

# **An Agenda to Strengthen U.S.-Korea Economic Relations**

**Presentation**

**May, 2002**

## **I. KOCHAM: Overview and Mission**

- The Korean Chamber of Commerce and Industry in the USA, Inc. (KOCHAM) is a not-for-profit business organization headquartered in New York City. As the most prominent representative of U.S.-based Korean firms, KOCHAM works to build awareness and good will between the people, governments and business communities of Korea and the United States**
- This includes an annual trip to Washington, D.C. and participation in the annual Korea-U.S. Business Council meeting.**

## **II.1 Korea in the Global Economy: Overview & Current Status**

- Korea has been a star performer over the past year – leading Asian nations in efforts to restructure and reform their economies.
- International investors, analysts and executives have endorsed these achievements through ratings upgrades and asset purchases that have made Korean capital markets among the best performing in the world.

- Korea is rapidly introducing the reforms needed to deliver sustained growth in a market-driven economy. Four key areas include:
  - Corporate Reform: enhanced corporate governance and profitability;
  - Financial Reform: disposal of non-performing loans & consolidation;
  - Labor Reform: more flexible labor market and peaceful dispute resolution;
  - Government Reform: privatization and deregulation.

- The *Financial Times* and *New York Times* both favorably contrasted Korea's achievements with those of Japan, praising Korea and observing while the nation has traditionally looked to Japan for guidance, in some cases the reverse is now true.

- **As the voice of the Korean business community in the U.S., KOCHAM applauds the efforts of our government and colleagues back in Korea.**
- **We look forward to redoubling our efforts to maintain and expand on the tremendous progress achieved over the past few years**

## **II.2 Korea in the Global Economy: Recovery & Future Direction**

- **Korea today is very different from only a few years ago.**
- **Increasingly efficient and open – Korea has attracted nearly \$52 billion in FDI in recent years. This is more than double the previous 36 years.**
- **To maintain its competitiveness, Korea has made a substantial investment into the air, marine and other infrastructure facilities that will effectively position it as the “Dynamic Hub of Asia”.**

- Comprehensive reform is driving Asia's 4<sup>th</sup> largest economy to new heights.
- Of Korea's top 30 firms in 1997, 16 have been closed or reorganized. The remainder have downsized and sold assets. Debt/Equity ratios of the top four business groups have declined from 473% to 162% in the three years since the crisis.
- Korea has also placed itself on the cutting edge of new technology. More than one of seven Koreans has broadband access. That is nearly five times greater than the U.S. The ratio of people using online stock transactions overtook the U.S. over two years ago.



- **KOCHAM stands ready to assist in helping Korea to realize its vision of developing a North Asian business and financial hub and a unified and prosperous economy.**
- **By serving as an outpost and facilitator for U.S.-based Korean firms, it seeks to help Korean and U.S. executives develop the relationships they need to achieve success in each other's markets.**

### **III.1 Korea and the United States: Commercial, Political and Strategic Partners**

- **Korea remains America's most loyal and staunchest ally in Asia.**
- **Trade between the economies has more than doubled over the past decade.**
- **Politically, the South Korean people have learned much from the U.S. and enjoy a strong democracy and dedication to market-oriented economic principles.**

- Since 1997, the U.S. has overtaken Japan as Korea's largest import supplier.
- The U.S. has been Korea's largest export market for several decades.
- Korea's well-educated work force is quickly becoming a sophisticated consumer society.
- South Korea has not forgotten the U.S. sacrifice in the face of communist aggression over 50 years ago.
- **KOCHAM endorses these trends and looks forward to expanding its efforts to maximize the benefits of this important relationship.**

## **III.2 Korea's Commitment to Free Trade: Restraining Protectionist Pressures**

- **Korea has come to understand the essential need to open its markets.**
- **However, it fears that U.S. steel safeguard measures could invite a domino effect of protectionism.**
- **This threatens to weaken and undermine the international trading system at large.**

- Korea has been moving rapidly to open its economy.
- The result has been rising consumption and the most rapid recovery in Asia.
- Korea is disturbed to see the U.S. seemingly waver from its own commitment to free trade through steel safeguard measures.
- Unilateral trade-restrictive measures will not solve the difficulties faced by U.S. domestic industries.
- U.S. actions could provoke a global proliferation of protectionism, threatening a world economy that is showing gradual signs of recovery.

- **The imposition of a staggering 30% tariff rate on top of other restrictive measures such as anti-dumping duties essentially blocks the ability of Korean steel to enter the U.S. steel market.**
- **KOCHAM strongly requests that the U.S. government withdraw its safeguard measures in their entirety, or at a minimum, modify them at the earliest possible date to comply with relevant WTO agreements.**

### **III.3 Toward a U.S.-Korea Free Trade Agreement (FTA)**

- **A U.S.-Korea FTA would enrich both nations.**
- **KOCHAM urges Korean and U.S. opinion leaders to join us in pushing to accelerate the completion of this initiative so that both countries can enjoy the benefits in coming years.**

- To achieve a FTA, Korea and the U.S. need to change long-standing policies that protect affected industries.
- KOCHAM/FKI surveyed 50 major U.S.-based Korean firms with 87% of companies surveyed favoring FTA negotiations and 60% expecting trade between Korea and the U.S. to expand if it is approved.
- One major sign of progress was the release of the ITC's report on a Korea-U.S. FTA to the U.S. Senate finance committee last fall. This report estimates an FTA could increase U.S. exports to Korea by \$19 billion and Korean exports to the U.S. by \$10 billion.



