



THE SEJONG INSTITUTE

KOREA'S ECONOMIC DIPLOMACY

Survival as a Trading Nation

Edited by
The IPE Program
The Sejong Institute

Seoul, Korea

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Published by the Sejong Institute
CPO Box 8102, Seoul, Korea 100-681

The Sejong Institute is an independent, non-profit organization devoted to research on international affairs, national security, and Korean unification.

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Printed in the Republic of Korea by the OREUM Publishing House, Seoul, Korea.

ISBN 89-7429-311-0 93340

Preface

Perhaps the most remarkable—certainly the most familiar—development story in the latter half of the twentieth century is that of Korea. It is a classic rags-to-riches story; one of the poorest countries in the world ravaged by war finds prosperity within mere decades, the kind of riches that most countries spent generations to build. It is a tale that has fascinated the world over, having been told thousands of times over the years, and it is still the subject of much debate. Few would argue, however, about the source of Korea's prosperity: external trade. In the early 1960s, Korea had no trade to speak of; what little trading it did was mostly imports. Today, Korea is the world's twelfth largest trader.

Along with the opportunities that came with external trade, Korea found itself faced with increasing challenges in its international relations. Those challenges stem mainly from Korea's vital interest in maintaining a liberal world trade order, securing resources and technology abroad, and acquiring continued access to foreign markets. In order to articulate and defend its interests in the international arena, Korea is finding it necessary to take up a more active and positive role in international negotiations and organizations. In this context, the Uruguay Round of multilateral trade negotiations under the auspices of GATT (the General Agreement on Tariffs and Trade) has been a special learning experience for Korea. Though the results of the negotiations, especially those with the U.S., have been the subject of much criticism, the experience has

“awakened” Korea to the critical need for a more systematic and strategic approach to managing its international trade relations. Such an approach would require, among other things, redefining of Korea’s national interest, developing effective negotiation strategies, and harmonizing domestic differences that impede trade negotiations. In a word, Korea needs to hone its skills in “economic diplomacy.”

In the 1960s and the 1970s, South Korea had little reason to think about economic diplomacy. For one thing, the United States, the most important market for Korea’s manufactured exports, had a key interest in promoting Korea’s development. As a Cold War ally, the U.S. was concerned with helping Korea strengthen its economic base as a bulwark against communism in Asia. Outside of direct foreign aid, the best way to do this was through encouraging the unfettered growth of Korea’s exports. More importantly, since Korea’s exports were limited in quantity and were concentrated in labor-intensive and light manufacturing sectors, they generally represented little threat to the importing countries’ industries and labor. For these reasons, Korea did not have to pay much attention to economic relations with its trading partners.

But the situation began to change rapidly in the 1980s. In the midst of a world economic slowdown, advanced countries were going through difficult structural adjustments partly sparked by the increasingly sophisticated manufactured exports from a number of developing countries, especially from East Asia’s newly industrializing economies (NIEs). In response, the advanced countries began to take a number of steps to protect their domestic industries and protract the necessary adjustments. With increasing frequency, the countries took advantage of the GATT-sanctioned anti-dumping and countervailing duties, as well as such grey-area measures as voluntary export restraints and orderly market arrangements. As trade frictions proliferated, concerned voices were raised about the health of the world trading system based on GATT. The Uruguay Round was launched against this background.

As the trade talks progressed, the world had witnessed breathtaking political events: the dissolution of the Soviet empire and the collapse of the Cold War bipolar system. The post-Cold War era saw

the rise of economic security as the primary concern of nations, phrased as "the primacy of economics over security." The successful, albeit incomplete, conclusion of the Uruguay Round was a symbolic reflection of the changed reality in the global economy. Suddenly, people are feeling the very presence of the globalized economy and borderless competition. It looks as if nations, firms, and individuals will now compete in a single global village.

In this new setting, Korea finds itself "caught in the middle." On the one hand, there is high expectation that Korea will soon join the ranks of the developed countries. On the other hand, the country feels the heat of competition from several rapidly developing countries, especially those in Southeast Asia, who are rapidly catching up. Can South Korea win the catch-up game and pass through the narrow gate to the "chosen few"?

In the meantime, the emergence of regionalism in many parts of the world poses a serious challenge to Korea's economic security. The North American free trade area, created by the NAFTA (North American Free Trade Agreement), and the deepening economic integration between Japan and Southeast Asian countries, raise questions of Korea's vulnerability and isolation. How is Korea to deal with this adverse trend in the world economy? Is the consolidation of the Asia-Pacific Economic Cooperation (APEC) a viable alternative for Korea? Can Korea take advantage of China's rapid economic growth as a means to overcoming its difficulties with other trading partners? All of these questions can be subsumed into one: How can Korea survive and prosper as a trading nation? This very question provides the main subject matter for this edited volume.

