

MOTIE MINISTER ADDRESSES AMCHAM

The following is a luncheon speech given by the (then) Minister of Trade, Industry and Energy (MOTIE), Dr. Jae Yoon Park, for a General Membership Luncheon of the American Chamber of Commerce at the Hotel Shilla on December 3, 1996.

Let me begin by thanking AmCham for the invitation to speak here this afternoon. I know that your organization has a long tradition of inviting the current Korean trade minister to address your membership at least once a year. And I am grateful for the opportunity to contribute to this dialogue. On the Korean side, we may not always agree with your views, but we respect them as the voice of the American business community in Korea.

The general history of Korea's economic development and America's role in it are probably familiar to most of you. However, please allow me to sketch in just a bit of that background before proceeding further.

Back in the 1960s, Korea began its economic takeoff on the basis of export-led industrialization. American investment flowed into Korea, and the U.S. became the principal overseas market for our new export industries.

By the 1980s, the Korean economy was no longer merely an "export platform" and was becoming increasingly internationalized. This was shown by, among other things, the more sophisticated composition of both exports and imports. It was also reflected in Korea's growing involvement in multilateral economic forums such as GATT and later APEC. By the end of the 1980s, Korea even came to be seen as a source of capital and technology by other countries, including former Communist ones.

During this period, the U.S.-Korean economic

partnership changed fundamentally. Before about 1980, Korea supplied mostly labor-intensive consumer goods to the U.S. market in exchange for capital goods, agricultural products, and raw materials.

Since then, Korea's exports have become much more diversified and technically advanced, including up-scale electronics and precision-engineered parts and components. In addition, as Korea has progressively opened its markets, the range of U.S. exports to Korea has broadened to include a rising share of consumer goods and services. Also during the 1980s, U.S. and Korean firms built up a complicated structure of subcontracting, licensing, and co-producing arrangements, which continues to grow in size and complexity.

Unfortunately, however, the 1980s was also a period when trade frictions between our two countries became a serious concern on both sides. There were many specific areas of disagreement, but the underlying factor behind all of them was Korea's rapidly growing trade surplus with the U.S. This was mainly due to macroeconomic causes such as the strong dollar. In the current decade, Korea's trade surplus with the U.S. has been converted to a deficit. In fact, among America's major East Asian trading partners, Korea and Hong Kong are the only ones currently running a trade deficit with the U.S.

As the trade balance gradually improved, bilateral trade relations moved in the same direction.

"In the current decade, Korea's trade surplus with the U.S. has been converted to a deficit."

"What foreign businessmen often fail to realize is that many of the restrictions they come up against in Korea also apply to Korean businessmen."

At present, the U.S. and Korea have few, if any, really basic economic disagreements. Where disagreements still do exist, they are usually dealt with in a calmer, much less confrontational manner than a decade ago. This is also facilitated by more and better channels of communication. For example, officials of our two governments meet on a regular basis to discuss economic issues. In addition, U.S. and Korean officials have numerous opportunities to meet and talk at multilateral gatherings such as the recent APEC Ministerial Meeting in Manila and the forthcoming WTO meeting in Singapore.

Where, then, does our economic relationship stand today? Let me cite some figures for you. Last year, bilateral trade volume grew nearly 30% to reach \$55 billion, accounting for 21% of Korea's total trade. Korea is now America's seventh largest trading partner surpassing France, and the third biggest overseas markets for U.S. farm products and raw materials.

Investment ties are likewise becoming stronger. Last year, Korean companies added \$534 million dollars to their cumulative investment stake in America. This was up 40% over the previous year. Also in 1995, U.S. firms invested an additional \$645 million in Korea, more than doubling the figure for the previous year. And when I speak of Korean investment in the U.S., I am talking about facility, not portfolio investment—in other words, manufacturing plants that employ American workers and generate income for the communities where they are located.

Most of the members of this audience are, I assume, involved with trade and investment in Korea. I am sure that many of you experience day-to-day frustrations in your business dealings. Some of these are part & parcel of doing business in any foreign country; other may be unique to Korea. What foreign businessmen often fail to

realize is that many of the restrictions they come up against in Korea also apply to Korean businessmen. Widespread frustration with decades-old controls and regulations was a major factor behind President Kim's election victory in 1993. On the campaign trail, he strongly criticized Korea's regulatory system and, since taking office, he has worked hard to drastically reform it through his "New Economy" and "Globalization" programs.

To date, nearly 2,000 rules and regulations affecting business have been abolished and amended. The powers of the bureaucracy to regulate business, both formal and informal, have been radically curtailed, and business-related approval procedures greatly simplified. For example, it used to take two months or more for a foreign company to obtain investment approval. This can now be done in a week or less.

It's hard to judge the impact of these regulatory reforms after less than four years. I am reminded, in this regard, of Mao Zedong's response when he was asked about the historical importance of the French Revolution. "It's too soon to tell," he is supposed to have said. I don't think the jury will be out that long on President Kim's economic reforms. From where you stand as foreign businessmen, you are probably better able to judge that than I am. In any event, I think the real test of these reforms—that is their success in revitalizing private-sector business activity—will have to wait until after the current economic downturn.

Certainly the Korean economy has been having a difficult year. Our biggest concern is the ballooning trade deficit, which is to reach \$20 billion for the year as a whole and \$10 billion just with the United States. This is due to several factors, above all the fall in the world price of computer chips, the weaker yen, and the rapid growth of imports.

