

THE UNIVERSITY OF HULL

THE POLITICAL ECONOMY OF GLOBALIZATION AND REGIONALISM: AN
ANALYSIS OF THEIR IMPACT UPON THE DEVELOPMENT OF SOUTH KOREAN-
EUROPEAN UNION TRADE

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ABSTRACT

Since the end of the 2nd World War, we have witnessed a tremendous amount of world trade expansion. This has been in part caused by the favourable international trading environment provided by the public good, the GATT, aided by the politico-economic hegemony of the United States of America. Korea took advantage of this favourable situation by pursuing an economic development strategy of export-led growth. As the US hegemony began to decline, the formation of a multipolar system based upon regional blocs, has given a new dimension to Korea's international trade.

In EU-ROK economic relations, regionalism and globalization of world trade has brought Korea both challenges and opportunities. The case study of Korea's leading electronics firms clearly suggests the requirement for the maintenance of a physical presence through FDI to conduct business successfully in the European market. The new international, politico-economic order obliges firms outside a regional body to locate marketing, manufacturing or even product development within the territories of a regional economic group to avoid NTBs such as anti-dumping.

Economic interaction between the European Union, a giant of regionalism with potential economic power and the Republic of Korea, a forerunner among newly industrialized nations, highly vulnerable to outer setting, seems to be regulated by rules and norms, like the pendulum moving between the two extremes of protectionism and a free, liberal trading environment. The study attempts to show that Korea's exports to the EU market will increase more and more as the pendulum moves toward the free trade logic based upon multilateralism.

In order accurately to analyse the EU-Korean economic relationship, a better understanding of regionalism and globalization of World trade should be added to the existing literature on the international political economy (Realism, Liberalism, Marxism). The general assumption of the study is based upon economic liberalism which puts much focus on economic efficiency. As a model of deep economic integration, whether the European Union is strongly committed to multilateralism or resorts to protectionist trade regimes such as anti-dumping, quantitative restrictions, or local content rules, will be a major determinant of EU-Korea trade interaction in the future because Korea will continually pursue economic development with export-oriented characteristics.

The maximization of EU-ROK economic exchanges will be achieved only when the world trading system is committed to multilateralism under the WTO in general, and the EU's pursuit of open regionalism to reduce NTBs against the ROK in particular. Of course, Korea should make reciprocal efforts further to liberalize and deregulate its trade regimes by opening more markets to foreign products. Korea's active pursuit of globalization and localization strategies to penetrate into the EU market is a prerequisite for a continuous rapid growth of the Korean economy.

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ABBREVIATIONS

ACP	Asian, Caribbean, Pacific
AD	Anti-Dumping
ANICs	Asian Newly Industrializing Countries
ANIES	Asian Newly Industrializing Economies
APEC	Asia-Pacific Economic Council
ASEAN	Association of Southeast Asian Nations
CAP	Common Agricultural Policy
CCP	Common Commercial Policy
CCT	Common Customs Tariff
CEE	Central and Eastern Europe
CET	Common External Tariff
COMECON	Council for Mutual Economic Assistance
CU	Customs Union
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECSC	European Coal and Steel Community
EEA	European Economic Area
EFTA	European Free Trade Area
EP	European Parliament
ERM	Exchange Rate Mechanism
EU	European Union
EUROSTAT	Statistical Office of European Communities
FDI	Foreign Direct Investment
FTA	Free Trade Area
G-7	Group of Seven Western Industrial Nations(US, UK, Japan, Italy, Germany, France and Canada)
GATS	General Agreement on Tariff and Service
GDP	Gross Domestic Product
GR	Green Round
GSP	General System of Preferences
IBRD	International Bank for Reconstruction and Development
IGO	Intergovernmental Organization
IMF	International Monetary Fund
ITC	International Trade Commission
ITO	International Trade Organization
KOICA	Korea International Cooperation Agency
LDCs	Less Developed Countries
M&A	Merger and Acquisition
MFA	Multi-Fibre Arrangement
MFN	Most-Favoured Nation
MOITE	Ministry of Trade, Industry and Energy
NAFTA	North America Free Trade Area
NCPI	New Commercial Policy Instrument
NICs	Newly Industrializing Countries
NPT	Non-Proliferation Treaty
NTBs	Non-Tariff Barriers
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturing
OMA	Orderly Marketing Arrangement

OOPEC	Office for Official Publications of the European Communities
OPEC	Organization of Petroleum Exporting Countries
R&D	Research and Development
RIA	Regional Integration Agreement
SEM	Single European Market
SITC	Standard International Trade Classification
STABEX	Stabilization of Export Earning Scheme
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related Intellectual Properties
UK	United Kingdom
UN	United Nations
USA	United States of America
VAT	Value Added Tax
VER	Voluntary Export Restraint
VRA	Voluntary Restraint Agreement
WB	World Bank
WTO	World Trade Organization

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Tae Woo Park
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CHAPTER ONE. THE CHANGING INTERNATIONAL POLITICAL ECONOMY OF TRADE

1.1 Introduction

The period since the end of the second World War has been marked by the rapid expansion of world trade.¹ The Republic of Korea(ROK)² has been one of the main beneficiaries of the subsequent expansion in international trade. Aided by the politico-economic hegemony of the United States of America(USA) and the postwar framework for international trade, the General Agreement on Tariffs and Trade(GATT) has provided the ROK with a public good³, enabling her to secure the rapid economic development with a strategy of export-led growth.⁴ However, regionalization and globalization of the world economy, caused by the political redefinition of the US's hegemonic role,

¹. Beginning in the early 1950s, the major trading nations of the world recorded sustained economic growth over a twenty-year period, with an average growth record of 4.9 percent from 1950-1970, and in excess of 5 percent to 1973. During the period 1973-1980, the average annual growth rate fell to 2.9 percent. During the 1960s, 1970s and 1980s, Korea grew much more rapidly than other countries, averaging 9 percent annually. See more statistics in Table 2.6: Growth in the Volume of World GDP and Merchandise.

². I shall use the Republic of Korea (ROK) as the official name of South Korea. However, to avoid excessive repetition, I shall use "South Korea" and "Korea" to describe the ROK.

³. The specific definition of a public good is based upon the characteristics that consumption of the good by one person does not reduce the chances of others consuming the good; and that can be prevented from consuming the good.

⁴. with regard to detailed statistics and policies of the ROK government economic performance since the early 1960s, the sub-chapter 4.1, Korea's Industrialization Pattern and Its Participation into the World Economic Structure, provides more comprehensive information.

has created more opportunity for uncertainty and protectionist pressures in the world market, which has imposed more constraints and restrictions upon the ROK's export-promotion strategies. The European Union(EU)⁵ is the foremost example of a pattern of political and economic development based upon integration and regionalization, whose trade policies pose a threat to the ROK's future economic development.

The changed world order has compelled Korean firms to establish a physical presence inside the EU⁶ to conduct business

⁵. The term, European Union has been used since the 1991 Intergovernmental Conference on political union, officially by all the members since by the ratification of the Maastricht Treaty. Although it was not until January 1994 that the European Union started to exist to replace the European Community, I shall use the term European Union(EU) consistently in referring to both the pre-and post-1994 situation; the term "European Community" will only be used in quotations and in the bibliography. To avoid excessive repetition, however, I shall also use the expressions, "European Communities" and "Europe" to describe the EU.

⁶. Several factors, including the success of the Single Market programme and the collapse of communism increased the momentum for integration as the European Community entered the 1990s. The member states opened negotiations to complete economic and monetary union, to reform EC institutions, and expand community competence in foreign and security policy. Final negotiations took place in December 1991 in Maastricht, The Netherlands, and the Maastricht Treaty was signed there on 7 February 1992. A debate then opened in Europe over the merits of further integration. Public dissatisfaction with the complex treaty combined with a currency crisis and a severe economic recession to sap popular and elite enthusiasm for the European project. Nevertheless, all twelve countries finally ratified the treaty, which came into force in late 1993. The completion of the agreed agenda is in process and some sensitive sectors are on the agenda. The expansion of the Community competence in the area of economic and monetary union and foreign and security policy needs to be adjusted once more at the 1996 Intergovernmental Conference(IGC) on the review of the Maastricht Treaty. Quoted in Brent F. Nelsen & Alexander C-G. Stubb (eds.), *The European Union: Readings on the Theory and Practice of European Integration*, Boulder, Colorado: Lynne Rienner Publishers, Inc., 1994, p.65.

successfully in the European market. Regionalism has obliged firms outside a specific regional body to locate marketing, manufacturing or even product development within the territories of a regional economic group. The ROK needs a creative and constructive response to the EU's challenges. Two of the ROK's major firms' responses to the regionalism of the EU will serve to illustrate the new challenges and responses which have been created by regionalization and globalization of world trade in general, and the EU's trade regimes in particular. The ROK's future economic relationship with the EU will depend heavily on the extent of the EU's and the ROK's commitment to multilateralism in trade relationships, and the extent to which the EU will resort to mercantilism in its trade policy, supported by policy measures such as anti-dumping, quantitative restrictions, voluntary export restraint(VER), and local content rules. The rapid pace of innovation in the international economy, such as new information technologies is destroying old companies and creating new ones. In response to regional groupings and to develop new markets, multinational companies are accelerating the globalization process.⁷ This thesis provides an analysis of the dynamics of the relationship between globalization and regionalism in world trade and the implications for the development of the South Korean economy. This theme is explored through an analysis of South Korean-European Union trade relations with specific reference to the

⁷. Kenichi Ohmae elaborates on a borderless world, with much focus on the information age, by saying that we are moving into a single, information-driven economy. See "Thinkers of The Nineties" by Bryan Appleyard in *Independent*, Monday 11 December 1995, p.13.

electronics sector. The following case studies of Samsung Electronics and Lucky-Goldstar(LG) Electronics seek to make an important contribution to our understanding of the political economy of multinational business responses to the regionalization and globalization of world trade.

