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24-19 Korea's Trade Policy Agenda in an Uncertain US Trade Environment

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ABSTRACT

This paper addresses how South Korea, a mid-sized ally of the United States, can best navigate clearly identifiable risks, crafting a positive and pragmatic international trade policy.

Korea is heavily dependent on the United States for its defense. It is clear that US trade policy has recently shifted toward being more self-centered, a policy unlikely to be reversed any time soon. The United States is on the threshold of a presidential election that makes it unpredictable in its trade policy, which may become directly harmful to Korean economic prospects if there is a change in leadership. US trade policies under President Joseph Biden have been primarily aimed at onshoring rather than friendshoring, but they have not been actively hostile or threatening. If there is a second Donald Trump term, Korea might not be excluded from substantially increased tariffs—whether for protection, revenue, or leverage—despite the Korea-United States Free Trade Agreement (KORUS FTA).

At the same time that Korea is watchful of developments in the United States, it needs to pay attention to its neighbor, China, the world's largest trading economy, a country that has practiced trade coercion against it.

South Korea is the world's 13th-largest economy. It is a strong proponent and practitioner of free trade. It is one of a group of midsize free market democracies aligned with the United States that, ranked by GDP, includes Japan, Germany, and France (and therefore with others, the European Union), the United Kingdom, Canada, Italy, and Australia. The future of the global trading system that the market-oriented countries wish to enjoy is increasingly dependent on this group of midsize economies and the European Union.

Korea has thrived in large part through its open trade policy that has made it the country with the world's greatest number of free trade agreements (including with both the United States and China, as well as with the European Union). It shares strong economic security interests with the United States: It has its own K-CHIPS Act, which provides substantial subsidies to its semiconductor industry. It invests very substantially in critical minerals and batteries, as does the United

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States. Korea also collaborates with the United States in the production of vaccines to meet future pandemics.

This paper identifies the strengths of Korea's position and the likely risks that Korea may face going forward. It recommends trade policies Korea should adopt. The primary recommendations are that Korea should

- increase mutually advantageous investment in and with the United States in key sectors;
- enter into formal agreements with the United States to support each other's essential security interests, such as in fostering capabilities with respect to semiconductors, batteries, critical minerals, and vaccine production;
- find mutually beneficial solutions for Section 232 steel tariffs and explore Korea's participation in the green steel talks with other like-minded countries;
- strengthen institutional supports to defense industrial collaboration, including in the shipbuilding industry;
- engage more deeply with the Pacific region by joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership;
- "materialize" the Indo-Pacific Economic Framework through concrete collaborative measures to support supply chain development and the clean economy, which calls for identifiable implementation results and entering into formal agreements with firm commitments;
- continue to actively support the multilateral trading system with contributions of Korean talent and leadership; and
- diversify into the Global South and provide assistance to the implementation of the African Continental Free Trade Agreement as part of its outreach.

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Keywords: South Korea, bilateral relations, geopolitics, trade, investment, economic security, climate change, semiconductors, steel, critical minerals

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1. INTRODUCTION

1.1 US trade policy shift

Current US trade policy could not be more different today from what it was in 2012, the year the Korea-United States Free Trade Agreement (KORUS FTA) entered into force. That was also the year when the last new free trade agreements (FTAs) agreed to by the United States entered into force. Nevertheless, the US government's policy toward liberalization of trade not only continued but, for a time, became more ambitious. In 2012 the Trans-Pacific Partnership (TPP) negotiations gained momentum. Canada and Mexico joined the talks, followed by Japan the next year. The TPP was signed on February 4, 2016. It covered 12 countries, accounting for 40 percent of global GDP. It was a comprehensive agreement with 30 chapters, including tariff elimination; liberalization of services trade; investment protections; e-commerce provisions assuring the free flow of data across borders, prohibiting forced server localization, protection of source code, and other protections of intellectual property; and labor and environmental standards.

This was the traditional postwar United States, leading the free world in terms of promoting the defense of democracy wherever it could exist. This was an America at the high-water mark of the US promotion of a liberal international economic order. America still leads and actively defends the political/defense interests of the democracies, as evidenced by its strong supportive role in the war in Ukraine, its application of economic sanctions against autocracies, its arms supplies sent to allies in the Middle East, and its projection of force to defend national security interests in the western Pacific. Its international economic positions are, however, markedly different from what they were a decade ago. America has abandoned its role as guarantor of the multilateral trading system, and it avoids making new trade-liberalizing commitments.

America's promotion of global economic integration has ended. The turn inward began with the Trump administration. On the first working day after taking office, President Trump ordered the US Trade Representative (USTR) to cancel US participation in TPP.[1] The administration followed this trade decision by its imposition of import restrictions on steel and aluminum against all nations, including allies, in the name of national security. In another unprecedented trade measure, the Trump administration applied tariffs on a broad swath of imports from China, the

[1] As what may have been his first formal official act as president, Donald Trump signed a memorandum on January 23, 2017, directing the USTR to withdraw US participation from TPP. TPP was at that stage still unratified by any participant. Monday, January 23, was the first working day after the inauguration the previous Friday, January 20, 2017. Maria Pagan, Acting USTR, notified the other TPP negotiating partners on January 30 that the US would not be joining TPP. See https://abcnews.go.com/Politics/president-trumps-promises-point-busy-day-monday/story?id=44972708, https://uy.usembassy.gov/withdrawal-united-states-trans-pacific-partnership-negotiations-agreement/, https://ustr.gov/sites/default/files/files/Press/Releases/1-30-17%20USTR%20Letter%20to%20TPP%20Depositary.pdf, and https://trumpwhitehouse.archives.gov/presidential-actions/presidential-memorandum-regarding-withdrawal-united-states-trans-pacific-partnership-negotiations-agreement/.

only nation to do so. It tightened rules of origin in its revision of the North American Free Trade Agreement (NAFTA; now called the United States-Mexico-Canada Agreement [USMCA]) to restrict leakage of that agreement's benefits.

The Biden administration kept the Trump-era China tariffs in place. It replaced participation in the TPP with the Indo-Pacific Economic Framework (IPEF), a weak assertion of common interests of a group of thirteen Asia nations and the United States with respect to security of supply chains and cooperation to serve environmental goals. Separately, it added a few high-profile high tariffs of its own on a limited range of goods from China, including electric vehicles (EVs), batteries, and semiconductors, and it deployed export controls on semiconductors and sensitive technologies.

Current US international economic policy is shaped by a series of negative factors other than geopolitical considerations. Policy is shaped by a recognition of the political and economic harms due to domestic income inequality, a desire to reverse the trend toward globalization, and a wish to reduce the role of multinational corporations in making US international economic policy.

China's expanding influence and the threat of potential conflict with China overhang US policy. The earlier hope that China would evolve in a more market-oriented direction with far less state intervention has been disappointed. US policymakers acknowledge that they have little influence over the evolution of Chinese economic policy. The emphasis now is to control technologies and products in sensitive areas to limit the success of China's industrial policies. This is more than the friction that is said to exist between a rising power and an incumbent. The rivalry goes to the kind of world trading arrangements that are to be maintained, with an emphasis on worker rights and human rights more generally. The Biden administration has urged US allies and others to reduce dependence on China, reflecting these concerns. It wishes to reduce the harms caused by what it views as systemic Chinese overcapacity and aim for supply resilience. Increasingly it will expect US allies to move toward a degree of decoupling that is likely to go beyond what they—Korea, Japan, and the European Union in particular—consider to be consonant with their own interests.

The new normal of US economic policy includes tax provisions to promote domestic industry coupled with direct subsidies and an evolving series of restrictions on trade with China and Russia sanctions. Essential security considerations drive the new policy. To assure supply resiliency, friendshoring or nearshoring is sometimes spoken of in positive terms, but its allies have been disappointed at the degree to which it has been implemented. This state of affairs can potentially be overcome by the efforts of America's allies to find areas of closer cooperation with the United States, but that will take new initiatives.

For the Democratic Party, the chief impetus of domestic economic policy remains to strengthen the US manufacturing economy and benefit the workers who serve it. Current US industrial policy began with the Infrastructure Investment and Jobs Act, with its Buy America procurement. It continued with subsidies for semiconductors, then EVs and batteries, contained in two new laws: the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act and the Inflation Reduction Act (IRA). Casting about for some form of engagement with the Asia-Pacific region, the administration created the IPEF—a set of jointly expressed aspirations among 14 countries, with little if anything that rises to the level of binding obligations as doing so would require congressional approval, which has been shunned by the administration. The administration has violated its international commitments contained in trade agreements without explanation or apology when it felt the necessity of doing so.

In theory, national security controls are to be limited, consisting of "a small yard, high wall," but the definition of what is needed for national purposes tends to expand. There is a degree of extraterritoriality that is associated with export controls, as US technology is often involved in advanced technology goods and services. Concerns over misuse of data extend to social media. TikTok was banned, not surprisingly a US concern. However, the means by which this was accomplished was unprecedented, targeting a company by name in an act of Congress. The information that might be gathered by Chinese EVs has been cited as a concern with respect to EV imports. The policy direction is clearly one of greater intervention where American security interests are seen to be involved, and this will affect hitherto less-affected areas, such as investment screening and licensing of technology.

The foregoing description is not to indicate that, for Korea, economic cooperation with the United States beyond potential retention of the bilateral FTA is precluded. It is to indicate that the traditional framework for US trade policy has shifted considerably to focus on economic security considerations. There is no judgment made by the authors that the measures listed that are truly in aid or essential security interests are not fully justified. The purpose here is to understand the new reality. Allies who seek cooperative arrangements with the United States beyond aspirations need to keep this context in mind as they navigate new areas of engagement with a more wary America.

With the United States, Korea has the opportunity to

- build on their mutual economic interests as they are recalibrated;
- foster deeper integration of the two economies through investment and trade;
- explore opportunities for bilateral and multiparty agreements based on common interests (e.g., negotiating a United States-Korea collaborative semiconductor arrangement) and agreements dealing with supply assurance for other essential goods (e.g., pharmaceuticals and critical minerals); and
- support joint industrial efforts (e.g., in cutting-edge products, semiconductors, EVs, and batteries).

1.2. Trade policies considered during the US presidential campaign

In American politics, campaign promises are often situational and not to be relied upon. Nevertheless, there is much that is known about a likely set of international economic policies of a Democratic administration or a Republican administration.

Democratic trade and industrial policy. The emphasis on increasing the benefits to workers, particularly in manufacturing, will not weaken. This is vitally important to the president. It is a project to rebuild a middle class, providing stability in expectations and dignity in work. There will be less fiscal space for grand new initiatives, but the benefits of the Bipartisan Infrastructure Act, the IRA (with its investments in EVs, batteries, and other green goods), and the CHIPS and Science Act will continue, including the grant of additional subsidies that are already authorized supporting US manufacturing. The harm to allies was reduced through exemptions and renegotiations. Much of the adverse impact through overt discrimination against all, including allies, inherited with the Trump measures (i.e., steel and aluminum) and the IRA have been softened or removed.

A strong second strand of international policy will continue to be dealing with climate change. This is likely to involve, at a minimum, reacting to carbon border adjustment mechanisms and pursuing "green steel" initiatives, the latter tied to dealing with the US view that the industrial policies of state-dominated economies lead to overcapacity.

Much depends on which party controls each of the two houses of Congress as to whether and which benefits to domestic industry can be maintained and even improved. Under a successor Democratic administration, there is every reason to believe that export controls will be the primary means to deal with the growth of Chinese competition with continued expansion of coverage. There will necessarily be effects on the commerce of others. No immediate rollback of tariffs is currently contemplated. Nor is there any traditional trade liberalization likely to be initiated in the next few years.

The wild card is whether a successor can restore foreign economic policy to be a full partner of foreign policy. The Democratic party is divided on trade policy. Biden's voting record in the Senate was mixed. A successor Democratic administration could be similarly conflicted. Biden voted to support most of the important pro-trade measures; for example, he voted for permanent normal trade relations with China; for NAFTA; for the Uruguay Round Agreements Act, which approved the negotiation that established the World Trade Organization (WTO); for "fast track" trade promotion authority; for defunding enforcement of the travel ban to Cuba; and in favor of the US FTAs with Morocco and Australia. However, he voted against several other FTAs, including with Chile, Singapore, Oman, and Central America, and he was a hawk on steel imports and China currency manipulation. There is consistency with respect to his favoring the use of trade remedies and more general openness (although the negative FTA votes are inconsistent with the rest of his record.)

