

Korea and TPP (1) ^{1/}

Why Korea is important for TPP

- **Geopolitics: Korea-US alliance**
- **Better access to Asia**
 - **Gateway to China (Korea-China FTA, One Belt One Road) and Asia (RCEP)**
 - **Korea's investment in US and other TPP members will prop up exports and jobs**

Why TPP is important for Korea

- **Geopolitics: Korea-US alliance**
- **New economic opportunities**
 - **Build on KORUS FTA and expand GVCs in TPP**
 - **External pressures for internal reform (esp. in services)**

Korea and TPP (2)

Challenges within Korea

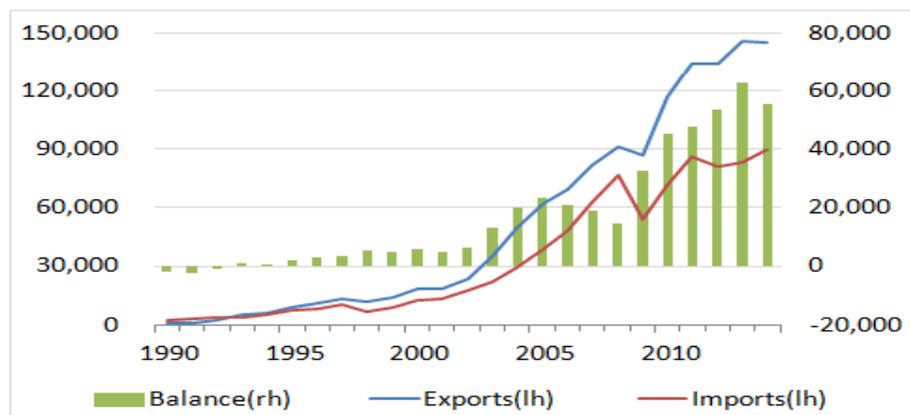
- Need to convince domestic stakeholders of benefits of TPP
- Old KORUS FTA issues may resurface
 - Agricultural products (rice, beef)
 - Politically sensitive issues (ISDS, SOEs)
 - Currency issue (related to ongoing QEs in major economies)

Challenges vis-à-vis the members

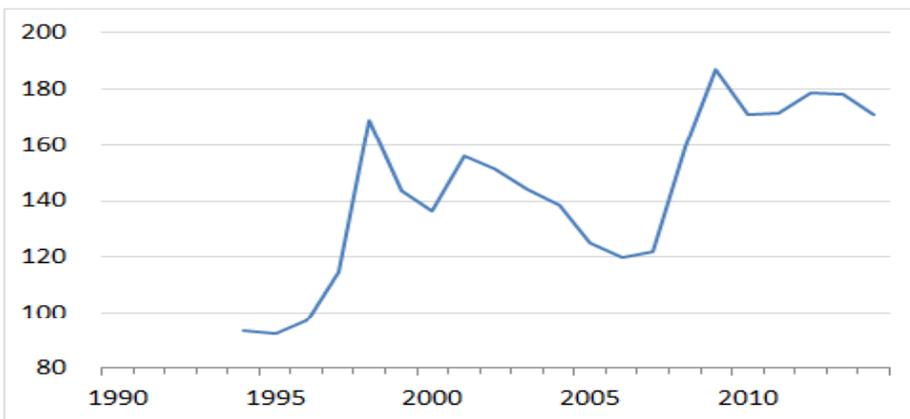
- US: KORUS FTA outcome to date and currency issue
- Countries with no bilateral FTAs (remaining issues e.g., Mexico, Japan)
- Regulatory coherence within TPP members (e.g., ROO)
- WTO rice TRQ (US, China, Australia, Thailand and Vietnam)

