

Building the U.S.-Korea Economic Partnership

Policy Recommendations to the
Obama Administration and the New Congress



U.S.-KOREA BUSINESS COUNCIL



AMERICAN CHAMBER OF
COMMERCE IN KOREA



U.S.-KOREA BUSINESS COUNCIL

The U.S.-Korea Business Council is the leading business organization in the United States promoting trade and investment between the United States and Korea. Founded in 1987, the council is made up of senior executives representing U.S. companies from every major industry sector, which are key investors in Korea and are firmly committed to the Korean market. The council works to promote the U.S.-Korea economic and political relationship through advocating and supporting policies that enhance two-way trade and investment. The U.S. Chamber of Commerce serves as secretariat of the council.

More information on the U.S.-Korea Business Council is available at www.uskoreacouncil.org.



AMERICAN CHAMBER OF COMMERCE IN KOREA

The American Chamber of Commerce in Korea (AMCHAM Korea) was founded in 1953 with a broad mandate to encourage the development of investment and trade between Korea and the United States. AMCHAM Korea's membership has grown to approximately 2,300 members and more than 1,100 companies with diverse interests and substantial participation in the Korean economy.

More information on AMCHAM Korea is available at www.amchamkorea.org.

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The views contained this report are solely those of the U.S.-Korea Business Council and the American Chamber of Commerce in Korea. They do not necessarily reflect the views of the Korea-U.S. Business Council, the U.S.-Korea Business Council's counterpart organization in Korea.

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Policy Recommendations to the
Obama Administration and the New Congress



**AMERICAN CHAMBER OF
COMMERCE IN KOREA**



EXECUTIVE SUMMARY OF POLICY RECOMMENDATIONS

- **Approve and implement the U.S.-Korea Free Trade Agreement at the earliest possible time.**
- **Continue the dialogue with Korea on bilateral trade and investment issues.**
- **Include the private sector in bilateral U.S.-Korea government dialogues on energy policy and energy security issues.**
- **Establish and maintain regular, high-level discussions with Korean officials on matters of mutual interest, including global economic issues.**
- **Consider how the business community, when appropriate, can support positive change in North Korea and help respond to potential humanitarian crises.**



OVERVIEW

The U.S.-Korea Business Council and the American Chamber of Commerce in Korea (AMCHAM Korea), which together represent hundreds of U.S. businesses of all sizes that are significant exporters to and investors in Korea, are committed to promoting a strong economic and political relationship between the United States and Korea. We are pleased to provide the Obama administration and members of the 111th Congress with recommendations on policies that the U.S. government could take to enhance our country's important economic and strategic partnership with Korea.

Korea is an ally and a longtime friend of the United States. The Korean people share our commitment to democracy and to ensuring a peaceful and prosperous Asia. The U.S.-Korea security alliance has contributed to peace and stability in Northeast Asia for more than 50 years, and Korea is today one of our strongest partners in advancing regional and global security. Korean military forces, joined by more than 27,000 members of the U.S. military, protect peace on the Korean Peninsula and have fought alongside the U.S. military in Vietnam, Afghanistan, and Iraq.

Korea's economic development is a symbol of the benefits of a vibrant democracy, open markets, and international engagement. With a \$1 trillion economy, Korea is the third-largest market in Asia and the 14th largest in the world. Its growth and prosperity depend on open markets, capital flows, and secure sources of energy.

Korea is the United States' seventh-largest trading partner and one of the most significant markets worldwide for U.S. manufacturers, farmers, and services providers. Two-way trade in goods between the United States and Korea grew to \$82.3 billion in 2007; U.S. exports to Korea have increased by more than \$12 billion, or 56%, since 2002. U.S. manufacturers exported \$29 billion worth of products to Korea in 2007, while U.S. farmers shipped to Korea \$3.5 billion worth of agricultural goods that year. Korea is a rapidly growing market for U.S. services providers, which exported more than \$11.5 billion in cross-border services to Korea in 2006. Korean laws guaranteeing labor rights are recognized as strong by international organizations. Korea is a signatory to major multilateral agreements on the environment, and Korean President Lee Myung-Bak's "green growth" strategy has much in common with President Barack Obama's emphasis on protecting the environment while growing the economy.

Korea's progress has contributed to U.S. economic growth. Korean companies have rapidly expanded their investments in the United States in recent years, and they have created tens of thousands of American jobs in manufacturing, distribution and supplier networks, and retail businesses across the country.



