



Should Korea Join the Trans-Pacific Partnership?

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The negotiation of the Trans-Pacific Partnership (TPP), a mega-regional agreement to lower barriers to trade and investment and promote economic integration in the Asia-Pacific region, has been a dynamic process with a number of countries joining the talks in midstream.¹ Since negotiations began in March 2010, participation in the TPP talks has expanded several times to include Malaysia (October 2010), Vietnam (December 2010), Canada and Mexico (October 2012), and Japan (July 2013). In November 2013, Korea announced its interest in participating in the TPP and began consulting with the countries involved. The TPP now has 12 participants. Korea is still considering whether to become lucky 13.

Participating in the TPP would represent the culmination of 15 years of Korean negotiations of free trade agreements (FTAs) with its major trading partners. Korea now has nine FTAs in effect, covering 26 percent of its total trade, including the most recent comprehensive deals with the United States and the European Union, which have essentially set the “gold standard” for global trade pacts. Participation in the TPP would complement a number of trade initiatives that Korea is now concurrently pursuing, foremost of which are the Korea-China

1. The US decision to participate in the TPP dates to September 2008 during the Bush administration. The actual negotiations were put on hold due to the then growing global financial crisis.

FTA, the trilateral China-Japan-Korea FTA, and the Regional Comprehensive Economic Partnership (RCEP). If successful, these pacts would establish important precedents for economic integration in the Asia-Pacific region. Indeed, a stated goal of Korea’s trade policy for the next decade is to play an active role in promoting regional integration and serve as a “linchpin” between the TPP and the RCEP (Myoung et al. 2014). To achieve this, participation in the TPP would be a natural and invaluable part of the process.

This paper assesses Korea’s objectives and prospects for joining the TPP and reviews potential pathways for moving forward. First, we examine Korea’s trade and investment relations with the TPP-12 countries to set the context for assessing the benefits from further engagement. Korea already has strong trade ties with the countries involved in the TPP talks as well as bilateral FTAs with many of them, though none match the comprehensive coverage, reform commitments, and scope of the Korea-US,

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or KORUS, FTA. Second, we review Korea’s trade negotiating policy, which encompasses initiatives with its major trading partners. As we will argue, the TPP would update, complement, and expand the scope of Korea’s trade relations. Third, we assess the potential gains from participation in the TPP in terms of helping achieve Korea’s economic and strategic objectives. Fourth, since Korean participation must be approved by all TPP countries, we also look at two key areas that will strongly influence the US decision to support Korean entry: its implementation of the KORUS FTA and the prospective reauthorization of US trade promotion authority (TPA). Finally, and importantly, we assess Korea’s options for participating in the TPP, specifically: (1) ask to join the TPP negotiations immediately before the talks close; (2) ask to join the TPP in 2015 or 2016 during the period between signing and entry into force of the pact; and (3) accede to the TPP after the agreement is in force.

In weighing the advantages and challenges of participating in the TPP, we find a strong case for Korea to act promptly. Korean officials recognize that—sooner or later—Korea will need to be part of the TPP. In essence, Korean negotiators already have been important architects of the emerging agreement; many of the TPP provisions draw heavily on KORUS FTA precedents. And as Korean Trade Minister Taeho Bark observed in 2012, were Korea to join the TPP and pursue concurrent FTA talks with China, it would be well positioned to bridge Asia-Pacific and intra-Asian regionalism into an overarching Free Trade Area of the Asia-Pacific (FTAAP).²

KOREA'S TRADE TIES WITH TPP COUNTRIES

Korea already has strong trade and investment ties with the countries involved in the TPP talks. In 2013, the TPP-12 accounted for about one-third of Korea's total two-way merchandise trade with the world, or about 33 percent of Korean global imports and 32 percent of Korean global exports (table 1). This volume is largely driven by Korea's two-way trade with Japan and the United States. However, while trade with these countries has expanded over the past decade, its relative importance in terms of the share of Korean global trade has steadily declined (see table 2). The primary reason is the growing importance of economic ties with China.

Korea-China bilateral trade has expanded dramatically since 2000: The Chinese share of Korean global two-way trade rose from 9 percent in 2000 to about 21 percent in 2013. Over the same time period, the relative shares of the United States and Japan saw the inverse trend, dropping from 20 percent to 10 percent and 16 percent to 9 percent, respectively. In absolute terms, US-Korea trade growth has been flat since 2011, while Korea-Japan merchandise trade has declined and was down 10 percent from 2013 levels in the first half of 2014.³

In 2000, the United States was Korea's top trading partner, and Korean trade with the United States was more than twice as much as with China. By 2013, China was Korea's number one trading partner, and Korea-China trade had risen seven-fold—from \$31 billion to \$229 billion—larger in value than Korean trade with the United States and Japan combined. Between 2000–2013, Korean annual growth in exports to China averaged about 18 percent, while export growth to the United States

and Japan has been significantly slower, namely 5 percent and 6 percent, respectively. Korea continues to run a large trade surplus with China and the United States but a deficit with Japan and the European Union. These trends reinforced Korea's previous pursuit of the KORUS FTA and now the Korea-China FTA.

Collectively, the TPP countries account for 34 percent of Korea's total outward foreign direct investment (FDI) and 53 percent of Korea's total inward FDI (table 3). Not surprisingly, Korea's investment with the TPP-12 countries is dominated by Japan and the United States. Of the TPP countries, the United States is the most important destination by far for Korean FDI, accounting for \$35 billion, or 50 percent of total Korean direct investment in the TPP-12 countries. However, Korean investment in China continues to outpace Korean FDI in the United States, with China accounting for \$51 billion, about a quarter of the Korean global total. The European Union ranks third behind China and the United States as a destination for Korean FDI. By contrast, the European Union is the largest source of Korean inward FDI, accounting for \$61 billion or 39 percent of total FDI stock in Korea, while Chinese investment in Korea is minimal, namely \$2 billion, on par with Malaysia and Australia. Of the TPP-12 countries, Japan and the United States together account for 46 percent of global FDI stock in Korea.

Given these trade and investment linkages, it is not surprising that Korea has already established formal ties with each of the TPP-12 countries, either through conclusion of an FTA or through current engagement in trade talks (table 1). Specifically, as of July 2014, Korea had trade agreements in force with seven of the TPP countries: Korea has negotiated bilateral agreements with Chile, Peru, Singapore, and the United States, while three others (Brunei, Malaysia, and Vietnam) are covered by the Korea-ASEAN agreement. Trade pacts with Australia and Canada were concluded in late 2013 and early 2014 respectively, and the Australia deal was formally signed in April 2014. Korea has also pursued trade talks with the remaining TPP countries, namely Japan, Mexico, and New Zealand. Bilateral negotiations with Japan started in December 2003 but stalled in December 2004; those with Mexico await resumption and those with New Zealand just resumed recently after a long period of inactivity.⁴

Importantly, the TPP offers an opportunity to revitalize bilateral trade talks with Japan in a more conducive regional

2. Korean Trade Minister Taeho Bark, "The KORUS FTA, Korea's FTA Policy, and the Dynamics of East Asian Economic Integration," presentation at the Peterson Institute for International Economics, May 16, 2012.

3. Hwang Hyung-gyu, Noh Young-woo, and Kim Yoo-tae, "S. Korea-Japan ties turning sour in economy," *MK Business News*, August 13, 2014, <http://news.mk.co.kr/english/newsRead.php?sc=30800001&cm=Top%20Story&year=2014&no=1094470&relatedcode=&mc=> (accessed on August 18, 2014).

4. Talks with New Zealand have proceeded slowly and concessions over agricultural goods remain the primary sticking point. A recent press release from the Korean government broadly notes the limited progress in the run up to the seventh round of negotiations in June 2014. See "The Results of the Korea–New Zealand FTA Intersessional Meeting," press release, Korean Ministry of Trade, Industry, and Energy, May 9, 2014, www.motie.go.kr/language/eng/news/news_view.jsp?tableNm=E_01_01&seq=1246 (accessed on July 7, 2014).

