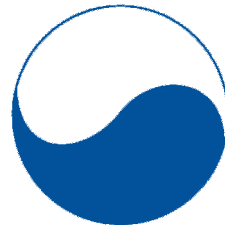


---

# **Korea's Economy 2005**



a publication  
of the  
Korea Economic Institute  
and the  
Korea Institute of  
International  
Economic Policy

Volume 21

---

## CONTENTS

### Part I: Overview and Macroeconomic Issues

<b>Economic Outlook for Korea in 2005</b> <i>Huh Chan-guk</i> .....	1
--	---

### Part II: Financial Institutions and Markets

<b>The Post-Crisis Transformation of Korea's Banking System</b> <i>Thomas Byrne</i> .....	9
--	---

<b>Prospects for Developing Korea's Financial Market</b> <i>Jeon Jong-gyu</i> .....	13
--	----

### Part III: Structural Reform

<b>Responses to Financial and Economic Distress in Korea and Japan</b> <i>Thomas Cargill and Hugh Patrick</i> .....	17
--	----

<b>New Frontiers of Financial Reform in Korea</b> <i>Kwon Jae-joong</i> .....	23
--	----

### Part IV: External Issues

<b>U.S.-Korea Economic Relations</b> <b>View from Washington</b> <i>Nan N. Fife</i> .....	29
<b>View from Seoul</b> <i>Ji Hye-yang</i> .....	38

<b>Korea's Trade and Direct Investment</b> <i>Christine Brown</i> .....	43
--	----

<b>The Yellow Sea Economic Basin</b> <i>Pietro Doran</i> .....	48
---	----

### Part V: North Korea's Economic Development and External Relations

<b>North Korea's International Economic Relations: Trends and Future Prospects</b> <i>Oh Seong-yul</i> .....	55
---	----

---

## EXTERNAL ISSUES

### U.S.-KOREA ECONOMIC RELATIONS: A VIEW FROM WASHINGTON

by Nan N. Fife

#### Enhancing the U.S.-Korea Economic Partnership

The trend during 2004 and early 2005 was of significant growth in the robust economic relationship between the United States and the Republic of Korea. U.S. imports from Korea increased by nearly one-quarter, and U.S. exports to Korea went up by 9 percent, during 2004 compared with the previous year. Meanwhile, U.S. foreign direct investment flows into Korea jumped to almost four times the 2003 level. Activities within the Asia-Pacific Economic Cooperation forum are now increasingly moving to the forefront of the U.S.-Korea economic dialogue during Korea's chairmanship of that organization in 2005.

Economic ties form a key part of a complex web of connections between the United States and Korea, connections that are anchored in shared values and goals. The United States and Korea work together productively across the range of political issues, most notably within the six-party talks to resolve issues of the North Korean nuclear program. Korea is now the third-largest troop contributor to coalition efforts in Iraq as well as a major supporter of reconstruction efforts. The U.S.-Korea military alliance grew stronger as a result of agreements reached in 2004 on restructuring U.S. forces in Korea to meet the challenges of today's world. Countless cultural and social contacts, such as with the approximately 50,000 Korean students studying in the United States, also add immensely to the web of connections.

This survey highlights some of the diverse economic strands in the web of connections between the United States and Korea. Some of these strands involve commercial interactions, while others are joint efforts to

promote the prosperity, safety, or health of people in the Asia-Pacific region or around the globe. Korea is a key economic partner for the United States. The United States is committed to seeking ways to further strengthen its economic partnership with Korea in the years ahead in order to increase the benefits the partnership brings to the peoples of both nations and the world.

#### Korean Exports Are Booming

Korea ranked seventh among U.S. trade partners in 2004, the same ranking it has held since 2000.<sup>1</sup> Similarly, Korea was the seventh-largest export market worldwide for U.S. exports. The United States moved from first to second place among Korea's trade partners in 2004 (after China). It remained Korea's second-largest export market. Some Korean analysts have noted, however, that because many of Korea's exports to China are sent to Korean-owned factories that are manufacturing products whose final market is the United States, the United States remains Korea's most important market.