I'm sure that some Americans are pleased that the bilateral trade account is so heavily in favor of the U.S.. However, from a longer-term perspective, Korea's trade deficit should be a matter of concern to the U.S. as well as to Korea. Unlike the case with many countries, Korea's ability to import is dependent on our capacity to export. If our trade deficits grow too large, then our capacity to import would be seriously eroded.

However, I don't expect that to happen. Already, we are beginning to see an upturn in the price of computer chips and some other leading export items. Moreover, the U.S. and Japan have both signalled that they don't want to see a further decline in the yen's value and may even favor a slightly stronger yen. By early next year, I expect that our trade deficit will bottom out and then begin to improve.

In any event, let me assure you that Korea is honoring and will continue to honor its commitments to economic liberalization. Those commitments exist at three levels: to the WTO and the OECD in the form of legally binding international treaty obligations, and to APEC in the form of voluntary action plan. These are commitments we have made in the clear realization that they will benefit our domestic economy at the same time that they will contribute to a more open and more prosperous world economy. Admittedly, there are some opinion-holders who would like to return to the old days of protected markets and interventionist government. But they constitute a shrinking minority, whose influence is on the wane.

Returning to the bilateral relationship, I would like to briefly chart the direction in which I see it moving over the mid- to long-term. This can be summarized in terms of the broad concept of an "industrial alliance." Allow me to elaborate.

Traditionally, inward foreign investment did not figure prominently in Korea's development

strategy. Both government and private sector preferred to finance industrialization through foreign loans, which did not confer ownership rights. It should be noted that American capital made a significant contribution to the start-up phase of several key Korean industries. On the whole, however, Korea built up its powerful manufacturing base largely by means of indigenous capital and foreign loans.

A major weakness of this approach is that it handicapped our technological development. Many technologies could be obtained on a royalty basis. But the most advanced were increasingly available only through genuine industrial cooperation between Korea and its overseas partners. When Korea exported mainly labor-intensive goods, this hardly mattered. But as rising competition forced our industries to move upscale from the mid-1980s, the "technology deficit widened and began to threaten our global market position over the long term.

The U.S. competitiveness problem is almost the reverse of Korea's. In most respects, U.S. technology continues to lead the world. But to fully realize its competitive potential in the 21st century, U.S. industry needs to complement its technological strength with the appropriate manufacturing capability.

The thrust of my argument is that the U.S. and Korea should combine the former's technology with the latter's manufacturing base, thereby greatly improving both countries' competitive position. This is already happening to some extent, but on a very limited scale in view of the potential.

For the "industrial alliance" to tap that potential will require much larger U.S. investments in Korea. During the past three years, the Korean government has been doing all it can to make this both more attractive and more feasible. I

"The thrust of my argument is that the U.S. and Korea should combine the former's technology with the latter's manufacturing base, thereby greatly improving both countries' competitive position."

"Of course, the future of industrial cooperation between our two countries will be determined not by the efforts of this or any other committee, but by the independent decisions of numerous private companies in the U.S. and Korea."

remarked earlier on the streamlining of foreign investment approval procedures. In addition, we have introduced practical measures to make it easier for overseas companies to acquire land, set up a factory, raise capital, and clear goods through customs. As a further inducement, we have built two industrial parks exclusively for the use of foreign-invested companies.

All these measures will be fully in place by the time President Kim leaves office in early 1998, and in many cases much earlier. I am confident that by then Korea's image will have changed from that of a difficult place to do business to one of the most attractive among newly-industrializing countries.

Aside from favorable government policies, Korea offers other benefits to foreign investors. These include a large domestic market, excellent transport and communications, a cost-effective labor force, and easy access to China, Japan and the Russian Far East.

When the "industrial alliance idea was first discussed about three years ago, our side proposed the creation of a jointly-funded foundation to help plan and finance pilot projects. When it became clear that we would not be able to obtain U.S. financial participation, we decided to proceed on our own initiative. Accordingly, a group of Korean businessmen established the Korea-U.S. Foundation for Industrial Technical Cooperation in early 1994. The Foundation set out to raise some \$20 million and about a third of this target has now been met.

Shortly thereafter, the American business community began to take a serious interest in the industrial alliance. Contacts were made in various industrial sectors through the relevant manufacturers' associations in each country. As a result of these contacts, bilateral industrial forums have been held in six sectors that we consider are cru-

cial to the success of the industrial alliance. They are: semiconductors, computers, aerospace, environmental technology, machine tools, and power generation. I don't know how many members of this audience are involved in any of these sectors, but I strongly urge those of you who are to take part in future bilateral forums in your particular area.

I am pleased to note that U.S.-Korea industrial cooperation has now been placed on a firmer institutional footing. Late last year, my ministry and the U.S. Commerce Department signed an agreement to create the U.S.-Korea Committee on Business Cooperation, which has a mixed public/private character. This was one of the last international agreements to be signed by Secretary Ron Brown before his tragic death. I believe it can be an enduring monument to his vision and to his faith in the future of the U.S.-Korean partnership.

The Committee's mandate is to oversee the progress of bilateral industrial cooperation and, where feasible, to take the lead in developing promising projects. The presence of officials on the committee is intended mainly as an indication of government support and encouragement. The real work will be done by the private sector.

Of course, the future of industrial cooperation between our two countries will be determined not by the efforts of this or any other committee, but by the independent decisions of numerous private companies in the U.S. and Korea. It is gratifying to note that more and more businesses are coming to see the commercial logic of joining forces along the lines I have suggested.

This is, I think, a striking example of "an idea whose time has come," and I believe it will largely shape the U.S. Korean economic partnership in the 21st century.

Thank you for your time and attention. 