicted about joining the TPP.

2. Korea’s Concerns on the TPP

2.1. TPP as a New Global Standard for Future International Trade

The TPP clearly has a potential to be a new global standard for international trade. With 29 chapters under negotiation, the TPP partners seek new disciplines on certain activities not heretofore addressed in both previous FTAs and the World Trade Organization (WTO). For example, the TPP deals with new issues such as regulatory coherence, supply chain competitiveness, and small-and medium-sized enterprises. This is a main reason why the TPP is called as a 21st century regional free trade agreement. If concluded as envisioned, the TPP could serve as a template for a future global trade pact among WTO members, as well as Asia-pacific Economic Cooperation (APEC) members.

In a related move, there are other new regional trade agreement (RTA) flows, to which we have to pay attention: an economic block between three advanced giants (The U.S., EU, and Japan), the U.S.–European Union (EU) FTA negotiation (called TTIP: Trans-Atlantic Trade and Investment Partnership) and bilateral FTA negotiation between the Japan and the EU. The TTIP aims to strengthen rules-based investment to grow the world’s largest investment relationship and to develop rules, principles, and new modes of cooperation on issues of global concern, including intellectual property and market-based disciplines addressing state-owned enterprises and discriminatory localization barriers to trade. The EU-Japan FTA negotiation is not much different from the TTIP.

An interesting fact is that TPP, TTIP, and Japan-EU FTA are the RTAs among the three leading largest advanced economies: the US, the EU, and Japan. In fact, among developed

4 See White House Fact Sheet: Transatlantic Trade and Investment Partnership (TTIP), www.ustr.gov
countries, especially the largest among them, there exists a “glass ceiling” that prevented the major players from negotiating RTAs with one another. Although major countries have exercised real restraint in their RTA negotiations, there clearly existed a cut-off point. Australia, Canada, and Korea had been the limit for RTAs of the major giants.

However, the ceiling is now shattered and serious suspicions arise about their real intentions to create their own discriminative RTAs as well as the future of negotiations in the WTO. Developing countries could entertain a doubt that advanced countries are trying to make the discriminative club for developed countries, which is to be taken up in a global deal. Like an accession to the GATT or WTO, developing countries are very concerned that they just have to follow new rules and standards on new global issues (for instance, state-owned enterprises, intellectual properties, digital data, labor and environment) that the developed countries had established in the view point of their own interest within their clubs. It is, of course, unlikely that successful negotiation and implementation of proposed new trade rules in the TPP could be fixed as global rules in this polarized world without the consent of developing countries. However, those rules could serve as a template for future WTO negotiations.

This is one of several reasons why Korea should urgently join the negotiation of the TPP. Korea, which currently ranks as the 7th largest exporter and 15th largest economy in the world, cannot help having deep interests in the new rules and standards which are negotiated by current TPP partners. The new rules and standards of the TPP will definitely affect Korea’s exports to 12 TPP member countries, including exports to other non-TPP countries. Furthermore, the TPP could influence the shape and path of Korea’s trade policy for the foreseeable future. Therefore, Korea should participate in the negotiation of the TPP as soon as possible in order to put its own interests into the rule-making process on 21st century new trade issues before the TPP countries finalize the negotiations. Given the substantive disagreements among TPP negotiators on market access, intellectual property protection, and state-owned enterprises, it is conceivable that the TPP negotiations could extend into 2014 or 2015.

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5 In this respect, the TPP can be also considered as a stumbling block or a threat to the multilateralism of the WTO.
7 In this respect, other major developing countries, such as China, Brazil and India, may have the same view as that of Korea.
On the other hand, since Korea is already well prepared to embrace the rigorous standards of the TPP, as they closely reflect provisions negotiated in the Korea-U.S (KORUS) FTA and Korea-EU FTA, the adjustment costs of TPP membership are estimated as not being onerous. For instance, the KORUS FTA goes further than the WTO in a range of areas such as intellectual property rules, services, and non-tariff barriers such as standards. Additionally, the KORUS FTA addresses so-called “WTO-plus” issues that are not addressed in the WTO by including commitments in areas such as investment access and protection, trade facilitation, competition, environment and labor policy.

2.2. TPP as a Mechanism for de facto Isolating China in East Asia

Although the TPP seeks to be a “living agreement”—meaning that other countries can join at any time and other areas of trade can be added to the agreement in the future—the high standards of free trade were thought to be too large of a barrier for China to overcome in the foreseeable future. Thus, it is true that the TPP does not intend to marginalize China in East Asia. However, at the same time, it is also true that the current content of TPP is a hard nut to crack—beyond China’s acceptance limit.