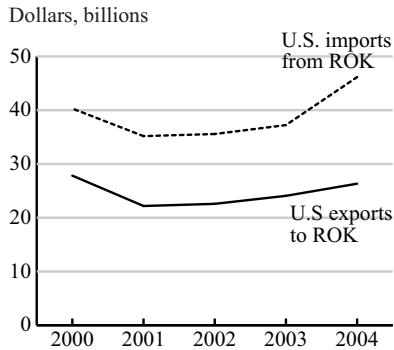
Bilateral trade figures for 2004 show that substantial growth occurred in U.S. imports from Korea, U.S. exports to Korea, and total bilateral trade (*Figure 1*). U.S. imports of merchandise from Korea increased dramatically, by 24 percent, to \$46.2 billion, following two years of slow annual growth. U.S. merchandise exports to Korea were up more than 9 percent over the 2003 level, to \$26.3 billion. Thus, total bilateral trade reached \$72.5 billion in 2004, almost one-fifth higher than the previous year. The growth in trade has led to a major expansion of the U.S. merchandise trade deficit with Korea, which rose by half to \$19.8 billion. The U.S. trade deficit with Korea in

---

1. Rankings of trade partners are calculated with a total of the value of imports and exports.

2004 represented 3 percent of the U.S. trade deficit worldwide for the year.

**Figure 1: U.S.-ROK Merchandise Trade, 2000–2004**



Source: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, [www.census.gov/foreign-trade/balance/c5800.html](http://www.census.gov/foreign-trade/balance/c5800.html).

An improved rate of growth of the U.S. gross domestic product (GDP) during 2004—4.4 percent, the best in five years—likely contributed to U.S. consumers’ decisions to buy more imports, including Korean goods. Meanwhile, although Korea achieved impressive growth in its GDP for the year—4.6 percent (up from 3.1 percent in 2003)—the basis of that growth was a boom in exports to all of its major markets, particularly during the first half of the year. Domestically, the Korean economy continued to suffer from weak consumption, largely owing to an overhang of excessive household and small- and medium-enterprise debt during 2001–02, while larger Korean corporations have been reluctant to invest domestically.

Motor vehicles remained Korea’s most important merchandise export to the United States in 2004, reaching \$10 billion. U.S. imports of Korean-made mobile phones and other electronic products ranked next in value. The largest categories of U.S. exports to Korea were electronic products, aircraft, and machinery.

In contrast with merchandise trade, the United States enjoys a small surplus in services trade with Korea, consistent with the worldwide U.S. services surplus. The United States exported \$8.4 billion in private ser-

vices to Korea in 2003, 5 percent more than the previous year. The largest components of private U.S. services exports to Korea were travel and transportation. Meanwhile, the United States imported \$4.4 billion in private services from Korea, down 2 percent. The result was a 2003 U.S. cross-border private services surplus with Korea of \$4 billion. The United States would have an opportunity to increase further its surplus in services trade if the Korean government would lift or reduce market access restrictions in important fields such as education and legal services.

Korea’s burgeoning trade surplus with the United States and other trade partners pushed its foreign currency reserves up to nearly \$200 billion by the end of 2004, an increase of 28 percent over their level at the end of 2003. This made Korea the fourth-largest holder of foreign reserves worldwide after Japan, China, and Taiwan. At the same time, Korea became the fourth-largest holder of U.S. Treasury securities by the end of 2004, with \$69 billion.

The movement of the exchange rate between the U.S. dollar and Korean *won* reflected a decline in the U.S. dollar’s value against major currencies worldwide, as well as the increasing bilateral payments imbalance. The U.S. dollar fell to 1,035 Korean *won* at the end of 2004, the lowest level in seven years. Korean authorities intervened strongly in an attempt to slow the *won*’s appreciation, and then ceased their efforts in late 2004, after which the currency appreciated substantially.

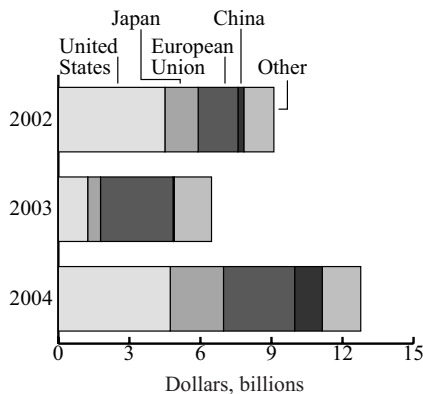
### **Korean Opportunities Attract U.S. Investors**

U.S. foreign direct investment (FDI) flows into Korea shot up in 2004 to a level nearly four times that of 2003 and higher by almost half than the average annual U.S. FDI into Korea in the previous seven years. According to Korean government statistics, the 2004 FDI flow from the United States to Korea reached \$4.7 billion (based on notification of cases), bringing the stock of U.S. FDI in Korea to more than \$32 billion.

