



SPECIAL SESSION ON PECC AND APEC

Speaker

Kim Hyun-chong
Minister for Trade, Korea

Towards an Asia-Pacific Community: Taking the Next Step

Yuen Pau Woo (Moderator)

I have to convey the bad news that our originally slated speaker Minister Ban Ki-moon, Minister of Foreign Affairs and Trade, is unable to join us today because of a sudden change in his plans. But the tremendously good news is that we have a more than able substitute in the person of the Minister for Trade for the government of Korea. He is Minister Kim Hyun-chong. It is my pleasure now to give you a brief description of the Minister's background. I won't take too much time because I am sure you want to hear from him. Minister Kim was trained in political science and law in New York at Columbia University. He has a diverse range of experience in the private sector and in government, working for law firms both in New York and Seoul. He has taught at a university and worked for an international organization no less than the WTO. He was pressed into public service very recently coming back in May 2003 to serve first as the Deputy Minister for Trade with the Ministry of Foreign Affairs and Trade and then appointed as the Minister for Trade in July of 2004. Those of you who know him will know that he is very passionate about Korea's FTA strategy, and he is very much the person behind the multiple negotiations with trading partners on both sides of the Pacific. Minister, we are very anxious and keen to hear your views on many things we have discussed, and I ask all of you now to welcome him to the podium.

Kim Hyun-chong

Thank you for that rather generous introduction. Dr. Kim Kihwan and distinguished guests, ladies and gentlemen, I am indeed pleased to be here to address the 16th General Meeting of the Pacific Economic Cooperation Council. I know that all of you have worked very hard for the past two to three days as to the direction and contribution that PECC has made towards the APEC Bogor Goals. My staff has worked very hard to draft this seven-page speech. Instead of my reading it through, what I am going to do is, given that this is probably the last program on the schedule, I will just basically speak my mind with your permission.

Two and a half years ago, President Roh Moo-hyun came into power and his agenda was basically reform. I added the liberalization element because reforms if not supported by liberalization can be undone overnight. 70% of our GDP is dependent on foreign trade. So for us liberalization was not an

optional matter. It is something we are forced on and obliged to do. In pursuing this liberalization, the objective was to attain US\$20,000 per capita income. We are currently at US\$14,100. We have been at that US\$14,000 range for the last ten, eleven years, which means there are certain structural impediments we have to overcome because most of the countries that have achieved from US\$10,000 to US\$20,000 have done it in five to nine years. Singapore did it in five. Spain did it in nine. So obviously we have to overcome various barriers in achieving this objective. As all of you well know, democratic principals and liberalization measures do not really go hand in hand. So we have to find the means to basically exert pressure onto ourselves. I decided that there were two ways to do that: the multilateral track and the bilateral track.

In the multilateral, you have the WTO DDA negotiations which are currently taking place, and we will have the Ministerial conference taking place in Hong Kong this coming December. Then there is the bilateral Free Trade Agreement. Quite frankly for my taste, the multilateral talks were not moving quickly enough. So, to borrow Peter Mandelson's expression when I told him this, I had to take the iron rod to my back. Having successfully, after four goes at the national assembly, ratified the Korea-Chile free-trade negotiations, we then successfully concluded one with Singapore. The significance of the Singapore FTA was the fact that Singapore kindly recognized our products made in the Gaesung industrial complex. They decided to confer South Korean origin on those products. For those of you who are not familiar with the Gaesung industrial complex, it is a North Korean industrial complex that used to be a North Korean military facility. That was the lot that was used during the 50's to launch an invasion of the South. If they work on that venture again, that is the lot that they have to use. But the fact they got rid of that to install an industrial complex, I think, speaks volumes. And that is followed by most recently our conclusion of our third FTA with four EFTA countries, namely, Switzerland, Norway, Liechtenstein, and Iceland. That was finished in seven months. We are currently in negotiations with Japan. We need to achieve a highly liberalizing FTA. The point here I am emphasizing is that the benefit has to accrue to the consumers. That was key because we are always talking about how these Free Trade Agreements basically benefit the consumers. This is something that was of key interest, and that is what we focused on in issues of how to remove technical barriers to trade, or how to deal with food sanitary issues, or government procurement projects. Those would all be covered. And then, we embarked on our negotiations with ten ASEAN countries which we expect to finish by end of this year. We officially commenced negotiations with Canada in July. We have, of course, a feasibility study going on with India and China and also with four MERCOSUR countries. So we felt that those types of liberalization measures would be required for us to make that leap forward from US\$10,000 per capita income to US\$20,000. I just alluded to this notion of certain benefit accruing to consumers.

