Perspectives on the Economic Role of Korea and Korean-Americans in U.S.-Korea Relations

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h Introduction

Since the end of World War II, the United States and Korea have enjoyed a very close relationship in many important areas. Such a relationship started with the liberation of Korea in 1945 by U.S. troops from the Japanese occupation of almost four decades and also included the shedding of blood by Americans for the defense of South Korea from the North Korean and Chinese invasion during the bitter Korean War of 1950-53. Most Koreans, especially those older Koreans who personally experienced the tumultuous years of the Japanese occupation and the Korean War, still harbor such goodwill and sense of gratitude towards America and Americans that perhaps no other country has earned nearly as much in Korea's long history. Even now, the United States is maintaining a significant military presence, including its ground troops, in order to assist the Korean government in repelling any potential military threats from the heavily-militarized North Korea.

Over the past several decades, however, the close relationship has extended from the military and political arenas of earlier years to the economic areas such as trade and investments. The U.S. economy is the largest in the world, with its GDP of $10.45 trillion or about one third of the world economy. In comparison, the Korean economy with its GDP of $477 billion in 2002 is less than one-twentieth of the U.S. economy. Due to the sharp depreciation of the Korean won in the aftermath of the 1997 financial crisis, the Korean per capita income had actually shrunk from $11,380 in 1996 to only $6,723 in 1998 and $8,551 in 1999 and just about $10,000 in 2002, compared to over $36,000 for the United States in 2002. The United States is also the biggest market for Korean exports, accounting for 21% of the total Korean exports in 2001 and 2002. With the total bilateral trading volume of $58.4 billion in 2002, Korea was the United States' 6th largest export market, 4th largest export market for agricultural products and 7th largest trading partner.

In recent years, the economic relationship between the two countries has extended from that of important trading partners to partners in foreign direct and portfolio investments, joint ventures, technology and management know-how transfers. As U.S.-Korea economic cooperation has intensified during the past two decades, there has been a corresponding increase in trade and other disputes between the two countries. As the 21st Century has begun, the two countries need to take stock of their current and prospective economic relationship and develop a coherent strategy to strengthen their already-strong economic relationship while minimizing any potential friction. This article will first review the bilateral economic relationship, both positive and negative and then, based on the analysis of the ongoing economic relationship, discuss the role of Korean Americans in that relationship.

II. Evolution of the U.S.-Korea Trade Relationship

The early years of the U.S.-Korea economic relationship can be characterized as those of donor-recipient, as Korea struggled to recover from the double disasters of the Second World War under the Japanese occupation and the Korean War. One can fairly characterize the 1940s and 1950s the decades of the worst deprivation for the Korean people thanks to the two wars and their after-effects. After the end of the Korean War in 1953, with the per capita income of only $67 in 1953, $87 in 1962 and $100 in 1963, Koreans were much poorer than the Filipinos and Turks in those years who were enjoying per capita incomes of $251 and $259 respectively in 1963. The United States, in addition to their military assistance during and after the Korean War, provided massive development aid to Korea both for humanitarian assistance and for postwar reconstruction efforts.

Following the political turmoil in the aftermath of the April 19 student revolution in 1960 and the May 16 military coup d'etat, the new military government led by President Park Chung Hee embarked upon an ambitious economic development plan with the main focus on a nationwide export drive to earn the necessary foreign exchange for importing both modern manufacturing plants and raw materials. From the late 1960s through 1970s, the United States served as the main export market for Korea. Korean exporters were able to exploit the relatively generous treatment by the U.S. government of most exports from developing countries, including Korea. In the 1960s, the main Korean export items were light industrial goods such as textiles and toys. Even though Korea liberalized its import regime somewhat in the 1960s, especially around 1967 when Korea joined GATT (General Agreement on Tariffs and Trade), most of the liberalization was for raw materials and intermediate goods necessary for the new Korean factories, and the average tariff rate remained high at about 40% during the most of the decade. During the 1970s, the average tariff rate was reduced to around 30%, but other non-tariff barriers actually increased in order to protect nascent Korean industries being established with active government support and encouragement.

