Asian Studies Center

Backgrounder

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HOW A BOOMING SOUTH KOREA EXPORTS JOBS TO THE U.S.

INTRODUCTION

The Republic of Korea (ROK--or South Korea) has become a major trading partner of the United States. Trade between the two countries in 1983 totaled $14.5 billion, making the ROK the seventh largest market for U.S. exports in general and the fourth largest for U.S. agricultural products in particular. Similarly, the U.S. is a major market for ROK goods, buying $7.6 billion in South Korean exports last year. In fact, in the past three years, South Koreans have sold more to the U.S. than they have bought from it. Seoul's trade surplus with the U.S. was $1.7 billion in 1983 and is projected at $3 billion for this year.

This booming foreign trade reflects what often is called the South Korean "economic miracle." With U.S. financial, political, military, and moral help, the ROK has transformed itself from a country whose infrastructure was nearly obliterated during the Korean War into an important and reliable U.S. ally. So advanced has the ROK economy become that its industries are stepping beyond their domestic and export markets and investing directly in other nations. This benefits the recipients as well as the investors. Over the past five years, South Koreans have invested $150 million in the U.S., building factories and creating jobs for American workers. And this investment in the U.S. keeps growing, confirming that free trade not only allows nations to export goods, but also prompts them to export jobs.

FROM ASHES TO "ECONOMIC MIRACLE"

The surrender of Japan in August 1945 ended Korea's 35 years as a Japanese colony. An arbitrary line was drawn across the peninsula at about the 38th parallel; Soviet forces occupied the northern section and U.S. troops the southern. Negotiations were begun immediately to determine the future political and economic nature of a single and independent Korean nation.

In August 1948, after three years of stalemated talks, the Republic of Korea was established in the south under a democratic constitution and a freely elected president, Syngman Rhee. A month later, the Democratic People's Republic of Korea was founded in the north under a communist system headed by a Soviet-trained Korean military officer, Kim Il Sung, whose rule continues today. On June 25, 1950, North Korea invaded the south, launching a bloody war that dragged on for three years and cost the lives of an estimated one million Koreans and nearly 60,000 U.N. troops from 16 countries. Some 36,000 Americans died in the fighting. A cease-fire was declared in July 1953. Since a formal peace agreement between the two Koreas was never signed, a state of war still technically exists.

Even before the war, the ROK had serious economic problems. The south was relatively poor in natural resources, while most of the industrial facilities built by the Japanese under their colonial rule were in the north. By the end of 1953, the ROK was so devastated that industrial production capacity had plummetted to a quarter of prewar levels. Total war damage was estimated at $3 billion. Massive amounts of assistance were necessary if the ROK was to recover economically. During the remainder of the 1950s, over $1 billion in foreign aid was supplied to the ROK, most of it from the U.S. While a modest 5.5 percent annual economic growth was achieved from 1953 to 1960, foreign aid paid for 75 percent of South Korea's imports and 70 percent of its gross capital formation. Lacking raw materials and adequate production facilities, export industries were virtually nonexistent.

The first five-year economic plan by President Park Chung Hee in 1962 signaled a dramatic shift toward industrialization, self-sufficiency, and an export-related economy. Park believed that it made sense to import the raw materials necessary for infant manufacturing industries and to export labor-intensive products. The results of his first five-year plan were impressive. Annual growth of gross national product (GNP) averaged 8.3 percent; per capita income rose from $96 in 1962 to $130 in 1966; and exports soared 44 percent. Park's next three five-year plans similarly succeeded. By 1981, per capita income had climbed to $1,636, compared to $810 in North Korea, $260 in India, $5,650 in Spain, $9,008 in Japan, and $11,360 in the U.S. Annual GNP growth averaged a dazzling 9.1 percent, much higher than almost any other developing nation. This is how South Korea earned its "economic miracle" image.

KOREA TODAY

The miracle continues. South Korea's GNP grew 9.5 percent in 1983 and now tops $75 billion. The agricultural sector's share of GNP is down from 43 percent in 1961 to less than 25 percent today, while the per capita income has climbed to $1,880.

Seoul continues to rely on the trade-oriented policies that are responsible for its success. One-third of South Korea's GNP is derived from its exported goods, compared to only 6.9 percent in the U.S.[1] While the ROK has depended heavily on sales to the U.S., this dependence has been shrinking. The U.S. share has declined from nearly 50 percent between 1967 and 1972 to about one-third today. Seoul meanwhile purchased $6.3 billion from the U.S. in 1983, or about 25 percent of all the goods that it imported. The major U.S. exports bought by South Koreans are agricultural goods, machinery, transportation equipment, and coal; the ROK's major exports to the U.S. are textiles, electronic goods, steel products, and footwear.