The TPP negotiations are being conducted on disciplines to intellectual property rights, trade in services, government procurement, investment, rules of origin, competition, labor, environmental standards, and other issues. In many cases, the rules being negotiated are intended to be more rigorous than comparable rules found in the WTO. Some topics, such as state-owned enterprises, regulatory coherence, and supply chain competitiveness, break new ground in FTA negotiations. Thus, the TPP, if implemented, may involve substantial restructuring of the economies of some participants.

Although Chinese society has evolved after three decades of rapid change, China is still far behind more advanced economies in the quality, extent and abilities of its nascent services sector. Equally, many of its companies depend on government support or benefit from facilities that would be hit hard by current TPP conditions. Chinese leaders recognize that a series of policy changes is needed if they are to sustain economic growth, ensure social stability, and restore the tarnished legitimacy of the communist party. However, at the same time, they fully
understand that a rapid market reform is not a useful and feasible pathway to those purposes. This is why China cannot participate in TPP negotiations at least in the near future because it could result in both rapid and sharp reform of the fundamental economic and social structure of China.

Therefore, from China’s point of view, the “living agreement” of the TPP can be seen as a purely rhetorical device. China may believe that Japan’s successful entry into the TPP negotiations means that the U.S. has taken a step forward encircling China. In this situation, what does China think about Korea’s joining the TPP? What happens if China feels itself excluded from a successful and extensive TPP? Already suffering from diminishing competitiveness, China is keen to avoid any further hits to its trade position.9

On the other hand, China is the most important trading partner of Korea. The bilateral trade agreement with China will cover a quarter of Korea’s exports. The trade surplus with China amounted to more than $53 billion in 2012, which is almost twice Korea’s total trade surplus. In addition, China is a neighbor country with influence on North Korea’s decision-making, which directly relates to national security issues of Korea. In this situation it is not a simple task to decide whether Korea participates in the TPP or not.

Table 1 Korea’s Merchandise Trade (2012)

<table>
<thead>
<tr>
<th></th>
<th>Total (A)</th>
<th>With China (B)</th>
<th>(B/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>547,870</td>
<td>134,323</td>
<td>0.245</td>
</tr>
<tr>
<td>Import</td>
<td>519,584</td>
<td>80,785</td>
<td>0.155</td>
</tr>
<tr>
<td>Balance</td>
<td>28,286</td>
<td>53,538</td>
<td>1.893</td>
</tr>
</tbody>
</table>

Source: KITA (Korea International Trade Association), Trade Statistics

2.3. **TPP as Requesting Expensive Entry Fees for Korea**

The entrance cost of TPP membership is the biggest difficulty which Korea faces regarding its decision to join the TPP. Although the cost of TPP membership is estimated as not

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9 Recently China is talking more positively about the TPP, especially since Japan joined the TPP talks. In addition, a free trade zone in Shanghai can be considered as a pilot program that would provide a stepping stone for China to the TPP.
being onerous, that estimation does not fit in the market access for goods. Korea should complete the preliminary informal negotiations with existing TPP partners before formal joining the TPP. In such cases, Korea may liberalize its sensitive markets (e.g., agricultural and certain manufacturing sectors such as rice, beef, and vehicles) further on the request of each of the current TPP countries, especially Japan, Canada, Australia, and New Zealand, and even the United States.

Countries that want to join the TPP will be at a disadvantage in everything when they engage in bilateral consultations with the current TPP countries since they have to meet adequately the requests of current TPP members. For instance, in the case of Canada, the U.S., Australia, and New Zealand had concern about Canada’s supply management system for dairy and poultry, which are very sensitive sectors in Canada. The U.S. was also interested in leveraging action on Canada’s long languishing legislation to modernize its copyright laws. In return for entry in the TPP talks, Canada reportedly agreed not to seek to reopen chapters already agreed in the TPP. In the end, because of the sensitivity of the issues under discussion to the countries involved, it may never be known what commitments were made to gain participation in the talks. However, it is true that just prior to joining the TPP talks in June 2012, the Canadian House of Commons passed copyright modernization legislation.  

Korea had negotiated bilateral FTA negotiations with five countries among current TPP members: Japan, Canada, Australia, New Zealand, and Mexico. However, those bilateral negotiations came to be almost deadlocked, because of a big gap in the level of market access. Korea held defensive positions in agricultural sector in bilateral FTA negotiations with Canada, Australia, and New Zealand, while Korea took a strong defensive position in manufactured goods in the FTA negotiation with Japan.  

Korea is highly likely to be confronted with the same problems which Korea had faced at the bilateral FTA negotiations with each partner. Thus, Korean farmers and ranchers strongly oppose to Korea’s participation in the TPP because they recognize the TPP as the second

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11 The lack of market opening in agricultural goods and pervasive NTBs in Japan was pointed as the reason for the Korea-Japan FTA negotiation breakdown. However, at the same time, Korea’s concerns with an increase in the trade deficit from trade with Japan and the fear of manufacturing competition, especially for small and medium sized enterprises are major reasons for the negotiation breakdown.
KORUS FTA or the Korea-Canada/Australia FTA. Many Korean manufacturing enterprises think that the TPP is a de facto bilateral FTA with Japan. They are deeply concerned that their enterprises would be adversely affected by the TPP, especially through competition from Japan.

