

# The U.S.-South Korea Free Trade Agreement

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AN ANALYSIS OF U.S. OPPORTUNITIES FOR  
GROWTH

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## **Executive Summary**

The U.S.-Korea Free Trade Agreement presents both nations with an opportunity to expand trade and create more jobs within their respective economies. Ever since President Obama amended the 2007 agreement signed by President Bush, there has been a push by both elected officials and the business community to get it passed in Congress. However, no agreement is perfect and there is still opposition regarding issues with the Korean beef market and the possibility of North Korean products entering the U.S. through the U.S.-Korea Free Trade Agreement.

The pending free trade agreement also offers small U.S. businesses a chance to expand into a new market potentially duty free. Move Collective LLC, maker of the Bobble water bottle is one such company. Ever since the Bobble was released in March 2010, consumers worldwide have responded to its innovative design and functionality. The Bobble is a water bottle with a carbon filter that removes contaminants from tap water. Move Collective, LLC licenses the filter technology exclusively from Pure Water 2Go, a subsidiary of Innova Pure Water, Inc. The Bobble is now available in over fifteen countries through more than 2,500 retailers.<sup>1</sup> It is my recommendation that Move Collective LLC work with distributors to bring the Bobble to South Korea. Since the Bobble is entirely manufactured in the U.S., it would qualify for duty-free treatment under the free trade agreement. This fact, combined with the economy, culture and bottled water industry of South Korea, make it an ideal next destination for the Bobble.

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<sup>1</sup> “Bobble Turns One! In a Single Year the Iconic Self-Filtering Water Bottle Has Gone Global.”

## **The U.S.-Korea Free Trade Agreement**

The KORUS FTA was signed by the government of the U.S. and South Korea on June 30, 2007.<sup>2</sup> However, it is still waiting on Congressional approval in the United States. Reports by the International Trade Commission predict that the U.S. would realize a \$10-\$12 billion increase in annual GDP as well as an increase of \$10 billion in exports annually.<sup>3</sup> Under the agreement, bilateral trade in 95% of consumer and industry goods would become duty free within three years of the implementation date.<sup>4</sup>

In December 2010 President Obama announced that certain key provisions in the 2007 agreement had been renegotiated to better favor American businesses and products. Integral was the further opening of the Korean auto market to U.S. producers. According to the White House, “the agreement improves market access for U.S. auto companies by addressing ways Korea’s system of automotive safety standards have served as a barrier to U.S. exports. Similarly, the agreement addresses proposed Korean environmental standards that could serve as a barrier to U.S. exports – striking a balance that respects our shared desire to reduce the environmental impact of automobiles, but alleviates a real burden placed on American auto companies importing smaller volumes into Korea.”<sup>5</sup>

There has been a recent push to get the agreement passed as soon as possible, as the European Union has also negotiated a free trade agreement with Korea that will enter into force on July 1, 2011. Since South Korea is currently the 7<sup>th</sup> largest trading partner with the United States,<sup>6</sup> American officials want to ensure the country does not lose out on any trade due to

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<sup>2</sup> USTR KORUS-FTA <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-hta>

<sup>3</sup> USTR KORUS-FTA

<sup>4</sup> Ibid

<sup>5</sup> KORUS Fact Sheet

[http://www.whitehouse.gov/sites/default/files/fact\\_sheet\\_overview\\_us\\_korea\\_free\\_trade\\_agreement.pdf](http://www.whitehouse.gov/sites/default/files/fact_sheet_overview_us_korea_free_trade_agreement.pdf)

<sup>6</sup> “Background Note: South Korea”

inaction. The U.S. used to be the number one trading partner of the Republic of Korea; however it has fallen to fourth place, behind China, Japan and the European Union.<sup>7</sup>

The President has gained overwhelming support for the passage of the agreement from the business community. Alan Mulally, CEO of Ford Motor Company, said: “These new provisions provide Ford greater confidence that we will be able to better serve our Korean customers. We deeply appreciate the tireless efforts of the Obama Administration and Congress to improve this agreement and open the Korean auto market.”<sup>8</sup> According to John Engler, President of the National Association of Manufacturers: “Manufacturers congratulate President Obama and U.S. Trade Representative Ron Kirk for their tireless efforts to reach this agreement, which is critical for manufacturers in America and means jobs, jobs and jobs. It was important to manufacturers to improve the auto provision, and we are pleased to see it has been addressed. We are anxious to work with the Administration to get this agreement to Congress for action.”<sup>9</sup>

Additionally, both Republicans and Democrats have come forward to congratulate the president on his negotiations and state their desire to have the agreement passed in Congress quickly. These people include Dave Camp, Republican and Chair of the House Committee on Ways and Means, Kevin Brady, Chair of the House Trade Subcommittee, Sander Levin and Allyson Schwartz.<sup>10</sup>

There are still some concerns American Congressmen and interest groups have regarding the free trade agreement. The first is the worry that the U.S.-Korea Free Trade Agreement will somehow allow goods from North Korea to enter into the United States, and to enter duty free.

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<sup>7</sup> Economic Fact Sheet

[http://www.whitehouse.gov/sites/default/files/fact\\_sheet\\_economic\\_value\\_us\\_korea\\_free\\_trade\\_agreement.pdf](http://www.whitehouse.gov/sites/default/files/fact_sheet_economic_value_us_korea_free_trade_agreement.pdf)

<sup>8</sup> White House Statements of Support: <http://www.whitehouse.gov/the-press-office/2010/12/03/statements-support-us-korea-trade-agreement>

<sup>9</sup> Ibid

<sup>10</sup> Ibid

Currently, as part of the Trading with the Enemy Act, the U.S. by law sanctions countries that are on our list as state supporters of terrorism. The list includes North Korea as well as Cuba, Iran and Sudan. Additionally, the Kaesong Industrial Complex is of concern because it is located in North Korea but paid for and run by South Koreans as part of an economic development program. Workers at the complex are paid much less than comparable employees in South Korea. According to Democratic Representative Brad Sherman from California:

“The language purporting to govern the so-called Kaesong Industrial Complex is intentionally vague. Goods entirely produced in sweatshops north of the DMZ may end up being given the same treatment as South Korean goods under the agreement. The 40,000 workers at Kaesong are not paid by their South Korean employers. The money goes to the North Korean government. Along with several millions in fees, these payments provide hard currency for the North Korean government to maintain its grip on power and pursue nuclear proliferation. If we are serious about denying North Korea the cash it needs to pursue its nefarious aims, we would ensure that this free trade agreement was clear, that no North Korean goods will be allowed into the United States.”<sup>11</sup>

In response to these concerns, on April 18, 2011 President Obama issued an Executive Order regarding North Korea. It expands upon previous Executive Orders on the same subject, stating that “the importation into the United States, directly or indirectly, of any goods, services, or technology from North Korea is prohibited.”<sup>12</sup>

Another issue of concern for some is the Korean beef market. Currently, the Korean government does not allow the import of beef that is from cattle over 30 months old. When Obama renegotiated the trade agreement, the beef issue was not touched.<sup>13</sup> Senate Finance Chairman Max Baucus was among those who were concerned. The reasoning behind the 30 month age limit came from the mad cow disease scare in 2003, and the belief that cattle under 30

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<sup>11</sup> Korea Free Trade Agreement, Sherman Statement <http://bradsherman.house.gov/2011/03/korea-free-trade-agreement-will-benefit-north-korea.shtml>

<sup>12</sup> Executive Order <http://www.whitehouse.gov/the-press-office/2011/04/18/executive-order-prohibiting-certain-transactions-respect-north-korea>

<sup>13</sup> [http://www.agweb.com/article/beef\\_trade\\_not\\_part\\_of\\_u.s.-korea\\_fta\\_renegotiations/](http://www.agweb.com/article/beef_trade_not_part_of_u.s.-korea_fta_renegotiations/)

months were less likely to contract the disease.<sup>14</sup> And while the science says that the beef is still safe from older cattle, the Korean government has stood by its rule.

There are also Korean concerns about the free trade agreement. When the Korean government agreed to amend the agreement, “opponents of [the South Korean] president, Lee Myung-bak, play[ed] on the mood of the moment, liken[ing] the deal to being hit by North Korean artillery fire.”<sup>15</sup> Choi Seok-young, the chief trade negotiator, was quick to say that the Koreans got concessions from the renegotiation, the main one being an extension of Korean tariffs on U.S. pork for an additional two years.<sup>16</sup>

Facing pressure from the American people who want to see unemployment drop, from the Republican majority in Congress who want the trade agenda promoted and from competitors such as the European Union who have already signed and ratified their own agreement with South Korea, Obama and his administration are taking strong steps to present the agreement to Congress for approval before July 1<sup>st</sup>. Because of all of the interest and support by the American business community and elected officials, it seems very likely that the U.S.-Korean Free Trade Agreement will be ratified by the summer.

### **KORUS as an Opportunity for Growth: A Strategic Recommendation**

As previously stated, the U.S.-Korea Free Trade Agreement offers a way to increase the flow of goods and services between the two countries. There will be opportunities for existing companies to export more of their products and services without the problems of having to manage trade barriers. Additionally, this also provides U.S. companies not currently exporting

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<sup>14</sup> “A ‘Landmark Deal’ or Half a Deal? Where’s the Beef?” <http://abcnews.go.com/Politics/us-korea-free-trade-deal-beef/story?id=12313952>

<sup>15</sup> “America’s FTA with South Korea: Where’s the Beef?” <http://www.economist.com/node/17680899>

<sup>16</sup> Ibid.

to the Korean market an ideal opportunity to expand. The following sections will analyze the opportunities present in Korea for a new company, Move Collective LLC. Move Collective currently has one product on the market, the Bobble water bottle. Ever since the Bobble was released in March 2010, consumers worldwide have responded to its innovative design and functionality. The Bobble is a water bottle with a carbon filter that removes contaminants from tap water. Move Collective, LLC licenses the filter technology exclusively from Pure Water 2Go, a subsidiary of Innova Pure Water, Inc. The look of the bottle was crafted by Karim Rashid who is known internationally for his bold designs. The Bobble is now available in over fifteen countries through more than 2,500 retailers.<sup>17</sup> It is my recommendation that Move Collective LLC work with distributors to bring the Bobble to South Korea. The opportunities presented by the Free Trade Agreement, as well as the economy and culture of South Korea, make it an ideal next location for the Bobble to expand.

## **Background**

Portable water filtration bottles have been a presence in the industry for quite some time, although they did not have nearly the same attention prior to the Bobble. Innova Pure Water, Inc. got its first patent for a personal filtered water bottle in 1997.<sup>18</sup> However, the company was not able to adequately market their new product, and sales remained low. They formed Pure Water 2Go in the hopes that they would be able to realize the potential of their invention. Pure Water 2Go now has a variety of filtered water bottles that can be customized for schools, businesses, etc. (See Appendix 2) or basic models that can be purchased both online and at select retail locations.

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<sup>17</sup> “Bobble Turns One! In a Single Year the Iconic Self-Filtering Water Bottle Has Gone Global.”

<sup>18</sup> “About Us” Pure Water 2Go, <http://www.purewater2go.com/about-us>

Move Collective LLC directly licenses the filter technology from Pure Water 2Go. They are in an exclusive agreement for use of this filter system.<sup>19</sup> The Bobble difference comes down to style. Karim Rashid was enlisted to help design the new water bottle with a modern, edgy look. He is the recipient of over 300 design awards, working with clients ranging from Samsung to Deutsche Bank.<sup>20</sup>

It appears that Bobble's unique design was the key to developing consumer awareness towards filtered water bottles. In the year that Bobbles have been available, sales have soared to the millions. The Bobble has received numerous design awards, including being a finalist for the 2011 Edison Awards for Best New Product,<sup>21</sup> an American Design Award, a Good Design 2010 Award and a Spark! Award for Product Design,<sup>22</sup> among others.

