

Korea's Economy 2008

Korea's Economic Achievements and Prospects

The Graying of Korea: Addressing the Challenges of Aging

Financial Asia Rising: Asian Stock Markets in the New Millennium

Korea's Money Market

Ingredients for a Well-functioning Capital Market

The Capital Market Consolidation Act and the Korean Financial Market

Progress in Corporate Governance

Tax Issues Affecting Foreign Invested Companies and Foreign Investors

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

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

Peering into the Future: Korea's Response to the New Trading Landscape

North Korea's External Resources and Constraints

The Roles of China and South Korea in North Korean Economic Change

Realistic Expectations of the Future Role of the IFIs on the Peninsula

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

Volume 24

CONTENTS

Part I: Overview and Macroeconomic Issues

Korea's Economic Achievements and Prospects
Pyo Hak-kil 1

The Graying of Korea: Addressing the Challenges of Aging
Jerald Schiff and Murtaza Syed 7

Part II: Financial Institutions and Markets

Financial Asia Rising: Asian Stock Markets in the New Millennium
Karim Pakravan 15

Korea's Money Market
Dominique Dwor-Frécaut 21

Ingredients for a Well-Functioning Capital Market
John Burger, Francis Warnock, Veronica Cacdac Warnock 31

The Capital Market Consolidation Act and the Korean Financial Market
Kim Dong-hwan 39

Part III: Structural Reform

Progress in Corporate Governance
Stijn Claessens 45

Tax Issues Affecting Foreign-Invested Companies and Foreign Investors
Henry An and David Jin-Young Lee 54

Part IV: External Issues

U.S.-Korea Economic Relations: View from Seoul
Han Dongman 61

A Washington Perspective
Jordan Heiber 69

Peering into the Future: Korea's Response to the New Trading Landscape
Troy Stangarone 74

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

North Korea's External Resources and Constraints
Stephan Haggard and Marcus Noland 83

The Roles of China and South Korea in North Korean Economic Change
Mika Marumoto 92

Realistic Expectations of the Future Role of the IFIs on the Korean Peninsula
Bradley Babson 106

EXTERNAL ISSUES

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

By Han Dongman

The year 2007 displayed remarkable progress in Korea-U.S. economic relations on many different levels. At the global level, our two countries have worked closely together to meet international challenges. For example, in the First Major Economies Meeting on Energy Security and Climate Change held in Washington, D.C., in September 2007, Korea expressed its strong commitment to fully cooperate with the United States in addressing global climate change.

At the regional level, the two countries promoted a common economic agenda, including business mobility, anticorruption, and intellectual property rights in the context of the Asia-Pacific Economic Cooperation. Korea and the United States also have worked in close collaboration toward their long-term goal of launching a free trade agreement in the Asia-Pacific.

Most important, the bilateral economic relationship between Korea and the United States entered a new era with the successful signing of a free trade agreement (FTA) on 30 June 2007. This FTA was signed before the expiration of Trade Promotion Authority, which gives the president of the United States exclusive power to negotiate agreements on which the Congress can only vote up or down without amendment.

The Korea-U.S. Free Trade Agreement (henceforth to be referred to by its official acronym, the KORUS FTA) currently being considered for ratification in both the U.S. Congress and the Korean National Assembly will provide enormous economic opportunities to both countries by expanding bilateral trade.

The Importance of the Korea-U.S. Free Trade Agreement

Korea is the seventh-largest trading partner of the United States, ahead of France, Brazil, and India. Korea's trade volume with the United States has increased 43 percent since 2002 and amounted to approximately \$82 billion in 2007. It almost equals the combined trade volume of all Central America Free Trade Agreement (CAFTA) countries, Chile, and Australia, with which the United States has FTAs. The Korea-U.S. bilateral trade volume also covers nearly three times the combined goods of the other three trade agreements—those with Peru, Panama, and Colombia.

Every U.S. state has a stake in the Korea-U.S. trade and investment relationship. Trade and investment with Korea is spread around the country. It includes the East and West Coasts, the "Manufacturing Belt" and Midwest, and the North and South.

Korea ranks in the top five as an export destination for nine states (Alaska, California, Idaho, Maine, Missouri, Oregon, Texas, Vermont, and Washington). It is also in the top 25 for 49 states.¹

With the combined value of the two economies exceeding \$14 trillion, the KORUS FTA is the most commercially significant FTA for the United States in more than a decade.

Given such a robust and sound economic relationship, the KORUS FTA promises to provide numerous exciting opportunities for Korea and the United States.

