




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

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(Nouchi / No)

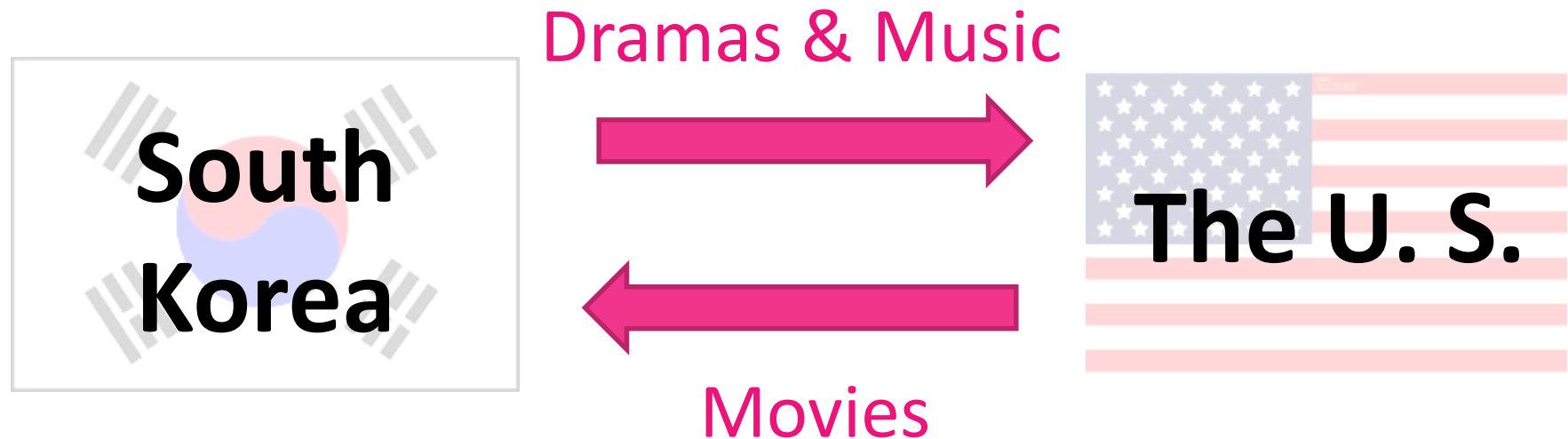
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- The question I considered was whether **KORUS FTA** was really beneficial for the **Korean Wave**.
  - The basic model is a **two-level game**, and I analyze the negotiation process from **Korean Wave** perspectives.
  - Movie, drama and music industries

## Research Question & Methodology

- My hypothesis:
  - Korea lost an advantage of cultural trade with U.S. by KORUS FTA.
  - U.S. → coercion strategy
  - Korea → concession strategy

## Research Question & Methodology

**Q: KORUS FTA → Korean Wave?**



**Research Question & Methodology**



# OVERVIEW

## KORUS FTA (Korea-U.S. Free Trade Agreement)

- FTA between two large economies
  - [U.S.] First FTA with a major Asian economy
  - [Korea] Second largest FTA following the EU-Korea FTA
- Long time with negotiation
  - 2004: FTA was suggested.
  - 2007: Both countries signed.
  - 2012: FTA entered into force.
- One of the controversial points is Korean Wave...?