The Bobble has gotten positive press from a wide variety of publications, including *Everyday Food – A Martha Stewart Magazine*, *CosmoGirl*, and *Men's Health*.<sup>23</sup> It is available in retailers across the globe: from the UK to Hong Kong to Guatemala.

Move Collective LLC enters into contracts with distributors and retailers to get its products to consumers at home and abroad (See Appendix 3 for a partial list of current retailers).<sup>24</sup>

## Features

The Bobble works using a carbon filter that removes chlorine and other contaminants from tap water. However, it is not recommended to use the Bobble if the quality of the water is

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<sup>19</sup> Ibid.

<sup>20</sup> [http://www.karimrashid.com/biography\\_fr.html](http://www.karimrashid.com/biography_fr.html)

<sup>21</sup> <http://www.edisonawards.com/2011Finalists.php>

<sup>22</sup> <http://www.prweb.com/releases/SparkAward/Winner/prweb4793534.htm>

<sup>23</sup> <http://www.waterbobble.com>

<sup>24</sup> <http://www.waterbobble.com>

completely unknown. If the carbon in the filter were to be accidentally ingested, it is harmless. The filter is effective for about 300 uses, and then replacement filters can be purchased. Additionally, the body of the bottle is made from recycled plastic (polyethylene terephthalate (PET))<sup>25</sup> that is BPA, Phthalates and PVC free.<sup>26</sup> It is completely recyclable. Manufacturing of the bottle and filter takes place in the United States.

### **Why Korea?**

With a population of approximately 48.8 million people, the Republic of Korea is a large economic force in Asia.<sup>27</sup> South Korea has seen significant economic growth in the past few years, making it now the 15<sup>th</sup> largest economy in the world.<sup>28</sup> GDP per capita in 2010 was estimated to be \$30,200, the 44<sup>th</sup> highest in the world.<sup>29</sup> The population is well educated, with high school attendance at 95%.<sup>30</sup> Additionally, in 2010 the economy grew by 6.2% . Exports to Korea from the U.S. in January 2011 totaled \$3.1 billion, an increase of \$500 million from January 2010.<sup>31</sup>

According to the Country Commercial Guide for Korea, “Korean fascination with the ‘American Lifestyle’ and related Americana, continues to draw interest and attention among Korean consumers.”<sup>32</sup> This means that a product that is popular in the United States, like the Bobble, would be well-received partially on the basis of its American popularity.

All of these statistics are good for Move Collective LLC. As previously stated, the Bobble is not intended for use where the water quality is completely unknown (such as many

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<sup>25</sup> <http://www.plasticsinfo.org/Functional-Nav/FAQs/Beverage-Bottles/default.aspx#4>

<sup>26</sup> <http://www.waterbobble.com/FAQs>

<sup>27</sup> CIA World Factbook – South Korea <https://www.cia.gov/library/publications/the-world-factbook/geos/ks.html>

<sup>28</sup> “Background Note: South Korea.” <http://www.state.gov/r/pa/ei/bgn/2800.htm>

<sup>29</sup> CIA World Factbook

<sup>30</sup> “Background Note: South Korea.”

<sup>31</sup> Country Commercial Guide: Republic of Korea

<sup>32</sup> Ibid

third world countries). South Korea has enough infrastructure in place to insure that the Bobble will work for the majority of its inhabitants. Additionally, customers need to have some disposable income to be able to afford a water bottle. The country's GDP per capita indicates that a large portion of the population should have the capacity to purchase this item. The Bobble has been marketed with an image of being a must-have item for the environmentally conscious consumer. This requires that the target population have enough education to be aware of environmental issues and have a desire to combat them. It appears that the South Korean education system is as developed as most Western countries, so lack of education will not be an issue for Move Collective LLC.

### **Bottled Water Industry in South Korea**

It is important to look at trends in the bottled water industry in South Korea because consumers who are purchasing bottled water are concerned about drinking high quality water. These people could be persuaded to buy a Bobble to get the same water quality, while saving money and reducing waste.

The bottled water industry in South Korea has been growing for the past five years (See Appendix 4 for data). In 2009, still bottled water experienced an 8% growth in volume.<sup>33</sup> Driving this growth is a continued health and wellness movement in the country which has persuaded citizens to look for higher quality water. The majority of sales come through retailers (especially grocery stores) over direct selling.<sup>34</sup> Additionally, Korea was the 10<sup>th</sup> largest market

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<sup>33</sup> EuroMonitor

<sup>34</sup> Ibid.

for exports of U.S. bottled water in 2010, up 499.2% from 2009 (See Appendix 5).<sup>35</sup> In February 2011 alone, the U.S. exported \$23,000 worth of bottled water to Korea.<sup>36</sup>

The main consumers of bottled water in South Korea are young women, who look not only for quality but for convenience in their purchases. Recently a few manufacturers have begun producing bottled water in smaller sizes as a response to a demand for a bottle that would fit in women's purses.<sup>37</sup> The 13oz Bobble would be an excellent fit for customers looking for a smaller model, as it is compact enough to fit inside a handbag.

Other trends in the industry include "functional" bottled water, which is enhanced with vitamins and sometimes even weight-loss supplements, as well as deep sea water, which is thought to have additional nutrients.<sup>38</sup>

### **South Korean Environmental Awareness**

There has been an increase in demand for organic products in South Korea, with the organic food and non-food market reaching \$1 billion in 2008.<sup>39</sup> Starting only with specialty organic stores, "green" products and foods are now available at larger department stores, as well as online and in mom-and-pop shops.

Being "green" is an increasingly important trait to people in the Asia-Pacific region. Eco-conscious consumers in the region look for environmentally friendly products, "particularly where they incorporate elements of clever, modern design and innovative function."<sup>40</sup> The

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<sup>35</sup> <http://www.ita.doc.gov/td/ocg/exp312112.htm>

<sup>36</sup> Census Bureau International Trade Statistics [http://censtats.census.gov/cgi-bin/naic3\\_6/naicCty.pl](http://censtats.census.gov/cgi-bin/naic3_6/naicCty.pl)

<sup>37</sup> EuroMonitor

<sup>38</sup> Ibid.