**On currency:
Current account balances reflect trading partner's characteristics**

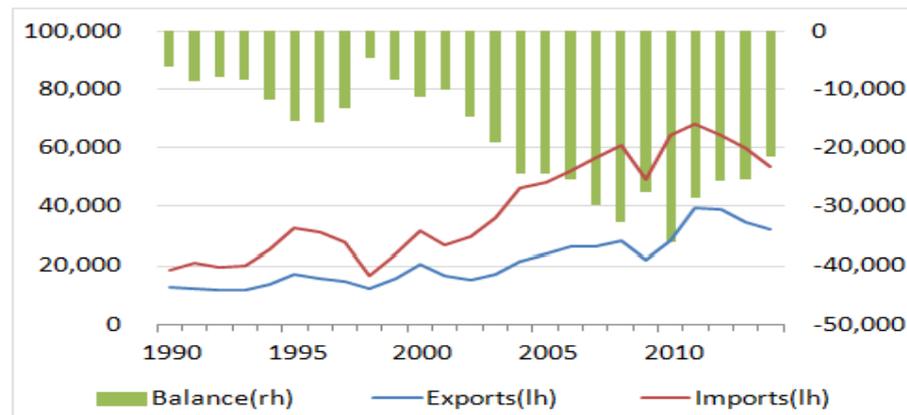
Korea's Trade with China



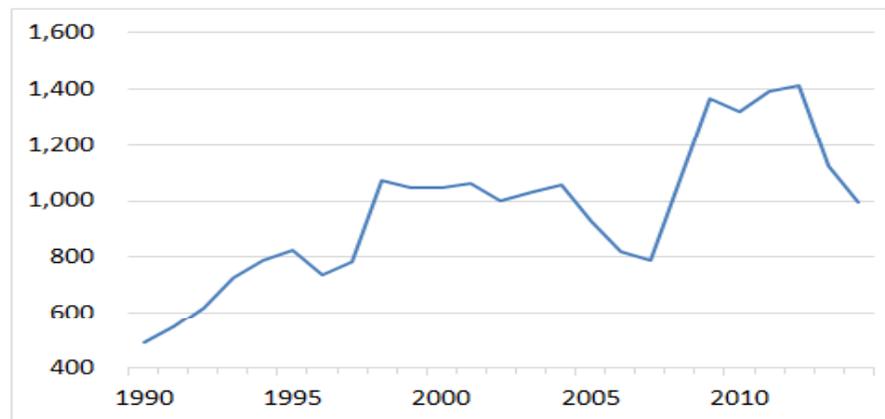
KRW/CNY



Korea's Trade with Japan

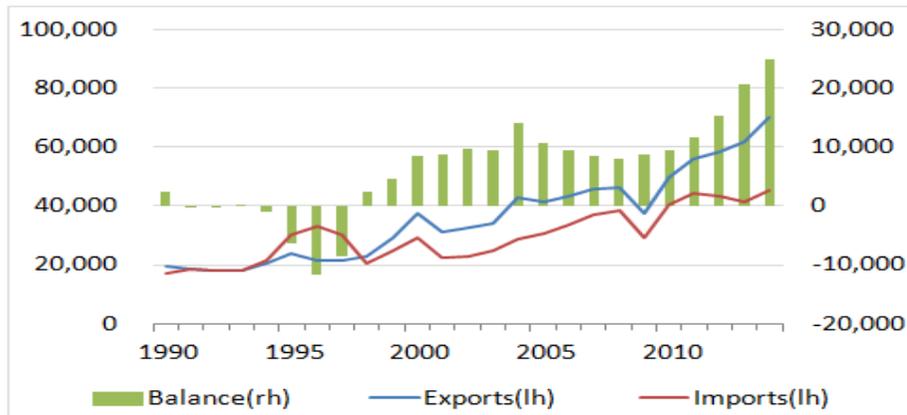


KRW/JPY

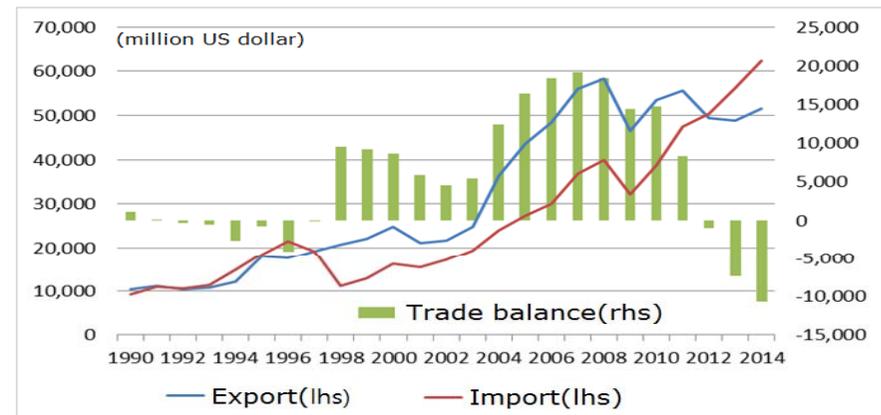


Trade surplus with the US widened during appreciation and the opposite case is true with the EU