This thesis aims to provide a more comprehensive understanding of the ROK-EU economic relationship by employing different levels of analyses. Traditional analysis of trade relations has been based upon national and international political economy. In order to provide a more informative analysis, the new international economic environment demands that analysis focus upon the developing levels of regionalism and globalism. The three traditional schools of International relations theory (Realism, Liberalism, and Marxism) only partially explain important aspects in the world contemporary trading system. Due to its complexity, the EU-ROK bilateral economic relationship has to be explored at a number of levels. Globalism and regionalism can not be properly explained by the traditional theoretical literature. Only when the development of the globalization and regionalization of the world economy is understood, can one understand the extent of the challenges facing governments and major companies alike. The threats to multilateralism⁹ in trade relations posed by aggressive

⁹. This is a cognitive dimension of international trade in which each state trades with many other states. Its opposite dimension is unilateralism or bilateralism. The advantage of multilateral trade is that it enables the total volume of trade to be greater than with bilateral trade. The GATT has been the engine of multilateral trade through tariff reduction and quotas abolition. A detailed definition and conceptualization of multilateralism must include three properties. James A. Caporaso argues in his article, "International Relations Theory and Multilateralism," in John Gerald Ruggie (ed.), *Multilateralism*

unilateralism or bilateralism¹⁰ have major implications for the ROK's Economy.¹¹ The postwar GATT regimes which helped to encourage the rapid expansion of international trade suggest that multilateral trade regimes in the international dimension offer an effective approach for promoting economic welfare within and between national economies. The system of

Matters: The Theory and Praxis of an Institutional Reform, New York: Columbia University Press, 1993, that these are indivisibility, generalized principles of conduct, and diffuse reciprocity. He argues that these three properties should be treated as a coherent ensemble which is itself indivisible, rather than as additive, detachable indicators of multilateralism. Indivisibility could be defined as the scope over which costs and benefits are spread. The practical application of this property means shared costs and benefits of world community members. The past world economic recession is a good example, whereby no nation could be excluded from the economic costs. James also defines the generalized principles of conduct as usually coming in the form of norms. This practically reduces individual preferences, situational exigencies, and any priorities, differentiating relations case by case to maximize short-sighted sectoral national interests. In order for all nations in the world community to stick to multilateralism, international actors, mainly nation states, should have a perception that they would benefit in the long run and over many issues rather every time, on every issue, based upon the concept of diffuse reciprocity, not on specific reciprocity.

¹⁰. It is an attempt by two countries to balance their trade flows instead of seeking to balance their trade with the world as a whole(multilateralism).

¹¹. Protectionism is a policy to favour the adoption of tariffs, quotas, and other restrictive measures to make domestic products competitive with foreign imports. The term is often used pejoratively, because the adopted policy is usually intended to defend a particular interest. It is considered as being to the detriment of a nation as a whole in economic theory. On the contrary, economic liberalism is based upon free trade in which trade takes place without the imposition of tariffs or quotas on imports by any individual nation. The theory of international trade advocate this as maximum advantage to the world, but such an ideal situation has never existed.

multilateral trade has been recognized by such scholars as James A. Caporaso as the most desirable overall regime for international trade. The recently agreed multilateral framework for world trade created by the completion of the Uruguay Round of the GATT has raised the possibility of a conflict between global and regional frameworks for trade. This study also aims at demonstrating that the EU adherence to multilateral trade disciplines will best promote Korea's exports into the EU. From the ROK's perspective, based upon the concept of reciprocity¹², Korea must open its domestic market in order to be able to promote its agenda for the progressive liberalization of world markets. The EU's full commitment to multilateralism and its consequent pressure to persuade the ROK to stick to multilateralism by opening more Korean markets, will also favour the EU's exporters.

What we need is a methodology that considers domestic and system level variables simultaneously, rather than sequentially, and specifies whatever interactions there may be among all relevant variables in a rigorous manner.¹³ The level of analysis

¹². This is a bilateral form of tariff agreement in which nations agree to extend to each other any reductions in import tariffs made by one of them, usually within certain limits and over a certain range of goods. Reciprocity is one way of encouraging free trade.

¹³. Benjamin J. Cohen, "The Political Economy of International Trade," in Kendall W. Stiles and Tsuneo Akaha (eds.), *International Political Economy*, New York: Harper Collins Publishers, 1991, p.183.

matters here, because the comprehensive description of EU-Korean economic interaction requires the combination of many levels of analysis.

1.2 Redefinition of US leadership and Divergent Views on International Political Economy

The USA has been the dominant economic power during the twentieth century.¹⁴ However, Michael Albert diagnoses the end of the Cold War as a context in which a new form of competition has arisen between capitalisms. This competition of capitalisms between *those based upon the neo-American model* and those based upon *the Rhine model*, Albert argues, is very central to future trade relations.¹⁵ The neo-American model is more concerned with individual achievement and short-term profit; on the other hand, in the Rhine model, collective achievement and public consensus are regarded as the keys to long-term success.¹⁶ The outcome of the competition between these rival capitalisms will

¹⁴. Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, London: Nicholas Brealey Publishing, 1993, chap.1.

¹⁵. An article, "Stakeholder Capitalism," *The Economist*, February 10th-16th 1996, p.23-25, states that "the models of what are popularly known as shareholder and stakeholder capitalism are each something of a caricature; but the caricature is not wildly misleading. In America and Britain, many voices now assert that stakeholder capitalism is the more attractive. President Clinton and the Labour Party leader, Tony Blair, have both called on companies to behave with greater social responsibility."

¹⁶. Michael Albert, *Capitalism Against Capitalism*, London: Whurr Publishers, 1993, pp. 1-19.

determine the future of the world trading system.¹⁷

In the analysis of the new order through the major actors, there are now three relatively equal contenders- Japan with the "four tigers"(South Korea, Taiwan, Hong Kong, and Singapore), the European Union, centred around its most powerful country, Germany, and the United States. According to Lester Thurow's new game perception, the breakdown of the Cold War has produced drastic changes with the creation of multipolarity followed by the political redefinition of the US hegemony in the world economy. Lester Thurow argues that the success of the market economies in Japan, Germany and the four tigers in East Asia has shaken the world economic order framed around the US, moving toward a tripolar structure built upon Japan, the EU and the US. There will be new rules for international economic competition different from the GATT-Bretton Woods System, which was mainly designed to help the industrial nations regain their economic vitality after the destruction of the War. The GATT system,

¹⁷. Lester Thurow introduces another analysis of competition in his book, *Head to Head: The Coming Economic Battle Among Japan, Europe and, America*(pp.30-35), between two different forms of capitalism identified by George C. Lodge, a Harvard Business School professor. George's version is the competition between the Anglo-Saxon British-American form of capitalism and the Communitarian German and Japanese variants of capitalism. The essential difference between the two forms of capitalism is their stress on communitarian versus individualistic values as the route to economic success- the "I" of America or of the United Kingdom versus "Das Volk" and "Japan Inc." In the Anglo-Saxon variant of capitalism, the individual is supposed to have a personal economic strategy for success, and the business firm is supposed to have an economic strategy that is a reflection of the wishes of its individual shareholders to maximize profits. In communitarian capitalism, individual and firm strategies also exist, but on a different basis. The individual does not play as an individual. By joining a team or group, then, he becomes successful as part of that team. Consequently, the key decision in an individual's personal strategy is to join the right team.

which provided rules, procedures and institutions and values designed for a Cold War structure, does not work efficiently in a multipolar world.

A new system of quasi-trading blocs is emerging.¹⁸ Despite Thurow's very dynamic analysis of the world transformation, it will take considerable time fully to shift from the GATT system to a new type of system in the future. One of the hidden factors in the change has probably been technological improvements, which have greatly reduced the costs of transportation and communication, making multinationals active pushers for globalization.

Stephen D. Krasner points to two factors, indicating some possible uncertain development deviating from multilateral international trade order. These are, firstly, the decline of US power and secondly, interest group conflicts, especially those generated by the pattern of Japanese economic interaction with other major industrialized nations. The US was the only hegemonic power in the non-Communist World after the 1945. Consequently, the postwar world order reflected American values and preferences under the name of multilateral liberalism. The United States liberal democratic philosophy, with highly individualistic orientation and the principle of market economy, has been in contest with the former Soviet Communism characterized by totalitarianism. The top priority of American policy makers was naturally to frustrate the Soviet Union and the expansion of Communism. At that time, the major concern of

¹⁸. Ibid., pp. 15-16.

the American leaders was not the immediate economic interest, instead, it has traditionally been the long-term strategy to block Communism.

In the same context, Robert Bates¹⁹ also identifies the US as the only hegemonic power in non-Communist World after the War; the US was never hesitant to make short-term economic sacrifices to win fierce competition against the Soviet Union and Communism. The role of the US helped enhance the development of an open, liberal, multilateral international economic order. Supported by this order, other liberal nations could save the costs of managing the uncertainty.

The transfer from a hegemonic era to a multipolar one suggests some conflict areas in the pursuit of each nation's interests. The declining power of the US has contributed to the instability of the liberal international economic regime. William S. Borden's summary of American policy in Europe in the 1950s and 1960s is that it continued to be directed by a larger grand target - the deterrence of the Communist expansion - specific U.S. economic interests have been relatively ignored.²⁰ The US supported the Treaty of Rome which created the European Economic Community. They encouraged cooperation among other industrial states as a hegemonic power. The decline of the US as an economic superpower reflects

¹⁹. Robert Bates, et. al., "Risk and Trade Regimes: Another Exploration," *International Organization*, Vol. 45. No. 1, Winter, 1991, pp. 1-10.

²⁰. William S. Borden, *The Pacific Alliance: The United States Foreign Economic Policy and Japanese Trade Recovery, 1947-1955*, Madison: Univ. of Wisconsin Press, 1984, p.26, pp. 35-55.

the vulnerability of the world trading system to protectionism. The replacement of one hegemonic nation by three major multipolar actors (the US, Japan, and the EU) in terms of politics and economy, inevitably calls for the restructuring of the international economic regime.