Considering the importance of the topic, it is surprising that no single comprehensive book has ever been written on Korea's economic diplomacy, in or outside Korea, which is to say that this book has been long overdue. As the reader will find, this book is both theoretical and practical. Its contribution will lie in helping to focus the ongoing discussions and debate among scholars and practitioners of Korea's economic diplomacy, which will ultimately translate into policy.

The original publication date of this book was early 1994. Thus, a few chapters were submitted more than a year ago. Despite the

time passed, the editors have found that the chapters remain relevant, and so they are published in this volume with only minor modifications.

In closing, let me express my gratitude to those who have contributed to the publication of this book. My thanks goes first to the fifteen contributors, not only for their academic contributions but also for their patience in the long time that it took for the final publication. I also extend my deep gratitude to my colleagues in the International Political Economy Program here at Sejong. On top of contributing their own chapters, they undertook a difficult task of planning, organizing, and editing this book from beginning to end. Among them, I would like to mention in name Dr. Jin-Young Chung, who was primarily responsible for finalizing the project.

February 1995
Bae Ho Hahn
President

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PART I

New Challenges to the Korean Economy

Chapter 1

The Uruguay Round Negotiation: Process, Result, and Beyond

Jin-Young Chung*

Introduction

On December 15, 1993, the long-awaited news finally came from Geneva, relieving the world from the risk of breaking down the global trade system which had worked so well in the post-World War II era. Just ten hours before the U.S. President's "fast track" authority was cut off, Peter Sutherland, GATT's Director General, declared, "I gavel the Uruguay Round as concluded." Representatives from GATT's 117 contracting parties applauded and cheered at what they had achieved since their meeting at Punta del Este, Uruguay, in September 1986. An editorial in the *New York Times* appearing next day acclaimed the successful completion of the world trade talks as "a global gift" and "a victory for the global economy."¹

Although negotiations over some important issues including financial services, audio-visual products, maritime services, and

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¹ *The New York Times*, "After Seven Years, A Global Gift," December 16, 1993.

basic telecommunications were postponed, their outcome would not pose a threat to the round as a whole. Country schedules for liberalization and reductions in trade barriers were submitted to the GATT and underwent the multilateral verification process afterwards. On April 12-15, 1994, a Ministerial Meeting of the Trade Negotiations Committee of the Uruguay Round convened in Marrakech, Morocco, to sign the final complete text of agreements and country schedules. The ministers also established "the Preparatory Committee for the World Trade Organization" which would work for "an orderly transition from the GATT to the WTO and the efficient operation of the WTO as of the date of its entry into force."² The remaining procedure for the implementation of the negotiation results is the contracting parties' domestic ratification. There is no serious, though not improbable, doubt that major countries will block the implementation of agreements due to difficulties in getting domestic approval in 1994. Thus, it seems quite certain that the results of the Uruguay Round will come into effect by early 1995 and the World Trade Organization (WTO) will be in place.³

In retrospect, the timing of the Uruguay Round of multilateral trade talks came at a critical period of global transition. On an economic level, the negotiation itself began when the GATT-centered multilateral trade system had been losing its grip over evolving international trade practices. Especially, new-protectionist and regionalist temptations and attempts were on the rise in advanced countries, encroaching and eroding multilateral trading rules, while the increasing importance of services trade and international investment flows in the world economy tended to peripheralize the GATT's relevance. To sum up, the multilateral trade system was to be strengthened and broadened in order to prevent collapse. As a specialist on GATT negotiations put it, "What [was] fundamentally at issue in the Uruguay Round [was] whether world trade [would] be governed by regulations established through cooperative interna-

² For a brief discussion of the functions and structure of the WTO Preparatory Committee, see *GATT/WTO News*, June 24, 1994.

³ The exact timing of establishing the WTO will be decided by the Trade Negotiations Committee in early December, 1994.

tional negotiation, or by regulations established on a more self-serving basis by national governments."⁴

On a political level, the Uruguay Round negotiation overlapped in time with the dramatic collapse of the Cold War system. The disintegration of the Soviet bloc and the Soviet Union itself dissolved the bi-polar structure of the post-World War II world order, while no alternative system of international management yet has come into being. Thus, a number of uncertainties have been conspicuous in many aspects of international relations. The passing away of the Soviet Union has brought American weakness and vulnerabilities to the surface, robbing the world of hegemonic leadership. Furthermore, the removal of the "security blanket" among Western nations has put the alliance system under strain in face of each nation's pursuit of their particular interests.⁵ In what way can nations, especially major powers, adjust themselves to this changing world order? And what is the essential feature of the emerging world order? Many scholars and policy-makers have come to be concerned with these big questions in the last several years.