We have finished our preliminary discussions with the United States, and we are now at a stage where we have to actually make a decision as to what concrete steps we will be taking from here. When I am asked, "Why an FTA with the U.S.?" I answer, "It is such a huge partner." and "You have agricultural sensitivities." I admit, "Yes, we do." We do have agricultural sensitivities. We have some 3.5 million farmers that represent 7.5% of the Korean population. 60% of them are over the age of 60. That is why we are spending US\$119 billion over the next ten years to approach this issue from a social perspective. Of course, the economics will tell you that in order for a certain sector to become manageable, it has to fit in a four by four box: less than 4% of the population has to be contributing to less than 4% of the GDP.

For instance, in the United States it is 1% of the population contributing to 2% of the national GDP. In the European Union, it is 2% of the population contributing to 2% of the European GDP. In our case, it is 7.5% farmers contributing to more than 4% of the GDP. So we realized that we had to deal with this quite squarely, and that is what we are doing. Now, going back to the question, why an FTA with the United States? Based on 2002 statistics, an average blue collar worker would make US\$1,750 per month and would be spending US\$400 on groceries. Now a family spending US\$400 would be able to consume five items basically: rice, bean paste soup, vegetable, fish, and Korean kimchi. And that's it. With an FTA with the United States, for instance, the US\$400 purchasing power increases to US\$450, meaning in Korea, where a watermelon of a good size costs US\$18 to US\$20, the family would be able to consume two and a half watermelons per month. They otherwise would have not been able to do so in the past. So it is the type of benefit we are looking for in this type of liberalization. I have always made it clear that I simply refuse to do Mickey Mouse-type FTAs, i.e., form over substance.

I think our experience has shown in the past that a large part of our population, I suppose it is a natural reaction, has always tended to fear market liberalization. For instance, going back to 1995, when it was announced that there would be liberalization of the retail sector, every retailer said that we were going to be bankrupt. We liberalized anyway. Today the result is as follows. The most prosperous and successful retailer is the Korean E-mart, followed by Homeplus, which is a joint venture between Samsung and Tesco of the U.K. Third is Lotte, fourth is Carrefour, and fifth is Walmart. E-mart is doing so well that it has actually gone to Shanghai and opened up two additional stores. When we opened our cultural market to Japanese animation and Japanese culture, what happened? We expected a deep penetration of Japanese movies, films, and dramas. Instead, it went the other way around. Instead, what we found was that we had Korean dramas and Korean culture flowing into Japan. So we have been constantly encouraging our industries to basically liberalize and reap the benefits of liberalization. In the industry sectors, for instance, our auto industry and our shipping industry are extremely solid and well-placed for the 21st century. It is precisely because we induced competition and they had to compete to survive that they were able to get to the top. So we have to constantly encourage and remind our population that, in order to go from economy class to first class, the leap has to be made. That leap of faith is in the form of further liberalization, not the closure of the market. That is what I have emphasized.

