Case Number: 2009-0528-F

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Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	For Laura Tyson, Sandy Berger, Bo Cutter, Peter Tarnoff et al. from Jeffery Garten. Subject: Recent Trip to China. (2 pages)	08/10/1995	P1/b(1)
002. cable	re: APEC: ROKG Seeks Flexibility. (4 pages)	11/02/1995	P1/b(1)
003. memo	For Leon Fuerth et al. From Andrew Sens. Subject: Principal's Meeting. Record ID: 9620065. (2 pages)	01/26/1996	P1/b(1)
004a. memo	For Leon Fuerth et al from Andrew Sens. Subject: Paper for Meeting. Record ID: 9620088. (1 page)	01/27/1996	P1/b(1)
004b. paper	U.S. Policy Toward Korea. (6 pages)	01/24/1996	P1/b(1)
005a. memo	For Leon Fuerth et al. from Andrew Sens. Subject: Principals Committee. Record ID: 9620507. (2 pages)	05/25/1996	P1/b(1)
005b. paper	Agenda Item: Assistance. (3 pages)	05/28/1996	P1/b(1)
005c. paper	Agenda Item: Economics. (6 pages)	05/28/1996	P1/b(1)
006a. memo	For Laura Tyson from Malcolm Lee. Subject: Identification of Korea as a Priority Foreign Country under Section 1374 of the Trade Act of 1988. (2 pages)	07/29/1996	P1/b(1)
006b. memo	For Dan Tarullo and Sandy Berger from Malcolm Lee. Subject: Deputies Meeting. (3 pages)	07/24/1996	P1/b(1)
006c. paper	Redesignation of Korea Under Section 1374 of the 1988 Telecommunication Trade Act. (3 pages)	07/24/1996	P1/b(1)

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National Econonomic Council
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Korea [2]

2009-0528-F
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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006d. letter	To Charlene Barshefsky from Lee Suk-chae (3 pages)	07/13/1996	P1/b(1)
006e. report	Daily Intelligence Brief. (2 pages)	07/19/1996	P1/b(1)

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Possible Questions on Korea

There may be variants of the following:

Q: There has been a lot of trade friction between Korea and the U.S. over market opening in sectors such as agricultural products, autos and financial services. But even though we (Koreans) have a $4.8 billion trade deficit with the U.S., there is widespread feeling here that we are getting more trade pressure to open our markets than Japan is. What is your opinion? What is the best way to resolve our trade frictions?

- A. In large trading relationship like that between United States and Korea, bound to be trading frictions. Korea is our fifth largest export market, fourth largest market for agricultural goods, third largest market for beef. Natural to have trade disputes given large volumes of such important goods. Same thing between the United States and Canada...between the United States and Mexico. So there is no intent at all to target Korea.

- Economists say that bilateral trade account is not by itself a good indicator of market openness. Macro factors, like exchange rates and consumer spending, have big impact. So, fact that Korea does not now have a deficit with the United States does not mean it has open market. Indeed, many U.S. and other companies tell us that Korea is a difficult market to do business in. Competitiveness surveys place Korea towards bottom of rankings.

- We have resolved a number of trade disputes, most notably in autos. The important thing now is to ensure they are being implemented. As new issues arise, want to handle quickly, forthrightly, without anger, as befits our friendship.

- Korea model of development throughout the world. Used example in my teaching at Berkley. Tremendous successes. Now an important developed economy...one of the top twenty economies in the world and rapidly climbing in the ranks. We argue for more open markets to help U.S. exporters, but also believe greater openness benefits Korea as well -- bringing consumers better products at lower prices; keeping Korean companies able to compete in the global economy; transforming Korea into one of the most advanced economies in the world. This is the vision and leadership behind President Kim's drive towards globalization.

USTR fact sheet on trade issues and Treasury economic assessment are attached.

KOREA: MAJOR TRADE ISSUES

U.S. Merchandise Exports (1994): $18 billion
% U.S. Share of Korea's Imports: 20%
U.S. Imports (1994): $19.6 billion
% U.S. Share of Korea's Exports: 22%
U.S. Direct Investment (1993): $3 billion
1994 GDP: $371.6 billion

o **General:** Korea is our fifth largest export market and our fourth largest agricultural market, and our third largest market for beef. While formal barriers to imports have fallen, Korea has raised new, more subtle barriers that effectively prevent the liberalization envisioned under the major trade policy initiatives of the late 1980's. Korea's non-tariff trade barriers are often compared to those of Japan's ten years ago.

Consequently, bilateral trade problems are on the rise, particularly with respect to standards, licensing, certification, rule-making and customs clearance. Korea is described by the U.S. industry as one of the toughest markets in the world. U.S. direct investment has been declining for the past five years. Relations are further strained by Korea's generally poor track record of living-up to existing bilateral agreements and inability to resolve relatively minor issues without escalation to higher political levels.

o **Automobile Market Access:** Korea's auto market is among the most protected in the world. As a result its practices have been placed on the Super 301 "watch" list since 1993.

Korea is the fifth largest auto maker, the third largest exporter after Japan and the EU, and is the fastest growing market in Asia. Yet imports make up only .03 percent of its domestic market (compared to 5 percent in Japan). Korea implemented some modest concessions last year.

As a result of the September 1995 Super 301 process, Korea signed the first written bilateral auto access agreement with the United States. Korea agreed to reduce two taxes that discriminate against imported vehicles, to permit foreign advertisers equal access to television time, to allow foreign majority ownership of auto retailing financing entities, to allow U.S. auto makers to self-certify certain safety standards, and to inform Korean importers in writing that the government no longer conducts a tax audit solely for owning an imported vehicle. As a consequence, Korea's auto practices were not cited under the Super 301 "priority watch" list.

While the reforms were welcome, Korea will need to take further steps to eliminate discrimination against foreign passenger vehicles. Korea agreed to continue bilateral consultations until June 1, 1996, at which time we will report the results to USTR and the Korean government.

o **WTO Residue Testing/Inspection Case:** U.S. exporters have over the years experienced significant delays (3-4 weeks) in clearing products through Korean ports. Exporters of perishable agricultural products are particularly vulnerable. As Korea opens its market as a result of the Uruguay Round negotiations, the problem has become more severe.

U.S. citrus exporters complained to USTR in March that grapefruit and orange shipments were being detained at the port for as long as two to three weeks, causing "catastrophic" levels of decay. Instead of using random sampling techniques, Korea inspects 100 percent of all shipments. Shortly after the United States requested Article XXII consultations on April 4, Korea revised inspection procedures to allow fresh fruit and vegetables to clear customs while awaiting test results. This could make the situation worse, since imported products may now be subject to frequent recalls by government-sponsored so-called consumer "watch" groups.

The United States held consultations in Geneva on May 4-5 and again on June 1-2. We have just reviewed Korea's September response to questions we submitted in July regarding the government's plans to reform its food inspection and sanitation system. Unfortunately, it does not appear that Korea has addressed any U.S. concerns. USTR made a formal demarche to Korean Ambassador Park on October 24. Unless a response is forthcoming, the United States will take further action under the WTO dispute settlement procedures.

o **WTO Shelf-Life Case:** In November 1994 USTR accepted a Section 301 petition filed by the American meat industry which asserts that Korea restricts U.S. meat imports and abrogates several bilateral agreements. Of particular concern to the United States was Korea's government-mandated shelf-life standards for fresh beef and pork in vacuum packaged cuts. The shelf-life standards effectively prohibited shipping because expiration dates were so short that by the time a product cleared customs, the date expired. Korea's standards were not based on science, and were applied in an arbitrary and discriminatory manner. Most countries in the world use a manufacturer's use-by dates. Trade damage estimates ranged from $240 million in 1994 to $1 billion dollars annually by 1999 for the beef industry alone.

After bilateral negotiations broke down at the end of April, the United States requested Article XXII consultations on May 3. Canada joined the consultations, which were held in Geneva on June 5-6. After informing Korea that we would request a WTO panel, the Koreans signed an agreement on July 20 with USTR Kantor that was then notified to the Chairman of the Dispute Settlement Body and all contracting parties.