Table 1. Korean Trade with the United States, 1975-2002[1]
(Million dollars)

Year	*Exports to U.S.*	*Imports from U.S.*	*Balance*
1975	1,536	2,082	-546
1980	4,433	4,685	-252
1981	5,474	5,116	358
1982	6,012	5,529	483
1985	10,712	5,965	4,756
1987	17,991	8,099	9,892
1990	19,360	16,942	2,418
1991	18,608	18,904	-296
1992	18,090	18,287	-197
1993	18,138	17,928	210
1994	20,553	21,579	-1,026
1995	24,131	30,404	-6,272
1996	21,670	33,305	-11,635
1997	21,625	30,122	-8,497
1998	22,805	20,403	2,402
1999	29,600	24,943	4,657
2000	37,806	29,286	8,520
2001	31,358	22,431	8,927
2002	33,554	24,855	8,699

During the 1960s and 1970s, however, the U.S. government was especially tolerant of Korean exports, as Korea was not only such a poor country but also a strategically very important country in terms of both political and military perspectives during the Cold War. Such a generous trade posture of the United States during this period was especially important to Korean economic development, since foreign trade was truly the engine of growth for Korea, with the total foreign trade volume equivalent to more than 60% of Korea's GDP in the 1970s. The Korean export drive started to make impact on the U.S-Korea trade balance, which underwent a reversal from the chronic trade deficits vis-a-vis the United States in the 1970s to trade surpluses beginning in 1981.

As Korean bilateral trade surpluses vis-a-vis the United States increased in the 1980s, the U.S.-Korea trade relationship attracted increasing attention from the U.S. side. During the 1960s and 1970s, Korea suffered chronic bilateral trade deficits vis-a-vis the United States. The bilateral trade volume exploded from $232 million in 1962 to $10.5 billion in 1981 to $26 billion in 1987, when the United States suffered a trade deficit of almost $10 billion. Consequently, American policymakers came under increasing pressures both to protect domestic producers from the "unfair" export practices of Korea and to open markets more widely to U.S. exports in Korea. Furthermore, there was growing alarm among some U.S. policymakers and opinion leaders that Korea might become "another Japan" which was bent on an export-focused mercantilist strategy.

Consequently, the U.S. government pressured Korea to intensify liberalization of its trade and investment policies and to remove its substantial trade barriers. The Korean response was that a confrontational approach on the part of the U.S. government could be counterproductive, and any trade friction should be resolved gradually through bilateral negotiations rather than in one lump. The Korean side argued at that time that after all the Korean bilateral trade surplus was only a relatively recent phenomenon starting in 1981 and prior to that year, Korea had suffered trade deficits vis-a-vis the United States for 25 years! Furthermore, the overall Korean current account balance had suffered from chronic deficits for decades until 1985 despite its bilateral trade surpluses vis-a-vis the United States in the 1980s, and it turned into a surplus only from 1986 through 1989. Korea's current balance account turned into deficits again continuously from 1990, except for 1993, until 1997 when Korea tumbled into its worst financial crisis.

Starting in 1991, however, the Korean trade surplus vis-a-vis the United States reversed into trade deficits, and the U.S. pressure on Korea for a blanket trade liberalization policy was replaced by sectoral trade disputes, involving such export items as automobiles and steel. In fact, economic relations between the two countries substantially broadened in the 1990s to include not only bilateral merchandise but also trade in services, investments, capital flow, and cross-border mergers and acquisition activities. Hence, the economic policy dialogue between the two countries expanded to include this broader agenda. Such a broader policy dialogue accelerated because of the Korean financial crisis of 1997. When the Korean government negotiated during the crisis a large-scale financing package from multilateral financial institutions of the IMF, the World Bank and the Asian Development Bank, the United States as one of the dominant shareholders in these institutions exerted a crucial behind-the-scene influence to formulate stringent loan conditionality to further liberalize Korea's trade regime, to open up its financial markets to foreign investors and financial institutions, and to modernize its economic system in accordance with international best practices in such areas as corporate governance, financial regulation and supervision, and accounting and auditing standards.

