Korea’s Economy 2009

Korea’s Near-Term Economic Prospects and Challenges

Global Financial Crisis and the Korean Economy: Issues and Perspectives

The Impact of U.S. Financial and Economic Distress on South Korea

The Wall Street Panic and the Korean Economy

Economic Policy Reforms in the Lee Myung-bak Administration

Tax Reform in Korea

U.S.-Korea Economic Relations: View from Seoul

U.S.-Korea Economic Relations: A Washington Perspective

Engagement on the Margins: Capacity Building in North Korea

North Korea and International Financial Organizations: Political and Economic Barriers to Cooperation

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

Volume 25
# CONTENTS

## Part I: Overview and Macroeconomic Issues

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea’s Near-Term Economic Prospects and Challenges</td>
<td>1</td>
</tr>
<tr>
<td><em>Subir Lall and Leif Lybecker Eskesen</em></td>
<td></td>
</tr>
<tr>
<td>Global Financial Crisis and the Korean Economy: Issues and Perspectives</td>
<td>8</td>
</tr>
<tr>
<td><em>Pyo Hak-kil</em></td>
<td></td>
</tr>
</tbody>
</table>

## Part II: Financial Institutions and Markets

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Impact of U.S. Financial and Economic Distress on South Korea</td>
<td>15</td>
</tr>
<tr>
<td><em>Thomas Cargill</em></td>
<td></td>
</tr>
<tr>
<td>The Wall Street Panic and the Korean Economy</td>
<td>25</td>
</tr>
<tr>
<td><em>Kim Dong-hwan</em></td>
<td></td>
</tr>
</tbody>
</table>

## Part III: Structural Reform

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Policy Reforms in the Lee Myung-bak Administration</td>
<td>33</td>
</tr>
<tr>
<td><em>Tony Michell</em></td>
<td></td>
</tr>
<tr>
<td>Tax Reform in Korea</td>
<td>45</td>
</tr>
<tr>
<td><em>Randall Jones</em></td>
<td></td>
</tr>
</tbody>
</table>

## Part IV: External Issues

<table>
<thead>
<tr>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.-Korea Economic Relations: View from Seoul</td>
<td>55</td>
</tr>
<tr>
<td><em>Han Dongman</em></td>
<td></td>
</tr>
<tr>
<td>A Washington Perspective</td>
<td>64</td>
</tr>
<tr>
<td><em>Jordan Heiber and Jennifer Schuch-Page</em></td>
<td></td>
</tr>
</tbody>
</table>
EXTERNAL ISSUES
U.S.-KOREA ECONOMIC RELATIONS: VIEW FROM SEOUL

By Han Dongman

Introduction

The year 2008 was one of exciting and important developments in both Korea and the United States, as well as in the two countries’ bilateral relationship.

Korea celebrated the 60th anniversary of the establishment of a modern democratic government, and it elected a new president. The United States also chose a new president, whose historically significant election was watched closely around the world.

Korea-U.S. bilateral relations grew closer than at any period in recent history. Major progress was made on several key alliance issues, such as the elevation of Korea’s foreign military sales status and Korea’s entrance into the U.S. Visa Waiver Program. We also worked together on critical global issues, including the current financial crisis. That work continues as we gain a deeper understanding of our individual and joint needs and develop effective solutions to the problems we face.

The United States and Korea expanded ties to become cooperative allies in a strategic relationship, which is important not only to both countries but to stability in the Northeast Asian region.

While the overall alliance was enhanced and remains strong, one aspect continues to present challenges—the economic relationship.

There are many ways to describe the U.S.-Korea economic bond—interdependent, complex, broad, robust, mutually beneficial. Perhaps “true partners” is the most accurate. Korea, which has a $1 trillion economy, is the seventh-largest trading partner of the United States—ahead of France, Spain, and India.