1. According to the U.S. Department of Commerce in 2006, the following states have seen their exports to Korea increase significantly since 2001: Missouri (1,965 percent), North Dakota (381 percent), Montana (319 percent), Idaho (317 percent), Alabama (281 percent), Nevada (252 percent), Maine (218 percent), Kentucky (215 percent), Texas (202 percent), Delaware (198 percent), New Hampshire (188 percent), South Carolina (141 percent), South Dakota (138 percent), Tennessee (121 percent), and Iowa (110 percent).

Major Features of the KORUS FTA

An independent study by the United States International Trade Commission (USITC) on the economic effects of the KORUS FTA, issued in September 2007, concludes that once the KORUS FTA is in place U.S. GDP is expected to increase by as much as \$11.9 billion and U.S. exports to Korea by as much as \$10.7 billion.

Nearly 95 percent of bilateral trade in consumer and industrial goods will be duty-free within three years after the agreement enters into force. This is particularly important given the large discrepancy between current U.S. and Korean tariffs.

Korea's average applied tariff rate on U.S. imports is 12.1 percent, while the U.S. average tariff rate on imports from Korea is 3.5 percent. In fact, Korea's nonagriculture tariffs are nearly two times greater than those of the United States (7 percent for Korea versus 3.7 percent for the United States), and its agriculture tariffs are more than four times of those in the United States (52 percent for Korea versus 12 percent for the United States).

In addition, the KORUS FTA addresses nontariff barriers across a wide range of sectors. The agreement streamlines customs procedures, making them easier and less costly to navigate. It also provides commitments related to transparency and regulatory due process that are more far-reaching than in any previous U.S. FTAs.

By opening Korea's service market, the KORUS FTA will provide exciting business opportunities in various service sectors such as telecommunications, audiovisual, financial, and express delivery services.

Legal stability for U.S. investors operating in Korea will also be substantially enhanced. In particular, investor protections will be backed by a transparent and binding investor-state dispute settlement mechanism.

Furthermore, the KORUS FTA contains a state-of-the-art intellectual property rights (IPR) chapter with specific provisions that will make it easier for small businesses to protect their intellectual property.

Given the vast contents of the KORUS FTA, some specific issues—focusing on agriculture, automobiles, and outward processing zones as well as labor and environmental issues—will be further elaborated in the following sections.

Agriculture

Agriculture is the most beneficial area of opportunity for the United States as U.S. farm exports to Korea have recently averaged \$3 billion on an annual basis. Korea is the sixth-largest market for U.S. agricultural goods.

Almost two-thirds of U.S. farm products exported to Korea, worth over \$1.9 billion, will immediately become duty-free under the KORUS FTA. These include corn, hides and skins, wheat, soybeans for crushing, cotton, bourbon whisky, and wine. For example, California's wineries will be able to export more wine to Korea following the immediate elimination of Korea's tariff of 15 percent.

Also, Korea will over time be eliminating tariffs completely on key products such as beef (15 years), pork (7 to 10 years), and poultry (10 to 12 years).

The tariff eliminations and reductions will help the United States compete against China and Australia, which have increased their presence in Korea's \$12 billion agricultural market.

In particular, the USITC expects the U.S. meat sector to experience the largest increase in output. U.S. beef exports to Korea are expected to increase by \$600 million to \$1.8 billion, while exports of other meats, including pork and poultry, could increase by \$456 million to \$763 million.

Once the KORUS FTA enters into force, the U.S. meat sector is expected to see an increase in employment of 2 percent. According to the National Pork Producers Council, the KORUS FTA could mean an additional 11,000 jobs in the pork industry alone.

The U.S. beef quarantine issue is not a part of the agreement. Nevertheless, the Korean government has been negotiating with the United States to amend the U.S. beef import protocol in a way that strikes a mutually acceptable balance.

The resolution of the beef issue has been delayed mainly because of different views on the application of the World Organization for Animal Health (OIE) guidelines between the two governments. Moreover, recurring mistakes on the part of U.S. exporters—sending some bone fragments and even specified risk materials to Korea in violation of Korea’s current import protocol—further delayed the resolution.

Because the two governments have been working expeditiously to resolve the U.S. beef import issue, the dispute over beef is expected to be resolved in the near future.

Automobiles

Despite the fact that the U.S. automobile sector stands to gain immensely from the KORUS FTA, some members of the U.S. automobile industry appear to be the strongest opponents of the agreement. However, the debate surrounding the auto deal in the KORUS FTA is fraught with misunderstandings and misinformation.

