

Korea and the TPP: The Inevitable Partnership

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September 28, 2015

TPP Recap: Key Objectives of the Deal

- Expand opportunities for trade and investment in goods and services among TPP-12, which account for 40% of global output and 25% of global exports.
- Develop comprehensive new 21st century rulebook including disciplines on state-owned enterprises, labor, and the environment.
- Reinforce economic and strategic ties among Asia-Pacific countries.
- Establish foundation for broader multilateral and Asia-Pacific trade accords; TPP the preferred pathway to APEC goal of Free Trade Area of the Asia-Pacific (FTAAP).

TPP Talks in 2015: Ready to Close?

- After near-miss at Maui Ministerial in July 2015, TPP trade ministers now engaged in intensive talks to close the deal – possibly later this week.
- Key “sticking points” nearing resolution:
 - IPRs in pharmaceuticals and terms of patent linkage/data exclusivity for biologics;
 - Rules of origin for autos and auto parts;
 - Agricultural market access for dairy, rice, sugar.
- After TPP is finalized in October, President Obama required to give Congress 90 days’ notice before formally entering into the pact. TPP could then be signed in early 2016 and ratified before mid-year.

The Inevitable Partnership

- Korea is not currently participating in the TPP, but announced its interest in November 2013.
- Given the importance of its trade relations with Asia-Pacific countries, Korea recognizes that it needs to participate in the TPP – not a matter of *whether* Korea will join the TPP but *when*.
- However, the cost of entry in the TPP – in terms of liberalization commitments – will probably be higher than if Korea had joined as an original signatory.

Why Korea Has Been Cautious

- Negotiation fatigue after intensive negotiations with the US, EU – but Korea continued to pursue FTAs with China, Australia, Canada, and others.
- Frictions with Japan that stalled their bilateral FTA also would resurface in the TPP talks.
- Concerns about reopening sensitive political issues of the Korea-US FTA negotiations, especially in rice and ISDS.

TPP-12: Important Trading Partner for Korea

2014 KOREAN EXPORTS

Top export destination	Exports (US\$ billions)	% of total Korean exports
1 TPP-12	188	33
2 China	145	25
3 EU	52	9
4 Hong Kong	27	5
5 Taiwan	15	3
6 India	13	2
7 Indonesia	11	2
8 Russia	10	2
9 Philippines	10	2
10 Brazil	9	2
Subtotal	480	84
Rest of world	92	16
Global total	573	100

2014 KOREAN IMPORTS

Top import source	Imports (US\$ billions)	% of total Korean imports
1 TPP-12	168	32
2 China	90	17
3 EU	62	12
4 Saudi Arabia	37	7
5 Qatar	26	5
6 Kuwait	17	3
7 UAE	16	3
8 Taiwan	16	3
9 Russia	16	3
10 Indonesia	12	2
Subtotal	459	87
Rest of world	66	13
Global total	526	100

Source: Korea International Trade Association (KITA).

Why the TPP is Important for Korea

- First, many of Korea's FTAs in force with TPP countries are less comprehensive than the TPP and contain more exceptions.
- Second, TPP would align trading rules across Korea's FTA partners, lowering transactions costs and strengthening global value chains.
- Third, TPP would yield an FTA with Japan, after years of failed bilateral efforts.