The U.S.-Korea bilateral economic relationship has evolved during the past years to the critical and very exciting point at which we now find ourselves. We stand at the threshold of a new chapter in U.S.-Korea relations with the potential to significantly and permanently upgrade not only our bilateral economic relations but our strategic ties as well.

Whether that chapter has a happy or disappointing ending is up to its “authors”—the members of the U.S. Congress who will decide the fate of the Korea-U.S. Free Trade Agreement (KORUS FTA).

Significance of the KORUS FTA

A fair and solid agreement with tremendous potential to be quite beneficial to most businesses in both countries and, therefore, to their respective economies, the KORUS FTA by its sheer magnitude illustrates the scope of the U.S.-Korea economic relationship. The KORUS FTA marks a significant decision to upgrade the bilateral economic relationship to a higher level in the twenty-first century—one worthy of the true partnership that has evolved in recent years.

Interestingly, the KORUS FTA is not a vehicle for only economic gains. Indeed, it can also usher in a whole new era in our bilateral security relations, anchoring the military alliance on a firm social and economic basis. The KORUS FTA can ensure that our partnership continues to have a wide, firm, and deep support base in each country.1

1. Korea’s president, Lee Myung-bak, stipulated the benefits of the KORUS FTA in his speech on 17 April 2008 during a dinner hosted by U.S. Chamber of Commerce.
That is why the future of the KORUS FTA is one of the most important issues that the United States and Korea face in their relationship at this time.

It has been more than a year and a half since Korea and the United States signed the KORUS FTA on 30 June 2007. Although a broad swath of the business community and agricultural groups in the United States supports the agreement, some members of Congress from the Democratic Party and some labor unions have expressed their concerns about the adequacy of the KORUS FTA to address market access issues in the Korean market, particularly for U.S.-made cars.

In its blueprint for the Obama administration, the Center for American Progress Action Fund—a generally pro–Democratic Party think tank founded by John Podesta, a former chief of staff to President Bill Clinton—urged resolution of both the U.S. beef and auto export issues, warning that “without progress on these fronts, Congress is unlikely to support the Agreement.”

The blueprint went on to say, “The job of the new President and his Secretary of State will be to explain to the Korean leaders and citizens why these issues are so important to Congress and the American people, while at the same time explaining to Congress and the American people the importance of the KORUS FTA to U.S. economic and foreign policy and economic objectives.”

U.S. Beef Is Entering the Korean Market

When a case of bovine spongiform encephalopathy (commonly referred to as BSE or mad-cow disease) was detected in the state of Washington in December 2003, as a precautionary measure Korean authorities stopped importing beef from the United States, which had been the largest provider of beef to Korea at that time, with 67 percent beef import market share. Even though the U.S. beef quarantine issue is a public health issue more than it is a trade issue and is not a part of the KORUS FTA, it was believed to be a stumbling block to congressional approval of the agreement in the United States.

After the May 2007 decision of the World Organization for Animal Health to classify the United States as a BSE risk-controlled country, the two governments conducted negotiations to amend the U.S. beef import protocol in a way that strikes a mutually acceptable balance.

When the Korean government lifted its ban on imports of U.S. beef in April 2008, anti–U.S. beef protests in Korea erupted. The rallies were spurred by Internet rumors and sensational reports that Koreans were genetically susceptible to the mad-cow disease.

Despite the unprecedented political turmoil and intense pressure over several months, the Korean government held firm. It did not succumb to demands for a renegotiation of the beef import deal.

Consumption of U.S. beef declined during that period, but U.S. beef is now arriving in the Korean marketplace without major technical difficulties, and it accounts for almost 60 percent of the imported beef market share as Korea’s top imported meat as of October 2008.

U.S. Automobile Sector Stands to Gain Immensely from KORUS FTA

Opponents of approval of the KORUS FTA also focused on the auto trade imbalance, but, as the United States Trade Representative has emphasized many times, Korea has incorporated a majority of the U.S. demands to create a level playing field for U.S.-made autos in Korea.


