

**What are the Objectives of
the U.S.- South Korea Free Trade Agreement
for Korean Wave Diplomacy?**

A Research Paper

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Abstract

I investigate South Korean objectives of the U.S.-South Korea Free Trade Agreement (KORUS FTA), which forced Korea to change their copyright law and screen quota system. KORUS FTA could be a turning point of their international trade policy of popular culture: the Korean Wave diplomacy. The basic model I employ is derived from a two-level game, and I analyze a negotiation process of the agreement from a Korean Wave perspectives. In order to know the Korean precise objective of the FTA, I focus on domestic preferences both in U.S. and in Korea, which cause domestic win-set size.

As a conclusion, I adopted a part of my hypothesis that Korean government conceded U.S. in its negotiation process. However, I found it dubious that Korea lost an advantage of cultural trade by agreeing on the FTA. The fact suggested that quota and copyright amendments were also beneficial for Korean home country in the government understanding. First, the administration knew well that deregulation might not always hurt Korean Wave phenomenon, but even boost it. Second, Korean administration thought TRIPS-Plus regime important to guard their culture by beating aggressively illegal products.

Keywords; U.S.-South Korea Free Trade Agreement, Korean Wave, Intellectual Property, Screen Quota, Two-Level Game

Preface

Since the late of 1990s, Korea has increased the amount of export under its original trade strategy in order to recover domestic economy damaged from Asian currency crisis. Korean Wave, which is an international cultural phenomenon and diplomacy, is one of the good examples which have succeeded in worldwide. Today Korean cultural contents spread globally thus most people in the world know one or two titles of the contents including broadcasting, movies and music.

However, I wonder that KORUS FTA is really beneficial for Korea, especially regarding to Korean Wave. It is because Korea has 2 big disadvantages in the FTA: screen quota reduction and copyright law revision. Korea made these concessions to U.S. in 2006 and 2011 just to conclude an FTA. In my understanding, each Korean trade policy is so clever that industries can gain great profits in foreign countries now and future. I believe that Korea is a professional country to promote both FTAs and international cultural export, so that question whether the Korean decision was really right.

My hypothesis is that U.S. took a coercion strategy while Korea took a cooperation strategy in the negotiation process of KORUS FTA. I consider that Korea would lose an advantage of cultural trade after the FTA. Chapter 1 is about the overview of KORUS FTA and Korean Wave. I also maintain the relation between them. In Chapter 2, I introduce a basic model I use in this paper. In Chapter 3 and 4, I investigate the reason why Korea agreed the KORUS FTA by analyzing the negotiation process. I mainly focus on the domestic matters both in U.S. and Korea.

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1. Overviews

In this chapter, I introduce some concepts or background of KORUS FTA and Korean Wave. In Section 1, I mention about a characteristic of KORUS FTA. Then in Section 2, I turn to overview of Korean Wave diplomacy with using some data. Finally in Section 3, I argue the relation between the FTA and the diplomacy, through discussing Korean 2 disadvantages resulted from its negotiation.

1.1. What is KORUS FTA?

The U.S.-Korea free trade agreement, or KORUS FTA, is a trade agreement between two large economies: the United States and South Korea. The countries signed it on June 30, 2007, and completed their review of the measures and brought the agreement into force on March 15, 2012. The treaty's provisions eliminate 95% of each nation's tariffs on goods within five years, and also create new protections for multinational financial services and other firms. This is the U.S.'s first FTA with a major Asian economy, and the largest trade amount since the North American Free Trade Agreement (NAFTA) in 1993. For Korea, this FTA is the second largest one following the Europe Union (EU)-Korea FTA which entered into force in 2011.

U.S. and Korea have had a strong relationship since the middle of 20th century, which is mainly attributed in security ties. Their economic relationship became firmer in the 1980s and 1990s, and Korean exports to U.S. surpassed 24 billion dollars by 1995. However after the 9.11 terrorist attacks, critics on U.S. troops stationed in Korea made the relation worse. Both

governments were concerned about the decrease of trade between the two countries, thereby both governments decided to take a look at the possibility of negotiating an FTA.

At the beginning of 21st century, their international trade policy was fortunately same. U.S. considered that KORUS FTA was a great opportunity to make a worldwide regime by a domino effect triggering other FTAs. Until 1980s, U.S. had led the WHO/GATT system, which is initially based on the Reciprocal Tariff Act enacted in 1934 between U.S. and separate countries particularly in Latin American. After the breakdown of the Seattle WTO Ministerial Conference in 1999, U.S. began to focus on bilateral agreements. U.S. had a strong object to conclude a bilateral FTA with a larger economy than before. Korea also aimed to conclude bilateral agreements as early as possible because they wanted to beat their economic rivals; Japan and China. Through experiencing great depression after Asian financial crisis in 1997, Korea changed their trade strategy from WHO/GATT system to multi-track FTAs. It was so successful that Korean government had sought to more FTAs with developed countries. Though it might be possible that the FTA strategy of U.S. and Korea differs in the future, but at the beginning of 21st century, their object was fortunately same.