Now, on the bilateral front, as I told you, we currently have feasibility studies with various countries. One such feasibility study is with China, which is supposed to be concluded by the end of next year. When I accompanied the Prime Minister to Beijing two, three months ago, to my surprise, Prime Minister Wen Jiabao said, "Let's not wait until then. Let's do it sooner," which I did not expect quite frankly. As a matter of fact, I had to check with the interpreter to make sure that she did not make any mistakes in the interpretation process. So with China, we have a trade surplus in the volume of US\$100 million per day. And a bulk of that, a lot of that is actually in the form of components because we have US\$6 billion invested in China. Of the 16,000 Korean operations that have invested in China, 49% of them are making profits, 25% are breaking even, and the other 25% are in incurring losses. We have 480 flights into China per week. Samsung's revenue last year in China was, for instance, US\$1.6 billion, and LG's revenue was US\$1.2 billion. It obviously represents a huge potential for our products and there is something we obviously would have to consider very carefully.

Regarding the multilateral front, as all of you know, we have the Hong Kong Ministers' Conference this December. I think we probably should have made a lot more progress than where we are today. I think when we met at the OECD about six months ago, the one accomplishment coming out of that meeting was to agree on the formula to be used to convert specific taxes into ad valorem taxes. Emotions ran high over the technical issues. However, we were able to face the issues and resolve them. Then at the APEC meeting for Trade Ministers, 21 developing and developed countries were able to agree on the usage of the Swiss Formula, which calls for deep reduction in tariff rates for non-agricultural market products. So we actually accomplished something significant there, not only did we call for the Swiss Formula, we also agreed that there will be sectoral liberalizations and that there will be real cuts as opposed to just paper cuts. The issue in NAMA, for instance, is the fact that certain countries have a bound rate of, say, 30%, but the applied rate will be 15%. So even if you want to use the Swiss Formula, and the usage of a coefficient is that reduction would be, say, 50%, those countries that have already an applied rate of 15% basically would not be having to do all that much. For many of the developed countries, I think the problem becomes the fact that it is a paper cut whereas in the agricultural sector, where tariffs rates are certainly higher than for the industrial sector, the cuts will be real. We were, however, unable to take advantage of this APEC initiative at the Ministerial Conference at Dalian. As a matter of fact, I think we took a step back unfortunately. But nevertheless, I am hoping that this coming October in Geneva, I think it is from October 9th to 11th, we will be able to make further progress. Another thing that I called attention to at the Dalian Ministerial Meeting was services. On services, there are 150 categories and many countries have bound and unbound sectors. My proposal at that time was two. First, to bind X percentage of the unbound categories for developed countries and Y percentage for developing countries. Second, since GATT calls for MFN exceptions for only ten years, we get rid of all MFN exceptions. So those are some of the goals that Korea will be working towards, and I have very confident colleagues from various parts of the world working on this issue. We hope that this will be a successful round.

I will stop here and take questions from the floor.

QUESTIONS & COMMENTS FROM THE FLOOR

Yuen Pau Woo

The floor is open. Perhaps I can start a question here. He has outlined a number of bilateral negotiations that Korea is negotiating in the Pacific region and also in Europe. I wonder if you can tell us a little bit about the selection process for free-trade partners both based on the experience of the Republic of Korea and what you might see as the experience of other members of the Asia Pacific region. How was the decision made to select a free-trade partner? What are the consequences of the way the decisions are made?

Kim Hyun-chong

It is a very tough question and also tells a lot about the multilevel strategic thinking that goes into the calculation process. But I would say one of the aspects that I do take into account is our goal of improving our system and elevating it so that it will be at the so-called international standard. One of the things I always look for is to what extent would we be obliged to restructure our industries. The more advanced the system, the more liberalization measures we have to take, and by inducing more competition and by improving the competitiveness of our industry, I think that is probably one of the priorities that I would take into account in doing an FTA. Again, I glossed over this -- I referred to a type of Mickey Mouse FTA. What I do not want to do is an FTA that looks pretty but does not produce that much in substance. So that is one aspect obviously. And we are also in constant touch with domestic industries to see what would benefit them, what they want, and what markets they are interested in so long as their economic operators desire a certain market or desire to prevent trade diversion. The size of the market or the strategic aspects of geopolitics would be some other elements that would be taken into account.