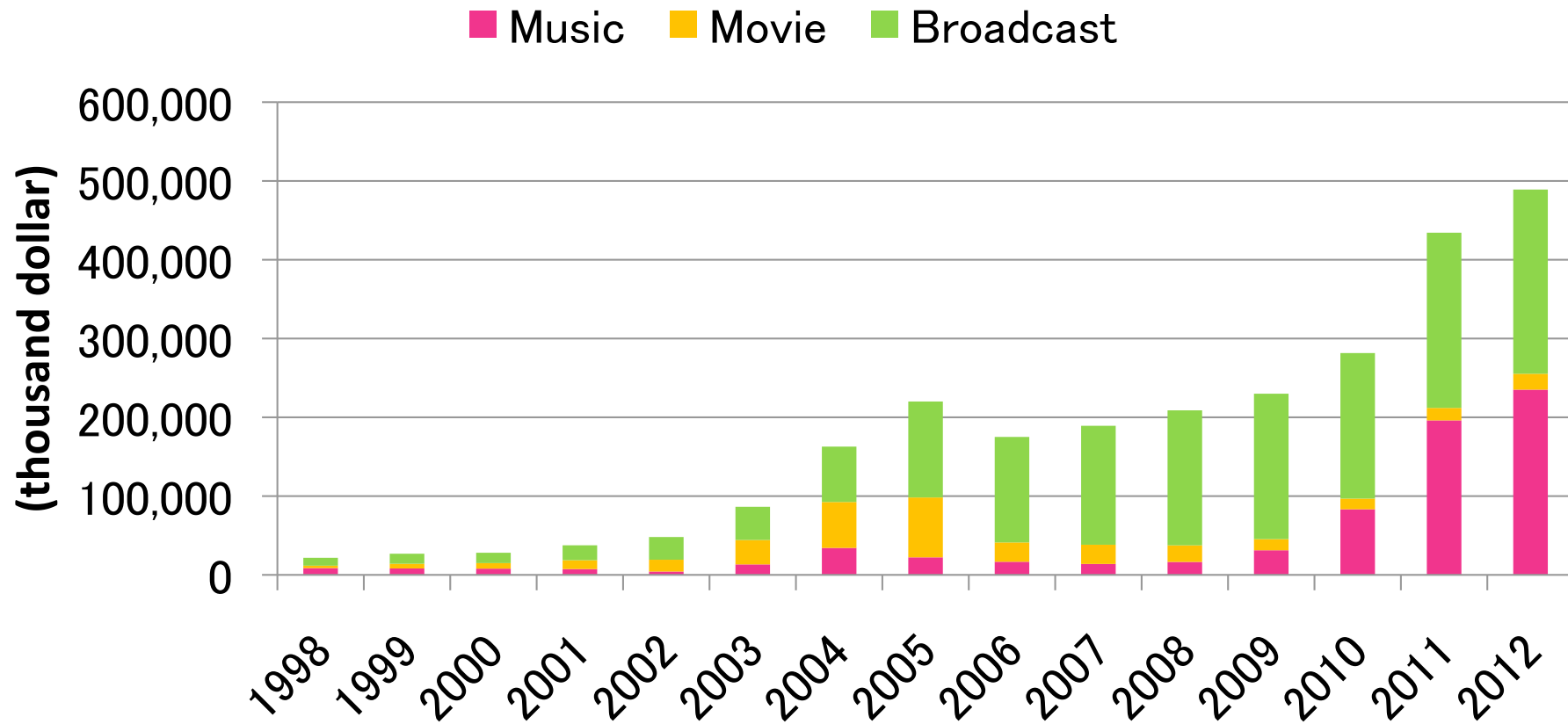
What is KORUS FTA?

## Korean Wave (韓流, Hallyu)

- A recent cultural phenomenon of South Korea
  - The increase in the popularity of South Korean culture since the late 1990s
  - The increased popularity of South Korean entertainment has led to higher sales of other goods and services such as food, clothing and video games
- This is used by the government as a soft power