Thus, in return for entry into the TPP talks, Korea may have to pay a significant cost such as full liberalization of the beef market or an immediate elimination of import tariffs on Japanese vehicles. In the past bilateral FTA talks, Japan requested the immediate elimination of Korean barriers to manufactured goods as well as some exceptions or other protective measures for Japanese agricultural goods. Canada and Australia, including New Zealand, pursued the elimination of import tariffs on their beef. Nobody can totally rule out the possibility that the U.S. might ask Korea to eliminate current 30-month age limits on imported beef.\(^\text{12}\)

Table 2 Korea’s Merchandise Trade (2012) with Japan

<table>
<thead>
<tr>
<th></th>
<th>Export</th>
<th>Import</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>38,796</td>
<td>64,363</td>
<td>Δ 25,567</td>
</tr>
<tr>
<td>Agricultural Products</td>
<td>4,778</td>
<td>1,208</td>
<td>3,570</td>
</tr>
<tr>
<td><strong>Manufactured Product</strong></td>
<td><strong>34,018</strong></td>
<td><strong>63,155</strong></td>
<td><strong>Δ 29,137</strong></td>
</tr>
<tr>
<td>- Machine &amp; Transportation</td>
<td>12,092</td>
<td>22,591</td>
<td>Δ 10,499</td>
</tr>
</tbody>
</table>

Source: KITA (Korea International Trade Association), Trade Statistics

Table 3 Korea’s Merchandise Trade (2012) with Canada

<table>
<thead>
<tr>
<th></th>
<th>Export</th>
<th>Import</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4,828</td>
<td>5,247</td>
<td>Δ 419</td>
</tr>
<tr>
<td>Agricultural Products</td>
<td>83</td>
<td>1,183</td>
<td>Δ 1,100</td>
</tr>
<tr>
<td><strong>Manufactured Product</strong></td>
<td><strong>4,735</strong></td>
<td><strong>4,064</strong></td>
<td><strong>671</strong></td>
</tr>
</tbody>
</table>

Source: KITA (Korea International Trade Association), Trade Statistics

2.4. TPP’s Uncertain Expected Gains for Korea

Korea may expect to reap significant benefits from joining the TPP. According to Petri, Plummer, and Zhai, Korea could expect income gains by the year 2025 equivalent to 2.2 percent

\(^\text{12}\) Beef issues could be a useful leverage in the bilateral consultation although the U.S. industry does not support it.
of GDP from the TPP track.\textsuperscript{13} Furthermore, the benefits of TPP membership are manifold: 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.

However, there exist different views on how much Korea could gain from joining the TPP. First, the KORUS FTA will reduce the additional gains from trade with the TPP partners. Second, although the TPP members have agreed to pursue a single set of TPP rules of origin, they are pursuing different approaches to developing a TPP tariff schedule. The U.S. has maintained that it is negotiating market access bilaterally and only with the TPP partners with which it does not have FTAs. Other participants have sought to negotiate plurilateral market access schedules. Third, it is unclear exactly how the TPP will address supply chains.

Even Petri, Plummer, and Zhai estimated that the RCEP would yield income gains by the year 2025 equivalent to 4.1 percent of GDP, which is almost two times higher than that of the TPP.\textsuperscript{14} Some Korean scholars argued that Korea should be prioritizing the RCEP negotiations, including CJK trilateral FTA negotiations. Korea’s export to the RCEP economies was $274.9 billion in 2012, which is more than 50 percent of its total exports.

Figure 1 Korea’s Exports: Shares to Selected Trade Groupings (2012)

\begin{center}
\begin{tabular}{ccccc}
 & TPP & EU & ASEAN & RCEP & CJK \\
\hline
\% & 31.5 & 9.0 & 14.4 & \textbf{50.2} & 31.6 \\
\end{tabular}
\end{center}

Source: KITA (Korea International Trade Association), Trade Statistic


\textsuperscript{14} The larger gains from the RCEP 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.
On the other hand, it is also clear that the adverse effect of non-participation in the TPP is significant. According to the recent KIEP (Korea Institute for International Economic Policy) study, Korea would face an income loss by the year 2025 equivalent to about 0.2 percent of GDP if Korea maintains current status without joining the TPP.  

3. Conclusions: Two Track Approach

Initially a trade pact envisaged by Brunei, Chile, New Zealand, and Singapore, the TPP was transformed in 2008 when the U.S. expressed its interest. Since then, the TPP has expanded to 12 members. In particular, Japan’s entry brings a critical mass to a deal that, if completed, would cover countries that accounts for two-fifths of global output.