No. 1: Young Soogil from Korea

Thank you very much for making your very precious time available to us. I know that you are very busy negotiating quite a number of FTAs around the world while attending DDA business as well. I hope that I am not stepping into a sensitive area with the following question. One of the participants who was supposed to be here but who failed to come because of a home situation is Fred Bergsten of Washington whom you know very well. Although he did not come, he submitted his own position paper. In that paper, he states that when President Bush comes to Busan for the Economic Leaders' Meeting, he is expected to announce the launching of the negotiation of an FTA with Korea. If you can, please tell us about that. If it is indeed the case, may I assume that one of the two or three most serious obstacles to an FTA with the United States, which is the question of the Screen Quota, has been resolved? For the benefit of my foreign friends here, we have a Screen Quota: each movie theater is supposed to devote at least 40% out of one year's time to showing Korean films. The U.S. has been, as a precondition for launching an FTA, asking us to remove that. But there has been such fierce opposition from the domestic film industry. It has been a continued debating point here. That was my second question. The other is an issue of common interest among all PECC participants. It is what the APEC governments are going to do about the Bogor Goals. It is going to be reviewed as a part of stocktaking, and we wonder whether the governments have reached a certain position about the Bogor Goals.

Kim Hyun-chong

Fred Bergsten is always one step ahead of me. I cannot say that we have come to an agreement. As a matter of fact, we are working on it. I guess the best answer is that it is under examination. I am

cautiously optimistic that something can be worked out because I think it is mutually beneficial and given the fact that the two countries have had fifty years of solid alliance given the rise of China and given the rise of Japan. In the past in this region, when one was strong, the other was weak. But now you see two powers that are strong. These are some of the elements, from a Korean perspective, that you would have to take into account in taking these steps towards conducting FTA negotiations and selecting one's partner. Yes, there are two or three sensitive issues that probably need to be resolved. One of them has been on the agenda for the longest time now -- the Screen Quota issue. Basically a Screen Quota obliges local cinemas to show 146 days of Korean films. The U.S. is seeking reduction of that 146 by half of that number. This is an issue that has basically become an institution in itself over the past seven or eight years. Once you have a vested interest built in, it is kind of difficult to deal with that issue. But nevertheless the arguments are that the Korean film industry has taken up for the last three years on the average 52% of the market share, which I think is the third highest in the world. For instance, I was surprised to see in Australia it was something like 5%. The highest are India and the United States at approximately 93% to 94%, so more than 50% in my view is doing pretty well. Secondly, you have to have the market principle because one of the problems that Korean producers are running into is the fact that there is a lack of investment. Why is there a lack of investment? Because they are not producing good films. Why are they not producing good films? Because they are not forced to compete with others because of that 146-day guarantee. The other thing I am trying to encourage the film industry to do is, recently, Time Warner Brothers went into a joint venture with French film producers to have the resulting films recognized as French film and thereby qualify for subsidies under French law. At the same time, it has the international right to distribute that film. So that would be a lucrative and certainly creative way to further advance one's film.

The second issue is the beef issue. Unfortunately with the discovery of BSE, we imposed a ban. We used to import approximately US\$850 million worth of U.S. beef. If we were to do an FTA, that US\$850 million would increase to US\$1.4 billion at the expense of imports of Australian beef. But right now, we have banned imports from North America, and it has been over two years to the best of my knowledge. Things were moving actually smoothly until the recent discovery of two additional BSE cases in the United States. I can state that based on our SPS Agreement Obligations in WTO, we will examine this based on science, not political science. Provided that the science is there, we will make the decision. If it is not there, we won't. So I am confident that as time progresses, sooner rather than later, we will make a decision on that particular issue.