Table 1 Existing free trade agreements (FTAs) between Korea and TPP participants, 2013 (billions of US dollars)

TPP-12 partner country	FTA status	Korea	Korea	Total trade (exports + imports)
		merchandise imports	merchandise exports	
Australia	B	20.8	9.6	30.3
Brunei ¹	A	1.9	0.1	2.0
Canada	B	4.7	5.2	9.9
Chile	A	4.7	2.5	7.1
Japan ²	C	60.0	34.7	94.7
Malaysia ¹	A	11.1	8.6	19.7
Mexico	D	2.3	9.7	12.0
New Zealand	C	1.4	1.5	2.9
Peru	A	2.0	1.4	3.4
Singapore	A	10.4	22.3	32.7
United States	A	41.8	62.3	104.1
Vietnam ¹	A	7.2	21.1	28.3
Subtotal TPP-12		168.2	178.9	347.1
Total Korea global trade		515.6	559.6	1,075.2
TPP-12 as a percent of global trade		32.6	32.0	32.3

ASEAN = Association of Southeast Asian Nations; FDI = foreign direct investment; TPP = Trans-Pacific Partnership; A = in effect; B = concluded or signed; C = under negotiation; D = suspended

1. Trade pact through the Korea-ASEAN FTA.

2. The Korea-Japan bilateral talks were suspended in December 2004, but preparatory consultations resumed in 2008. New trade talks began in 2012 under the trilateral China-Japan-Korea FTA negotiations.

Sources: UN Comtrade database, <http://comtrade.un.org/>; Korean Ministry of Foreign Affairs, "FTA Status of ROK," www.mofa.go.kr/ENG/policy/fta/status/overview/index.jsp?menu=m_20_80_10.

Table 2 Korea's leading trading partners, 2000–2013 (billions of US dollars)

Country	2000			2006			2013		
	Exports	Imports	Share of total two-way trade (percent)	Exports	Imports	Share of total two-way trade (percent)	Exports	Imports	Share of total two-way trade (percent)
United States	37.8	29.3	20	43.3	33.8	12	62.3	41.8	10
European Union	24.9	16.2	12	49.3	30.2	13	49.0	56.2	10
Japan	20.5	31.8	16	26.5	51.9	12	34.7	60.0	9
China	18.5	12.8	9	69.5	48.6	19	145.9	83.1	21
World total	172.3	160.5	100	325.5	309.4	100	559.6	515.6	100

Note: Two-way trade defined as exports plus imports.

Source: UN Comtrade database, <http://comtrade.un.org/>.

context. Among the TPP countries, Japan remains Korea's largest source of imports and second largest export market after the United States. Korea-Japan trade talks were suspended in December 2004 after six rounds, but preparatory consultations resumed in 2008.

For both countries, the primary sticking point is the politically sensitive issue of liberalization of the agricultural sector.

Further, the public's concern over Korea's persistent bilateral trade deficit with Japan and the increased competition anticipated in specific sectors like autos contribute to domestic opposition to a deal. Finally, and importantly, the bilateral trade talks have been overshadowed by tensions over noneconomic issues rooted in historical conflict.

Notwithstanding these problems, new trade talks com-

Table 3 Korea's foreign direct investment (FDI) stock in TPP countries, European Union, and China, 2012 (billions of US dollars)

Trading partner	Outward FDI stock	Inward FDI stock
Australia	6.3	1.6
Brunei	0.0	0.0
Canada	6.0	0.9
Chile	0.2	0.0
Japan	3.7	41.8
Malaysia	4.4	2.2
Mexico	1.3	0.1
New Zealand	0.1	0.0
Peru	0.8	0.0
Singapore	4.4	5.7
United States	34.5	29.8
Vietnam	7.2	0.0
Subtotal TPP-12	68.8	82.3
China	50.6	2.0
European Union	27.4	60.5
Total Korea global	202.8	156.1
TPP-12 as a percent of global	33.9	52.7
China as percent of global	24.9	1.3
European Union as percent of global	13.5	38.8

TPP = Trans-Pacific Partnership

Note: A zero signifies less than \$20 million in value.

Source: Organization for Economic Cooperation and Development, OECD.StatExtracts, FDI positions by partner country, <http://stats.oecd.org/>.

menced in 2012 under the umbrella of the trilateral China-Japan-Korea (CJK) FTA negotiations, which held its fifth round in July 2014. But talks are still in early stages. Whether the three countries will be able to bridge a history of political frictions and undertake meaningful liberalization commitments is uncertain. In contrast, the TPP would provide a complementary and faster path for achieving deeper bilateral integration. Designing reciprocal concessions with Japan via the TPP could offer a less politically contentious route for Korea and perhaps even serve as a stepping stone toward a comprehensive trade pact among the Northeast Asian countries.

KOREA'S NEGOTIATING OPTIONS

The network of bilateral and regional FTAs in the Asia-Pacific has expanded dramatically over the past decade. Korea has been an increasingly active player in many of these initiatives: Korea has concluded talks with Turkey (2013), Australia (2013), and Canada (2014); revived long-stalled bilateral talks with New

Zealand; and launched separate bilateral negotiations with Indonesia and Vietnam to expand existing commitments in the Korea-ASEAN pact signed in 2005. Currently, Korea's top negotiating priority is to conclude the Korea-China talks, which launched in May 2012.⁵

Korea's objectives in pursuing an expansive network of FTAs are straightforward: to facilitate access to new markets, attract new foreign direct investment in Korean industry and services, and improve Korean competitiveness via domestic reforms spurred by FTA obligations. Korea's trade policy goals were recently amplified in its 2013 New Trade Roadmap, which was designed to "manage rapid changes in [the] international trade environment, including the mega-FTAs, the rise of emerging economies, and the spread of protectionism" (Myoung et al. 2014, 2). Specifically, through trade agreements with both the United States and China, Korea could help bridge both intra-Asian (RCEP) and Asia-Pacific (TPP) economic integration. With these overarching goals in mind, we outline Korea's trade negotiating policy with the view that the TPP would play an important, complementary role in Korea's overall trade agenda.

KOREA AND THE MEGAREGIONALS: TPP, RCEP, AND CJK

The megaregionals now proliferating across the Asia-Pacific region—the TPP, the RCEP, and the CJK trilateral pact—are all comprehensive in their coverage of trade and investment issues but differ widely on their ambitions regarding the depth of negotiated reforms. That said, these megaregionals are essentially complementary and mutually reinforcing. If successful, each in its own way will provide impetus for broader Asia-Pacific economic integration. As such, Korea has a large stake in the outcomes of all of these initiatives.

Korea has been analyzing the merits of joining the TPP since talks launched in 2010. Of course its first priority was to secure the ratification and implementation of the KORUS FTA, an overly prolonged process that was not finalized until the TPP talks passed their second birthday. Soon after, in May

5. Indeed, the Seoul summit declaration in July 2014 issued by Korean President Park Geun-hye and Chinese President Xi Jinping called for completion of their bilateral trade pact by the end of 2014. See Kim Seon-gul and Shin Hyun-gyu, "S. Korea, China leaders jointly declare commitment to sealing FTA within the year," *MK Business News*, July 3, 2014, <http://news.mk.co.kr/english/newsRead.php?sc=30800001&cm=Top%20Story&year=2014&no=954960&relatedcode=&mc=> (accessed on July 8, 2014). In the talks, Korean negotiators have been trying to get China to undertake reform commitments closer to KORUS FTA standards than it has in previous Chinese pacts—or that it is likely to be required to undertake in the RCEP. That said, there is concern that pushing to close the deal in the near-term may result in watered-down ambitions.

2012, then Korean Trade Minister Taeho Bark observed that the TPP merited closer analysis.⁶ In mid-2013, the Korea Institute for International Economic Policy (KIEP) published a paper assessing how Japan's participation in the TPP could affect Korea (Kim 2013). KIEP concurrently released its first study quantifying the gains to the Korean economy of joining TPP.⁷ Then in November 2013, Deputy Prime Minister Hyun Oh-Seok announced Korea's prospective interest in joining the TPP and willingness to consult with the TPP countries to determine the feasibility of doing so. These consultations have advanced with all 12 countries. Judging by the time it took between when Japan expressed interest in the TPP during the Asia-Pacific Economic Cooperation (APEC) leaders meeting in Honolulu in November 2011 and when it asked to join the talks in March 2013, one would expect Korea to decide in the coming months whether to participate in the TPP.

The TPP aims to develop a 21st century rulebook for trade that goes beyond current WTO obligations....