In this context of global transformation, it was widely believed that the Uruguay Round was a critical test case on the direction that the world order is moving toward: either intensified conflicts among nations and regions or cooperative management based on international rules and institutions.⁶ Its success would reinvigorate the faltering world trade system, yielding both political and economic benefits for the whole world, while its failure would certainly contribute not only to the further erosion of multilateral discipline over trade but, also to the escalation of trade disputes to political conflicts. From this perspective, we can understand the sense of relief at the moment of the conclusion of the Uruguay Round. Peter Sutherland

⁴ Gilbert Winham, *The Evolution of International Trade Agreements* (Toronto: University of Toronto Press, 1992), pp. 71-72.

⁵ C. Fred Bergsten has raised this danger clearly in the following articles: "The World Economy after the Cold War," *Foreign Affairs*, Vol. 69, No. 3 (1990); and "The Primacy of Economics," *Foreign Policy*, No. 87 (Summer 1992).

⁶ For instance, see G. Winham, *The Evolution of International Trade Agreements*, chapter 5.

at that moment proudly claimed: "There are those, not without reason, who find the post-cold war world full of new risks and tensions.... Today, the world has chosen openness and cooperation instead of uncertainty and conflict."⁷

Then, how should we perceive and evaluate the successful completion of the Uruguay Round negotiation in the context of the evolving global trading system? In order to deal with this question, we have to look into the way in which the Uruguay Round negotiation proceeded and was finally concluded, and evaluate its main results in terms of their probable impact on international trading practices. These are the main purposes of this chapter.

The Political Process of the Uruguay Round Negotiation

If one believes in the virtues of the division of labor and exchange, one will prescribe for his nation an unconditional free-trade policy regardless of what others do.⁸ However, it is certain that he will face strong opposition from many of his countrymen and will be frustrated by the presence of various protectionist measures in his country and elsewhere. Thereby, he may come to recognize the inelegance of real world trade policies and the difficulty of trade policy reform. The basic reality, in which multilateral trade negotiations are set up and international trade rules are reformed, is a world divided into numerous and diverse sovereign states competing for their own national interests above the global commons. Thus, international trade can hardly be freed from national interventions and distortions.⁹

It has been in this context that a series of multilateral trade

⁷ Quoted in Roger Cohen, "Envoys Face Home Battles for Approval," *New York Times*, December 16, 1993.

⁸ For a brief discussion of the theory of unilateral free trade and its historical development, see J. Bhagwati, *Protectionism*, pp. 24-33.

⁹ It was in this sense that Gilbert Winham points out that "the modern trade policy has become a contest between two forms of regulation: domestic laws, which convey benefits mainly to national products, and international laws, which liberalize economic exchanges between nations." G. Winham, *The Evolution of International Trade Agreements*, p. 71.

negotiations (MTNs) under the auspices of the GATT have been the fora of mutually reducing protection and establishing the rules of the trading game. How are national governments able to agree on specific rules of behavior and reductions in existing trade barriers? Governments are domestically constrained in their external activities while their pursuit of international objectives is also restricted by their foreign counterparts. Thus, the game of multilateral trade negotiations structurally consists of two closely related games, or a two-level game, if we borrow Robert Putnam's metaphor: one at the domestic level and the other at the international level.¹⁰

Domestically, the game is basically concerned with deciding a package of negotiation objectives and strategies and how to distribute among different sectors and groups gains and burdens of an international agreement. The structure of protection at any point in time can be seen as a result of the interaction between the demand expressed by various interest groups and the supply offered by governments or policy makers. Attempts to alter this equilibrium in the context of an MTN will result in opposition by those groups that expect to lose from liberalization. One way of coping with this problem is to provide side-payments to those who lose as a result of an international agreement with resources possibly taken from those who gain. However, it should be remembered that domestic bargaining is, at least, as difficult as international bargaining.

Internationally, the game is focused on hammering out an agreement from diverse and conflicting national objectives and priorities. This would inevitably involve an allocation of gains and burdens among different countries. The negotiation usually proceeds by giving and taking requests and offers according to the principle of "symmetric rights and obligations for member states, rather than unilateralism in free trade."¹¹ At any certain point of time, the current international trade system can be understood as representing an equilibrium of opportunities and burdens among diverse countries. Thus, any change from this equilibrium will meet varying responses

¹⁰ Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization*, Vol. 42, No. 3 (Summer 1988).

¹¹ Bhagwati, *Protectionism*, p. 35.