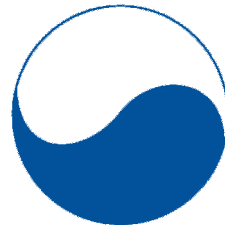

Korea's Economy 2006



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KOREA-U.S. ECONOMIC RELATIONS IN 2005

by Ahn Chong-ghee

Overview of 2005

Korea's Economy

Korea's economy in the year 2005 demonstrated that it is picking up significant positive momentum, although the full-year performance in 2005 showed mixed results.

Korea's real gross domestic product (GDP) grew 4 percent in 2005, and there are clear indications that economic recovery, specifically in terms of GDP, is in sight for 2006. In the third quarter of 2005, GDP year-on-year growth was 4.5 percent—the first growth above 4 percent since the third quarter of 2004. Furthermore, growth in the fourth quarter was 5.2 percent, which exceeded forecasts and extended the rising trend. Forecasts for 2006 indicate that growth should remain at approximately 5 percent.

Korea's strong and growing export sector is a major force behind the positive economic outlook for 2006. Exports in 2005 grew 12.0 percent, the third consecutive year of double-digit growth. Even more encouraging was the fact that for the first time in three years both exports and consumption grew. Korea's key exports of semiconductors, automobiles, wireless communications equipment, steel, and shipbuilding experienced impressive growth. The significant growth in Korea's export sector is even more notable in light of the high oil prices of 2005 and the strong *won*. The strong export growth fortunately offset the impact of increased imports. Thus, Korea showed a \$23.2 billion trade surplus for the year.

Although economic forecasts remain positive, consumer spending in Korea still remained relatively weak. Other factors slowing Korea's economic growth in

2005 included the lack of growth engines, delays in restructuring efforts in certain vulnerable sectors, and inadequate investment resources. The socioeconomic divide between income classes also remains a concern for Korea's economy.

U.S.-Korea Economic and Trade Relationship

Trade is a key factor in Korea's economic success. Korea's 2005 trade volume (exports and imports) reached \$546 billion, surpassing \$500 billion for the first time. Achieving a trade volume greater than \$500 billion places Korea among the ranks of some of the world's most important trading countries.

Korea's trade with the United States is of critical importance and value for both economies. Bilateral trade between Korea and the United States reached more than \$70 billion in 2005. Korea is the seventh-largest export market for the United States and its sixth-largest agricultural market. Although export sales to the United States posted a relative decline as a result of increased competition and the relocation overseas of many U.S. companies, the United States still remains one of Korea's largest overall export markets.

In terms of investment, the United States is Korea's largest foreign investor, with investment reaching \$35 billion over the past four decades. In 2005, a \$1.1 billion Hyundai Motor Company manufacturing plant opened in Montgomery, Alabama; the plant serves as a reminder that investment is now reciprocal.

Trade is an essential part of Korea's economy, as 70 percent of Korea's GDP is dependent upon trade. Recognizing this, Korea has been working to expand its role in the global economic trading system on both the multilateral and the bilateral levels.

Korea-U.S. Trade Issues

The Korea-U.S. bilateral relationship has continued to grow and deepen during the past few decades. However, with a bilateral trade volume reaching \$70 billion, it is inevitable that trade issues and disputes will sometimes arise. More important, through various trade consultations and dialogues, including quarterly trade meetings, an effective early-warning system has been established to minimize trade friction.

Although differences still exist in the areas of pharmaceuticals, telecommunications, and intellectual property rights (IPR), significant progress has been made in the areas of rice and beef. In terms of outstanding trade issues, progress is being made to the satisfaction of both sides.

The Korea-U.S. overall bilateral relationship is a dynamic relationship with multiple layers. When evaluating the specific trade issues of the past year, it is important to consider not only the economic environment but also the existing political and social environments.

Automobiles

The automobile market in Korea is fully liberalized. The current tariff on automobiles is 8 percent, and that tariff will be further reduced through trade negotiations such as the Korea-U.S. FTA.

Korea believes that U.S. automakers need to be more aggressive in marketing and gaining consumer confidence in Korea, as it is clear that foreign automakers are taking advantage of Korea's liberalized market and making inroads into the Korean market. Specific progress has been made on some of the concerns of the United States regarding automobiles—issues regarding license plates, emissions standards, and average fuel efficiency have been resolved through bilateral meetings.