Concurrently, Korea is pursuing the RCEP, which aims to deepen regional integration between the Association of Southeast Asian Nations (ASEAN) and its FTA partners Australia, China, India, Korea, Japan, and New Zealand (or ASEAN plus 6). The talks were announced in November 2012 on the sidelines of the East Asian Summit (EAS) forum, with the first round held in May 2013. The RCEP, representing the culmination of years of intraregional integration efforts, was primarily conceived to reconcile two competing proposals for regional integration, namely the East Asian Free Trade Agreement (EAFTA), which was premised on participation of ASEAN plus 3 (China, Japan, and Korea), and the Comprehensive Economic Partnership of East Asia (CEPEA), which extended the "plus 3" to a "plus 6" with the addition of Australia, India, and New Zealand (see Hamanaka 2014).⁸ By design, the RCEP is "ASEAN-centric."

The TPP and RCEP initiatives are significant in that they cover a large number of countries that account for a substantial

share of world output and exports. Both involve more than half of the APEC membership, and the number of countries participating in both the TPP and RCEP negotiations is growing. Similar negotiating agendas and overlapping membership of the two megaregionals suggest they are complementary, but several features distinguish the two initiatives in important ways, with important implications for Korea and its prospective participation in the TPP.

First, the megaregionals have different time horizons for completing the negotiations. The TPP talks are on a faster track, and an agreement could be signed by mid-2015. By contrast, the RCEP talks are still in the early stages of a multiyear negotiation. Accommodating the least developed economies in ASEAN, and avoiding delays provoked by current footdraggers to trade liberalization like India, will be a stiff test for the RCEP negotiations and likely result in the talks extending well beyond the targeted completion date of the end of 2015.

Second, and more problematic, the TPP deal is likely to be much more substantial in terms of the depth of prospective trade liberalization and rule-making obligations compared to the RCEP. The TPP aims to develop a 21st century rulebook for trade that goes beyond current WTO obligations in important areas like labor, environment, intellectual property, investment and competition policy, and disciplines on state-owned enterprises (SOEs), with enforcement of most obligations covered by binding dispute settlement procedures similar to those in the KORUS FTA.⁹ Though the RCEP also aims to expand the liberalization commitments contained in existing ASEAN-plus-one FTAs, it is less ambitious regarding the depth of reforms, allows far more exemptions for sensitive products and for broad development considerations, and provides more consultative rather than binding dispute resolution procedures.¹⁰ In the near term, the RCEP will have two key outcomes: (1) accelerating progress on the ASEAN Economic Community (for detail see Fukunaga and Isono 2013), and (2) providing China a platform to continue incremental reforms that improve readiness to join more comprehensive regional and global pacts moving forward.

The megaregionals already are providing a strong impetus for broader Asia-Pacific economic integration—witness the priority given this year during China-led APEC discussions to making progress toward an FTAAP. Indeed, the overlapping membership of the TPP and the RCEP could promote the convergence of the two pacts toward this end. To date, seven of the 16 RCEP countries are also negotiating the TPP. In addi-

6. Korean Trade Minister Taeho Bark, "The KORUS FTA, Korea's FTA Policy, and the Dynamics of East Asian Economic Integration," presentation at the Peterson Institute for International Economics, May 16, 2012.

7. A revised analysis was released in April 2014 that found joining TPP would boost Korean GDP by 1.7 to 1.8 percent in the next 10 years. See "Korean Studies Predict Modest GDP Boost With TPP Entry, Varied Sectoral Impact," *Inside US Trade*, September 12, 2014, www.insidetrade.com (accessed on September 12, 2014).

8. Japan was a primary advocate for the broadened membership, widely interpreted as a means to deter China's leadership of the initiative.

9. For a more in-depth discussion see Schott, Kotschwar, and Muir (2013).

10. For the text of the "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership," see www10.iadb.org/intal/intalcdi/PE/CM%202013/11581.pdf.

tion to Korea, three other RCEP countries, namely Indonesia, the Philippines, and Thailand, are performing “due diligence” on the TPP to assess the potential benefits and domestic policy adjustments that would be required if they join in the coming years. It is thus quite possible that 11 of the 16 RCEP countries could be engaged in the TPP before the end of this decade. In that event, the expanding TPP could become the main pathway toward an FTAAP.¹¹

That said, restrictions on participation in each megaregional still pose problems for the broader application of the pact to the entire APEC membership: The TPP is limited to APEC countries, while the RCEP is limited to ASEAN FTA partners.¹² In practice, these membership restrictions etched into the foundations of the pacts will need to be overcome if the FTAAP, as broadly envisioned, is to build on these initiatives. And perhaps more importantly, the substantial gaps in the quality of the two agreements will need to be narrowed so that they more closely approximate KORUS FTA standards.

The TPP and the RCEP are broader regional initiatives, but the CJK trilateral talks are an important intermediary component linking the Northeast Asian economies. These talks launched in March 2013 and entered their fourth round in March 2014. Korea has long been interested in pursuing a Northeast Asian FTA linking it with China and Japan. Initial efforts more than a decade ago failed, prompting Korea to adopt an incremental strategy for integrating with its neighbors. First, it tried to negotiate a Korea-Japan bilateral pact, which launched in late 2003 and was suspended the following year. Second, Korea sought to achieve a trilateral deal through regional initiatives like the ASEAN-plus-3 talks, which evolved into the ASEAN plus 6 and subsequently the RCEP. At the same time, CJK officials conducted studies of a possible deal and successfully completed a CJK investment pact, which was signed in May 2012.¹³ Subsequently, the three countries launched the CJK trade negotiations.

Although a trilateral trade pact among these countries would comprise obligations less comprehensive than those negotiated in the KORUS FTA for example, these initiatives could produce a deal that substantially narrows the gap between the quality of China’s commitments in its previous FTAs and the gold standard of the KORUS FTA. That said, the talks have proceeded in a workman-like fashion with headwinds from bilat-

eral political frictions between China and Japan and between Korea and Japan—which is the primary reason why the Korea-China FTA talks have effectively leapfrogged the trilateral talks. Indeed, significant skepticism remains as to whether the three countries will be able to bridge their differences and undertake meaningful commitments in a comprehensive deal. In contrast, megaregionals could help circumvent or mitigate political frictions that are more sensitive in direct bilateral talks.¹⁴

We conclude this section with an important and related issue. Korea’s pursuit of bilateral and regional trade pacts over multinational trade negotiations has been the central focus of Korean trade strategy in recent years. Indeed, from early on in the Doha Round, Korea diverted resources away from the WTO talks and into its increasingly active FTA agenda, in large part as a reaction to intensified competition from China, but also, in line with many other countries, as a reaction to the prevailing stagnation of broader Doha talks (see Schott 2011). That said, Korea is part of a subset of WTO members currently pursuing plurilateral agreements that seek to advance new obligations in WTO-plus areas.¹⁵ Specifically, Korea is a participant in several major initiatives, including the Trade in Services Agreement (TISA) (which launched in early 2012), expansion of the Information Technology Agreement (ITA) (which has proceeded in fits and starts since 2012), and the Environmental Goods (EG) agreement (which recently launched in 2014). The substance and timetable of these plurilaterals is more aligned with the TPP than the RCEP. We briefly mention these plurilaterals here as they serve as an important indication that Korea continues (1) to build on its previous commitments within comprehensive deals with the United States and the European Union; and (2) to play an active role in advancing sectoral initiatives that could help revive and maintain the relevance of the WTO.

WHY JOIN THE TPP?

The TPP is widely recognized as the most substantial trade agreement under negotiation in the Asia-Pacific region in terms of its economic footprint, depth of prospective trade liberalization, and scope of rule-making obligations. Increasingly, more and more countries are looking into the benefits and adjust-

11. China also has expressed interest in TPP negotiations. If it joined in the future, the TPP clearly would be the model for the FTAAP.

12. Currently not all APEC countries participate in the two megaregionals, while several non-APEC members are also involved. All 12 TPP countries are APEC members; four of the 16 RCEP countries (India, Cambodia, Laos, and Myanmar) are not in APEC.

13. The trilateral investment pact entered into force in May 2014.

14. Indeed, for this reason, China may prefer to deal with Japan and the United States in the Asia-Pacific regional context via the TPP. Bergsten, Hufbauer, and Miner (2014 forthcoming) reach the same conclusion in their comprehensive analysis of US-China economic relations.

