

**Testimony of
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**Before the Subcommittee on International Trade, Customs and Global Competitiveness
Committee on Finance
United States Senate**

**For the Hearing on
The U.S.-Korea Free Trade Agreement: Lessons Learned After Two Years**

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Chairwoman Stabenow, Ranking Member Isakson and Members of the Subcommittee, I am pleased to be here today to discuss the U.S.-Korea Free Trade Agreement (KORUS).

Qualcomm was and remains a strong supporter of this historic agreement. Since the KORUS entered into force a little more than two years ago, it has substantially opened the Korean market to U.S. goods, services, and investment. The agreement also enhanced the basic framework for U.S. free trade agreements, creating an updated model upon which to build the Trans-Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP) and Trade in Services Agreement (TISA).

In the two years since KORUS was implemented, Korea has become the tenth largest export market for U.S. goods and our sixth largest trading partner. U.S.-Korean bilateral trade today tops \$104 billion in goods, about one-third greater than when negotiations first began in 2006. Bilateral trade in services in 2013 came to roughly \$27 billion. U.S. foreign direct investment in Korea totaled about \$35 billion in 2012, and Korean investment in the United States was roughly \$24.5 billion.

Qualcomm and Korea

Korea is an important market for Qualcomm. We enjoy a robust commercial, investment, and intellectual property-licensing relationship with Korea and many Korean firms. Korean cellphone manufacturers like Samsung and LG Electronics are among our most valued partners, along with Korea's three national mobile service providers: SK Telecom, Korea Telecom and LG Uplus.

Qualcomm is a world leader in 3G, 4G and next-generation mobile technologies. If you have a smart phone, tablet or other advanced mobile device, you likely are using some form of Qualcomm-developed technology. Our research and development efforts, as well as strategic partnerships with other innovative companies, allow us to develop the breakthrough technology mobile companies need to power their business. Once the technology is developed, we channel our innovations into Korea and the global marketplace in two ways.

First, we sell advanced semiconductor chipsets which are incorporated into mobile devices manufactured by our customers, which are sold globally.

Second, we broadly license our patented innovations to more than 270 licensee customers across the mobile industry. Qualcomm's innovation and patent-intensive business model has and continues to provide all companies – big or small – opportunities to enter and compete in the dynamic mobile ecosystem.

Qualcomm led the development and commercialization of a pioneering digital communications technology called Code Division Multiple Access (CDMA), and we play a similar role for next-generation mobile technologies known as 4G Long-Term Evolution (LTE). We take pride in our contributions in

helping to make mobile communications the biggest, most pervasive information platform in history – with nearly 7.8 billion mobile connections in a world of 7.2 billion people.

Korea is a microcosm of the explosive global growth of mobile technologies. Fifteen years ago, Korea’s mobile market was small. However, since the introduction of CDMA in Korea, it has expanded rapidly. Korea was one of the first countries to deploy commercially the 2G version of CDMA in 1996 and upgraded to the 3G version in 2000 and in 2011 all Korean service providers adopted 4G-LTE.

Prior to collaborating with Qualcomm in the 1990s, Samsung and LG Electronics made consumer electronics and household appliances. Today, they are competitive, global suppliers of mobile devices. Korea is among the world’s most sophisticated mobile markets and Korean companies and consumers are among the first to adopt new mobile technologies that Qualcomm has pioneered.

Qualcomm and the U.S.-Korea Free Trade Agreement (KORUS)

Given our strong partnership with Korea, it should be no surprise that Qualcomm enthusiastically endorsed the negotiation and Congressional approval of KORUS. Our support for KORUS was based on a number of factors, including benefits like market opening in areas such as information and communications technology goods and services. It enhanced protection for intellectual property rights, investment and regulatory transparency. The agreement has also created and sustained U.S. jobs, and done so on a reciprocal basis. KORUS was an important strategic step toward upgrading and modernizing the template for free trade agreements negotiated by the United States.

Qualcomm’s future growth will be driven by partnerships to advance the “internet of everything,” which includes machine-to-machine communications like smart cars and smart buildings, mobile-education,

mobile-health and new applications of commercially available technologies. KORUS is an important example of U.S. government efforts to negotiate forward-looking trade agreements that foster such collaboration and create future opportunities like these. If history is an accurate indicator, Korea will be among those countries that are early to adopt and commercialize these cutting edge technologies that are important to an array of U.S. technology and service companies.

As businesses in both countries expand, they need a robust information and communications backbone to build and maintain growth in a number of sectors, for example mobile communications, mobile commerce and other mobile internet-oriented applications. As firms compete and cooperate to advance innovation, they create new technologies and services that make collaboration, communication and connection stronger, which benefits consumers. By eliminating or reducing barriers to business and investment with and in Korea, and establishing meaningful rules in other areas, KORUS helps create the economic environment vital to Qualcomm's and many other U.S. firms' continued success.

While not all of the following are directly relevant to Qualcomm, consider the ways in which KORUS promotes a competitive, innovative environment which expands market opportunities for U.S. companies. It:

- Eliminates 95 percent of all Korean tariffs on U.S. exports of industrial and consumer goods by 2016, benefiting a broad range of American industries and workers;
- Established new rules to reduce Korean non-tariff trade barriers that have historically been of concern to the U.S. business community;

- Liberalized new services markets in a number of sectors, including the information and communications technology sector critical to Qualcomm;
- Adopted the principle of technology neutrality, which obliges Korea to refrain from discriminating in favor of Korean businesses or technologies when it sets technical standards;
- Expanded existing procedures to ensure fairness, transparency and due process in Korean competition law investigations and enforcement actions;
- Created new government procurement opportunities for U.S. firms to compete;
- Incorporated state-of-the-art protection for intellectual property rights;
- Included strong and enforceable investment protections for U.S. investors in Korea; and
- Enhanced transparency in Korean regulation and rule-making.