We will be doing Midterm Stocktaking in Busan, and that is an important part of our process for APEC this year. PECC has made significant contributions towards achieving the Bogor Goals, and I am extremely grateful. I think some of the elements we do take into account are, for instance, what kind of progress we have made in DDA, what kind of progress we have made in individual FTAs, and what other liberalization measure have been taken. So I think there will be a certain amount of flexibility for such that each of the 21 economies will be in a position to evaluate not only its own, but also that of others in determining whether or not we have made significant progress, and, if not, what improvements we need to make. We also need to show the public that APEC is indeed a vehicle by which we can drive this process and move towards further liberalization and that these talks are not just talks but are actually followed by action.

No. 2: Bijit Bora from the WTO

I just want to ask a question which actually you raised yourself, which is something we did not end up discussing in the trade sessions here. What the focus has been on over the last couple of days has been APEC credibility vis-à-vis meeting the Bogor Goals as a unilateral and as an independent initiative to liberalize. But you raised something else on lack of credibility, which is when APEC Ministers actually signed a declaration which is of direct and specific relevance to multilateral negotiations, it does not seem to go very far. I have two very specific examples of that. One, which you just gave, was specific recommendations on the Swiss Formula. And the second one was in May 2002, when they were trying to get the mandate from modalities in NAMA in a Ministerial communique that APEC had a very specific date. So there seems to be a gap between capital-based officials and Geneva-based officials. But somehow you would think you would close it when it comes from Ministers. So I just want to turn to a specific question. How do you explain that APEC Ministers can do something and then three to four weeks later at a Ministerial, it almost seems like a step back? And perhaps some suggestions as to how APEC Ministers could be a stronger force in multilateral negotiations.

Kim Hyun-chong

First of all, in APEC, there are only 21 members. When you look at the Ministerial, it is approximately 35. The range of developing and developed countries is wider and broader. So that first of all, it has to do with complexity. Secondly, I think Ministers get together basically to give instructions to the Geneva officials, and we do not say, "Let's get this back to Geneva officials," They give it to us because they can resolve it. And this issue has come up. Like I said, in OECD, we did make some progress, and yet when we are able to do something at APEC in Jeju, we were unable to take advantage of that. I think it probably stems from two sources. Better preparation might be one. Remember, when you are standing at the WTO, you do this day in and day out. That is 24 hours a day, seven days a week, 365 days a year. You are basically obsessed with that issue whatever it is you are working on. Peter Mandelson raised this issue that if Ministers, seven to eight hours before the meeting, would open the file, maybe we could be better prepared. Secondly, I think it is the political will. When I say political will, that encompasses a broad range of issues, one of which is quite frankly the trade-offs that have to be made between developing and developed countries in certain of these issues. For instance, developing countries insist that until and unless there is significant progress made on agricultural talks, they cannot be forthcoming on NAMA and services whereas certain developed countries' position would be that we have already a significant consensus on agricultural so that there has to be commensurate progress made in NAMA. So they do not always see eye to eye. At a certain point in time, there has to be conversions. I think that is why there are these small group talks and fixed processes, which have their pros and cons. So I think I would attribute some of those reasons to those elements.

No. 3: Charles Morrison from the United States

I recall a legendary US trade negotiator, Bob Strauss. Once they got through negotiating with Congress, he was too darn tired to negotiate with foreign governments. I know your National Assembly has a majority of first-term members, and you have had controversies in getting free-trade agreements through in the past. I wonder if you could comment just briefly how you try to educate members of the National Assembly about trade issues and your experiences in dealing with the National Assembly.

Kim Hyun-chong

My answer probably does not differ all that much from Bob Strauss's assessment. It is very tough. Let's face it. Korea has become the most democratic and transparent societies in Asia over the past few years. It has become so transparent to a point that on the issues of rice negotiations alone, to take a concrete example, our communications had to be open for review by the National Assemblymen and staff members, which in my view was taking it a bit too far because that raises issues of credibility vis-à-vis the negotiating partner. So in a country that has gone from dictatorship to democracy and developing to developed, I think we are probably experiencing growing pains trying to mature the process.

