



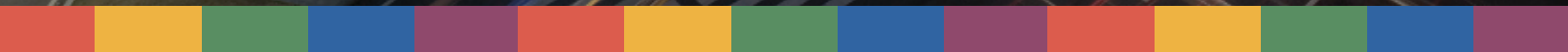
# KOREA'S ECONOMY

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Volume 27





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

By Kim Won-kyong

Last year I presented the changes in U.S.-Korea economic relations since the 1960s, under the title of a “historical view.” In that article, I argued that, much as the introduction of a rules-based international trading system under the jurisdiction of the World Trade Organization and the emergence of China have changed the landscape of world economic relations, Korea has faced challenges since the last full-scale trade conflict of the late 1990s over perceived market access barriers to Korea’s automobile market.

By successfully navigating these challenges, Korea found itself in a position to pursue a strategic economic partnership with the United States, our most important ally. Despite skepticism, concerns, opposition, and political constraints, the U.S. and Korean governments decided to pursue the Korea-U.S. Free Trade Agreement (KORUS FTA).

Several challenges drove the policymakers to this decision, including:

- **Growing concerns over Korea’s economic prospects and long-term competitiveness.** Korea has been facing intensified global competition from both developed and developing countries alike. Korea was required to have a new economic policy to avoid being stuck between developed and developing countries. If Korea cannot respond properly to these challenges through bold reform and liberalization policies, Korea might not retain even its current economic status.
- **The stunning growth of China and other emerging economies.** Many experts foretold the rapid growth of emerging economies like China, India, Indonesia, Brazil, Russia, Mexico, and Turkey. PricewaterhouseCoopers estimated in 2006 that in 2050 those seven countries will be 75 percent bigger in terms of purchasing power parity than the countries of the Group of Seven. This was confirmed again this year in a report from the World Bank that predicted that by 2025 half the world’s economic

growth would come from emerging economies. The fast growth of the Chinese economy, in particular, and its economic influence in Asia brought questions about how to find a regional counterweight to China.

- **The spread of free trade agreements (FTAs) worldwide.** In the last decade, while the Doha Development Agenda talks stalled, regional trading blocs spread rapidly. Korea was relatively late in joining the global trend of regionalism. By 2003, 130 FTAs had already been concluded worldwide, but Korea was not party to a single one. We needed to leap forward.

Washington had its own reasons to pursue an FTA with Korea, which may be a subject of another article. Thanks to the resolute efforts by both Seoul and Washington, we were able to conclude the negotiation of the KORUS FTA in June 2007. But that was only the beginning of a long saga.

## Project Called “Saving KORUS FTA”

During his presidential campaign, President Barack Obama was not a strong supporter of free trade. He called for amending the North American Free Trade Agreement to include higher labor standards, and he repeatedly argued against the FTA with Korea, saying that he could not support the FTA in its current form.

Throughout his first year in office, even though President Obama expressed interest in strengthening the U.S. trade relationship with Korea, the attention of his administration remained focused on health care reform and reforming Wall Street. Individual members of Congress acknowledged the importance of the bilateral relationship, but otherwise the KORUS FTA did not receive significant attention. The Korean embassy realized that a new and methodical approach was needed in order to renew interest in the KORUS FTA in the White House and the U.S. Congress and ultimately win approval.

When President Obama decided to visit Seoul in November 2009, we seized the first opportunity to promote the KORUS FTA in Washington D.C. In advance of his trip to Korea and with the close cooperation of the Korean embassy and the U.S. business community, a bipartisan group of 88 members of the House of Representatives sent President Obama a letter expressing support for the KORUS FTA and urging that he prepare the FTA for congressional consideration.

At that time, we could get only 44 Democrats to sign the letter. We had more than 44 Republicans willing to endorse the letter, but we determined that having the same number of Democrats and Republicans on the letter would show the bipartisan support for the FTA. The letter gained a lot of traction, and it influenced President Obama and Secretary of State Hillary Rodham Clinton, both of whom were surprised to see the number and the names of Democrats who signed the letter.

Since that successful effort, we have launched a comprehensive campaign with the aim of ratifying the KORUS FTA and raising the profile of the Korea-U.S. economic relationship among the American public and their elected officials. The campaign is supported by four equally important pillars: local outreach (the KORUS FTA City Tour), strategic communication to the American public, a grassroots movement with small and medium-size enterprises (SMEs), and a grassroots movement with Korean American communities.

### ***KORUS FTA City Tour***

To begin with, we turned to a valuable adage about U.S. politics credited to former Speaker of the House Tip O'Neill: "All politics is local." Building on that philosophy, we realized that local businesses and institutions would have an easier time explaining the benefits of the agreement to their local members of Congress than an ambassador in Washington ever could, and the local press would be the most effective media messenger.

Whenever Congress is in recess, most members go back to their districts to campaign and listen to the voices of their communities. To coincide with these time periods, the KORUS FTA Business Coalition and the Korea's ambassador to the United States started to tour the country, speaking with business and opinion

leaders about the local benefits of the KORUS FTA. Korean trade associations such as the Korea International Trade Association, the Federation of Korean Industries, and the Korea Economic Institute also supported the efforts.