Nevertheless compared to other FTAs, the KORUS FTA took a quite long time with its negotiation. Since the negotiation started, opinions in both countries had divided into whether the FTA could make their own economy rich or not. Some studies by think tanks and government agencies argued that the KORUS FTA must be beneficial for both U.S. and Korea; others said that it

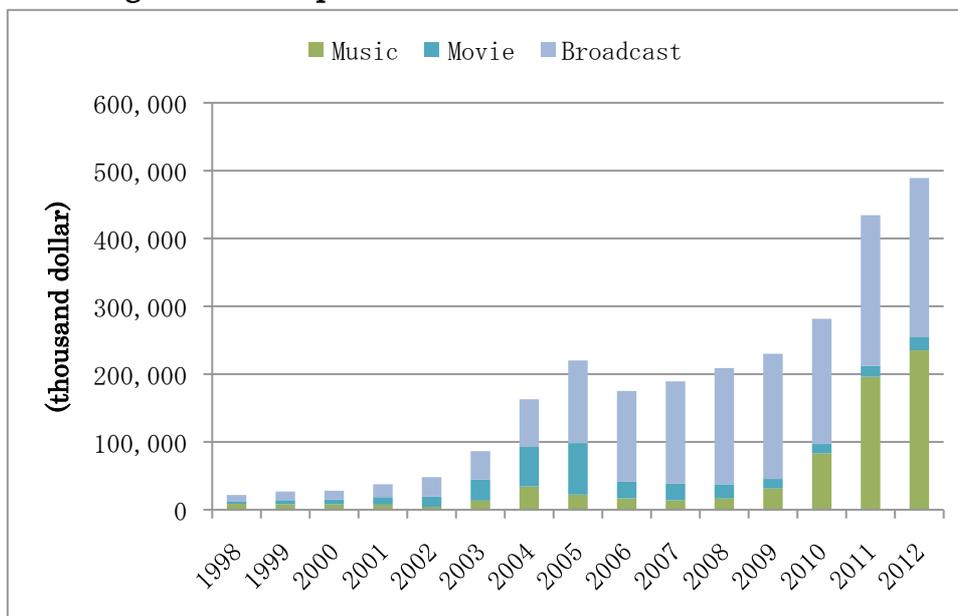
would cause serious damage to domestic infant industries. Before reaching an agreement, U.S. set tough conditions, while Korea made some concessions with amendments of regulations including screen quota and copyright.

1.2. Korean Wave Diplomacy

Over the last decades, international trade of popular culture has attracted great attention at global level. Korean Wave, or Hallyu in Korean language, is a recent cultural phenomenon of South Korea. This is used by the government as a soft power tool to engage with the masses of young people all over the world. Since the mid-1990s, Korea has produced lines of fascinating popular culture, which quickly spreads across countries around the world. For instance, “Gangnam Style,” which is a song released as a single of South Korean musician Psy, became the first YouTube video to reach a billion views. Under the influence of a success of such as “Gangnam Style,” the amount of Korean cultural exports has increased drastically for these several years.

Such boom of culture as above is often due to industries, but Korean Wave is not irrelevant to governmental policy. The Figure 1 shows a transition of the amount of Korean cultural contents export. I pick up three typical Korean contents; broadcasting, movie and music. I do not deal here with animation because of some statistical reasons. It should be emphasized that through some minor fluctuations the export of three goods in 2012 was 489,093 thousand dollars, which is approximately 22.5 times as much as that in 1998.

Figure 1 Export of Korean Cultural Contents



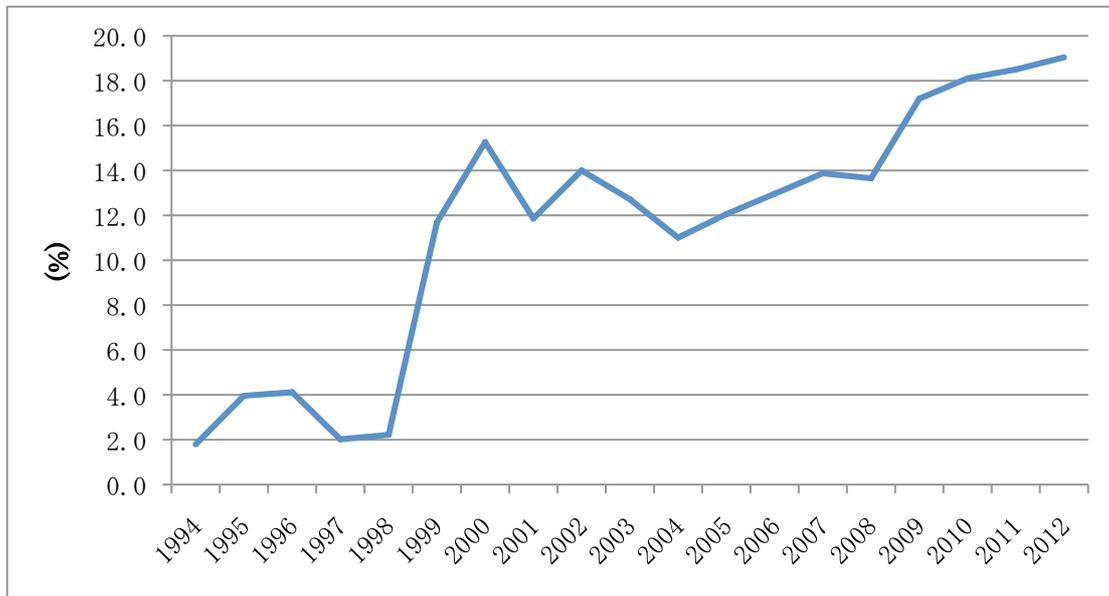
Created based upon data from Ministry of Culture, Sports and Tourism (2007-2013)

We must notice that Korean Wave is not just a phenomenon but prudent diplomacy. Figure 2 shows a transition of cultural budget in Korea from 1994 to 2012. The percentage in figure is the budget of creative contents industry and of media policy divided by total governmental budget.

$$= \frac{\text{Budget of Creative Contents Industry \& Media Policy}}{\text{Total Governmental Budget}} \times 100$$

What is significant in this argument is that the cultural budget ratio increased drastically in 1999 and reached 19% in 2012. We will see that the amount of export strongly correlates to cultural budget with one year lag. Specific number is in Appendix.

Figure 2 Percentage of Cultural Budget



Thus, the figures above mean that Korean administration has much to do with Korean Wave phenomenon. The government has mainly targeted Asia such as China, Japan or East Asia, but U.S. is also an important Korean Wave market. According to J.Yang(2012), North America is the second largest continent that imports Korean goods, following to Asia. Moreover, U.S. audiences use the internet to watch Korean movies, dramas and music. Until 2011, k-pop videos on YouTube have been viewed 240 million times in the U.S., which are the second highest views. Korean government must not disregard U.S. market which consumes many Korean cultural contents.