Korean Wave Diplomacy

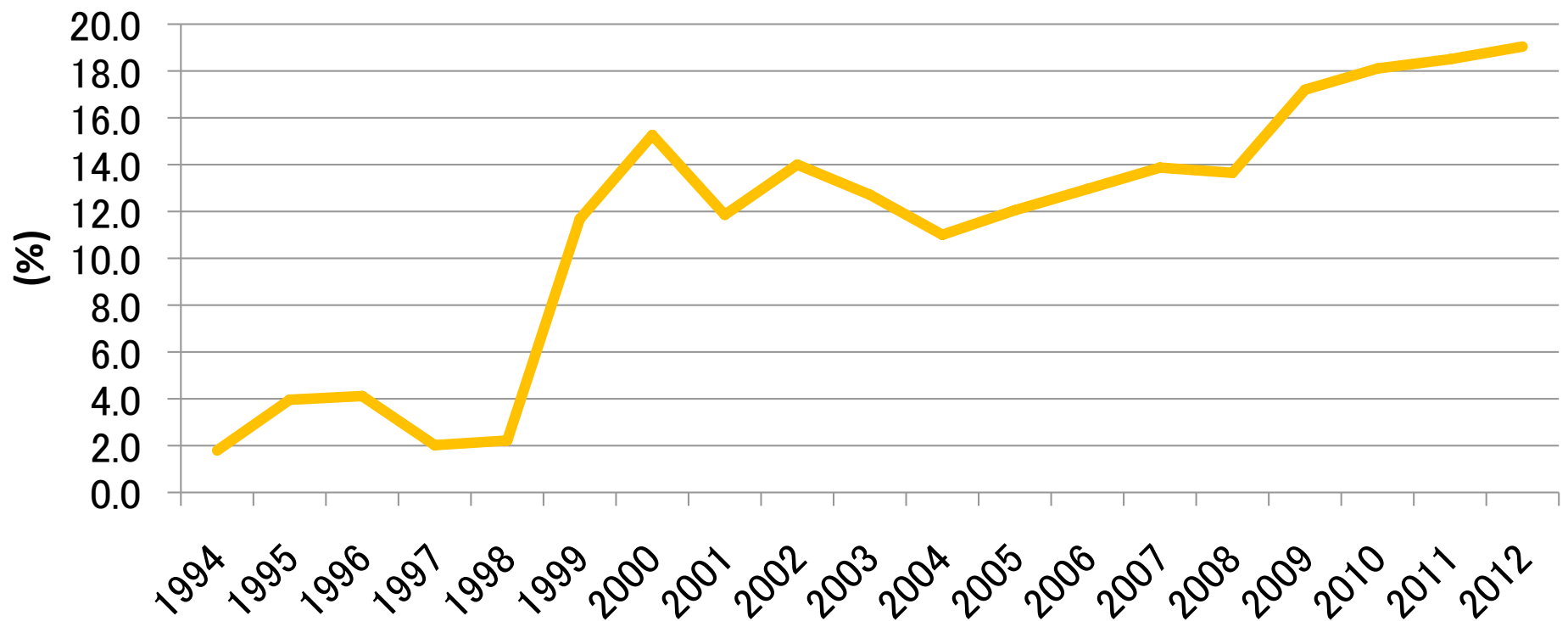
# Export of Korean Cultural Contents



## Korean Wave Diplomacy



# Cultural Budget



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

# Korean Wave Diplomacy

## Correlation between Export and Budget



**Korean Wave Diplomacy**

- According to J.Yang(2012), North America is the second largest continent that imports Korean goods.
  - 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 is the second highest views.

⇒ **The U.S. is an important market.**

- In KORUS FTA, Korea has **2 disadvantages** on export their cultural goods to the U.S..

## Korean Wave Diplomacy

## Disadvantages of KORUS FTA for Korean Wave...

1. Reduction of **movie screen quota** in 2006
  - Reduce quota of Korean movie ratio from 146 days to 73 days in each year
2. Revision of **copyright law** in 2011
  - Revised to TRIPS-Plus regime made by U.S.

Disadvantages of  
KORUS FTA

## Disadvantages of KORUS FTA for Korean Wave...

- **Strong objection!!**
  - “These disadvantages would turn Korea into a colony of U.S.”
  - “Korea was not yet strong enough to enter into the FTA with U.S”
- Korean government agreed on U.S. suggestions.
- Why?

Disadvantages of  
KORUS FTA



# METHODOLOGY

## **A Two-Level Game by Putnam (1988)**

- **Level II: at the Domestic Level**
  - Domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups.
- **Level I: at the International Level**
  - National governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments.