We held events with local businesses, explaining the benefits of the KORUS FTA and recounting success stories of area businesses profiting through trade with Korea. At every event, we invited members of Congress and their staffs from nearby districts to hear the ambassador speak and to listen to the voices of their community in support of the agreement.

As of July 2011, we visited more than 53 different cities in 29 states. Our destinations have included areas like California, Washington, and Texas, which export hundreds of millions of dollars of goods and services to Korea and have been largely supportive of the KORUS FTA. But we also visited more trade-skeptical areas. We visited Michigan, home to the U.S. auto industry, at a time when progress on a new auto deal seemed to have stalled. While in Detroit, we listened to the concerns of the major car companies, small auto parts suppliers, and local businesspeople of all stripes to convince them of the FTA's benefits. More recently, we visited the Carolinas, the primary home of the U.S. textile industry, the last industry to continue to raise opposition to the FTA. As in the Midwest, we set up several meetings to listen to Carolina-area residents' concerns and to discuss ways for the large, if ailing, textile industries in both countries to work together for their mutual benefit.

In these meetings, speakers used anecdotal evidence from local SMEs to demonstrate the local benefits of the FTA. Sometimes local businesspeople and workers took the microphone themselves to recount their experiences doing business with Korea. The owner of a logistics company in Montgomery, Alabama, talked about Hyundai Motors' investment in Montgomery and how that improved their business. At another event, the CEO of a dredging company in Baltimore, Maryland, which exported dredgers to clean river bottoms, testified that without the KORUS FTA the company would lose price competitiveness in the Korean market, as their European competitors benefit from the Korea-EU FTA that took effect on 1 July 2011. At the end of the each event, the coalition helped those business leaders send letters to President

Obama and members of Congress urging their support for the passage of the KORUS FTA.

### *Strategic Communication to the American Public*

After President Obama announced his goal of doubling U.S. exports by 2014, many people suggested that passing the KORUS FTA was the most logical and economical way to meet it. The analysis by the U.S. International Trade Commission of the KORUS FTA estimated that its implementation would lead to an \$11 billion increase in U.S. exports to Korea. Thus, the KORUS FTA represented a unique opportunity to stimulate the U.S. economy at no cost to U.S. taxpayers.

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*“Since 2006, Korea’s foreign direct investment (FDI) in the United States has exceeded U.S. FDI in Korea. Korean companies invested \$5.1 billion in the United States in 2010, while U.S. firms invested less than \$2 billion in Korea. If anything, those investments have created thousands of jobs in the United States.”*

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As the U.S. unemployment rate stayed high, our messaging focused more on the job-creation effect of the KORUS FTA. We amplified the U.S. administration’s estimate that the implementation of the FTA would support up to 70,000 U.S. jobs and echoed U.S. business communities’ concerns that the failure to implement the agreement could lead to a loss of 345,000 U.S. jobs.

We also tried to demonstrate that, unlike other Asian countries, Korea does not maintain a huge trade surplus with the United States or thrive by exporting cheap goods. On the contrary, the U.S. trade deficit with Korea was only \$4.6 billion in 2010, about 5 percent of the deficit that the United States maintains with China and 10 percent of what the United States maintains with Germany and Japan. We also argued that Korea is not a destination for off-shoring jobs. Since 2006, Korea’s foreign direct investment (FDI) in the United States has exceeded U.S. FDI in Korea. Korean companies invested \$5.1 billion in the United States in 2010, while U.S. firms invested less than \$2

billion in Korea. If anything, those investments have created thousands of jobs in the United States.

More recently, we have adopted “KORUS FTA Now!” as our primary message. This message emphasizes the need to pass the FTA on its own merits, without having the agreement linked to any other trade issues or agreements. We have also sought to emphasize the potential market losses U.S. businesses face compared with the benefits their European competitors will receive when the Korea-EU FTA takes effect in July 2011.

Whenever an issue was raised from the opposition, and in whatever form the message took, we tried to address those concerns immediately by disseminating fact sheets, holding issue briefings, or posting counterarguments in the media that carried the attacks, in cooperation with the business community and the Obama administration. As soon as the website, KoreaUSPartnership.org, was launched, we began to send weekly e-mail newsletters to trade journalists, congressional staff, and those who requested them through the website.

Knowing how important local newspapers are to members of Congress, we increased our efforts to reach out to local newspapers. Whenever he visited a new city, Ambassador Han Duck-soo tried to meet with the local newspaper’s editorial board, and, whether he could meet them or not, he would send explanatory materials to the local newspapers. We tried to explain the benefits of the FTA using local SMEs’ success stories and statistics about the benefits to the states or cities we were visiting. Working with the business community, local SMEs wrote op-eds that explained the importance of trade to their business and to the community as a whole.

All of these efforts were used for the national media as well. As an example, an August 2010 headline in the *Washington Post* read, “S Korea Trade Pact Back on the US Trade Agenda.” The *Post*’s reporter in Chicago was particularly impressed by the ambassador’s messaging ability, noting in the article: “‘I’d like to see more Ford and General Motors cars in Seoul,’ said Han, a Harvard-educated economist and veteran Korean minister who can mix quips about the Cubs and White Sox with the arcana of tariff schedules.”