3. Data are from the National Veterinary Research and Quarantine Service, Republic of Korea.
Specifically, Korea agreed to eliminate its 8 percent tariff on U.S. passenger cars immediately, to reduce the discriminatory effects of its engine displacement taxes, to amend emissions standards for some U.S.-exported cars, and to allow the United States to return to or “snap back” tariffs on cars to their former tariff level if Korea does not abide by its commitments on auto trade under the KORUS FTA.

The United States agreed to eliminate immediately its 2.5 percent tariff on Korean passenger vehicles with engines smaller than 3,000 cubic centimeters and to phase out, over 10 years, the 25 percent tariff on pickup trucks.

Notwithstanding all of these concessions, the U.S. auto industry—with the exception of General Motors (GM)—several labor unions, and some Democratic members of Congress have voiced strong opposition to the auto provisions of the KORUS FTA and have held up its approval in the U.S. Congress.

This continues to frustrate the agreement’s supporters because the reality is that the agreement addresses the concerns raised by the United States in the automotive sector and contains strong and unprecedented measures to ensure greater access to the Korean market by the U.S. automakers.4

Consider the following:

Fact 1: Korea’s market is open for imports and foreign ownership. Rates of both have been increasing. Contrary to what opponents claim, the fact is that Korea is already moving in the right direction: the market share of foreign vehicles in terms of the number of vehicles sold in Korea in 2008 was 6.04 percent (61,648 cars), an increase of 16.5 percent compared with 2007 (53,390 cars).

Since 2000, the market share of foreign automakers in terms of sales value has been increasing by an average of 41.9 percent annually. The U.S. automotive industry exported 8,864 cars to Korea in 2008, an increase of 8.4 percent compared with 8,172 cars in 2007.5

Meanwhile, the European Union (EU) and Japan continue to take advantage of current market opportunities. They do significantly better than U.S. manufacturers in Korea: in 2008, the EU sold five times and Japan sold almost three times as many automobiles as the United States. Sales by the EU and Japan suggest there may be factors at work other than the alleged closed nature of the Korean market that are impeding U.S. auto sales in Korea.

Faced with competition from Japanese and European imports in recent years, U.S. automobiles have experienced a declining market share in Korea. According to the Korea Automobile Importers and Distributors Association (KAIDA), the U.S. share of the imported-auto market was 28 percent in 2003. It dipped to 15 percent in 2004 and then to 11.7 percent in 2007.6

If one compares the market share of the Korean and the U.S. brands in the other country’s market, the market share of the U.S. brands in Korea reached 11.3 percent in 2008 while the Korean brands accounted for 5.1 percent of the U.S. auto market, a very small percentage compared with the Japanese brands, which captured 39.5 percent in 2008.

The Korean government stands ready to ensure that the potential of the KORUS FTA is realized for U.S. auto producers through strict adherence to its commitments and marketing assistance to support public openness to imports.

Fact 2: The argument of unbalanced auto trade did not reflect the sales of GM-Daewoo, and Korea is not the main source of the U.S. auto trade deficit. The most vocal complaint about U.S.-Korea

---

4. Korean Trade Minister Kim Jong-hoon said in his interview with Korea’s Yonhap News Agency on 16 January 2009: “If the U.S. automakers want to increase their market share in Korea, the KORUS FTA would be a good opportunity for them. All the things they have sought for years are put into the pact. Renegotiation of the KORUS FTA would not be sensible.”

5. Data are from the Korea Automobile Manufacturers Association.

6. The shares of the United States, the EU, and Japan in the Korean market for imported automobiles in 2008 were 11.3 percent, 53.6 percent, and 35.1 percent, respectively; see data from KAIDA.
automobile trade is that it is “unfairly” unbalanced. The numbers cited vary significantly, but the most typical claim is that Korea exports about 700,000 cars annually to the United States, while the United States is “permitted” to export only a few thousand to Korea.

The total number of Korean nameplate vehicles sold in the United States in 2008 was 675,139, which comprised domestic production in Alabama (188,351, 29.9 percent) and imports from Korea (486,788, 70.1 percent).