A main drag on the ROK economy is military spending. Relations between the North and South have not improved appreciably since 1950, and tensions on the peninsula remain high. North Korea revealed its extraordinary capacity for aggression again in October 1983 when it attempted to assassinate South Korean President Chun Doo Hwan while he was visiting Rangoon, Burma. Four of Chun's cabinet ministers were killed in that bombing attack. The North's massive military spending and offensive capabilities are well documented. To counter this threat, Seoul must keep 600,000 troops in uniform, one of the world's largest standing armed forces. The ROK now spends 6 percent of its GNP on national defense, a level higher than most European countries and Japan. The U.S. and South Korea signed a mutual defense treaty in 1954 and in 1978 created the Combined Force Command in Korea, which includes 40,000 U.S. troops.

Another economic burden is Seoul's $43 billion foreign debt. Economic growth has been fueled partially by large international loans. In 1983, interest payments alone amounted to $5.8 billion, or 8.1 percent of South Korea's total GNP and 13 percent of all foreign exchange earned through its export sales.[2] However, the ROK's consistently strong economic growth has sustained the country's high credit rating with international loan institutions.

Growing international investment in South Korea has supplied some of the foreign currency necessary to service these debts. U.S. businesses have been major participants in this trend, investing $470 million in the ROK since 1962. Recent liberalization by the South Korean government of the regulations governing foreign ventures is expected to further encourage investment.

KOREAN INVESTMENT IN THE UNITED STATES

In recent years, South Koreans have begun investing in the U.S. Aside from the obvious economic motivations, some South

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1 U.S. Trade Representative, 1983 Annual Report on the Trade and Agreements Program, p. 183.

2 Ministry of Trade and Industry, Republic of Korea, Korea's Position on the USITC Recommendations on Steel Imports, August 1984, p. 9.

Korean businesses are investing in the U.S. to relieve trade tensions between Washington and Seoul.

One of the ROK's most important stakes in the U.S. is Samsung Electronics America's recently completed color television plant in Roxbury, New Jersey. One of its two assembly lines is already operating. Samsung invested $25.5 million in a facility that covers 240,000 square feet. That investment includes a $9.1 million industrial revenue bond (IRB) issued by the New Jersey Economic Development Authority and purchased by the Chemical Bank of New York as well as $1.1 million for the Roxbury property, $7.4 million for construction costs, and $8 million for equipment leasing over the next three years. Initial annual production will be 400,000 color televisions; this will grow to 600,000 in 1987. Samsung plans to produce 150,000 microwave ovens per year beginning in 1985. By that time, the factory will employ 250 Americans.

South Korea's Samsung Group is the parent company of the Roxbury operation. With 1983 sales of $6 billion, it is 68th on the Fortune 500 list of non-U.S. firms. Samsung's products range from fiber optics and computers to ships and heavy machinery.

Samsung was courted by a number of states before it decided to locate in New Jersey. At the IRB issuing ceremony, New Jersey Governor Thomas Kean said, "[I am] very gratified by their decision to locate in [New Jersey]. The jobs this investment will create and the boost to the economy it will generate are extremely welcome."[3] In reference to Samsung's long-range goals, Ming Hsu, director of New Jersey's Division of International Trade, pointed out at the IRB ceremony that, due to "...the threat of tariffs and the wave of protectionism, Samsung officials have come to the conclusion that, in order to sell here, they must manufacture here."[4]

Samsung recently opened another firm in New Jersey only miles from the Roxbury plant. It is called Eugene Tech International and will focus on research and development of drugs and diagnostic techniques. Eugene Tech scientists are currently refining the hepatitis B vaccine production process. They hope to reduce the cost of the treatment of the disease by as much as 85 percent. This would be a particularly beneficial breakthrough for lesser developed countries, where the incidence of hepatitis is sometimes as high as 20 to 30 percent of the total population. According to Eugene Tech president, Dr. Shin Seung-Il, the drugs developed by his firm will be produced in Korea under U.S.-Korean labels using U.S. Food and Drug Administration standards. The small staff is supported by a $3 million investment. Additional investments over the next five years will total $10 million.

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3 Star Journal, Sussex County, New Jersey, January 25, 1984.