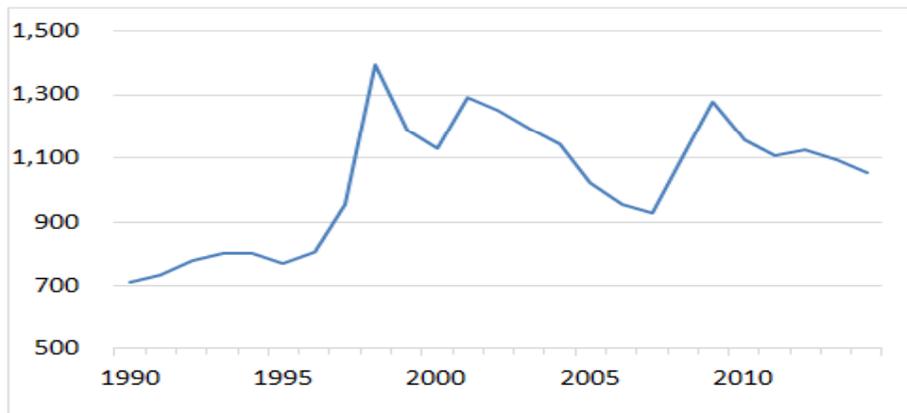
Korea's Trade with US



Korea's Trade with EU



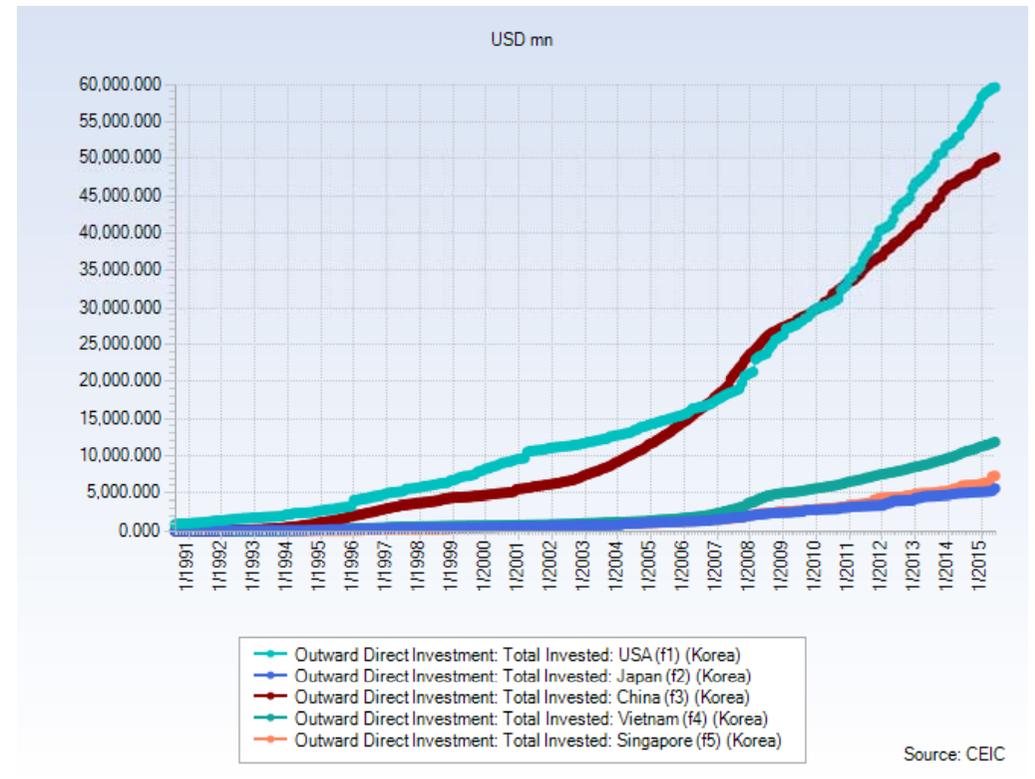
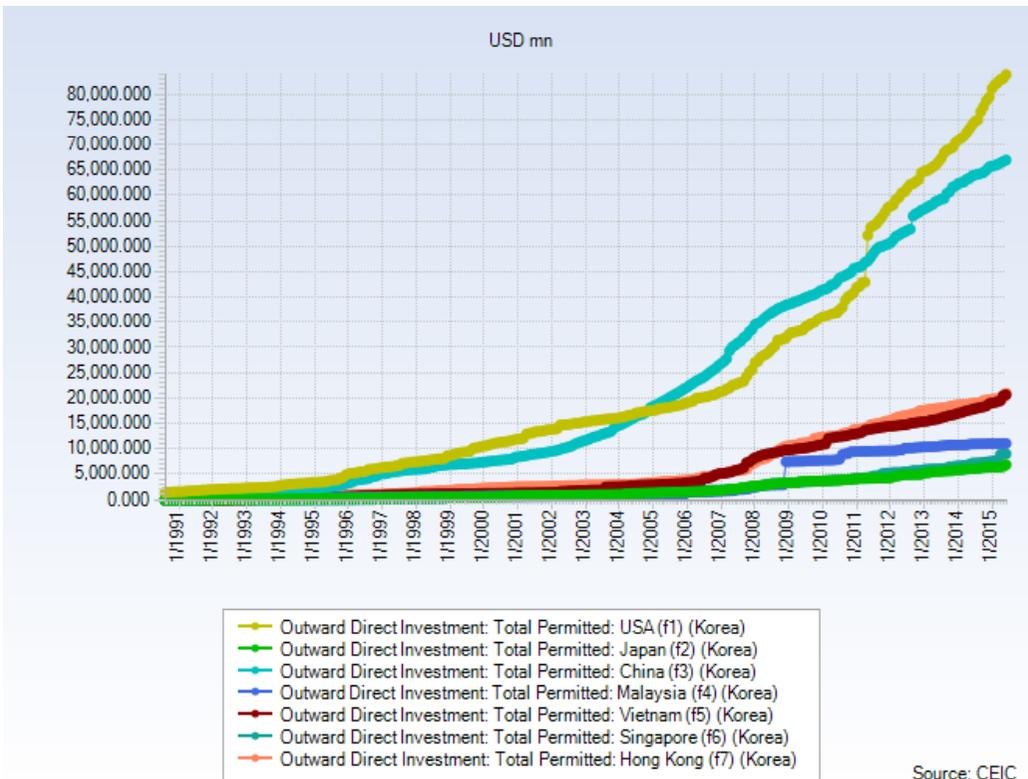
KRW/USD