Moreover, despite the challenges presented by the global financial crisis to Korea's economy, Korean President Lee and his administration have been steadfast in reiterating their commitment to open markets and in cautioning against protectionism. President Lee has pointed out that greater trade will stimulate productivity and output. This is as true for the U.S. economy as it is for the Korean economy.

The Obama administration and Congress have taken office at a time when the U.S.-Korea partnership is increasing in strength and importance. Our two governments have taken bold actions in recent years to update our countries' relationship to reflect changing dynamics and emerging regional and global trends. These include the signing of a high-standard, high-quality U.S.-Korea Free Trade Agreement (FTA). Additionally, the two governments have reached agreements on base relocation and the strategic realignment of U.S. forces in Korea, and on the inclusion of Korea in the U.S. Visa Waiver Program—which enables Korean citizens to visit the United States visa free.

Our organizations welcome President Obama's appreciation of the importance of the U.S.-Korea relationship, which he has described as "remarkably strong and successful." As a senator, he urged the United States to "pay attention to the interests of the South Korean people to ensure that we move forward in unity and common purpose" as it works with Korea to address the challenges presented by North Korea's nuclear program. He understands the importance of the U.S.-Korea economic relationship, having said that "the U.S.-Korea economic relationship has also benefited both nations and deepened our ties."

President Obama has pledged to seek new partnerships in Asia that go "beyond bilateral agreements, occasional summits, and ad hoc arrangements" and to "build an infrastructure with countries in East Asia that can promote stability and prosperity." Korea has the ability and the ambition to play an active role in international leadership, including through its strong support for multilateral peacekeeping efforts and in advocating the maintenance of open global markets as chair of the G-20 in 2010. Our organizations urge the Obama administration and Congress to consider the U.S.-Korea partnership a central component of this infrastructure and to work closely with Korean President Lee, the Korean government, and the Korean National Assembly to construct this framework.

On the occasion of Korean President Lee's inauguration, then-Sen. Obama encouraged President Bush to invite President Lee to the White House as early as possible to demonstrate the United States' commitment to the bilateral alliance and to reaffirm Korea's importance to the United States. We appreciate the outreach that President Obama and members of his Cabinet have made to President Lee and the Korean government. We urge the president and other senior U.S. government officials to engage regularly with their Korean counterparts to reinforce the partnership between our two countries.



This paper presents recommendations for policies that the U.S. government should take to encourage increased trade and investment between the United States and Korea. These actions would generate new economic growth and jobs at home and new opportunities for U.S. businesses in Korea. Our organizations also urge the Obama administration and Congress to work closely with the Korean government to advance shared goals on trade and investment issues, energy security and climate change, and other issues of common interest within regional and multilateral frameworks.

In addition, our organizations urge Congress and the administration to build bridges and relationships with their counterparts in the Korean National Assembly and the Korean government to promote increased “unity and common purpose” between leading policy decision makers in both countries. The rapid pace of economic growth and reform that has taken place in Korea in the last decade has sometimes left Americans, including policymakers, with an image of Korea that is not fully up to date. Greater familiarity with the Korea of today will help members of Congress and other U.S. leaders make policy decisions that further strengthen U.S.-Korea ties and advance U.S. goals.

Our organizations would welcome opportunities to work with the Obama administration and Congress to expand the economic partnership between the United States and Korea. In these recommendations, we identify ways to do that.

U.S.-Korea Free Trade Agreement

RECOMMENDATION: Approve and implement the U.S.-Korea Free Trade Agreement at the earliest possible time.

Approving and implementing the U.S.-Korea FTA are among the most important actions that the Obama administration and Congress can take to strengthen the U.S.-Korea relationship and build an infrastructure that promotes economic growth and prosperity in Asia.

Approving and implementing the U.S.-Korea Free Trade Agreement (FTA) are among the most important actions that the Obama administration and Congress can take to strengthen the U.S.-Korea relationship and build an infrastructure that promotes economic growth and prosperity in Asia.

This agreement would provide substantial benefits to all sectors of the U.S. economy and enjoys broad support among U.S. manufacturers, farmers, and services providers. By eliminating tariff and nontariff barriers in every sector of the Korean market to U.S. goods and services and by securing a more open and competitive Korean market, the agreement would generate billions of dollars in new U.S. exports, thereby creating new American jobs and economic growth. The U.S. International Trade Commission has forecast that the tariff and tariff rate quota provisions of the agreement alone, if fully implemented, would increase U.S. GDP by \$10 billion to \$12 billion. The agreement would increase U.S. manufactured goods and agricultural exports to Korea by \$10 billion to \$11 billion. These figures are understated and do not, for example, include the great potential for the growth of U.S. services exports to Korea.