A large share of recent U.S. FDI into Korea has involved merger-and-acquisition activity. One major investment during 2004 was Citigroup’s acquisition of KorAm Bank for \$2.7 billion.

The United States was the largest source of FDI for Korea in 2004. FDI from U.S. firms was more than double the amount from Japanese firms, the second-largest investor country, and exceeded by half the FDI from all EU countries (*Figure 2*). U.S. investment during 2004 contributed to the first annual increase in overall FDI into Korea since 1999.

**Figure 2: Foreign Direct Investment into Korea, 2002–2004**



Source: ROK Ministry of Commerce, Industry, and Energy, [www.mocie.go.kr/notice/news/report\\_list.asp](http://www.mocie.go.kr/notice/news/report_list.asp).

Investment flows between the United States and Korea are not all one way since Korean firms are beginning to make significant investments in the United States. A Hyundai automobile plant in Alabama is expected to begin operations in May 2005, employing 1,000 U.S. workers. In another example, Samsung Semiconductor broke ground in July 2004 on a second expansion of its semiconductor plant in Austin, Texas. According to the Korean government, the flow of Korean investment into the United States was \$1.4 billion in 2004.

### Investment Climate Improved, but Further Reform Desired

The robust levels of U.S. FDI into Korea in recent years would once have been unthinkable because of the largely closed Korean economy. Following the 1997–98 Asian financial crisis, however, Korea adopted a new investment promotion law that significantly eased restrictions on foreign investment in Korea. Radio broadcasting, television broadcasting,

education, and national defense are among the sectors that remain completely closed to foreign investment as of March 2004. In addition, there are legal restrictions on foreign investment in more than two dozen other sectors, such as telecommunications.

The United States and Korea began negotiation of a bilateral investment treaty in 1998, but the talks stalled in 2000, primarily over the screen quota issue. Under Korea’s screen quota system, Korean theaters must show Korean-made films 40 percent of the days each year. Given the impressive development of Korea’s film industry and the success it has achieved, U.S. officials have encouraged Korea to revise its current screen quota system to create a more competitive market that is fully open to foreign films.

Most Korean policymakers today see attracting increased FDI as essential to further growth of the economy. Among the measures taken in pursuit of that goal has been the establishment of free economic zones, free trade zones, foreign investment zones, and other foreign-exclusive industrial complexes that aim at achieving an environment conducive to operation by foreign-invested firms. In early 2005, Korea stepped up efforts to attract world-class hospitals and schools to its free economic zones.

There also have been indications of a backlash against the increased foreign economic role, however; some Korean commentators and groups have made critical comments and, on occasion, some policymakers have also indicated concerns. A continuing backlash would discourage the kind of investments that Korea needs to keep moving up the technological ladder.

U.S. firms sometimes cite Korea’s reputation for confrontational labor-management relations and inflexible labor laws as a factor discouraging potential investment in Korea. Many Korean companies share these concerns. The Korean labor market is now sharply divided between workers who enjoy strong protections and the increasing number of irregular workers hired by companies reluctant to commit to retaining additional permanent workers. Restrictions on pension mobility and gaps in the social safety net discourage workers from seeking new employment opportunities as the economy evolves. In an attempt to address the situation, the Roh Moo-hyun administration’s Tripartite Commission (labor, employ-

ers, and government) agreed on a “Social Compact on Job Creation” in February 2004. Under this compact, business took on the primary role in job creation, the government committed to support job creation through deregulation and tax incentives, and labor promised to moderate its wage demands and refrain from illegal activities. However, only one of Korea’s two labor confederations has been participating in the Tripartite Commission.