Furthermore, new forms of business cooperation are developing between the automobile industries of both countries. For example, GM Daewoo in Korea is producing a lot of compact cars, which are sold in the domestic market as well as exported to other countries. Also, in May 2005 Hyundai completed its new automobile manufacturing plant in Alabama. The fac-

tory is contributing significantly to the local economy; it hired approximately 3,000 local staff and is expected to produce 300,000 cars annually.

Also, on 28 October 2005, the 2005 Import Car Driving Tour was held in Incheon, sponsored by the Korea Automobile and Importers and Distributors Association. Minister of Trade Kim Hyun-chong participated in the event and test-drove three different models himself, including a Ford and a Chrysler.

Intellectual Property Rights

IPR was one of the key areas in which the Korean government made significant progress in 2005. The Korean government is fully aware of the compelling economic rewards that result from an advanced IPR protection regime.

On the basis of this perspective and the initiative of President Roh Moo-hyun, the Korean government has embarked on a bold path of upgrading its IPR protection regime. The Korean government has promoted its government-wide efforts to further improve the level of IPR protection by cracking down on IPR infringements under the master plan for IPR protection established in 2004. The year 2005 has shown that the Korean government has an IPR protection system that really works. The significant progress achieved led the U.S. government in May 2005 to remove Korea from the Section 301 priority watch list countries and place Korea on a separate, lower-level watch list.

As part of Korea's continuing efforts to further protect rights holders of intellectual property, legislative bills to revise Korea's Copyright Act and Computer Program Protection Act were introduced in the National Assembly. Furthermore, the Korean government's enforcement authorities have been working tirelessly to remove counterfeit products. The Korean government also actively cooperated in implementing the U.S. government's Strategy Targeting Organized Piracy (STOP!) initiative.

In 2005 Korea proved that it has a significant track record in protecting IPR. Despite this fact, the United States continues to argue that the Korean government needs to further protect IPR in a few areas. More specifically, the United States claims that temporary

copies and technological protection measures should be protected, and that book piracy should be rooted out. However, both governments will continue to engage in dialogue during 2006 in order to address the few outstanding IPR issues.

Pharmaceuticals

As in previous years, the U.S. government in 2005 continued to raise its concerns about pricing and transparency issues relating to pharmaceuticals in Korea. The Korean government believes its ongoing cooperative efforts with regard to pricing and transparency of pharmaceuticals can, for the most part, alleviate U.S. concerns. Korea also believes that foreign pharmaceutical companies doing business in Korea are now provided with opportunities to voice their concerns in response to possible changes of pharmaceutical-related policy in Korea.

The Korean government is aware that the United States contends that more work remains to be done. In this regard, the relevant authorities in Korea will continue to take a prudent approach in possibly changing Korea's current policies in order to achieve public goals while also taking into account the views of stakeholders.

Rice

In December 2004, the Korean government reached an agreement with the United States and other interested countries in which Korea would almost double the amount of rice it imports over the next 10 years, starting in 2005. In the agreement, Korea is to provide guaranteed access for 50,000 metric tons of U.S. rice annually and make imported rice available to Korean consumers as well.

The Korean government wanted the National Assembly to ratify this agreement as soon as possible and was hoping to speed the domestic procedures necessary to implement the agreement. However, strong protests by farmers' groups prevented the agreement from being expeditiously approved by the National Assembly. After much heated debate and controversy, the agreement was finally ratified at the National Assembly on 23 November 2005.

Beef

Korea suspended imports of U.S. beef and beef products in December 2003, following the detection of bovine spongiform encephalopathy (BSE) in a cow in Washington State. The Korean government has been cautious in resuming U.S. beef imports on the grounds that this is an issue of public health and food safety, to which the Korean public is very sensitive.

Since early 2005, both sides have met in several rounds of technical consultations on this issue. These consultations and the discussions at the Animal Quarantine Committee of Korea indicate that there would be no problem with the safety of U.S. beef if international standards would be applied to U.S. beef. As a result, on 19 December 2005, the Korean government announced that both governments would launch bilateral negotiations on an import protocol in relation to the resumption of U.S. beef imports into Korea.

Working toward a Korea-U.S. FTA in 2005

A Korea-U.S. FTA would be significant for both countries. An FTA between Korea and the United States would be the largest FTA that the United States has entered into since the North American Free Trade Agreement in 1994 and would be the largest FTA for Korea. In view of the economic importance of Korea and the significant trade and investment relations between the two countries, both governments agree that a Korea-U.S. FTA would be a natural and meaningful next step in the bilateral relationship.