Korea agreed to phase-in a manufacturer's shelf-life system by October 1 for all dried, packaged, canned and bottled products. For chilled vacuum-packed beef and pork, all frozen meat, including poultry, and other frozen foods, the new system will go into effect July 1, 1996. In the interim, government mandated shelf-life dates were extended to allow trade to take place, especially given the long delays at the port. To facilitate transparency, Korea agreed to describe these changes to the WTO using six-digit HS Code Numbers. Korea also agreed to provide advance notice for international pork tenders and allow a 30 day period for fulfilling contracts. Korea will use CODEX standards for establishing residue tolerance levels for organ and muscle meat, and U.S. standards for chilling pork carcasses.

The United States terminated the petition under Section 301, but retains its right to request a panel if Korea fails to comply with the agreement.

On October 17, Korea notified the WTO of the first phase-in of products covered under the shelf-life agreement. Korea unilaterally asserted in the notification that the HS numbers used in the agreement to describe coverage are only indicative, and that not all products under those HS headings are under the terms of agreement. In addition, the notification does not appear to include all products under the scope of paragraph 4 of Annex 1 of the Agreement; we are still waiting for industry comments. USTR made a demarche to the Korean Ambassador on October 24 requesting immediate clarification.

- **Section 301 Steel Pipe and Tube**: On June 1 the Committee on Pipe and Tube Imports (CPTI) filed a Section 301 Petition alleging that the Korean government restricts exports of domestically produced steel sheet, controls domestic prices of steel sheet at levels well below world prices, and restricts exports to the EU of pipe and tube products which are then diverted to the U.S. market.

  According to the petitioners, the effect of these three practices is to provide Korean pipe and tube producers with access to a large supply of cut-rate sheet, which allows them to capture significant market share through low-cost pricing and to divert Korean pipe and tube exports away from the EU to the U.S. market.

  On July 11, the CPTI agreed to withdraw their petition in light of Korea's agreement to establish a consultative mechanism to increase transparency concerning pipe and steel sheet and pipe and tube products. Korea also agreed to notify the United States any measure introduced to control steel production, pricing or exports and make certain the Korean industry understands that the Korean government no longer interferes in pricing or production.

- **Telecommunications:** Korea was first identified as a foreign priority country under Section 1377 in 1989. Subsequently, we negotiated a number of interim agreements, a comprehensive agreement in February 1992 covering standards, procurement, tariffs and investment and a 1993 exchange of letters. Despite these agreements, Korea continues to block access to their domestic market while developing their own telecommunications industry.

  In 1995, Korean practices were again cited by a number of companies under Section 1377. On March 27, Korea agreed to resolve some of the company specific complaints. USTR recently learned that Korea may be in violation again of the 1992 agreement and 1993 letter, which provided for nondiscriminatory access to Korea telecom's equipment procurement (i.e., ATT switch). USTR is considering an "out-of-cycle" review under Section 1377.

The U.S. has also set up an "experts group" to develop criteria for a mutual recognition agreement for equipment type approval, which first met July 5-6. Of growing concern is lack of access to [illegible] cellular market.

- **Intellectual Property Rights**: USTR has been pushing Korea since the mid-eighties to reform its IPR regime. In February 1993 Korea launched a comprehensive plan to strengthen IPR laws and enforcement. Korean officials placed priority on prosecution and increased penalties. The government has continued this campaign, dedicating extra budgetary resources and sponsoring public awareness seminars. As a result, in 1994 USTR elected not to upgrade Korea to Special 301 priority foreign country status but kept it on the priority watch list.

  U.S. industry recommended again in 1995 to keep Korea on the priority watch list, citing large end-user software piracy, software valuation, lack of recognition of well-known trademarks, inadequate trade secret protection, "reactive" prosecution and judicial interpretation, lack of protection for textile designs and poor customs enforcement.

  Korea is currently enacting legislation to implement its TRIPS obligations. Of particular concern is a proposed amendment to the Korean Copyright Law which would significantly shorten retroactive copyright protection. This is contrary to TRIPS and would have a significant, adverse impact on U.S. industry. Talks were held at the end of April and again in September without progress.

  On a second issue, Korea orally informed USTR on July 25 that they dropped a proposed decompilation amendment we had strongly opposed.

  Little progress has been made in the case of a California resident (Computer Associates) who is facing criminal sanctions for allegedly violating Korea's customs valuation regulations, despite the fact the regulations were unpublished. Korean officials have orally indicated that they plan to revise their regulations to eliminate valuation based on transaction cost by January 1996. While a welcome development, the California resident still faces criminal sanctions.

- **Medical Devices**: Korea is HIMA's fastest growing market after China. Korea recently began to enforce new regulations governing medical devices which require local testing for some and product registration for all devices. The new regulations do not recognize international standards, the testing requirements seem to vary depending on the designated lab, fail to provide assurance of product safety or quality, and are costly and time-consuming. Product approval requirements lack clarity and are applied across product categories. Each medical device is inspected individually at Customs, risking contamination. In addition, the local Korean trade association for medical devices must approve each import license application. Trade disruption is estimated at about $200 million.

Consultations were held in January, March and April. USTR proposed that Koreans use FDA-issued certificates of free sale as a substitute for the new testing. Korea rejected this approach, and its practices were cited as an area of concern under the 1995 Super 310 review in September.

o **WTO GATS (Financial Services)**: While Korea's current schedule of commitments is considered to be better than most in the region, it still falls short of the kind of offer the we expect from a country that is seeking OECD membership. Treasury continues to seek improvements through bilateral talks.

o **Beef Agreement**: Korea agreed in the Uruguay Round to eliminate balance of payments restrictions on beef by December 31, 2000. A July 1993 U.S.-Korea bilateral beef agreement outlines the minimum market access levels for 1993 through 1995. Under this agreement, operation of the current "simultaneous-buy-sell" system (SBS) portion of the market should be improved by new prohibitions on active involvement by the Korean government. The number of SBS participants should also increase during the course of this agreement, including meat processors, supermarkets and non-tourist hotels.

Consultations were in May and September; Korea is currently selecting new "supergroups" and deciding upon quota allocations. This is expected to be announced in November. Based on recent information from the US Embassy and the industry, it appears that Korea may be in violation of the 1993 MOU. USTR raised its concerns with Korean Ambassador Park on October 24. Another round of talks is planned in Seoul on November 20.

o **Cigarettes:** The 1988 U.S.-Korea cigarettes agreement, which resulted from a Section 301 investigation, contains provisions which govern advertising and promotion and the level and form of domestic taxes. At the request of the Koreans, USTR amended the agreement in October 1993 to allow the Koreans to raise the specific rate. In August, 1995 USTR agreed to Korea's request to further amend the agreement to allow the government to raise taxes and to enact certain advertising restrictions, but only on a national treatment basis.

Korea Economic Assessment

Key Economic Challenges

- Maintaining robust growth without [illegible] the economy - A strong surge in capital investment in the first half of 1995 expanded the current account deficit, while pushing real GDP growth close to 10 percent. This sparked renewed concerns about inflation, which is projected to be around 5 percent for 1995.

- Managing the transition from state-influenced export-oriented production with protected domestic markets to integration into the global economy.

- Strengthening the domestic financial sector - Domestic financial institutions are weak and inefficient with low returns on equity compared to other East Asian countries. Regulated interest rates, directed credit and limitations on foreign financial firm participation limit competition between domestic firms.

Economic Performance

- Real GNP growth for this year is projected at 9.0 percent, slowing overall from a 9.8 percent pace in the first half of the year.

- Consumer price inflation remains a primary concern, but has slowed to 4.7 percent during the first nine months of 1995 after a 1994 rate of 6.2 percent.

- In June 1995, the unemployment rate was 1.8 percent, down from 2.4 percent in 1994.

- Per capita GNP registered at $8,483 in 1994.