Early in his presidency, Biden had been compared with Franklin D. Roosevelt (FDR) for the many pieces of major domestic economic legislation that he got through Congress. Yet there is another possible parallel. FDR, in order to get elected and launch his domestic agenda, abandoned (temporarily) his internationalist credentials, even denying them. He torpedoed economic cooperation with Europe in the first year of his administration, going back on private statements he had made to the leaders of the United Kingdom and France about working with them to avert the worst of the financial collapse. His position against any participation in currency stabilization, whatever its merits, destroyed the World Economic Conference in 1933. By 1934, the United States under his leadership and that of his secretary of state, Cordell Hull, began to reverse course and obtained authority from Congress for conclusion of agreements providing for reciprocal reduction of tariffs and the reopening of the world economy. Ultimately, the United States played fully the international economic role expected of it by the liberal democracies. Whether there is a possibility of a new Democratic administration reverting to international economic leadership and finding pathways to cooperative arrangements cannot be excluded.

Trump II. Trump has promised, at a minimum, additional tariffs on Chinese goods at a 60+ percent rate and—more unsettling to the global economy—an additional tariff on all other imports at a 10 percent rate. He has also promised removal of "most-favored-nation" (MFN) treatment from Chinese goods, subjecting them to 1930-level tariffs, contained in the Tariff Schedules of the United States as "Column 2" tariffs. If the United States were to revoke China's MFN status, China would no longer be subject to either low US MFN tariff rates or the average 19 percent Trump retaliatory tariffs that Biden has retained but instead to high Column 2 tariff rates—the same rates applied to products from Cuba, North Korea, Russia, and Belarus. According to one calculation, this change could result in average duty rates on Chinese imports (not already subject to sanctions) skyrocketing from 3.5 percent to over 40 percent. Although these tariffs are very high, the larger threat overall is the 60+ percent additional tariff. It is unclear whether the 60+ percent additional tariff would be instead of or added to the current retaliatory tariffs. A legal consideration is that removal of MFN might also require congressional approval, whereas the Trump administration will undoubtedly assume that it can impose a 60+ percent rate on Chinese goods under existing delegations of trade authority to the president. There is no reason to doubt Trump following through on his tariff threats to the extent the courts allow under existing authorities.

There is much speculation as to whether the additional tariffs are bargaining chips to obtain unilateral concessions or an end in themselves to raise revenue. On top of this Trump has suggested substituting tariffs for the income tax. That eventuality would call for vastly higher tariffs set at unprecedented levels that, given the trade-depressing nature of high tariffs, would still not produce sufficient revenue for the scheme.

The uncertainty for allies, friends and neutral countries caused by a second Trump administration's policies would be vastly greater than would be the case with a Democratic successor to the Biden administration. With another Trump administration nothing is impossible to contemplate, including manipulation of the value of the US dollar (to the extent possible) seeking a competitive trade advantage and massive tariffs. Whether this is offset by deals on their face benefiting the United States being struck cannot be predicted. In 2020, the Trump administration entered into a Phase One trade agreement with China in return for reducing some retaliatory US tariffs. China did not live up to the agreement. Also in 2020, it concluded the USMCA, which updated NAFTA. It largely preserved free trade in North America. A year earlier, in 2019, it reached a modest tariff reduction agreement with Japan. The past may or may not provide any guidance to a future Trump administration with different personnel in relevant economic jobs to implement policy and with the president giving general direction.

A detailed blueprint to what a second Trump administration might look like in trade policy formulation and implementation may perhaps be found in the Heritage Foundation's Project 2025 report.[2] It recommends "consolidating" current Commerce Department functions in the Office of the US Trade Representative. It calls for strategic decoupling from China; as well as enhancing defense industrial base strength; assuring the reliability of critical supply chains (e.g., pharmaceuticals, medical devices, food); and emphasizes emerging technologies (e.g., rare earth minerals, semiconductors, batteries, artificial intelligence, quantum computing). While these specific recommendations are probably a good forecast of Trump administration policy, the basic thrust of Project 2025's recommended general trade policy is left unsettled, calling in one place for product-by-product tariff reciprocity, a Peter Navarro preference, and in another, a more traditional Republican market-driven trade policy.[3]

A second source for estimating future trade policy in a second Trump administration may also be found in the 2024 Republican Party Platform[4] prepared for the Republican National Convention, which began on July 15, 2024. The fifth of 20 points is "Stop Outsourcing and Turn the United States into a Manufacturing Superpower." The platform states that it "commits to rebalancing trade, securing strategic independence, and revitalizing manufacturing. We will prioritize domestic production and ensure national independence in essential goods and services." The trade deficit in goods will, it implies, be brought down by higher tariffs and more aggressive measures against unfair foreign trading practices. China MFN (nondiscriminatory) treatment would be revoked. Imports from China of essential goods would be blocked, as would automobiles from China as well as Chinese investment. Supply chains would be made domestic (no exclusion is mentioned for allies). This, it is said, would "restore American Manufacturing, creating Jobs, Wealth, and Investment."

While party platforms are not binding on a new administration and may readily be discarded after the race is won or lost and the election is over, the platform is indicative at present of core beliefs of the Republican Party, a party that is completely dominated by Trump. It would be prudent to conclude two things about Trump administration trade policy in a second term of office: it will lean toward aggressive actions thought to improve the US industrial base without much concern for effects on trading partners' economies; and its specifics will be difficult to predict. This said, the former president's pronouncements on trade tend to have a degree of consistency and they should be considered a warning of what is to come if Trump is brought back as president.

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[2] Mandate for Leadership – The Conservative Promise. Chapter 21 Department of Commerce. https://static.project2025.org/2025_MandateForLeadership_CHAPTER-21.pdf.

[3] The Case for Free Trade. Chapter 26, Page 796; The Case for Fair Trade, Page 765. https://static.project2025.org/2025_MandateForLeadership_CHAPTER-26.pdf.

[4] See https://www.presidency.ucsb.edu/documents/2024-republican-party-platform.

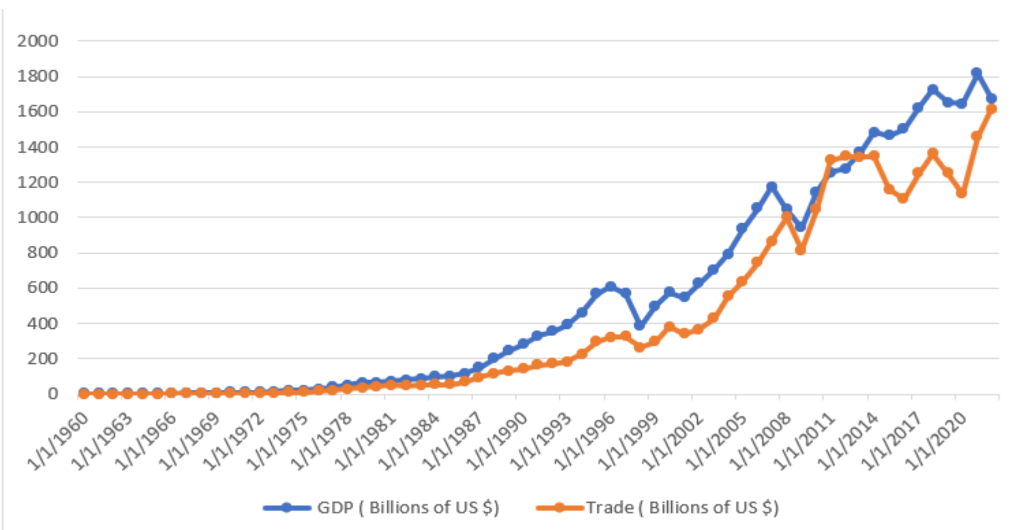
It is unknowable whether a Trump 10 percent additional tariff would stay at that level and whether FTA partners would be excluded or not. In contrast, the United States under a Democratic administration will very likely honor its FTA commitments to duty-free treatment and the access provided unless superseded by a higher industrial policy/climate-related objective on a sectoral basis, such as occurred with the use of subsidies under the IRA and CHIPS and Science Act.

2. ITS IMPACT ON KOREA: OPPORTUNITIES AND CHALLENGES

2.1. Korea's current trade and investment landscape

Korea has developed a highly industrialized economy by embracing globalization and a multilateral trading system over the last six decades. Between 1962 and 2022, Korea's GDP grew 594 times—from US$2.81 billion to US$1.67 trillion—whereas Korea's trade volume increased 2,945 times—from US$548 million to US$1.62 trillion—which is five times higher than the pace of GDP growth (figure 1).

Figure 1. Korea's global trade and GDP growth between 1960 and 2022, billions of US dollars

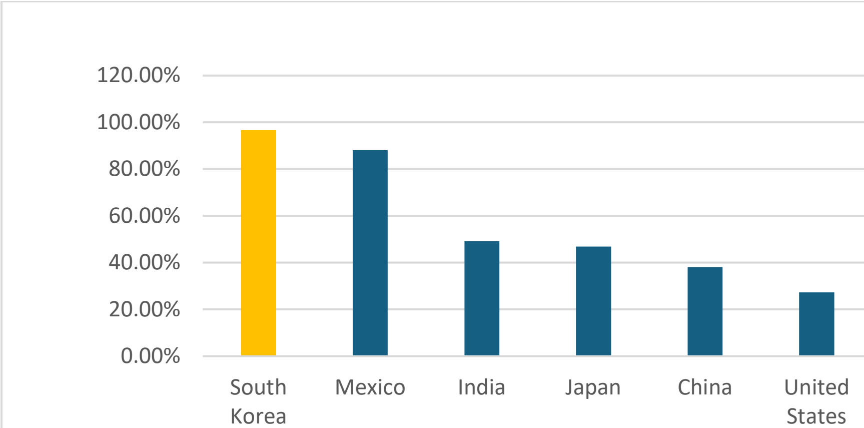


Source: Authors' calculations and https://www.macrotrends.net/global-metrics/countries/KOR/south-korea/gdp-gross-domestic-product.

Korea has built a manufacturing-based, export-oriented economy, with its exports in 2023 making it the eighth-largest exporting nation in the world. Korea is one of the most open trading nations, with its trade share to GDP in 2022 amounting to 96.54 percent, one of the highest compared to the United States (27.36 percent), China (38.14 percent), Japan (46.84 percent), and Mexico (88.11 percent) (figure 2a). Its manufacturing sector forms the backbone of its export-driven economy and covers a variety of industries, such as semiconductors and information technology, automobiles, batteries, machinery, steel, and petrochemicals. Its manufacturing share to GDP in 2022 amounts to 25.6 percent, comparable to China (27.7

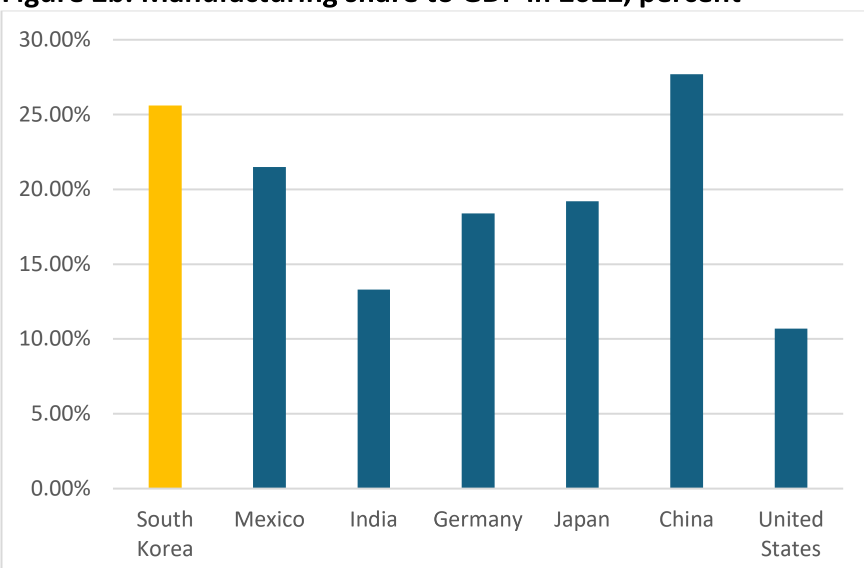
percent), one of the highest among industrialized nations, including Germany (18.4 percent), Japan (19.2 percent), and the United States (10.7 percent as of 2021) (figure 2b).