15. Plurilaterals follow two models: (1) In some cases, the agreements will extend unconditional most favored nation (MFN) rights either to all WTO members or to the least developed members, if agreement members account for a high percentage of world trade in the concerned sector; (2) in other cases, the agreements will condition the extension of rights on the acceptance of the agreement’s specified obligations.

ment demands of gradually adopting TPP norms. The rationale is straightforward: Adopting the TPP's "high standards" would complement and promote domestic economic reforms and help boost productivity growth across the economy—which in turn would create new opportunities for trade and investment while improving the quality of economic institutions and governance. As such, the TPP currently offers the most likely pathway toward a greater free trade area in the region.

At the same time, TPP disciplines would also impose binding constraints on specific policies, often favored by politicians, that protect domestic firms and restrict import competition. The TPP obligations would constrain such industrial measures that discriminate against foreign suppliers and investors, including via government procurement preferences. In addition, the TPP likely will require effective implementation and enforcement of international obligations in areas such as labor, environment, intellectual property rights, and competition policy.

[Korea] would face a limited-cost entry, since it is already pursuing many of the policy reforms likely to be required by the TPP as it implements its trade pacts with the United States and the European Union.

These TPP provisions have created challenges for prospective members. But in Korea's case, it would face a limited-cost entry, since it is already pursuing many of the policy reforms likely to be required by the TPP as it implements its trade pacts with the United States and the European Union.¹⁶ That said, there are some areas in the TPP that are KORUS FTA-plus and not covered in-depth by Korea's trade pacts, such as provisions on SOEs, supply chains, and small and medium-sized enterprises (SMEs), as well as areas that entail additional commitments, such as the environment. To be sure, participating in the TPP means Korea would also need to revisit sensitive issues, such as investor-state dispute settlement and agricultural trade reforms that have been the subject of intense public debate during the ratification of recent FTAs. Regarding the latter, the ongoing TPP discussions between the United States and Japan on agriculture will be instructive. But overall, Korea is unlikely to face demands to improve market access that go significantly beyond what it already has undertaken in its existing pacts.

16. In regards to the implementation of the KORUS FTA, Korea and the United States are expected to resolve a number of outstanding issues, as Korea assesses its prospects for joining the TPP and as the United States considers supporting Korea's bid to join. We discuss these issues in more detail in a later section.

KOREA'S GAINS FROM JOINING THE TPP

For both economic and geopolitical reasons, Korea has much to gain by participating in the TPP and helping to shape the process of Asia-Pacific economic integration.

First, even though Korea has an extensive network of trade ties with the TPP-12 countries, participation in the TPP would upgrade and augment existing pacts and yield substantial new opportunities for trade and investment. The TPP will allow Korea to deepen existing FTAs with countries in the Asia-Pacific region and secure new arrangements with others. To a large extent, the TPP would extend the KORUS FTA provisions to new FTA partners where bilateral talks have lagged in recent years (New Zealand) or stalled (Japan and Mexico). And as stressed before, Korean entry would help revive stalled talks with Japan.

Similarly, the TPP would also expand the scope and economic value of trade deals previously concluded with Chile, Peru, and ASEAN. Indeed, Korea would benefit from upgrading its trade pacts to more rigorous standards, in particular its deals with Malaysia and Vietnam. A comparative analysis of Asia-Pacific agreements shows that United States agreements generally "score" higher, in terms of coverage and enforceability, compared to intra-Asian trade pacts built on the ASEAN model of issues like investment, government procurement, intellectual property rights, and competition policy (see Petri, Plummer, and Zhai 2012). The TPP rulebook will include new disciplines on issues including SOEs, competition policy, environment, and labor that either build on existing WTO commitments and FTA obligations or break new ground in terms of coverage of FTA commitments. In other words, the "additionality" of TPP provisions will come from WTO-plus obligations in areas not yet subject to WTO disciplines, FTA-plus provisions that augment existing FTA commitments, and development provisions to assist in enhancing human capital, technology transfer, capacity building, and support for SMEs (Schott, Kotschwar, and Muir 2013).

The "plus" provisions will focus mainly on new issues that affect businesses and consumers. For example, the prevalence of SOEs in the economies of several TPP participants has prompted negotiators to focus on crafting new rules to "level the playing field" between private firms and SOEs, including new disciplines on the provision of public funds. The objective is not forced privatization but rather ensuring competitive neutrality between public and private firms in access to finance, factors of production, and distribution of goods and services in the marketplace. Even the KORUS FTA would be enhanced by the TPP in handling issues like SOEs.

Second, Korea stands to realize substantial economic gains from participating in the TPP. Trade and investment liberalization and domestic economic reforms required by TPP obligations would create important new export opportunities, encourage

Table 4 Korea: Potential income and trade effects of TPP

Agreement	2025	
	Billions 2007 dollars	Percent share
Income		
TPP-12	-2.8	-0.1
TPP-13	45.8	2.2
TPP-16	50.2	2.4
TPP-17	136.3	6.4
RCEP	82.0	3.9
Exports		
TPP-12	-7.0	-1.0
TPP-13	88.7	12.4
TPP-16	94.5	13.2
TPP-17	264.1	36.8
RCEP	173.6	24.2

TPP = Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic Partnership

Notes: TPP-13 is a scenario including Korea. TPP-16 is a scenario including Indonesia, Korea, the Philippines, and Thailand. TPP-17 is a scenario including China. RCEP involves the 10 ASEAN countries plus 6 (Australia, China, India, Japan, Korea, New Zealand).

Sources: Petri, Peter A., Michael G. Plummer, and Fan Zhai (2013) and (2014, http://asiapacifictrade.org/?page_id=106).

inflows of foreign direct investment, and spur improvements in the quality of economic institutions and economic governance. Importantly, the TPP would promote more competition and investment in services, which in turn would spur productivity growth across the economy. Based on the computable general equilibrium (CGE) estimates of Petri, Plummer, and Zhai (2013), in the current TPP-12 scenario in which Korea is not a member, Korea would suffer a small amount of trade diversion from being outside the TPP integration area, generating about \$3 billion annually in income losses and \$7 billion annually in lower exports (see table 4).¹⁷ In contrast, if Korea joined the pact to create a TPP-13, its losses would turn into significant annual income and export gains of \$46 billion and \$89 billion, respectively, or 2.2 percent and 12.4 percent once the deal is fully implemented. In large measure, these significant gains derive from the impact of closer integration with Japan, though Korea would also gain from increased trade with Vietnam, Mexico, and Malaysia. Adding new members in coming years would yield small additional benefits for Korea; for example, a

17. For more detail on methodology, see the Asia-Pacific trade website at http://asiapacifictrade.org/?page_id=106.

TPP-16 scenario based on the membership of other countries currently considering the TPP—Indonesia, the Philippines, and Thailand—would augment the TPP-13 income and trade gains by less than 1 percent.

Thus, perhaps not surprisingly, a main source of Korea's gains from participating in the TPP is the de facto bilateral deal with Japan. Earlier studies have assessed the stand-alone gains from a Korea-Japan bilateral FTA: Prior to the launch of the bilateral talks in 2003, the Korea Institute for International Economic Policy (KIEP) and Japan's Institute for Developing Economies (IDE) assessed the impact of a deal based on tariff liberalization. Though their results differ, the estimated gains or losses for Korea were minimal in relative terms.¹⁸ Cheong (2005) uses CGE modeling to update these analyses and better capture the dynamic effects of a bilateral deal. He estimates Korean GDP gains ranging from 0.2 to 0.3 percent in the short term and 0.8 to 1.9 percent in the long term. Moreover, Korea's trade balance was estimated to improve by \$5 billion to \$10 billion depending on the scenario. The gains for Korea from the TPP estimated by Petri, Plummer, and Zhai (2013) are substantially larger than earlier estimates of a stand-alone Korea-Japan FTA, primarily for two reasons—different modeling assumptions and different and broader expectations of the coverage of the trade reforms.

In short, the TPP is much more valuable to Korea (and the United States) because Japan is part of the deal. If Japan had not joined the TPP talks, the negative impact of staying out of the TPP would have been much smaller and the potential gains of joining smaller as well. Indeed, in a TPP-11 scenario not involving Japan, Korea would lose an estimated \$0.4 billion in income (compared to \$2.8 billion with Japan's membership) and \$2.4 billion in exports (compared to \$7.0 billion with Japan's membership) (Petri, Plummer, and Zhai 2013).