4 Star-Ledger, Newark, New Jersey, January 29, 1984, p. 56.

The Lucky-Goldstar Group of the ROK also has built a color television factory in the U.S. This plant in Huntsville, Alabama, was completed in late 1982. The Lucky-Goldstar Group produces goods ranging from consumer electronics and petrochemicals to construction materials. Its 1983 sales were over $5 billion. Noting the plant's benefits for his constituents, Rep. Ronnie G. Flippo (D-AL) commented: "I am delighted with the Goldstar facility in Huntsville. The company has already invested some $10 million and has plans for considerably more. This facility was the first plant to fully utilize our Port of Entry and Foreign Trade Zone, for which we worked so hard. With double-digit unemployment in Alabama, our primary need was new jobs. Goldstar has already created 172 jobs and has current plans to ultimately employ 825. If new jobs and new investment are the goals of foreign trade and industrial recruitment, then Goldstar has certainly been an overwhelming success." Initial investment included a $4.5 million Alabama state IRB. The plant's three assembly lines produce 500,000 color televisions and 240,000 microwave ovens annually.

The largest single South Korean investment in the U.S. is the Tanoma Coal Company in Indiana, Pennsylvania. It is a subsidiary of the Pohang Iron and Steel Company, an ROK firm with sales last year of $2.3 billion. The Tanoma mine, which started operations in 1982, has created nearly 300 jobs and by 1985 will extract 550,000 tons of coal per year. Indirect employment benefits include contracts with over 50 independent truckers for transportation of coal. Total investment amounts to $69 million, including an $8 million loan from Citibank and a $3 million state IRB.

The ROK's 1982-1986 five-year economic plan places top priority on developing high technology industries. The country's domestic demand for computer products is snowballing, and South Korea hopes to enter the computer export market by the end of the decade. ROK companies plan to spend over $1 billion on this goal over the next five years. While the country has an adequate pool of well-educated technicians, mastering the existing basic technologies is required to compete in today's fast-paced electronics and computer fields. To this end, several of Korea's largest firms have opened branches in California's Silicon Valley. The strategy involves hiring seasoned technicians to help Korea learn the basics, beginning with semiconductor design and production.

The Hyundai Group has made the largest U.S. high-tech investment, spending $35 million to found Hyundai Electronics of America in March 1983 in Sunnyvale, California. Headquartered in Seoul, the Hyundai Group had 1983 sales of $7.6 billion; its goods and services range from automobiles and steel to financing and engineering. Hyundai Electronics of America has set its sights on the design and marketing of 16k static random-access memory (SRAM) chips, microprocessors, and very-large-scale integrated circuits (VLSIs). It also has a joint venture with a Boston firm to develop computer software. Its facilities, large even by Silicon Valley standards, cover 120,000 square feet. By 1985, the operation will employ 200 people.

The Samsung Group also has moved into Silicon Valley. Last year it started operations at its Tristar Semiconductor, Inc., in Santa Clara. The firm already is producing 64k dynamic random-access memory (DRAM) chips and is working on designs for advanced 64k electronically erasable, programmed read only memory (EEPROM) chips and 256k chips. A sales goal of $100 million has been set for 1986. About 120 people are employed at Tristar's $10 million facility.

The Lucky-Goldstar Group, meanwhile, has invested $1 million and launched G. S. Semiconductor in Sunnyvale, which employs about 20 people. This office is not actively involved in R&D but is negotiating joint production ventures and design licensing agreements with American companies. Lucky-Goldstar has an agreement with American Telephone and Telegraph to produce semiconductors and electronic switching systems in the ROK.

ID Focus in Santa Clara is unique among the South Korean operations in Silicon Valley. It was established in early 1983 with a small investment and a handful of researchers. Unlike the other South Korean firms, ID Focus is a wholly independent company. It did, however, receive its initial financial backing from the Daewoo Group, one of South Korea's largest corporations. ID Focus director Young S. Kim explains that his firm "is not interested in producing semiconductors or learning technology. We want to gauge the preferences of U.S. consumers and develop the most appropriate product designs for the U.S. market."

IS KOREA A "NEW JAPAN?"

Despite the growing South Korean investment in the U.S., there are moves to curtail the flow of ROK exports to the U.S. American companies may bring suit before the Department of Commerce against what they claim are unfair practices by foreign businesses. These actions are extremely costly and sometimes take several years to complete. As of this March, seventeen types of South Korean goods were involved in such suits. At least five categories of products are already subject to import restrictions resulting from these complaints, including specialty steel, bicycle tires, and color televisions. Restrictions on South Korean steel, textiles, and footwear are being considered by Congress and the Executive Branch.