Figure 2a. Trade-to-GDP ratio in 2022, percent



Source: World Bank.

Figure 2b. Manufacturing share to GDP in 2022, percent



Note: Data for United States is for 2021.
Source: World Bank via Our World in Data, available at https://ourworldindata.org/grapher/manufacturing-value-added-to-gdp. Retrieved on June 28, 2024.

Korea has been a beneficiary of the economic multilateralism and rule-based international order that originated from the Bretton Woods Conference of 1944. Emerging from the ashes of the Korean War (1950-53) and starting belated economic development in 1960s, Korea adopted an export-oriented development strategy vis-à-vis import substitution, realizing that its domestic market was too small to meet economies of scale necessary for industrial development. Korea has thrived in an era of rapid trade liberalization under the General Agreement on Tariffs and Trade (GATT)/WTO multilateral trading regime with successive rounds of multilateral tariff reduction. From the early 2000s, Korea pursued a proactive FTA policy, with its first FTA with Chile entering into force in 2004. In the following 20 years, Korea has developed one of the most extensive FTA networks, comprising 21 FTAs with 59 countries, covering almost 85 percent of global GDP. In fact, Korea became one of the few countries to have FTAs with the three largest economies in the world: the United States, the European Union, and China.

2.2. Potential impact on Korea's trade and investment

The United States, the architect of the post-World War II neoliberal international order, has turned away from leadership of that order and is acting to promote what it sees as its own key industrial policy priorities. This poses serious challenges to open, midsize economies like Korea. Moreover, as geopolitical tensions escalate and economic issues are more and more securitized, Korea is put in a difficult spot between the two superpowers: its mutual defense treaty ally, the United States, and its traditionally largest trading partner, China. This rapidly changing environment provides challenges as well as opportunities to Korea in three areas in particular.

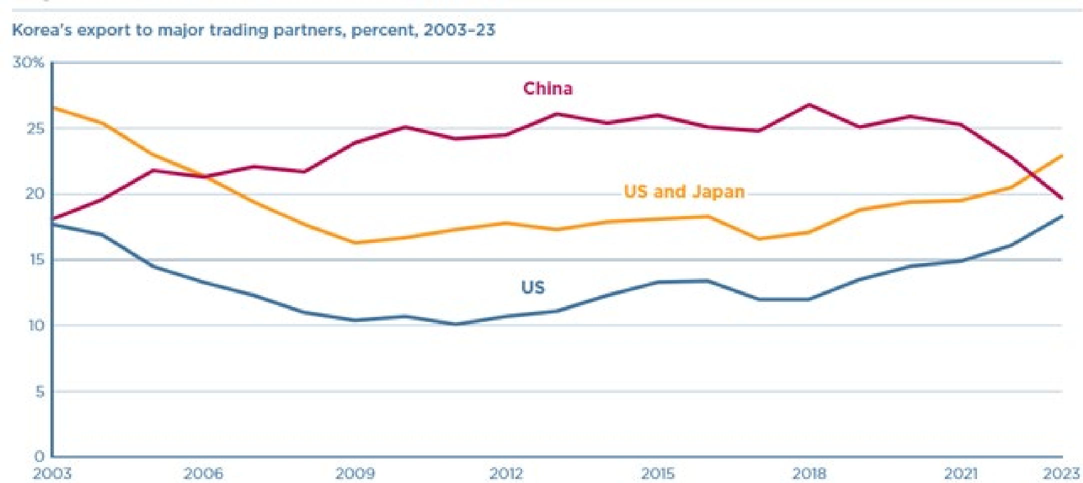
First, Korea's manufacturing-based, export-oriented economic model may face headwinds as global trade turns more protectionist and fragmented. Service industries and domestic consumption should play a bigger role in leading future economic growth, but with a rapidly aging and shrinking population, overseas demand will continue to be an important source of growth for the Korean economy.

In such a volatile global trade environment, foreign direct investment (FDI) could bring more resilience into the export-oriented model. Japan in the 1980s is a good case in point. Facing a protectionist backlash from the United States, Japanese companies limited their exports to the United States with voluntary export restrictions (VERs), but they also jumped the "tariff wall" with FDI in automobiles and electronics, for example. It made Japanese companies more resilient in the face of changes in the global economic environment, such as exchange rate changes and trade remedy tariffs. Korean companies have followed a similar path since the 2000s, but the mode of investments has been more limited—to greenfield investments with full ownership compared to their Japanese and Chinese peers, who have used more diverse modes of investments, including merges and acquisitions (M&A). Korean companies need to explore more diverse entry points for their investments in overseas markets to hedge against their heavy reliance on exports.

Second, Korea's trade and supply chains are shifting in the midst of geopolitical tensions between the United States and China. Korea, historically situated along the geopolitical fault line between the two, has been on the front line of such shifts. For the last two decades or so, Korea has ridden on the rapid economic growth of China. It has forged integrated supply chains with a division of roles like clockwork: Korea supplies more sophisticated parts and intermediate goods to China, which assembles them into finished goods and exports the finished goods around the world. This has made China Korea's number-one export market for the last two decades or so, accounting for a quarter of Korea's total exports.

That is now changing. In 2023 China's share of total exports from Korea shrank to 19.7 percent. Meanwhile, exports to the United States surged to 18.3 percent. This was the first time since 2003 that China's share of exports was below 20 percent and the US share was this high, according to the latest 2023 trade data from the Korean Ministry of Trade, Industry and Energy. At the end of 2024 Q1, Korea's exports to the United States (US$30.96 billion) slightly surpassed that of China (US$30.87 billion) for the first time since 2003. In 2023, Korea recorded its first trade deficit with China (US$18 billion)—turning from a continued trade surplus with China—while recording its largest trade surplus with the United States (almost US$45 billion). It is also worth noting that Korea's exports to the United States and Japan combined overtook those to China in 2023 for the first time in almost two decades (figure 3).

Figure 3. South Korea's exports to the United States and Japan vs. China, percent



Source: Korea International Trade Association.

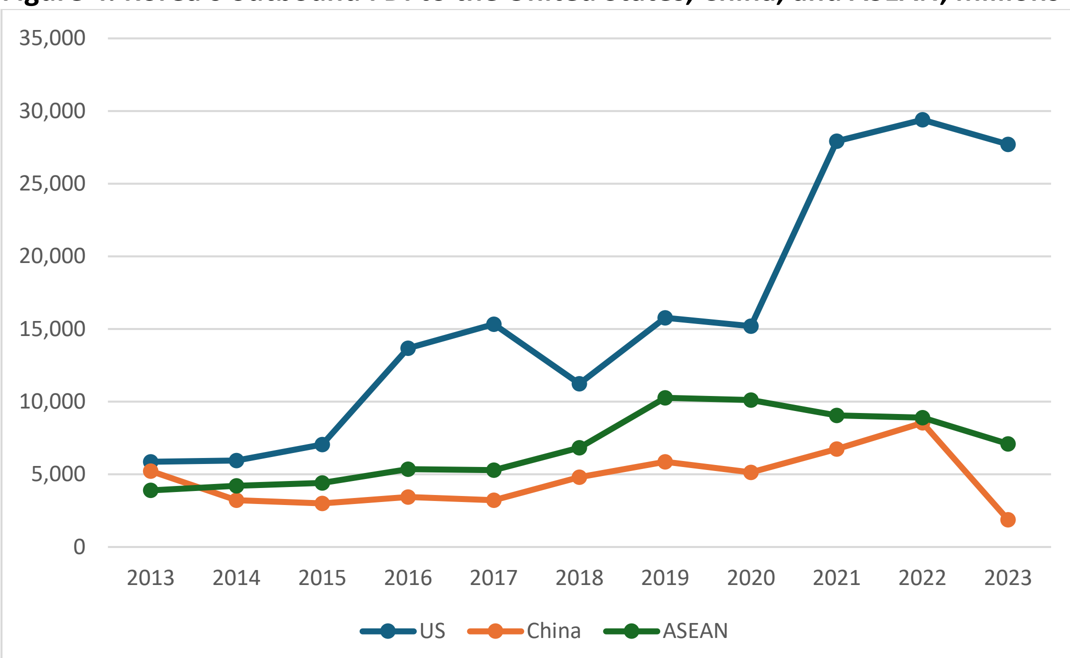
Third, Korea's outbound FDI trend is following the same path (figure 4). After the Biden administration pushed forward its industrial policies to revive American manufacturing and provide supply chain resilience—especially boosted by historic legislation such as the IRA and the CHIPS and Science Act—Korean investment in the United States surged by 83.7 percent in 2021 in the areas of semiconductors, EVs, batteries, and solar panels. In fact, Korea's recent export increase to the United States is closely interlinked with its investment surge. For example, Korea's exports of machinery to the United States surged by 76.9 percent in 2023 because the machinery was supplied to factories where Korean investment was made. In the end, US industrial policy strongly incentivized Korean companies to invest in the United States and contributed to establishing new supply chains linking the allies in the critical areas of semiconductors, EVs, and batteries.

Meanwhile, Korea's investment in China dropped significantly—by 78.1 percent—in 2023. Korean companies' diversification from the Chinese market started even before the escalation of the G2 geopolitical rivalry. In 2008 Samsung Electronics made a strategic move to relocate its mobile phone factories from China to Vietnam. In 2014 Korea's investment in the Association of

Southeast Asian Nations (ASEAN) began to surpass its investment in China for the first time and continued this trend since then. Moreover, another turning point—changing the dynamics of its bilateral economic cooperation—came in 2016 when Korea suffered from China's economic retaliation over Korea's Terminal High Altitude Area Defense (THAAD) missile deployment. The coercion included an opaque ban on Chinese civilian group tours to Korea; a ban on licensing of Korean cultural exports, such as games, K-pop (Korean popular music), and Korean television dramas, in China; and a Chinese boycott of Korean products, such as automobiles and mobile phones. Korean retailer Lotte's pullout of the Chinese market shattered Korean business confidence in China as a reliable business partner, accelerating diversification by Korean business as a hedging strategy.

As Chinese versions of industrial policy—such as Made in China 2025 and China's own self-reliance and de-risking strategy from western technologies—take shape, the nature of economic relations between Korea and China has become more competitive than complementary, accelerating the structural shift on Korea's trade and supply chain patterns.

Figure 4. Korea's outbound FDI to the United States, China, and ASEAN, millions of US dollars



ASEAN = Association of Southeast Asian Nations
Source: Export Import Bank of Korea. Retrieved from https://stats.koreaexim.go.kr/sub/countryStatistics.do.

The de-risking happening in Korea's supply chains, trade, and investment structure can be construed as a legitimate rebalancing act for any country to hedge against the overdependence of its trade portfolio on one country and the possible weaponization of the overdependence. However, risks can run both ways—to the United States as well as to China. Depending on the outcome of the November 2024 presidential election, US international trade and economic policies could take radical turns, posing a big risk to Korea and other allies. The increased trade deficit with Korea in 2023 might create unexpected tension despite its positive nature and Korea's investment-linked export surge to the United States.

Reflecting the complexities of the geopolitics in the region, the United States, Korea, and Japan launched the Camp David trilateral cooperation framework in 2023, and in 2024 Korea, Japan, and China revived their trilateral cooperation framework for the first time since 2019. Korea, as a responsible middle-power country, should be encouraged to engage in constructive dialogues that could reduce tensions to everyone's benefit and strike the right balance between legitimate national security concerns and enduring economic needs between different countries.

Diversification and balance would be critical for Korea's survival as an open, midsize economy in this turbulent global economic environment.

3. POLICY RECOMMENDATIONS FOR KOREA'S TRADE POLICY BEYOND 2024

3.1. Forging stronger ties with the next US administration

The year 2023 marked the 70th anniversary of the United States-Republic of Korea Alliance. The alliance has transformed itself from an ironclad mutual defense treaty to an economic, supply chains, and technology alliance with the 12-year-old KORUS FTA at its core. In a rapidly changing geopolitical circumstance of the Indo-Pacific, the alliance is at a historical juncture against the backdrop of a nuclear buildup of North Korea, escalating tensions in the Taiwan Strait, and the strengthening military ties between Russia and North Korea. The outlook for US trade policy beyond 2024 is uncertain at the moment, but it would be critical for the two allies to manage any eventuality to their mutual benefit.