Some U.S. firms state that corporate governance and accounting practices are other factors that weigh against decisions to invest in Korea. Korea has taken some steps to remedy its weaknesses in these areas. The Korean Fair Trade Commission is continuing efforts to reduce the gap between ownership and control of Korea’s conglomerates (*chaebol*), which are still largely run by the founding families despite the families’ generally small ownership stakes. A decision to introduce class-action lawsuits and the implementation of an accounting reform plan were other positive moves. Another step the Korean government might consider would be requiring firms listed on the Korean Stock Exchange to comply with Korea’s Code of Best Practices or explain why they do not comply. The government’s role in determining development priorities—which remains important even though it has been substantially reduced since the 1980s—also inhibits market-based investment decisions. These factors, when considered in the aggregate, are often termed the “Korea discount” for their downward effect on prices of Korean shares relative to similar companies in other countries. U.S. and Korean officials, joined during part of the day by private sector representatives, participated in an early February 2005 roundtable to share views on labor and corporate governance issues.

Insufficient regulatory transparency and shortcomings in protection and enforcement of intellectual property rights, addressed in other sections, are additional factors that some U.S. firms see as contrary to the interests of investors.

### **Korea Chairs APEC 2005**

Policies in multilateral forums such as the Asia-Pacific Economic Cooperation (APEC) and the Doha Development Agenda (DDA) negotiations in the World Trade Organization (WTO) are important subjects in

the U.S.-Korea bilateral economic dialogue. Joint efforts in these arenas can make particularly significant contributions to prosperity in the Asia-Pacific region and around the globe. At the same time, both the United States and Korea are pursuing free trade agreements (FTAs) with various potential partners as a complement to their efforts to achieve multilateral trade liberalization.

Korea’s chairmanship of APEC during 2005 offers special opportunities for meaningful U.S.-Korean cooperation within APEC as well as an occasion for Korea to showcase its economic progress and commitment to reform and liberalization. Among shared priorities for APEC 2005 are support for trade liberalization (especially through progress in the Doha Round), protection of intellectual property rights, action to implement our security commitments, and implementation of the anticorruption initiative that the United States, Korea, and Chile cosponsored during APEC 2004. The United States expects Korea’s year as APEC chair will be a highly productive one. The United States looks to Korea to lead by example on issues it has selected as priorities.

This year, APEC will have a good opportunity to help create momentum for the Doha Round of multilateral trade negotiations, particularly in the run-up to the WTO Hong Kong ministerial meeting, which will occur a month after the APEC leaders’ meeting in Busan in November. A successful conclusion to the DDA would immensely benefit Korea because of Korea’s reliance on international trade and investment to achieve economic growth. The United States has encouraged Korea to take a greater leadership role in the DDA by showing greater flexibility in its own positions (for example, improving its services offer and liberalizing its agricultural markets) and encouraging other countries to do the same. The United States has also sought to work closely with Korea in those areas where we have similar goals, such as nonagricultural market access and trade facilitation.

Bilateral and regional FTAs have become an increasingly important part of the trade policies of both the United States and Korea. The National Assembly ratified Korea’s first FTA, with Chile, in early 2004. In an effort to achieve greater East Asian regional integration, Korea has now substantially concluded negotiation of an FTA with Singapore and has begun

negotiations with Japan and with the countries of the Association of Southeast Asian Nations (ASEAN). Outside the region, Korea has entered into negotiations with the European Free Trade Association (Switzerland, Norway, Iceland, and Liechtenstein). In addition, Korea is discussing the possibility of separate FTAs with India, Canada, Mexico, and Mercosur (Argentina, Brazil, Paraguay, and Uruguay) as well as the United States. For its part, the United States has ratified FTAs with eight countries, has concluded two agreements that have not yet been ratified (as of February 2005), and is now negotiating with a number of other countries and regions. It remains to be seen whether the governments of the United States and Korea will decide at some point to begin negotiations on a U.S.-Korea FTA.

### **Joint Science and Technology Projects Aim to Improve Lives**

U.S. and Korean scientists are joining together to tackle many of the challenges facing citizens in both countries and around the world. In the health field, one serious global challenge is the development of acquired multidrug-resistant tuberculosis (MDR-TB). A joint project between Korea's Ministry of Health and Welfare and Ministry of Science and Technology and the U.S. Department of Health and Human Services through the National Institutes of Health applies modern tools to the study of this disease, aiming to develop innovative compounds to combat it effectively. At the National Masan Tuberculosis Hospital in Korea, Korean and U.S. scientists are carrying out clinical trials of new agents with the potential for understanding the disease and curing patients suffering from MDR-TB.