In my understanding, however, Korea did not think much of the cultural diplomacy in negotiation of KORUS FTA. From the standpoint of cultural sectors, I would like to focus attention on two controversial issues. In KORUS

FTA, Korea has 2 disadvantages on export their cultural goods to the U.S.. First one is screen quota. Korea agreed to make significant improvements concerning treatment of broadcasting and audiovisual services by reducing quotas on animation and locking in current content quotas in other areas. Second point is copyright law. The FTA strengthens protection for copyrights of various cultural contents, including software, music, film, videos and text. The following summary is taken from Office of the United States Trade Representative (USTR) official website.

A more open broadcast market for U.S. audio-visual products

- Ensures improved market access for U.S. broadcasting and audiovisual service providers, including through a commitment by Korea to allow within three years 100 percent foreign ownership of program providers for U.S. firms that establish a Korean subsidiary.
- Agreement by Korea to decrease Korean TV content quotas for film and animation and to increase the allowable content from a single country.
- Locks in all other Korean content requirements at the least restrictive level allowed under current law, including the motion picture screen quota.
- Contains a commitment by Korea to permit U.S. investment in IPTV and to bind Korean content quotas in the platform.

Protection for Copyrighted Works in a Digital Economy

- Protects music, videos, software, and text from widespread unauthorized sharing via the Internet by giving copyright owners the ability to maintain rights over temporary copies of their works.
- Provides extended terms of protection (e.g., life of the author plus seventy years) for copyrighted works, including phonograms, consistent with emerging international standards.
- Establishes anti-circumvention provisions to prohibit tampering with technologies (such as embedded codes on discs) that are designed to prevent piracy and unauthorized distribution over the Internet.
- Requires that government agencies use only legitimate computer software, setting a positive example for private users.
- Requires rules to prohibit the unauthorized receipt or distribution of encrypted satellite signals to prevent piracy of satellite television programming.
- Provides rules for the liability of Internet Service Providers (ISPs) for copyright infringement, reflecting the balance struck in the U.S. Digital Millennium Copyright Act between legitimate ISP activity and the infringement of copyright.

2. Methodology

In Chapter 2, I introduce a research methodology which I use in this paper: two-level game theory by Putnam (1988). I also mention about coercion strategy by Drezner (2003), which gives me a great implication to my paper. In Section 3, I discuss about the research question and framework of this research.

2.1. Models for International Negotiation

This section is about 2 models which are often used to analyze a negotiation process. First one is two-level game theory. In this paper, I use the methodology to investigate Korean objectives of KORUS FTA. Second one is coercion strategy theory. My hypothesis is based on this theory that U.S. coerced Korea in the negotiation process.

2.1.1. Two-level Game Theory

I employ the following procedures named a two-level game in Chapter 3 and Chapter 4. The two-level game is a basic model which explains domestic-international interactions, cultivated by Putnam (1988). The politics of many international negotiations can usefully be conceived as a two-level game. The point of the model is a focus on domestic matters. His hypothesis is that it is important to analyze the national level, because domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. Putnam states that at the international level, national governments seek to

maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. In other words, the negotiation of domestic administration is based not on egoism, but on cooperation with other national institutions.

Putnam defines the "win-set" for a given Level II constituency as the set of all possible Level I agreements that would "win" when simply voted up or down. The Level II win-sets are very important for understanding Level I agreements. The first reason is if domestic win-sets is larger, Level I agreement becomes more likely, *ceteris paribus*. By definition in Putnam's model, agreement is possible only when those win-sets overlap, and thus the larger each win-set, the more likely they are to overlap. The second reason why domestic win-set size is important is that the relative size of the respective Level II win-sets will affect the distribution of the joint gains from the international negotiation. The larger the perceived win-set of a negotiator, the more he can be "pushed around" by the other Level I negotiators.

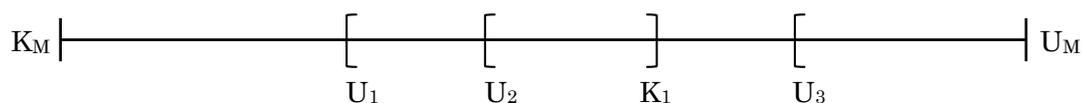
It is clearly shown in Putnam's investigation what determine the size of the win-set. He mentions that three sets of factors below are generally important to understand. In this paper, I analyze KORUS FTA negotiation process by coordinating these three matters.

- Level II preferences and coalitions
- Level II institutions
- Level I negotiators' strategies

The implications of win-set size are summarized in Figure 1, representing

a simple zero-sum game between Korea (K) and U.S. (U). K_M and U_M represent the maximum outcomes for K and U, respectively, while K_1 and U_1 represent the minimal outcomes. At this stage any agreement in the range between K_1 and U_1 is possible by both countries. If the win-set of U moves to U_2 , the range of agreements would become smaller. If U reduces its win-set still further to U_3 , the two countries would suddenly find themselves deadlocked, for the win-sets no longer overlap at all. At that time, U.S. coerces Korea to make its domestic win-set larger.

Figure 3 Effects of reducing win-set size



2.1.2. Coercion Strategy

Drezner (2003) investigate that successful instances of economic coercion are much more likely to end at the threat stage than the imposition stage. The model is very simple. The sender threatens to interrupt the status quo and block a stream of economic exchange with the target unless the sanctioned country acquiesces to a specific demand made by the sender. If the target complies, sanctions are not imposed. If the target stands firm, the sender faces a choice between backing down or carrying out its threat and imposing sanctions. Drezner examined his theory by an empirical test of sanctions used or threatened in the pursuit of economic or regulatory aims. Actually, a majority of these cases ended without sanctions being imposed. Thus I can

posit hypotheses as follows. U.S. used a threat strategy in order to fulfill their political objectives, saying that they did not conclude the KORUS FTA if Korea did not change some of their laws. Korean politicians had economic objectives to increase their amount of export with this FTA, so could not resist the U.S..