No. 4: Sri Adiningsih from Indonesia

I understand that your country has developed most from liberalization. Of course, our country, Indonesia, is starting to develop an economic partnership or FTA. What I would like to know, if you do not mind, is what the most difficult part is when you are facing developing an FTA or economic partnership with another country. I would also like to know, so far considering your cooperation, bilateral or multilateral FTAs, which one do you consider most beneficial for Korea?

Kim Hyun-chong

Let me take the second question first. If we are to do a FTA with the United States, for instance, we have a US\$17 billion trade surplus vis-à-vis the United States and that decreases something to US\$12, 13, 14 billion. So my President asked me, "Minister, why do you want to do an FTA if there is going to be a reduction in trade surplus?" My response to that follows. I am a lawyer by training and education. So when economists tell me that there is an increase in welfare of 1.2%, I never know what that means. So that is why I had to express that in that two and a half watermelon concept. But, for instance, let's take the intangibles. Suppose in the process of the FTA negotiations in the mutual recognition chapter, the United States used to recognize the licenses of Korean nurses. Now we all know that the bulk of the quota for nurses in the United States is filled by Filipino nurses. It is simply because they are competent

and they speak the language. So if you are to have a mutual recognition of that, let's say that we will be able to send 5,000 to 10,000 nurses to the United States, how do you quantify that? Secondly, how do you quantify, for instance, if, because of the existence of an FTA with a particular country, S&P or Moodys who gave you a rating of A decides to give you AA so that when you take out a loan, instead of a 5% loan, you take a 1.5% loan -- how do you quantify that? How do you quantify the potential of a further investment set that you may be attracting? So I think when it comes to the benefits of an FTA, one has to think in terms of more than the simple tangible exports minus imports. The other tangible issue and intangible benefit, which I touched upon in my talk, is that you really want to be developing an advanced system, if you will, so that incompetence and corruption have no place to stand in your society, so that you can move them out and make it a more transparent society. So when you combine all those benefits, you have to put a dollars and cents on it. It is your value judgment call at the end.

On your first question, what are some of the major difficulties in doing an FTA? It is not that difficult to commence one, I find, because at the initial stages of the negotiations, there is not that much resistance. But as the talks progress, and we are always in touch with industries that represent sensitivities, the resistance grows. Let me just go straight with concrete numbers to the Korea-Chile FTA. It took us four goes at the National Assembly to get that thing ratified. One of the reasons was because the local by-election was right around the corner. For that reason, it was extremely difficult. But in the end, the government ended up coughing up, over a seven-year period, US\$1.2 billion for the food industry because Chile was a major agricultural exporter. That's right. They take up 0.1% of world's agricultural exports. That is why they are a major exporter. I am always wondering how much farming land one can purchase with US\$1.2 billion in states such as Montana or in New Zealand for that matter. Anyway, we spent US\$1.2 billion for the losses and suffering due to the implementation of the Korea-Chile FTA. So what happens after one year? It was expected that initially, in the first year, the losses would be somewhere between US\$150 million to US\$200 million. Instead, there was a US\$42 million dollar increase in overall imports of Chilean agricultural products. But in terms of percentage of increased imports compared to other countries, the imports from Chile were actually lower. Of that US\$42 million, if you take out wine, there was none. Nevertheless, US\$1.2 billion has to be spent because it has been earmarked for that purpose. So it is a matter of national priority, and that is why I think we are spending US\$119 billion over the next ten years to basically approach the 3.5 million farmers from this social welfare perspective. There are some more sensitive issues that one has to deal with, and it is not always easy. Of course, one always knows when one throws money around, one has to also take into account the possibility of the moral hazards that action raises.

Yuen Pau Woo

Minister, you have been insightful, candid, and provocative. That is precisely what we were hoping for. On behalf of PECC, I would like to thank you very much for joining us here. We wish you and your government every success in concluding the APEC year.