It is important to look beyond these numbers. On the Korean side of the ledger, one has to understand that the whole Korean market is about 1.2 million cars per year. This compares with a U.S. market of about 15 million cars per year. Just on the differing market sizes alone, it is not surprising that sales numbers are not equivalent; the market sizes are not equivalent. Note also that three Korean automakers are owned by foreign companies, including General Motors, which purchased Daewoo in 2001.

Sales of automobiles of foreign-owned automobile manufacturers (such as GM-Daewoo) and of imported cars combined account for about 28 percent of the total domestic market share in Korea.

In fact, Korea is not a leading source of the U.S. auto trade deficit. According to U.S. Department of Commerce statistics for 2008, the United States recorded an automobile trade deficit of $40.7 billion with Japan, $17.2 billion with Mexico, $13.4 billion with Canada, and $10.1 billion with Germany compared with $7.1 billion with Korea. The trade deficit with Korea dropped by 9.6 percent compared with the previous year.⁷

Meanwhile, Korean companies operate automobile manufacturing plants in the United States. The Hyundai plant in Alabama is a $1.4 billion investment and has created about 3,300 new jobs. The Kia plant in Georgia, expected to be in operation by 2009, is a $1.2 billion investment that will generate approximately 2,500 new jobs.

Fact 3: The FTA comprehensively addresses non-tariff barriers in Korea. Korea agreed to change the taxation system to address U.S. concerns about nontariff barriers.

First, Korea agreed to overhaul its automotive taxation system: Korea will simplify its engine displacement taxation system so that larger vehicles will not be liable to pay higher taxes. Korea also agreed not to introduce new engine displacement taxes to increase the disparity of tax rates between categories. Korea will go beyond that and further eliminate alleged discriminating aspects of the special consumption and vehicle taxes and will simplify and significantly reduce existing tax rates—immediately cutting some in half.

Second, Korea has agreed to provide special treatment for U.S. automakers with regard to emissions standards.

Third, Korea will grant a grace period to U.S. automakers in applying new safety standards and technical requirements.

Last, and most important, through various transparency provisions of the FTA, Korea will give the U.S. auto industry a voice in the discussion and implementation of future standards and requirements.

Fact 4: The FTA includes a powerful enforcement mechanism. The agreement also establishes specific dispute settlement procedures for automobiles. If either country is found to be in violation of the agreement, the FTA provides a unique fast-track dispute settlement procedure in which tariffs of passenger cars may snap back to pre-FTA levels. Thus, penalties may be disproportionate to any harm caused by the breach of the commitments. This provides an added incentive for full compliance.

It is a creative and unprecedented enforcement mechanism, showing Korea’s strong commitment to the auto sector. In most FTAs, it can often take months or even years for the dispute settlement process to reach an outcome. Recognizing the sen-

⁷ U.S. trade flows by all shippers of road motor vehicles (in billions of current dollars) in the U.S. motor vehicle industry, domestic and international trade, compiled by the U.S. Department of Commerce, Office of Aerospace and Automotive Industries, from government and industry sources, 2008.
sivities in automotive trade and the importance of reaching a decision as promptly as possible, the KORUS FTA has introduced a speedy new system.

The Automotive Working Group is another innovative approach to safeguarding the U.S. and Korean automotive industries from issues that may arise in the future. It will act as an early-warning system of potential concerns, pinpointing and addressing potential regulatory issues before they become problematic. A panel such as this is unprecedented and demonstrates Korea’s commitment to fairness.

Fact 5: Not all of the U.S. auto industry is opposed to the Korea-U.S. FTA. General Motors is officially neutral but has stated in its Industry Trade Advisory Committee report that “GM believes that the KORUS FTA has addressed the U.S. auto industry’s concerns.”