<sup>39</sup> Country Commercial Guide: Korea

<sup>40</sup> "Be Green, Be Cool and Be Nice to the Environment: An Update on Green Consumers in the Asia-Pacific Region." EuroMonitor International

Bobble's sleek design perfectly matches this description and its filtration system is an innovative take on the traditional water bottle.

Additionally, “eco-sensitive consumers are leading a drive away from bottled water, once perceived as desirable and cool, on the grounds of its impact on the environment, energy use in transportation and bottling and in many cases, it offering no benefit over local tap water.”<sup>41</sup> This environment is ideal for the Bobble- it provides consumers a way to access purified water without the waste of using bottled water.

### **South Korean Fashion**

A desire to be environmentally aware crosses over into South Korean fashion. Trends include clothing that is certified to be “fair trade,”<sup>42</sup> as well clothing made from recycled materials.<sup>43</sup> There is a wide range of styles worn by young people in Korea, but there is an emphasis on bright colors and modern looks. This yet again emphasizes the compatibility of South Korean culture with the Bobble. The difference between the Bobble and other filtered water bottles is its appearance. The Bobble becomes more than a way to drink water but rather a fashion accessory you don't want to leave the house without.

### **South Korean Retail and Distribution Channels**

Historically, consumer goods were sold to Koreans through small mom-and-pop stores, called “Jae-Rae-Shi-Jang.”<sup>44</sup> Department stores began to emerge in the larger cities, and recently e-commerce, TV shopping networks and online malls have become a significant presence.

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<sup>41</sup> Ibid

<sup>42</sup> “Fair Trade Clothing.” <http://www.asiafashionclothing.com/index.php?id=1904>

<sup>43</sup> “Green Update.” EuroMonitor International

<sup>44</sup> CS Report: Korea-Retail Channels. 2008. [http://www.buyusainfo.net/docs/x\\_2385888.pdf](http://www.buyusainfo.net/docs/x_2385888.pdf)

Department stores were hard hit by the Asian financial crisis in the late 90's. They then faced increased competition from the discount stores that emerged shortly thereafter. In response, many adjusted their target consumers to become more of a luxury supplier.<sup>45</sup> There are a few key department stores that dominate the market in Korea. The first is Lotte Shopping, which had a 40.78% share of the department store market in 2008. Shinsegae Department Stores (a division of Samsung) had a 13.05% share.<sup>46</sup>

The major player in the discount stores market is E-Mart (owned by Shinsegae) which bought all of the Korean Walmart stores in 2006. It now enjoys a 31% market share, followed by Samsugn Tesco with 25%.

Online malls have become the latest trend in consumer shopping. And while sales through online methods have increased dramatically in the last 10 years, the number of online malls has not. "This is due to a number of large online malls being owned and managed by Korean conglomerates, and/or the TV home shopping network... that are dominating the market, leaving only a finite portion to smaller online malls operated by individuals. With this in mind, if a product is featured the top ten malls listed [in Appendix 6], it is safe to say that the product is being reached to the majority of online mall shoppers in Korea."<sup>47</sup>

Natural and organic stores are gaining popularity and are expected to continue to grow in the future. First offering only food products, they have now expanded and carry a wide-range of environmentally friendly products. In 2007, these stores reported sales of \$290.26 million, up 23.45% from 2006.<sup>48</sup>

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<sup>45</sup> Ibid

<sup>46</sup> Ibid

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

Knowing which retail channels attract younger and environmentally-friendly consumers will be important to Move Collective LLC. While it is not recommended that they distribute the Bobbles to individual retailers themselves, knowing which areas to target will be valuable in their talks with Korean distributors (the process of finding these distributors is described later). It will allow the company to be a knowledgeable partner in their business arrangements as well as to gauge how the Bobble will be received.

### **U.S.-Korea Free Trade Agreement Implications**

In addition to having an ideal environment for the Bobble, exporting Bobbles to South Korea has a financial benefit over other locations. This is due to the pending U.S.-Korea Free Trade Agreement (KORUS FTA).

Every country has a listing of all products and their duty rates. In the U.S. this is called the Harmonized Tariff Schedule (HTS). Many countries have their products harmonized globally to about the six digit level. Plastic water bottles imported to South Korea fall under HSK# 3923.30.00.00, which includes plastic “carboys, bottles, flasks and similar articles.” (See Appendix 7)<sup>49</sup> Currently, there is an 8% duty on imports under this classification; however it has been negotiated under Staging Category A, meaning that plastic water bottles “will be duty free immediately upon the date the FTA enters force.”<sup>50</sup> If the agreement is passed by July 1<sup>st</sup>, then the Bobbles will enter into Korea duty free starting on that date. There are restrictions depending on the origin of the product, but since the Bobbles and filters are completely manufactured in the United States using local materials, the Bobble would qualify for duty free status.

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<sup>49</sup> Korea Tariff Schedule:

[http://www.ustr.gov/sites/default/files/uploads/agreements/fta/korus/asset\\_upload\\_file786\\_12756.pdf](http://www.ustr.gov/sites/default/files/uploads/agreements/fta/korus/asset_upload_file786_12756.pdf)

<sup>50</sup> Tariff Elimination Schedule, [http://www.export.gov/FTA/chile/eg\\_main\\_017577.asp](http://www.export.gov/FTA/chile/eg_main_017577.asp)

Exports of plastic and rubber products to South Korea, under which the Bobble would qualify, increased 42% from 2009, for a 2010 year ending total of 309,581,106 USD.<sup>51</sup> Imports to South Korea from the U.S. under the narrower Harmonized System (HS) number of 3923: articles for the conveyance or packaging of goods, of plastics; stoppers, lids, caps and other closures, of plastics, increased 18.37% in value from 2009.<sup>52</sup>

### **Execution of the Recommendation**

As previously stated, it is my recommendation that Move Collective LLC export its Bobbles to South Korea. I recommend that they follow a similar pattern to their earlier expansions, whereby Move Collective LLC will enter into an agreement with a Korean distributor who will get the product to retailers and consumers in South Korea.