Korea's complex regulatory system and other nontariff barriers have limited opportunities for U.S. manufacturers, farmers, and services providers to compete and succeed in the Korean market. The FTA contains provisions that would open Korea's market, protect U.S. interests, and set the bar higher for trade pacts with

other countries. The agreement would guarantee transparent and predictable regulatory and rulemaking procedures in Korea, protect and enforce intellectual property rights, enhance investment protections, and help ensure the fair and transparent application of competition policy for all U.S. companies doing business in Korea. These and other elements of the

FTA would level the playing field for U.S. businesses competing in Korea's dynamic economy.

Trade and investment with Korea already supports tens of thousands of American jobs across all sectors of the U.S. economy. By removing barriers to this trade and investment, the U.S.-Korea FTA will generate new demand in Korea for U.S. products and create a cascade of new jobs in the United States. U.S. exporters would not only need production workers but engineers, designers, and advertising and marketing specialists. The demand for truckers, railroad workers, airline employees, logistics specialists, and port operations workers will also grow. These new workers, in turn, will contribute to local economic growth.

Korean laws guaranteeing labor rights are recognized as strong by the Organization for Economic Cooperation and Development (OECD) and other international organizations. Under the U.S.-Korea FTA, Korea reaffirmed its obligations as a member of the International Labor Organization (ILO) and committed to adopt, maintain, and enforce the five basic internationally recognized labor rights from ILO's Declaration on Fundamental Principles and Rights at Work, in a way that is fully consistent with the May 10, 2007, bipartisan consensus on trade policy.

Korean environmental protection laws are strong, and Korea has signed and implemented a number of major multilateral agreements on the environment. Under the U.S.-Korea FTA, Korea has committed to effectively enforcing its domestic environmental laws. This commitment may be enforced through the FTA's dispute regulation procedures. Korea also agreed to strive to ensure that it continues to have high levels of environmental protections. Korea's commitments under the FTA are fully consistent with the May 10 bipartisan consensus on the trade policy.

Related to the automotive industry, in the FTA the Korean government agreed to extensive provisions addressing tariff and nontariff barriers in a comprehensive manner. It is important to recognize that the FTA has stronger and