In 2005, there was a growing, common understanding between the two countries that official FTA negotiations need to be launched as soon as possible. The benefits of a U.S.-Korea FTA are real for both the United States and Korea. The United States International Trade Commission estimated in 2001 that, after four years of implementation, U.S. exports to Korea would increase by 54 percent while Korea's exports to the United States would rise by 21 percent. A similar study by the Korea Institute for International Economic Policy projected that U.S. exports to Korea would rise by \$12.2 billion, and that Korea's exports to the United States would rise by \$7.1 billion.

Throughout 2005 progress was made toward launching FTA negotiations. In November 2004, at the APEC Economic Leaders' Meeting in Santiago, Minister of Trade Kim Hyun-chong and U.S. Trade Representative Robert Zoellick met and agreed to hold several working-level meetings between the two sides regarding a bilateral FTA. As a result, during the first half of 2005, Korea and the United States had three rounds of working-level FTA review discussions in order to explore the possibility of a bilateral FTA.

The review meetings were useful exercises in identifying the sensitive areas for both countries as well as the expectations of each country. Each side wanted to broaden the support base for the Korea-U.S. FTA within the home country.

During the second half of 2005, intense discussions were conducted at all levels in order to evaluate the possibility of launching the FTA negotiations. Although the decision to launch negotiations was not finalized until early 2006, much of the groundwork had been done in 2005.

Moving the World Trade Organization Doha Development Agenda Negotiations Forward in 2005

Korea has been dependent on global trade liberalization for its continued trade expansion and economic growth; thus it has been an active participant in the World Trade Organization (WTO) Doha Development Agenda (DDA) negotiations.

Korea supports trade liberalization on the multilateral level, despite the fact that this is often a difficult task, as shown by the WTO Ministerial Conference held in Hong Kong in December 2005. During the Hong Kong ministerial meeting, the ministers set a critical deadline of 30 April 2006 as the date to establish modalities for agriculture negotiations and industrial market access.

The final text of the Hong Kong ministerial sets a unofficial deadline of the end of 2006 for completion of the schedules of commitments. Meeting the various deadlines and coming to agreements are not easy tasks. Korea understands that working for trade liberaliza-

tion on a global scale is a challenge, but it is committed to the successful completion of the WTO DDA negotiations as a primary objective of its trade policy.

APEC Success in 2005

In addition to the WTO, Korea is actively involved in using APEC to promote free and fair trade. As the host of the APEC summit that took place in Busan, South Korea, in November 2005, Korea was given a tremendous opportunity to demonstrate its commitment to advancing trade liberalization. Korea is happy to report that the meeting has been praised as a tremendous success.

During this 13th APEC Economic Leaders' Meeting, the leaders of APEC's 21 member economies came together to make progress on advancing free and fair trade and ensuring security in the region. The leaders devoted particular attention to advancing the WTO negotiations by issuing the 2005 APEC Economic Leaders' Statement on the DDA negotiations.

In addition, they discussed the importance of strengthening IPR protection and enforcement; combating the threat of avian influenza and a potential pandemic; and improving security for radioactive sources, civilian aviation, and trade. On a regional level, APEC 2005 demonstrated Korea's firm determination to enhance trade, security, and transparency within the region.

Outlook for 2006

As host of the APEC Economic Leaders' Meeting, Korea in 2005 worked to promote trade liberalization as well as participated actively in the DDA negotiations. Korea will continue to pursue the goals of free trade on the regional and multilateral levels in 2006.

The bilateral relationship between Korea and the United States is an extremely important relationship for both countries. Korea greatly values its alliance with the United States and has demonstrated its commitment to the United States by donating \$30 million to the United States for Hurricane Katrina relief. Specifically in terms of trade and economics, this relationship will continue to grow and deepen in the year ahead.

Through discussions and negotiations, Korea will continue to work with the United States to resolve trade irritants between the two countries. In 2006, Korea and the United States will be working intensively to conclude a bilateral FTA. An FTA will bring this bilateral relationship to a new, more comprehensive level of economic partnership.

Korea will continue to work tirelessly to ensure Korea is one of the most convenient countries in which to do business. To achieve this goal, the Korean government will continue to make efforts in multiple ways to achieve a more open, secure, and transparent economy.

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