- FDI into Korea on an approval basis in the first half of 1995 rose 31 percent from the same period in 1994, totalling $946 million.

Fiscal Policy

- ROKG's 1995 draft budget calls for a nominal 15.9 percent rise in spending from 1994, including 700 billion won (US$875 million) for redemption of state debt.

- The 1995 budget deficit is expected to amount to 0.3 percent of GNP, a moderate improvement over 1994.

Monetary Policy

- BOK had difficulty controlling the money supply in 1994, with M2 growth of 18.9 percent versus a target of 14-17 percent, due to surging private credit demand.

- Mandatory allocation of Monetary Stabilization Bonds (MSBs) remains the primary instrument of monetary policy, although allocations are to be phased out by 1997. In the next few years, auctions for MSBs, as well as a more flexible discount rate and changes in reserve requirements, will play a greater [illegible]

- Estimated M2 growth for January-March 1995 was close to 18 percent versus a target of 12-16 percent.

- During 1995, the won has appreciated against the dollar from about 790 early in the year to around 765 currently.

External Accounts

- Korea's balance of payments fell into a deficit of $1.5 billion during the first quarter of 1995.

- The current account balance was a $6.4 billion deficit in the first seven months of 1995, despite a 33.4% growth in exports in the first half of 1995. A current account deficit of 2% of GDP is projected for the year.

- Korea's overall trade balance for first 8 months of 1995 was in deficit by $7.2 billion. The trade deficit is projected to be $10 billion for 1995 as a whole.

- Gross external debt increased from $56.8 billion in 1994 to $70.2 billion in June 1995, due to use of foreign loans to pay for plant and equipment investment. Net external debt rose from $10.2 billion to $17.3 billion in the same period.

Relations with the IFIs

- Korea has received about $8.5 billion from the IBRD to date and "graduated" from World Bank assistance in December 1994. Korea's contribution to IDA is still rather modest compared to its IDA procurements.

- Korea is considering joining the General Arrangements to Borrow under the IMF.

- Korea has applied for membership in the Inter-American Development Bank.

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11/2/95

KOREA
Summary Statistics
(US$ billions unless otherwise indicated)

Population in millions 1994e: 45.1
Per Capita GDP (1994): $8,483

Pop. Growth Rate: 1%
Fiscal Year: Calendar

	1991	1992	1993	1994	1995
GDP					
GNP in Current Dollars	280.8	296.3	313.4	364.3	
Real GNP Growth (%)	8.4	4.7	5.3	8.2	
Real GDP Growth (%)	9.1	5.1	5.5	8.4	9.8 Jun
Saving and Investment					
Gross Domestic Investment (% GNP)	39.3	36.2	34.8	35.4	
Gross National Savings (% GNP)	36.4	35.0	34.9	35.4	
Fiscal Policy					
Government Expenditure (% GNP)	20.1	19.8	19.2	18.0	
Fiscal Balance (% GNP)	-1.9	-0.7	-0.3	0.8	
Monetary Policy					
Average CPI Change (%)	9.3	6.2	4.8	6.3	4.7 Sep
Money Supply (M2, annual average)	18.6	18.4	18.6	18.9	
Money Market Rate (Interbank)					
Balance of Payments					
Exports	69.6	75.2	82.2	93.7	58.4 Jun
(% change)	10.3	8.0	9.3	14.0	33.4 Jun
Imports	76.6	77.3	83.8	96.8	61.9 Jun
(% change)	17.7	0.9	8.4	15.5	32.0 Jun
Trade Surplus	-7.0	-2.1	-1.6	-3.1	-7.2 Aug
(% GNP)	-2.5	-0.7	-0.5	-0.9	
Trade Surplus with U.S.	1.5	2.1	2.3	1.6	-5.2 Sep
Current Account	-8.7	-4.5	0.4	-4.5	-6.4 Jul
(% GNP)	-3.1	-1.5	0.1	-1.2	
External Debt					
Gross External Debt	39.1	42.8	47.2	56.9	70.2 Jun
(% GNP)	13.9	14.4	15.1	15.6	
Net External Debt	11.9	11.0	10.2	10.2	17.3 Jun
(% GNP)	4.2	3.7	3.3	2.8	
Debt Service (% Xg&s)	6.0	6.0	9.2	n.a.	
International Reserves					
Gross Reserves (excl. gold)	13.7	17.1	20.7	25.7	31.0 Jul
Months of Import Cover	1.8	2.1	2.5	3.5	3.8 Jun
Exchange Rate					
Average Nominal Rate	733.4	780.7	802.7	803.4	774.0 Aug
% change vs. US $ (- = apprec.)	3.6	6.4	2.8	0.1	-3.7
Real Effective Rate (1980=100)	98.6	92.9	91.2	92.5	91.7 Jun

Standard & Poor Rating AA-
Moody's Rating A1

Sources: IMF, Bank of Korea, Embassy reporting   OASIA/INA:MGrewe   02-Nov-95

file
Korea

OFFICE OF MINISTER OF TRADE, INDUSTRY AND ENERGY
Seoul, Korea

September 18, 1995

Dr. Laura D'Andrea Tyson
Assistant to the President for Economic Policy
The White House
Washington, D.C. 20500

Dear Dr. Tyson:

Allow me to present my compliments and call your special attention to several critical aspects of the auto market access issue which is to be discussed between our two governments from Tuesday, September 19, in Washington. Doubtless you are familiar with the issue in general terms, but I hope these comments will acquaint you with some less widely publicized facts of relevance to the issue.

As you may be aware, Korea's history of market-opening dates from 1988 when quantitative restrictions on, *inter alia*, U.S. automakers were lifted. In particular, we undertook in June of last year to try to expand real market access in Korea for imported cars through a comprehensive package of new measures including a 2% tariff reduction on auto imports from 10% to 8%.

These measures have had the intended effect in the short period since their announcement and subsequent implementation. In 1994, unit sales of foreign passenger cars doubled, and in the first six months of this year, increased 142%. In terms of sales amount, the share of imports in the Korean market nearly tripled from 0.63% in 1993 to 1.70% in 1994.

Given that Korea exports only low-priced small cars, the Korean share of the overseas market is probably less than 1.70%, that is to say, less than the import share of the Korean market in sales amount. Moreover, it is noteworthy that, in terms of sales amount, the share of imports jumped to 3.37% of the Korean market in the first half of this year.

During this year, the Korean government has continued to demonstrate its willingness to accommodate legitimate U.S. concerns. The commitments we have made will, I believe, go a long way toward achieving the desired objectives.

Despite the continued efforts on the part of Korea, the American Automobile Manufacturers Association (AAMA) demands that Korea "move away from taxes based on engine displacement, to eliminate discrimination as well as to reduce the overall tax burden." However, the Korean government is convinced that the engine displacement criterion is the sole criterion that can satisfy our policy objectives: 1) the domestic transportation situation including traffic and parking conditions, 2) energy conservation, 3) pollution reduction, and 4) tax equity. Many other countries have tax system based on engine displacement.

In regard to the fourth criterion above, a car is regarded as a kind of one's property and is therefore taxed progressively for the purpose of tax equity. The tax policy has not been introduced as a means to discriminate imported cars: It has been applied since long before Korea lifted the quantitative import restrictions on cars. The tax system is applied for both imported and domestically-produced cars without discrimination.

For the first seven months of this year, Korea incurred a $4.3 billion trade deficit with the U.S., and the deficit is expected to reach $6.5 billion for the whole year. I hope you will appreciate that, given this situation, the Korean government is unable to take such drastic measures as demanded by the AAMA. Furthermore, I am afraid that the tax issue may become dangerously politicized in Korea, which could jeopardize implementation of the wide-ranging commitments we have already made.

I would like to suggest that we try our utmost to shift the focus of the relationship away from conflict resolution and toward developing new areas of cooperation. I would therefore ask you, in your usual scholarly manner, to weigh these considerations carefully in any decision you may take or action you may recommend on the auto access issue. On my part, I assure you that the Korean government is willing to resolve this matter through constructive dialogue at the upcoming bilateral consultation.