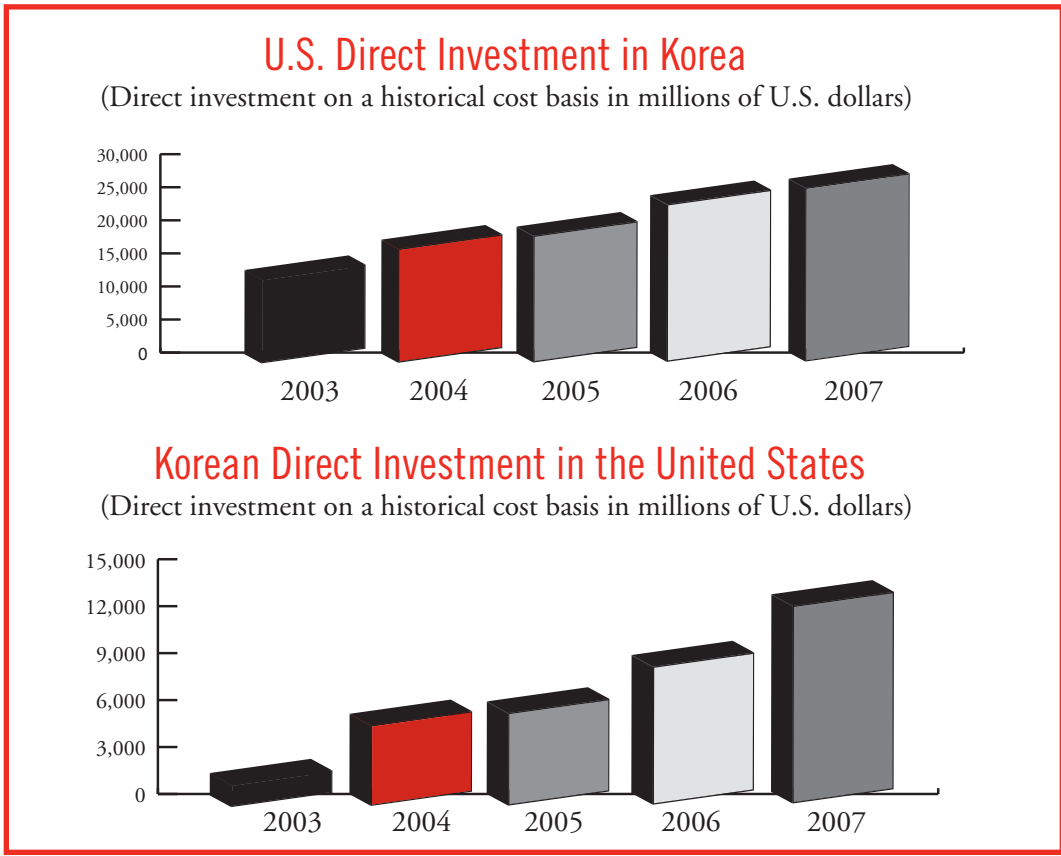
U.S.-KOREA FTA: BY THE NUMBERS

- **\$1 trillion:** The size of Korea's advanced market
- **\$10 billion–\$12 billion:** The amount by which U.S. GDP would increase under the U.S.-Korea FTA
- **3 years:** The time it would take 95% of all bilateral goods trade to become duty free under the U.S.-Korea FTA
- **\$10 billion–\$11 billion:** The amount by which U.S. manufactured goods and agricultural exports to Korea would increase under the U.S.-Korea FTA
- **10 years:** The time it would take virtually ALL tariffs on goods to be eliminated under the U.S.-Korea FTA

(Source: Office of the U.S. Trade Representative, U.S. International Trade Commission)

more wide-ranging provisions related to the automotive sector in the areas of taxes, tariffs, standards and technical barriers, and dispute settlement than any other U.S. trade agreement. As it stands now, the FTA's auto provisions ensure for U.S. automakers and auto parts manufacturers a greatly enhanced ability to compete in the Korean market. For this reason, we believe that the U.S.-Korea FTA provides the best pathway to address the factors that have contributed to the imbalance in U.S.-Korea automobile trade.

However, our organizations believe that it would be useful for the U.S. and the Korean governments to meet in the earliest possible time frame to discuss ratification and to consider whether additional understandings related to autos are appropriate. We believe that the auto issue could be addressed, if necessary, in a way that does not require renegotiation of the text of the FTA agreement itself.



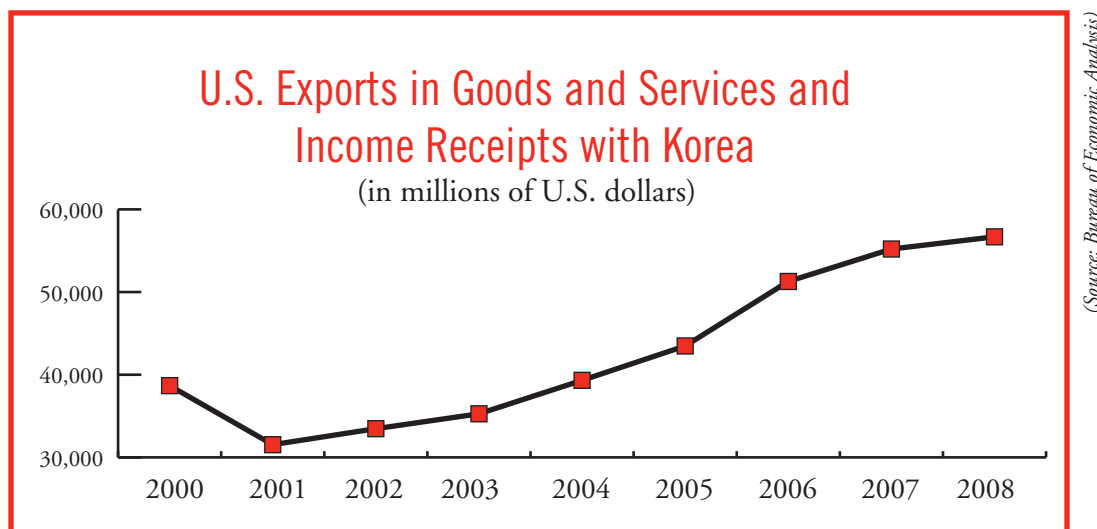
Bilateral Trade and Investment

RECOMMENDATION: Continue the dialogue with Korea on bilateral trade and investment issues.