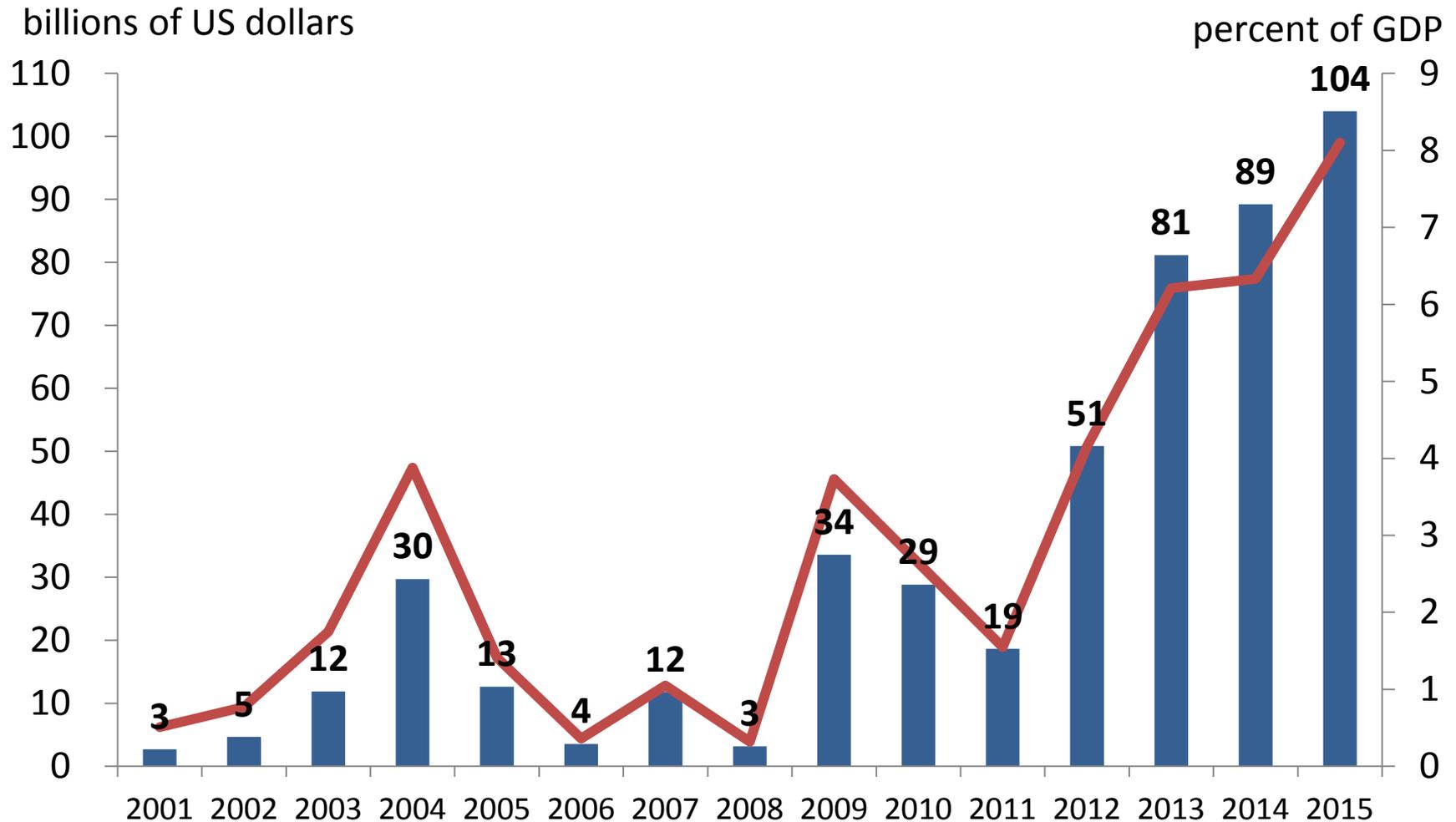
Consequences of Delaying Entry (1)

- Delay in TPP participation means less leverage for Korean negotiators:
 1. Japan could delay accession until it is satisfied with Korea's market access offer.
 2. Korea will have to meet TPP rules and reforms largely set by the US/Japan in politically sensitive areas like autos.
 3. Korea will have less leverage in avoiding additional agricultural liberalization, especially if Japan increases its rice quota.

Consequences of Delaying Entry (2)

4. KORUS FTA implementation would receive close scrutiny by Congress before TPP accession talks could begin.
5. In TPP accession negotiations, Korean negotiators could face demands to broaden Korean reforms beyond those covered by KORUS.
6. Provisions on currency policies added to TPA and complementary US trade legislation could focus attention on Korean exchange rate policies.

Korea's current account balance



Note: Data for 2014 are a preliminary estimate. Data for 2015 are annualized based on the first two quarters.

Source: Bank of Korea.

TPP Timetable and Korea's Entry

- Korea likely would be at the top of the queue of potential new TPP members but can only start the accession process once the pact enters into force – possibly 2017 or later.
- TPP final provisions will spell out how and when other countries can accede – likely similar to WTO precedents.
- TPP members could negotiate with Korea alone or group it with other prospective members in a second tranche of negotiations. Wildcard: what if China asks to join?
- In sum, Korea will be welcome to join TPP in the next few years, but it will be in a less favorable position in negotiating terms of entry.