The U.S. role during and after the Korean financial crisis was regarded as overly interventionist and paternalistic by some Koreans, but the overall impact was positive for the Korean economy. There is no question that for a couple of decades prior to the 1997 financial crisis, Korea was slow to adopt a policy of globalization and liberalization of its economy because of strong vested interests in the country. Its capital market was under-developed, and the banking and financial system remained relatively primitive with lack of modern credit evaluation and risk management skills. Financial regulatory and supervisory structures needed a significant improvement. Korean business firms relied too much on debt financing, resulting in dangerously-high debt-to-equity ratios, and too many enterprises were under state controls and thus inefficient and unproductive. Industries were highly concentrated among large chaebols, and the country did not nurture healthy and vibrant small and medium-scale industries. Korean accounting and auditing standards were such that most observers could not trust their veracity. In sum, Korea needed to launch a wholesale reform of its economic and financial system, and the 1997 financial crisis and the subsequent external pressure on Korea brought about much needed economic reforms. In this sense, the 1997 crisis has been a blessing in disguise. Still, reforms are far from complete, especially in the political system and the government bureaucracy as well as the labor sector and state-owned or controlled enterprises.

III. Further Developments in Bilateral Economic Relations

The United States has been the most important trading partner for Korea during the past two decades, while Korea has been among the top ten trading partners for the United States as well. While over 99% of Korean exports to the United States are manufactured goods, 89% of U.S. exports to Korea are manufactured goods and the rest is composed of agricultural products. Over the years, Korean export items for the U.S. market shifted from clothing and other textile products and toys in the 1960s and 1970s to machinery, consumer electronics, semiconductors, and cars in the 1980s and 1990s. Main import items from the United States have not changed much, composed mainly of machinery, electric and electronic equipment, and agricultural products. In 2001, the United States was again the number one export market for Korea and the number two import source after Japan for Korean importers, while Korea was the sixth largest export market and the eight largest import source for the United States, the same ranking as in 2000.

Table 2. Trade Partner Ranking between U.S. and Korea[2]

	Korean Exports to U.S.	Korean Imports from U.S.	U.S. Exports to Korea	U.S. Imports from Korea
1980	/	1	75	11
1985	/	1	7	8
1990	1	1	7	6
1995	1	1	5	8
1998	1	1	9	9
2000	1	2	6	8
2001	1	2	6	8
2002	1	2	6	7

Even though the Korean textile industry ranks No. 5 in the world in terms of export volume, its export share in the U.S. market has experienced a steady decline: from 9.7% in 1990 to 5.7% in 1994 to only 3.8% in 2000. A similar decrease has been experienced by Taiwanese textile exporters to the United States, while the share of Chinese textile exports in the U.S. market has declined less precipitously: from 14% in 1990 to 10.5% in 2000. On the other hand, the textile exports of the two NAFTA countries of Canada and Mexico has experienced sharp increases: from 0.7% and 2.7% respectively in 1990 to 2.9% and 14.9% in 2000. This example demonstrates the classic case of trade diversion rather than trade creation due to the formation of a regional trade bloc.

In addition to merchandise trade, there has been a significant increase in the flow of foreign direct investment between the two countries, especially after the 1997 financial crisis. Before the crisis, the Korean government did not actively promote foreign investments in Korea. In fact, a number of restrictive measures had been adopted, resulting in a relatively-closed market for foreign investors in Korea. Consequently, direct foreign investments played only a minor role in Korean industrialization. In terms of the inward FDI stock to GDP ratio, Korea lagged substantially behind the world average as well as that of Southeast Asian countries. Indeed, Korea and India were the only countries in Asia where the primary mode of U.S. investment was minority-stake joint ventures rather than majority-stake joint ventures or fully owned subsidiaries. As late as 2000, Korea ranked 23rd out of then-25 OECD member countries in stock of inward FDI as a share of GDP, besting only Japan and Iceland.