A successor Democratic administration. Under the Biden administration, the two countries have managed occasional friction over the imposition of trade remedies and industrial policy measures reasonably well as interventions, as seen in the IRA and the CHIPS and Science Act. They have found it beneficial to collaborate both on the basis of KORUS and within the context of the Indo Pacific Economic Framework. Building on the momentum developed in the first term, they are expected to continue the current trajectory in the bilateral trade, industrial, and economic security cooperation.

Trump II. In the first Trump administration, Korea was the first country to reach a deal on the KORUS FTA amendment and Section 232 steel quotas, although the KORUS FTA was on the brink of termination at one point. Since then, for the rest of Trump's term, the two countries maintained stable bilateral trade relations as compared to other countries, which have gone through tit-for-tat trade actions.

The main economic policy agenda for an incoming administration in early 2025 is expected to be tax reform in relation to the 2025 expiration of the Trump-era tax cuts, China policy, and the USMCA review in 2026. The political environment of 2016 was different in that the Republican presidential candidate, Trump, had continuously attacked the KORUS FTA as "a horrible deal negotiated by my Democratic competitor," and it was promptly amended by his administration once he took office. That said, this time around, risks to Korea could come through the general tariff of 10 percent that Trump's campaign has promised. It is not clear whether FTA partners would be exempt from the general tariff. It could be argued that since with the renegotiation of KORUS during his first administration, this FTA is now his deal and therefore it should be exempt from disruption. This is especially needed, it could be said, to avoid killing the momentum in the economic relationship due to massive Korean investments in the US industrial base in key strategic US manufacturing sectors—in semiconductors, EVs and batteries, and solar panels. So, a second Trump administration should, therefore, discriminate in favor of Korea in the application of broad new tariffs, as Korea has been assisting in creating new US jobs. This is an argument, not a prediction.

The existence of KORUS did not stop Trump from applying section 232 "national security" restrictions against Korean imports of steel and aluminum. In addition, Trump and his advisors place weight on the trade balance. The Korean trade surplus with the US may rankle, despite the argument that the surplus is partially caused by the trade necessary to support the very large new Korean investments in the United States.

3.1.1 New economic cooperation initiatives with the new administration

A. Sectoral agreements

Under the current geopolitical and domestic political circumstances, it is difficult to envisage the United States engaging in comprehensive, full-fledged market-liberalizing FTAs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). But considering the US policy priorities on supply chain resilience and rebuilding the US manufacturing base with industrial policies and subsidies, sectoral agreements focusing on a few selective sectors with strategic importance, such as semiconductors, critical minerals, and biopharmaceuticals, could be feasible policy options. In December 2023 at least one voice in Washington, the bipartisan US Congress Select Committee on the Strategic Competition between the United States and the Chinese Communist Party, recommended[5] that the United States pursue sectoral agreements with key trading partners and allies to aid in its competition with China. Its policy recommendations included the following:

> "Enact legislation to encourage sectoral agreements with key trading partners and allies with strong rules of origin and high standards on critical minerals and other critical goods (e.g., semiconductors, electronic vehicle batteries/components, active

[5] Select Committee on the Strategic Competition between the United States and the Chinese Communist Party. 2023. *Reset, Prevent, Build: A Strategy to Win America's Economic Competition with the Chinese Communist Party.* Washington. https://selectcommitteeontheccp.house.gov/media/policy-recommendations/reset-prevent-build-strategy-win-americas-economic-competition-chinese.

pharmaceutical ingredients) that the United States identifies as critical for resilient supply chains."

The Biden administration did not appear to be opposed to this initiative. In July 2023, Daniel J. Kritenbrink, Assistant Secretary of State for East Asian and Pacific Affairs, testified[6] before the Select Committee that the administration was "aligning our efforts with our unrivaled network of allies and partners, acting in common cause on our approach to build collective resilience, close off vulnerabilities and advance a shared affirmative vision," and would proceed to meet the competition with China "in lockstep with our allies and partners abroad."

Korea would be a logical and ideal partner for the United States for this new approach given its industrial capacity and ongoing investment cooperation with the United States in these sectors. It is also the only partner meeting those requirements that already has had in place a high-standard FTA (KORUS FTA) since 2012.

The United States and Korea can explore essential goods agreements in strategically important sectors, such as semiconductors, critical minerals, and biopharmaceuticals, bilaterally as well as plurilaterally with like-minded partners and allies.

Semiconductors

The United States and Korea are indispensable partners in semiconductor supply chains. Korea is a global leader in memory chips with its DRAM market share of 70.5 percent and a NAND market share of 52.6 percent.[7] The United States is a global leader in the state-of-the-art semiconductor manufacturing equipment that Korea imports. According to Korea International Trade Association data, in 2023 America's exports of semiconductor manufacturing equipment to Korea accounted for 7.6 percent of its total exports to Korea, and Korea's exports of semiconductors to the United States was 7.4 percent of its total exports to the United States.

Both the United States and Korea assign a very high priority to forging ahead in the production of semiconductors. Perhaps the most ambitious project ever undertaken by a democracy in modern times outside of war is the restoration of the United States to a position of greater supply assurance with respect to domestic semiconductor manufacture. As reported by PIIE colleague Martin Chorzempa, the CHIPS and Science Act of 2022 provides subsidies, loans, tax credits, and support for research and development (R&D) estimated to total US$79.3 billion over the period 2022-31. However, the figure for tax credits alone for building fabrication facilities may reach some US$85 billion.

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[6] Opening Statement, Daniel J. Kritenbrink, Assistant Secretary of State for East Asian and Pacific Affairs, "The Biden Administration's PRC Strategy," Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party, July 20, 2023. https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/scc-hearing-testimony-as-kritenbrink.pdf.

[7] Invest Korea, "Semiconductor." Fact sheet. https://www.investkorea.org/ik-en/cntnts/i-312/web.do.

Korea is supporting its semiconductor industry with US$55 billion in tax incentives under its K-Chips Act. During the period 2024-32, Korea's semiconductor companies have planned capital expenditures that are nearly half the amount of those of US-headquartered companies (US$300 billion vs. US$646 billion). Together, these expenditures account for US$1 trillion in capital investment.

In 2022, Taiwan Semiconductor Manufacturing Corporation (TSMC), headquartered in Taiwan, and Samsung Electronics, headquartered and with most of its facilities in Korea, accounted for 69 percent and 31 percent, respectively, of the global production of the most advanced semiconductors below 10 nanometers. (A nanometer is one-billionth of a meter, and the measurement refers to line widths. The narrower the line width, the more electronic circuits can be packed onto a computer chip). 3-nanometer (nm) process technology employed by TSMC was introduced in late 2022.[8] Samsung Electronics announced in June 2023 that it had started initial production of its 3 nm process node transistor architecture, which is considered the world's most advanced semiconductor technology. TSMC has announced that 2 nm technology "is on track and made good progress."

The United States, with no production of advanced node logic chips in 2022, has the stated objective of producing 20 percent of the global supply of these chips in 2030 according to US Commerce Secretary Gina Raimondo,[9] with other sources indicating that the US could account for 28 percent of global supply by 2032.[10] Intel in late June 2024 announced that it has begun volume production of 3 nm chips in Oregon and Ireland; however, the volumes are limited and may be devoted solely to internal use.[11]

While it is a key US objective to reach far greater capability at the leading edge of semiconductor technology, there are a range of semiconductor products vital to the US economy. Semiconductors have long been a key enabling technology for the information age, with demand dramatically expanding due to breakthroughs most recently in the field of artificial intelligence. Uses of chips are pervasive and growing in the automotive sector with the mass introduction of EVs, along with telecommunications and computing. Semiconductors have become essential to economic and military security.

The United States and Korea need assured access to a range of semiconductors. No country is self-sufficient in chips. The United States currently accounts for only 10 percent of all current wafer fabrication site locations, Korea and Japan each account for 17 percent, Taiwan for 18

[8] "TSMC's 3nm node powers up, setting stage for tech giants' next-gen chips". The Register, March 27, 2024. https://www.theregister.com/2024/03/27/tsmc_3nm_revenue_growth.

[9] US Department of Commerce. February 26, 2024. https://www.commerce.gov/news/speeches/2024/02/remarks-us-secretary-commerce-gina-raimondo-investing-leading-edge-technology.

[10] The 28 percent figure is used in a May 2024 report issued by the Semiconductor Industry Association and the Boston Consulting Group cited later in this paper.

[11] TrendForce. June 20, 2024. https://www.trendforce.com/news/2024/06/20/news-intel-claims-its-datacenter-oriented-3nm-enters-high-volume-production/.

percent, and the European Union for 8 percent. (Figures are from a report of the Boston Consulting Group and the Semiconductor Industry Association[12] unless otherwise noted).

The chief concern for semiconductor supply, especially at the most advanced levels of semiconductors, is geopolitical. According to US military sources,[13] the period of maximum risk will occur before the CHIPS and Science Act build-out of facilities will be completed. Interference may occur in a variety of ways.[14] Dependence on other countries will be essential throughout. The BCG and SIA, in its report, project that as a result the United States "will reverse a decades-long downward trajectory and raise its share of global aggregate fab capacity from 10 percent today to 14 percent in 2032." With the projected US global share of semiconductor fabrication capacity rising to only 14 percent from the current level of 10 percent by 2032, shoring up US supply with access to other reliable suppliers will be essential. South Korea's share of fabrication facilities in 2032 is forecast to be 19 percent, with 17 percent accounted for by Taiwan, 15 percent by Japan, and 8 percent by the European Union.

What could a sectoral agreement accomplish that would provide greater supply chain resiliency? It can mandate data collection and reporting on current and projected supply of any product agreed to be essential for economic or national security. It can require a continuing current survey and sharing of information about planned investment and require estimates of any likely shortfalls in investment needed to meet agreed goals (for the United States in semiconductors, for example, there is a target to be reached for domestic supply as a share of world supply, with respect to leading edge chips.) In short, a sectoral agreement can provide for monitoring performance against stated targets, with joint consideration of remedial steps as needed. Consultation on estimated supply and demand of essential goods and consequent measures taken can enhance supply resiliency.

A US-Korea sectoral agreement for semiconductors could provide further substantial economic security for its parties, as it could for others with aligned interests who might join, making this a plurilateral agreement. The challenge is not solely geopolitical. The automotive industry is still recovering[15] from the pandemic period chip shortage. The extent to which a United States-Korea agreement could lead to joint consultation on both capital investments and the application of subsidies for capacity additions can help ameliorate supply shocks from whatever cause.

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[12] "Emerging Resilience in the Semiconductor Supply Chain, Boston Consulting Group and the Semiconductor Industry Association, May 2024. https://web-assets.bcg.com/25/6e/7a123efd40199020ed1b4114be84/emerging-resilience-in-the-semiconductor-supply-chain-r.pdf.

[13] "China on track to be ready to invade Taiwan by 2027, U.S. commander says." Japan Times. March 21, 2024. https://www.japantimes.co.jp/news/2024/03/21/asia-pacific/politics/taiwan-china-invasion-2027/.

[14] "China doesn't need to invade to achieve Taiwanese unification." The Hill. May 13, 2024. https://thehill.com/opinion/international/4657439-china-doesnt-need-to-invade-to-achieve-taiwanese-unification/.

[15] "The Chip Shortage Is Mostly Over, but the Auto Industry Hasn't Fully Recovered." Morning Star, March 7, 2024. https://www.morningstar.com/stocks/chip-shortage-is-mostly-over-auto-industry-still-hasnt-fully-recovered.

Critical minerals

The United States and Korea have forged a strong partnership to make the green energy transition possible, especially developing the EV and battery sectors. US automakers GM and Ford and Korean battery makers LG Energy Solution, SK On, and Samsung SDI have created multiple joint ventures in Arizona, Michigan, Ohio, Tennessee, Kentucky, Indiana, and Georgia. It is reported that the three Korean battery makers' combined annual production capacity in the United States is expected to reach 451 gigawatt-hours by 2025—a tenfold increase from 2024.[16]

The IRA clean vehicle tax credits mandate that an EV battery's minerals and components be sourced from the United States or FTA partners to be eligible for the tax credit. For this, the United States signed a critical minerals agreement (CMA) with Japan and is negotiating a similar agreement with the European Union. Korea is already an FTA partner with the United States, which makes it eligible for the IRA tax credits already. But it is worth considering an upgrade of their strategic partnership on critical minerals with a stand-alone agreement.