While the general principles and commitments of American policy makers have not changed, both internal and external pressures have led to the adoption of new policies based upon specific reciprocity.²² For instance, the changed structure of the international political economy forced trade legislation, the Act of 1974, the Trade Act of 1979, the Omnibus Trade and Competitiveness Act of 1988, to be more concerned with specific American interests than the stability of the global economic system as a whole. Specific policies have diverged from the norms of diffuse reciprocity, openness, and non-discrimination. To serve specific interests, policy makers employ protectionist measures. The US adoption of aggressive unilateralism under the Super 301 Act is a manifest violation of multilateralism under the authority of the WTO. The core argument of the Super 301 Act is simple in that the precondition of free trade is fair trade. The fairness is measured by the degree of market openness to US products. This reflects the shift in US foreign trade policy from the role of public good provider as the world leader in the past to the today's US interest-oriented commercial policy from

²². See Robert Keohane, "Reciprocity in International Relations," *International Organization*, Vol. 40, No. 1, Winter, 1986, pp. 1-27. It is a GATT principle applying to trade policy according to which countries must, in international tariff negotiations, reciprocate, i.e. offer tariff concessions in return for receiving tariff concessions.

the US perspective.²³

Robert Keohane²⁴ explains the major reasons for regionalism in Europe. The major reason for the internal market of the EU was the functional incentives created by growing economic interdependence. The level of interdependence has become so great that unilateralism is no longer an effective policy option. The member nations of the EU have had to focus on promoting their international competitiveness, a demand prompted in part by the Japanese, American and the Asian Newly Industrializing Economies' (NIEs) threats.²⁵

The world's three major trading regimes account for more than 80 percent of the world GDP. The European Union is the most institutionalized form of regional bloc. The role of the state has been changed in the economic dimension. Contemporary political economy suggests a number of theoretical and philosophical reasons why we need to understand the importance of political and economic actions beyond the nation state. American specialists in international politics for the two decades following World War II, saw the Cold War and the defence of the non-Communist world as the primary focus of US foreign relations. Consequently, they relied on paradigms in which

²³. DongAh Daily News Publication, *The United States of America: the Light and Shadow of a Superpower*, Seoul, Korea, January 1996, pp.204-7. (In Korean.)

²⁴. Robert Keohane & Stanley Hoffman (eds.), *The European Community: Decision-making and Institutional Change*, Boulder, Co: Westview Press, 1991, pp. 15-35.

²⁵. The Asian Newly Industrializing Economies are referred to as the four tigers; (South Korea, Singapore, Hong Kong, and Taiwan) throughout the study.

security and power relations among states were deemed central to world politics. The dominant paradigm led to a focus upon the state as the sole or the primary actors in world politics.²⁶ In the conceptual framework of international politics, only the state received much attention in studies of international politics.

Table 1.1 : Regional Shares of World output and trade in 1990

Region	Share of world GDP(%) in 1990	Share of World exports in 1990
Western Europe	34	46
Eastern Europe	4	5
Total Europe	38	51
North America	30	18
Latin America	4	3
Total America	34	21
Asia	25	21
Japan	14	8
Australia	2	1
Developing Asia	9	12
Africa	2	3
Middle East	2	3
Total World	100	100

Note: Eastern Europe includes the Soviet Union

North America includes Mexico

Exports and Imports in terms of merchandise

Sources : Quoted in Kim Anderson & Richard Blackhurst (eds.),
Regional Integration and the Global Trading System,
 London:Harvester Wheatheaf, 1993, pp. 6-7.

Changes in international economic relations confronting American decision-makers over the past two decades have prompted

²⁶. Hans Morgenthau, *Politics Among Nations*, 4th ed., New York: Knof, 1967, pp.25-26.

numerous efforts at reconceptualizing relations in ways that capture international political and economic behavior better than the power and security focus of political realism.

Such paradigms place economics alongside military security as key political issues. Multinational firms, international banks, transnational policy networks of like-minded technocrats, international economic institutions, and economic classes, in addition to states, are analysed as key actors in international relations. The logic of market uniting countries in a global division of labour competes with the logic of power and the security dilemma in ordering relations within and among states. The interdependence among nations in the world is so deep that it would be a rather difficult task for us to say which policies are most appropriate for resolving conflicts of interests among states and other actors.²⁷ The increased sensitivity in economic interdependence among virtually all states compels us to assess the political implications of international economic transactions everywhere.²⁸

The ever-deepening interdependence of the world economy is a natural process of world economic integration. Ernst Haas defined integration as *"the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new and larger center whose institutions process or demand*

²⁷. Robert S. Walters and David H. Blake, *The Politics of Global Economic Relations*, Englewood Cliffs, N.J.:Prentice Hall, Inc., 1992, pp.3-5.

²⁸. Roy H. Ginsberg, *Foreign Policy Actions of the European Community*, London: Adamantine Press Ltd., 1989, P. 11.

jurisdiction over the preexisting national states".²⁹ To use Haas's version of integration to explain economic integration, it could be defined as the process whereby politico-economic actors in the worldwide dimension are creating common rules for universal economic relations. The GATT may no longer be performing the major function of arbiter for unfair trade practices.³⁰ Lester Thurow has analysed this transformation by the ever-increasing competition among capitalist nations since a economic competition between communism and capitalism ended.³¹ The economic superiority of the US shifted to equality, with the sharp decline of the US' share of the World GNP from more than half of the world total in the 1940s to 22-23 percent of the total during the early 1990s. This implies that the unipolarity of US dominance will not work in a multipolar system any longer. In response, trade is managed by government and non-tariff barriers are rising in the formulation and implementation of US trade regimes.

²⁹. Ernst Haas, *The Uniting of Europe: Political, Social, and Economic Forces*, Stanford, California: Stanford Univ. Press, 1958, pp. 7-15.

³⁰. On the detailed debate between regionalism and multilateralism, see Ross Garnaut, Peter Drysdale and John Kunkel (eds.), *Asia Pacific Regionalism: Readings in International Relations*, Sydney: Harper Educational, 1994. In the book, Bhagwati concludes on the issue by saying that the revival of regionalism is unfortunate; Paul Krugman thinks more research is required to reach a clearer conclusion on the welfare effects of regional trading blocs as Soogil Young's argument that regional trading arrangements are building blocs towards an integrated global system is hardly based on convincing ground, in that for East Asians, their economic dynamism has depended very much on international trade, and they feel they have been left without a bloc of their own.

³¹. Lester Thurow, op. cit. p.32.

Economic relations are now being played out simultaneously at the bilateral, sub-regional, and international levels. Consequently, the priority must be to reduce the contradictions among these various levels. The WTO is expected to strengthen the international levels. Despite such a mechanism, our fear lies in the trend toward sub-regional and regional priorities. Heightened economic protectionism with neo-mercantilist practices will remain extensive in the prevalent mood of unfairness; thus, managed trade will persist.³²

Lester Thurow has described the shift of competition from niche competition to head-to-head competition. What was an era of niche competition in the last half of the twentieth century will become an era of head-to-head competition, he argues, in the first half of the twenty-first century. He analyses the niche competition as a win-win structure whereby everyone has a place where they can excel; while head to head competition is win-lose. Some will win; some will lose. During the last half century, military needs prevented economic conflicts from getting out of hand. From now on, economic cooperation will have to stand on its own, and economic arrangements will not be held together with military glue. The economic game of the twenty first century will be cooperative as well as competitive.³³

³². Robert A. Scalapino, "New World Economic Order and Korea's International Role," in Jang-Son Suh (ed.), *Korea's New International Economic Diplomacy and Globalization Policy*, Seoul: Korea Institute for International Economic Policy, 1993, p.3.

³³. Lester Thurow, *op. cit.*, p.31.

Admitting the multipolarity of the international economic system, Hans-Eckart Scharrer³⁴ questions the existing blocs' role as constructive or stumbling to wider forms of multilateral trade forum. It remains to be seen how the WTO will function in the resurgence of new protectionism. The GATT principles of non-discrimination, transparency and reciprocity have been much abused by the disguised forms of trade barriers such as VERs, price undertakings, anti-dumping, or export subsidies. The neo-mercantilist approach in trade is caused by the lack of competitiveness. According to the report of the President's Commission on Industrial Competitiveness³⁵, competitiveness is defined as "the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining or expanding the real income of its citizens." Trade frictions are based upon variations in competitiveness. As the major underlying reasons of competitiveness, Jeffrey A. Hart argues that some state-societal arrangements are conducive to the creation and diffusion of new technologies.³⁶ The most

³⁴. Hans-Eckart Scharrer, "Existing Economic Blocs: A Building Block or Stumbling Block to Wider Forms of Multilateral Trade Forum?" in Jang-Won, Suh (ed.). *Korea's New International Economic Diplomacy and Globalization Policy*, Seoul: Korea Institute for International Economic Policy, 1993, p.53.

³⁵. *Report of the President's Commission on Industrial Competitiveness, Global Competition: The New Reality*, Vol.2, Washington. D.C.: US Government Printing Office, 1985. p.6.; and Stephen S. Cohen and John Zysman, *Manufacturing Matters: The Myth of the Post-Industrial Economy*, New York: Basic Books, 1987, p.60.

³⁶. Jeffrey A. Hart, *Rival Capitalists: International Competitiveness in the United States, Japan, and Western Europe*, Ithaca and London : Cornell University Press, 1992, p.5.

significant microlevel of analysis to interpret regionalization and globalization of the world economy is the concept of competitiveness. Increasing trade balances and world export shares, high rates of productivity growth, rapidly growing real wages and so on, are all related to increasing international competitiveness.³⁷

Meeting the test of an international market means the ability to design, produce, and distribute goods and services at costs that are globally competitive.³⁸ Factor costs and the application of the latest technologies are central. There is also the question of whether market conditions are not discriminatory. If they are not, then some countries will appear to be internationally competitive when they are not, because their domestic markets are sheltered or their firms are receiving large subsidies.³⁹ The question of real incomes matters. If a country is experiencing a large increase in exports but real incomes are declining, workers and other citizens may be subsidizing the nation's competitiveness. Any nation can adopt labour market policies that reduce real wages so as to improve its position in world trade, but this practice does not involve genuine competitiveness.⁴⁰ All the measures to increase competitiveness or to protect competitiveness are tied

³⁷.Ibid., pp.7-9.

³⁸. Ibid., p.6.

³⁹. Jeffrey Hart suggests that for a lengthy discussion of the variables that explain competitiveness, we see Michael Porter, *The Competitive Advantage of Nations*, New York: Free Press, 1990, Chap.3.