To be sure, compared to the TPP, the RCEP could yield even larger gains for Korea because the RCEP countries generally maintain higher levels of protection than the TPP average. But much depends on whether the talks conclude on a timely basis and meet their more muted liberalization objectives. The results will also depend on ambitious outcomes coming out of the RCEP talks.¹⁹ The gains specific to Korea would translate to \$82

18. For a summary, see Cheong (2005). KIEP estimated that a bilateral deal would entail GDP losses of -0.07 percent for Korea, while IDE estimated GDP gains of 0.06 percent for Korea. Both studies found that Korea's trade balance would worsen.

19. As Petri (2013, 345–46) explains, “the RCEP scenario of this simulation is optimistic. It includes a comprehensive agreement among China-India-Japan-Korea, which will not be easy to achieve. It also includes an FTA agreement between Korea and China, which Korea is likely to achieve even without RCEP through its direct bilateral negotiations with China. As a result, Korea's incremental benefits from RCEP could be much smaller...indeed smaller than those from the TPP.”

billion in income and \$174 billion in exports, due importantly to improved access to the Chinese market and, to a lesser extent, to increased trade with Japan and India (Petri, Plummer, and Zhai 2013). Unlike a bilateral Korea-Japan deal, which is unlikely to succeed any time soon, the Korea-China FTA is moving ahead and likely to produce results well before the RCEP.

Much of Korea's economic payoff from the RCEP would accrue from completing the Korea-China FTA, which is likely to predate the RCEP by several years. Korean gains from an agreement with China can roughly be extrapolated as the difference between the estimated gains in a TPP-17 including China and a TPP-16 not including China. The difference in gains in these two scenarios, largely attributable to China, is about \$86 billion in GDP and \$170 billion in exports (see table 4). To be sure,

If Japan had not joined the TPP talks, the negative impact of staying out of the TPP would have been much smaller and the potential gains of joining smaller as well.

the Korea-China trade pact is expected to be less comprehensive than the terms of the final TPP deal, and this estimate exaggerates the impact of the bilateral FTA.²⁰ But participating in a TPP-17 including China would produce the largest economic gains by far for Korea. In this scenario, Korea would gain \$136 billion annually in income and \$264 billion annually in exports, or 6 percent and 37 percent respectively over baseline estimates in 2025. While China is not yet ready to undertake the reforms required by the TPP, it has been significantly interested in the pact, and the prospect for Chinese participation in the TPP in the coming years, while uncertain, is not unrealistic.

A third gain from joining the TPP, from a strategic Korean perspective, is that it deepens US engagement in the Asia-Pacific region at a time of political and strategic challenges in Northeast Asia and the region at large. Korea's participation in the TPP would elevate the geopolitical and strategic weight of the deal for the United States. And working together in the TPP for mutual economic benefit will also improve the already strong US-Korea bilateral relationship. As discussed, the TPP also enjoys first mover advantage in terms of setting important precedents for economic integration in the region, and the pact would establish an important pathway toward creating

20. An earlier study by KIEP (Lee et al. 2005) estimates more modest gains under a Korea-China FTA, namely Korean GDP gains would range 2.4 to 3.1 percent and export gains would range 4.7 to 5.4 percent. However, these figures begin from a lower baseline and do not capture trade dynamics in recent years. Kim and Shikher (2014) look more closely at ambitious tariff liberalization in the manufacturing sector as part of an FTA, and estimate gains as large as 56 percent in bilateral manufacturing trade.

an FTAAP linking the economies of the United States, Korea, Japan, China, and other members of APEC. For both economic and geopolitical reasons, Korea has a heavy stake in being an active participant in shaping the direction of the region's economic integration moving forward.

HOW DOES CONGRESS VIEW KOREA'S PARTICIPATION IN THE TPP?

Before considering Korea's options for joining the TPP, it is important to note that several issues playing out in the US Congress have the potential to constrain or facilitate Korea's participation. First, the bilateral consultations between Korea and the United States will be the first step in endorsing Korea's bid to join the TPP. Congress would be unwilling to endorse Korea's participation in the TPP if there are residual implementation issues from previous commitments under the KORUS FTA. Thus, addressing any major bilateral irritants will be key to paving the way for integrating Korea into the TPP. Second, the timing of congressional approval of trade promotion authority (TPA) could affect Korea's calculus about when to join the TPP. We argue that Korea would be well-advised not to wait for the US Congress to authorize TPA, assuming that bilateral issues are substantially resolved.

KORUS FTA IMPLEMENTATION ISSUES

The United States welcomed Korea's interest in joining the TPP after the announcement that Korea would begin to consult with TPP members about its prospective participation. US Trade Representative (USTR) Michael Froman noted that the KORUS FTA "already demonstrates that Korea and the United States share a common approach with regard to certain rules for trade and investment" and that the TPP consultations would gauge "Korea's readiness to meet high standards across the TPP, as well as to address outstanding bilateral issues of concern including full implementation of existing obligations [in the KORUS FTA]."²¹ As Acting Deputy USTR Wendy Cutler noted during remarks in December 2013, all bilateral issues require parallel consultation with both stakeholders and the US Congress, and as such, assessing Korea's readiness is expected to "take a bit of time."²² In this section, we briefly summarize the status of Korea's bilateral consultations with the United States,

21. "Statement by U.S. Trade Representative Michael Froman on Korea's Announcement Regarding the Trans-Pacific Partnership," November 2013, www.ustr.gov/about-us/press-office/press-releases/2013/November/Froman-statement-TPP-Korea (accessed on August 13, 2014).

22. "Korea's Interest in the Trans-Pacific Partnership," remarks by Acting Deputy USTR Wendy Cutler, December 12, 2013, Center for Strategic and International Studies.

as a successful conclusion will be a prerequisite for ensuring US support for Korea's participation in the TPP.

First, in general, Korea should be well prepared to meet TPP standards given its previous high-quality agreements with the United States and the European Union and given that the TPP is very similar to the KORUS FTA. That said, as previously mentioned, there are still a number of areas in the TPP that are KORUS-FTA-plus and not covered in-depth by the agreement.

Regarding the KORUS FTA, Acting Deputy USTR Cutler—who was the chief US negotiator of the pact—noted that, overall, implementation has been good. Bilateral trade has picked up since 2012, and implementation of services and investment commitments has proceeded in incremental stages (for a general overview see Kim et al. 2014). However, several specific issues tied to KORUS FTA implementation are under scrutiny as the United States considers Korea's bid to join the TPP.²³

USTR officials have raised four issues where there are concerns that Korean policies are impeding US trade: (1) Korea's rules of origin procedures, (2) restrictions on the cross-border transfer of financial data, (3) auto emission measures, and (4) organic certification of agricultural products. Three of the four issues raised in the context of the TPP regarding compliance with the KORUS FTA are included in the chapter on Korea of the *2014 National Trade Estimate Report on Foreign Trade Barriers*, which overviews trade and investment barriers facing US goods and services exporters (see USTR 2014). Both sides have reportedly made progress addressing all four issues.

The first concern is that “excessive procedures” used by Korean customs officials to verify the origin of some US goods have made it difficult to qualify for preferential tariffs under the KORUS FTA. In response to US complaints, Korean customs officials have issued positive rulings verifying the origin of a number of US goods, but several cases are still being resolved.²⁴

The second concern relates to compliance with KORUS FTA commitments on financial services and the cross border transfer of data. Before the KORUS FTA, Korea's data privacy rules required US financial institutions to locate servers within Korea's borders and limited data transfer abroad, but since then data breaches by several financial institutions have prompted enactment of several special laws updating Korea's data regulations. These measures seem consistent with the deadline of March 2014 set by the KORUS FTA for policy reforms in this area (Yoon 2014; Kim et al. 2014). However,

23. It is worth noting that these issues are flagged for bilateral resolution regardless of Korea's interest in the TPP.

24. “Korea Moves To Resolve Issues Flagged By U.S. As Hurdles To TPP Entry,” *Inside US Trade*, July 31, 2014, www.insidetrade.com (accessed on August 13, 2014).

these reforms—including the requirement to obtain permission for cross-border data flows from customers whose data was being transferred—have not fully assuaged the United States regarding the procedures for US financial firms to obtain approval for data transfer.²⁵

The third concern deals with Korea's “bonus-malus” system, or incentive-penalty system designed for curtailing auto emissions, which is set to become effective in January 2015.²⁶ The United States is in consultations with Korea to determine the types of vehicles subject to the system and what the emissions penalties entail, ultimately “to ensure that its [Korea's] automotive emissions policies are implemented in a fair, transparent, predictable manner, consistent with the KORUS” (USTR 2014). Korea reportedly plans to work with US officials to minimize the impact of its new system on US auto companies.²⁷

The final issue being discussed is not directly related to the KORUS FTA but involves organic certification of agricultural products. Effective early 2014, Korea planned to cease its recognition of US organic certifications as equivalent to domestic certification. However, Korea implemented a “grace period” to delay the effect on US producers, and in July the two sides reached a mutual recognition agreement that ensures equivalence for organic certification for products entering each other's markets. Clearing these potential bilateral irritants will help pave the way for Korean-US cooperation, as well as tacit approval by the US Congress and other stakeholders, should Korea make an official bid to join the TPP.