**Literatures**

## A Two-Level Game by Putnam (1988)

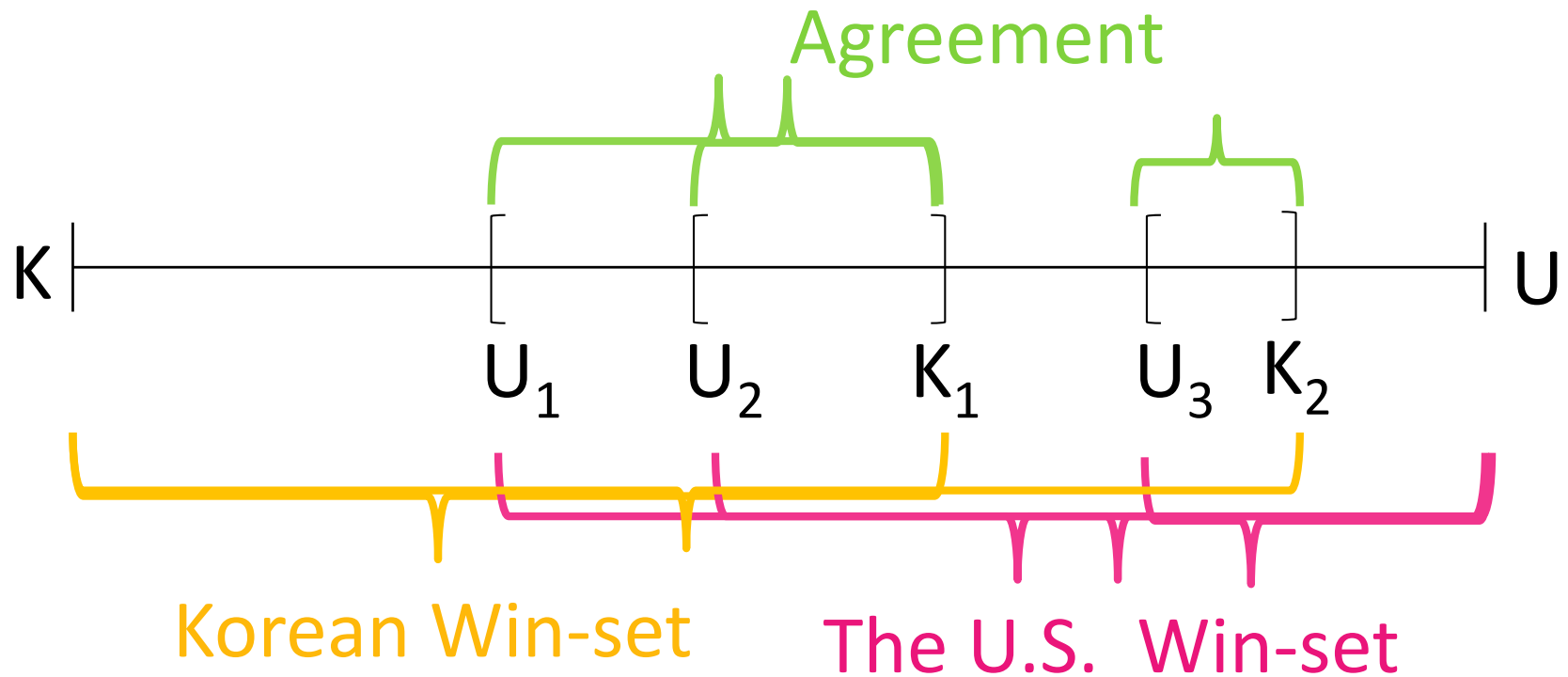
- Three sets of factors affect **win-set size**.
  - Level II preferences and coalitions
  - Level II institutions
  - Level I negotiators' strategies

Literatures



# A Two-Level Game by Putnam (1988)

- “win-set”:



Literatures

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**THE U.S. SIDE**

## **Level II: Small Win-set**

- Preference(1): Screen Quota
- Preference(2): Copyright Law
- Preference(3): Anti-Americanism
- Institutions: Strong Power of Industries

## **Level I: Coercion Strategy**

**Level I & II in the U.S.**

- U.S. film industry has aimed at foreign market.
  - W. D. Walla & Jordi McKenzie(2012)
  - Hollywood: “International revenues have grown from roughly **equal** to domestic in 2000 to **double** the level of domestic revenue in 2009.”
- U.S. film industry has fought with non-tariff barriers.