The critical mineral supply chains such as nickel, lithium, cobalt, and uranium are dominated by China and Russia. Some US FTA partners, such as Australia, Canada, and Chile, can supply some of the needed minerals, but the bulk of resource-rich countries are outside the FTA network, including Indonesia, Vietnam, and the Philippines, as well as a significant number of African countries. Some of these countries are already integrated into battery and critical mineral supply chains with Korean and Japanese companies. Embracing these resource-rich countries into the IRA-eligible CMA network bilaterally or plurilaterally would help the United States and Korea to diversify their highly concentrated supply chains.

The CMA could include features such as information gathering and sharing, monitoring, customs and trade facilitation, environmental and labor standards, coordination on strategic stockpiling, and contingency cooperation in times of crisis, such as a stockpile swap, R&D cooperation for recycling, and alternative technologies.

A serious examination of the US-Japan Critical Minerals Agreement[17] (USJCMA) is instructive. As with the IPEF agreements, the USJCMA lacks clarity as to whether it contains formal binding legal obligations. The US negotiators finesse the omission of congressional approval by citing existing international trade rules that Congress has approved and stating in this agreement that the two governments "affirm" these obligations. Giving the two governments credit for seeking to provide in this agreement a new set of at least moral obligations to each other, we can assume that they are not merely noting what they have already committed to all WTO members but could be seen as specifically committing to each other these obligations.

[16] Sungsu Bae, "Korea's Battery Trio Aims to Outsmart Chinese Rivals in US," *Korea Economic Daily*, October 16, 2023. https://www.kedglobal.com/batteries/newsView/ked202310160007.

[17] See https://ustr.gov/sites/default/files/2023-03/US%20Japan%20Critical%20Minerals%20Agreement%202023%2003%2028.pdf.

Nevertheless, whether the undertakings on the US part, not approved by Congress, are reliable or would last beyond this administration is unclear. As for being reliable, the USJCMA does nothing to prevent the parties from invoking relevant WTO exceptions for national security and short supply. Preserving these exceptions to the rules contained in the WTO would undermine the CMA, as these exceptions could deny the USJCMA of effectiveness exactly at the point when the parties would be most likely to wish to rely on the agreement. Greater efficacy of future CMAs can be assured by being clear that supply assurance depends on narrowing or removing exceptions for short supply situations and for essential security, as well as by obtaining congressional approval for the commitments the United States seeks to make. Legislative approval should also be sought by Seoul were a firm and enforceable CMA to be entered into by Korea.

Other areas for potential additions to a future CMA could include investment policy via subsidies or favorable regulation. The CMA states that the "Parties shall confer on best practices regarding review of investments within their territories in the critical minerals sector by foreign entities for purposes of assisting a determination by the Party of the effect of such investments on its national security." This coordination is limited to how the Parties would treat nonsignatories.

Most importantly, the agreement again falls short of legal obligation regarding supply allocation, merely stating that "in the event of a supply chain disruption, to the extent possible, the Parties shall confer to support each Party's efforts to address the disruption." The agreement contains many statements of good intentions with respect to the environment and social obligations. Giving the two governments the benefit of the doubt, the CMA, issued as an "agreement," is to be taken as being more than a political declaration.[18] In this case, the purpose of entering the CMA should be considered. The answer is that the document was designed to appear to be legal cover for granting to Japan the favorable tax treatment Congress granted to "FTA partners'" products under the IRA.

With respect to future CMAs, in the US constitutional system, the only way to be sure that an agreement governing commerce is authorized is to go beyond a recitation of existing obligations and for the US negotiators to obtain approval from Congress.[19]

Biopharmaceuticals

During the pandemic the United States and Korea suffered unprecedented supply chain disruptions in biopharmaceutical products such as personal protective equipment and vaccines. In the midst of the pandemic in May 2021, the two countries established a comprehensive

[18] See https://www.finance.senate.gov/ranking-members-news/crapo-administrations-trade-agenda-bypasses-the-american-people.
[19] See https://crsreports.congress.gov/product/pdf/IN/IN12145.

KORUS Global Vaccine Partnership[20] to strengthen joint response capabilities for infectious disease through international vaccine cooperation. The partnership was a win-win because the United States has innovative technology and Korea can scale up COVID-19 vaccine supply in a timely manner with its second-largest biopharma manufacturing capacity in the world.[21] Moderna and Samsung Biologics partnered to manufacture Moderna COVID-19 vaccines in Korea.[22] AstraZeneca and Novavax produced their vaccines with SK Bioscience as well in Korea.

There will be opportunities for research collaboration beyond vaccines, as Korea is a significant pharmaceutical market and its industry is growing rapidly, estimated at an annual growth rate of between 4.5 percent and 7.5 percent.

The two governments may want to have in place coproduction arrangements under which they would jointly expand capacity for vaccine production in the event of a pandemic or major outbreak of communicable disease.

Model provisions for a sectoral agreement

Sectoral agreements aimed at assuring, to the extent possible, access to critical goods such as semiconductors, critical minerals, and vaccines could be modeled on the USJCMA, taking into account our discussion of the structure and authority for a new CMA later in this paper. The parties would commit to not impose prohibitions or restrictions on imports of listed goods from the territory of the other party or on exports of listed goods to the territory of the other party other than duties, taxes, or other charges, nor impose export duties. (Note: the US Constitution in any event prohibits the United States from taxing exports). The parties also commit to provide national treatment to the listed goods of the other party. A sectoral agreement of this kind would also deal directly with what is in fact a key concern for maintaining the integrity of supply chains in times of shortage: It would provide that in case a condition of local short supply exists, the parties will not discriminate against the trade of the other party but will act consistently with the principle that each party is entitled to an equitable share of the supply of the covered products. The sectoral agreement would incorporate exceptions only as agreed between the two parties and not the exceptions contained in the provisions of the WTO/GATT, as security of supply is what is intended. In effect, the WTO exceptions would be reversed—

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[20] White House, “Fact Sheet: United States-Republic of Korea Partnership,” May 21, 2021. https://www.whitehouse.gov/briefing-room/statements-releases/2021/05/21/fact-sheet-united-states-republic-of-korea-partnership/.

[21] Philip Won, “South Korea Aims to Establish Biohealth Industry as Strategic Sector, following Success in Semiconductor and Biopharmaceutical Production,” FDA Law Blog, April 5, 2023. https://www.thefdalawblog.com/2023/04/south-korea-aims-to-establish-biohealth-industry-as-strategic-sector-following-success-in-semiconductor-and-biopharmaceutical-production/.

[22] Moderna, “Moderna and Samsung Biologics Announce Agreement for Fill-Finish Manufacturing of Moderna’s COVID-19 Vaccine,” May 22, 2021. https://investors.modernatx.com/news/news-details/2021/Moderna-and-Samsung-Biologics-Announce-Agreement-for-Fill-Finish-Manufacturing-of-Modernas-COVID-19-Vaccine/default.aspx.

from excusing failure to supply to providing assurance of supply in times of shortage or threats to political or economic security.

Note: The benefits of a bilateral or plurilateral sectoral agreement need not be shared with nonparticipants. Due to the existence of the KORUS FTA, as FTAs are permitted under Article of the GATT, a bilateral supply chain sectoral agreement would be an exception to MFN treatment and apply solely between the two countries. GATT Article XXI, dealing with essential security interests, could also be invoked with respect to the measures taken to assure mutual security without having to be in compliance with the nondiscrimination or other requirements of the WTO.

B. Section 232 steel tariffs and green steel cooperation

Korea was the first country to reach an agreement to deal with the Section 232 steel quota arrangement with the United States in 2017, but the first-mover status turned into a disadvantage compared to other countries in ensuing years. The unfair treatment of the Korean steel sector must be rectified. For instance, Korea's steel quota arrangement is a "hard quota," much stricter than the tariff rate quota (TRQ) of the European Union and Japan, who reached agreement with the United States much later than did Korea. The TRQ allows the European Union and Japan to export beyond their quota limits with additional tariffs imposed, but the hard quota with Korea does not allow any exports above the quota. Korea was assigned a hard quota of 70 percent of average import levels from 2015 to 2017, which does not reflect rapidly changing new industry demands, such as for EVs. This has caused supply constraints and sharp increases in the price of steel for downstream US industries. The trade-restrictive Section 232 measures should ultimately be eliminated in their entirety, but in the interim, this unfair discrimination among the quota countries should be addressed.

Another important negotiations for Korea to pay attention to is the Global Arrangement on Sustainable Steel and Aluminum (GASSA) launched by the United States and European Union in 2021. The United States and European Union initiated negotiations of the GASSA with a view to "discouraging trade in high-carbon steel and aluminum that contributes to global excess capacity from other countries and ensure that domestic policies support lowering the carbon intensity of these industries" and "open to any interested country that shares our commitment to achieving the goals of restoring market-orientation and reducing trade in carbon intensive steel and aluminum products," according to the joint statement in October 2021.[23]

However, the transatlantic green steel negotiations have stalled over a wide range of disagreements that have yet to be resolved. A key difference is whether the agreement should address overcapacity as well as carbon reduction. The two sides missed their deadline of December 2023 and extended the talks for two more years, leaving the fate of GASSA up to the next US administration. It may be a good time to reset the format of GASSA by inviting other

[23] European Commission, "Joint EU-US Statement on a Global Arrangement on Sustainable Steel and Aluminium," October 31, 2021. https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5724.

like-minded partners like Korea to participate and recalibrate it toward a plurilateral green steel agreement, which was supposed to be the ultimate goal of global steel discussions. Korean steel producers are leaders in clean steel production methods and have been championing the use of clean steel technology for many years. The two countries can lead the decarbonization in industrial sectors starting with steel.

C. Defense industrial cooperation

There is strong potential for United States-Korea defense industrial cooperation. Against the backdrop of the wars in Ukraine and the Middle East and escalating tensions in the Taiwan Strait and the Korean Peninsula, ever closer defense industrial cooperation between the United States and allies is needed. One of the lessons learned from the war in Ukraine is that to win a protracted war, the United States and its allies need to have not only military superiority but also strong industrial capabilities to scale up ammunitions and other defense industrial productions as quickly and cost-effectively as possible among allies.

Korea could be a perfect defense industrial partner to the United States for that purpose. It has been reported[24] that the amount of artillery shells that the United States produces in a whole year can be fired by the Ukrainian army in roughly a month. Korea is stepping up and supplying much-needed ammunition—reportedly more than all European countries combined—by transmitting artillery ammunition through the United States.[25] Korea has banned itself from supplying arms directly to a country in a war. However, on June 19, 2024, during President Vladimir Putin's visit to North Korea, Russia and North Korea signed a new treaty that provides mutual defense assistance and formalized the two countries' heightened level of military and diplomatic cooperation.[26] In response to the Russia-North Korea pact, Korean authorities are reported to be considering lifting the ban and directly providing lethal weapons to Ukraine .[27]

The US shipbuilding industry is another illustration of a key area with potential for bilateral cooperation. It is reported[28] that one shipyard in China can build more civilian vessels and nuclear submarines annually than all the ships the United States has launched since 2014. The United States needs to collaborate with allies like Korea to rebuild its defense industrial base. In

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[24] *The Economist*, "The West Is Struggling to Forge a New Arsenal of Democracy," February 19, 2023. https://www.economist.com/briefing/2023/02/19/the-west-is-struggling-to-forge-a-new-arsenal-of-democracy.
[25] Ellen Nakashima, Michelle Ye Hee Lee, and Alex Horton, "Running Short on Ukraine Air Defenses, U.S. Looks to Japan," *Washington Post*, December 19, 2023. https://www.washingtonpost.com/national-security/2023/12/19/us-japan-patriot-missiles-ukraine/.
[26] Se Eun Gong, "Russia and North Korea Vow Stronger Partnership against the West with New Treaty," NPR, June 19, 2024. https://www.npr.org/2024/06/19/nx-s1-5011768/russia-north-korea-treaty-mutual-defense.
[27] Kim Tong-Hyung, "South Korea Considers Arming Ukraine in Response to North Korea-Russia Pact," *Time,* June 20, 2024. https://time.com/6990464/south-korea-arms-ukraine-north-russia-pact/.
[28] Greg Ip, "The U.S. Can Afford a Bigger Military. We Just Can't Build It," *Wall Street Journal,* December 6, 2023. https://www.wsj.com/economy/the-u-s-can-afford-a-bigger-military-we-just-cant-build-it-7edd0e74.