⁴⁰. Ibid., p.61.

to the current shape of the international politico-economic order.

To counter the argument on the significance of competitiveness, Paul Krugman points out the danger of being obsessed with the concept of competitiveness. He argues that thinking and speaking in terms of competitiveness poses three real dangers. Firstly, it could result in the wasteful spending of government money, supposedly to enhance competitiveness. Secondly, it could lead to protectionism and trade wars. Most importantly, it could result in bad public policy on a spectrum of important issues.⁴¹ According to him, an obsession with competitiveness will lead to trade conflict, perhaps even to a world trade war. In the historic wave of regionalization⁴² of the world economy, if there exist any benefits of regionalism, it is natural to seize them. In this vein, James Goldsmith⁴³

⁴¹. Paul Krugman, "Competitiveness: A Dangerous Obsession," *Foreign Affairs*, March/April 1994, Vol.73, No.2, pp.41-45.

⁴². The intensified regionalism of the EU is proved by the statistics that trade among member states of the EU has gained at the expense of external trade flows, and this applies to both exports and imports. In 1958, the ratio between internal and external exports was approximately three fifths (internal and external exports accounted for 37 and 63 percent respectively). By 1992, the ration had been reversed in favour of internal exports with internal exports contributing three fifths of total exports. The balance between internal and external imports changed in the same direction and by about the same magnitude. In 1958, imports from third countries were nearly twice as large as imports from within the Union (65 and 35 percent respectively); by 1992 internal imports were 50 percent larger than the external imports (59 and 41 percent respectively). Quoted in Klaus Heidensohn, *Europe and World Trade*, London and New York: Pinter, 1995, p10.

⁴³. James Goldsmith, *The Trap*, London: Macmillan, 1994, pp.27-29.

is a unique critic on world free trade. On the question: *Who will be the losers and who will be the winners under a system of global free trade?*, he answers that the losers will be those people who become unemployed as a result of production being moved to low-cost areas. There will also be those who lose their jobs because their employers do not move offshore and are not able to compete with cheap imported products. The winners are multinationals able to benefit from an abundant supply of very cheap labour. They will be the companies who move their production offshore to low-cost areas; the companies who can pay lower salaries at home; and those who have capital to invest where labor is cheapest, and who as a result will receive larger dividends. He predicts that the wounds caused by this globalization will be very deep and brutal. Transnational corporations with the ability to move production at will, anywhere in the world, are systematically benefitting from lower wages. Specialization based upon the concept of comparative advantage is rejected by his emphasis that multilateral free trade is flawed as a stepping stone to a better system. He argues that the effects of regional free trade are greater and better than those of global free trade.

David Morris also strongly disputes the supposed benefit of free trade.⁴⁴ As an example, Morris pays attention to inequality in world living standards which international trade has

⁴⁴. David Morris, "Free Trade: The Great Destroyer," in Ralph Raider et al., *The Case against Free Trade: GATT, NAFTA, and the Globalization of Corporate Power*, San Francisco and Berkeley, CA: Earth Island Press and North Atlantic Books, 1993, pp.144-5.

exacerbated.⁴⁵ Globalism, David Morris argues, is both a cause and an effect of inequality. He further stipulates that "inequality within one country is a cause of globalism because it reduces the number of people with sufficient purchasing power. Consequently, a producer must sell to wealthy people in many countries to achieve the scale of production necessary to produce goods at a relatively low cost. Inequality is an effect of globalism because export industries employ few workers who earn disproportionately high wages, and because developed countries tend to take out more capital from Third World countries than they invest in them." Under the same assumption, Wendell Berry opposes the Uruguay Round of the GATT.⁴⁶ Apart from the corporate ambition to gather wealth and power of the world into fewer and fewer hands, he argues that "the intended effect of the GATT would be to centralize control of all prices and standards, thus being a license issued to a privileged few for an all-out economic assault on the lands and peoples of the world."

In a similar vein, an assertion on regionalism different from the original argument is made by Jon Whalley and P. J. Lloyd. They argue that the spread of regionalism has not

⁴⁵. According to Swiss economist Paul Bairoch, GNP Per Capita in 1750 was approximately the same in the developed areas as in the underdeveloped ones; in the 1930s it became 4 to 1 in favour of the developed nations, and today, it is 8 to 1. Quoted in *Ibid.*, p.144.

⁴⁶. Wendell Berry, "A bad big idea," in Ralph Nader et al., *The Case against Free Trade: GATT, NAFTA and the Globalization of Corporate Power*, San Francisco and Berkeley, CA: Earth England Press and North Atlantic Books, 1993, p.160.

distorted the traditional international trade flow.⁴⁷ Their major conclusion is that the major trading nations, disappointed by the multilateral process, intensify efforts for trade liberalization within regions, thus contributing to the increase of international trade.

1.3 Theoretical Review of International Political Economy Literature

Political economy has been traditionally focused upon the state as the key actor in international economic relations. The schools of Liberalism⁴⁸, Realism⁴⁹ and Marxism,⁵⁰ therefore,

⁴⁷. John Whalley, "The UR and the GATT: Whether the Global System?" in <PAFTAD 20> Pacific Dynamism and the International Economic System, Seminar Papers, The Institute for International Economics, Washington D.C., September, 1992, pp. 10-20.

⁴⁸. On the literature of liberalism, see Bruno S. Frey, *International Political Economics*, Oxford: Basil Blackwell, 1984; James Alt and Alex Chrystal, *Political Economics*, Brighton: Wheatsheaf Books, 1983; Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, Boston: Mass., Little Brown, 1977.

⁴⁹. On the classical literature of realism, see Niccolo Machiavelli, *The Prince and discourses*, translated by L. Ricci and C. E. Detmold, New York: Modern Library, 198; Thomas Hobbes, *Leviathan*, ed. C. B. Macpherson, Harmondsworth: Penguin Books, 1968; Friedrich List, *The National System of Political Economy*, New York: Kelley, 1966; Robert Gilpin, *The Political Economy of International Relations*, Princeton NJ: Princeton University Press, 1987.

⁵⁰. See Brewer, *Marxist Theories of Imperialism*, London: Routledge and Kegan Paul, 1980; Stephen Hymer, "International Politics and International Economics: A Radical Approach," in Jeffrey A. Frieden and David A. Lake, *International Political Economy: Perspectives on Global Power and Wealth*, New York: St. Martin's Press, 1987, pp. 31-46; Robert W. Cox, *Production, Power and World Order: Social Forces in the Making of History*, New York, Columbia University Press, 1987; and particularly on world system theory, see Immanuel Wallerstein, *The Capitalist World Economy*, Cambridge: Cambridge University Press, 1979.

each have difficulty in understanding the role played by non-state actors. For trade policy-makers, multinationals present a problem because whilst the companies are the major beneficiaries and the major forces behind international trade and the demand for ever-greater globalization and globalization of trade, it is politicians and governments that are responsible for negotiating trade policies.⁵¹ The drive of the ROK government towards liberalization, deregulation and globalization is a good indication-albeit in a different framework, of the resurgence of neo-classical views in economic-policy making.⁵² However, it is true that still the power of states determines the character of the international system. State preferences are decided at the point of maximizing their aggregate economic utility. Though neo-classical economic theory insists upon the maximum benefits of free trade, the reality is different from theoretical assumptions. The EU, composed of complex national interests, co-ordinated mechanism, relying heavily on politically and economically complicated mechanism of collaboration in policy making, has characteristics

⁵¹. It is also governments that have to deal with the social and political consequences of trade relations. Government, *inter alia*, face the problem that regulation of international markets has not kept pace with the growth of world trade with the result that politicians have little effective leverage or control over the activities of the multinationals, the most important actors in world trade.

⁵² .Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics*, Vol.XXVIII, No.3, 1976, pp.317-47.

of protectionism.⁵³ A complex web of favourable and restrictive interactions among the nations and large multinational corporations is shaping the international trade flow. In this sense, neo-liberal institutionalist⁵⁴ emphasise that the role of the international regimes is still premature, albeit theoretically valid, because the nation seems to be the most powerful actor to influence the international flow of trade. In an attempt to more accurately match the reality, however, the neo-realist argument on the power and structure of the nation state should be complemented by the role of the international regimes and institutions advocated by the neo-liberal institutionalists. It is also undeniable that the role of the nation is more and more diminished as the role of international cooperation regimes is fostered by the rapid development of multinationals and information and communication technologies.

In order correctly to analyse the globalization and regionalization of the world political economy and its impact upon the ROK-EU economic exchanges, several factors should be

⁵³. According to Klaus Heidensohn in his book, *Europe and World Trade*, 1995, p.150, what has affected all Third World nations including the ROK, has been the trade diverting effects that have been the outcome of Europe's departure from the principles of multilateralism (trade liberalization and non-discrimination of trade partners). The pyramid of privileges that characterizes the EU's trade agreements with countries of the South has inevitably implied that some developing nations have more easy access to Europe's domestic market than others. The new non-tariff based protectionism (MFA, VRA, rules of origin, anti-dumping actions, etc.) and the Common Agricultural Policy(CAP) measures, however, have not had the same impact on all the countries of the "South"; Europe's protectionism has been discriminatory rather than uniform.

⁵⁴. See, R. J. Barry Jones, *Interdependence on trial: Studies in the Theory and Reality of Contemporary Interdependence*, New York: St. Martin's Press, 1985; Robert O. Keohane, "International Institutions: Two Approaches," *International Studies Quarterly*, Vol.32, No.4, December 1988, pp.379-96; Robert O. Keohane and Joseph S. Nye, "Power and Interdependence Revisited," *International Organization*, Vol.41, No.4, Autumn 1987, pp. 725-53.