SHOULD KOREA WAIT FOR THE US CONGRESS TO REAUTHORIZE TPA?

The TPP deal will almost certainly require changes in existing US law and practice, and US trading partners are understandably concerned about the willingness of Congress to ratify and implement the prospective trade accord in a timely manner. TPA passage is desired but not technically required before the TPP deal closes, but the timing of TPA legislation is inextricably linked to the TPP. On the one hand, with some reservations, US trading partners recognize that it is better to finish the TPP negotiations as quickly as possible, rather than delay

25. For example, the data transfer rule is considered “unduly burdensome due to the frequency and amount of data transfers.” See “Korea Moves To Resolve Issues Flagged By U.S. As Hurdles To TPP Entry,” *Inside US Trade*, July 31, 2014, www.insidetrade.com (accessed on August 13, 2014).

26. Under the system, a new vehicle owner receives a rebate or is charged additional tax depending on the vehicle's emissions, interpreted by US companies as a “penalty” for higher emissions vehicles.

27. “Korea Moves To Resolve Issues Flagged By U.S. As Hurdles To TPP Entry,” *Inside US Trade*, July 31, 2014, www.insidetrade.com (accessed on August 13, 2014).

talks pending congressional action on TPA. That said, the TPP countries are unlikely to begin their domestic ratification procedures until the Congress acts on TPA. They have noted with some concern the political debate, particularly in the House of Representatives, that has called for passage of TPA before finalizing the TPP.²⁸

Since 1974, the US Congress has provided US trade negotiators with authority to conclude trade agreements and implement the required changes in US law through legislation that is considered by Congress on an expedited basis. Such “fast track” procedures involve the prompt consideration of draft legislation that must be voted in a short period of time and cannot be amended. Passage requires only a simple majority of members of the House of Representatives and the Senate, unlike US treaties that require a two-thirds vote of the Senate only.

The TPP countries are unlikely to begin their domestic ratification procedures until the Congress acts on TPA.

Though embedded in legislation, fast track procedures really involve a “gentlemen’s agreement” not to invoke specific House rules that would invalidate TPA limits on debate and amendments. In essence, Congress agrees to move quickly on implementing legislation for new trade agreements, provided that the president and his negotiators pursue the priority negotiating objectives set out in the TPA law and keep members of Congress informed on the status and progress of ongoing negotiations. Of course, not all of the priority objectives need to be reflected in the final text, but Congress implicitly will grade the USTR on how well and how much is accomplished when it votes on the implementing legislation.

Over the past 40 years, presidents have benefited from fast track authority except during the periods July 1994 through July 2002 and July 2007 to the present. Agreements that were signed while TPA was in force have been eligible for such treatment, even if the authority subsequently lapsed. For example, the KORUS FTA was signed on June 30, 2007, just hours before the expiry of TPA and thus benefited from fast track implementing procedures when the KORUS FTA legislation was finally put forward in 2011.

The historical experience with fast track authority yields a few notable observations. First, passage of implementing legisla-

28. In July 2014, Republicans on the House Ways and Means Committee sent a letter to USTR Michael Froman expressing their unwillingness to support the TPP or even an agreement in principle without the previous passage of TPA legislation. See “GOP Ways & Means Members Demand TPA Passage Prior to TPP Conclusion,” *Inside US Trade*, July 17, 2014, www.insidetrade.com (accessed on August 18, 2014).

tion is expeditious once the draft is tabled before the House Ways and Means Committee. But the process of compiling the legislation often is very time consuming, since it essentially involves negotiating the terms of the legislation between officials of the executive branch and the Congress. Presidents have the final say in what is in or out of the implementing legislation but usually compromise with congressional leaders to preempt opposition to the trade pact.²⁹

Second, TPA ensures that implementing legislation will not be amended, but the negotiation of implementing legislation usually yields some alterations in the negotiated agreement. Congress almost always insists on a revision of the terms of the pact before moving forward with the legislation.³⁰

In short, the existence of TPA does not prevent the renegotiation of US FTAs, though it has almost surely constrained the scope of such interventions. It is valuable in setting time limits for congressional debate and votes, *once implementing legislation is tabled*. Congress acts quickly once that is done and approves the fast track legislation.

CURRENT STATUS OF TPA LEGISLATION

In January 2014, Senate Finance Chairman Max Baucus and House Ways and Means Chairman Dave Camp introduced the “Bipartisan Congressional Trade Priorities Act of 2014,” which set out US trade negotiating objectives and reauthorized fast track procedures for eligible trade agreements.³¹ The new TPA legislation was quickly sidetracked by partisan differences regarding (1) the coverage of sensitive issues such as intellectual property, labor, environment, and currency manipulation; and (2) the change in Senate finance leadership when Senator Baucus was appointed US Ambassador to China. Demands to link TPA renewal to trade adjustment assistance have added fuel to the partisan fires.

New TPA legislation is currently under construction and constrained by the upcoming midterm elections in November 2014. Senate Finance Chairman Ron Wyden, who replaced Max Baucus when the longstanding senator was appointed US Ambassador to China, is crafting revisions to the original

29. The only time the president tried to force-feed legislation via the fast track process without prior congressional blessing, the powerful House Rules Committee—prodded by Speaker Nancy Pelosi—voided the TPA procedures for the US-Colombia FTA in April 2008.

30. In the case of the Canada-US FTA, provisions on maritime services were expunged from the pact. More recently, the KORUS FTA was subject to a series of changes, including the negotiation of a supplemental accord on autos in December 2010, before implementing legislation could go forward. For the details of that episode, see Schott (2010).

31. For the complete text of the bill, see www.finance.senate.gov/newsroom/chairman/release/?id=7CD1C188-87F1-4A0B-8856-3FC139121CA9.

Baucus-Camp draft legislation in hopes of attracting additional Democratic support. Senator Wyden's priorities—free and open internet, labor rights, environmental protection, and countering currency manipulation—will surely complicate dealing with Republicans and risks losing as many if not more Republican votes than he gains on the Democratic side.

It is conceivable, but highly unlikely, that TPA legislation could be voted in a lame-duck session of the Congress after the November midterm elections; more likely, a TPA bill will be reissued and vetted early in the new Congress (i.e., February–March 2015). Based on past practice, chances for achieving an outcome during a lame-duck session are slim, because there is very little time to conduct business during this interim period, and the legislative agenda is clogged with all of the unfinished business of the 2-year congressional session.

To additionally complicate matters, the Republicans may gain a majority in the Senate in the election and thus control over the legislative agenda in the next session of Congress. Some pundits even argue that Republican gains in the midterm elections could derail TPA to prevent “giving Obama a legislative victory.” Such villainous conduct is not out of the question. However, the US Chamber of Commerce and US business leaders have voiced strong support for the TPP and TPA, suggesting they will pressure Republicans to act expeditiously and not delay TPA passage for political purposes. Oddly, it is the Senate Democrats and their Majority Leader Harry Reid who seem intent on not giving Obama a legislative victory on TPA in 2014: Reid has blocked consideration of the TPA bill before the November 2014 election.

Given these political crosscurrents, success is most likely in a scenario where TPP-TPA votes proceed in parallel or close tandem. The more Congress knows about the specific terms of the TPP deal, and thus the prospective changes in US law or practice that would be required to comply with TPP obligations, the easier it should be to craft TPA provisions that ensure the final deal is well suited to US interests and worthy of congressional passage. That is why US officials are pushing hard to secure a political commitment on a TPP deal in late 2014, even though final negotiations on the most sensitive issues would need to be resolved in early 2015. Then Congress could weigh the potential economic and strategic benefits of the emerging pact against the political costs of reducing some longstanding US protectionism and tailor TPA provisions accordingly. In turn, US negotiators could use the new congressional mandate to secure the final concessions needed to produce a deal that can be both signed and ratified by all the TPP countries.