First, Detroit is not unified in its opposition to the KORUS FTA. For example, General Motors (GM), which has partnered with a Korean company—Daewoo—is neutral on the agreement, stating that “GM believes that the KORUS FTA has addressed the auto industry’s concerns.”

Other major organizations, including the American International Automobile Dealers Association and the Association of International Automobile Manufacturers, support the KORUS FTA. The U.S. auto parts industry has not opposed the agreement.

These auto-related organizations employ tens of thousands of Americans, and their voices must be heard in any debate over the KORUS FTA.

Second, the disparity in bilateral trade flows in the auto sector, which has continuously provoked heated concerns in the congressional debate on the KORUS FTA, is often overstated. The debate usually does not take into account auto sales by foreign-owned automobile manufacturers in Korea. Neither does it factor in the real sales value of foreign vehicles in the Korean market.

Sales by foreign-owned automobile manufacturers like GM-Daewoo combined with sales of imported cars account for almost 30 percent of the current total auto sales in the Korean market.

Market share of foreign vehicles in terms of the number of vehicles sold in Korea as of November 2007 was about 5.7 percent. Because foreign cars generally sell at relatively higher prices, however, in terms of sales value, their market share in Korea was 20.7 percent.

Since 2000, the market share of foreign automakers in terms of sales value has been increasing by an average of 41.9 percent annually. Even though the KORUS FTA has not yet come into effect, U.S. motor vehicle exports to Korea increased by 58.8 percent in December 2007 compared with the same period in 2006.

The total value of U.S. auto exports to Korea jumped from \$54 million in 2004 to \$383 million in 2007. Compared with the same period in 2006 (\$159 million), the value of U.S. auto exports to Korea increased by 140.1 percent.

Contrary to the argument of some opponents, Korea is not the main source of the U.S. auto trade deficit. According to U.S. Department of Commerce statistics (as of December 2007), the United States recorded an automotive trade deficit of \$43.1 billion with Japan, \$21.4 billion with Canada, \$18.3 billion with Mexico, and \$12.1 billion with Germany compared with \$7.8 billion with Korea, decreasing 5.2 percent compared with the same period in 2006.

Third, while some opponents of the KORUS FTA have questioned the Korean government’s commitment to the provisions related to automobiles, the Korean government negotiated and agreed to these provisions in good faith. In fact, most of the U.S. congressional concerns about the automotive sector negotiations were met. The exception is the setting of numerical targets, which, in actuality, constitute managed trade and therefore are not compatible with a free trade system.

The KORUS FTA stipulates a set of commitments by Korea that address many of trade barriers. The agreement goes further than any other FTA in establishing

a level playing field for U.S. autos in Korea. A clear picture of the auto deal is as follows:

First, Korea will eliminate its 8 percent automotive tariff immediately. The United States will eliminate its 2.5 percent tariff immediately for vehicles with engines up to 3,000 cubic centimeters and over three years for larger vehicles. In addition, the 25 percent U.S. tariff on pickups will be phased out over 10 years.

Second, Korea will provide a grace period until 2008 for U.S. automakers to comply with new environmental regulations. Korea will also grant a two-year grace period for U.S. automakers to comply with new safety standards.

Third, Korea will revise its domestic vehicle taxation system in order to assuage U.S. concerns. As Korea completely depends on imports to meet its oil needs, a large segment of the Korean automotive market is occupied by small-engine vehicles. The current Korean taxation system is designed to impose more tax on cars with larger engines, which is the mainstay of U.S. automobiles. However, under the KORUS FTA, Korea has agreed to revamp its engine displacement taxation system so that large vehicles will not be liable to higher taxes. A special consumption tax on autos will also be streamlined to a single rate of 5 percent.

Finally, an expedited dispute settlement mechanism will be introduced, along with an unprecedented snap-back mechanism. If Korea is found to violate the auto provisions of the agreement, the United States will be able to reinstate tariffs on Korean cars. Furthermore, this agreement establishes an "auto working group" that will monitor and address any future regulatory issues.

Taking these facts into consideration, the USITC confirmed in its independent study 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.

Along with the future benefits of the KORUS FTA, it is important to recognize the immediate benefits of direct

investment by Korean manufacturers as they operate state-of-the-art automobile manufacturing plants in the United States. The Hyundai plant in Alabama is a \$1.4 billion investment and has created 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.