Finally, let me take this opportunity to reiterate my invitation to you to visit Seoul at your convenience, preferably before the end of this year. I would be pleased to help schedule your visit so that you can meet with Korean officials and academics to exchange views on issues of mutual interest.

Looking forward to renewing our acquaintance in the near future, I remain,

Sincerely yours,

Jae-Yoon Park

Jae Yoon Park
Minister

Office of Minister of Trade, Industry, and Energy
Seoul, Korea

September 18, 1995

Dr. Laura D'Andrea Tyson
Assistant to the President for Economic Policy
The White House
Washington, DC 20500

Dear Dr. Tyson:

Allow me to present my compliments and call your special attention to several critical aspects of the auto market access issue which is to be discussed between our two governments from Tuesday, September 19, in Washington. Doubtless you are familiar with the issue in general terms, but I hope these comments will acquaint you with some less widely publicized facts of relevance to the issue.

As you may be aware, Korea's history of market-opening dates from 1988 when quantitative restrictions on, *inter alia*, U.S. automakers were lifted. In particular, we undertook in June of last year to try to expand real market access in Korea for imported cars through a comprehensive package of new measures including a 2% tariff reduction on auto imports, from 10% to 8%.

These measures have had the intended effect in the short period since their announcement and subsequent implementation. In 1994, unit sales of foreign passenger cars doubled, and in the first six months of this year, increased 142%. In terms of sales amount, the share of imports in the Korean market nearly tripled from 0.63% in 1993 to 1.70% in 1994.

Given that Korea exports only low-priced small cars, the Korean share of the overseas market is probably less than 1.70%, that is to say, less than the import share of the Korean market in sales amount. Moreover, it is noteworthy that, in terms of sales amount, the share of imports jumped to 3.37% of the Korean market in the first half of this year.

During this year, the Korean government has continued to demonstrate its willingness to accommodate legitimate U.S. concerns. The commitments we have made will, I believe, go a long way toward achieving the desired objectives.

Despite the continued efforts on the part of Korea, the American Automobile Manufacturers Association (AAMA) demands that Korea "move away from taxes based on engine displacement, to eliminate discrimination as well as reduce the overall tax burden." However, the Korean government is convinced that the engine displacement criterion is the sole criterion that can satisfy our policy objectives: 1) the domestic transportation situation including traffic and parking conditions, 2) energy conservation, 3) pollution reduction, and 4) tax equity. Many other countries have a tax system based on engine displacement.

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Sincerely yours,

/S/

Jae Yoon Park
Minister

Mike Could you please examine and suggest reply claims - do the Koreans have a point? Dom

Mike please prepare a brief note of response to Minister Park thanking him for his letter.
D.

From
ALAN WM. WOLFF

You might
be interested in
~~th~~ the attached.

AW

AMERICAN AND KOREAN INTERESTS IN THE EMERGING WORLD TRADING SYSTEM

Remarks of
Alan Wm. Wolff
Managing Partner, Dewey Ballantine
Washington, D.C.

Before the
U.S.-Korea High Technology Forum

Seoul, Korea
November 16, 1995

This has been a century of marked contrasts. It has seen more carnage and conflict than any other. Areas still smolder in the strife ensuing from the disintegration of global Communism. With the ethnic tragedies in Central Europe, we can be under no illusions that humanity is not still capable of terrible deeds.

Yet there is reason for optimism. Within these last few years the Berlin Wall was torn down and the states on the Eastern boundary of Russia -- not long ago commemorated on U.S. postage stamps as captive nations -- have once again become free. The imperative toward democracy has momentum. More people live a life more free from physical want than ever before.

This progress has been fueled in part by an acceleration of technological advances, in particular in microelectronics. Totalitarianism cannot coexist with free communication. Democratic expression, whether in China or Moscow, was transmitted by fax machines.

Hand-in-hand with the triumph of democracy over Communist dictatorships, well-advanced if not yet complete, came the acceptance of the superiority of market economies over state-run imitations. This last issue is not yet free from controversy either, however. The role of the state in the marketplace remains an issue which will give rise to contention. It is an issue that will require the attention not only of academics, but of trade negotiators and business executives as well.

The triumph of the philosophy of the free market at the national level has been accompanied by major efforts to open borders to the international exchange of goods and services. Last year, the agreements reached in the Uruguay Round of Multilateral Trade Negotiations began to be implemented, and the new World Trade Organization (WTO) took its place among the world's institutions -- nearly five decades after creation of an instrument of its kind was first attempted. Thus, in yet one more respect, the Second World War has finally ended. In most areas of the world, but not all, true peace -- signified by growing commerce -- has begun in earnest.

Standing here today in Seoul, it would be wholly unrealistic not to recognize that with all the political and economic progress being made, there are still extremely serious problems to be dealt with -- one of them having its source just a few miles north of here. But there appears to be no limit to what is ultimately possible. Just look at relations between the United States and Vietnam. Twenty years ago, it would have been inconceivable that relations between these two former adversaries would have returned to normality in 1995. Now front page newspaper stories about hostilities have been replaced by business page stories about new American investment.

Peace, economic exchange, and prosperity do go hand in hand. For the world at large, the chief benefits have been produced by multilateral trade liberalization, which has proceeded in the General Agreement on Tariffs and Trade (now the WTO) over the last five decades. But this has not always moved as fast or as far as was required by all of its members' political and economic goals. The first great example of regional trade liberalization was the creation of the European Economic Community. The European experiment has been a great success. It has led the rest of us to consider whether similar regional progress could be made elsewhere. Thus was the North American Free Trade Agreement born last year, and a number of additional trade-liberalizing initiatives are currently under discussion within the Americas.

It is not surprising that the region of greatest economic growth should also consider increasing the pace of regional liberalization. The date selected by the KSIA for its conference today is a particularly propitious one. An important force in the world trading system is being given a major impetus as we meet here today. Not far away, in Osaka, the meeting of the Heads of State of the APEC nations may well give shape to much of the world in which Korean and American enterprises will cooperate and compete in years to come.

Asia-Pacific Economic Cooperation

The Pacific Basin is the region of the world of greatest economic growth and near-term potential. Key to the rate of growth is liberalization of both trade and investment. Progress can be unilateral. In recent times, countries have realized that it is to their own benefit to open their economies to international exchange without the need to negotiate any additional reciprocal benefits.

Sometimes progress is made through bilateral negotiations. This technique, which is not without its critics, has been a driving force of trade liberalization over the last decade -- especially in the case of negotiations initiated by the United States under its famous section 301 remedy.

Now, broader economic initiatives are required. Intel Chairman Gordon Moore's law holds that functionality of integrated circuits doubles every eighteen months. Similarly, there needs to be innovation in the means employed to increase the rate of progress made in trade liberalization. APEC is very likely to be one of the most important innovations in this respect -- provided that there is the common will to succeed.

The Asia-Pacific region is the center of the growth of production and consumption of electronic products of all kinds. In 1994, the Asia-Pacific region, minus Japan, experienced growth of 35.3 percent in its semiconductor market, making it one of the fastest growing semiconductor markets in the world. Since 1983, the industry has experienced a compound annual growth rate of 32.4 percent in the Asia-Pacific region -- nearly twice as high as the growth experienced in either Japan or the United States, and more than twice the rate achieved in Europe over the same period.

In order to maintain the stunning rates of growth that have been achieved in the Asia-Pacific region over the last decade, it is imperative that the region's markets be open. Korea has already taken a major step toward supporting free trade in the region by pledging in 1994 to eliminate all tariffs on semiconductor products. Korea can demonstrate the leadership befitting the third largest semiconductor producing nation in the world by eliminating its semiconductor duties in 1996 rather than waiting until the Uruguay Round phase in -- a position I understand KSIA supports.