### ***Grassroots Movement with Small and Medium-Size Enterprises***

At the same time, we launched outreach programs throughout the country. Through them we sought to organize the voices of the business community in support of trade and the FTA and to convey this message to Congress.

Our first job was to identify companies that have exported to or imported from Korea and companies that invested in or received investment from Korea. With the help of enhanced data analysis and the Korean business communities, we were able to collect that information and began to discuss the benefits of the KORUS FTA with those businesses.

Meetings were arranged with local companies everywhere we traveled. We listened to their stories of exports and investment. We explained to them the contents of the FTA and the benefits to their businesses. In many cases, they were enthusiastic enough to contact their members of Congress in support of this FTA because their interest in the Korean market could be harmed by competition from other countries with which Korea already had FTAs.

For example, after finding out that the FTA not only eliminates the tariff on products her company exports there but also enhances the intellectual property protections—long a major concern for the company—already in place, the CEO of a company named Quality Float Works in Illinois announced that she would send a letter to her member of Congress to support this FTA.

Beyond direct meetings with local companies, we tried to garner support through a systematic grassroots movement. Using information about companies we knew would benefit from the FTA, we used a grassroots firm to contact companies in several parts of the country, to make sure they were aware of the benefits of the FTA.

Local chambers of commerce and business organizations also made good partners in this grassroots movement. They have better knowledge and an existing relationship with local businesses. With the close cooperation of these local business organizations, we

are working to approach local companies to publicly show their support for this FTA by sending letters or making calls to local newspapers to explain the benefits they are expecting to get from the agreement.

### ***Korean American Grassroots Movement***

On the evening of 16 June 2011, about 80 Korean Americans and friends of Korea gathered in Washington, D.C., to show their support for the KORUS FTA and to get to know other Korean Americans who share their commitment to empower the Korean American community. This event was the first off-line rally by the Korean American voters who participated in the online campaign for the KORUS FTA through the KORUS Online Action Center at <http://Act.KoreaUS-Partnership.org>.

The KORUS Online Action Center offers a powerful way to connect the two million Korean American voters with their members of Congress and elected officials. Established in October 2010 it allows the embassy to identify and communicate with Korean American voters and engage them in sustained conversations about the KORUS FTA. Through the action center we encourage them to send messages to elected officials, request meetings with their members of Congress, sign petitions, and invite their friends, family, and colleagues to do the same.

So far, more than 11,000 Korean Americans have signed up, and they've sent more than 7,200 letters to Congress showing their support for the KORUS FTA using the KORUS FTA Online Action Center. In addition, the Online Action Center's Facebook page has more than 5,000 friends who are actively spreading the word about why this FTA is so important for the Korean American community. The Korean Dry Cleaners Association, the Korean Trade Association, and many other Korean American organizations have joined in campaigning in support of the KORUS FTA, strengthening the cause and actively recruiting fellow Korean American community members.

### ***Beyond KORUS FTA: The Beginning of a New Economic Alliance***

As of the writing of this, the KORUS FTA is not yet passed, but all indications are that it will pass. We hope

passage will take place soon. Working on the FTA has become the dominant issue in bilateral relations between our countries for much longer than anyone expected.

As passage becomes more and more likely, we must look to our future plans and figure out the next steps to further strengthen our economic relationship.

Misperceptions and a lack of knowledge about Korea among Americans continue to be major problems. According to a 2011 poll, 31 percent of Americans believed that South Korea is a communist dictatorship with which the United States should not trade. Obviously, this is a concern for the Korean government and one we will work to rectify. We will use the experience we gained working to pass the FTA to address these issues. In cooperation with the U.S. government and business groups, we aim to educate U.S. businesses about how the FTA can help them become more prosperous and more present in Korea.

At the same time, we will work together with the business communities in both countries so that they may form ever stronger strategic alliances. We want the business communities to reap the benefits of the FTA, thus opening the door for potentially more joint projects in the future. The United States has the most advanced core technology companies, but Korean companies retain excellent production technologies. With the help of a strengthened legal framework, we would like to see both countries' businesses form strategic alliances so they can better face the challenges of the contemporary economic world together.

As soon as the FTA enters into force, the Korea-U.S. relationship will enter the next level. But the KORUS FTA is a means, not an end. It is a means to ensure that our economies continue to flourish and our relationship continues to prosper. In that sense, our journey has just begun.

*Kim Wonkyung is Counselor for Economic Affairs at the embassy of the Republic of Korea in Washington D.C. Views expressed here are those of the author and do not necessarily represent positions of the ROK embassy or the ROK government.*



## **Selected Commentary**

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### **Korea's Challenges and Opportunities in 2011**

*Chae Wook, Korea Institute for International Economic Policy*

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### **Korean Green Growth in a Global Context**

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*Whang Jooho, Korea Institute of Energy Research*

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Achievements in Seoul and Korea's Role in the G-20

Africa and South Korea's Leadership of the G-20

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