March 2024, Carlos Del Toro, US Secretary of the Navy, visited[29] shipyards in Korea, the world's second-largest shipbuilder, to court their investment in US shipyards. In response, it was announced[30] on June 20, 2024, that Korean shipbuilder Hanwha will acquire Philly Shipyard for US$100 million from its Norwegian parent, Aker ASA. Philly Shipyard has delivered approximately half of the large US Jones Act commercial ships in the United States since 2000.

Despite great potential for US-Korea defense industrial collaboration, institutional arrangement and support to promote such collaboration are lagging behind commercial trade supported by the KORUS FTA. The US Department of Defense signed reciprocal defense procurement (RDP) agreements[31] with 28 countries, which would lower trade barriers and provide reciprocal market access for defense industrial products. Korea is not yet a signatory partner. The two countries have been in negotiations[32] to finalize an RDP, but it has been recently reported that the negotiations are delayed due to concerns on the US side. The RDP exempts the signatory countries from "Buy American" requirements, allowing the companies to be treated as if they were domestic producers not subject to Buy American restrictions.

The United States and its close allies, such as Korea, need to coinvest and cobuild defense industrial capabilities to ramp up supplies of steel, ammunition, shipbuilding, and other dual-use production that could be mobilized promptly in case of any possible contingencies. It would be important to strike the right balance between strengthening defense industrial cooperation with allies in light of ongoing wars in Ukraine and the Middle East and protecting the domestic industrial base. US national security can be strengthened by opening and connecting trade and investment among close allies.

3.2. Exerting global trade leadership in the region

With President Barack Obama's failure to secure congressional approval and implementation of the TPP during his time in office (2009-17), America's intended "Pivot to Asia" remained unfulfilled during his administration. For the United States, the fate of TPP was sealed when President Trump took office and immediately withdrew the United States from the agreement. This did not end trade liberalization in the region. Others proceeded using major multiparty FTAs. The United States clearly indicated to its allies that it would not object to their proceeding on their own to salvage a TPP without the United States. It was restyled the CPTPP. It currently

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[29] Christy Lee, "US Navy Looking to S. Korean, Japanese Shipbuilders to Revive American Shipyards," Voice of America, March 7, 2024. https://www.voanews.com/a/us-navy-looking-to-s-korean-japanese-shipbuilders-to-revive-american-shipyards/7518826.html.

[30] Sam Lagrone, "South Korean Shipbuilder Hanwha Makes $100M Bid to Buy Philly Shipyard, SECNAV Del Toro Praises Deal," US Naval Institute, June 20, 2024. https://news.usni.org/2024/06/20/south-korean-shipbuilder-hanwha-makes-100m-bid-to-buy-philly-shipyard-secnav-del-toro-praises-deal.

[31] Office of the Assistant Secretary of Defense, "Reciprocal Defense Procurement (RDP) Agreements," 2024. https://www.acq.osd.mil/asda/dpc/cp/ic/reciprocal-procurement-mou.html.

[32] Joe Gould, Phelim Kine, "US-South Korea defense trade pact delayed amid 'Buy American' concerns," *Politico Pro*, June 18, 2024. https://subscriber.politicopro.com/article/2024/06/us-south-korea-defense-trade-pact-delayed-amid-buy-american-concerns-00163861.

consists of the remaining 11 of the 12 original members: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. The vibrancy of this FTA is attested to by the accession of the United Kingdom, agreed to in July 2023. In addition, China, Costa Rica, Ecuador, Taiwan, Uruguay,[33] and Ukraine[34] have applied to join the CPTPP. South Korea, and Thailand are reported to be considering applying.

A second major new regional FTA is distinguished by the membership of China, in what is known as the Regional Comprehensive Economic Partnership (RCEP). This trade pact is an FTA among 15 countries: Australia, Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. There is substantial but not complete geographic overlap between the two FTAs in membership, but they differ significantly with respect to their content. The RCEP is seen as having less deep, substantive commitments than the CPTPP. For example, the CPTPP covers digital trade much more intensively. RCEP members can require localization of computing facilities and restrict cross-border data flows with respect to services and investment, are allowed to restrict data flows and require localization of computing facilities to achieve “legitimate public policy objectives and to protect essential security interests,” and can require disclosure of source code as a condition of doing business in a member’s territory (see Hufbauer and Hogan[35]). On the other hand, RCEP is seen as having more flexible rules of origin allowing goods to qualify more easily for preferential tariff treatment than does CPTPP, encouraging deeper supply chain integration.[36]

In the void of US policy toward Asia left by US nonparticipation in the CPTPP and its exclusion from the competing RCEP agreement (which the United States would have no intention of joining given its fraught trade relationship with China), the United States proposed the IPEF. It covers 14 countries: Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, the United States, and Vietnam. Unlike the CPTPP and the RCEP, the principal anchor of the new IPEF accord completely excludes market access through tariff liberalization, limiting itself to alignment of expressions of common purposes in select areas.

Market-liberalizing FTA negotiations are still happening in the Indo-Pacific region, although in other parts of the world market liberalization is slow-moving or on hold. It is high time for Korea to step up and play a more active role as a rule setter rather than remain as a passive rule

[33] Uruguay applies to join CPTPP in bid for Asian export boost. Nikkei Asia. https://asia.nikkei.com/Economy/Trade/Uruguay-applies-to-join-CPTPP-in-bid-for-Asian-export-boost.
[34] Ukraine asks to join CPTPP trade pact. Reuters, July 7, 2023. https://www.reuters.com/world/ukraine-has-requested-join-cptpp-trade-pact-japan-minister-says-2023-07-07.
[35] 21-22 Digital Agreements: What’s Covered, What’s Possible. Gary Clyde Hufbauer and Megan Hogan October 2021. https://www.piie.com/sites/default/files/documents/pb21-22.pdf.
[36] Jeffrey Schott, Which countries are in the CPTPP and RCEP trade agreements and which want in? PIIE Chart. July 27, 2023. https://www.piie.com/research/piie-charts/which-countries-are-cptpp-and-rcep-trade-agreements-and-which-want.

taker. The CPTPP and a more substantive form of the IPEF provide good opportunities for Korea.

A. Accession to the CPTPP

Since 2013, when Korea first declared its interest in joining the TPP, accession to the TPP or its successor, the CPTPP, has been a puzzle for Korea. For the following 11 years, it was extremely challenging to find the right timing for Korea's accession when three necessary preconditions are aligned all at once: commercial interests, domestic political circumstance, and geopolitical/international support. In April 2022, only a few weeks before the transfer of power to the newly elected Yoon Suk Yeol administration, Korea's outgoing government made the official decision to accede to the CPTPP.[37] However, the last step in the domestic procedure, which was to report to the National Assembly (not an approval requirement), could not be completed a couple of months ahead of local elections due to strong protests by the agricultural community.

In the meantime, the geopolitical tide of the CPTPP turned favorably for Korea's accession probably for the first time since its entry into force on December 30, 2018. While the probability of the United States rejoining the CPTPP remains very low, China and Taiwan applied for their accession into the CPTPP in September 2021, rekindling the strategic value to Korea. Japan was opposed to or reluctant, at best, to allow Korea's accession to the CPTPP before, but has now turned more supportive of Korea's accession. The bilateral relations between Korea and Japan took a dramatic turn after the Yoon administration was determined to improve its diplomatic and economic ties with Japan. Now the ball is in Korea's court again.

The current domestic political environment in Korea is not easy with the opposition parties only 8 seats short of a two-thirds supermajority out of 300 seats. The agricultural community is opposed to any new FTAs as strongly as before, although skyrocketing prices of apples and pears, which average households cannot afford, have become a political issue lately. Some skeptics argue that Korea does not need the CPTPP because it has bilateral FTAs with all members except Mexico. To the skeptics, the absence of the United States in the CPTPP is a good excuse for Korea's inaction on joining it.

However, they are missing important points. The CPTPP status quo will not remain as it is today. It will continue to evolve with new membership and newly upgraded rules and standards. While the WTO is not functioning well, it is reasonable to imagine that the CPTPP could play the role of the next best frontier for trade progress, a platform among all the existing FTAs to set the new rules and form a wide network of like-minded countries. The KORUS FTA, which is Korea's highest-standard FTA, concluded 17 years ago in April 2007, is already out-of-date or absent with respect to many disciplines, such as rules of origin, e-commerce, environment and decarbonization, supply chain resilience, economic coercion, more effective

[37] Yonhap, "S. Korea decides to join CPTPP trade agreement," *Korea Herald,* April 15, 2022. https://www.koreaherald.com/view.php?ud=20220415000647.

state-owned enterprise disciplines, and subsidy provisions, just to name a few. Now is the time for Korea to play a more active role in setting the rules of the road for the future of the global trading system, and for that, staying out of the CPTPP is not an option.

B. Future development of the IPEF

The IPEF, the international economic cooperation initiative by the Biden administration, was concluded in November 2023 with mixed results. Agreements were concluded with respect to three of the four pillars. The three pillars deal with supply chains, the clean economy, and the fair economy. The US description of what has been achieved claims that the agreements provide "innovative, first of their kind approaches" said to strengthen economic engagement across the Indo-Pacific region. The trade pillar failed to conclude because the United States reversed course on the three core elements of the trade pillar's digital economy in favor of "policy space."

The IPEF's areas of focus differ from those of the CPTPP and the RCEP, and the subjects it addresses merit attention. Developing new rules and standards for supply chains and the clean economy are positive, meaningful goals. However, there are a few key shortcomings in the IPEF approach. First, participants have not firmly committed to anything within these pillars. Not only was the IPEF not approved by the US Congress, but it also was not the product of consultation between the executive and legislative branches. These are serious defects. Congress is granted the commerce power by the US Constitution (although this is increasingly hard to discern from practice during the last two US presidencies). The president (Democrat or Republican) now lacks a specific mandate from Congress for entering into and concluding trade agreements. The Biden administration chose in July 2021 not to seek renewal of "trade promotion authority," the primary means by which congressional approval has been sought for major trade agreements.

The result: The IPEF contains no binding obligations. The joint expressions of aspirations for a better world that make up the IPEF can readily be discarded by succeeding US administrations. Moreover, deeper regional economic integration is not assured because no changes are required in the behavior of the individual signatories. Another defect is that the coverage of this Indo-Pacific enterprise, in contrast to the TPP and the CPTPP, does not include any of the nations in the Western Hemisphere other than the United States. The IPEF is clearly a hub-and-spokes declaratory arrangement of the United States and a number of Asian nations, with the United States serving as the hub. IPEF members have often stated privately that they entered into the IPEF negotiations to humor the United States rather than to deepen regional economic relationships.

The IPEF will potentially be at a crossroads in 2025. Either there will be a US government in place that may be willing to continue to develop the agreement as part of its effort to return further US engagement in the region, or there will be a repeat of the old TPP drama, and the United States will withdraw from the IPEF. In either eventuality, Korea and other countries in the region should be prepared to decide what they aim to achieve in terms of the future economic architecture in the region.

Upgrading the IPEF: Suggestions (depending on the presidential election outcome)

There are two basic means to create further value from the IPEF. The first is through implementation, such as deploying investments, and through more intensive consultation and cooperation (see the specific implementation recommendations outlined below). The second is to enter into international agreements with binding obligations. These agreements can take a variety of forms. If some or all IPEF members are willing, they can commit to various types of reporting as a beginning. Under the heading of fostering reliable supply chains, for example, they can commit to share information on shortages and how existing supplies are to be allocated in case of unexpected interruptions in normal supplies.

As a first step with respect to two of the IPEF agreements where we sense economic gains can be made by deepening the engagement—namely, supply chains and the clean economy—we recommend that Korea join with interested IPEF members (as well as those countries, primarily in the Western Hemisphere, that may indicate an interest in joining the IPEF) to map existing assets that can be marshaled to strengthen specific supply chains and promote the clean economy transition.