2.2. Research Framework

In this paper, I refer to the previous work by Putnam (1988) and get implications for future international cultural trade policy in Korea through analyzing the negotiation process of KORUS FTA. From the point of Korean Wave, I consider the reason why Korean benefits from KORUS FTA were not large enough was that U.S. took a coercion strategy while Korea took a cooperation strategy in the negotiation. Under this hypothesis, I gather and organize information on domestic and international negotiation process in each country focusing on international cultural trade. I suppose that domestic win-set size in U.S. was small because Level II preference was to reject KORUS FTA and because Level II core institution was weak, then U.S. government had to coerce Korea to make their win-sets overlap. On the other hand, domestic win-set size in Korea should be large because Level II preference was to agree on KORUS FTA and because Level II main institution was strong, then Korean government could take concession and cooperation strategy.

3. U.S. Side

In this chapter, I investigate U.S. objectives of KORUS FTA for understanding why it coerced Korea. In Section 1, I analyze domestic preferences and institutions. In U.S., industries including Hollywood film desired that U.S. should fight with screen quota, copyright law, and Anti-Americanism in Korea. USTR was not strong enough to overcome claims of industries, which concerned about only their own profits. Thus in U.S., the win-set size was so small that they must coerce Korea to even revise some of their regulations and rights.

3.1. Level II in U.S.

Since the beginning of 20th century, U.S. industries have tried to export their cultural products worldwide. The best example is motion picture industry in Hollywood, which has been the world's film capital. In history, the export of Hollywood was essential for the government not only to get profits but also to spread the U.S. culture, moral or language. By the early 1920s, it is said that Hollywood received 80 percent of the revenue from films shown in abroad. In 21st century, it is more aggressive to aim at foreign market, suffered from increased deficit in its domestic market due to the change in industry structure. W. D. Wallsa & Jordi McKenzieb(2012) examined the dynamics of about 2,000 films over the period 1997 to 2007. They note that, for Hollywood, "International revenues have grown from roughly equal to domestic in 2000 to double the level of domestic revenue in 2009."

Meanwhile, Hollywood has been targeted for what conservative critics as an anti-American agenda. Both developed and developing countries have often attacked that Hollywood causes “cultural hegemony,” and tried to guard their own cultural products. Some of them establish a quota system as non-tariff barrier. In addition, Hollywood today suffers from heavy losses by counterfeiting, piracy or illegal downloading. Therefore, so as to gain proper profits, the Hollywood industry demands that U.S. government should fight with three enemies in Korea before concluding FTA: traditional screen quota lax copyrights, and growing anti-Americanism. In negotiation process of KORUS FTA, Hollywood industry used a strong influence to overcome such disadvantages in Korean market for themselves. The office of USTR, which is responsible for overseeing negotiations with other countries, exerted relatively small influence.

3.1.1. Level II Preferences(1): Screen Quota

The first domestic preference of KORUS FTA was to limit screen quota in Korean market. Today, several countries enforce screen quotas owing to guard their original movies from foreign ones, especially Hollywood films in U.S.. Europe countries are good examples including United Kingdom, which is the first country to enforce screen quota in 1927. It introduced a requirement for British cinemas to show a quota of British films, for duration of 10 years. In Spain minimum number of screening days of domestic films is between 73 and 91 days, and in France 40 percent of the TV broadcasting must be exclusively of French origin and additional 20 percent must be of EU origin.

U.S. regards these quotas as “non-tariff barriers,” and has forced to remove them for a long time. Regarding Korean quotas, the story already happened from South Korea-America BIT (Bilateral Investment Treaty) in 1997. As a solution to Asian exchange crisis, President Kim Dae-jung suggested BIT that Korea should increase credibility of its economy and boost foreign investment. Instead of agreeing to enforce BIT, U.S. requested several requirements in opening Korean market, including the limiting of screen quotas. Though decreasing the duration of screening days to a certain extent in 1997, Hollywood was not satisfied with the level. The U.S. continued to claim that Korea should reduce its quotas to 1/5 of screening days each year.

3.1.2. Level II Preferences(2): Copyright Law

Second, I point out that the U.S. domestic opinion was to fight with copyrights in Asia and in Korea. U.S. thought that the KORUS FTA should be seen as a model for future U.S. trade agreements on copyrights. As our economies are becoming more digital-based, industrialized countries caused the wide spread of counterfeiting and piracy in developing countries. According to figures from the OECD project on counterfeiting and piracy, the amount of international trade of counterfeit and pirated goods is growing and could have amounted to 250 billion dollar in 2007. In recent years, EU and U.S. effort to strengthen the protection levels of copyright beyond those established under TRIPS, creating the TRIPS-plus phenomenon.

U.S. industries specifically complain about piracy rates in China. The International Intellectual Property Alliance (IIPA) estimated that business

software piracy in China alone cost U.S. firms \$3.4 billion in lost trade in 2009. For protecting their own culture from counterfeiting and piracy, and for making profit otherwise they lose, U.S. began to foster a greater awareness and a deeper appreciation of copyright and other intellectual properties. U.S. film companies wanted to make an example copyright standard in other Asian countries through KORUS FTA.

For U.S. industries, the most crucial problem in Korea is the massive amount of illegal downloading of copyrighted works. In 2009 Korea was the second largest country of online music piracy in the world after China. The Korea Times argue that the survey by Hong Kong-based Music Matters was not reliable because it was based on a simple questionnaire just asking "Have you downloaded music from the internet without payment?", but actually, the annual loss by illegal digital downloading was more than \$1.7 billion in 2008 in Korea, one of the most wired countries in the world. Thus, U.S. companies eager to lock-in beneficial copyrights with the leading Asian economy.