A recurrent theme among those who support curbs on South Korean imports is that the ROK is becoming a "new Japan," which will endanger the American economy. Unlike the ROK, however, Japan has been a manufacturing and exporting economy since the middle of the 19th century. Today, its GNP is fourteen times as large as South Korea's. Japan's per capita income is $9,500, compared to $1,880 in the ROK. Japan's recent economic history has been characterized by consistently high trade surpluses. In the 31 years since the end of the Korean War, Seoul has never enjoyed an overall trade surplus. In 1983, South Korea's total trade deficit was $1.7 billion, while Japan's trade surplus was $34 billion. Even more important, the ROK is much more vulnerable to serious economic problems resulting from protectionism because, unlike Japan, it does not have a large domestic market on which to rely in the event its flow of exports slows. South Koreans feel that their country's image as a "new Japan" is particularly unfair in light of the chronic trade imbalance between Seoul and Tokyo. Like the U.S., the ROK suffers a trade disadvantage with Japan, 3 to 2, amounting in 1983 to a deficit of $2.5 billion.[5] Also extremely significant is that Seoul spends 6 percent of its GNP for national defense while Japan spends less than 1 percent.

In many aspects of international trade, the ROK has more in common with the U.S. than with Japan. To be sure, Seoul began running a trade surplus with the U.S. in 1981. Then it was $187 million; this year it is projected at $3 billion. Throughout the 1960s, however, the U.S. enjoyed a trade surplus over the ROK. A rough trade equilibrium held during the 1970s. In 1980, the U.S. trade surplus was about $200 million. The shift began in 1981. Although South Korea's surplus with the U.S. has climbed since then, ROK exports to its nine other major trade partners have slowed. This indicates that the surge of the U.S. dollar and the pace of the U.S. economic recovery are important factors. The more general long-term trend has been and probably will again be a U.S.-ROK balance. From 1972 to 1983, for example, ROK exports to the U.S. grew 23.2 percent annually; U.S. exports to South Korea grew 24.9 percent annually.[6]

KOREAN TRADE LIBERALIZATIONS

Much of the criticism directed toward the U.S. trade relationship with the ROK ignores Seoul's efforts to lessen economic tensions. While it is true that the ROK has protected some of its budding or faltering industries, this policy is being reversed. Seoul has set in motion a sweeping import liberalization program aimed at opening more of its markets to foreign goods. In a major policy change, the government has increased the ratio of foreign products that can be imported without prior official approval from 54 percent in 1979 to over 80 percent in 1983. The projected ratios for 1986 and 1988 are 90.6 percent and 95 percent, respectively. The average level in developed countries is around 92 percent.[7]

A law enacted on July 1, 1984, greatly improved foreign access to direct investment in the ROK. Automatic government approval will be given to proposed foreign investments in 651, or

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5 Fortune, February 6, 1984.

6 Business Korea, Seoul, Republic of Korea, March 1984, p. 36.

7 Korean Information Office of Washington, D.C., Korea Newsletter, June 1984, p. 6.

65.2 percent, of the 999 designated industrial sectors. Investment in the remaining 348 sectors on the "negative list" must receive approval from the Ministry of Finance. The negative list is largely comprised of public projects carried out by the government, public utilities, and defense-related industries. Significantly, investments from abroad for the first half of 1984 were up 319 percent over the same period last year. U.S. ventures accounted for 43.5 percent of all foreign investment during that period. The import and investment liberalizations are being instituted at an early point in the ROK's development relative to the experience of many LDCs. These actions by the government are being undertaken at the risk of considerable domestic opposition from the business community as it grows angry over U.S. import restrictions on South Korean goods.

CONCLUSION

A trade imbalance between the U.S. and the ROK does exist. U.S. policymakers, however, should recognize the global factors that influence U.S. trade relations. The U.S. also should recognize that Seoul is sensitive to this issue and has made good faith attempts to rectify the problems through increased direct investment in the U.S. and liberalization of its domestic markets.

South Korea's rapid economic development over the last 30 years is a stunning U.S. foreign assistance success story. The U.S. greatly benefits from its strategic and international trade relations with the ROK. South Korean investments in the U.S. add another dimension to this partnership. While total ROK investments in the U.S. to date are modest compared to those of some foreign investors, it is a welcome trend that is sure to grow substantially in the future.

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