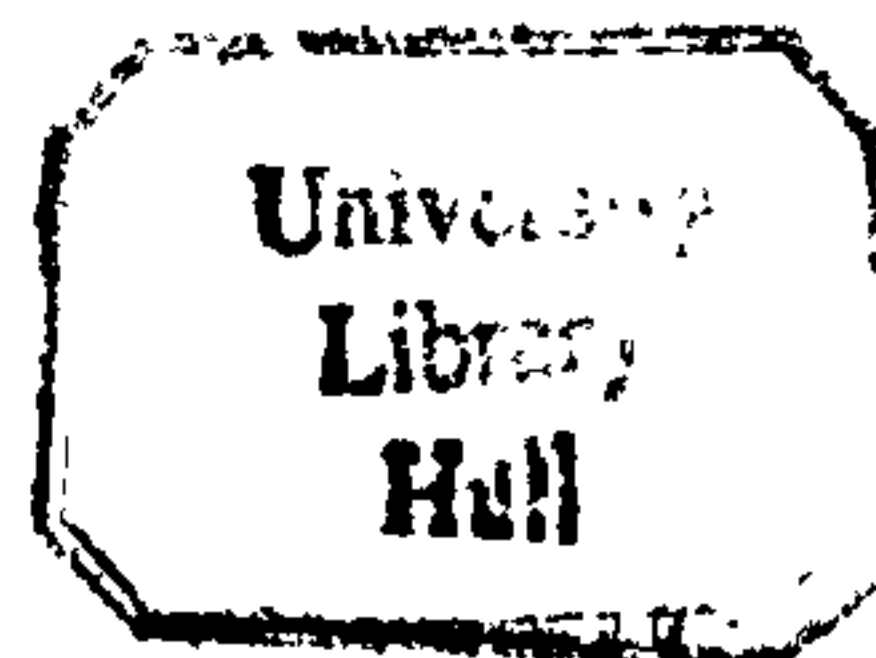
considered. Firstly, our focus must be on the international economy as a system. To use Edward Mansfield's argument, a systemic approach to international political economy centres on the trade policies of hegemony as well as other aspects of the distribution of power and political military alliances.⁵⁵ Mansfield points out that systemic explanations in international political economy posit that the constraints imposed and the opportunities fostered by aspects of "the international system are the most salient determinants of the patterns of global economic outcomes." Though systemic theory puts much emphasis on the systemic factors, we must not ignore the effects of domestic institutions, special interest groups and other domestic political influences on international trade.⁵⁶ The political economy of EU trade regimes is heavily influenced by such domestic considerations.

To explain the complexity of the international economy, it is clear that the effects of both international and domestic politics should be combined.

Table 1.2 conceptualizes the traditional international relations theory. The traditional approach using the Realist concepts of power and self-interest gives some insights into

⁵⁵. Edward D. Mansfield, "Effects of International Politics on Regionalism in International Trade," in Kym Anderson & Richard Blackhurst (eds.), *Regional Integration and Global Trading System*, New York and London: Harvester & Wheatsheaf, 1993, pp.199-200.

⁵⁶. See more R. E. Baldwin, *The Political Economy of US Import Policy*, Cambridge, MA: MIT Press, 1985; and P. J. Katzenstein, *Small States in World Markets*, Ithaca: Cornell University Press, 1986; and S. P. Magee and W.A. Brock and L. Young, *Black Hole Tariffs and Endogenous Theory: Political Economy in General Equilibrium*, New York: Cambridge University Press, 1989.



explaining the nature of the international economy. The increasing number of international institutions, such as the World Trade Organization (WTO), International Monetary Fund (IMF), World Bank (WB) and International Bank for Reconstruction and Development (IBRD) and so on, also function to influence trade flows. To understand the trade relationship between the EU and the ROK, a integrated approach must be used. Transnational actors and processes have displaced the nation-centric view of international relations.

Table 1.2: Alternative Images of International Relations: Underlying Assumptions

	Realism Pluralism(Liberalism)		Globalism(Marxism)
Analytic Units	1. State is the principal actor	1.State and nonstate actors are important	1.Classes,states and societies and non-state actors operate as part of world capitalist system
View of Actors	2. State is unitary actor	2. State is desegregated into components	2. International Relations viewed from historical perspective development of world capitalism
Behavioural Dynamic	3. State is rational actor	3. For optimal outcomes; conflict, bargaining coalition and compromise involved	3. Dominance pattern in societies
Issues	4. National security utmost concern	4. Multiple agenda socioeconomic welfare	4.Economic Factors are most important

Source: Paul R. Viotti & Mark V. Kauppi, *International Relations Theory. Realism, Pluralism, Globalism*, 2nd ed., New York and Toronto: Macmillan Publishing Company, 1993, p.10.

* Pluralism and Globalism could be identified as Liberalism and Marxism of IPE respectively.

The national concern for welfare and other domestic objectives and the explicit linkages of economics and politics determine the dynamics of trade relations. Halford J. Mackinder⁵⁷ has predicted this development by saying that statesmen will respond to this new competitive challenge by concentrating their attention on "the struggle for relative efficiency."⁵⁸ The distribution of wealth, the scourge of unemployment, and rampant inflation are now understood in the framework of the state decision-making perspectives. Robert Gilpin⁵⁹ claims that an understanding of the issues of trade policy, monetary affairs, and economic development requires the integration of the theoretical insights of the disciplines of economics and political science. Too often policy issues are analysed as if the realms of economics and politics could be isolated from one another. We need to focus our attention on the conflicts, tensions, and continuing interactions between economics and politics. The original spirit of the Bretton Woods system for trade liberalization, stability of currencies, and the expansion of global economic interdependence has, in no small measure, been dampened by the emergence of regionalism and protectionism. The liberal conception of international economic

⁵⁷. Halford J. Mackinder, "The Geographical Pivot of History", *Democratic Ideas and Reality*, New York: W. W Norton, 1962, pp.242-43.

⁵⁸. The struggle for relative efficiency means that policy makers try to seek best or, if impossible, the second best option in adopting policies to pursue national interests.

⁵⁹. Robert Gilpin, *The Political Economy of International Relations*, Princeton, N.J.: Princeton University Press, 1987, p.3.

relations has been undermined since the mid-1970s. The stability and confidence of the US hegemony in the various areas in which the US was able and willing to exert its influence after the calamitous insulation of the inter-war period has been relatively weakened.⁶⁰ The international public good for trade was provided by the US.

In the neo-realist group, Kenneth Waltz⁶¹ has argued that as nations in a self-system are concerned with relative gain, not with absolute gain and subordinate economic considerations to political interests, even the prospect of large absolute gains for both parties does not elicit their cooperation. The general insistence of the neo-realists is that, when nations are in an anarchic condition, because they are preoccupied with their survival, taking on a defensive position, it is hard for them to cooperate with others.⁶² The core of the neo-realist assertions is the theory of hegemonic stability. The predominant leader of the international system is not concerned with relative gains, but with providing collective good for the whole system.

On the other hand, neo-liberals argue that nations are eager to reap gains from cooperation and participation in

⁶⁰ Stanley Hoffmann, op. cit., p.164.

⁶¹ . Kenneth Waltz, *Theory of International Politics*, Reading, Mass.: Addison-Wesley, 1979, pp.1-5.

⁶². Joseph Grieco used the term, "defensive positionality" in his *Cooperation Among Nations*, Ithaca: Cornell Univ. Press, 1990.

defensive cooperation.⁶³ Robert Keohane has defined the core concept of the Neo-liberal institutionalist approach by arguing that variations in the institutionalization of world politics exert significant impacts on government behaviour to determine patterns of cooperations and discords among them. When we come to understand that International Political Economy is the study of the interplay of economics and politics in the world arena, in the most general sense, the economy is defined as the system of producing, distributing, and using wealth; politics is the set of institutions and rules by which social and economic interactions are governed.⁶⁴ The above definition of the International Political Economy suggests the nuance and complexity of actual theoretical approaches as we recognize that the foreign economic policies of all nations are constrained by both international and domestic, and both political and economic factors.⁶⁵ An analysis of ROK-EU economic relationships will not be complete without adding the new international phenomenon of regionalism and globalism.

The traditional approach to International Political Economy has been two dimensional: international-domestic and state-market. The realist observers put more emphasis on the role of

⁶³. Duncan Snidal, "International Cooperation Among Relative Gains Maximizers," *International States Quarterly*, Vol.35. No.4, December 1991, p.401.

⁶⁴. Jeffry A. Frieden and David A. Lake, "Introduction: International Politics and International Economics," in *International Political Economy: Perspectives in Global Power and Wealth*, Third ed., edited by the same authors, London and New York: Routledge, p.1-3.

⁶⁵.Ibid., p.9.

national powers. The core argument of this school⁶⁶ is that international society is in an anarchic situation. The lack of overarching authority makes the inter-state relation conflictual, though states cooperate to secure their common interests in maintaining order. Realism is simply understood as a paradigm in which economic power is a necessary component of state power and economic factors are subordinate to national and international political demands, hence, the history of the global economy is one of the rise and fall of great powers. The argument of Kenneth N. Waltz as a representative of the Neo-realist school emphasizes that the most important factors in the world-system are states and that states with differential power capabilities act rationally to enhance their power and resources.⁶⁷

Stephen Krasner as a typical scholar of this school claims⁶⁸ that nation states are mainly concerned with gaining more power and resources. The condition of international anarchy makes the nations struggle for power. International trade is only

⁶⁶. For further literature review of this school. see Richard K. Ashley, "Political Realism and Human Interests," *International Studies Quarterly*, Vol.25, No.2, June 1981, pp.204-36; David A. Baldwin, "Power and World Politics," *World Politics*, Vol.31, No.2, January 1979, pp.161-94; Hedley Bull, *The Anarchical Society: A Study of Order in World Politics*, New York: Columbia University Press, 1977; John H. Herz, "Political Realism Revisited," *International Studies Quarterly*, Vol.25, No.2, June 1981, pp. 182-241.

⁶⁷. Kenneth N. Waltz, *Theory of International Politics*, Reading, Mass.: Addison-Wessly, 1979.

⁶⁸. Stephen D. Krasner, *Defending the National Interests: Raw Materials Investments and U.S Foreign Policy*, Princeton, N.J.: Princeton University Press, 1978.

understood as a subordinate domain to achieve certain political goal. The most common and significant assumption of this school is that national interests are basically in conflict.