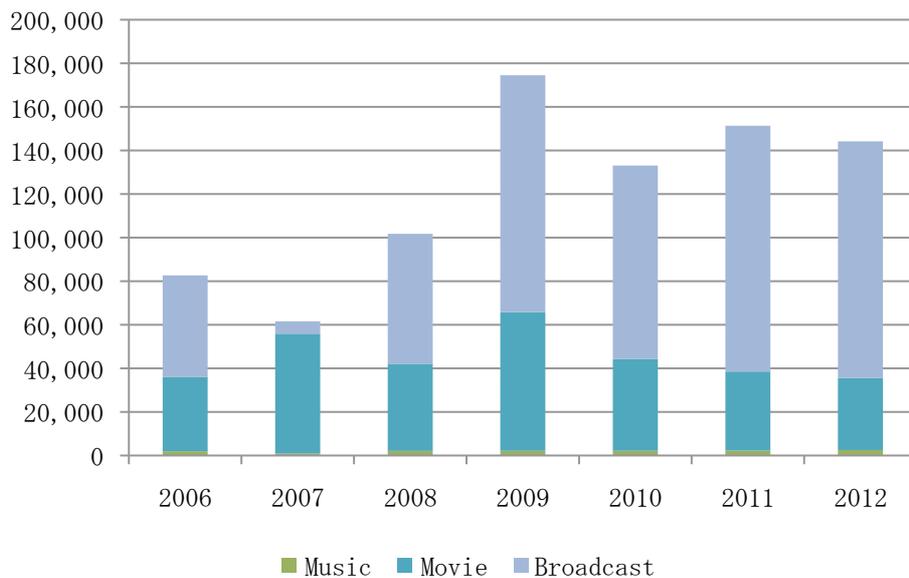
3.1.3. Level II Preferences(3): Anti-Americanism

In addition, U.S. object of KORUS FTA was to improve their presence in Korea. The events of 9.11 and the subsequent revision in military strategy led U.S. to insist that they remain troops so that they could be rapidly deployed outside the country to deal with crisis. These decisions triggered a debate in Korea, which brought to the concerns that the U.S. was "abandoning" Korea. The debate grew more heated after the Yangju highway incident occurred in 2002. Now the U.S. government mentions that the troops will exit Korea in

2014 or 2015, but the hard-left critics are still surviving in Korea.

The anti-Americanism itself in Korea was a most crucial point for U.S. government that led them to conclude KORUS FTA. Hollywood industry wanted to cope with anti-Americanism because their amount of cultural export tends to be affected by political positions or activities. For instance, the amount of movie export from U.S. to Korea was 63,656 million Korean won in 2009, highest for these 7 years. It was the year that anti-Americanism in Korea was temporally calm down as both President Barack Obama and Lee sought for better U.S.-Korea relationship. Therefore, the U.S. government tried to improve the relationship with Korea, by making Korea's obscure regulatory regime much clearer, eliminating many technical barriers to trade and abolishing Korea-specific rules and standards that do not conform to international norms.

Figure 4 Amount of Export from U.S. to South Korea



Created based upon data from Ministry of Culture, Sports and Tourism (2007-2013)

3.1.4. Level II Institutions: Strong Power of Industries

In the previous subsections, I find that U.S. industries including Hollywood have three preferences in KORUS FTA, which bothered the U.S. government in its negotiation process. Finally, I note the institution in U.S. domestic level. According to Osawa (2008), U.S. had only a small win-set on the TRIPS-Plus issue in KORUS FTA because of the weakness of a core negotiator. In U.S., office of the USTR is mainly concerned in FTAs, while Congress, industries, and NGOs also have strong influence. For instance during the negotiation of KORUS FTA, automobile or agricultural industries also have affected to the administration. In the matter of international cultural trade, U.S. must not neglect assertions by Hollywood film industry. Hence, USTR took into account the three strong requests by film industry which I mentioned in subsections above.

3.2. Level I: Coercion Strategy

In international level, U.S. government made a coercion strategy for KORUS FTA in so as to battle with screen quota, copyrights, and anti-Americanism in Korea. As a matter of fact, the USTR did not believe that KORUS FTA brought them great benefits, for Korean export was greatly competitive while its import market was not so large. When considering about BIT negotiation in 1997 or Korean suggestion of FTA in 2004, USTR was apparently negative on concluding them. On the other hand, industries such as Hollywood were aggressive to negotiate with Korea in order to maximize

their profits. USTR must consider arguments from each industry, thus had no choice but to coerce Korean government.

4. Korean Side

In this chapter, I investigate Korean domestic or international factors on trade of culture in order to understand why Korea cooperated with U.S.. In Section 1, I analyze domestic preferences and institutions. In Korea, the government was positive both on screen quota and copyright law, though there were strong opponent by industries and consumers. Contrary to U.S., Korean governmental system on FTAs was so fast and flexible that suppressed those opponents. Thus in Korea, the win-set size was large enough to cooperate with U.S..

4.1. Domestic Level

Before considering on the KORUS FTA negotiation, I would like to make certain of Asian currency and economic crisis which suddenly hit this country in 1997. Until the late 1990s, Korea had made much of multi-lateral trade negotiations under the WTO/GATT system, and was not affirmative bilateral FTAs or regional trade agreements. It went so far as to criticize regionalism in Europe and U.S., who had promoted EU in 1993 and NAFTA in 1994. However, Korean government completely changed their principles since the financial crisis. Although the emergency financial assistance by International Monetary Fund (IMF), Korea could not avoid the great depression, and Korean economy ran into temporal confusion. In 1998, they recorded -6.7% of growth rate of GDP and 7% of unemployment rate.

In order to get rid of the desperate situation, Korea strived to improve

their export by opening foreign markets. While the breakdown of the Seattle WTO Ministerial Conference in 1999, it has accelerated to conclude bilateral or multilateral FTAs with many other countries, which is sometimes called as multi-track FTA strategy. Most of the FTAs have been successful, and the growth rate of export has exceeded the growth rate of GDP every year since 2003. Korean economy recovered by relying on not a domestic but a foreign demand to complete the economic recovery. Most people in Korea began to notice the importance of promoting export.