Table 3. U.S.-Korea Foreign Direct Investment Flows[3]
(Data on the FDI arrival base, not announcement base)

	U.S. FDI Flows into Korea		**Korean FDI Flows into U.S.**	
	$ Millions	***As % of Total****	***$ millions***	***As% of Total****
1990	**221**	**29.5**	**345**	**36.1**
1992	**246**	**34.2**	**346**	**28.4**
1994	**221**	**22.4**	**525**	**22.8**
1996	**393**	**17.2**	**1,568**	**36.9**
1998	**1,479**	**28.3**	**874**	**22.4**
2000	**1,687**	**16.8**	**1,132**	**30.8**

As % of the total FDI flows into Korea or as % of total Korean outward FDI flows.

Policy reform and market pressure encouraged an expansion of FDIs into Korea after the Asian financial crisis. As part of the IMF and World Bank loan conditionality subsequent to the 1997 financial crisis, the Korean government has agreed to remove a number of entry barriers to foreign direct investments in Korea. Among the various measures have been new steps by the government to encourage the privatization of state-owned enterprises and active cross-border M&As and to foster the entry and/or takeover of Korean firms by domestic and foreign firms. The 25% ceiling on foreign equity ownership in Korean firms was also removed in 1998 by a change in the Securities Exchange Law, and in the same year the Korean parliament enacted a new law, the Foreign Investment Promotion Act, in order to accelerate foreign direct investments in Korea.

As a result, there was a sharp increase in U.S. acquisitions and new direct investments in Korea after 1998. Some of the U.S. companies making new investments included Fairchild Semiconductor Corp., Enron Corp., Bowater, Inc., Columbia Chemicals Co., Motorola, Inc., and Ford Motor Co. Along with such manufacturing and industrial sector direct investments, foreign investment into the Korean service sector has gained greater importance in recent years. Like many European financial institutions, some American financial institutions have made substantial investments in Korea, such as Goldman Sachs' $100 million investment in Kookmin Bank (later merged with Korea Housing Bank), the takeover of Seoul Bank by Newbridge Capital, and a $50 million investment by Lake Forest Finance Co. into Chung Buk Bank. Direct investments by Korean firms in the United States were also numerous in the 1990s, including Samsung Electronics' $18 million investment in the semiconductor sector, $60 million investment by Saerom Technology in the communication field and $15 million investment by Taekwang Company in the footwear industry.

IV. Pending Issues in the U.S.-Korea Economic Relationship

As the two countries have intensified their economic relations over the years, perhaps it is inevitable that a number of bilateral economic disputes have also emerged, especially as the United States has tended to separate external economic issues from military and strategic considerations after the fall of the Berlin Wall.

Unlike its policy during the Cold War period, the U.S. government has sought to separate its economic interests from political-strategic ones. As a result, Korea can no longer expect special treatment from the U.S. government in its trade and investment disputes with the United States. Some of the important bilateral economic disputes involve automobiles, steel, intellectual property rights, and pharmaceutical products.

Table 4. U.S.-Korea Automobile Trade
(Number of passenger cars and commercial vehicles)

Year	Korean exports to U.S.	Korean imports from U.S.
1995	132,118	2,578
1998	175,510	1,227
1999	329,572	739
2000	140,357	1,268
2001	583,608	2,283
2002	650,315	4,427

The United States has been the most important market for Korean automobile exporters, but the trade imbalance in autos between the two countries has caused considerable controversy. The trade imbalance has become so severe that the total annual export volume of U.S. autos to Korea is less than 1% of the total export sale of Korean cars in the United States, 4,427 vs. 650,315 in 2002. Consequently, the U.S. government has insisted that the Korean government take a number of measures to redress such an imbalance. Such U.S. pressure has increased as the Korean share of the U.S. automobile market has increased from less than 1% in 1995 to 2.7% in 2000, 3.6% in 2001 and 3.9% in 2002, for both passenger cars and commercial vehicles. In contrast, American cars accounted for only 0.1% of the total Korean car market in 2001 and 0.27% in 2002. The U.S. government rightly pointed out that the previous Korean government measures such as taxes, tariffs and various non-tariff barriers discriminated against car imports into Korea. After many years of negotiations, the two governments signed the Automotive Memorandum of Understanding in 1998, requiring Seoul to take a number of proactive measures to increase market access to Korea by American automobile companies. However, Korea has refused to lower its 8% tariff outside the Doha World Trade Organization negotiations and has insisted that low U.S. auto sales in Korea are due to marketing and design problems. Korea is also planning to simplify the special consumption tax in 2003 in response to a key commitment in the Automotive MOU.