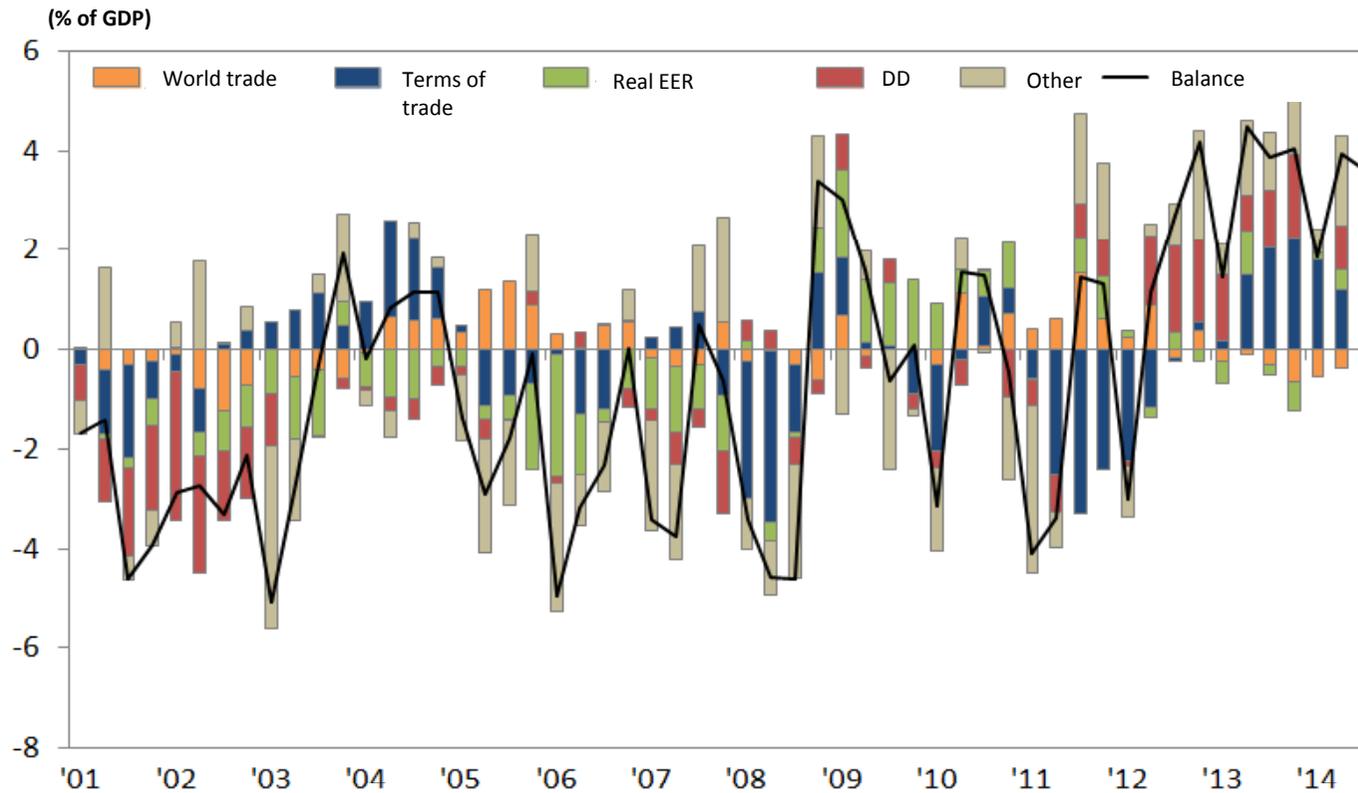
KRW/Euro



US is the largest recipient country of Korea's FDI; Won appreciation does not necessarily benefit Korea