In addition, Korea and the United States are collaborating in long-term research that has the potential to revolutionize the way we obtain and use energy, reducing our dependence on fossil fuels and mitigating the climate-change effects of energy consumption. Three important projects in which the United States and Korea join together with other partners are ITER, an international thermonuclear reactor project; the Generation IV International Forum, which aims at a new generation of safer and cheaper nuclear reactor technologies; and the International Partnership for a Hydrogen Economy, which seeks to pave the way for a transition to a global hydrogen economy.

Another example of science and technology collaboration is the memorandum of understanding signed in October 2004 between the Brookhaven National Laboratory in the United States and the Korea Institute of Science and Technology. U.S. and Korean officials expect this agreement will facilitate cooperation between the institutions in areas such as nanomaterials, molecular imaging, and proteomics (the study of the structure and function of proteins).

These health- and energy-related activities are among the numerous, wide-ranging science and technology projects carried out through collaboration between the United States and Korea. The sixth meeting of the U.S.-Korea Joint Committee on Scientific and Technological Cooperation, held on 29 October 2004 in Washington, D.C., highlighted the accomplishments to date of our bilateral scientific collaboration and identified possible new areas for cooperation. Deputy Prime Minister and Minister of Science and Technology Oh Myung of Korea and Director of the Office of Science and Technology Policy John H. Marburger III from the Executive Office of the President of the United States led the delegations to the high-level meeting, which was preceded by working-level discussions.

### **Transportation Security a New Area for Cooperation**

Cooperation on ensuring transportation security constitutes an additional strand in our web of connections. The United States and Korea have joined forces in efforts to protect against use of transportation networks by terrorists and to keep those facilities safe for global trade and travel.

As part of the U.S. Container Security Initiative, U.S. Customs and Border Protection personnel are working together with Korean authorities at the Korean port of Busan to screen cargo shipping containers destined for the United States that are identified as potential risks for smuggling of terrorists or terrorist weapons. In addition, the two countries are working together within the International Maritime Organization on implementing a port security self-verification checklist. In the area of aviation security, bilateral cooperation includes consultations between U.S. and Korean air marshals on subjects such as best practices.

## Trade Issues Mix Problems and Progress

As expected in a trade relationship between two dynamic developed market economies, U.S.-Korea trade is market driven. The primary objective of the trade dialogue between the U.S. and Korean governments is to expand bilateral trade by removing nonmarket barriers and restrictions. U.S. and Korean officials meet regularly, including on a quarterly basis at the working level, to address bilateral trade issues, including issues of concern to Korea. This dialogue has resulted in progress in a number of areas; however, some issues remain unresolved, and new issues have arisen.

**Telecommunications.** One recent success was the resolution of an issue involving a Korean telecommunications standard that, if enacted, could have served as a trade barrier to U.S. exports of telecommunications technology to this important market. The dispute centered on Korean government plans to mandate an exclusive technology for downloading content from the Internet onto cell phones. The Korean government agreed in April 2004 to modify its plans by allowing other existing technologies to coexist in the market.

The larger question of mandating standards in the competitive Korean telecommunications market remains an important issue. The U.S. government has serious concerns regarding a Korean government plan to require that network operators who wish to provide broadband wireless Internet services in the 2.3 GHz spectrum use a standard that would preclude Korean market access for many foreign firms that have competitive broadband wireless technologies. The policy of the United States is to promote market-driven standards, open standards-setting procedures, technology neutrality, competition, and efficient use of spectrum. Such a policy allows the unfettered development of technologies and also allows operators to respond quickly to evolving marketplace needs.

**Automobiles.** Trade in automobiles figures prominently in the U.S.-Korea trade dialogue given the enormous trade imbalance in this sector between the two countries. The United States exported only 2,587 passenger vehicles to Korea in 2004 while it imported 860,000 vehicles from Korea (*Table 1*). Korea continues to have very low levels of import penetration in

its automobile market, with all imported cars accounting for less than 3 percent of vehicles sold.

**Table 1: U.S.-Korea Automobile Trade, 2000–2004, number of vehicles**

	2000	2001	2002	2003	2004
U.S. exports	1,687	1,991	4,731	4,100	2,587
U.S. imports	568,356	633,993	627,905	692,899	860,107

Source: U.S. International Trade Commission, <http://dataweb.usitc.gov>; data interpreted by the U.S. Department of Commerce, Office of Aerospace and Automotive Industries.