The goal set out for APEC members in Bogor last year -- to achieve free trade and investment in the region by the year 2020 -- still has some significant hurdles to overcome before it can be realized. But it is an important goal well worth pursuing. KSIA and SIA should evolve common objectives for progress to be made within the APEC context. Our goal should be that this region is tariff and barrier free for our products and those of our suppliers and our customers by the year 2000. This is not an unreachable objective. After all, no nation benefits by taxing or restricting the products and services which make possible its entry into the information age.

It is not enough to be free of barriers at the border. There must be no restrictions on investment in manufacturing or distribution facilities. There must be no discrimination practiced, for example, in civilian government procurement. And market forces, not private restraints of trade, must determine competitive outcomes. APEC is one forum in which progress can be made on a regional basis. Our two industries should work together to achieve these goals.

The mutual benefits to be gained by opening the region's markets have been well-stated by the president of Microtec, a Brazilian microcomputer maker. Microtec made PCs before Korea or Taiwan had entered the market, but was unable to flourish because, in the words of its president, as reported in the press, Brazilian trade policy "locked us into a little market, and that was the error of our policy."

Of course, U.S.-Korean cooperation to facilitate free trade need not be limited to APEC.

Areas for U.S.-Korea Cooperation

The most obvious area for cooperation is and will be between firms in Korea and the United States. Joint ventures and other cooperative arrangements are multiplying. These activities should be driven solely by commercial considerations, and not the result of government interference. And assuming no issues arise of adverse effects on other firms through conduct actionable under competition or trade laws, these private arrangements do not raise public policy concerns.

But there are also areas for U.S-Korean bilateral cooperation on an inter-industry basis.

A. Technology

A key area of interest is obviously technology. Worldwide, semiconductor manufacturers invested $13.6 billion in 1994 in capital expenditures and R&D, representing an increase of almost 40 percent over 1993 levels. The cost of developing new manufacturing technologies -- while keeping up with such ever-increasing needs for capital and R&D expenditures -- has become prohibitive as an undertaking by the individual firm, regardless of its size, especially if the new technologies have broad benefit and application across the industry. Thus, SEMATECH, America's Semiconductor Technology Initiative, has, over the last nine years, developed common standards for semiconductor tool makers and advances in process technology that were of global benefit. This kind of endeavor could not have been undertaken successfully by a single firm, whatever its resources. Cooperation was needed, and will continue to be vital as the challenges facing our industry become increasingly complex and costly.

Japan and Korea have a number of joint research activities as well. The future lies, just as it does at the level of inter-firm cooperation across borders, in inter-industry cooperation across borders. We are living not only in a period of government budgetary constraints, but in an era of shrinking university funding for research, and at a time when the demands of commercially-relevant research are growing exponentially in complexity and in cost. As the industry worldwide continues to grow at extraordinary rates, new means will be needed to sustain basic research and development. This is likely to involve international cooperation on standards, generic processes, such as the transition to 300 millimeter wafers, and on common manufacturing challenges such as developing effective modeling and simulation techniques. The formulation on an international basis of technology road maps can also be very constructive and should be encouraged. In an era when communication and access to databases is becoming instantaneous, cooperation in joint industry projects will become commonplace, for the benefit of both producers and consumers.

Of course, the obverse of the coin of cooperation is the range of questions over the limits of what is acceptable in terms of competition with state backing. Issues raised as to the effects of industrial policies and industrial targeting must be answered. The WTO subsidy rules were a very preliminary and tentative exploration of international rulemaking in this area. They emphasized the construction of a safe-haven for government-supported programs which had little or no potential for distorting trade and investment flows. This is unlikely to be the last word in international fora on this subject. Korea and the United States will undoubtedly want to at least exchange views on what directions multilateral discussions should take. Whether this will be a substantial topic on a new multilateral WTO Round agenda, it is too early to say.

B. Tariff-Free Trade

It is easier to move from the highly complex and revert to what is known and relatively straight-forward -- the subject of tariffs. Cooperation is already underway. KSIA and SIA member companies have worked together to seek a worldwide tariff-free environment for semiconductors. In the Uruguay Round negotiations, Korea joined the United States, Japan, and Canada, in agreeing to duty-free trade, which the latter countries had accomplished in the mid-1980s. Now there are clear indications that the European Union will be moving in the same direction. Again, further progress can be made by a Korea declaration to eliminate its duties ahead of the UR schedule. During this month and next, the European Commission will be holding continuing discussions with its key trading partners on a compensation package owed due to enlargement of the EU from twelve to fifteen counties, caused by the accession of Sweden, Finland and Austria. The drive to eliminate the EU's duties is being led by EU computer makers who find -- like the Brazilian Microtec -- that they are less competitive because of the higher costs.

The next step will be to try to bring about agreement to begin negotiation of an International Technology Arrangement (ITA) to be implemented by the year 2000, that would bring global zero tariffs to computer hardware, software, semiconductors and other components. Semiconductor manufacturing equipment should also bear no duties.

Initiatives such as the ITA are being driven forward by industry, and they demonstrate a clear area in which our cooperation can bring about mutually beneficial changes in world trade. As noted above, industry should also be the engine that drives forward tariff elimination in the APEC process; without pressure from the private sector, the governments of this region will have little incentive to push forward with politically sensitive market opening initiatives. American and Korean semiconductor producers should work together to ensure that the APEC process promotes tariff-free trade in semiconductors throughout the Asia-Pacific region. This means bringing down tariffs especially in greater China, including Taiwan.

C. China

The issue of China's accession to the World Trade Organization presents yet a third area for cooperation between the U.S. and Korean semiconductor industries. I do not have to remind this audience that China presents a vast potential market for electronic components and products. But it is also a source of great risk to both our industries.

For instance, China's Ministry of Electronics is reportedly developing an Electronics Plan which could limit foreign investment by semiconductor firms, establish export performance requirements for Sino-foreign joint ventures, and provide the basis for eventual displacement of foreign semiconductors in the Chinese market by domestically-made devices. Of particular concern to the U.S. industry are Chinese policies to pressure foreign firms to transfer advanced technology. Over the long run, such policies could curtail or eliminate U.S. and Korean market opportunities in China, and cause damage in other markets as well.

Intellectual property protection in China also remains inadequate. China has enacted patent, copyright, and trademark laws, but enforcement needs to be strengthened. Unauthorized use of foreign intellectual property has been widespread and in some cases extremely harmful, although recent agreements hold out the possibility of increased enforcement of these laws. However, compulsory licensing remains authorized under Chinese patent law when "necessitated by the public interest." China also lacks legislation extending full protection to semiconductor layout designs, although a chip protection law is reportedly being drafted. At present the primary constraint on misappropriation of foreign semiconductor designs is China's lagging technological level, which is quickly advancing.

China's trade regime needs restructuring to conform to WTO requirements. Transparency is not adequate. Rules and procedures are frequently not published, and are subject to "interpretation" by individual officials. "Trading rights" -- the basic ability to import and export -- are limited to designated enterprises, and foreign firms doing business in China must conduct their business through firms that hold such privileges.

While Korea has agreed to phase-out its semiconductor tariffs, China continues to impose unreasonably high duties on semiconductors. The 1995 published tariff rates for semiconductors range from 6 to 30 percent, although Chinese officials insisted to me earlier this year that no tariffs are imposed higher than 20 percent. The Chinese tariff system is also characterized by "preferential" tariffs for firms based in Special Economic Zones or which negotiate special arrangements with the Chinese government.

These issues must be dealt with now as China negotiates for membership in the WTO. As a huge potential player in world trade, I think China should be in the WTO, but it is clear that it is in both China's interests and in ours that it makes the necessary economic reforms up front. Major national competitors in the electronics markets of the future must each and every one have as their home base countries which have truly open and functioning markets. The days of special deals for some companies in return for transferring technology must come to an end. Beijing and other Asian governments must vigorously and effectively enforce their intellectual property laws. Beijing must reduce its very high tariffs. Every WTO member, including a number who have been members for some time, as well as for new entrants like China, must agree to play by the rules if WTO membership is to have its intended meaning. This is essential for the future of both our industries, as it is for the future of the WTO itself.

