

**Remarks of
Ambassador Jon M. Huntsman, Jr.
Deputy United States Trade Representative
Korea-U.S. Economic Council
Seoul, January 21, 2002**

Chairman Ahn, members of the Korea-U.S. Economic Council, ladies and gentlemen, distinguished guests, thank you. It is my esteemed pleasure to be here today in Seoul. Although I have visited often over the years, this is my first trip to Korea since joining in the Bush Administration, and I must say this trip is long overdue. I nearly made it to Seoul last autumn, traveling as far as Hanoi on September 11th, when the attacks on America necessitated my return to Washington.

On September 11th, as America was brutally attacked by the terrorists of al Qaeda, I was in Vietnam, at a meeting of the ASEAN economic ministers. The next morning, as our delegation began to work through our own shock, we found that we were not alone. Indeed, we'd been joined in our sleepless vigil that night by our Asian counterparts. As we all emerged red-eyed from our hotel rooms the next day, we came to the same realization – the attacks were an assault on the entire world. Each of the delegations were affected in some personal way. I know that Korea was affected as well, with many Koreans losing their lives in the tragedy. Since that fateful day, we have focused as much attention upon our allies as our enemies, and it heartens me to stand here today in Korea as a guest of a staunch

ally and partner of the United States. The American people are deeply appreciative of the support that Korea has shown in our fight against terrorism, including tightening controls on financial assets of terrorist organizations, military cooperation, and dispatching a medical team to Afghanistan. The Korean Government also is actively participating in the Afghan reconstruction talks taking place this week in Tokyo. To reaffirm the strong ties between our two nations, President Bush will travel to Korea next month and we in the Administration are looking forward to the success of that visit.

Korea and Globalization

When traveling in Asia and speaking in Washington, I frequently have the opportunity to commend Korea's impressive economic development and, more recently, its rapid recovery from the 1997 financial crisis. Since the 1960s, Korea has averaged about 8 percent economic growth annually and is now the 11th largest economy in the world.

Many policies contributed to this economic development. Some consisted of barriers and other played off the ingenuity and hard work of the Korean people. Along the

way, foreign investment, foreign technology, and strategic alliances all played an important role in the birth of Korea's mighty manufacturing industries, contributing to the rise of such household names as Samsung, LG and even Hyundai. However, once these industries took root, the role of foreign firms diminished.

The Role of Foreign Investment in the Auto Sector

A look at the auto sector in Korea highlights the key role of foreign investment and foreign partnerships in its early development, as studies by KIEP and the Economic Strategy Institute released yesterday document. Indeed, the Korean auto industry was one of the leading beneficiaries of foreign investment.

As early as 1968, Ford Motor Company became the first American firm to help develop the Korean auto industry,

investing in projects to assemble Ford models and, perhaps more importantly, to train Korean engineers to design their own cars. Other foreign firms were quick to follow. The first Hyundai car, the Pony, came to market in 1976, following 18 technology transfer agreements from foreign partners. By 2001, Korea held a 5.4 percent share of world auto exports, totaling 1.4 million cars, including over 600,000 to the United States alone last year.

The story of the auto industry's roots in foreign investment and its subsequent development is a microcosm of what was occurring in many sectors throughout the Korean economy. Strategic alliances with U.S. and foreign firms had delivered investment, technology and expertise, helping to build dynamic export industries that fostered the nation's growth. But along the way something curious happened. Imports in Korea did not follow investment. Korea had somehow

become a dynamic exporter without becoming an equally dynamic importer, dampening the competition companies need to keep their edge in the global marketplace.

At the same time, the heavy government intervention that initially had yielded high dividends eventually led to unhealthy links between the government, industry and the financial sector. To a large extent, the 1997 financial crisis demonstrated that these links could prove fatal for the Korean economy and that Korea needed to find a new growth model.

Throughout the 1990s, as the movement toward globalization intensified, open markets and liberalization became the economic growth model for many countries. For example, trade was liberalized significantly with the conclusion of the Uruguay Round and the launch of the WTO, and the Information Technology Agreement was signed, eliminating tariffs on

a wide range of high-technology products. While Korea participated in many of these efforts, it has remained in some cases a reluctant importer, making its integration into the world economy somewhat incomplete.