Korean steel exports have also attracted U.S. attention. The United States is the third largest export market for Korean steel producers after Japan and China. Korean steel exports increased sharply from $945 million in 1996 to $1,736 million in 1998 right after the Korean financial crisis, as domestic steel demand declined because of the severe economic recession caused by the crisis. With a weakened domestic steel industry in the United States resulting in the recent bankruptcy of the second largest U.S. steel manufacturer, Bethlehem Steel, and consequent massive worker layoffs, the U.S. government has been under a growing political pressure to deal with the foreign steel imports, including those from Korea. As a result, President George W. Bush took in March 2002 the so-called safeguard measure by imposing extra tariffs of up to 30% on certain steel imports. The Korean government has requested that the United States withdraw the safeguard measure or fundamentally change it to be consistent with the WTO agreements.

The two countries have also worked on measures to strengthen the protection of intellectual property rights (IPRs) in general and especially the protection of computer software programs. Korea enacted a revised Computer Program Protection Act in 2000 in order to enhance the protection of computer software, thus correcting some of the deficiencies in its original act. As Korea has made progress on the protection of copyrighted works on the basis of Korean commitments in early 2002, the U.S. Trade Representative has downgraded Korea from the Special 301 Priority Watch List to the Watch List. The United States remains concerned with respect, among others, to the transparency of Korea's software copyright enforcement efforts.

The United States feels that market access barriers to agricultural products remain high in Korea and it has also complained that new agricultural product rules proposed by the Korean government threaten U.S. beef exports to Korea. Thus both sides have engaged in active discussions in order to resolve this trade issue important to U.S. agricultural exporters. The United

States has suggested that Korea's safety assessments for biotechnology be structured to be minimally trade distorting. The two countries have actively engaged in a series of talks to resolve trade disputes involving pharmaceuticals, dynamic random access memory (DRAM) chips, and telecom products. The two governments have also been working on a Bilateral Investment Treaty (BIT) with the view to promote further direct investment flows between the two countries. But such issues as the Korean domestic movie quota rule have clouded the prospect for concluding the BIT soon. In 2002, the two countries made no progress in the discussion of BIT or a free trade agreement (FTA) between Korea and the Untied States. As for a possible FTA between Korea and the United States, both countries are still not ready to engage in serious discussions on that subject. Korea wants to digest the implications of its first FTA, one with Chile, which has faced serious opposition from the agricultural sector. Similarly, the U.S. government does not feel that Korea is a priority case for considering an FTA.

V. Three Waves of Korean Immigrants

Among almost two million Korean-Americans reside in the United States, one can detect three distinct groups. The first wave of Korean immigrants arrived in Honolulu one hundred years ago, mostly as male laborers to work on the Hawaiian sugar cane fields, earning about $1 per day.[4] Later they were joined by Korean women, known as picture brides, brought in from Korea in order to marry those early Korean immigrant laborers.[5] The early immigrants from Korea came mostly to in search for better jobs and a new life as well as to seek political freedom from the Japanese occupation of 1909-1945. This first wave of Korean immigrants was relatively uneducated and tended to work on American farms and in factories as manual laborers, though some of the more educated immigrants were active in the liberation movement to free Korea from the Japanese occupation. Some of the most prominent leaders in the Korean independence movement, including the first South Korean president after World War II, came from this initial wave of Korean immigrants. Many independence leaders used their newly-acquired English skills and Western lobbying tactics to win the support of the American as well as the international community for Korean independence. These leaders were financially and morally supported by the first-wave Korean immigrants, who organized many fund-raising drives to assist the Korean independence movement. Most first-wave Korean immigrants have since passed away, and their children as well as their grandchildren have been far more thoroughly assimilated into mainstream American society than any other group of Korean immigrants. In fact, many, if not most, of the descendants of the first-wave Korean immigrants do not speak Korean, and they have inter-married with persons of other ethnicities more frequently than subsequent Korean immigrant groups. They are also not active in Korean ethnic group activities, and they consider themselves more American than Korean.