These are just a few of the tangible benefits of KORUS, the scope of which extends into virtually every area of the U.S.-Korean trade and investment relationship.

In our view, KORUS has yielded benefits and Korea has made continued progress in leveling the playing field and opening its market to U.S. firms. However, we are only two years into implementation, which coincided with a slow recovery from the painful global economic recession. We recognize that while

progress has been made, and Qualcomm enjoys a robust business relationship with Korea, other U.S. firms doing business in or with Korea have concerns about KORUS implementation.

That issues of this nature arise is only natural given the complex, greater than hundred billion dollar bilateral trade and investment relationship. It is essential that these concerns be resolved as soon as possible. Both parties should fulfill their obligations in a full and timely fashion as required under the agreement.

When there are differences over the interpretation of or compliance with commitments, KORUS provides a structure for regular, ongoing bilateral dialogue about specific challenges and implementation issues. This mechanism can help the United States and Korea to address those issues that arise and ensure full and faithful KORUS implementation. If resolutions cannot be reached through consultation, KORUS established a transparent and timely dispute resolution process.

Looking Ahead

KORUS created a ground-breaking framework for strengthening U.S.-Korean trade and economic relations. But trade agreements are not self-executing. They depend on governments taking the necessary actions to create an environment conducive to spurring economic growth. These actions may not be required by the agreements but are nevertheless necessary to create an environment in which trade gains are most likely to be realized.

For example, Qualcomm applauds Korean President Park's economic agenda designed to stimulate Korean economic growth. Her plan has three objectives: strengthening Korea's economic fundamentals, fostering an innovative economy, and creating a balanced Korean economy where

growth comes from domestic demand as well as exports. For Qualcomm and many other Korean and U.S. companies, this is a welcome development and we are hopeful that it will be fully and successfully implemented.

President Park's emphasis on innovation and creative industries, including information and communications technologies (ICT), presents opportunities for U.S. business, both in terms of direct sales and for collaboration with Korean enterprises. To realize these benefits, the Park administration must move ahead and strengthen the business environment through regulatory, legal, tax, transparency and customs reforms so that Korea indeed develops a sustainable creative economy that provides a mutually beneficial partnership with the United States.

A component of President Park's domestic agenda is to ensure that competition is not adversely impacted by overregulation. We applaud this initiative as both Korean and U.S. companies have seen regulatory over-reach in certain areas. Also critical to a vibrant innovation ecosystem is the application of antitrust law. It is important that antitrust authorities employ fact-based, rigorous economic analysis and a competitive effects-based approach in their enforcement actions, which is particularly important in understanding innovation-driven industries. In that context, it is critical that the system of risk and reward enshrined in the patent system is upheld in order to promote incentives to innovate by focusing on dynamic rather than static efficiencies. Delay or failure to adopt a light regulatory approach will limit the opportunities for U.S. and Korean companies alike and deny benefits to consumers.

Qualcomm believes that it is in the shared interest of the U.S. and Korean business communities for the Government of Korea to strive to advance a framework for innovation that encourages the private sector to create new opportunities in information and communications technologies and related services for which ICT is the backbone. Such a framework would involve continued deregulation and

transparency, market access liberalization and continuous U.S.-Korean dialogue on how best to jointly foster innovation and entrepreneurship, for example by leveraging the newly established U.S.-Korea ICT Dialogue.

Beyond the domestic reform agenda, continued trade reform is a must. Successful trade relationships are vibrant, and the agreements that govern those relations cannot be stagnant. Although KORUS was negotiated in 2007 and implemented just two years ago, today we should seize the opportunity in the broader Asia Pacific region presented by the Trans-Pacific Partnership (TPP), which builds on KORUS. TPP will enhance regional economic ties and establish an improved framework for trade and investment across the Pacific.

Successful conclusion of TPP can also instill needed ambition in the multilateral arena, including through expansion of the World Trade Organization Information Technology Agreement (ITA). We encourage Korea to work alongside the United States to help drive and conclude ongoing ITA negotiations as soon as possible. Qualcomm supports these efforts to expand free trade initiatives that are in the best interests of the U.S. economy and workers, and also reinforce Washington and Seoul's shared goal of economic prosperity and closer commercial ties.

Conclusion

This hearing asks the question: what are the lessons learned from KORUS after two years? The lessons at this point seem also to be the lessons learned from other U.S. free trade agreements. Namely, it is possible to negotiate an agreement between partners who have different interests and complex national economies but a common objective, and that such an agreement can deliver benefits to both parties.

Korea is an essential economic and strategic ally of the United States and a crucial business partner for Qualcomm and other American companies. KORUS has further cemented strong trade and economic relationships, and provided a framework for broadening and deepening those ties.

KORUS is still a work in progress with respect to the phase in of certain disciplines, but it is accomplishing its goal of improving the ability of U.S. investors and firms to compete in Korea. Implementation questions and new challenges will inevitably arise and need to be addressed through the mechanisms established in the agreement for resolving bilateral trade and investment issues.

KORUS represents an updated model for U.S. free trade agreements and has helped pave the way for new trade agreements, like TPP and the TTIP. Our experiences with KORUS should inform the important debate on Trade Promotion Authority (TPA) that we need to have. TPA will provide the Administration with updated negotiating objectives reflecting the 21st century opportunities in the global trading system.

As implementation of KORUS proceeds, Qualcomm looks forward to the expansion of its business and partnerships in Korea, and also an increasingly prosperous trade and investment relationship for both the United States and Korea. We believe KORUS provides a valuable framework for promoting continuing economic engagement, new innovations, jobs and consumer benefits among these two critical economies and beyond.

Thank you again for this opportunity to share Qualcomm's view on this important topic.