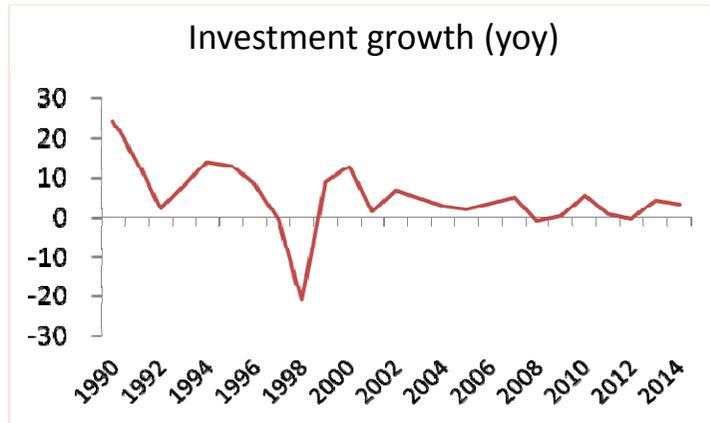
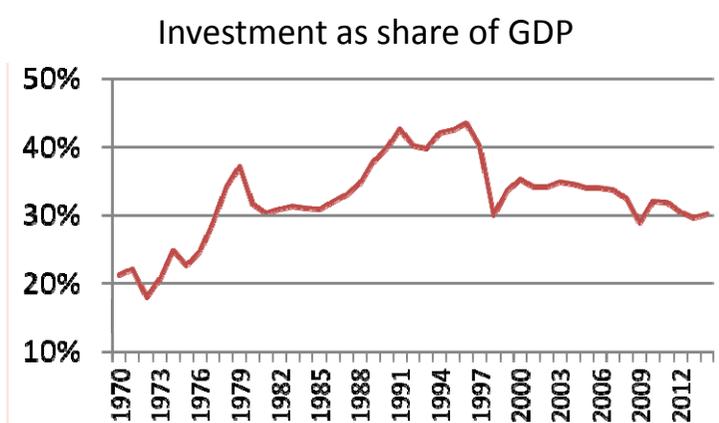
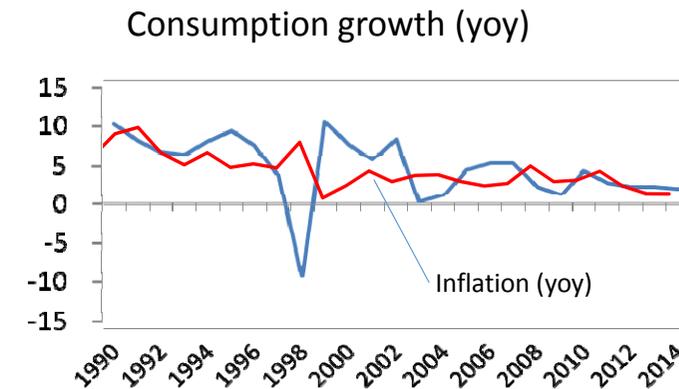
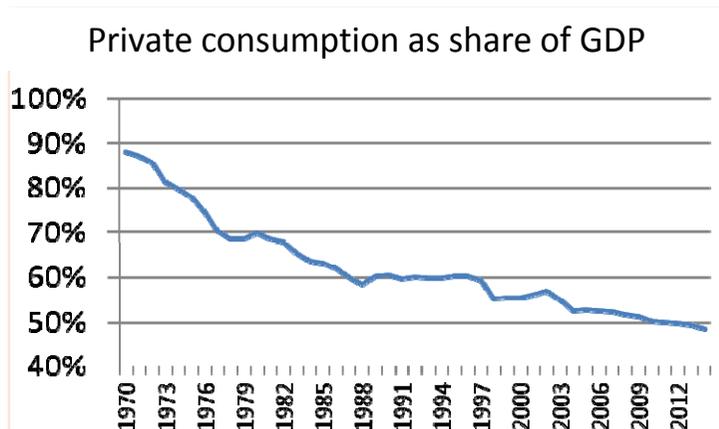
Main factors contributing to the surplus, especially since the financial crisis, are weakening domestic demand and improving terms of trade



Source: KIEP staff calculation

Structural VAR (with recursive restriction); Error term decomposition.

Both consumption and investment growth have been de facto stagnant since the mid-2000s posing a serious policy challenge



