The Fourth Korea Foundation Global Seminar

Globalizing United States-Republic of Korea Relations

June 8 – 11, 2012

Airlie Conference Center, Warrenton, Virginia

"The Korea-U.S. Economic Relationship"

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America's modern trading relationship with South Korea began in 1866 when the USS General Sherman sailed up the Daedong River towards Pyongyang, became stranded and everyone was killed.

Fast-forward to 1953, when the armistice was signed (not a peace treaty, just the cessation of hostilities) and South Korea was devastated. All the natural resources and factories are in North Korea.

South Korea was one of the poorest nations on earth. In mid 1960's, South Korea had the same per capita GDP as Bangladesh. Today, depending on whose numbers you are looking at, South Korea is the world's 13th or 14th largest economy.

After the Korean War, the U.S. kept our market open to Korea as they developed a command economy where the government guided the development. They chose the winners and put their limited resources where they could be most efficiently used and did their best to help those companies thrive.

My friend, who runs AmCham Bangladesh, asked me what the difference was between the two economies. From my perspective of working in Korea for over 2 decades it seems to me that Korea had smart economists, little corruption and a dictator who really did want to build the nation. And build they did.

In 1987 they declared democracy and slowly began to open the Korean market to foreign investment. American companies still needed to have a joint venture partner to operate in Korea and if you had a technology Korea was pursuing, the red carpet was rolled out but once Korea acquired the technology, it was thank you very much, don't let the door hit you on the way out.

Anti-consumption campaigns were a frequent occurrence and in the late 80's and early 90's. American companies were often heard commenting that Korea was one of the hardest places in Asia to do business.

Then in 1996 Korea made the historic decision to join the OECD, the developed countries' club, and that membership put Korea on a path to openness. When Korea joined OECD, my friends there said they had never seen an application like the Koreans submitted. They wanted to join but they also requested a huge list of exceptions and an enormous list of things they wanted to delay doing. It took almost 2 years to negotiate their entry but once they did join, they had a calendar of dates for when they were going to step by step implement liberalizing reforms.

And then in 1997, the Asian flu swept through South Korea and by late November, 1997, the country was within days of a national bankruptcy. This crisis coincided with Korea's first true civilian government being elected and Kim Dae-Jung had said he publicly that he would renegotiate the IMF deal. But immediately upon being elected, he said he didn't understand how bad it was so Korea would have to honor the deal.

In 1998, Korea's economy contracted by 6% and in 1999, it grew over 10%. This dramatic shift was because Korea really did the hard, painful restructuring that needed to be done to bring their economy back. There was a real, fundamental shift in the way business was done in Korea and some companies like Daewoo, didn't get it and they went bankrupt. Too big to fail turned into too big to save.

We saw many major Korean companies completely restructure and suddenly, core competencies became more important than crony capitalism. Korea opened up. But it wasn't easy.

Let me give you two examples: Lone Star and Wal-Mart.

Lone Star, a private equity fund, came in and bought a failing bank, KEB. What many Koreans forget is that KEB was about to go bankrupt and all those people would have been out of jobs and lots of folks would have lost a significant amount of money.

The Korean government tried very hard to get a foreign bank to buy KEB, but the situation was so bad, I remember hearing several international bankers say there was no way their board would ever approve that purchase; it was just too risky.

So Lone Star took an enormous risk and bought the failed bank, brought in new management, and they were able to turn the bank around so it is now profitable. But many people in Korea forget how bad the situation was at that time.

Before Wal-Mart entered Korea, many Koreans were very worried that Korean Mom and Pop stores would be driven out of business and that Korean firms could not compete against the big retailing giant. Wal-Mart entered Korea in 1996 by buying a failing German hypermarket, Makro. Unfortunately, Makro hadn't done a great job analyzing the Korean market. Many of the stores were actually in bad locations and some were even underground. These stores failed to ever achieve their objectives. In 2006, Wal-Mart shuttered their stores in Korea and while they continue to source from Korea, they acknowledged privately that Korea was a very tough market that they had not been able to figure out. So they decided to turn their attention to China to ensure they got that market right. So who is the largest hypermarket in Korea today? Emart, a home-grown Korean concept.

After the economic crisis in Korea and the subsequent changes in the business environment, American companies began to say that Korea is one of the best places in Asia to do business.

In Feb 2006, South Korea and the U.S. announced the launch of an FTA negotiation and that's when things began to really get interesting. Both governments had participated in an 18 month, 5-round preparatory agenda that involved in chapter by chapter discussions of each country's expectations from an FTA.

So when the negotiation was launched, the U.S. business community was very excited because it meant both governments were willing to address many long-standing issues between the business communities. There was one other twist that made this interesting. The agreement had to be completed within 10 months before Trade Promotion Authority expired.

As is often the case in Korea, the negotiation went down to the very wire and was completed with less than an hour to spare in order to ensure the KORUS FTA would be covered by TPA, which was needed to assure an up or down vote with no amendments.

So what makes the more that 1,400 pages of the Korea Free Trade Agreement special? According to American companies, this is the gold standard agreement that enshrined in treaty form, contains many of the solutions to long-standing problems in the Korean market.

As someone who sat on the sidelines and observed both governments negotiating this very complex agreement, I can say without reservation that it truly is a win-win for both countries.

As Ambassador Han Duck-Soo was often fond of commenting when we together – our partners took him around to over 40 states – KORUS would help Korea ensure future competitiveness. Initially, the U.S. would incur more benefits because Korea's average tariffs were significantly higher than the U.S., so Korea would have to change more in the short term. Korea would see significant benefits by opening their market and being able to compete with the best global companies in their market.

It was helpful for Koreans to remember the Wal-Mart experience and also to reflect on how well Hyundai Motors and Kia were doing in the U.S. market. The Korean government really illustrated well-deserved confidence and their trade decisions began reflecting that confidence.

Korea's FTA strategy began with Chile, a small trade partner in the bottom hemisphere with opposite growing seasons, which it was thought would make the farmers less resistant to consider market opening. One of the main results of the Chilean FTA is the growing appreciation in Korea for wine.

And let's not forget that Korea also has an FTA with Europe that is very similar to the KORUS FTA. So bold and courageous trade policy really well positions Korea in Asia vis-a-vis trade partners.

The U.S. doesn't have FTAs with any other trade partners in NE Asia. Not with Japan and not with China. But South Korean firms do have preferential access to our market.

Korea lives in a very rough neighborhood, surrounded by China and Japan. My Korean friends say they are a shrimp among the whales. Well, from my perspective, it appears the shrimp is really leading the whales now.

KORUS is a high standard, comprehensive agreement that really takes our economic relationship to the next level. It has great IP protections, has clear dispute resolution mechanisms and provides a roadmap for our $100+billion two way trading relationship to really take-off.

Thanks for your kind attention and I am happy to try and answer your questions or hear your comments.