**(1)Quota (2)Copyright (3)Anti-Americanism**

**Level II in U.S.**

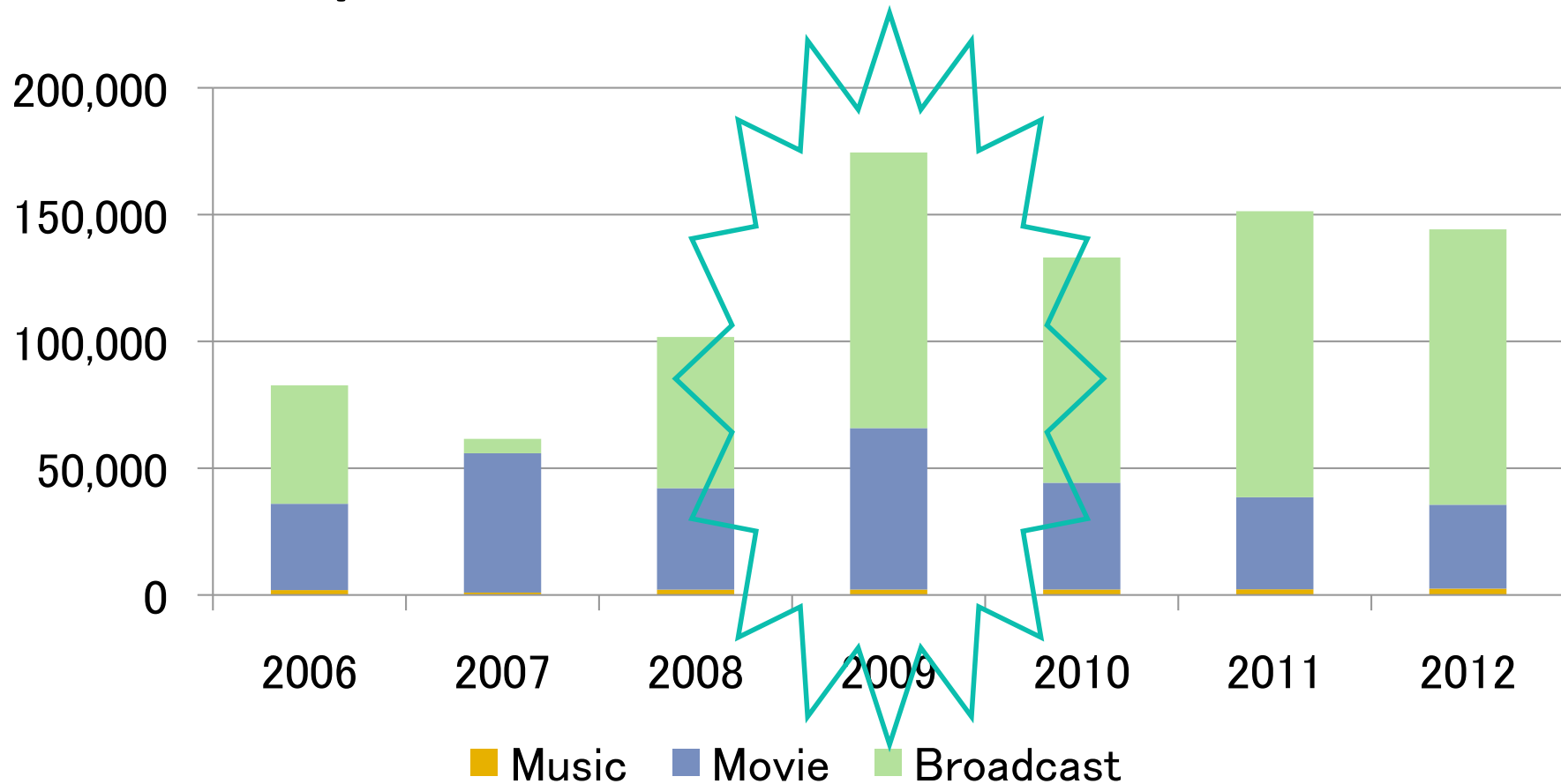
- Several countries enforcing screen quotas include the U.K., Pakistan, Italy etc.
  - In Spain: Minimum number of screening days of domestic films is between 73 and 91 days.
  - In France: 40 percent of the TV broadcasting must be exclusively of French origin and additional 20 percent must be of EU origin.
- The U.S. regards the quotas as “non-tariff barriers,” and has forced to remove them.
- Korea had a **strict quota**.