Source: Bank of Korea

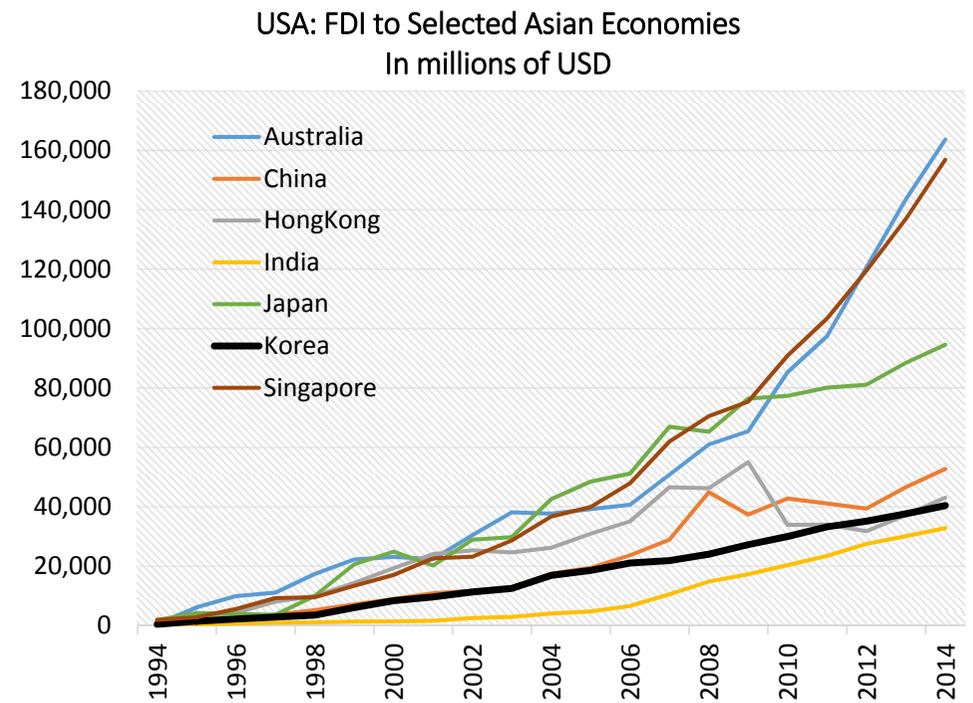
Source: Bank of Korea

Large scope for deepening economic cooperation between Korea and the US

The scope for deepening economic cooperation between Korea and the US is huge, both in trade and services and in cross-border investment