This is an attractive option because it does not involve the same capital that is required to set up a store or plant in South Korea. Once the distributor purchases the Bobble, the risk transfers to the Korean company and it will be in their best interest to sell them to consumers in the country. If for some reason the Bobbles are not well received in South Korea, it will be relatively easy to discontinue exports. Additionally, the Korean distributor will have built relationships with retailers that would be impossible for Move Collective LLC to replicate at this point if they were to try and sell the Bobbles themselves.

There are also many resources available to Move Collective, LLC since it is a small American business. The Small Business Administration, International Trade Administration and Export-Import Bank all have the ability to help connect the company to Korean distributors as well as to identify other export opportunities. Since President Obama has outlined his New

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<sup>51</sup> Trade States Express

<sup>52</sup> International Trade Centre <http://www.trademap.org/tradestat/Index.aspx>

Export Initiative (NEI) to double U.S. exports, more resources have been made available to small and medium sized enterprises (SMEs) to help accomplish these goals.

The purpose of the Small Business Administration (SBA) is to help small businesses by granting loans, providing counseling and help facilitate contracts between government agencies and (SMEs). The SBA not only has a national office but local offices in cities across the country. As part of their counseling services, the SBA assistance to small companies looking to export their products or services. To do this, the agency has Export Assistance Centers in major U.S. cities. These centers are staffed with representatives from not only the SBA, but also the U.S. Department of Commerce and the Export-Import Bank. There is once such center in New York City, where Move Collective LLC is currently located.

In addition to the Small Business Administration, the International Trade Administration (ITA) would offer valuable resources in helping Move Collective reach this new market. The ITA has four operational divisions: the Foreign Commercial Service, Market Access and Compliance, Manufacturing and Services, and Import Administration. Three of these (all but the Import Administration) could be of use to Move Collective LLC not only in their efforts to begin exporting to Korea but also in managing their current export relations in the various countries where the Bobble is available.

The Foreign Commercial Service is the trade promotion arm of the ITA. It offers four key services to U.S. businesses: market intelligence, trade counseling, business matchmaking and trade advocacy.<sup>53</sup> Using the export.gov portal, businesses have access to a variety of resources. In gaining market intelligence, the Commercial Service (CS) offers free webinars on a variety of topics ranging from topics as detailed as *Getting Your Products Through Mexican*

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<sup>53</sup> U.S. Commercial Service <http://trade.gov/cs/>

*Customs to Export Commodity Classification and How to find HS Codes and Calculate Duties and Taxes.*<sup>54</sup>

Additionally, the market intelligence section offers information by country in its Country Commercial Guides. These reports are updated annually and offer information on everything from entry constraints to purchasing power of the population and key contacts. While the country guide for Korea (updated April 2011) does not contain specific information about the bottled water or consumer goods industries, it does provide a comprehensive look at the economic climate as well as advice on market entry.

Since South Korea is the 7<sup>th</sup> largest trading partner with the United States, there is already a strong Commerce Department presence in South Korea that has the ability to connect Move Collective LLC with distributors in Korea. One such service offered is the Gold Key Match Service (GKS). Using this, the CS officers in Korea would arrange for 4-5 meetings per day in the U.S. Embassy in Seoul with prescreened prospective partners. The CS officers would share the relevant background information on each of the companies. For this service, Move Collective LLC would pay \$350 for the first day and \$300 per day for all subsequent days.<sup>55</sup> The office in Seoul would need six weeks advance notice before the desired meeting date. If traveling to Korea will not be possible for the company, there is also a Video Gold Key Service, where the meetings would take place using Digital Video Conferencing (DVCs). The cost of this service is higher, \$500 for the first day and \$400 per additional day,<sup>56</sup> as well as costs of DVC, which are typically \$100 per hour. However, neither of these costs are that significant, and these services would provide contacts that would be difficult for a small company like Move

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<sup>54</sup> Ibid [http://www.export.gov/mrktresearch/eg\\_main\\_018213.asp](http://www.export.gov/mrktresearch/eg_main_018213.asp)

<sup>55</sup> <http://www.buyusa.gov/korea/en/gks.html>

<sup>56</sup> These costs are for first time of the use of these services by SMEs. Costs are higher for subsequent uses as well as for larger corporations.

Collective LLC to get on its own. Since Koreans like to have strong relationships with their business partners, it would be prudent for the management from Move Collective LLC to travel to South Korea to meet in person with its potential partners. If a personal relationship is forged, it will be easier to resolve any problems that may occur during the professional relationship and both parties will be more willing to work together to achieve success.

The office in Seoul also offers customized research on competition, trends and regulatory issues. Prices vary but the average report costs between \$1,380 and \$1,955.<sup>57</sup>

In addition to utilizing the services of the Commercial Service, it would be sensible for Move Collective LLC to hire a Korean lawyer to help facilitate the process. It is possible that the law firm in which they currently manage their contracts with foreign distributors is equipped to advise them on Korean matters, but if not, it will be important for the company to have Korean representation. The Commercial Service recommends that all contracts with Korean businesses include a termination clause to avoid an unfavorable termination ruling by a Korean arbitration body should issues arise.<sup>58</sup> In Korean business culture, a written contract may be viewed as a “gentlemen’s contract,” which is subject to change if conditions are altered.<sup>59</sup>

The Manufacturing and Services division of the ITA offers information on an industry level. It offers data on U.S. exports by industry as well as recent news pertaining to trade in each industry. Another one of the division’s programs is running the Export Trading Company Act. This Act was meant to facilitate coordination between U.S. companies to lower the costs of exporting. One program is the Export Trade Certificate of Review. It “provides substantive federal antitrust protection and procedural benefits to U.S. firms interested in collaborating on export activities. By coordinating with one another under the legal protection of this program,

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<sup>57</sup> <http://www.buyusa.gov/korea/en/cmr.html>

<sup>58</sup> Country Commercial Guide: Korea

<sup>59</sup> Ibid

U.S. firms can reduce their shipping costs, boost their negotiating power, fill large export orders, and develop long-term export business.”<sup>60</sup> Also run by Manufacturing and Services is the Export Yellow Pages. Move Collective LLC could create an entry describing their product and export goals and also search for similar companies with which it could potentially partner to lower operating costs.