## Level II Preference(1): Screen Quota

- The KORUS FTA should be seen as a model for future U.S. trade agreements.
  - U.S. industries complain about China.
  - Business software piracy in China alone cost U.S. firms \$3.4 billion in lost trade in 2009.
- Korea also had massive amount of illegal downloading of copyrighted works.
  - Loss by illegal digital downloading was more than \$1.7 billion in 2008 in Korea.
  - Second largest country of online music piracy in 2009.

## Level II Preference(2): Copyright Law

## Cultural Export from U.S. to Korea



**Level II Preference(3): Anti-Americanism**

- Industries are stronger than government.
  - Osawa (2008)
  - Office of the United States Trade Representative (USTR) is mainly concerned in FTAs.
  - However, industries also have strong influence.
  - Ex. Automobile, agricultural, film industries

**Level II Institutions**  
**:Strong Industries**



- Film industry hoped that USTR battled with screen quota, copyright law and anti-Americanism in Korea.
- USTR must consider arguments from each industry.
  - Small domestic win-set
  - Coercion strategy

## Level I: Coercion Strategy

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**SOUTH KOREA SIDE**

## **Level II: Large Win-set**

- Preferences(1): Screen Quota
- Preferences(2): Copyright Law
- Preferences(3): Subsidy
- Institutions: Strong administration

## **Level I: Concession Strategy**

**Level I & II in Korea**

## Multi-track FTA strategy

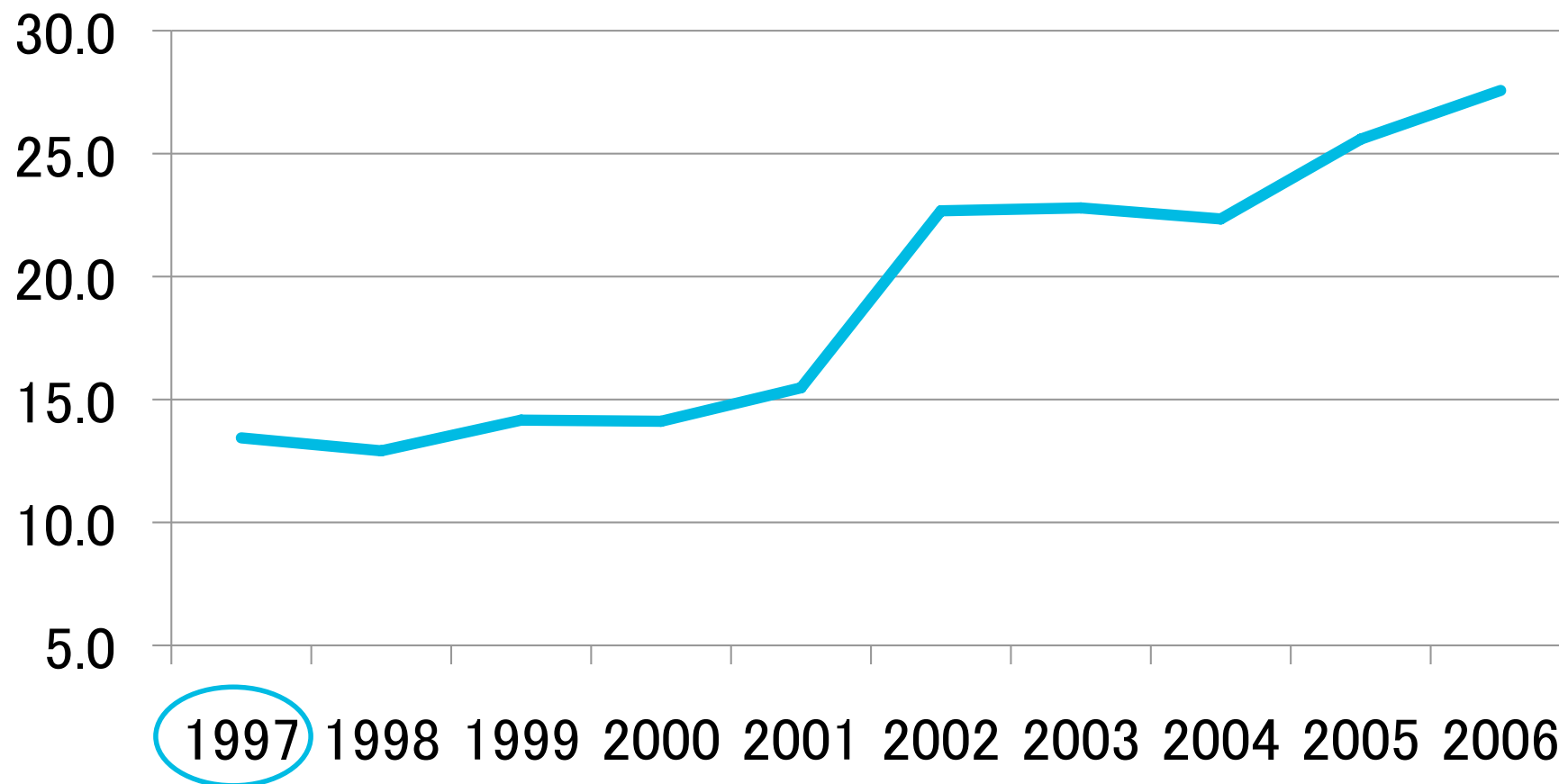
- After Asian currency crisis in 1997
    - The IMF demanded that South Korea would further open its markets.
    - Korea has reformed its economy to open markets.
  - Korea improved its economy by promoting export.
    - ex. Korean Wave
- Government is positive on FTA.