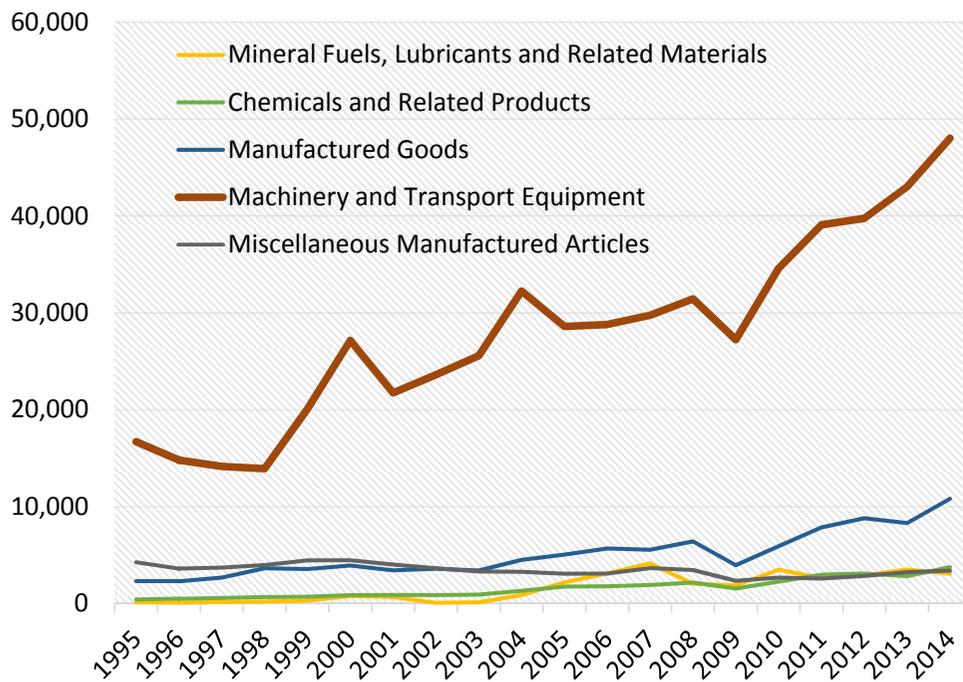
Sources: CEIC and author's calculation



Sources: CEIC and author's calculation

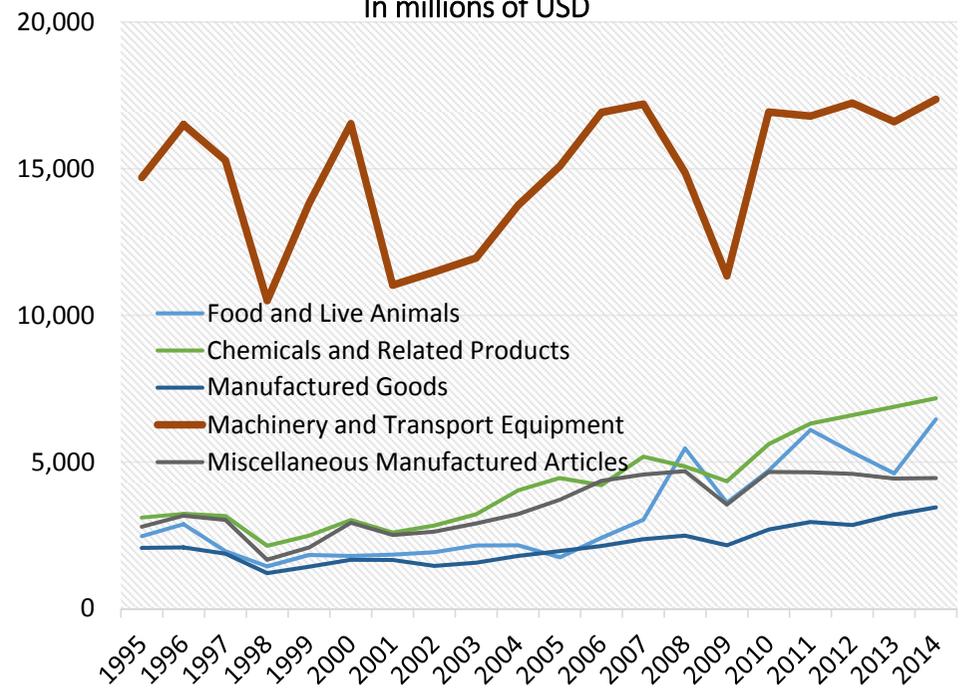
To date, merchandise trade is heavily skewed towards machinery and transport equipment; there must be other goods that can promote consumer welfare in both countries

Korea: Exports to the United States by major category



Sources: CEIC and author's calculation

US: Exports to Korea by major category
In millions of USD



Sources: CEIC and author's calculation

There is still large scope for further utilization of the KORUS FTA in merchandize trade

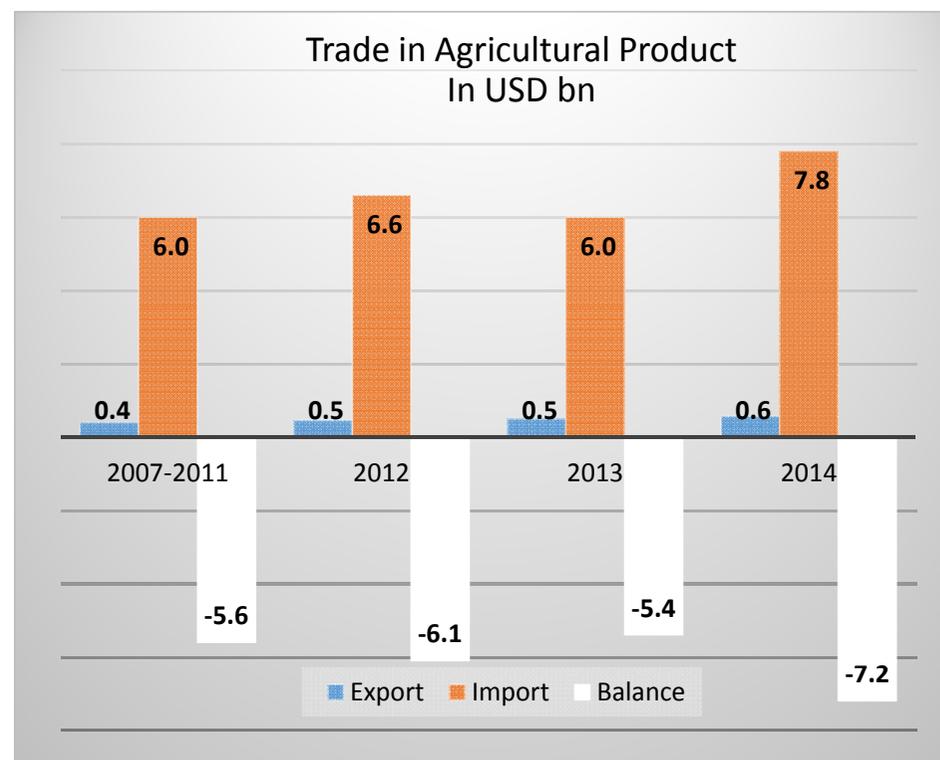
Korea Industry	Utilization rate of exports			Utilization rate of imports		
	2012	2013	2014	2012	2013	2014
	3~12	1~12	1~12	3~12	1~12	1~12
Agriculture, fisheries, and mining	86	91	93	86	87	73
Manufacturing	42	47	44	50	61	60
Textiles	62	63	62	40	48	53
Chemicals	77	89	90	60	75	76
Metals	65	73	76	43	45	38
Other machinery	66	76	74	30	36	31
Electronics	51	64	68	29	30	25
Automobiles and parts	19	24	21	50	81	83
Other manufacturing	48	54	53	52	61	63
Overall industries	42	48	44	52	62	61