Under this scenario, TPA legislation could emerge in the first quarter of 2015, assuming President Obama and congressional leaders give it priority and work closely together on it.

President Obama should do it because the TPP would be a capstone achievement of his presidency; Republicans in Congress should do it because the initiative is in the US interest and strongly supported by US business...and the talks were originally launched by President George W. Bush.

TPP NEGOTIATIONS: IS THERE TIME FOR KOREA TO JOIN?

TPP negotiations are edging toward the goal line. The chief negotiators and trade ministers of the 12 TPP countries have reduced differences substantially during intensive meetings over the past six months, but some politically sensitive problems remain, particularly with regard to agricultural reforms and new rules on intellectual property, environment, and SOEs.

Currently, the major bottleneck in the TPP negotiations involves uncertainty about the extent of agricultural market access in Japan, based upon Japan's demands to insulate five groups of sensitive farm imports (rice, beef and pork, dairy, wheat and barley, and sugar) from full tariff liberalization. Several TPP participants, including the United States, need substantial new export opportunities in Japan for specific agricultural products to ensure domestic political support for the overall TPP deal. The outcome of these talks will certainly have implications for Korean farm interests since Japan's concessions in these areas will set the benchmark.

However, contrary to numerous media reports, bilateral talks between US and Japanese officials in April 2014 in Tokyo did achieve notable progress in balancing the political requirements of Japan and other TPP countries. While details are still being developed, the basic framework of the US-Japan understanding seems to involve the following: (1) Japan will commit to substantial reductions in tariffs on key products but may not fully eliminate all tariffs, (2) the most sensitive products will be subject to unusually long transition periods during which tariffs are phased down or out, and (3) some products may be subject to only limited reform or exempted entirely.

These terms suggest an implicit balance of concessions between US and Japanese farm interests. US officials place priority on opening new access for US exports of pork and beef but have less political pressure to achieve gains on rice. In contrast, rice is the most sensitive product for Japan, so getting flexibility to manage rice programs should help Japanese officials agree to deeper reforms on other products. On dairy, the new US farm bill supplements already distortive US dairy programs, so US officials will likely tread lightly on efforts to open Japan's market to limit their own exposure. The same calculus undoubtedly will discourage applying pressure to reform Canada's supply management policies. Other TPP countries, particularly

New Zealand, will continue to demand greater access to US, Japanese, and Canadian dairy markets.

US and Japanese officials briefed the other TPP countries on the Tokyo talks during the meetings of TPP chief negotiators and trade ministers in mid-May in Vietnam and Singapore, respectively. The progress in US-Japan bilateral talks has been a significant stepping stone for spurring market access talks with the remaining TPP-10 countries and encouraging flexibility for resolving other outstanding issues.³² Indeed, with an understanding about the terms of a “commercially relevant” package of farm reforms, TPP officials can then accelerate ongoing work on crafting “landing zones” for remaining sticking points regarding inter alia rules on intellectual property rights, environment, and SOE disciplines.

The major bottleneck in the TPP negotiations involves uncertainty about the extent of agricultural market access in Japan.

If the negotiators can make progress on the remaining sticking points, there could be a “political handshake” on a deal in the coming months, whereby the TPP countries announce an agreement in principle and commit to iron out remaining differences by, say, mid-2015. Such a scenario is consistent with the commitments by President Obama and other TPP leaders to try to produce a substantial outcome around the time of the APEC leaders’ meeting in November 2014.³³

Given this timetable, Korea could join the negotiations before closure, but the window of opportunity is limited, and current TPP countries have not been enthusiastic about adding a new participant at this late date. The pressure to achieve a timely deal given the remaining challenges on the negotiating table is certainly a major concern of the negotiators. That is why the United States—while supportive of Korean membership in principle—has “stressed that it wants to conclude the TPP with the current 12 participants before considering the addition of any potential new entrants.”³⁴ As Acting Deputy USTR Wendy

Cutler observed as early as December 2013, “It will be very, very difficult for any country, including Korea, to join the ongoing negotiations if you just look at the timetable and the clock.”³⁵ And the talks are now much further advanced than when Cutler made that assessment.

PROSPECTS FOR JOINING THE TPP

Moving forward, several options exist for Korea’s integration into the TPP including: (1) ask to join the TPP immediately before the talks close; (2) ask to join the TPP, if possible between signature and entry into force; and (3) accede to TPP after the agreement goes into effect. In this section we discuss the opportunities and challenges presented by each.

1. Join the TPP immediately before talks close

The first option is straightforward: Ask the TPP-12 to include Korea in the current negotiations. All 12 countries have to approve. In the case of the United States, the approval process would take time because the USTR would first give the US Congress 90 days advance notice before deciding whether to accept Korea in the TPP negotiations. As noted above, USTR officials would not be happy—the beleaguered negotiators of course would prefer to avoid additional complications when they are so close to the finish line. But could they say “no”? Above all, they want a deal that would best meet their economic and strategic objectives, and Korean participation in the deal would increase the benefits on both counts.

Is there time to do so before the talks close and without a significant delay in the conclusion of the talks? In our view, it can be done if: (1) Korea acts promptly, so that it can take a seat at the bargaining table in early 2015; (2) Korea can accept the KORUS FTA-plus provisions that will be substantially completed by late 2014; and (3) Korea and Japan can quickly resolve their bilateral market access problems. The latter is the wild card: Korea and Japan would have to negotiate intensively during the three months reserved for domestic US consultations, so that they could assure the other TPP members that Korea-Japan disputes would not block concluding an overall TPP deal. Otherwise, USTR officials may defer accepting Korean entry until after the deal is signed. If those conditions are met, Korea could participate without causing delays in the endgame negotiations, so that the TPP talks could conclude and the pact be signed by the TPP-13 in mid-2015.

In short, Korean entry before the talks close is possible but requires, above all, agreement on a bilateral market access deal

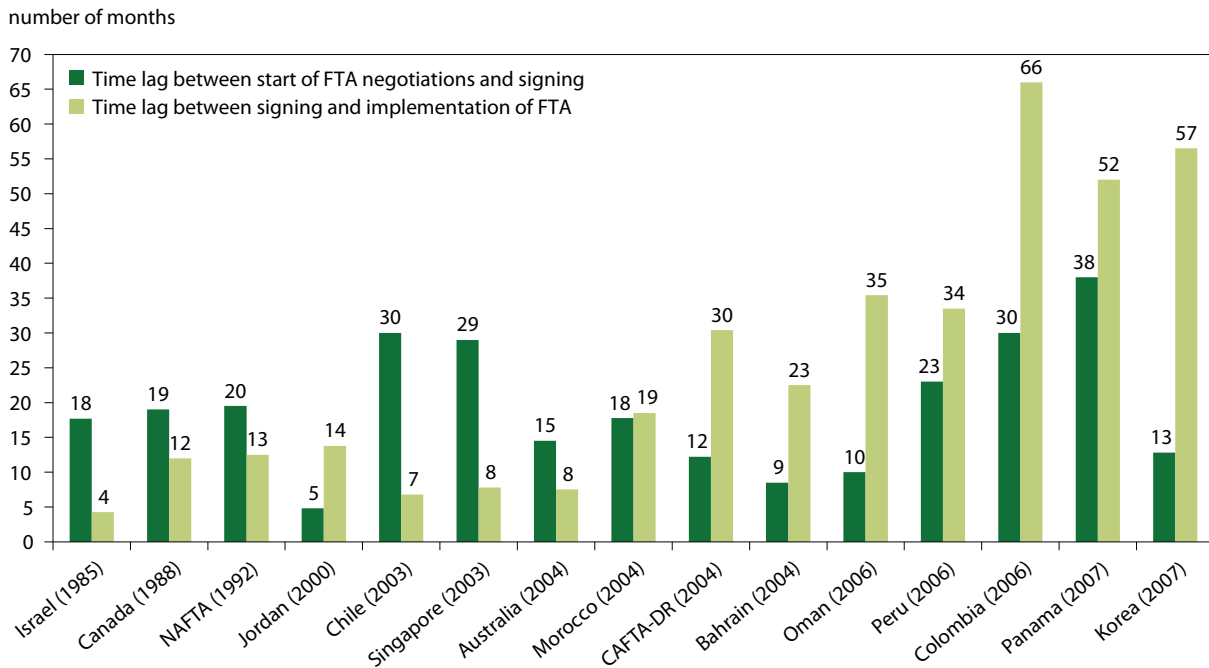
32. For details, see “Cutler Says TPP Parties More Flexible On Rules After Japan Tariff Talks,” *Inside US Trade*, July 24, 2014, www.insidetrade.com (accessed on July 30, 2014).