Integration into the World Economy

The auto industry, again, offers a revealing insight.

Last year, the U.S. imported 6.4 million cars and light trucks. The EU imported 1.77 million, Japan purchased 285,000 imports. Korea, meanwhile, imported only 7,700 autos last year. That translates to import market shares of 30 percent for the United States, 20 percent for the EU, and 5 percent for Japan. In Korea, however, the import market share does not even reach 1 percent. Korea imports fewer cars than any country in

the developed world, and probably fewer than most developing countries as well.

What do these numbers tell us? Well, they tell us some things about the level of integration each of these countries has reached with the world economy. The numbers reveal that Korea's economy, for all its export might, for all the reforms of the past decades, still has a journey ahead before it is fully integrated into the world economy.

Persistent Barriers

There is no doubt that many Koreans appreciate the benefits of globalization and the importance of liberalization to the future health of Korea's economy.

Trade Minister Hwang, for one, was at the forefront of efforts to launch a new WTO round and this week is in Geneva with U.S. Trade Representative Zoellick

discussing how to move the Doha agenda forward. Korea is playing a lead role in developing a progressive approach on a range of issues that are key to the longer term development of the global trading system. At the same time, although there has been some progress, shorter term sensitivities have made it difficult for Korea to eliminate the array of barriers faced by importers in many sectors.

In the auto sector, for example, last March, President Kim encouraged Koreans to consider buying foreign cars, seeking to eliminate the stigma many Koreans associate with purchasing a foreign car. The head of Korea's Tax Agency followed suit shortly after by announcing that the National Tax Service would not base tax audits on the purchase of an imported car. More recently, the Korean Government temporarily reduced taxes on automobiles.

But the auto market is only beginning to open. To help further open this market, we have recommended, among other steps, that the Korean Government reduce taxes and tariffs. If tariffs were reduced to U.S. levels, for example, the foreign share of Korea's market would increase to 12 percent in five years. As the KIEP study released yesterday documented, further opening Korea's auto market would increase markedly the competitiveness of Korean automakers.

Similarly, the Korean Government has strengthened several laws on copyright enforcement. President Kim has thrown his weight behind efforts to strengthen the intellectual property regime in Korea, recognizing that this is necessary to the development of the high-tech, knowledge-based economy. The achievement of this goal would be fostered by more sustained enforcement of intellectual property rights.

In the last few years, the Korean Government has taken major steps to implement pharmaceutical pricing reform that would encourage the introduction of new innovative drugs into the Korean market and fairly distribute health care costs. Conducting health care reform in a transparent manner would help assure that innovative drugs remain available to all Korean patients.

Despite the restructuring of the financial sector in the wake of the financial crisis, four years later, the Korean Government still owns a substantial financial stake in the Korean banking system, with no clear timetable for privatizing the banks. As long as the Korean Government continues to hold these shares, skepticism will persist about the independence of actors in the financial sector.

Building The Next Generation Korean Economy

Earlier this month, President Kim laid out his vision for improving the competitiveness of the Korean economy. President Kim highlighted the development of the information, biotech and environmental technologies industries as major priorities for 2002. The government's ambitious goals for "combining traditional industry with state-of-the-art technologies to produce high-value-added products" would clearly serve the next generation of Koreans well, and promise to position Korea as a world economic leader.

It is doubtful that Korea could achieve these goals, attract investment, and deliver the know how to fuel the growth of this next generation Korean economy without coming to grips with the reality of globalization. This would include overcoming the

remaining barriers that prevent Koreans from reaping the rewards of an open economic future.

Both as a businessman in the private sector and as a government official, I have watched Korea for many years with a combination of admiration and curiosity. Admiration for Korea's tremendous growth and development, especially in the IT sector. Curiosity, at times, about why a country with such an impressive track record has reason to doubt its future success. I am aware that many Koreans are worried about the impact of globalization, but I am encouraged by the lively debate on this issue. Personally, I have observed Korea manage seemingly overwhelming change in the past and am confident that it can meet the challenges of globalization and be strengthened by them.

Thank you very much. I am happy to take questions.