The Market Access and Compliance division of the ITA would be most useful to Move Collective LLC after it began exporting to South Korea. The mission of this division is to help U.S. companies that are being treated unfairly in foreign markets by working directly with foreign governments to resolve trade policy and barrier issues. There is a specific Office of Japan and Korea within Market Access and Compliance should the company need assistance in the future.<sup>61</sup>

A third agency that could be of use to Move Collective LLC as they enter a new market is the Export-Import Bank of the United States. The Ex-Im Bank’s mission statement is to “provide financing assistance for the export of U.S. goods and services to international markets because our goal is to make American exporters more competitive in the global marketplace. By offering the financing and insurance that most private institutions won't, we assume risk so you don't have to. Our insurance, guarantees and buyer financing help make selling internationally worry-free.”<sup>62</sup> They have a separate unit devoted to assisting small businesses in exporting abroad. One way that the agency helps is by giving loans to SMEs to help them finance material, labor and overhead costs related to their export orders. A second area of assistance the Ex-Im Bank provides is buyer non-payment protection. The bank offers insurance in case the Korean distributors fail to pay Move Collective LLC for either political or commercial reasons. There

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<sup>60</sup> Export Trading Company Act <http://www.trade.gov/mas/ian/etca/index.asp>

<sup>61</sup> <http://www.mac.doc.gov/japan-korea/>

<sup>62</sup> Export-Import Bank <http://www.exim.gov/smallbusiness/index.cfm>

are requirements regarding the percentage of costs (of supplies, labor, research, etc.) which must come from the U.S. Since the Bobble is made entirely in the States, the company would qualify for insurance should they choose to pursue this option. This insurance can also help SMEs avoid having to get complicated letters of credit from their buyers before producing their products. Fees are lower for SMEs, averaging about \$500 per transaction.<sup>63</sup> Lastly, the bank can help potential buyers of a U.S. company's product obtain financing that will allow them to have a longer repayment time, thereby making the company's products more affordable. Additionally, the Ex-Im Bank offers expanded financing options to U.S. companies that export environmental goods and services. Since the Bobble is a recycled, recyclable water bottle that can be used multiple times, it is possible that it would qualify for these added benefits from the bank.

Eventually, it would be smart for Move Collective LLC to work with its Korean distributors to establish a Korean language website where consumers could place orders and the Korean distributor would be responsible for shipping them to the consumer (like the current U.S. website). E-commerce is developing a significant presence in the Korean consumer goods market, especially among younger consumers. Given the modern design of the Bobble, it would most likely be targeted towards those age groups.

### **Intellectual Property Concerns**

The risk with exporting products to a distributor rather than overseeing their sale to retailers is that you have less control over the operations. One chief area of concern is regarding intellectual property infringement. Many foreign nations do not have mechanisms in place to adequately prosecute patent infringements. However, Korea has been known to be one of the stronger advocates for intellectual property protection, especially as more and more patents are

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<sup>63</sup> [http://www.exim.gov/sbgport/SB\\_single.cfm](http://www.exim.gov/sbgport/SB_single.cfm)



very strong provision for intellectual property rights enforcement so if infringement were to occur, there would be a mechanism for Move Collective LLC to seek justice. Included in the intellectual property rights section of the agreement are “provisions to combat trademark counterfeiting [through] customs enforcement against goods-in-transit and streamlined customs procedures to increase efficiency of enforcement.”<sup>68</sup>

## **Conclusion**

The pending U.S.-Korean Free Trade Agreement offers an opportunity for the United States to expand trade with its seventh largest trading partner. An amendment of the 2007 agreement included major concessions for the U.S. auto industry. And while there remain concerns, particularly over the possibility of North Korean goods entering the U.S. duty free and well as the Korean beef market, the current climate within Washington is to pass the agreement before the EU-Korean Free Trade Agreement goes into effect and hampers American competitiveness in South Korea.

The free trade agreement also presents opportunities for U.S. businesses to expand into a new, large and developed market. Move Collective LLC is one such company. The strength of the South Korean economy, environmental awareness of its citizens and benefits of its trade relationship with the United States make the country a prime location for the Bobble to be exported. As this filtered water bottle gains in popularity, management must work quickly to expand the Bobble to ideal locations while the product still has patent protections. Seeing how the Bobble has succeeded in Hong Kong, Korea offers a larger market and a stepping stone to other Asian locations, such as Singapore or Japan. By exporting the product, the company will expand while shouldering minimal risk.

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<sup>68</sup> [http://www.trade.gov/mas/ian/build/groups/public/@tg\\_ian/documents/webcontent/tg\\_ian\\_002594.pdf](http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_002594.pdf)

## Appendices

### Appendix One: The Bobble



### Appendix Two: Pure Water 2Go Water Bottles



### Appendix 3: Current Retailers (Partial List)

**bobble**  
make water better.

available at the following stores. more retailers coming soon.