Source: KIEP staff calculation

Good progress in agricultural products trade, especially in livestock

	5yr avg before implementation (2007~11) (A)	Implemen tation Year 3 (2014) (B)	Growth rates (%) (B/A)
Total	5,957	7,810	31.1
- Grain	2,787	2,760	-1.0
- Fruits & Vegetables	328	610	85.7
- Processed products	1,027	1,719	67.3
- Livestock	839	1,878	123.8

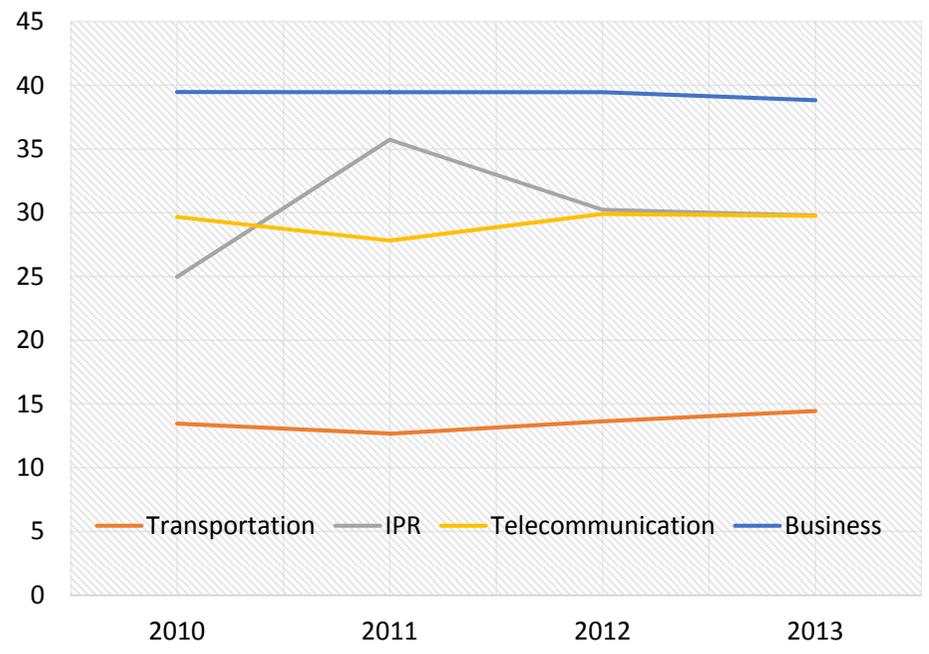
Source: KIEP staff calculation



Source: KIEP staff calculation

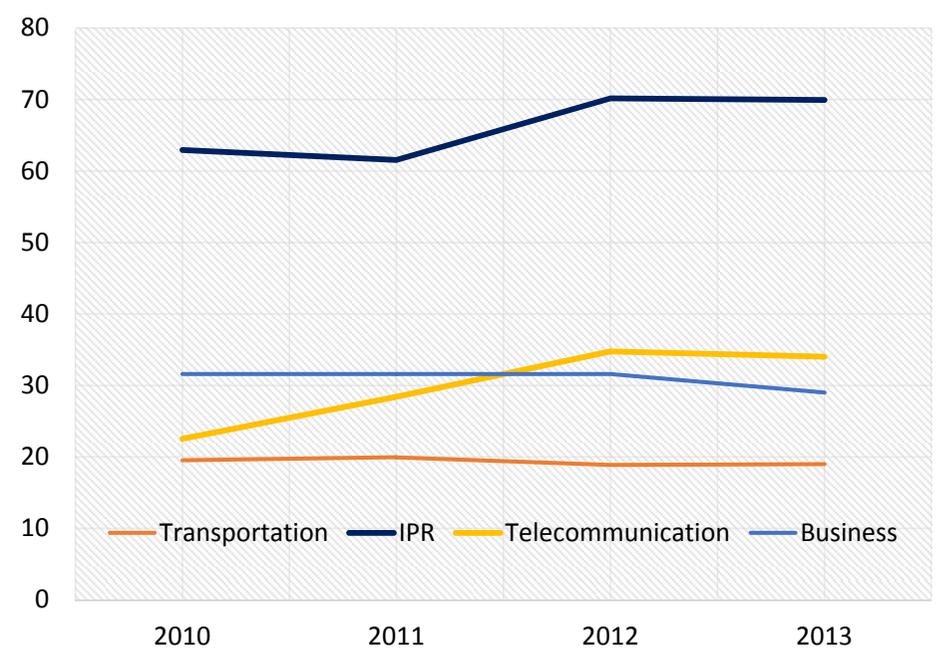
So far, benefits to Korea accrued in transportation, to the US in intellectual property rights; US exports in business service decreased due to establishment of legal consultant offices in Korea

Share of US in service income (%)



Source: KIEP staff calculation

Shares of US in service expenditure (%)



Source: KIEP staff calculation