The Obama administration should continue the regular and effective dialogue with Korean officials on bilateral trade and investment questions led on the U.S. side by the Office of the U.S. Trade Representative. This dialogue has resolved many issues that American companies have confronted in Korea, pending the implementation of the FTA.

Separately, we encourage the Obama administration to consider, in consultation with the Korean government, whether it would be useful to develop additional structures to deal with business issues that are not within the scope of bilateral free trade agreements. Past examples of these issues have included energy, taxation, cargo security requirements, and visa policy. American and Korean firms are likely to continue to raise particular issues that could be addressed productively through such discussions.

We believe that other U.S. government agencies, such as the U.S. Department of Commerce, can build upon their current efforts to assist U.S. exporters that do business in Korea and across Asia by increasing their activities in the region. In this regard, the Commerce Department might consider establishing a deputy assistant secretary for Japan, Korea, and Asia Pacific Economic Cooperation (APEC).



Energy and Climate Change Policy

RECOMMENDATION: Include the private sector in bilateral U.S.-Korea government dialogues on energy policy and energy security issues.

Addressing the challenges of energy security and climate change is critical to future U.S. and Korean economic growth and prosperity. President Obama has indicated his intention to invest \$150 billion over 10 years to advance a clean energy economy in the United States and to generate 5 million new “green” jobs. He also has pledged to make the United States a leader in combating climate change by leading a new international global warming partnership.

Likewise, Korean President Lee has declared a national Korean energy policy of “low carbon, green growth.” The Korean government intends to accomplish this by investing billions of dollars and taking actions to secure a stable flow of energy resources from diverse sources, improve energy efficiency, increase the supply of clean energy, and boost the “green energy” industry to generate new jobs and economic growth.

Clearly, there is potential for cooperation between the United States and Korea to advance these shared goals. The bilateral consultations on energy policy that the Korean and U.S. governments initiated in 2007 provide a useful channel for the two governments to identify areas for possible cooperation. We urge the U.S. and Korean governments to invite the business community to play a constructive role in this dialogue.



Multilateral Initiatives

RECOMMENDATION: Establish and maintain regular, high-level discussions with Korean officials on matters of mutual interest, including global economic issues.

The Obama administration should quickly establish a sound relationship with Korea's leaders to strengthen cooperation on multilateral issues. The United States often shares positions with our Korean allies on these issues, yet tends to overlook them as we build coalitions around issues of importance to us.

Specifically, we urge the administration to coordinate closely with the Korean government within the G-20. Korea is a member of the G-20 "troika" in 2009 and will chair the G-20 in 2010. In this position, Korea can take a leadership role in advocating the maintenance of open markets as governments deal with the global economic crisis. It can also be a partner of the U.S. government in ensuring that the G-20's recommendations for the international financial system are consistent with open market principles. In this regard, we urge the Obama administration and Congress to follow fundamental open market principles as they contemplate any changes to U.S. regulations, particularly those in areas of significant foreign trade and investment.

Korea can also be a partner with the United States in encouraging market opening and in advancing regional and global economic integration, including the conclusion of the World Trade Organization (WTO) Doha Development Round of trade negotiations and advancing the multifaceted agenda of APEC.

The United States often shares positions with our Korean allies, yet tends to overlook them as we build coalitions around issues of importance to us.

North Korea

RECOMMENDATION: Consider how the business community, when appropriate, can support positive change in North Korea and help respond to potential humanitarian crises.

Our organizations do not take a formal position on U.S. policy toward North Korea. However, we have welcomed the efforts of the U.S. government, together with Korea, Japan, China, and Russia, to respond to the challenges to regional and global security presented by North Korea's nuclear program. We encourage the Obama administration and Congress to undertake every possible effort to ensure a secure and stable Korean Peninsula, which is crucial to economic growth and prosperity across the Asia-Pacific region.

Our organizations would welcome the opportunity, under the appropriate circumstances, to play a constructive role in U.S. engagement with North Korea that might contribute to the success of the Six-Party process and promote North Korea's denuclearization. In addition, our organizations and the broader private sector could help respond to a humanitarian crisis in North Korea. The U.S. business community has mobilized assistance at an international level in cases of natural disasters, such as the 2004 Indian Ocean tsunami and the 2008 earthquake in Sichuan, China. The business community could provide advice, in collaboration with the South Korean business community, to develop a modern economic system in North Korea.



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