Outward Processing Zones

The Kaesong industrial complex is located near the Demilitarized Zone dividing the two Koreas, which is only 40 miles north of Seoul. As of October 2007, 45 South Korean companies in the complex employ 19,433 North Korean workers, producing light industrial goods with a total accumulated worth of \$213 million since 2005.

The complex is paving the way toward the competitive industrial complex's presenting a new vision for inter-Korean reconciliation and economic community as a new model of economic cooperation.

In addition to the economic benefits, the Korean government envisions the Kaesong industrial complex as a way to ensure stability on the Korean peninsula and ease the presumed cost of the eventual reunification of North and South Korea. The complex will promote the open market system, introduce global economic standards to North Korea, and link North Korea to the global economy.

For this geoeconomic reason, the Korean government has put a strong emphasis on including provisions about outward processing zones in past FTAs with Singapore, the Association of Southeast Asian Nations (ASEAN), and the European Free Trade Association (EFTA), which is composed of Switzerland, Norway, Iceland, and Liechtenstein.

During the negotiation of the KORUS FTA, the two parties agreed to establish the Committee on Outward Processing Zones (OPZs) on the Korean peninsula rather than specifically address the Kaesong industrial complex.

The committee will be given authority to designate OPZs based upon such criteria as (1) progress toward the denuclearization of the Korean peninsula, (2) the impact of OPZs on inter-Korean relations, and (3) en-

environmental and labor standards with due reference to the situation prevailing elsewhere in the local economy and the relevant international norms.

The United States and Korea agreed to launch concrete discussions on the OPZs a year after the KORUS FTA takes effect. Once designated as OPZs, goods from the zones can enjoy equal treatment with goods from South Korea.

Labor and Environmental Standards

The KORUS FTA was concluded on 1 April 2007 after 10 rounds of negotiations over 10 months. After the conclusion of this FTA, the U.S. Congress and the White House agreed on the “New Trade Policy for America” on 10 May 2007.

At the request of the United States Trade Representative (USTR), who wanted to reflect this policy in the agreement, Korea and the United States held two rounds of additional consultations. As a result of these further negotiations, the KORUS FTA includes all of the labor protections and environmental provisions specified in the U.S. Congress’s bipartisan agreement on the New Trade Policy.

In terms of labor standards, Korea has been categorized as a nation with a high level of employment regulation and employee protection. Korean laws protecting labor rights are recognized as strong by the Organization for Economic Cooperation and Development and the International Labor Organization (ILO).

Under the KORUS FTA, Korea reaffirmed its obligation as a member of the ILO to ensure that its labor laws provide labor standards consistent with internationally recognized labor rights. The Korean government stated its commitment to adopt, maintain, and enforce the four core labor principles in the ILO’s Declaration on Fundamental Principles and Rights at Work in a way that is fully consistent with the New Trade Policy for America.

In terms of environmental standards, Korea has sound environmental protection laws and is a signatory to major multilateral agreements. Under the KORUS FTA, the two countries agreed to adopt, maintain, and implement laws, regulations, and all other measures

to fulfill their obligations under the seven multilateral environmental agreements.

Korea also reaffirmed its obligations to effectively enforce its domestic environmental laws, which can also be enforced under the FTA’s dispute settlement procedures.

Dispute settlement procedures generally used for other issues can be used for labor and environmental issues, instead of resorting to separate dispute settlement procedures designed only for certain issues.

Implications of the KORUS FTA

Implications for Korea

The Korean government’s long-term economic development plan is to secure sustained growth by strengthening the integration of Korea into the world economy. Accordingly, the Korean government has pursued trade liberalization by reducing trade barriers and participating in regional free trade agreements.

Expanding trade is important because approximately 70 percent of Korea’s GDP comes from trade. When the KORUS FTA is implemented, Korea expects to gain a solid market share in the United States, the most important market in the world. Foreign direct investment into Korea is also expected to increase under the agreement.

Korea will benefit from enhanced growth and employment driven by a stimulated economy and service-market openings. This agreement will also give Korea an opportunity to find new growth engines by pursuing legal and institutional advancement.

Furthermore, the FTA is a hallmark of Korea’s sustained effort to reform and open its economy. New reforms and liberalization will contribute to achieving Korea’s plan to become a hub for East Asian finance and trade.

Trade Minister Kim Jong-hoon told the American Chamber of Commerce in Korea (AMCHAM) on 27 November 2007 that the real benefits of the KORUS FTA go beyond the simple growth of trade volume and GDP:

It is more significant that the KORUS FTA was widely hailed by the Korean public, as the Agreement was an embodiment of the Korean people's expectations for voluntary and proactive opening and reform. To remain competitive in the global economy in the 21st century, the Korean people came to recognize the need for further opening our borders and improving our domestic system through FTA.