The United States has urged Korea to take measures to open its auto market further to ensure that U.S. automakers have fair access to the Korean market and that Korean consumers have full access to imported vehicles. The most effective measures Korea could take in this regard would be to lower its relatively high auto tariff of 8 percent and reduce the impact of cascading value-added auto taxes, which magnify the effect of the auto tariff. Since changing the special consumption tax for automobiles in 2003, Korea has not made any further changes to its automobile tax or tariff structure. The United States will continue to urge the Korean government to make such changes, consistent with the 1998 memorandum of understanding between the two countries in which Korea agreed to undertake measures to “substantially increase market access for foreign motor vehicles in the ROK.”

The United States and Korea also have a dialogue on auto standards issues that is designed to ensure that standards do not serve as barriers to U.S. auto exports to Korea. As part of that dialogue, the Korean government agreed in 2004 to allow auto importers to self-certify that their 4×4 vehicles comply with Korean fuel economy standards and to eliminate witness emissions testing for imported modified vehicles. The Korean government also decided to be responsive to foreign automakers’ concerns that Korea’s new automobile fuel efficiency regulations not be implemented in a manner that disproportionately affects the imports of foreign automobiles. Discussions will continue in 2005 to ensure that Korea’s plan to introduce a new license plate system does not serve as a barrier that prevents foreign cars from entering the

Korean market or does not require costly modifications that will deter efforts to export to Korea.

**Agriculture.** In response to an outbreak of bovine spongiform encephalopathy (BSE), Korea banned imports of U.S. beef in December 2003. Since then U.S. officials have provided Korean authorities with extensive documentation of the steps the United States has taken to address the threat of BSE. The United States believes this information demonstrates the safety of U.S. beef and has called for the Korean government to reconsider its ban on U.S. beef. Despite several bilateral discussions at the technical and ministerial levels, however, Korea has not yet restarted imports of U.S. beef. Korea also imposed a ban on imports of U.S. poultry after an outbreak of avian influenza in the United States in February 2004, but in February 2005 Korea expressed a readiness to reopen the Korean market to U.S. poultry exports.

More generally, the United States remains seriously concerned about Korea's high agriculture tariffs as well as several nontariff measures that call into question Korea's national treatment obligations as a member of the WTO. In particular, the United States has questioned Korean regulations that require multi-residue chemical testing for imported products (with the costs of such testing fully borne by importers) but that exempt domestic producers from such tests. Other Korean trading partners have also raised this issue. On the positive side, the United States and Korea made progress during 2004 in resolving concerns involving Korean imports of U.S. navel oranges, codheads, and wood products.

U.S. and Korean officials met frequently throughout 2004 to discuss Korea's request to extend for 10 years its special minimum market access regime for rice imports, which under WTO rules was scheduled to expire at the end of 2004.<sup>2</sup> While U.S. officials understood the importance of rice for Korea, they also wished to expand market opportunities in Korea for U.S. rice. Negotiations led to Korea's announcement in December 2004 that it would extend its minimum market access quota for rice imports by another 10 years while it doubled the quota to 8 percent of total domestic consumption. The announcement included

country-specific quotas for China, the United States, Thailand, and Australia. The negotiated agreement is subject to review by WTO members and ratification by Korea's National Assembly.

### **Intellectual Property Rights Protection Remains on Agenda**

Despite its status as one of the world's most technologically advanced countries, Korea lags behind international norms on some aspects of intellectual property rights (IPR) protection and enforcement. To attract FDI and protect its own technological innovation and intellectual and creative products, Korea's IPR laws need to be consistent with its high-tech environment.

Korea has made progress recently on several fronts. At the urging of President Roh, an interministerial task force developed an IPR master plan. The National Assembly passed legislation providing partial protection of sound-recording transmissions. The Ministry of Culture and Tourism is now attempting to formulate a new law that would protect webcasting and streaming over the Internet. The Korean government has embarked upon a campaign in the country's school system to emphasize the importance of IPR protection, and public prosecutors and other government officials responsible for antipiracy efforts have received additional training. In another positive step, Korea expressed an interest in cooperating with the United States on the U.S. Strategy Targeting Organized Piracy (STOP) initiative to combat global piracy and counterfeiting. In addition, U.S. and Korean officials cohosted a November 2004 IPR roundtable that brought together rights holders, academics, and lawyers to discuss the legal and enforcement challenges of protecting IPR in the digital age. In recognition of Korea's efforts to strengthen its intellectual property regime, in April 2005 the United States moved Korea from its Section 301 priority watch list to a separate watch list signifying a lower level of concern.