D. Competition Policy

This is a new item for the future of the world trading system, and yet it is also one of the oldest. The ITO in 1947, the stillborn older brother of the WTO, tried to address the subject of private behavior in restraint of trade. This was not acceptable at the time. It is now nearly fifty years later, and economies are in direct competition with each other as never before, not separated by tariffs or other border measures. Having come this far with so much effort at removal of border measures, we cannot allow the open international trading system to be frustrated by private anticompetitive practices sanctioned or tolerated by home governments. This was the essence of the section 301 case that marked the beginning of the process of dealing with the realities of the closed nature of the Japanese semiconductor market ten years ago. It is what the Kodak volume, also part of a section 301 case, called Privatizing Protection is all about.

It is early yet in the process of international consideration, but this will become an issue of clear interest to both the Korean and U.S. semiconductor industries as the subject evolves in intergovernmental discussions.

E. Antidumping

I would be remiss if I did not raise one other general topic for potential cooperation, and this is the international rules governing dumping. Korea and the United States were on opposite sides of the antidumping debate in the Uruguay Round. The United States favored maintenance of strong laws against dumping. Korea sought to limit the responses available for dumping.

In the era into which we are heading, I do not see our industries' interests as divergent. Korea would not be in the DRAM business to anything like the extent that it is today were it not for action taken to halt Japanese dumping of DRAMS. Thus, it is not too much to say that a major factor in the survival of this industry in Korea is the existence of the antidumping remedy and its use by the United States. I would urge that the two industries consult further on a common objective of maintaining a strong international antidumping regime. This will serve Korean industry as both a major producer and a major consumer of semiconductors.

F. Trade Relations with Japan

I will not recount here the long and sad story of U.S. trade relations with Japan. But there are, perhaps, some lessons to be drawn from the U.S.-Japan experience, particularly in semiconductor trade.

No country has been a more consistent problem for U.S. exporters and trade negotiators than Japan. While one of the United States' closest allies, Japan over several decades used both formal barriers and informal government guidance to its industry to restrict imports and to build up its own domestic industry. Nowhere was this more evident than in semiconductors. The computer chip originally invented in Silicon Valley soon became a staple of the Japanese electronics industry. And U.S. companies never could seem to account for more than about 10 percent of the Japanese market.

The closed Japanese market, a product of Japan's industrial policy, not only kept out U.S. exports and investment, but as so often happens, encouraged overproduction within Japan and dumping of the excess chips at below-cost prices. In response to the resulting crisis, the Reagan Administration in the mid-1980s negotiated an agreement to open the Japanese market and to stop dumping. The agreement was renewed by President Bush in 1991 and is one of the few examples of some limited success in bringing about harmonious trade with Japan in a sector originally characterized by strife. Foreign market share in the Japanese semiconductor market averaged 22.4 percent last year, with the largest proportion of the last year's increase going to Korean manufacturers.

The government-to-government agreement provided a formal framework for the U.S. and Japanese industries to begin working together. Clearly a key part of our success in improving market access in Japan has been the development of close industry-to-industry relationships. In order to continue to make progress in opening Japan's market for U.S. and Korean semiconductor exports, it is therefore essential that the agreement be renewed again next year.

The other side of the equation in the U.S.-Japan agreement was deterrence of dumping. The U.S.-Japan Semiconductor Agreement has helped prevent a recurrence of the pandemic dumping of the mid 1980s. It relies on self-monitoring, without government interference. Its objective is to induce Japanese producers to sell at prices which were cost-based, creating a market environment where the lowest prices would be offered by the firm with the lowest costs, not the firm with the deepest pockets.

Some in our business think that the business cycle has been repealed for semiconductors and that dumping cannot recur. This feeling of complacency also existed, although to a lesser extent, in 1984. Our answer is that it would be far better for producers and customers alike if the disruptions caused by dumping and antidumping cases were not repeated. This is the policy implemented by the antidumping provisions of the U.S.-Japan Semiconductor Agreement.

There is resistance in Japan to concluding any further trade agreements with the United States for market access in any sector. This is "the Japan that can say 'no.'" But just like the business cycle, in which times of peak demand make many forgetful of the frictions recently past, there is also a "trade negotiations cycle," in which every major battle, and autos qualifies as one of these, is followed by a misleading period of quiet. One only need remember the article in the London Financial Times of about a year ago that predicted that the era of trade tensions between the United States and Japan was over. The fact is that it will never be over until the Japanese market is open and functioning for the goods and services of other countries' producers.

Today in Japan, there are once again a group which doubts the resolve of the United States on trade issues. I am reminded in this context of a quotation from Winston Churchill:

> "'Silly people -- and there were many ...,' Churchill mused, 'might discount the force of the United States,' believing that the Americans were soft, divided, paralyzed, averse to bloodshed. He knew better. He had studied the Civil War, the bloodiest war in history, fought to the last inch. Saturated with emotion, Churchill thought of a remark British politician Sir Edward Grey had made to him more than thirty years before. The U.S. was like 'a gigantic boiler. Once the fire is lighted under it, there is no limit to the power that it can generate.'" (Quotation appearing in No Ordinary Time, by Doris Kearns Goodwin).

Facile politicians doubt the determined nature of the United States over trade policy. We see only three options, and we reject the first two of them. (1) We can accept protectionism abroad as simply wrong-headed, but of no concern of ours, and accept the commercial costs. (2) We could agree to a series of managed trade deals, based on the concept of "you don't sell much in our market and we won't make a fuss about not selling much in yours" -- often an approach taken in the past by Europe. (3) The only acceptable course to America, in all of its idealism, is to engage in conflict after conflict, if necessary, but we are going to keep America's market open to the goods of others, and like it or not, they will reciprocate.

Neither the Japanese, nor any other trading nation, should doubt the resolve of the United States in this matter.

But rather than leave this topic of Japan on a negative note, let me give you a different quotation that illustrates why there may be reason for hope. An engineer engaged in purchasing semiconductors at one of the largest Japanese electronics firms recently told an American supplier: "The Semiconductor Trade Agreement is great! It took semiconductors out of the arena of friction and allowed us to just go and do business." I hope that this sort of message reaches politicians. Instead of posturing about denying that there are problems, it is time to address them pragmatically and solve them at an early stage. This is in fact what a MITI Vice Minister recently said in remarks in Washington. Perhaps there is reason for hope.

U.S.-Korean Bilateral Trade Relations

Our bilateral trade relationship has been relatively untroubled, especially when compared with U.S.-Japan relations. Why is this? I attribute it first to the fact that there are obvious differences between Japan and Korea. Korea has been much more hospitable to American and other foreign investment and sales than has Japan. Presumably, this has been due to a variety of factors, including relative market sizes, and a cold calculation of self-interest. It, also, no doubt, has some roots in the mutually warm feelings of being allies in and after the Korean War in the early 1950s. But there is, I believe, another factor. Both countries have learned from the U.S.-Japanese trade conflicts, and perhaps, unconsciously, seek to avoid the pitfalls that seem unavoidable, even if so very predictable, in U.S.-Japanese trade relations.

Take autos as one example. It is true that there was a flare-up between our two countries earlier this year. But it was not as prolonged, nor was it as severe, as the U.S.-Japan auto trade dispute. In another sector, there was a section 301 case about pricing of inputs for steel pipe that seemed to be settled almost overnight, providing a stark contrast with U.S.-Japan trade rows which remain in the spotlight for weeks, months or years.

And in semiconductors, there has been nothing like the long, once highly contentious course of events over the last fifteen years. There has been a Korean DRAM dumping case, which was brought to a relatively peaceful conclusion. Market access for microelectronics, in general, has generated far less conflict between our two nations than it has for the United States and Japan. Although there have been private exchanges with Korean ministries over procurement practices that seemed to discriminate against foreign semiconductor makers, foreign products in 1993 accounted for more than 86 percent of the domestic Korean semiconductor market. In that same year, U.S. manufacturers accounted for approximately 30 percent of the total Korean market for semiconductors -- almost twice the level of market access they have been able to achieve in Japan.