- **KOCHAM urges Korean & U.S. opinion leaders to join us in making common efforts to facilitate FTA negotiations.**
- **One immediate task is passage of the Bilateral Investment Treaty (BIT).**
- **This will help to accelerate the completion of this initiative so that both countries can enjoy the benefits in coming years.**

## **III.4 Korea's Support for the Global War on Terrorism**

- **An affront to moral decency, the terrorist actions of September 11, 2001 can be seen as an attack on all civilized nations.**
- **The Republic of Korea expresses its sincerest concern and regrets as a nation and a people.**
- **It stands ready to join together with the U.S. to promote global security. This is recognized as an essential prerequisite for a stable, growing and prosperous world economy.**

- The Korean people abhor the deplorable terrorist actions of September 11th -- which caused the needless death of thousands -- including 18 Koreans.
- South Korea pledges to to be a strong partner in the U.S. in the global war on terrorism.
- Korean business leaders donated \$1 million U.S. to two relief organizations aiding September 11<sup>th</sup> victims.
- Korean-Americans and many Korean companies also made contributions, easily exceeding \$1 million.
- Their concern and support was further demonstrated by the participation of Korean business and government leaders during the World Economic Forum (WEF) meeting in N.Y.C. this year.

- **KOCHAM was especially pleased to see the WEF hosting in New York this year – our headquarters and the home of so many Korean firms.**
- **Not only did this event demonstrate the essential vitality and dynamism that underlies New York City -- it also emphasized the civilized world's determination to stand together tall in rejection of mindless terrorism.**

## **III.5 Korean Security: North-South Relations & Support for World Cup**

- South Korea has adopted a “Sunshine Policy” that seeks to engage the North in an economic and policy dialogue.
- One major achievement is the resumption of freight traffic from North to South this fall.
- Next month’s World Cup, provides a vehicle that can promote a new spirit of cooperation in North Asia.

- President Kim Dae-Jung's sunshine policy seeks to engage the North in an economic and political dialogue. Significant progress has been achieved over the past three years.
- While the South Korean people are making every effort to engage in a constructive dialogue, it is determined not to do so in a manner that sacrifices its national security.
- This year's World Cup Soccer Tournament, will be co-hosted by Korea and Japan. It promises to help both countries improve ties and the economic potential of North Asia.

- **To build on the emerging spirit of cooperation, KOCHAM recently helped to sponsor an event organized by the Korea and Japan Societies in New York.**
- **Professionals from both countries and the U.S. united together to commemorate the World Cup and to promote closer relations between all three countries.**

## **IV.1 Korean-U.S. Business Cooperation: Promoting Stronger Alliances and Relationships**

- An ongoing dialogue is essential to strengthen relationships between Korean and U.S. firms.
- The Korea-U.S./U.S.-Korea Business Councils have been helping to promote an exchange of information among larger companies.
- Special attention needs to be paid to the small to mid-sized firms that serve as a dynamic source of growth in both countries.



- The Korea-U.S./U.S. Korea Business Councils play a unique role in helping to resolve various trade conflicts by allowing high-level talks among private sector leaders from both countries.
- Strengthening business organizations that focus on the Korean-U.S. relationship is essential to promote a healthier business environment and closer relationships between Korean and U.S. firms.
- Special attention, however, needs to be paid to promote stronger relationships and interactions between small- to medium-sized enterprises.

- **KOCHAM urges Korean and U.S. government leaders to enhance the role and importance of these councils while preserving their independence as private sector-led organizations.**
- **At the same time, Korean and U.S. business leaders are urged to redouble their efforts to utilize these councils to enhance commercial cooperation.**

## **IV.2 Korean Companies: Globalization & Investment in the U.S.**

- **The growing scale and depth of the Korean economy requires its corporations adopt a more global focus.**
- **Korean firms have moved rapidly to expand their overseas operations.**
- **This includes substantial investments in the U.S. with many new jobs for U.S. citizens developing as a result.**

- More complex structures are needed to sustain Korea's competitiveness in the face of an emerging China and other lower-cost competitors.
- Korean firms need to assume a more multinational character and many are devoting substantial attention to upgrading their U.S. presence.
- As of 2001, there were approximately 2800 Korean investments in the U.S. totaling nearly \$9 billion.
- Additionally, Hyundai Motor Co., picked Alabama last month as the site for a \$1 billion investment in its first U.S. plant. It will employ about 2,000 Americans.