The second wave of Korean immigrants comprised those who entered the U.S. after the outbreak of the Korean War of 1950-1953. While some among the second immigrant group might have been war refugees from well-to-do families with the economic and political means to obtain the American visas and to afford the substantial economic costs of relocating in America, most were young Korean men and even women who decided to come to the United States to further their advanced education which was not readily available in Korea at that time. Between the mid-1950s and early-1970s, this second wave of Korean immigrants arrived in the United States, not as immigrants like the first wave immigrants, but mostly as students seeking higher educational opportunities. Unlike the current wave of Korean students who have come to the United States even during their elementary or secondary school years, in those days almost all Korean students coming to America had obtained at least their college degrees in Korea already. As the Korean government strictly regulated the outflow of Koreans studying abroad and American officials made getting a student visa very difficult, only students who were relatively studious and had passed overseas study exams administered by the Korean government were eligible to study abroad.

The third wave of Korean immigrants to the United States arrived in the late 1960s and especially after the early and mid-1970s. In 1965, the new Hart-Celler Act abolished immigration based on national origins, allowing a significant growth in immigrant populations from non-European regions such as Asia, the Middle East, Latin America, and Africa. Many Korean immigrants took advantage of the relaxed immigrant visa requirements and came to this country in order to take advantage of the better living conditions. This third wave of Korean immigrants crested right after the fall of South Vietnam in 1975, as many Koreans back home were scared of another potential invasion from North Korea. Many of these third wave immigrants could secure the coveted American immigrant visas (the so-called green cards) through their connections with the second-wave Korean immigrants, who sponsored family members and other relatives back home. Thus, the blood ties between the second and third wave Korean immigrants often existed. In other cases, the third-wave immigrants came to America through job quotas allocated to specialized professions such as nursing and other medical service sectors, those requiring certain technical skill sets, and other professions needed in America.

VI. Outlook for the Korea-U.S. Economic Relationship and the Role of Korean Americans

The United States and Korea have come a long way in their bilateral relationship, starting from the military and strategic cooperation and assistance in the early years to a close economic partnership in recent decades. During the past-five-and-a-half decades, Korea has evolved into the twelfth largest trading nation in the world and the thirteenth largest economy. Such remarkable progress has been possible in no small measure because of the close diplomatic and economic relationship between the two countries. The military umbrella provided by the United States has enabled Korea to concentrate on the rapid industrialization of the poor and underdeveloped economy which emerged from the Korean War, and the United States has served as the most important market for Korean exports whose success has been critical to Korea's export-led economic development policy. American companies have been important sources of technology for emerging Korean firms and U.S. financial institutions have played an important role in providing foreign capital to finance Korean investments in new industrial and infrastructure projects.

The so-called IMF crisis of 1997 has highlighted the importance of fundamental economic reforms for Korea, as half-finished reforms are worse than no reforms at all. The government can no longer fine-tune Korean economic reforms on a selective basis. One of the lessons that Korea learned after the 1997 crisis was that the liberalization of short-term capital flows only while regulating the long-term capital flows encouraged many Korean financial institutions such as commercial banks and merchant banks to borrow short-term Eurodollars abroad in massive amounts in order to speculate in questionable long-term investments such as Russian Eurobonds and long-term loans to risky South Asian companies. There are many other such examples of selective reforms resulting in quite unexpected consequences. In short, the old Korean economic policy paradigm, focusing on micromanagement of the economy by the government, has to be replaced by the global standards of market-based reforms.

In this sense, the close U.S.-Korea economic relationship can provide far more benefits than those arising from trades and investments. Closer economic cooperation in all spheres of economic activities, including trade, banking and finance, capital market activities, foreign exchange operations, joint ventures, technology transfers, and capital flows can assist Korea in the wholesale modernization and globalization of the economy. The latest report by the American Chamber of Commerce (AMCHAM) in Korea indicates that international business executives based in Asia consider Seoul the least attractive place to live and conduct business among the five Asian cities of Seoul, Tokyo, Hong Kong, Singapore and Shanghai. To prove this point, in fact, there is only one multinational company (MNC) maintaining its Asian regional headquarters in Seoul (Volvo), while the Asian regional head offices of 944 MNCs are located in Hong Kong and over 200 are in Singapore.