Level II in Korea

- **Strong objection from film industry**
  - Decrease of the duration of screening days owing to U.S. pressure in 1997.
  - “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.
- **Government was positive on quota reduction until 2006.**

**Level II Preferences (1):  
Screen Quota**

## Percentage of domestic films produced in Korea



**Level II Preferences (1):  
Screen Quota**

- **Strong objection from consumers**
  - New provisions: TRIPS-Plus regime
  - Civil law → Common law
  - Too complicating to understand what was illegal or not.
  - Some of them worried that they might be arrested even by just downloading a song on the internet.
- **Government was positive on copyright revision until 2011.**

**Level II Preferences (2):  
Copyright Law**

- The counterfeiting and piracy in their domestic market also bothered Korea.
- The government had already tried...
  - Threatening to cut pirates' connections
  - Blocking pirate websites
  - Forcing youthful downloaders into education program
- All of them did not have clear effect.
- Reforming the copyrights from **Civil law** (focusing on artists' personal rights) into **Common law** (including industries' economic rights)
- It also had a minor **exceptional provision** on broadcasting copyright.

## Level II Preferences (2): Copyright Law



- Korea sustained subsidies
  - One of the vital policies of Korean Wave
  - ex. Post-production: 964 million won
  - ex. International co-production: 2970 million won
- Fortunately, when negotiating KORUS FTA, U.S. did not criticize these cultural subsidies in Korea.
  - Both U.S. government and industries look at Korean cultural subsidies lightly.

**Level II Preferences (3):  
Subsidy**

# Efficient system of the Korean government

- Fast
  - Since 1998, Ministry of Foreign Affairs and Trade (MOFAT) was given jurisdiction over external trade.
- Flexible
  - The authority can be divided into domestic and international sectors.
  - The KORUS FTA Support Agency was established directly under the president.

**Level II Institutions: Strong  
Government**

- Government considered that screen quota reduction and copyrights revision would be beneficial for Korea too.
- There were strong oppositions from industries and consumers, but government suppressed them.
  - Large domestic win-set
  - Cooperative strategy

## Level II: Cooperative Strategy

# Why South Korea concluded the KORUS FTA?

## The U.S.

## Strong Industries

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- Small win-set → Coercion strategy
- VS screen quotas, copyright and anti-Americanism

## South Korea

## Strong Administration

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- Large win-set → Concession strategy
- Assume limited loss on movie by revisions

Conclusion

## Further implication...

Alternative Korean cultural strategies lay behind KORUS FTA.

- ① Expanding import of U.S. cultural contents
  - Korea was trying to repeat their history with Japan since 1998.
  - Foreign high quality culture made their domestic products more competitive after quota reduction
- ② Conserving Korean domestic products
  - Both the copyright revision and the exclusion were for protecting domestic industries in domestic market.

# Conclusion