The American International Automobile Dealers Association, which represents 11,000 auto franchises and whose members provide more than 500,000 U.S. jobs, supports the KORUS FTA. The Association of International Automobile Manufacturers (AIAM) also supports KORUS FTA. AIAM’s members have invested more than $33 billion in 47 U.S. vehicle plants, component manufacturing facilities, and centers for research and development, which employ almost 100,000 Americans.

The U.S. auto parts industry has not opposed the agreement.

Fact 6: The KORUS FTA is the only World Trade Organization (WTO)–consistent way forward in the automotive sector. Opponents of the KORUS FTA have proposed an alternative approach based on a product-specific reciprocal trading regime put forward in a letter from some members of the House of Representatives and the Senate to President George W. Bush in March 2007.

This so-called March 2007 proposal features the following elements: First, it proposes for the automotive sector a car-for-car reciprocal application of the KORUS FTA tariff concessions. That is, for every additional car shipped by the United States to Korea, Korea will get a tariff break on one vehicle shipped to the United States. Second, this proposal contains a punitive enforcement mechanism that would apply not just to the automotive sector but to all products.

Under this portion of the proposal, the United States could unilaterally snap back tariffs at any time if it considered that Korea was not fulfilling its obligations or was undercutting the United States with the use of other steps such as technical barriers. It would then be Korea’s burden to prove that it had not taken any such steps.

The Korean and U.S. negotiators did not include these elements because they are inconsistent with both the law and policy of the WTO and the spirit of free trade.

First, the product-specific reciprocal tariff proposal operates as a tariff rate quota (TRQ). That is, there would be duty-free treatment for the number of Korean autos that corresponded to the increase in exports of U.S. automobiles. TRQs are inconsistent with Article XI of the General Agreement on Tariffs and Trade (GATT) when applied to industrial goods.

From the trade policy perspective, the alternative proposal is badly flawed. Just as Korea would not get tariff preferences for cars that it ships in excess of cars shipped by the United States, it is unquestionable that Korean interest groups would demand that the United States not gain privileges in corn, oilseeds, poultry, pork, citrus, or certain types of machinery and chemicals unless Korea also exported equivalent amounts of those specific goods, calculated on a product-by-product basis.

The product-specific reciprocal trading scheme would open a Pandora’s box of managed trade. It is a simple and long-standing proposition that the market access and national treatment provisions of the GATT and WTO do not guarantee market shares of anything. Rather, it is competitive opportunities that are protected.

Second, the proposal for a unilateral enforcement mechanism is a repetition of the old Section 301 of the Trade Act of 1974, which was found illegal in its original form by a WTO dispute panel. It proposed an enforcement mechanism backed up by a dispute settlement process that reverses the burden of proof and would require Korea to prove the negative, that is, that it was not guilty.

It is a fundamental precept of law that the party asserting the illegality of an action has the burden of proving its case. This unilateralist proposal, however, would undermine the principles of due process and the rule of law that the United States agrees are the most fundamental aspects of the WTO system.

Simply put, without the KORUS FTA, U.S. auto manufacturers will continue to face the same tariff and nontariff barriers. With the KORUS FTA, U.S. automakers will obtain important access to the Korean automotive market through the elimination of a wide range of tariff and nontariff measures, enforceable under a unique and expedited dispute settlement mechanism.\(^9\)

In its independent study, the United States International Trade Commission (USITC) confirmed that the removal of the 8 percent tariff on U.S. passenger cars would likely have a positive effect on U.S. exports, potentially enabling U.S. exporters to lower their prices because of the tariff elimination. Moreover, the USITC expects a negligible impact on U.S. employment, as any increase in U.S. imports of Korean passenger cars would be small in percentage terms.

Trade Saves the Day

The recent unprecedented global financial turmoil has led to the concern that many countries will be tempted to resort to protectionism to revitalize their domestic markets. Although that might be understandable, it would not be effective. The fact is that trade in a fair and free market plays an important role in economic stability. Knowing this, the Group of Twenty (G-20) leaders reaffirmed the spirit of free trade and the market-economy system during a summit in Washington, D.C., in November 2008.