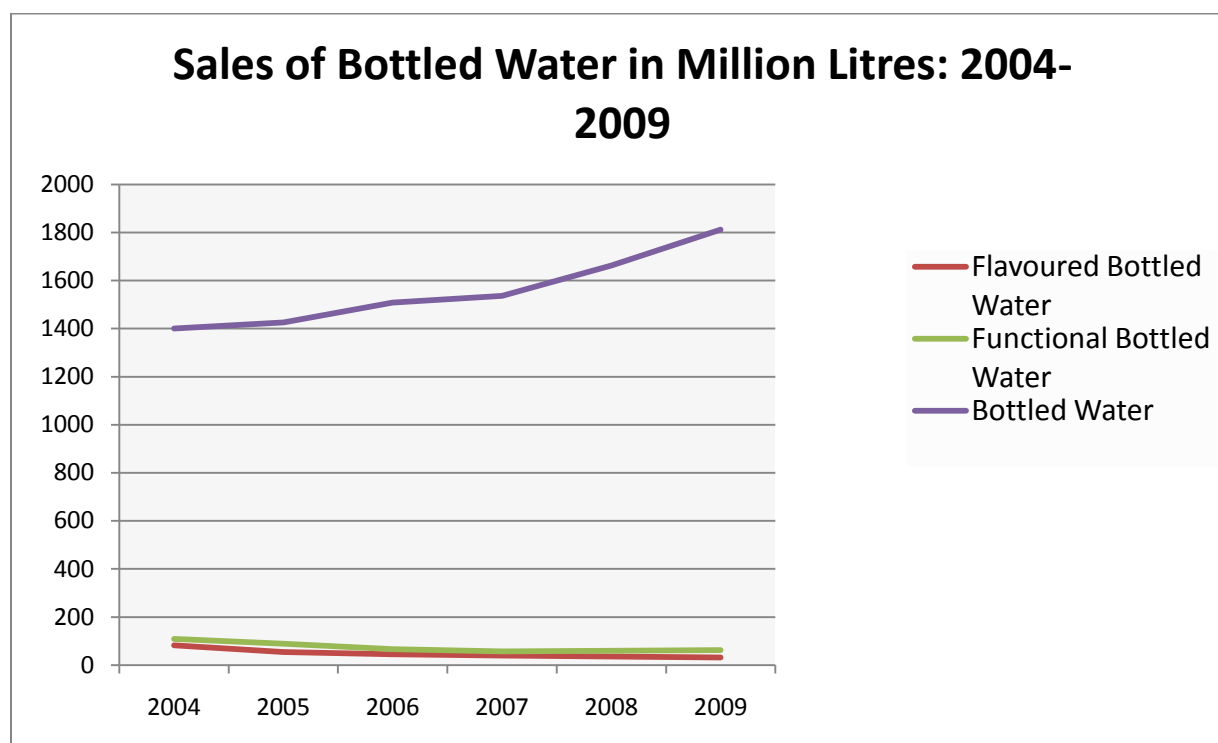
Ad'Hauc (France)	Cracker Barrel	Heals (UK)	Parafarmcias Monte-
Arcal Pharmacies (New Zealand)	Crate & Barrel	Herberger's	Farm (España)
American Apparel	De Bijenkorf (Nederland)	House (Australia)	Parisian
Barnes & Noble College Booksellers	Earth Fare	House of Fraser (UK)	Paul Smith (UK)
Bealls Department Stores	Elder-Beerman	Howards Storage World (Australia)	Pedlars (UK)
Bed Bath & Beyond	Esprit Maison (France)	JCPenney	Planet Organic (UK)
Beyrner's	Eurostyle Your Life	John Lewis (UK)	Precinct-5 (Nederland)
BHV (France)	Ferwick's (UK)	Kitchen Bazaar (France)	Printemps (France)
Bloomingdale's	Ferretias COFAC (España)	Kitchen Collection	Robins Kitchen (Australia)
Bon-Ton	FrancFranc (Hong Kong)	Kitchen Kaboodle	Roche Bros.
Bookazine (Hong Kong)	Gadgets & Quina	Kitchen Kapers	Sainsbury's (UK)
Boots (UK)	Barcelona (España)	La Carpe (France)	Saul E Mendez (Guatemala)
Bosco's	Galeries Lafayette (France)	Le Bon Marche (France)	Seattle's Best Coffee - cafes
Boston Store	Genevieve Leithu (France)	Life Pharmacies (New Zealand)	Selfridges (UK)
Bristol Farms	Gigasports (Hong Kong)	Macy's	SERVE! ESTACIO,
Buffalo Hardware Co	GNC	Matchbox (Australia)	Barcelona (España)
Canadian Tire (Canada)	GNC (Australia)	Merci (France)	Steamer Trading (UK)
Care Chemists (New Zealand)	Gourmet Gallery Waco	MULTIPLASTIC (España)	Stevens Homewares (New Zealand)
Carson Pire Scott	Green Depot	Myer (Australia)	Target
Central Markets	Hagen	National Pharmacies (Australia)	ThreeSixty Elements &
Chef Central	Hallmark Gold Crown Stores	Novex (Guatemala)	Landmark (Hong Kong)
CitySuper (Hong Kong)	Hammors	Officeworks (Australia)	Tiendas VIPs (España)
Colette (France)	Harris Teeter	Old Navy	Unichem Pharmacies

### Appendix 4: South Korean Bottled Water Industry

Off-trade Sales of Bottled Water: Volume 2004-2009 (in Million Litres)

	2004	2005	2006	2007	2008	2009
Still Bottled Water	1,208.5	1,281.0	1,396.3	1,439.6	1,567.7	1,716.7
Carbonated Bottled Water	-	-	-	-	-	-
Flavoured Bottled Water	82.9	54.9	45.6	39.7	35.7	32.0
Functional Bottled Water	108.9	89.3	67.0	56.9	59.2	62.8
Bottled Water	1,400.4	1,425.3	1,508.9	1,536.3	1,662.7	1,811.4

Source: Official statistics, trade associations, trade press, company research, store checks, trade interviews, Euromonitor International estimates



Forecast Off-trade Sales of Bottled Water: Volume 2009-2014 (in Million Litres)

	2009	2010	2011	2012	2013	2014
Still Bottled Water	1,716.7	1,888.4	2,086.6	2,316.2	2,582.5	2,892.4
Carbonated Bottled Water	-	-	-	-	-	-
Flavoured Bottled Water	32.0	30.9	29.9	29.2	28.6	28.2
Functional Bottled Water	62.8	64.7	66.9	69.6	72.7	76.4
Bottled Water	1,811.4	1,983.9	2,183.5	2,414.9	2,683.8	2,997.0

Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

**Appendix 5: Top 25 Export Markets for U.S. Bottled Water**  
**NAICS 312112: FAS Value by FAS Value**

Country	2006	2007	2008	2009	2010	Percent Change 2009 - 2010
	In 1,000 Dollars					
Japan	49,163	90,395	79,351	65,014	58,302	-10.3%
Canada	3,923	13,038	8,364	5,352	14,344	168.0%
Mexico	245	731	1,214	721	1,361	88.8%
China	10	6	122	272	947	248.4%
Cayman Is	1,244	1,183	985	676	707	4.6%
Bahamas	1,035	530	550	279	619	121.6%
United Kingdom	69	90	413	641	597	-6.9%
Bermuda	471	683	725	649	419	-35.5%
Netherlands	140	155	248	460	418	-9.1%
Korea	103	305	231	57	344	499.2%
Taiwan	495	194	182	292	336	15.2%
Barbados	40	179	71	177	244	38.1%
Hong Kong	34	444	224	215	236	9.6%
Australia	69	22	147	132	208	57.7%
Singapore	12	6	44	36	204	471.5%
Netherlands Ant	120	320	241	142	197	38.4%
Panama	11	65	44	74	192	159.8%
Belgium	0	0	12	0	174	N/A
Br Virgin Is	118	373	183	202	159	-21.3%
Aruba	55	81	129	122	103	-16.0%
Dominican Rep	213	96	48	78	76	-3.3%
Haiti	0	50	44	12	70	477.3%
Costa Rica	3	4	0	5	61	1,050.6%
Turks & Caic Is	229	118	216	129	60	-53.5%
Czech Republic	22	45	40	50	59	19.5%
Subtotal :	57,826	109,111	93,827	75,785	80,435	6.1%
All Other:	1,186	1,739	1,466	1,024	722	-29.5%
Total	59,012	110,851	95,293	76,809	81,157	5.7%

## Appendix 6: Presence of Online Malls in Korea

### Sales from Online Shopping Malls

Unit: US\$ Million

Year	2001	2002	2003	2004	2005	2006	2007
Sales	131.5	4,770.0	6,600.0	8,200.0	10,450.0	13,030.6	15,780.0
Annual Growth rate (%)	N/A	176	38	24	27	25	21
Number of Online Shopping Malls	2,166	2,896	3,358	3,489	4,335	4,531	4,508

(US\$1=KW 1,000)

Source: The Year Book of Retail Industry 2008/ Retail Magazine / Korea National Statistics Office

### Top 10 Online Shopping Malls

Name	Established year	Sales (USD Million) in 2007	Market share (%)	Website
GS eshop	1994	593	7	<a href="http://www.gseshop.co.kr">www.gseshop.co.kr</a>
CJ mall	1994	519	6	<a href="http://www.cjmall.co.kr">www.cjmall.co.kr</a>
Hyundai mall	2001	363	4	<a href="http://www.hmall.co.kr">www.hmall.co.kr</a>
Sinsegae I&C	n/a	244	3	<a href="http://mall.shinsegae.com">http://mall.shinsegae.com</a>
Nongsusan	2001	211	2	<a href="http://www.nseshop.co.kr">www.nseshop.co.kr</a>
Auction	1996	182	2	<a href="http://www.auction.co.kr">www.auction.co.kr</a>
Lotte.com	2000	68	1	<a href="http://www.lotte.com">www.lotte.com</a>
d&shop	1995	51	1	<a href="http://www.dnshop.co.kr">www.dnshop.co.kr</a>
Interpark	1995	32.4	0	<a href="http://www.interpark.com">www.interpark.com</a>
Total Online Mall Market		9,040	Total market share of top 10: 25	

(US\$1=KW 1,000)

Source: The Year Book of Retail Industry 2008/ Retail Magazine

## Appendix 7: Excerpt of Korean Tariff Schedule

HSK	Description	Base rate	Staging Category	Safeguard
3921199030	Of amino-resins	6.5	A	
3921199040	Of phenolic resins	6.5	A	
3921199090	Other	6.5	A	
3921901000	Of polymers of ethylene	6.5	A	
3921902000	Of polymers of propylene	6.5	A	
3921903000	Of polymers of styrene	6.5	A	
3921904010	Rigid	6.5	A	
3921904020	Flexible	6.5	A	
3921905010	Of polymethyl methacrylate	6.5	A	
3921905090	Other	6.5	A	
3921906010	Of polycarbonates	6.5	A	
3921906020	Of polyethylene terephthalate	6.5	A	
3921906030	Of unsaturated polyesters	6.5	A	
3921906090	Other	6.5	A	
3921907010	Of regenerated cellulose	6.5	A	
3921907020	Of vulcanised fibre	6.5	A	
3921907030	Of cellulose acetate	6.5	A	
3921907090	Other	6.5	A	
3921909010	Of polyvinyl butyral	6.5	A	
3921909020	Of polyamides	6.5	A	
3921909030	Of amino-resins	6.5	A	
3921909040	Of phenolic resins	6.5	A	
3921909050	Of polyurethanes	6.5	A	
3921909090	Other	6.5	C	
3922101000	Baths and shower baths	8	A	
3922102000	Wash-basins	8	A	
3922103000	Sinks	8	A	
3922200000	Lavatory seats and covers	8	A	
3922901000	Bidets	8	A	
3922909000	Other	8	A	
3923100000	Boxes, cases, crates and similar articles	8	C	
3923210000	Of polymers of ethylene	8	A	
3923290000	Of other plastics	8	A	
3923300000	Carboys, bottles, flasks and similar articles	8	A	
3923400000	Spools, cops, bobbins and similar supports	6.5	A	
3923500000	Stoppers, lids, caps and other closures	8	D	
3923900000	Other	8	D	



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