The trade policy dimension of this school of thought is the concept of strategic industries. Such industries can produce the best conditions for autonomy of a state and economic sovereignty in the short and long-term prospects. The logic of politics dominates the logic of economic efficiency. Protectionism is justified in case national security and economic sovereignty are eroded in competition with foreign products. More protection will be afforded to strategically valuable sectors. The theory of hegemonic stability and game-theory belong to this school. Of the two, the theory of hegemonic stability is utilized here in order to emphasize that a sharp increase in world trade friction is the by-product of the decline of the US hegemony. The role of stabilizer played by the US has begun to decline and created the need for some alternative form of governance to enforce the rules of the game. Charles Kindleberger, Robert Gilpin, and Stephen Krasner all agree that resurgence of regionalism is closely related to the decline of American economic leadership.⁶⁹

This paradigm is very helpful in analysing the mercantilist trade regimes of the EU and the role of the state in shaping commercial policy. The association and cooperation agreements of the EU with developing nations, like the Lome

⁶⁹. See Charles P. Kindleberger, *The World in Depression, 1929-1939*, Berkeley: University of California Press, 1973.

Convention is a typical example of the reflection of the realist paradigm. Anti-dumping legislation and⁷⁰ VETs are a reflection of this strategic trade policy. The EU-Korea economic relationship is still strongly regulated and controlled by the nation states of the EU and Korea's government intervention. Realists also argue that the use of force or coercion by other nation states is always possible; thus, nation-states are ultimately dependent upon their own resources for protection. For realists, politics is by and large a zero-sum game and by necessity conflictual and they regard nation-states as rational actors in the same context that liberalism assumes individuals are rational. This means that politics determines economics as liberalism defines the clear autonomy of economics and politics with its own sphere. Marxists maintains that economics determines politics.

Roger Toose has an appropriate comparative approach to

⁷⁰. In Renato Ruggiero, director-general of the World Trade Organization's report, he emphasized the need for further WTO work on regionalism to ensure that burgeoning regional trade arrangements do not handicap the development of multilateral rules. The report also shows that anti-dumping and countervailing duty actions continue to play a prominent role in the trade regimes of the European Union and the US. This is seen as a worrying trend by many trade analysts who regard such measures as a backdoor form of protection for uncompetitive domestic companies. The EU leads the field on anti-dumping actions, initiating 37, followed by the US with 30, Mexico 18 and Brazil 12. Of the 805 measures in force on June 30 1995, 60 percent were maintained by the US and the EU with the principal targets being China(27 actions), followed by companies from the EU(17) and South Korea(10)Quoted in Frances Williams, "WTO chief tries to avoid confrontation," *Financial Times*, Thursday December 14 1995, p.7.

represent the liberalist view in conceptualization.⁷¹ In comparison with the realist paradigm, the liberal paradigm⁷² basically puts harmony at the core of international economic relations. They are the group who advocate free trade and free markets. The core content of liberalism is found in the unit of analysis. To the realist, the basic unit of analysis is the state; to liberals the basic unit of analysis is the individual or firm. While realism puts emphasis on competition among states, economic liberalism has focused on competition between firms. The market principle decides the result of the trade game. However, this school accepts a case for some state intervention to repair market imperfections. The theory of public choice⁷³ sees the determination of national policies in

⁷¹. Roger Tooze, "Conceptualizing the Global Economy," in Anthony G. McGrew & Paul G. Lewis et al. *Global Politics: Globalization and Nation-State*, Cambridge, UK: Polity Press, 1993, pp.234-236. See Kendall W. Stiles and Tsuneo Akaha, *International Political Economy*, New York: Harper Collins Publishers, 1991, pp.3-49; Stephen Gill and David Law, *The Global Political Economy: Perspectives, Problems and Policies*, New York: Harvester, 1988, pp.25-68; Henk Overbeek (ed.), *Restructuring the Hegemony in the Global Political Economy: the Rise of Transnational Nationalism in the 1980s*, London and New York: Routledge, 1993, pp.1-28.

⁷². For more complete understanding of this school, see Edward Morse, *Modernization and Transformation of International Relations*, New York: Free Press, 1976; George Modelski (ed.), *Transnational Corporations and World Order*, Sanfrancisco: W.H. Freeman and Co. 1979; Stanley Michalak, "Theoretical Perspectives for Understanding International Interdependence," *World Politics*, Vol.32, No.1, October 1979, pp.136-50; Stephen D. Krasner (ed.), *International Regimes*, London and Ithaca, NY: Cornell University Press, 1983; Richard Cooper, *Economic Policy in an interdependent World*, Cambridge, MA: MIT Press, 1986.

⁷³. For a more theoretical review of the public choice model, see Robert T. Kudrle, "The several faces of The Multinational Corporation: Political Reaction and Policy Response," in W. Ladd Hollis and F. LaMond Tullis (eds.), *An*

terms of supply and demand.⁷⁴

The Liberals' argument emphasizes how both the market and politics are functioning in an environment in which all can be made better off by entering into voluntary exchanges with others. If there are no impediments to trade among individuals, liberals reason that everyone can be made as well-off as possible given existing stocks of goods and services.⁷⁵ In the international dimension, liberals believe that a fundamental harmony of interests exists between as well as within countries. They, thus, argue that states manage international trade in the same ways that they manage their domestic economies. They should establish rules and regulations by the name of "international regimes" to govern exchanges between different national currencies and to ensure that no country or domestic group is damaged by "unfair international competition". For the globalization of the world economy, liberals place emphasis on the increasing role of international regimes.⁷⁶

Economic liberalism can be regarded as a criticism of state planning and excessive government intervention. The main ground of criticism is that they are inefficient, and reduce individual freedom to threaten liberal democracy. As a typical tool of

International Political Economy, Boulder, Col.: Westview Press, 1985, pp.175-97.

⁷⁴. Ian McLean, *Public Choice: An Introduction*, Oxford: Basil Blackwell, 1987.

⁷⁵. Jeffry A. Frieden and David A. Lake, *op. cit.*, p.10.

⁷⁶. *Ibid.*, p.11.

liberalism, free trade is advocated. Anne O. Krueger refers to the four positive components of free trade: a) comparative advantage in complex nature of modern industry; b) the recognition that the protection of some sector inevitably disadvantages others; c) free trade strengthens competitiveness for dynamic efficiency; d) free trade is a consistent policy for domestic and global welfare.⁷⁷ The interdependence of the world economy would be more enhanced by liberalism than by state intervention. In the process of deregulation and liberalization in Korea's economic policy-making,⁷⁸ the concept of economic efficiency is expected to play a bigger role than in the past as government-business linkage is being slowly dismantled.⁷⁹ Roger

⁷⁷. Anne O. Krueger, "Free Trade is the Best Policy," in Robert Z. Lawrence and Charles L. Schultze, *An American Trade Strategy: Options for the 1990s*, Washington D.C.: The Brookings Institution, 1990, p.68.

⁷⁸. South Korea is a society in which Confucian traditions run deep. And its dramatic economic ascent started under a government that was both highly authoritarian and unapologetically interventionist. But the idea that the South Korean elite was an incorrupt Confucians would have caused a hollow laugh in South Korea as long as ten years ago. The current slush fund scandal of the former President, Roh Tae Woo is an indication of people's awareness of the malfunctioning of special-interest lobbying by South Korea's Chabols, which have been charged with helping to fill a presidential slush fund. Liberalization and deregulation of the Korean economic policy-making is likely to be more enhanced by the scandal of Roh Tae Woo's corruptly amassing a fortune of over \$300m. By this scandal, it was proved that the Chabols or South Korean Conglomerates have become far too powerful for the good of the country. It was their intimate relations with the government, backed by cheap loans, that allowed these businesses to become the power-house of South Korea's rapid economic growth. Quoted in *The Economist*, December 9th-15th 1995, p.12,72.

⁷⁹. The Korean government's top economic policy priority in 1996 explains the need for more liberalization and globalization by reducing the role of government in controlling Chabols or Korean Conglomerates. The key policy goals for '96 are: 1)

Roger Tooze describes this:

"Within a national economy, individuals following their own self-interest will, within the framework of a free market and assuming a particular form of state, collectively increase the amount of wealth available to their society, and in this way convert individual selfishness into the general good. Moreover, the principles of a free market also translate into a political structure which emphasizes the individual and individual freedoms. This principle, translated to economic relations among nations, means that trade based on free trade is harmonious, both nationally and internationally. Hence by extension the greater the amount of trade, the greater the economic specialization and the greater the wealth generated. The global economy is therefore a natural unit as it provides the greater opportunities for efficiency gains through global production for a global market. More than this, the creation of high levels of interdependence not only ties states together in a beneficial way, and hence further reduces the causes of conflict, but also begins to break down the realist state by setting up communities of interest that are transnational. Within the global economy the key actors are firms and households, who form a complex and expanding web of harmonious relationship mediated through the market. Government has the key but limited function of providing function of security and maintaining law and order domestically and globally..."⁸⁰

Marxists believe that classes are the dominant actors in the political economy.⁸¹ Jeffrey and David maintain that

Continued pursuit of price stability and attainment of an economic soft-landing; 2) Easing of industrial bipolarization and support for the restructuring of small and medium enterprises; 3) Continued push for economic deregulation and improvement of the business environment; 4) Promotion of the public's quality of life and expansion of welfare aid to the underprivileged; 5) Seeking to globalize the Korean economy continuously in response to the nation's entry into the OECD.

⁸⁰. Ibid., p.234.

⁸¹. In order to extend the knowledge of this school, see Terry Boswell and Immanuel Wallerstein (eds.), *Revolution in the World System*, Westport, CT: Greenwood, 1989; Christopher Chase-Dunn, *Global Formation: Structures of the World Economy*, Oxford: Blackwell, 1989; Robert Cox, *Power, Production and World Order*, New York: Columbia University Press, 1987; Frank F. Klink, "Rationalizing Core-Periphery Relations: The Analytical

specifically, Marxists identify two economically-determined aggregations of individuals, or classes, as central: the owners of the means of production and labour, or the workers. They assume that each class acts in its own economic interest, that is, to maximize the economic well-being of the class as a whole. The basis of the capitalist economy is the exploitation of labour by capital. Marxists see the political economy as necessarily conflictual, since the relationship between capitalists and workers is essentially antagonistic. Present Marxists of the International Political Economy⁸² are primarily concerned with two issues. The first is the fate of labor in a world of increasingly internationalized capital. The growth of multinational corporations and the rise of globally integrated financial markets appear to have weakened the economic and

Foundations of Structural Inequality in World Politics," *International Studies Quarterly*, Vol.34, No.2, June 1990, pp.183-209; Thomas Richard Shannon, *An Introduction to the World System Perspectives*, Boulder, CO: Westview Press, 1989.