The TPP agreement is ambitious in terms of its size, the scope and scale of its liberalization. If the U.S. also concludes a FTA agreement with the EU, it would have signed deals with countries accounting for two-thirds of global output. The TPP, in other words, could be part of a grand strategy to conclude an only slightly less ambitious version of the Doha round by other means.

On the other hand, many scholars, noting the absence of China, regard the TPP as a geopolitical club masquerading as a free-trade one. Until recently some Chinese leaders describe the TPP as a plot designed to contain China’s rise. In this situation it is not simple for Korea to decide to join the TPP. However, at the same time, Korea does not want to be excluded in the rule-setting process of future global trade norms. This leads to a following conclusion, namely a two-track approach. On one hand, Korea pursues joining the TPP as soon as possible, on the other hand, it has to make the utmost effort to conclude the RCEP by 2015, based on the completion of bilateral FTA with China.

This is almost same idea as that of a new FTA roadmap in June 2013 which Korea plays a role of a linchpin between the integrated market of East Asia centered around China and the pan-Pacific market led by the U.S. The synergy effects of acting as a “bridge” in these mega trade negotiations could be substantial.

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15 Suh et al., “Potential Economic Benefits of Korea’s Joining the TPP”, KIEP, July 2013
Step 1: Early Conclusion of Korea-China FTA

The early conclusion of the bilateral FTA negotiation with China can be a crucial precondition for the successful conclusion of the RCEP talks as well as the CJK FTA negotiations. It will also strengthen Korea’s bargaining leverage when Korea starts to consult with existing TPP partners on joining the negotiation. In addition, it could be a kind of insurance, preparing for the non-participation of Korea in the TPP, due to excessive costs of the TPP membership. Since the KORUS FTA has already come into effect, the completion of Korea-China FTA talks has a very significant meaning for Korea.

Step 2: Start of Bilateral Consultations with TPP members

In the end, Korea is likely to try to be a member of the TPP—its application for membership is really a matter of time. Then, the faster Korea joins the TPP the smaller the entrance fees Korea should pay. In this respect, Korea needs to express its intention to join the TPP as soon as possible and to start bilateral consultations with the current TPP countries. However, a final decision on Korea’s entry in the TPP would be subject to the result of the bilateral consultations. Korea has to open the possibility that it will not join the TPP.

Step 3: Acceleration of the CJK FTA

This step is a natural result of the step 1. In addition, the CJK FTA could be a stepping stone to reach a successful conclusion of the RCEP negotiations. Korea needs to accelerate the trilateral FTA negotiations among China, Japan, and Korea (CJK) in a balanced manner. The agreement of the Korea-China FTA could be a useful template for the CJK FTA talks.

Step 4: Creating a Reduced Form of the RCEP

The RCEP is the FTA between ASEAN nations and ASEAN’s FTA partners. While the RCEP would expand ASEAN’s role in coordinating regional trade, its key purpose is to reconcile two long-standing proposals into a large region-wide trade agreements: the East Asian Free Trade Agreement (EAFTA), which included ASEAN, China, Japan, and Korea, and the Comprehensive Economic Partnership of East Asia (CEPEA), which added Australia, New Zealand, and India. The RCEP bridges the two proposals by adopting an open accession scheme.
From a US perspective, the RCEP is potentially a rival bloc to the TPP. The RCEP is less ambitious than the TPP because it considers the prospect of development assistance for adjustment for developing countries, especially poor countries. This soft commitment, however, provides the merit that developing countries find it easier to join. If negotiated successfully, the RCEP would create the world’s largest trading bloc and have major implications for Asian countries and the world economy. The RCEP is scheduled to conclude by the end of 2015.

However, it will not be easy to realize benefits of the RCEP. Large countries may be reluctant to respect the central role of ASEAN in the RCEP. The flexibility clause\textsuperscript{16} could help break deadlocks but could also curtail progress in achieving greater liberalization. In addition, varying internal policies of countries could prove to be difficult to harmonize and consolidate under the RCEP.

Korea needs to attempt to hand-pick the best features of existing Asian FTAs and use them as a basis for further negotiations of the RCEP. Like early-harvest Bali packages in the Doha round, a reduced form of the RCEP can be also a useful alternative as an interim solution for the final agreement of the RCEP. In this Asian track, Korea could play a balanced role among China, Japan, and ASEAN nations. Furthermore, based on the FTAs with China and the U.S., Korea could conduct a major role in linking the RCEP with the US-led TPP.

Coincidentally or not, these steps are not very different from a new roadmap for trade policy of the Park Geun-hye administration, which puts special emphasis on its linchpin role in the regional economic integration in East Asia through a new FTA with China and the already signed deal with the United States.

\textsuperscript{16} The agreement of RCEP will include appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the LDC ASEAN members.
Reference


9. KITA, Korean Trade Statistical Information