The decade of the 1990s for Japan demonstrates to the world that Japan can no longer be the role model for Koreans. The dynamic U.S. economy is the most important role model, providing Korea with the best business practices suitable to global standards. The Korean economy has to compete successfully in an increasingly globalized economy in order to survive and prosper. Already, the Korean economy is integrated into the world economy, not only in trade, but also in other areas of economic activities. Today's Dow Jones and NASDAQ stock price movements are immediately transmitted to the Korean stock market on the same day. Both Korean policymakers and businessmen have to behave proactively to take advantage of the many benefits of such a closer economic partnership between the two countries, while minimizing the potential ill effects as well.

In this sense, the growing economic power of China can provide a new challenge for future Korea-U.S. economic relations. China is effectively becoming a global manufacturing base for multinational corporations, given its low land costs, low-wage labor pool (without the labor militancy common in Korea and elsewhere), and the recent entry of China into the WTO. Consequently, China has attracted huge amounts of foreign direct investments (FDIs) in recent years, averaging over $40 billion per year. In 2002, the total FDI inflows into China exceeded $50 billion. In contrast, the total FDI inflows into Korea are less than 10% of China's inflows. In fact, many Korean firms, especially the small and medium-sized enterprises (SMEs), have set up manufacturing plants in China in recent years in order to escape both the high labor costs and the frequent labor problems in Korea. Most investments by Korea firms have been located in areas of China such as Shandong, Tianjian, and Liaoning with large concentrations of ethnic Koreans. While SMEs accounted for 45% of Korea's investment in China in 1992, SMEs had increased their share to 54% compared with 39% by the large chaebol firms.

Also, American firms along with Japanese and European companies have invested heavily in China in order to penetrate the Chinese market as well as to use China as the production base for global markets. Thus, Korean exporters to the U.S. market will face an increasing competition from China, which enjoys distinct cost advantages over Korea. The only way to cope with this challenge is for Korean firms to move up the technology chain so that Korean export products maintain both the quality and technological advantages over Chinese exports.

It is estimated that 5.6 million Koreans are residing outside the Korean peninsula today, including about 2 million in the United States. In 2003, Korean-Americans celebrated a one hundred-year history of Korean immigration to the United States. Along with Korean immigrants resident in Japan, Korean immigrants in the United States form a vital part of the almost six million overseas Koreans. Korean Americans are nowadays active in a variety of professional and business areas, and they are making significant contributions to both their adopted country and their ancestral homeland. There has developed a strong bond between the Korean immigrant community and the Korean motherland, especially because the United States and Korea have remained close political, economic and military allies. Over the years, active cultural and other exchanges have been maintained between the Korean immigrant community in America and Koreans in the motherland. Most Korean-Americans still enjoy close family ties with friends and relatives in Korea, and two-way visits between Korean Americans and homelanders have steadily increased in recent years. Frequent tour groups are organized from both sides of the Pacific Ocean, as airline links between the two countries have multiplied.

Along with cultural and social exchanges between the two sides, there has developed an increasing business and economic relationship as well. The United States has been the premier export market for Korean products during the past several decades, but most of the Korean goods have been marketed in this country by the branch offices or American subsidiaries of Korean trading and manufacturing firms headquartered in Korea, and only a small proportion of Korean exports has been sold with the assistance of Korean American business firms established in America. The main reason for such a trading pattern is that most Korean-American businesses have been small family-owned shops and stores catering to local clientele rather than a nationwide market. The very nature of Korean-American businesses has been shaped by the types of Korean American businessmen and entrepreneurs, who have been relative newcomers to this country, and, in a sense, themselves reluctant businessmen who have considered their business activities in America mainly as a means to earn a living during the transition period from their immigration to this country to the time when their children get established in the mainstream of the American society through good education and professional jobs rather than inheriting their parents' small-scale shops and businesses by themselves.