⁸². Like their neo-realist and liberal-pluralist counterparts, neo-Marxists also share the belief that the global system is highly ordered. But, unlike neo-realists, they do not conceive of that order as based on the structure of military power; nor do they accept that it is sustained by webs of interdependence as do liberal-pluralists. Rather, neo-Marxist analyses assert that the prevailing world order is a capitalist order based upon a global structure of production and exchange established by transnational corporations. One of the dominant characteristics of this order is the structural differentiation of the world into core, peripheral, and semi-peripheral centres of economic power: in simple terms, the division between North, South and the Eastern bloc. This structure is mirrored internally within states in the polarization between those sectors of national society integrated into the transnational capitalist system and those sectors which are marginalized. Thus, the expansion of transnational capitalism contributes directly to the combined processes of global integration and national disintegration. Quoted in Anthony G. McGrew & Paul G. Lewis et al, *Global Politics*, Cambridge: Polity Press, 1993, p.21.

political power of labour. The second one is the concern with the poverty and continuous underdevelopment of the Third World.⁸³

Frieden and Lake argue⁸⁴ that Marxists think development is blocked by domestic ruling-classes who pursue their own narrow interests at the expense of national economic progress. Other Marxists extend class analysis to the level of International Political Economy by the theory of dependency. According to this school, the global system is stratified into a wealthy area, the "core" or first World and a region of oppression and poverty, the "periphery" or Third World. They elaborate that international capitalism exploits the periphery and benefits the core, just as capitalists exploit workers within a single country. They elaborate on the mechanism of exploitation through multinational corporations, international financial markets and organizations, or trade. The framework of dominance-dependence is not suitable for the EU-ROK dimension. Korea has successfully managed her economy and has reached US \$10,000 per capita GNP. Korea is among the list of the EU competitors as Korea's exports have flooded into the EU markets since the 1980s.

Traditional International Political Economy literature

⁸³. For other reviews of the theory, see A. Brewer, *Marxist Theories of Imperialism*, London: Routledge and Kegan Paul, 1980; Immanuel Wallerstein, *The Capitalist World Economy*, Cambridge: Cambridge University Press, 1979; Robert W. Cox, *Production, Power and World Order: Social Forces in the Making of History*, New York: Columbia University, 1987.

⁸⁴. Jeffrey A. Frieden and David A. Lake, op. cit., p.12.

does not fully explore the new resurgence of regionalism and globalism. Analysis of the EU-ROK bilateral economic relationship will not be complete without adding this new phenomenon. This is more transparent when we recognize the fact that contemporary International Political Economy is characterized by the hugely expanded role of multinational production, more frequent cross-border financial flows and the expansion of international trade.

As the intervening variables to support globalization of the world trade and regionalism, newly created international regimes help to change a traditional society into a transformed one. Information technology and the development of communication need to be considered as the major contributors to the revolutionary restructuring of the world. Information and communication technology is not simply an innovative factor, according to Silvia Ostry.⁸⁵ It is, rather, a techno-economic paradigm, affecting all sectors of industry and the organization and structure of firms, providing the means for globalization of the industry. In recognition of the new techno-economic paradigm, V. K. Aggarwal⁸⁶ has also suggested the need to provide a tool to understand trade relations among a number of

⁸⁵. Silvia Ostry, *Government and Corporations in a Shrinking World: Trade & Innovation Policies in the United States, Europe & Japan*, London and New York: Council on Foreign Relations Press, 1990, p.79.

⁸⁶. V. K. Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade*, Berkeley, Cali. : University of California Press, 1985, p.20.

constitutive elements relevant to trade order. In E. B. Haas⁸⁷ and John Ruggie's interpretation, the post-second World War era is interpreted as "the era of convergence centering around the notion of 'embedded liberalism' in which trading parties engage in open trade with the permission of some state intervention, reflecting their domestic, economic and political interests," though John Ruggie points to the fragility of the consensus breakdown. In similar context, Robert Gilpin⁸⁸ refers to sectoral protectionism, benign mercantilism based upon organized trade, which might supply a potential mode of reconciling domestic and international demands on policy-makers.

Ruggie's 'embedded liberalism', as constituting the underlying principles and norms of the Postwar international economic exchange, is rejected by neo-classical economists. Aggarwal, Keohane and Yoffie's⁸⁹ contention is that protectionism sometimes disappears; thus, international regimes such as the WTO permit states to raise tariffs or use quotas. Other trade theorists suggest that the optimal outcome for individual state welfare may not be unilateral liberalization; instead, they see certain national advantages through the

⁸⁷. E. B. Haas, "Why Collaborate?, Issue-Linkage and International Regimes," *World Politics*, Vol.32, No.3, pp.357-405; John Ruggie, "International Regimes Transactions, and Change: Embedded Liberalism in the Postwar Economic Power," in S. D. Krasner (ed.), *International Regimes*, Ithaca: Cornell University Press, 1983.

⁸⁸. Robert Gilpin, op. cit., pp.3-4.

⁸⁹. Aggarwal, Keohane and Yoffie, "The Dynamics of Negotiated Protectionism", *American Political Science Review*, Vol. 81, No.1, 1987, pp.345-66.

manipulation of trade, thus justifying protectionism.⁹⁰

With regard to the stabilization of the world trading system, R. Z. Lawrence is concerned with the potential stability of trading blocs as an alternative to multilateralism. R. Z. Lawrence argues that blocs may not be such a problem for liberal trade, particularly if they do not create a large amount of trade diversion.⁹¹ Robert Gilpin argues that blocs may prove to be a more viable liberalizing alternative in the absence of a single hegemon that is willing to make necessary sacrifices to provide public goods of an international trade regime.⁹²

In order for their arguments to be valid, the regional blocs must be open to external trade, not closed. It is not wrong to argue that all the major blocs such as North Atlantic Free Trade Area (NAFTA), EU and possibly an East Asian Bloc in the future, would have been tilting toward closed regionalism if it had not been for the success of the Uruguay Round negotiations. The increasing challenge against the liberal trading order is likely to be tackled by export promotion and liberalization, promoting world economic integration. In the economic dimension they relate to the spirit of economic partnership built upon the principle of free trade opposing any

⁹⁰. See T. Matthew and J. Ravenhill, "Strategic Trade Policy: The East Asian Experience", *Working paper*, 1993/2, Department of International Relations, Australian National University, Canberra, 1993.

⁹¹. R. Z. Lawrence, "Emerging Regional Arrangements: Building Blocs or Stumbling Blocs?", *Finance and the International Economy*, Vol.5, Oxford: Oxford University Press, 1991.

⁹². Robert Gilpin, *op. cit.*, p.3-5.

protectionist tendencies. Any group of countries pursuing and living up to these values and principles will contribute to the welfare promotion of mankind by the profit maximization of world trade.⁹³

In building a consensus for world trade with universal values, the institutional role of regimes is vital. Robert Keohane⁹⁴ elaborates on the benefits of regimes in reducing transaction costs, particularly in providing information to participants and lowering costs associated with negotiating individual accords. Aggarwal also suggests that regimes might be led to bring lower levels of arrangements into conformity with higher level accords dealing with broader issues or to control the behaviour of the actors, both internationally and domestically, by way of a rule-based system, not by way of power-capabilities.⁹⁵ By adoption of the rule-based system in the WTO, it is expected that a more favourable international trading environment for ROK-EU trade relations will be

⁹³. According to logic the EU should go towards open regionalism. The meta-regime should go towards liberalism and pluralism for the increase of economic interaction between the EU and Korea. These macro-environmental factors will lie behind this writing as a kind of wind to accelerate trade promotion. In the opposite case, closed regionalism, unilateralism and bilateralism, trade will be impeded.

⁹⁴. See Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton: Princeton University Press, 1984.

⁹⁵. V. K. Aggarwal, "The Unraveling of the Multi-Fiber Arrangement: an Examination of Regime Change", *International Organization*, Vol.37, No.4, pp.617-46.

developed.⁹⁶

Stanley Hoffman⁹⁷ adds one more clue, as a neo-liberal institutionalist who argues for the continuation of institutional functions because of the important functions that they serve for national actors. The neo-liberal perspective suggests that the GATT functioned well and the WTO as an institution is expected to function very importantly for national actors with more regulatory powers. They are more optimistic about the role of the multilateral trading order, but could also be consistent in dealing with regional blocs. In addition to the traditional, theoretical and practical factors to be considered, it is expected that we could see increasing conflict about the underlying principles and norms of the international regimes.

Vindo K. Aggarwal's belief⁹⁸ is that market sharing arrangements will be continuously negotiated among blocs. His question is whether the EU will become highly protectionist or

⁹⁶. The prospect is not so optimistic since the launching of the WTO when we see some worrisome trends in the development of aggressive unilateralism and managed trade. A typical case is US tariff threats to Japanese cars. The US imposition of punitive import duties (100 percent) on Japanese luxury cars is a clear breach of the WTO rules. In response to this US announcement, Japanese car makers said they were determined not to bow to US pressure to buy more US car parts, with the implication that Japan would retaliate by other means. This kind of unilateralism and bilateralism is a clear sign of the violation of multilateralism. See "Japanese defiant over US car tariffs," *Financial Times* Wednesday May 17 1995, p.7.

⁹⁷. Stanley Hoffman, "Back to the Future, Part II: International Relations Theory and Post-Cold War Europe", *International Security*, Vol.15, No.2, 1990, pp. 191-92.