33. See, “Obama Reveals Year-End Target For TPP Deal After Meeting With Key,” *Inside US Trade*, June 26, 2014, www.insidetrade.com (accessed on September 2, 2014); and “Low Expectations For Hanoi Round Cast Doubt On November TPP Result,” *Inside US Trade*, August 29, 2014, www.insidetrade.com (accessed on September 2, 2014).

34. “Korea Moves to Resolve Issues Flagged By U.S. As Hurdles To TPP Entry,” *Inside US Trade*, July 31, 2014, www.insidetrade.com (accessed on August 13, 2014).

35. “Korea’s Interest in the Trans-Pacific Partnership,” remarks by Acting Deputy USTR Wendy Cutler, December 12, 2013, Center for Strategic and International Studies.

Figure 1 Political timetables for US free trade agreements (FTAs)



CAFTA-DR = Dominican Republic–Central America–United States Free Trade Agreement; NAFTA = North American Free Trade Agreement
 Note: Year in parenthesis indicates when the agreement was signed. Time lag figures are rounded to the nearest month. The time lags for CAFTA-DR are the average for all six countries involved in the talks.
 Sources: Office of the US Trade Representative and authors' calculations.

with Japan. With the checkered history of Korea-Japan free trade talks over the past decade, that would be a tall order, given economic and political concerns and the limited time available to put such a deal together without prolonging the completion of the overall TPP negotiations.

2. Join the TPP between signature and entry into force

If Korea does not join the TPP before the deal closes, it is unclear when Korea could ask to join the agreement. The TPP final provisions presumably will spell out how and when other countries can accede to the pact. Several options are open for the TPP draftsmen.

Most likely, the TPP will have an accession clause, but new members will not be considered until the agreement enters into force. In practice, that could mean that TPP membership could be frozen for some time. Why? The duration of such a “dead zone” for accession would depend on the speed of national ratification and the criteria for entry into force set out in the TPP final provisions (e.g., how many of the TPP-12 ratify in terms of absolute number and/or share of aggregate TPP GDP). US ratification invariably would be the first marker for the deal to enter into force, so the TPP timetable will be based primarily on action by the US Congress.

Unfortunately, looking at how long Congress has taken to ratify US FTAs provides little guidance: Some have taken

a year or less from FTA signature to entry into force (US pacts with Israel, Canada, Singapore, and Australia); more recent episodes, however, have experienced lengthy delays, including the KORUS FTA, which took more than 4 ½ years to ratify and implement after the initial signature (see figure 1). Hopefully, the successful resolution of TPA legislation will help smooth the path for TPP ratification but nothing is done easily or quickly in Congress these days.

For that reason, it would be useful for TPP negotiators to modify the traditional terms of the accession process by including an “open enrollment period” between signature and entry into force for prospective members to negotiate the terms of their prospective membership with the TPP-12 countries. An early enrollment period would be unprecedented but perhaps not inappropriate, given the already lengthy and fractious legislative deliberations on trade pacts in various countries over the past decade.

Previous US FTAs have had an accession clause, but none of them provided for membership applications before the pact entered into force. Why complicate the political calculus for ratifying a pact by adding new members during the period of legislative deliberation? This political objection is compelling—and Korea probably is the only practical exception to that general rule because Congress already has approved the KORUS FTA, which is in most respects comparable in coverage to TPP

obligations. But would Congress then wait to formulate the TPP implementing legislation in one or two stages? Congress could decide to vote on TPP-12 first and then have a later vote on Korean accession, or it could delay TPP ratification while waiting for Korea to sign and then vote on the TPP-13. Either way, Korea would be in the congressional spotlight and asked to ante up additional concessions before a vote—just like with the KORUS FTA.

3. Accede to the TPP after entry into force

It is hard to find a Korean official who does not think that eventually Korea will need to join the TPP, but some argue that Korea can wait until the TPP is in operation. Their rationale is based on giving priority to negotiations with China and then to the trilateral China-Japan-Korea pact, delaying bilateral talks with Japan, and avoiding simmering concerns among domestic constituencies about parts of the KORUS deal that would resurface in TPP accession talks. Simply put, this strategy is about focusing on China, Korea's top trading partners, and deferring action on the TPP.

In essence, proponents of this option discount the “additionality” of the TPP beyond the gains that Korea will achieve from its bilateral FTAs with various TPP participants. As we argue above, such arguments underestimate the gains from deepening liberalization beyond that committed in prior FTAs and harmonizing rules across a larger integration area. It also discounts the costs of nonparticipation in terms of trade diversion generated by TPP preferences and foregone benefits from increased trade spurred by TPP reforms. A significant share of these costs could result from Japan's participation in the TPP. It is unlikely that these costs could be significantly offset by parallel deals with Japan in the RCEP and CJK talks, since both will likely unfold on a slower timetable than the TPP—even if TPP implementation lags by a few years.

In sum, Korea could face significant costs if it waits to join the TPP talks until after the TPP closes. Deferring the decision on TPP participation would impose costs in terms of forgone benefits from new trade and investment opportunities, as well as the risk of minor trade diversion noted above. Moreover, any future accession to the TPP would require a separate congressional vote with the risk of added US demands. As the KORUS FTA experience demonstrates, this is not an idle concern.

Invoking the TPP accession clause at some future date still means Korea will have to pursue new negotiations with the TPP members and possibly face new demands for improved market access. It is not clear that Korea could set its own timetable, as it may be paired with other candidate countries in the accession process. Conceivably, TPP enlargement could proceed via a second tranche negotiation involving a number of countries, including those already expressing interest in future membership, like Indonesia, the Philippines, and Thailand. Moreover,

the entire process could be transformed if China decided to ask to join the TPP, perhaps in a package deal with Hong Kong and Taiwan, following the precedents of Chinese accession to APEC and the WTO. In that case, Korea could not control the content or timing of the joint TPP membership negotiations.

CONCLUSIONS

Korea has an extensive and multifaceted strategy for trade negotiations that has contributed to and supported economic growth over the past decade. To date, Korea has established or is negotiating FTAs with all of its major trading partners to support economic and strategic interests in its neighborhood, across the Asia-Pacific region, and in Europe. The KORUS FTA has been the most notable achievement of Korea's trade initiatives. It not only deepened economic relations but also reinforced the strategic alliance with Korea's most important partner.

The KORUS FTA also set the framework for Korea's comprehensive trade deal with the European Union and established many important precedents to guide ongoing regional and multilateral trade talks, including the TPP. Indeed, while Korea is still considering whether to participate in the TPP talks, the KORUS FTA has already had a strong influence on the construction of the Asia-Pacific trade accord.

As one of the world's leading trading nations, it is hard to imagine Korea not participating in the preeminent regional integration arrangement in the world economy, particularly since it reflects so broadly the framework of rights and obligations developed by Korean trade architects in their recent FTA negotiations. While there is no consensus yet in Korea to join the TPP, there is a broad recognition that Korea will have to be part of the TPP in the coming years. So the question addressed by this Policy Brief really is not if but when and how Korea should join the TPP.

After an assessment of Korea's options, we conclude that Korea should seek to join the TPP as soon as possible. If it can manage its bilateral issues with Japan in a pragmatic way, then it should ask to join the TPP talks now. If politics and economic sensitivities pose too many complications, then Korea should encourage TPP participants to institute an “open enrollment” period soon after the TPP deal is signed and immediately take advantage of it. We do not see any advantages to waiting until the TPP enters into force; indeed, such a strategy has a significant downside.

Korea can pursue the TPP in parallel with its other important negotiations in the region; all are complementary and in most respects mutually reinforcing, so Korea should continue to pursue the RCEP and CJK pacts. Most importantly, Korea should aim to conclude the most ambitious deal possible with China, which will help pave the way for China's potential participation in the TPP.

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