At that summit, President Lee Myung-bak called for a “standstill” for world trade and investment barriers. Following his lead, the 21 leaders at the Asia-Pacific Economic Cooperation meeting held in Peru on 23 November 2008 endorsed the G-20 agreement to resist domestic pressure to protect industries by refraining for 12 months from raising new barriers to investment or from imposing new export restrictions on trade in goods and services. In the second G-20 meeting, held in London on 2 April 2009, the leaders reaffirmed the commitment made in Washington to refrain from raising new barriers to investment or to trade in goods and services, from imposing new export restrictions, or from implementing WTO-inconsistent measures to stimulate exports.

Since the housing and financial crises erupted in mid-2007, there has been a decline in final domestic demand. The export boom has saved the U.S. economy from recession during the past year, however, and, despite the recent financial turmoil, it is likely to continue doing so. The boom in exports has generated at least two million new and high-paying jobs, about half of them from increased foreign sales by the beleaguered manufacturing sector.

The Organization for Economic Cooperation and Development foresees continued modest expansion of the U.S. economy during 2008–09, with 80 percent of the impetus coming from trade improvement.\(^10\)

Recently, trade has been a bulwark for the U.S. economy as it has slowed and headed into recession. During the year prior to the recent financial crisis, exports were generating nearly all U.S. economic growth.\(^11\)

---


Exports have been an incredibly powerful source of economic growth, prosperity, and competitiveness in the U.S. economy. It is a symbol of U.S. openness, leadership, and engagement in the world that its trade surplus with the country partners of the 11 FTAs in force grew from $3.8 billion in 2000 to $21 billion in 2007.

The December 2008 report, “U.S. International Trade in Goods and Services,” by the U.S. Census Bureau shows that U.S. exports of goods and services grew by 12 percent in 2008 to $1.84 trillion, and that the U.S. goods and services trade deficit ($39.9 billion) was the lowest monthly deficit since February 2003.

Vigorous trade will help the world recover. For that to happen, the United States will have to provide strong leadership and a clear commitment to fight protectionism.12

Implications of the KORUS FTA

Although a basic objective of this FTA initiative is to secure global market access for Korean industries so that they can gain an edge over competitors, that is not the sole purpose of the agreement. The broader goal is to upgrade the Korean economy by opening the domestic market to open competition.

Trade and investment liberalization bring about higher global standards and a transparent business environment, driving Korea to achieve greater efficiency and serving as the aspired springboard to becoming an advanced economy adhering to global rules. The deal will also serve as testimony to Korea’s unshakable commitment to economic growth through open markets.

For the United States, the KORUS FTA will make Korea an even more attractive place to do business, expanding economic opportunities for U.S. manufacturers, workers, and farmers.

A congressionally mandated study by the USITC concluded that, under the KORUS FTA, U.S. exports of goods to Korea would likely increase by about $10 billion, primarily in agricultural products, machinery, electronics, and transportation equipment. In addition, the study noted that U.S. exports in services would increase as a result of Korean commitments under the KORUS FTA and that changes in the regulatory environment would also help to increase bilateral trade and investment flows.

By approving the KORUS FTA, Congress will create new opportunities for prosperity for U.S. workers, businesses, and consumers, and the U.S. economy will be strengthened.13

Korea is a large and growing market for U.S. exporters and a good economic and policy partner of the United States. The KORUS FTA gives the United States a framework for a better, more open place to do business with a strong economic foothold in Asia.14

Korea is a vital force for stability at a time of great challenge and change on the Korean peninsula and in the broader Northeast Asia region. The KORUS FTA will strengthen the critical U.S. strategic partnership with Korea. By boosting economic ties and broadening and modernizing the long-standing alliance, it promises to become the pillar of the bilateral alliance for the next 50 years, as the Mutual Defense Treaty has been for the past 50 years.15

Cost of Inaction

Failure to ratify the KORUS FTA would have serious consequences. U.S. companies would lose mar-


13. According to the Washington Times on 14 November 2008, there should be no fear that U.S. companies will relocate to Korea at the expense of U.S. workers because Korea is not a low-wage nation. The KORUS FTA will create jobs for both Americans and Koreans.