Last, although Korea is a latecomer in the worldwide surge in FTAs, it is currently engaged in negotiations with a number of major trading partners.

Korea has already concluded FTAs with Chile, Singapore, ASEAN, and the EFTA. Korea is now in the middle of negotiating an FTA with the EU, the second-largest trading partner of Korea, as well as Canada, India, and Mexico.

Korea and China have held many meetings, in which representatives from the industries, government agencies, and academia of both countries participated, for a joint feasibility study for an FTA. Scholars from Korea, Japan, and China have also undertaken a joint feasibility study on concluding a trilateral FTA.

Against this backdrop, the KORUS FTA will act as a catalyst in Korea's endeavor to become an FTA hub of East Asia, connecting the United States, East Asia, and Europe.

Implications for the United States

This trade pact will create new export opportunities for U.S. farmers, ranchers, manufacturers, and service providers. When the agreement is implemented, key U.S. industrial exports will enjoy improved access to the Korean market.²

As a result, leading organizations such as the National Association of Manufacturers (NAM) strongly support the KORUS FTA. NAM President John Engler has stated that "the [KORUS] FTA contains the best IPR provisions and the strongest pro-competitive provisions we have ever seen in a trade agreement and its passage will be a real plus for most U.S. industries."

Historically, the United States has always ranked as Korea's number one trading partner. However, this changed a few years ago, and now China, the EU, and Japan export more goods to Korea.

The KORUS FTA will provide the market access, incentives, and mechanisms necessary for U.S. products to reclaim lost market share in the Korean economy. The United States should not miss this opportunity provided by the KORUS FTA to further advance ahead of other countries in the Korean market.

Beyond Korea, this FTA will also provide U.S. businesses with a strategic springboard to strengthen their position among the other dynamic economies of Northeast Asia.³

Geopolitical Implications

Like the FTAs that the United States concluded with Australia, Israel, and countries in Latin America and the Middle East, the KORUS FTA has profound strategic and geopolitical implications—for both Korea and the United States.

For more than a half century, the United States and Korea have been strong strategic partners of each other. The U.S.-Korea security alliance has contributed to peace and stability in Asia since 1953. U.S. and Korean forces have stood together in Vietnam, Afghanistan, and Iraq.

2. The U.S.-Korea FTA Business Coalition stated in its weekly newsletter circulated on 24 October 2007 that "U.S. workers, farmers, and businesses benefited as U.S. exports to [the four markets—namely, Chile, Singapore, Australia, and Morocco—with which the United States has FTAs] grew by nearly three times (170%) as much as the USITC projections. Moreover, these benefits materialized roughly five times as quickly as projected. If these export averages continue to hold under the U.S.-Korea FTA . . . it will provide a substantial boon to U.S. companies and labor."

3. Jeffrey Schott, senior fellow at the Peterson Institute for International Economics, said in his summary assessment of the KORUS FTA in August 2007: "Given the setbacks in the Doha Round, the pursuit of bilateral FTAs and regional trading arrangements will undoubtedly accelerate in East Asia. To some extent, the KORUS FTA is a preemptive U.S. response to the new regional initiatives among East Asian countries. The Agreement could ensure that the U.S. has an institutional presence in East Asia via Korea."

The KORUS FTA will bring positive change to the U.S.-Korea alliance by expanding its focus beyond security to become a dynamic economic partnership. By way of illustration of these strategic gains of the KORUS FTA, the United States Federation of Korea War Veterans Organizations adopted a resolution on 29 September 2007 urging the U.S. Congress to approve the KORUS FTA as early as possible. In addition, 10 Democratic members of the House of Representatives sent a letter to their leadership on 2 November 2007, stressing the geopolitical importance and economic benefits of the KORUS FTA.

Furthermore, this FTA will serve as a strategic imperative for the United States to reinforce U.S. competitiveness and leadership in promoting regional and global security, as the FTA will provide the United States with a firm foothold in Northeast Asia.

Given the economic, geopolitical, and strategic interests at stake, the importance of strengthening the U.S. presence in this region cannot be overemphasized.⁴

Win-Win Agreement

The Korean people and industries are eager to seize the opportunities in freely doing business and catching up on state-of-the-art technologies in the largest market in the world as soon as the KORUS FTA comes into effect.