Korea's high level of import penetration in microelectronics is, in part, brought about by the product mix manufactured by Korean companies, whose strength in DRAM manufacturing is envied around the world. Korea's strength in DRAMs makes it the global engine of growth for those products, and, like its U.S. counterparts, makes the Korean semiconductor industry highly dependent on open foreign markets for its continued success.

Areas of Potential Friction in U.S.-Korea Trade

A. Intellectual Property

One issue of central importance to both the U.S. and the Korean semiconductor industries is the protection of intellectual property. KSIA and SIA have recently had some success in working together to improve Korea's regulatory environment. Active enforcement by the Korean Government of the 1992 Semiconductor Chip Protection Act and subsequent revisions will benefit KSIA and SIA members alike. However, potential problems remain with respect to the possible use of one provision of the Korean law to permit compulsory licensing for commercial purposes, in violation of the Uruguay Round's TRIPs Code. Also, the potential abuse of provisions permitting government mediated consultations for the purpose of securing proprietary information raises concerns. Finally, questions exist about the level of protection afforded to confidential material contained in applications for layout design registrations.

B. Targeting

Government efforts to promote through research and development subsidies the development of clones of existing proprietary technologies of U.S. firms also raise both intellectual property and targeting concerns. For example, Korean government-sponsored R&D aimed at developing clones of logic devices developed by American semiconductor manufacturers have led to the cloning of Intel's 386 processor. While the WTO Subsidies Code provides a limited green light for certain R&D subsidies, the use of these subsidies to develop products immediately capable of commercial exploitation clearly is beyond the bounds of that green light category.

Another example of a Korean Government activity causing some concern is a program which provides bonuses to Patent Office employees who design integrated circuit layout designs. In other words, individuals who may screen foreign patent applications are personally rewarded for supposedly independently designing integrated circuit layout designs.

C. Free Flow of Capital and Foreign Investment

Also of potential concern is existing government restrictions on capital movements and foreign investment. A recent Financial Times article notes that the Organization for Economic Cooperation and Development (OECD) has said that Korea must do more in this area before it can join that organization. The article noted that Korea today only meets 12 of the OECD's 91 requirements on capital transfers. While Korea's five-year financial reform program appears headed in the right direction, more rapid change is needed. Of greatest concern are restrictions on foreign direct investments, property transactions, and the opening of financial markets to international investors.

It is in Korea's own interest that such impediments to free trade and investment in this country be removed as rapidly as possible. Korea's ability to lure foreign investment -- including the high technology investments currently sought by the Government -- will be influenced by this nation's ability to insure foreign investors that such problems will not interfere with their fast paced businesses.

In many instances, Korea's high technology industries stand to benefit from the elimination of the same barriers that trouble U.S. and other foreign investors. KSIA members are prime among them. Recently announced Korean fabs in the United States -- which provide a tremendous boost to the economies of the communities where they are located -- were called into question recently as the Korean Government sought to limit the options available for financing these huge investments. High technology industries -- be they Korean or foreign -- operate far more efficiently absent such restrictions.

Having raised several concerns, let me close out this section of my speech by noting that progress in South Korea continues to be made. The mere fact that Korea is under such serious consideration for membership in the OECD is further symbolism of the progress this country has already made, as well as a demonstration of the degree to which we have become a world bound together by common economic interests. This is especially true in the semiconductor industry, where the future looks bright.

The Future of the Semiconductor Industry and the World Trading System

The global semiconductor industry is in a period of tremendous growth, fueled by the rapidly expanding personal computer market and the increasing use of semiconductors in a wider variety of products. Even within electronics products, the use of semiconductors is increasing, with the chip content of the average electronic products growing from 4.3 percent in the 1970s, to 6.8 percent in the 1980s, and 10.2 percent in the early 1990s. Add to this the emergence of the Asia-Pacific market which, excluding Japan, represents 20 percent of world consumption today compared to 7 percent a decade ago, and the future indeed looks bright for our industries.

Given this bright future, it is not too soon to begin talking about the next step forward for the WTO and the world trading system. Deregulation of telecommunications and financial services around the world could lead to even larger markets for electronics products and the chips that drive them. This must be a central goal for both our industries. Likewise, the problem of private anticompetitive practices is one which we will need to face together as tariff barriers are finally removed from world semiconductor trade. This will undoubtedly mean a call for a new round of global trade talks before the end of the decade.

Conclusion

Of course there are always challenges. This is what makes life interesting. On balance, I am extremely optimistic about the future for both our countries and industries. This is a central feature of the American psyche and, although I cannot claim to be an expert on this, I think that the same can be said of Korea as well. KSIA's member companies, as well as the rest of the industry whose cradle was Silicon Valley in California have accomplished wonders and will continue to do so.

Thank you very much.

NOTE: Alan Wm. Wolff is the Managing Partner of the Washington Office of Dewey Ballantine, an international law firm which is prominent in advising major corporate clients. Mr. Wolff heads the International Trade Practice Group of the firm, which is widely acknowledged to be one of the leading international trade practices in the world. Although Counsel to the U.S. Semiconductor Industry Association (SIA) for the last 16 years and, therefore, familiar with the public policy issues in which SIA has had an interest during this period, the views expressed in these remarks today are personal and not necessarily positions of SIA. Mr. Wolff served in the U.S. government for 12 years, as U.S. Deputy Trade Representative with the rank of Ambassador (1977-79); General Counsel of the Trade Representative's Office (1974-77) and an international Counsel with the U.S. Treasury Department (1968-73).

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL ATTACHMENT~~
Unclassified when attachment removed

November 6, 1995

MEMORANDUM FOR LAURA TYSON

THROUGH: BOB KYLE

FROM: HELEN WALSH

SUBJECT: Phone Call to Hun Lee Han of Korea re APEC

We believe it is important for you to phone your Korean counterpart Hun Lee Han and remind him of your earlier meeting in which he suggested that President Kim would support our efforts for a comprehensive agreement in APEC. His assurances are what convinced us to take this issue off the agenda of the Clinton/Kim meetings last summer.

Korea's position on comprehensiveness at lower levels has been nuanced, But Korea essentially seeks an exemption for agriculture. A key Foreign Ministry official told our Embassy that Korea prefers the current text of the APEC action plan, which allows for exceptions for full liberalization based on `divergent conditions', but is willing to consider alternatives. They clearly don't want to be isolated in Osaka, but believe they need political cover to protect them from domestic criticism that they will open Korea's rice market futher so soon after the Uruguay Round. Accepting any less might amount to political suicide in the upcoming elections. Embassy cable attached.

We understand that Korean Ambassador Park is going to deliver a letter tomorrow from Korean Foreign Minister Gong to Secretary Christopher on this. The letter reportedly seeks U.S. support for a politically acceptable solution to reflect Korea's concerns, i.e., Korea accepts the principle of comprehensiveness but believes APEC should recognize regional diversity and diverging conditions of it members.

Logistics etc.: Mr. Hun's front office phone is 9-011-822-770-0062 or 0083. Korea is 14 hours ahead of Washington, so you can only speak early in the morning or in the evening Washington time. Lee Han is Mr. Hun's first name.

Contact: Mr. Hyun Ohseok

Suggested Talking Points:

- Called to talk about preparations for APEC.

- Heard reports that Korea still not signed on to concept of comprehensive coverage, and that it wants an exemption for certain produces or agriculture generally.

- Terribly important that we agree to comprehensive coverage. When we talked about this in July, I had the impression that President Kim would support this, and for this reason we did not ask President Clinton to raise this with President Kim. Is my understanding correct that Korea will ultimately agree to comprehensive coverage?

(IF YES)

- Glad to hear that.

(IF NO)

- Want to work with you to find a formulation that helps you with your agricultural community.

- Concerned that this will unravel support for whole package in U.S. and in other countries. If Korea is seen as taking an exception, our textile industry will call for U.S. taking exception. You can see how it would end up.