There are several ways in which the Korean Americans can play a viable and contributory role in promoting the U.S.-Korea economic relations. First, Korean American businessmen in the United States can play a catalytic role in promoting U.S.-Korea trade and investment relationship. Korean businessmen, like most Koreans in other professions, are very talented people who also know the Korean business scene and understand intimately Korean business culture and economic circumstances. They can become valuable guides, promoters, advisors, counselors, and facilitators between Korean companies and American firms. Second, Korean-American professionals engaged in finance, economics, law, consulting, higher education and other related fields in the United States can marshal their considerable expertise for promoting and accelerating the internationalization of the Korean economy and assisting Korean business to adapt to global standards. Finally, Korean-American opinion leaders can enhance a better understanding between the two countries in various fields including the business and economic relationship.

VII. Need for a Paradigm Shift in Korean American Businesses

Up until now, Korean immigrant businesses in the United States have been mainly small-scale retail stores and family-operated shops catering to a rather limited number of local clients, either other Korean immigrants or a wider local clientele. One of the distinguishing characteristics of Korean immigrant businesses has been the fact that such businesses were started and subsequently operated by Korean immigrants simply as a means for livelihood to support their families in America. Many of the Korean immigrant businessmen started their earlier working lives in Korea, not as small shop owners or independent business people but as white-collar professionals with college degrees. Nevertheless, their lack of English proficiency, and, even more important, their lack of formal professional education in this country forced the new Korean immigrants arriving after the 1970s to seek manual jobs requiring only a bare minimum of English and no formal education.

Having been raised to adulthood in Korean society, where the societal hierarchy of the so-called Sa Nong Gong Sang (scholar mandarins, farmers, artisans and manufacturers, and merchants and traders) has been an accepted cultural legacy for centuries, the formerly white collar-turned blue collar Korean immigrant businessmen have resented their working life in this country but have coped with this humiliation through deepening their religious faith and with the expectation of a better life for their children. Thus, the hard work ethic of the immigrant parents has formed a distinguishing ethos for most first generation Korean immigrants, especially those third wave immigrants who have arrived in this country since the mid 1970s. Naturally, Korean immigrants have viewed their businesses as simply intermediate stepping-stones for a better future for their families. The shedding of many tears and the back-breaking sacrifices of the Korean immigrant merchants and store owners have always been connected to their noble dream and sure conviction of a better and more decent life to be enjoyed later in the U.S. by their children, who are raised in the most advanced educational system of the richest and most powerful country on earth.

Hence, the first-generation Korean immigrant businesses are mostly to be utilized for earning enough money to raise their families and not regarded as some enterprises to be nurtured and cared for in order to be passed onto their offspring. Most Korean immigrant business owners want their children to pick up different professional careers such as lawyers, medical doctors, engineers, scientists, and even college professors. In this sense, most Korean immigrant businesses lack the depth and durability as business ventures, and they tend to be mostly small retail service businesses, owned and operated by transplanted white collar professionals from Korea as simple means to earn a living in their newly adopted country called America. The future challenge for the Korean business community, therefore, is to develop a new breed of Korean businessmen, who are engaged in not small retail businesses tailored to a limited local client base necessarily but in technology-oriented ventures as well as in non-technology businesses such as financial services and trading businesses but still with a global or at least national clientele with the use of Internet and other modern marketing techniques. Fortunately, there are an increasing number of new venture firms founded by the second-generation Korean immigrants who are educated in well-known colleges and universities. Indeed, this new breed of the second-generation Korean business firms should be the model for successful Korean immigrant businesses, bridging the two markets of Korea and the United States.

Notes

1. Korea Trade Information Service (KOTIS), KITA, and *Direction of Trade Statistics*, various issues, IMF.
2. IMF, *Direction of Trade Statistics*, various issues.
3. Moonsung Kang and Suyeob Na, *Economic Policy Under the Bush Administration and U.S. Economic Performance in 2001* (in Korean), KIEP,

Seoul, Korea, 2001.

4. Between 1903 and 1905, about 6,740 Korean immigrants arrived in Hawaii according to steamship passenger manifests of those years.

5. On September 20, 2002, a Korean TV channel called SBS had a special on these "picture brides," who numbered at least 500 between 1910 and 1924, according to this documentary. See "100 Years of American Immigration: Review of Picture Brides,"