Korean Wave has occurred as the background. Through their experience, Korean government learned that cultural export also brought them wealth, before “soft power” was booming among developed countries. Korean cultural industries came to cultivate foreign frontier because their domestic cultural market was relatively small. Actually, the size of music market in Korea was approximately 1/30 that of in Japan. Korean government and industries cooperated to go on abroad, and then Korean Wave became extremely popular in the world. The success of Korean Wave under a multi-track FTA strategy could make a domestic win-set much larger, thus took a cooperative strategy in the negotiation on international trade of culture of KORUS FTA.

4.1.1. Level II Preferences(1): Screen Quota

One of the controversial issues of KORUS FTA for Korean Wave was screen quota. In Korea, screen quota system has been enforced since 1967, based on the idea that the Korean film market had lacked the ability to raise

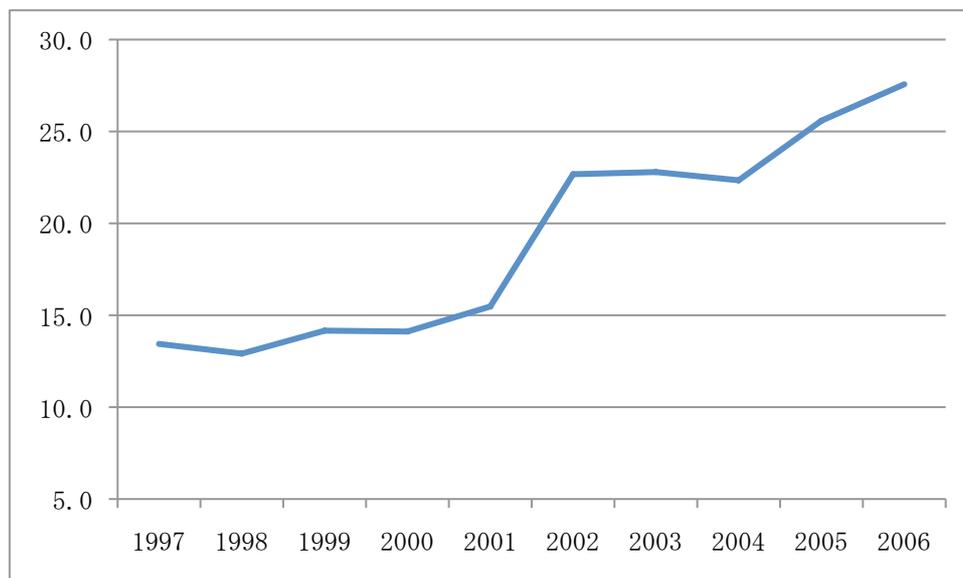
capital funds for films. Through some amendments, the system was more than 2/5 of screening days each year and reciprocal screening of Korean and foreign films in cities of more than 300,000 of population until 1990s. In 1997, Korea decreased the duration of screening days owing to U.S. pressure. This decision caused Korean film industry's strong objection that Hollywood would destroy Korean domestic films. Therefore, despite U.S.'s constant request, the no change had been made in screen quota for 5 years.

Interestingly, however, the ratio of Korean domestic films increased after the reduction of quota. The following figure shows the transition of Korean film industry. From 1998 to 2006, the percentage of domestic films soared at more than twice. Incidentally in 1998, the Korean government also loosened strict import regulations of Japanese culture for making their cultural contents more competitive in the long run. The reform was more successful than expected, thus in few years later Korean popular culture conquered Japanese one in the world. Through the limiting quotas, Korean government learned that deregulation might not always hurt Korean Wave phenomenon, but even boost it, and then accepted the U.S. proposal to change their traditional screen quota.

Table 1 Film Industry in Korea

	Number of domestic films produced	Number of foreign films imported	Percentage of domestic films
1997	59	380	13.4
1998	43	290	12.9
1999	49	297	14.2
2000	59	359	14.1
2001	65	355	15.5
2002	78	266	22.7
2003	80	271	22.8
2004	82	285	22.3
2005	87	253	25.6
2006	110	289	27.6

Figure 5 Percentage of Domestic Films in Korea



4.1.2. Level II Preferences(2): Copyright Law

Some Korean people regarded copyright revision in 2011 as a worst unequal treaty resulted from KORUS FTA, because most of the provisions are based on TRIPS-Plus regime proceeded by the U.S., and because Korean government seemed to accept the regime without even questioning it. Korean consumers indicated as well that root of TRIPS-Plus is Common law, not on Civil law which Korea had applied since 19th century. Common law recognized and enforced by the judgments and decrees of the courts, so people need to read between the lines. Thus they argued that it was too complicating to understand what was illegal or not. Korean consumers as well worried about the new regime, saying that they might be arrested even by downloading a song on the internet.

On contrary, after careful consideration, Korean government decided to apply TRIPS-Plus because thought it important to guard their culture by beating aggressively illegal products and getting proper profits. The counterfeiting and piracy in their domestic market also bothered Korea. Before the revision in 2011, it had threatened to cut pirates' connections, blocked pirate websites, or forced youthful downloaders into education program, but all of them did not have clear effect. KORUS FTA was very timely for Korean government to reform the copyrights from Civil law which focuses on artists' personal rights into Common law which includes industries' economic rights.

We must also notice that the copyright amendment in 2011 have a minor exceptional provision; the duration of broadcasting copyright protection

sustained the life of the author plus 50 years. It is because they thought that the copyrights in U.S. are not still strict enough for ensuring the benefits of broadcasting industry. Korea was not positive that U.S. does not permit broadcasting rights individually based on a principle of reciprocity. Thus Korea made up their mind to wait for the WIPO's decision, since WIPO's Standing Committee on Copyright and Related Rights, which is responsible for the broadcasting negotiations, agreed on a new draft treaty around that time. In any case, we can find that both the revision and the exclusion above were for protecting domestic culture.