At the most basic level, interest and capability will determine where IPEF members can contribute and gain the most by joining in supply chains. This will necessitate understanding where within the diverse IPEF community, consisting of a range of economies—Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, the United States, and Vietnam—there exist resources. In particular this survey would identify where deposits of raw materials are to be found, where there are processing facilities, where there is a potential for adding additional mining and processing capacity. Manufacturing and assembly potential would be listed. Human resources would also be a focus, identifying where there are skill sets that would be useful. These are all factors that make a global supply chain a success. The private sector has mobilized many, if not most, of these resources. It is the role of governments and international agreements to smooth the way for their functioning together and, sometimes, to create opportunities where there are market failures.

Obstacles to participation in global supply chains should be identified. The WTO Trade Facilitation Agreement can be a basis for assuring that IPEF members understand where progress can be made in general. Sometimes a specific negotiated approach is needed. Korea, benefiting from the KORUS FTA, was able to take advantage of US incentives limited to US FTA partners. Some further legal engineering was needed to assure that Japan, not a US FTA partner, was eligible for certain US incentives, which gave rise to the USJCMA.

Economic efficiency, to a degree, must always underlie successful endeavors both with respect to supply chains and the clean economy. Identifying areas of mutual benefit is essential to reaping greater benefits from international cooperation within the IPEF.

Lastly, we see no inherent logic in excluding countries in the Western Hemisphere that are willing and able to contribute to this joint endeavor. For a beginning, linking up the USMCA with other existing US FTAs should be actively explored.

Middle powers' leadership

We recommend that Korea and other leading middle powers—including Japan, Singapore, and Australia—step up and take on the big task of continuing to develop the IPEF as a more effective platform for economic cooperation in novel areas, particularly of supply chains and the clean economy. There are lessons to be learned from Japan's leadership in salvaging the TPP on the brink of collapse after the US pullout in 2017. IPEF partners can inject new life in two aspects.

First, they should consider expanding its membership to other Pacific Rim countries, such as Canada, Mexico, Chile, and others. The United Kingdom could be a good candidate in addition to its CPTPP membership. These new members could add value with their rich endowments of critical minerals to the supply chains and clean energy pillars. The European Union has met with the United States in the framework of their Trade and Technology Council (TTC), which overlaps to a degree with the IPEF in terms of the scope and coverage of their main issues. It is worth exploring the degree to which IPEF and TTC members can work together in areas of mutual interest.

Second, the middle powers should focus on delivering tangible outcomes through implementation of the agreements. In the inaugural IPEF Clean Economy Investor Forum held in Singapore on June 6, 2024, the IPEF partners announced US$23 billion in priority projects for consideration to accelerate sustainable infrastructure investments in the region.[38] Potential investment opportunities can materialize only with follow-through by the public and private sectors of the IPEF economies. Korea is well positioned to play a meaningful role by leading a few high-impact Cooperative Work Programs (CWPs) introduced as mechanisms to advance projects in furtherance of the Clean Energy Agreement.

For instance, Korea can lead a CWP[39] on carbon markets, which ministers already have agreed to launch. Korea's December 2021 nationally determined contributions (NDCs) based on the

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[38] US Embassy in Singapore, "Raimondo Announces IPEF Agreements Signed in Singapore, Announces $23B in Priority Infrastructure Projects," June 6, 2024. https://sg.usembassy.gov/raimondo-announces-ipef-agreements-signed-in-singapore-announces-23b-in-priority-infrastructure-projects-at-inaugural-clean-economy-investor-forum/.

[39]US Department of Commerce, "Press Statement on Indo-Pacific Economic Framework for Prosperity Ministerial Meeting in Singapore," June 6, 2024. https://www.commerce.gov/news/press-releases/2024/06/press-statement-indo-pacific-economic-framework-prosperity-ministerial.

Paris Agreement set a very ambitious emissions reduction target of 40 percent below 2018 levels by 2030. As a result, Korea plans to achieve about 11.5 percent of the 2030 NDC target, amounting to 35 million tons, from international mitigation activities. Thus, there is a strong interest in Korea to contribute to developing regional carbon markets that can mobilize private capital flowing from developed countries to developing countries through cross-border mitigation projects and have carbon credits issued and traded based on Article 6 of the Paris Agreement.[40] The Indo-Pacific is an ideal region for the development of carbon credit markets because there is a good mixture of developed and developing countries with strong demand and supply for carbon credits, such as Australia, Japan, and Korea on the demand side and Indonesia, Vietnam, and the Philippines on the supply side. The IPEF partners could develop high-standard guidelines and infrastructure necessary to enable carbon markets through a CWP, such as robust carbon credit accounting and certification systems and capacity building. Of course, embarking on any IPEF initiative, including especially one designed to counter climate change, is relevant only with an administration committed to making use of IPEF. There is no likelihood that IPEF would survive for more than a few moments in a Trump administration.

3.3. Diversifying into the Global South and contributing to the WTO

The economic rise of Korea over the last half century was built on the basic premise that interdependence between countries through cross-border trade and investment could bring peace and prosperity. In fact, the transformation of the Korean economy from one of the poorest to an advanced modern economy is a testament to that idea.

That interdependence is being challenged with a shift in the global trade environment and the trade policies of major countries. Supply chains are being disrupted, economic issues securitized, trade and investment fragmentized, and interdependence weaponized. But it is important to note that in the midst of these challenges, there are emerging countries who turn the challenges into new opportunities for growth through trade. For example, as G2 tensions grow and access to the US market becomes harder, China is going global and is accelerating compared to the rest of the world, including the United States. India, Vietnam, Singapore and Mexico are moving fast to capture a bigger share of trade diverted from China. The WTO has rightly termed a renewed drive towards a broader and more inclusive integration as *re-globalization* in its *World Trade Report 2023.*[41] Korea can be another testament to the idea that weaponization of interdependence can be overcome with diversification, or more trade with more new friends.

[40] United Nations Climate Change, “Paris Agreement Crediting Mechanism.” https://unfccc.int/process-and-meetings/the-paris-agreement/article-64-mechanism.

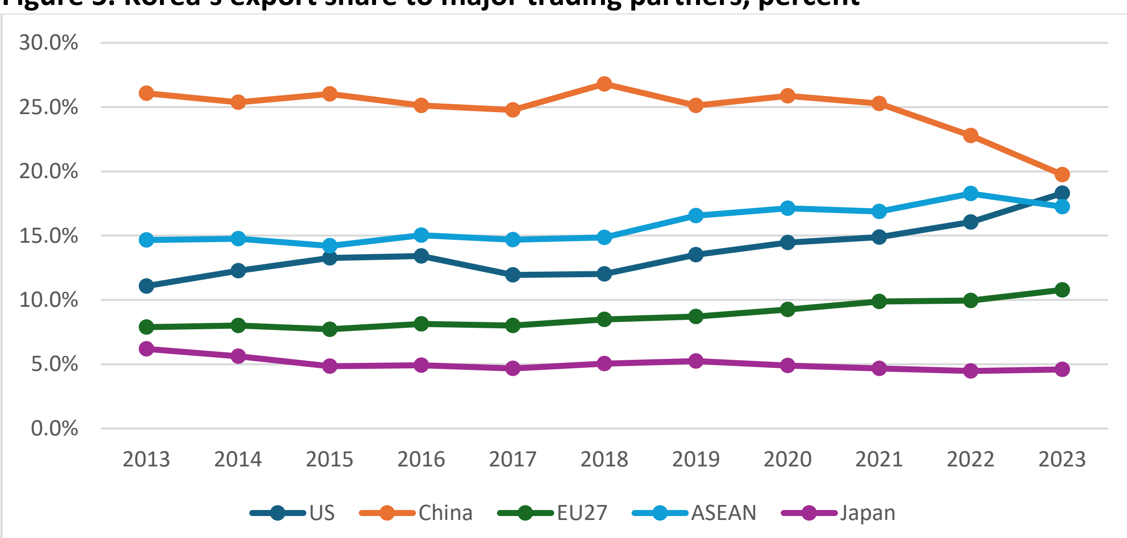
[41]World Trade Organization, “World Trade Report 2023,” 2023. https://www.wto.org/english/res_e/publications_e/wtr23_e.htm.

A. Diversifying into the Global South

As explained in section 2, Korea's trade pattern with its top two trading partners, China and the United States, is going through structural changes. Relying on one country, in this case China, for almost a quarter of trade proved to be a significant risk, especially after experiencing economic coercion by that country. A single point of failure in closely connected supply chains could wreak havoc on the entire system. Korea's increasing trade with and investment in the United States is encouraging, but with Korea's increasing trade surplus with the United States, there is always uncertainty surrounding US domestic politics regarding trade and international cooperation.

Diversification could be the only solution to a highly open trading nation like Korea in this volatile global environment. Korea needs to diversify into the Global South, a segment of newly growing middle-class markets with a young population. An analysis of Korea's exports to major trading partners for the last 10 years shows that advanced economies such as the European Union and Japan have stagnated while China and the United States are each converging toward a 20 percent share of Korea's total exports, respectively. An encouraging trend is the continuing rise of ASEAN in Korea's export share from 14.7 percent in 2013 to 17.3 percent in 2023 (figure 5). For the last 10 years, Korea's exports to ASEAN have risen to surpass the United States as Korea's number-two export market until 2022. ASEAN has overtaken China as Korea's number-two FDI destination, following the United States, since 2014.

Figure 5. Korea's export share to major trading partners, percent



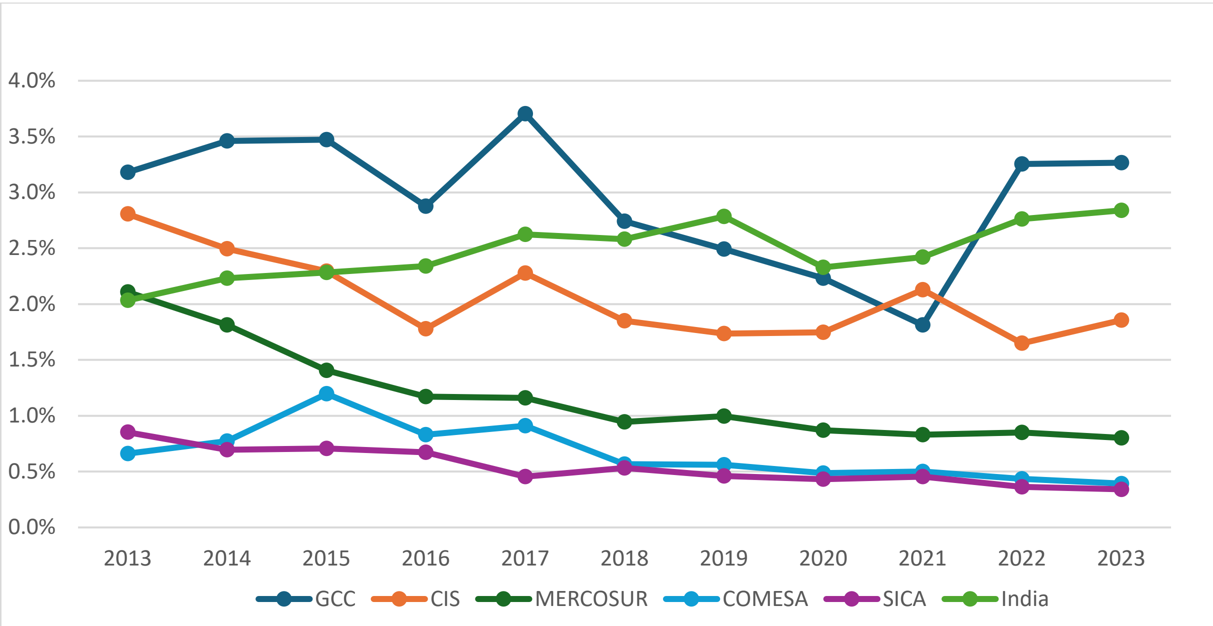
Source: Korea International Trade Association.