Likewise, for people and industries in the United States, the benefits of the KORUS FTA will go well beyond the expansion into the Korean market through increased exports. The agreement will level the playing field for U.S. business, maintain U.S. economic influence in the Asian region, curb the surge of Chinese influence, and promote liberalization in a region that includes global players such as China and Japan.

Despite the overall benefits created by the KORUS FTA, there are opponents of this FTA in both countries. In Korea, traditional opponents of trade liberalization and groups vulnerable to globalization, such as farmers and trade unions, argue that the KORUS FTA will ben-

efit only the United States and large Korean companies and thereby will widen economic disparities.

In the United States, although the U.S. Chamber of Commerce, NAM, the electronics, communications, and financial and service sectors along with the pork, dairy, and corn industries are in favor of the KORUS FTA, trade unions including the AFL-CIO, auto companies such as Ford, and some members of Congress have expressed opposition to the negotiation outcomes regarding autos.

No trade agreement can satisfy every last constituent. The effects of an FTA should not be assessed by looking at gains and losses in individual sectors. Instead, one needs to look at whether overall interests of each party have been reflected in the agreement in a balanced manner. In this sense, the benefits of the KORUS FTA far outweigh costs.

Furthermore, Korean and U.S. trade patterns appear to be more complementary than competitive, making the risk of imports from Korea having a negative impact on U.S. industry a minimal possibility.

As the USITC report points out, in contrast with the projected surge in U.S. exports to Korea, Korean exports to the United States are projected to have a negligible impact even on import-sensitive sectors such as textiles and passenger vehicles.

In addition, one of the big winners in the FTA will be consumers in both countries, who will benefit from greater choices and cheaper prices as a result of intensified competition.

In light of the overwhelmingly positive features of the KORUS FTA, the failure of ratification in either country may create negative repercussions for the U.S. economy as well as the bilateral relations that the two countries have painstakingly built over a half century. The United States would also lose a golden opportunity to secure a firm position in the Korean market ahead of other trading nations such as the EU, Canada, and China.

4. Recognizing the strategic gains of the KORUS FTA, Deputy U.S. Trade Representative John Veroneau stated on 1 November 2007: "The KORUS FTA will strengthen America's critical strategic partnership with South Korea by boosting economic ties and broadening and modernizing the long-standing alliance."

The U.S. Chamber of Commerce stressed the cost of inaction in its booklet, issued in September 2007:

There would be an adverse effect on the overall U.S.-Korea strategic partnership and it would undermine U.S. leadership and credibility in promoting open markets and fair competition not only in Korea but globally, setting back vital U.S. geo-strategic goals, and undercutting U.S. global economic competitiveness.

Given the overall benefits of the KORUS FTA and the significant cost of inaction on this win-win agreement, the United States should not miss the current opportunity to complete the KORUS FTA.

Prospects for 2008

The year 2008 marks the 60th anniversary of the inauguration of the Korean government. Its rise from one of the most impoverished countries in the world to a successfully industrialized and democratized country within only 60 years is no small achievement.

The upcoming 60th anniversary coincides with the change of government in Korea, as Lee Myung-bak won a landslide victory in the presidential election held in December 2007 after running a campaign focused almost exclusively on revitalizing the flagging economy.

Focusing on pragmatism and efficiency, President Lee mapped out a crash program to attract foreign investment through deregulation and to privatize public companies. He aims at pushing national economic growth up to 7 percent annually by fueling business investment and creating new jobs. He also plans to ignite the growth engine by promoting innovation and nurturing new industries for the future.

There is no doubt that the KORUS FTA will serve to revitalize Korea's economy through institutional advancement and promotion of trade and investment. With the ratification of the KORUS FTA, bilateral economic relations between the United States and Korea will deepen and expand further, benefiting both economies.

We have made tremendous progress thus far, but the difficult process of congressional approval by both

countries lies ahead. In Korea, the KORUS FTA bill was submitted to the National Assembly in September 2007, and it is expected to be ratified in the next several weeks.

But the situation in the United States remains more complicated, as the KORUS FTA faces an uphill battle for approval by the Congress amid the rising tide of protectionism and reservations about the automobile provisions in the KORUS FTA on the part of Democratic leaders. Given the political season, the bill must be considered before summer 2008. Therefore, at this important juncture, the United States and Korea should make utmost efforts together to achieve timely ratification of this historic trade deal in each country's legislature so businesses and consumers can reap the benefits as soon as possible.

Mr. Han is Minister Counselor at the Republic of Korea's Embassy in Washington, D.C.



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

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

Korea's Economy