Outstanding IPR problems that U.S. officials have encouraged Korea to address during 2005 include full protection of sound recordings, software streaming,

---

2. Korea simultaneously conducted separate negotiations on this matter with eight other WTO members.

and enforcement of book publishers' rights. U.S. officials are also closely monitoring Korean actions in regard to pharmaceutical data protection.

### **U.S. Boosts Efforts to Promote Regulatory Transparency**

Lack of regulatory transparency is a problem that cuts across various sectors of concern to U.S. businesses and the U.S. government. Common complaints from U.S. firms include inadequate public comment periods, lack of timely notification of proposed regulation changes, and failure to incorporate stakeholders' comments into final laws and regulations. Despite the comprehensive nature of Korea's Administrative Procedures Act (APA), its application by ministries and agencies is inconsistent because of the wide latitude given to ministries and agencies to implement the act.

To address these problems, U.S. officials have been working to deepen cooperation with the Korean government on regulatory reform and transparency by strengthening the APA, among other steps. In addition, U.S. officials have been working to enhance their dialogue with the various Korean government entities charged with pursuing regulatory reform—the standing Regulatory Reform Committee, the Deregulation Taskforce Team, and the Corporate Difficulties Resolution Center.

### **U.S. Responds to Korean Concerns**

As part of the U.S.-Korean bilateral economic dialogue, U.S. officials discuss and take action to address Korean concerns about U.S. policies. Many of these policies stem from post-September 11 legislation intended to safeguard the United States from future terrorist attacks. For example, Korean officials have complained about the new requirement that all visa applicants, with few exceptions, appear in person. This stricter personal appearance requirement, in addition to other factors such as the introduction of mandatory fingerprint screening at port of entry, has had a detrimental effect on the volume of business, leisure, and student travel to the United States. In response, the United States has developed procedures to facilitate and expedite visa application processing and has increased consular staff at the U.S. embassy in Seoul. Officials of the two governments

are cooperating in a consular working group where they try to address these issues.

Another Korean concern involved portions of the U.S. Bioterrorism Act of 2002, adopted to enhance the security of the U.S. food supply, that Korean officials feared would be trade restrictive. U.S. agencies involved with implementation of the Bioterrorism Act launched outreach efforts during 2004 to educate importers on the new requirements outlined in the act. The United States will continue to work to ensure that the Bioterrorism Act does not unduly hinder agricultural trade.

Korean officials requested that the United States remove the firm Korea Telecom (KT), which was privatized in 2002, from coverage under the WTO Agreement on Government Procurement as well as the bilateral Telecom Agreement. After Korean officials clarified their post-privatization policies related to KT, the United States agreed to this request in 2004.

### **Looking toward the Future**

This survey of the economic relationship between the United States and Korea provides reason for optimism about the future strength of the economic partnership. Our two economies are becoming progressively more integrated as bilateral trade and investment expand and linkages between U.S. and Korean firms increase in frequency and importance. With the rapid introduction of new technologies, both governments need to focus on actions that will encourage further private sector linkages and promote a seamless flow of trade.

At the same time that the United States recognizes Korea's economic dynamism and clear national identity, the United States is also impressed by Korea's potential for a broader role in the Asian economy, especially given its location between China and Japan. Korea's APEC chairmanship in 2005 stands out as a not-to-be-missed opportunity to bolster its regional role. By cooperating bilaterally and in multilateral forums, the United States and Korea can help build trans-Pacific prosperity for all.

U.S. optimism about the future of the U.S.-Korea economic partnership is in line with U.S. expecta-

tions for the continued vitality of the broader U.S.-Korea relationship, even as Asia and the world continue to change in the years ahead. The United States looks forward to many decades of enhancing our economic partnership, increasing our international cooperation, and enjoying our people-to-people ties.

*Ms. Fife is Chief of the Economic Division, Office of Korean Affairs, Bureau of East Asian and Pacific Affairs, U.S. Department of State.*



Korea Economic Institute

Korea Economic Institute  
1201 F Street, N.W., Suite 910  
Washington, D.C. 20004

PRESORTED STANDARD  
U.S. POSTAGE  
PAID  
PERMIT #3777  
WASHINGTON, DC