In fact, beginning in 2007 Korea began to export more to emerging-market and middle-income economies than to advanced economies.[42] As of 2023, Korea's exports to the former account

[42] Trade data from the Korea International Trade Association follows the International Monetary Fund country classification of 2014.

for 52.4 percent, whereas its exports to the latter account for 43.2 percent. Korea's export shares to major economic blocs of the Global South and India are still small, as shown in figure 6. The rise of Korea's exports to the Gulf Cooperation Council (GCC),[43] and to India is promising. However, exports to other regions, such as Latin America (Mercosur[44]), Africa (the Common Market for Eastern and Southern Africa[45]), and Central American Integration System[46] are still minimal—under 1 percent of total exports and has decreased for the last decade. Korea's exports to Mercosur have especially decreased—from 2.1 percent to 0.8 percent during the same period.

Figure 6. Korea's export share to the Global South, percent



Source: Korea International Trade Association.

The implication for Korea's trade policy is clear: Pursue more FTAs with the Global South. Most importantly, Korea's geopolitical and economic partnership with ASEAN should be

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[43] The GCC brings together six Arab countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

[44] The Southern Common Market, commonly known by its Spanish and Portuguese abbreviation, Mercosur, is a South American trade bloc established by the Treaty of Asunción in 1991 and Protocol of Ouro Preto in 1994. Its full members are Argentina, Brazil, Paraguay, and Uruguay. Venezuela is a full member but has been suspended since December 1, 2016. https://en.wikipedia.org/wiki/Mercosur.

[45] The Common Market for Eastern and Southern Africa (COMESA) is a regional economic community in Africa with 21 member states stretching from Tunisia to Eswatini. COMESA was formed in December 1994, replacing a preferential trade area that had existed since 1981. Nine of the member states formed a free trade area in 2000 (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe), with Rwanda and Burundi joining the FTA in 2004, the Comoros and Libya in 2006, Seychelles in 2009, and Tunisia and Somalia in 2018. https://en.wikipedia.org/wiki/Common_Market_for_Eastern_and_Southern_Africa.

[46] Central American Integration System member states are Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and the Dominican Republic. https://www.sica.int/sica/vista_en.aspx.

strengthened under the broader Indo-Pacific strategy that Korea has put forward. During Korea's previous Moon Jae-In administration, the New Southern Policy, which elevated the strategic importance of ASEAN and India to the level of the Big Four—the United States, China, Russia, and Japan surrounding the Korean Peninsula—was given a high priority. Korea and the United States share a common interest in the strategic importance of ASEAN and India because they can help accelerate in the de-risking and diversification of highly concentrated supply chains from China. Korea and the United States can strengthen their strategic collaboration with respect to ASEAN and India under their respective Indo-Pacific strategies.

On the trade front, Korea has multiple layers of FTAs with ASEAN: the Korea-ASEAN FTA, the RCEP, and the individual bilateral FTAs with Singapore, Vietnam, Indonesia, and the Philippines. That said, upgraded rules and standards in the digital trade are much needed. Although e-commerce and digital trade are exploding in ASEAN member states, none of these previous trade agreements is well equipped to govern and facilitate digital trade between Korea and ASEAN.

For other Global South nations, Korea concluded FTA negotiations with the GCC as well as the United Arab Emirates in 2023, which was a strategic move reflecting the increasing trade potential with the Middle East. This was encouraging news that FTAs are still being negotiated despite deglobalization hyperbole that is in fashion. Two other negotiations, the Korea-Mercosur FTA and the Korea-India Comprehensive Economic Partnership Agreement (CEPA) are under way, although moving slowly. India's strategy of attracting foreign businesses to move out of China could have been accelerated, but India decided in 2019 to pull out of the RCEP negotiation at the last minute. Likewise, a more business-friendly upgrade of the outdated Korea-India CEPA would have helped facilitate the relocation of Korean businesses to India.

Although Korea has established a wide network of FTAs in almost all continents, Africa has been an exception. The African Continental Free Trade Agreement (AfCFTA) is one of the most prominent trade negotiating endeavors ever undertaken. It will create the largest free trade area in the world in terms of the number of countries participating. The agreement will cover a population of 1.3 billion people across 55 countries with a combined GDP valued at US$3.4 trillion. It is said of the AfCFTA that the agreement "has the potential to lift 30 illion people out of extreme poverty, but achieving its full potential will depend on putting in place significant policy reforms and trade facilitation measures."[47] Korea is well aware of the importance of this endeavor to the African continent and the wider world. At the Korea Africa Business Summit convened in Seoul on June 4-5, 2024, the lead speaker was Wamkele Mene, the secretary-general of the AfCFTA Secretariat.

The WTO has pledged to support the success of the AfCFTA. The participants would greatly benefit from Korean expertise. There may be no country's trade diplomats who have more experience with FTAs than those of Korea, with its multiple FTAs connecting it to the world, as

[47]Praise Shalom, "The African Continental Free Trade Agreement: Benefits to Intra- African Trade", The Dash, June 30, 2023. https://www.linkedin.com/pulse/african-continental-free-trade-agreement-benefits-intra-praise-ogabi/.

highlighted earlier in this paper. This is an invaluable asset to be applied to this enormous African undertaking.

Korea has strong mutual interests with the African continent in areas such as climate change, food security, supply chains, and preparing for pandemics and other health risks. It has a strong interest in Africa as well with respect to development of critical mineral resources, bringing greater value to African countries.

Given mutual interests and Korea's FTA experience, a deep and close role for Korea in support of the AfCFTA makes sense for both the agreement and Korea.

B. Korea's contribution to the WTO

Korea has been one of the major beneficiaries of the WTO-administered global trading system. Information Technology Agreements I and II helped boost the information technology and communication market and trade around the world, and Korea benefited from the plurilateral agreement. The ITA is overdue for an update in its coverage, which was to have been completed in 2018. The G2 rivalry and resistance to trade liberalization in many quarters would require some attitudes in major countries to change. That is not to be excluded but is not evident at this time.

Korea has been highly active to date in several respects to move the multilateral trading system forward. Korean trade diplomats currently serve in a number of leadership positions at the WTO. The most notable activity is the negotiation of the Investment Facilitation for Development (IFD) Agreement, an initiative recently brought to a successful conclusion. It is coordinated by Ambassadors Sofía Boza, Permanent Representative of Chile to the WTO, and Jung Sung Park, Deputy Permanent Representative of the Republic of Korea to the WTO. A total of 125 WTO members have participated in the IFD Agreement. Joint Statement Initiatives (JSIs) are an innovation at the WTO starting in 2017, at which time countries interested in a subject decided to begin meeting informally to discuss subjects of mutual interest that could lead to an open plurilateral agreement, a multilateral format in which not all need to join but are able to do so when and if they choose to do so.

It became apparent, particularly to developing countries, that investment was a necessary activity to mirror trade. Therefore, it was relevant for a trade organization to consider how best to facilitate investment. At a ministerial meeting in Buenos Aires in December 2017, 70 WTO members issued a joint statement to begin structured discussions to this end.

Investment facilitation for development discussions at the WTO are taking place against the backdrop of an increasing and reinforcing relationship between trade and investment, which has the potential to foster economic growth and diversification, job creation, and sustainable development. Over the last few decades, many countries have adopted policies aimed at facilitating investment, with the aim of attracting FDI. In November 2019, the number of those signing up to support the initiative grew to 98. Negotiations were formally launched in

September 2020. The agreement calls for simplifying and accelerating investment-related administrative procedures as well as ensuring that business is involved, and best practices are fostered. Technical assistance and capacity building are featured.

The IFD Agreement is one of the four initiatives that launched as open plurilateral talks, with the remaining one, e-commerce, yet to reach consensus. The IFD Agreement by far has the most participants, including the most that any of joint initiatives have of least developed and most developing countries. In the well-known difficulties of reaching agreements at the WTO among the 166 members, reaching agreement on the IFD is welcome. A major effort is now under way to formally “dock” this agreement with the other formally accepted WTO agreements under Annex 4 (covering plurilateral agreements) of the Marrakech Agreement establishing the WTO.

Our recommendation is that Korea continue to fill active roles in promoting the coverage and effectiveness of the global trading system. The IFD Agreement is a particularly good example of the type of deeper engagement that is possible at the WTO, as the negotiation was instrumental in involving least developed and developing countries to participate fully in multiparty negotiations, which all acknowledge are potentially mutually beneficial. Although this major responsibility is not quite over, it is timely for Korean trade diplomats to be watching for the next opportunity.

Another important task in making the multilateral trading system effective is the accession process. There were 136 original members of the WTO joining the organization when it was established in 1995, with another 30 economies acceding in the intervening three decades. Twenty-two countries are currently in the process of accession. Korea is an original member of the WTO. One of the most promising accession candidacies is that of Uzbekistan. Korean trade diplomats have taken on the role of chair of the Accession Working Party for Uzbekistan given the historic ties between the two countries. Some of South Korea's ambassadors to the WTO have served for a time as chair of key committees, including the Committee on Trade in Services and the Regional Trade Agreements Committee, a particularly well-suited assignment for Korea given the extensive network of FTAs that it has built.

The WTO dispute settlement system has also helped a midsize trading nation like Korea to settle trade disputes, fostering a stable and predictable rule-based international order. The European Union is working hard to add countries to the Multi-Party Interim Agreement (MPIA) given that the United States has not shown that it can agree to a form of binding dispute settlement that others can accept. Twenty-seven WTO members (counting the European Union as one), covering most of world trade, have joined, and Korea may wish to consider doing so. It is not perfect. It cures some and may replicate other flaws of the preexisting system that was unsustainable, but it is presently the only viable, generally available alternative.

The WTO currently needs the leadership of middle-power countries. Korea's role in the IFD JSI has been important. Japan, Singapore, and Australia are leading the E-commerce JSI. Uruguay was active with respect to the JSI addressing the needs of Micro, Small and Medium-sized Enterprises (MSMEs).

Small and Medium Enterprises JSI. Likewise, middle-power countries, not the great trading powers, initiated and led the effort to reach an Agreement on Domestic Services Regulation. Korea may wish to explore other areas for pressing forward, such as dealing with carbon border adjustments and other climate-related issues, or to support others that may be interested in finding ways to increase food security.

4. CONCLUSION

Korea and the United States share a number of important national interests. The most obvious involves mutual defense as allies. Closely related are their shared economic interests. This is evidenced by, but goes beyond, their successful 12-year-old FTA. Korean trade with the United States and its investment in the United States have grown markedly in recent years, particularly in the important areas of semiconductors, EVs, and battery production. This underlines the value in cooperative efforts to deal with supply assurance in strategic sectors such as semiconductors, critical minerals, vaccines needed during a pandemic, and meeting the challenges of climate change and the green transition. The strengths of the two countries are complementary and can be linked to better serve their economic and security interests.

There are marked uncertainties in Korea's trade relations that extend beyond the growing geopolitical divide. The trade policies of its American ally have shifted under the last two administrations. The outcome of the November 2024 US election could have completely unpredictable adverse effects on Korean trade. The recommendations in this paper seek to assist Korea in forging ahead in a period of turbulence regardless of the outcome of the election.

The paper urges the two countries to enter into formal agreements with each other to support their essential security interests by fostering their joint capabilities in strategic sectors. It suggests that they find mutually beneficial solutions for Section 232 steel tariffs and explore Korea's participation in the green steel talks with other like-minded countries where they both have a strong stake in the outcome and shared interests. It suggests that they strengthen institutional supports for defense industrial collaboration, including in the shipbuilding industry. If there is a renewal of mandate for the Biden administration's Indo-Pacific initiative, it points out ways in which the participating countries can "materialize" the IPEF through concrete collaborative measures to support supply chain development and the clean economy, with identifiable implementation results and by entering into formal agreements containing firm commitments.

Aside from bilateral initiatives, the paper concludes that Korea should engage more deeply with the Pacific region by joining and broadening the geographic coverage of the CPTPP. It notes the important supporting role Korea has played in a number of specific ways to contribute to the working of the multilateral trading system and urges that these endeavors continue and grow. The paper sees benefits for Korea in diversifying its engagement with the Global South, and it notes the particular assets that Korea can bring, for example, in providing assistance for the implementation of the AfCFTA as part of this outreach.

In short, the paper recognizes that there are a number of challenges for Korea in this period of change. But it is upbeat about Korea's economic outlook. Building on the strides it has made, it urges Korea's deeper economic engagement with its ally the United States, with other countries in the multilateral and regional frameworks, and beyond to the Global South.

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