A long delay or rejection of the KORUS FTA would have an adverse macroeconomic impact on both countries. The most evident effect of a delay or rejection would be on the size and patterns of trade and investment flows. The delay’s impact would be greater on those sectors primed to gain the most. In the United States, agriculture would feel the impact as high Korean tariffs on fruits and vegetables and quotas on dairy products and meats would continue.

Reduction in Korea’s restrictions on financial, professional, and other services would stall, affecting U.S. providers’ efforts to increase their presence in that market.

In addition to the impact on trade and investment flows, a long delay or rejection of the KORUS FTA could heighten tensions in the bilateral economic relationship. The KORUS FTA was intended as a mechanism to address or resolve issues that have hampered the relationship for many years and as a forum to handle future economic issues before they threaten the overall relationship. If the KORUS FTA collapses, the political environment surrounding U.S.-Korea economic relations could sour, making it more difficult for issues to be addressed and resolved.  

**Yes, We Can**

It is hoped that the new president and the U.S. trade representative will address the concerns that leave some uncomfortable with supporting ratification of the KORUS FTA.

The trade pact would be good for the U.S. economy and U.S. workers. Rejecting it would send an unwelcome message to allies around the world that the United States is an unreliable partner and, despite all that it preaches, does not really believe in opening markets to trade.

The Center for American Progress Action Fund advised in its *Change for America: A Progressive Blueprint for the 44th President* that because of expectations already raised, if the KORUS FTA is mishandled, there could be a very detrimental effect on the overall U.S. position in Asia.

During the meeting between President Barack Obama and President Lee Myung-bak on 2 April 2009 on the sidelines of G-20 meeting, the two presidents agreed that the KORUS FTA could bring benefits to both countries and committed to working together to chart a way forward. It is our hope that the two countries work expeditiously to reach an agreement on the pending issues in a mutually acceptable manner based upon the spirit of strengthening the bilateral alliance.

Yes, we can, and we must seize this moment to make our relationship the best it can be. An opportunity such as this is not likely to come again. There is no more time to waste.

**Prospects for 2009**

There is now broad consensus that 2009 will see a global recession. In such an environment, it is essential that international economic cooperation be sustained and strengthened. One of the best ways to do that would be early ratification of the KORUS FTA.

Korea, after experiencing very rapid economic development over the past half century and successful recovery from the financial crisis in 1997, currently holds a strong position as a principal industrial power. Having this experience, Korea, Asia’s 4th-largest and the world’s 13th-largest economy, has been trying to serve as the mediator or the bridge linking developed and developing countries.

---

16. The EU is Korea’s second-largest trading partner after China. Trade between Korea and the EU reached $98 billion in 2008, and the EU is the largest foreign investor in Korea.

17. Mark Manyin, “Can the U.S. and South Korea Sing without KORUS? The Economic and Strategic Effects on the KORUS FTA” (presentation at the 19th U.S.-Korea Academic Symposium, New York University, 16–18 September 2008), 15–16.
Ultimately, the United States will be the central player in bringing about the recovery of the world economy. Korean businesses and the government are optimistic that the new U.S. administration will move quickly and decisively to create and implement a plan to resolve the global financial crisis.

As we have done for more than a half century, Korea will continue to stand shoulder to shoulder with the United States as close allies with common goals, working together on global issues, while deepening our bilateral ties.

Mr. Han is Minister Counselor at the Republic of Korea’s embassy in Washington, D.C. The views in this article represent his own and not necessarily those of the embassy or the Korean government.
Korea’s Economy

Korea Economic Institute
1800 K Street, N.W. Suite 1010
Washington D.C., 20006

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

6/3/2009   12:45:34 PM