- (If needed): Our goal at Osaka is unqualified comprehensiveness.

- The path to this goal is subject to flexibility -- there is plenty of time to get to our goal (15 years for developed, 25 years for developing countries).

- We recognize differences in the economic development of APEC member countries and already built in flexibility to account for these differences by allowing for ample time for the implementation of these commitments.

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Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. cable	re: APEC: ROKG Seeks Flexibility. (4 pages)	11/02/1995	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Econonomic Council
Laura Tyson
OA/Box Number: CF 717

FOLDER TITLE:
Korea [2]

2009-0528-F
vz1419

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. memo	For Leon Fuerth et al. From Andrew Sens. Subject: Principal's Meeting. Record ID: 9620065. (2 pages)	01/26/1996	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Econonomic Council
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OA/Box Number: CF 717

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004a. memo	For Leon Fuerth et al from Andrew Sens. Subject: Paper for Meeting. Record ID: 9620088. (1 page)	01/27/1996	P1/b(1)

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Clinton Presidential Records
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Laura Tyson
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004b. paper	U.S. Policy Toward Korea. (6 pages)	01/24/1996	P1/b(1)

COLLECTION:

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National Econonomic Council
Laura Tyson
OA/Box Number: CF 717

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vz1419

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005a. memo	For Leon Fuerth et al. from Andrew Sens. Subject: Principals Committee. Record ID: 9620507. (2 pages)	05/25/1996	P1/b(1)

COLLECTION:

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National Econonomic Council
Laura Tyson
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Tab A

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005b. paper	Agenda Item: Assistance. (3 pages)	05/28/1996	P1/b(1)

COLLECTION:

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National Econonomic Council
Laura Tyson
OA/Box Number: CF 717

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2009-0528-F
vz1419

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Tab B

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005c. paper	Agenda Item: Economics. (6 pages)	05/28/1996	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Econonomic Council
Laura Tyson
OA/Box Number: CF 717

FOLDER TITLE:
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2009-0528-F
vz1419

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April 26, 1996

Dr. Laura Tyson
Assistant to the President
for Economic Policy
The White House
1600, Pennsylvania Ave., N.W.
Washington, D.C. 20500
U.S.A.

Dear Dr. Tyson:

It was a great pleasure meeting with you at the time of summit meeting between President Bill Clinton and President Kim Young Sam in Cheju island last week. Although it was a brief encounter, I thought it was a good opportunity for both of us to see each other in person since we play similar role for our presidents. I hope you continue to have an interest in economic relations between the U.S. and Korea.

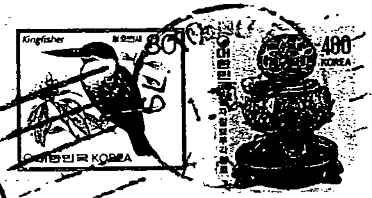
Korea, in pursuit of President Kim's globalization policy, is going through a major reform of its overall economic system. In this process, the Korean economic system will be internationalized up to the level of advanced economies, and, as a result, most of trade disputes between the U.S. and Korea are expected to be resolved automatically. But if you have any suggestion to further improve our economic relationship, please let me know.

Hope you had a enjoyable stay in Korea followed by a successful visit to Japan and Russia. I look forward to meeting you again in the future either in Seoul or in Washington.

Yours truly,

Bohn-Young Koo
Senior Secretary to the President
for Economic Affairs
Republic of Korea

Office of the President
The Blue House
Sejong-Ro 1, Jongro-Gu
Seoul 110-050
Korea



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BY AIR MAIL
PAR AVION

r. Laura Tyson
Assistant to the President
for Economic Policy
The White House
1600, Pennsylvania Ave., N.W.
Washington, D.C. 20500
U.S.A.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006a. memo	For Laura Tyson from Malcolm Lee. Subject: Identification of Korea as a Priority Foreign Country under Section 1374 of the Trade Act of 1988. (2 pages)	07/29/1996	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Econonomic Council
Laura Tyson
OA/Box Number: CF 717

FOLDER TITLE:

Korea [2]

2009-0528-F
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Divider Title: **I**

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C.
20508

96-63

FOR IMMEDIATE RELEASE
Friday, July 26, 1996

Contact: Jay Ziegler
Kirsten Powers
Christine Wilkas
(202) 395-3230

Korea Identified as a "Priority Foreign Country" under Section 1374 of the 1988 Trade Act for Telecommunications Practices

Acting U.S. Trade Representative Charlene Barshefsky today identified Korea as a "Priority Foreign Country" (PFC) under Section 1374 of the 1988 Omnibus Trade and Competitiveness Act for lack of effective access by U.S. telecommunications products and service suppliers to the Korean market.

This announcement follows intensive efforts by the United States over the past six months to address barriers to U.S. telecommunications products and services in the Korean market. Specifically, the U.S. seeks to better ensure government non-intervention in private sector procurement, regulatory transparency in the telecommunications services sector, and improvements in Korean government commitments under existing bilateral telecommunications agreements between the United States and Korea.

"USTR's objective is to work constructively with the Korean Government to provide greater access to the growing telecommunications market in Korea on the basis of commercial competitiveness and technological merit," said Barshefsky. "The United States remains ready to resume negotiations to conclude an agreement on the range of issues affecting market access for U.S. workers and companies. I do not intend to use the full one-year negotiating period provided by the 1988 Act, however. Absent an agreement, the Administration will pursue vigorously all options available under U.S. trade law."

Background:

The annual Section 1377 review has been used to address persistent barriers to access by U.S. telecommunications equipment and service suppliers to the Korean market. Korea, initially identified as a PFC in 1989, is the only country to be redesignated under the telecommunications provisions of the 1988 Act. Since 1989, in the context of subsequent reviews, the United States and Korea have concluded a series of agreements to improve procurement procedures and protection of U.S. intellectual property rights by Korea Telecom (KT), ensure equal treatment for

U.S. companies competing for procurement opportunities for advanced technologies, and type approval for U.S. equipment.

In the context of the March 1996 review, the United States and Korea reached an understanding on outstanding problems regarding implementation of the 1992 telecommunications agreement. Furthermore, the Korean Government agreed to begin talks to address U.S. concerns with compliance and market access issues outside the scope of existing telecommunications agreements. At that time, USTR initiated a monitoring period in which to determine the extent to which existing agreements with Korea adequately achieve new market access objectives related to recent developments in the Korean marketplace. Following two formal rounds of talks in Seoul and Washington, inadequate progress was made toward ensuring Korean government non-intervention in private procurement decisions in the wireless communications market. Equipment procurement opportunities in this sector alone are estimated to be $6.5 billion by the year 2000. The aggregate market in Korea for all telecommunications products and services is estimated at $100 billion from 1996 to the year 2000.

The 1988 Act authorizes USTR to take whatever steps are appropriate to achieve U.S. objectives, including the imposition of trade sanctions if agreement is not reached by the close of the negotiating period.

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Divider Title: **II**

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006b. memo	For Dan Tarullo and Sandy Berger from Malcolm Lee. Subject: Deputies Meeting. (3 pages)	07/24/1996	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Econonomic Council
Laura Tyson
OA/Box Number: CF 717

FOLDER TITLE:
Korea [2]

2009-0528-F
vz1419

RESTRICTION CODES

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006c. paper	Redesignation of Korea Under Section 1374 of the 1988 Telecommunication Trade Act. (3 pages)	07/24/1996	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Econonomic Council
Laura Tyson
OA/Box Number: CF 717

FOLDER TITLE:
Korea [2]

2009-0528-F
vz1419

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006d. letter	To Charlene Barshefsky from Lee Suk-chae (3 pages)	07/13/1996	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Econonomic Council
Laura Tyson
OA/Box Number: CF 717

FOLDER TITLE:
Korea [2]

2009-0528-F
vz1419

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006e. report	Daily Intelligence Brief. (2 pages)	07/19/1996	P1/b(1)

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