4.1.3. Level II Preferences(3): Subsidy

One of the main policies of Korean Wave is various subsidies on cultural industries. For a decade, Korean government has increased budget of subsidies supported to make the industries competitive in the worldwide. For example, it gives money for post-production, which means to edit or translate digital contents after the actual end of shooting the completed work. An administrative agency supports promising cultural products which can be spread into the world with minor improvements, and defrays from 70% to 90% of its cost. It also supports BCWW (Broadcast Worldwide), an international trade fare of broadcasting business in Korea which is held every year since 2001. The administrative institute supports its operation, giving a lecture by an expert. Besides them, some Korean governmental institutions have given funding for overseas showcases or exhibitions, tapping new market, or international co-production. Table 3 shows the amount of budget for each subsidy.

Table 2 Budget for Subsidies in Korea

(100 million Korean Won)

	2001	2002	2003	2004	2005	2006	2007	2008
Support for post-production of television programs	8		8	7.7	9.74	10	12.6	9.64
Support for BCWW	13	10	5	5	7	8	12.3	10.5
Support for showcases					0.8	2	2	2
Support for tapping new markets						2	2	2.16
Support for international co-production							29.5	29.7

Created based upon data from Ministry of Culture, Sports and Tourism (2002-2009)

In FTA other negotiations, countries often discuss that they should alleviate domestic subsidies because they may reduce the amount of import from abroad. Fortunately, when negotiating KORUS FTA, U.S. did not criticize these cultural subsidies in Korea. The first reason why U.S. government missed the important issue is that it was more negative on agriculture subsidy, which was quite high in comparison with other industries. USTR assigned more priority to agriculture subsidy than to cultural one. The next reason is that U.S. cultural industries including Hollywood did not worry

about the Korean cultural subsidies. Hollywood is such a rich industry owing to their long history that sometimes produces 1 film with 1 billion U.S. dollar, and considers that the small subsidies in foreign countries are not painful for them. Since both U.S. government and industries look at Korean cultural subsidies lightly, after the FTA negotiation Korea was able to sustain or even increase their subsidies for cultural industries which were most vital for Korean Wave diplomacy.

4.1.4. Level II Institutions: Strong Power of Administration

Switching our attention to core negotiator, we find that the system of Korean administration was effective. In 1998, Kim Dae-jung government took concrete actions for FTAs along with the organizational reform. The name of Ministry of Foreign Affairs was changed to Ministry of Foreign Affairs and Trade (MOFAT), and it was given jurisdiction over external trade. The ministry played an important role to conclude FTAs with foreign small economies at high speed. This system is also flexible. Under the negotiation with large economies such as KORUS FTA, the authority was divided into domestic and international sectors. In addition, the KORUS FTA Support Agency was established directly under the president. This organized governmental system could integrate domestic claims and achieved a large domestic win-set.

The government knew well that there was still strong opposition to the KORUS FTA. Some opponents argued that Korea was not yet strong enough to enter into the FTA with U.S., and that it would turn Korea “into a colony of

U.S.” For this reason, governmental institutions appealed the benefits of the FTA again and again on mass media, which achieved a great success until the agreement. To take an example of a quota reduction, Ministry of Culture and Tourism’s stance suddenly changed in 2004 due to a pressure from government. Until then, the ministry was pro screen quotas. However, the government constantly argued that screen quota was paralyzing other important policies, thus the ministry altered its belief.

4.2. Level I in Korea

In international level, Korean government had to make a cooperative strategy because it considered that screen quota reduction and copyrights revision would be beneficial for Korea too. In addition, U.S. did not argue subsidies for Korean industries, which is one of the core policies for Korean Wave. Furthermore, the efficient system of the Korean government was also helpful to integrate domestic assertions. The KORUS FTA Support Agency made possible to suppress to strong opponents. Therefore, South Korea had a large domestic win-set on KORUS FTA. Because of the large domestic win-set, Korea took a cooperative attitude for negotiation with U.S., agreeing on changing some rules.

5. Conclusion

In this research paper, I analyzed what were the Korean objectives of KORUS FTA, by focusing on their international trade strategy of popular cultural contents: Korean Wave diplomacy. The question I considered was whether the FTA was really beneficial for the Korean Wave. My hypothesis was that Korean government conceded U.S. in its negotiation process, and that it lost an advantage of cultural trade.

In Chapter 1, I introduced the concept of KORUS FTA, through discussing its relation with Korean Wave phenomenon. The administration has had much to do with it since the late of 1990s, but in the FTA, made two concessions which seemed to weaken the phenomenon. First, they deregulated the screen quota, which had supported their domestic film production since 1967. Second, they amended the copyrights more adapted to TRIPS-Plus provisions, which U.S. had promoted just for protecting U.S. own culture in foreign countries.

In Chapter 2, I introduced some of the previous papers and the basic model that I applied to, and explained my analytical method. To find the reason why Korea agreed on the KORUS FTA through revising of their vital rules, I used a two-level game model by Putnam(1988) and an economic coercion theory by Drezner(2003), both of which are helpful to analyze international negotiation process.

In Chapter 3 and 4, the core of this paper, I collected information about negotiation process in each country, and then organized them to get

implications for international cultural trade. In particular, I focused on domestic preferences and institutions. As a result, I found the reason why U.S. took a coercion strategy and Korea took a cooperative strategy. U.S. industries, which demanded to combat with screen quota, copyright law and Anti-Americanism, affected more on the FTA. U.S. domestic win-set size was so small that USTR must coerce Korea. By contrast, Korean administration, which was positive on quota reduction and copyright revision under sustainable subsidies, had strong power. Korean domestic win-set size was so large that the government conceded U.S..