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### **Other notable investments by Korean firms include:**

| Firm             | Location         | Investment     | Employees (Korean/U.S.) |
|------------------|------------------|----------------|-------------------------|
| Hyundai Elect.   | San Jose, CA     | \$687 million  | 40:340                  |
| USS:Posco Ind.   | Pittsburgh, PA   | \$388 million  | 12:980                  |
| Poongsan Corp.   | Cedar Rapids, IA | \$250 million  | 3:270                   |
| Maxtor Corp      | Longmont, CO     | \$207 million  | 1:800                   |
| Hyundai Pression | San Diego, CA    | \$47.5 million | 4: 50                   |
| Hanwha Chem.     | Irvine, CA       | \$45 million   | 4:170                   |
| Kia Motor Corp.  | Irvine, CA       | \$30 million   | 13:157                  |
| TV/COM Intl      | San Diego, CA    | \$29 million   | 1:220                   |
| Hanyoung Inc.    | Carson, CA       | \$10 million   | 7:150                   |
| Samsung Tele.    | Richardon, TX    | \$7.5 million  | 14:446                  |
| Samsung Semi.    | San Jose, CA     | \$3.0 million  | 24:250                  |
| Hyosung          | Rockhill, SC     | \$2.0 million  | 3: 20 (initial)         |

## **IV.3 Issues & Obstacles Toward Greater Economic Cooperation**

- **Korea and the U.S. enjoy greater bilateral trade flows and closer economic cooperation than ever before, yet there are a number of important issues that need to be resolved to maximize the potential of the Korea-U.S. bilateral relationship.**

- Bilateral Investment Treaty: Korea and the U.S. have agreed to make every effort to conclude a bilateral investment treaty (BIT) this year. U.S. concern over autos, movie screen quotas, intellectual property rights and corporate reform has impinged upon the conclusion of necessary negotiations.
- **KOCHAM recognizes the need to address these issues and concurs with the view of AMCHAM which urges the U.S. to sign this treaty.**

- Screen Quota: One contentious issue constraining the passage of the BIT is South Korea's 35 year old screen quota system. Ironically, this issue has come to a fore at a time when South Korea's cinema industry has been enjoying an unprecedented boom.
- **KOCHAM notes the concerns of the U.S. film industry. Yet it does not believe this measure -- which has lost most of its relevance -- should be allowed to interfere with the full benefits that can be delivered through the signing of a BIT.**



- AMCHAM Regional Survey: To assist in Korea's efforts to develop as a regional hub, AMCHAM surveyed 2K Asia Pacific executives. Seoul ranked last among cities surveyed for reasons relating to taxes, foreign exchange controls, labor flexibility, English-language capabilities and country image.
- **KOCHAM shares many of the concerns of the executives that were surveyed. It endorses many of the recommendations AMCHAM made to guide the Korean government in its regional business hub initiative.**

- Auto Problem: The USTR has asked that Korea lower tariffs and taxes on imported cars. It has also been asked to ease certification and standardization requirements and to reduce tariffs from the current 8 percent to the comparable US rate of 2.5 percent.
- **While the absolute numbers remain low, foreign car sales over the past few months have been at consecutive record highs. Most importantly, General Motor's planned acquisition of Daewoo Motors also promises to dramatically raise U.S. share in Korea's domestic market.**

## **IV.4 Korean Companies: Obstacles to Doing Business in the U.S.**

- The U.S. attracts businesses from all over the world looking to expand outside their borders.
- Notwithstanding the many real attractions, there are a number of real obstacles that should be addressed.

- The U.S. has encouraged many nations, including Korea, to develop their industrial capacity and expand trade beyond their borders.
- U.S. firms and investors benefit, obtaining sourcing platforms, customers and investment opportunities.
- Korean firms face a number of obstacles resulting from heightened security following the 9/11 attacks.
- Korean financial institutions have been meeting with U.S. regulators to discuss a range of issues.
- There are also a number of other tariff and non-tariff barriers that constrain the ability of Korean companies in their efforts to do business in the U.S.

- **KOCHAM understands that heightened surveillance is indeed necessary, yet believes it would be unfortunate if security concerns imposed a significant “terrorist surcharge”, through the added costs that would accrue to both Korean and U.S. firms from substantial interference with the free flow of trade and commerce.**

## **V. Conclusion: Key Concerns and Areas of Focus**

- **As the most prominent representative of U.S.-based Korean firms, KOCHAM pledges to do its best to develop mutual understanding, good will and stronger relationships between the people, governments and business communities of Korea and the U.S.**

- The Korea-U.S. relationship has shown renewed strength in recent years.
- Korea's dramatic recovery has implications that extend far beyond its domestic economy.
- As Korea has come to better understand the benefits of an open economy it fears U.S. steel safeguards threaten to weaken the international trading system.
- Successful negotiation of an FTA will expand the potential of the Korea-U.S. bilateral relationship.
- Korea strongly supports the U.S.-led war on terrorism understanding that global security is an essential prerequisite for a stable world economy.