So far, I adopted a part of my hypothesis that Korean government conceded U.S. in its negotiation process. However, I found it dubious that Korea lost an advantage of cultural trade by agreeing on the FTA. The fact in Chapter 4 suggested that quota and copyright amendments were also beneficial for their home country in the government understanding. First, the administration knew well that deregulation might not always hurt Korean Wave phenomenon, but even boost it. For instance, the ratio of Korean domestic films soared up after the reduction of quota in 1998. In the same year, the Korean government also loosened strict import regulations of Japanese culture, and a few years later Korean popular culture conquered Japanese one in the world. Second, Korean administration thought TRIPS-Plus regime important to guard their culture by beating aggressively illegal products. Before the revision in 2011, Korea had already threatened pirates, counterfeiting or illegal downloading, but all of them did not have clear effect. U.S. suggestion was timely for Korea to get proper profit in its domestic market.

As a conclusion, I would want to go further and claim that alternative Korean cultural strategies lay behind KORUS FTA: expanding import of U.S. cultural contents, and conserving Korean domestic products. Their first alternative strategy was to increase the import from the U.S. for improving quality of cultural contents in Korea and their relationship with U.S.. Namely, Korea was trying to repeat their history with Japan since 1998. As I mentioned before, it loosened import regulations of Japanese culture in the year, expecting that the foreign high quality culture made their domestic products more competitive. The reform was more successful than expected. Thus the Korean government hoped that U.S. cultural contents inspired Korean ones. In addition, the Korean second future cultural policy was to guard their products by beating illegal products and getting proper profits. Before concluding KORUS FTA, Korea aimed to only get profit in foreign countries. On the other hand, it reformed the copyrights from Civil law which focuses on artists' personal rights into Anglo-American law which includes industries' economic rights. It also had a minor exceptional provision; the duration of broadcasting copyright protection sustained the life of the author plus 50 years. Both the revision and the exclusion above were for protecting domestic industries in domestic market.

In this research, there still exist to a number of shortcomings. As this research is limited to purely cultural trade, I do not consider the possibility that Korea now turned their policy to the other industries. In 2013, President Park Gun-hye has made the development of a "creative economy" the core of her administration's economic agenda. The agenda reflects consensus that Korea's

future growth and prosperity depends on its ability to become a global leader in developing innovative new products, services, and business models. However, the new government seems to focus on science or technology like ICT as “creative” industries. Articles of the agenda were made by the Ministry of Science, ICT and Future Planning and the Ministry of Trade, Industry and Energy, not by the former pillar, the Ministry of Culture, Sports, and Tourism. Under the new plan, Korea might start the second part of the creative economy series. We need to pay attention on how the Park administration will deal with broadcasting, music and film industries over the coming years. I believe that this paper has laid a foundation for such further research.

Appendix

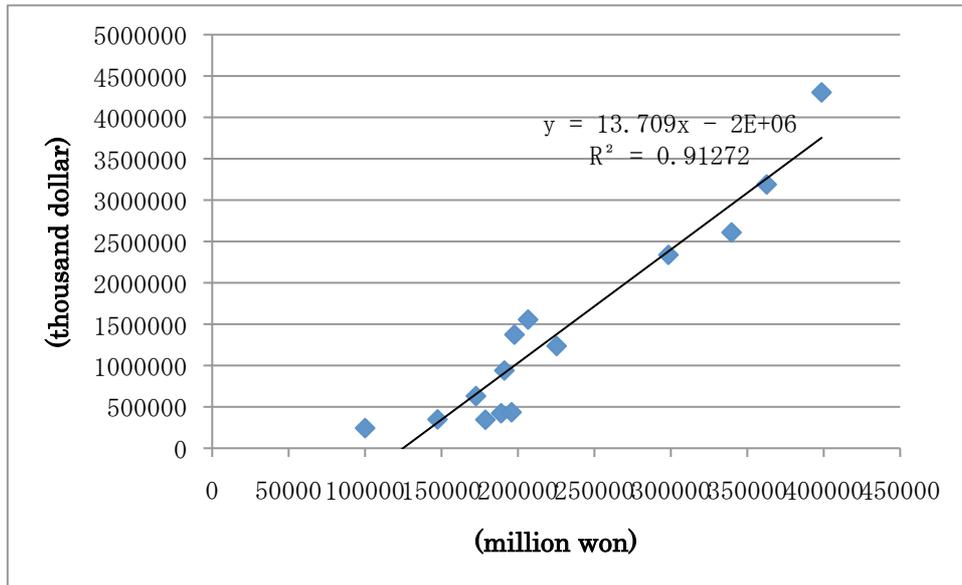
Table 3 Cultural Budget in Korea

(billion Korean won)

	Total Budget(A)	Budget of Ministry of Culture, Sports and Tourism	Budget of Creative Contents Industry(B)	Budget of Media Policy(C)
1994	47,626.2	301.2	5.4	
1995	56,727.3	383.8	15.2	
1996	62,962.6	459.1	18.9	
1997	71,400.6	653.1	13.2	
1998	80,762.9	757.4	16.8	
1999	88,485.0	856.3	100	
2000	94,919.9	1,170.70	178.7	
2001	106,096.3	1,243.10	147.4	
2002	116,119.8	1,398.50	195.8	
2003	115,132.3	1,486.40	189	
2004	120,139.4	1,567.50	172.5	
2005	135,215.6	1,585.60	191.1	
2006	146,962.5	1,738.50	136.3	89
2007	156,517.7	1,425.00	128.4	69.3
2008	174,985.2	1,513.60	150.8	55.8
2009	196,871.2	1,735.00	242.2	56.2

2010	201,283.4	1,876.20	256.1	83.6
2011	209,930.2	1,960.30	249.1	113.6
2012	223,138.3	2,093.30	279.8	118.8

Figure 6 Correlation between Budget and Export



Created based upon data from Ministry of Culture, Sports and Tourism (2013)

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