⁹⁸. Vindo K. Aggarwal, "The Future of Liberal Trading Order", in Richard Leaver & James L. Richardson (eds.), *Charting the Post-Cold War Order*, Boulder: Westview Press, 1994, p.145.

whether the US or Japan will develop strong blocs to favour protectionism. Also, Aggarwal's prediction on the regional blocs is that the pressure to resist them will come from the continuing evolution of corporations across regions and the quick spread of technologies. Democratization will be the order of the day, associated with rising protectionist pressures from displaced workers and uncompetitive firms. This factor, specially, drives interest groups to play upon the cognitive dissensus to secure policies that immediately benefit them. On the contrary, optimism about the future of the trading order stems from changes in technology and organizations as well as from a continuing evolution in the internationalization of tastes.

A multiplicity of factors are interworking along with world structural changes to determine the competitiveness of industry in the EU and ROK, which ultimately determines the trade relation and pattern between the two entities. The tripartitioning of the world's leading economies presents challenges and opportunities for trade exchanges between the EU and the ROK.

1.4 The Definition and Development of Globalization and Regionalization in World Trade

1.4.1 Globalization

As a typical example of a leading industry for growth in the world, multinational electronics firms have been leading the

increase of trade exchanges between the EU and the ROK.⁹⁹ The 1970s has witnessed the rapid emergence of a trend of internationalization. New technologies, in particular, in the area of information and communication, have created new products, transformed production processes, globalized product marketing, internationalized financial markets, and stimulated international investments and international trade in both goods and services. This development is often referred to as the globalization of the world economy.

Charles Oman¹⁰⁰ defines globalization as "the growth of the economic activity spanning politically defined national and regional boundaries." It finds expression in the increased movements across the boundaries of goods and services via trade and investment, and often of people, via migration. It is usually driven by the actions of individual economic actors firms, banks, people usually in pursuit of profit, and often spurred by the pressure of competition. Thus, it is characterized as a centrifugal process, as a process of economic outreach. Perceptions of globalization today reflect a juxtaposition of at least four phenomena.¹⁰¹ These include the decline of US postwar economic hegemony and political

⁹⁹. For further reference, see Raymond Veron, *Storm over the Multinationals: The real Issues*, Cambridge, Massachusetts, 1977, p.31; Alfred D. Chandler, Jr., *Scale and Scope: The Dynamics of Industrial Capitalism*, Cambridge, Massachusetts: Harvard University Press, 1990, pp.606-607.

¹⁰⁰. Charles Oman, *Globalization and Regionalization: The Challenge for Developing Countries*, Paris: OECD Development Centre, 1994, pp.27-36.

¹⁰¹. *Ibid.*, pp.12-15.

leadership, along with the end of the Cold War and the implosion of the Soviet Union that have ended bi-polarity. A second is the rapid growth of the global financial market since the late 1970s, facilitated by the deregulation of financial markets on the one hand and the new information technologies on the other. A third phenomenon is the globalization of corporate activity, both in manufacturing and in services. A fourth phenomenon is the rather sudden emergence in the late 1980s of broad public concern over such environmental threats as ozone depletion and global warming. From a policy perspective, it is more usefully understood as a microeconomic phenomenon, one that is driven by the strategies and behaviour of firms. While government deregulation, the advent and spread of the new information technologies, and the globalization of financial markets have been playing central roles in facilitating and spurring globalization since the 1970s, the globalization of today is the international diffusion of the new system of corporate and inter-firm organization variously referred to as "flexible" or "lean" production, or "the new competition."¹⁰²

Susan Strange¹⁰³ has suggested that the perceptive aspect of globalization is a most important factor. We live and work in a world-wide context, instead of in a local, national one. We spend much of our time attending and preparing bilateral and international meetings. Managers and experts of all kinds are

¹⁰². *Ibid.*, p.13.

¹⁰³. Susan Strange, "The Limits of Politics, "Government and Opposition", Vol.30, No.3, 1995, pp.293-95.

engaged in multinational businesses. To quantify this development is not easy. There are some supporting economic indicators of this universal perceptual change. Strange specifically refers to the rapid growth of the business conference, travel and transnational communications.

In international trade statistics, in the mid-1980s, the estimated volume of international production exceeded the volume of inter-state exports. The proportion of production of goods and services controlled by foreign-based firms is growing as local firms are merged or closed down. Strange gives a second definition of globalization as the partial erasure of the distinctions separating national currency areas and national systems of financial regulations.¹⁰⁴ The increased mobility of capital and other factors of production; and the improved quality and lower relative cost of international transport and communication, add to the comprehensive interpretation of the definition of globalization. The improved quality, speed and lower relative cost of transport and communications are other aspects of globalization which have been a necessary condition for the expansion of international trade and for the large and more important growth of international production. This has

¹⁰⁴. The change in the structure of national financial systems is well noted by L. Paul, "Capital Mobility, State Autonomy and Political Legitimacy", *Journal of International Affairs*, Columbia University, Winter 1995, pp.369-88, quoted in Susan Strange, "The Limits of Politics". He notes that four changes in the financial structure weaken the protective barriers around national financial systems. They are a) the reduction of direct controls and taxes on capital movements; b) the liberalization of long-standing regulatory restrictions within national financial markets; c) the expansion of lightly regulated offshore financial markets; and d) the introduction of new technologies in the process of financial intermediation.

gradually resulted in greater inter-dependence among national economies. Following this process, the advanced industrial economies such as the Organization for Economic Cooperation and Development(OECD), could extend their economic norms and values to a dominant position in the world economic game. The power of money and technology have caused a growing number of countries in the world to aspire to the same, economic, social and political values as the advanced nations enjoy.¹⁰⁵

Deepened inter-dependence calls for closer consultation and coordination if conflicts are to be avoided. The policy decisions of large corporations and national economic policies decisions are now more likely to have results transcending national boundaries.

1.4.2 Regionalization

As a potentially contradictory development to globalism, Guy de Jonquieres¹⁰⁶ has conceptualized "regionalism" in terms of "economies everywhere being exposed more widely to competition from the rest of the world, they urge to club together with their neighbours to become ever stronger." Only competitive economies benefit from a multilateral framework. Uncompetitive economies suffer from conflicts of economic wars. According to the World Trade Organization(WTO), at least 100 such groupings had been formed by the end of the 1994, nearly a third of them in the previous five years, which means that

¹⁰⁵. Annual Report of the OECD, Paris, 1992, p.7.

¹⁰⁶. Guy de Jonquieres, "regionalism," *Financial Times*, Frid October 6 1995, p.21.

almost all the WTO's more than 120 members are linked by at least one such arrangement.

The central question lies in whether regional arrangements benefit the global economy by expanding trade, or harm it by erecting barriers which obstruct trade with the rest of the world. The ROK is not a member of a constitutionally institutionalized regional grouping such as the NAFTA and the EU, though it is an active organizer of the Asia Pacific Economic Council (APEC). Renato Ruggiero, the WTO Director-General, has expressed concern that any move by the USA and the EU to construct a transatlantic free trade area could prove divisive and would risk antagonizing the rest of the world. Guy de Jonquieres has identified the general division of two trends: exports sold within the region rose from 64 per cent to 72 per cent of the Western European total between 1963 and 1992, while the share of exports to Asia and North America fell slightly to about 7.5 per cent in each case. By contrast, Japan and other eastern economies, such as Hong Kong, Taiwan, Singapore, and the ROK have enjoyed dynamic export-led growth without the benefit of any regional trade arrangements and by focusing on markets much further afield. For them, at least, staying outside bigger groupings has proven a resoundingly successful policy.

Charles Oman further argues that regionalization has been enhanced in recent years by the apparent decline of US postwar economic hegemony, the remarkable success of Japan, and some of the leading European economies, notably Germany, in catching up with the United States in terms of technological prowess as well as income levels, and the end of the bi-polar world that came

with the end of the Cold War and the implosion of the Soviet Union.¹⁰⁷ Most important has been the acceleration since the mid 1980s of moves towards the formation or strengthening of *de jure* and/or *de facto* regional economic groupings in Europe, North America and Pacific Asia, equally marked by the recent renewal of strong interests among developing nations to strengthen regional ties among themselves. Regionalization can be a powerful collective policy instrument for states to disrupt, weaken or dilute the rigidifying, growth-retarding powers of such domestically entrenched groups by radically enlarging the domestic market and stimulating competition. Regionalization can thus be a response to globalization, and at the same time stimulate the microeconomic forces that drive globalization. Regionalization and globalization can thus be, and often are, mutually reinforcing¹⁰⁸.

Multinational firms and competitive economies accelerate globalization within a multilateral framework while interest groups of uncompetitive economies foster regional groupings to seek sectoral interests. Put into a specific definition, regionalization is usually fostered by increased competition abroad. Enhanced competition abroad prompts the government and business sectors to strengthen the home base of industries by enlarging the domestic market through economic cooperation and integration with adjacent nations. Regional groupings will give the member nations economies of scale and reduce the cost burden

¹⁰⁷. Charles Oman, *op. cit*, pp.14-15.

¹⁰⁸. *Ibid.*, p.16.

of research and development for developing new technologies. A major underlying assertion of this argument is that regionalization endangers the natural flow of international trade. The cost of adjustments in the process of regionalization is usually transferred to outsiders through restrictions of non-member nations' exports into a certain regional body. Richard S. Belous and Rebecca S. Hartley oppose a bilateral agreement or a regional trading bloc that emphasizes the exclusion of others.¹⁰⁹ Regionalism can not be compared to multilateralism, which is open to all who are willing to follow the basic rules agreed upon.

There are also different arguments about the impact of regionalism. WTO report¹¹⁰ insists that the rapid growth of worldwide regional economic groupings has not so far impeded the development of freer world trade and has sometimes helped to promote it. This report further claims that there have been no fortress-type regional arrangements among WTO members; thus, there exists no possibility that discriminatory trade blocs may be emerging in North America, Western Europe and the Asia-Pacific region. An empirical survey of the EU trade regimes will refute this argument to prove that the assertion is incorrect, especially when it is viewed from the perspective of the developing nations. The full compliance of the regional groupings with multilateralism embodied in the articles of the

¹⁰⁹ . Richard S. Belous & Rebecca S. Hartley (eds.), *The Growth of the Regional Trading Blocs in the Global Economy*, Washington D. C.: National Planning Association, 1990, p.20.

¹¹⁰. *Financial Times*, Thursday, April 27 1995.

WTO, has never been achieved. An interesting conclusion is that the WTO has doubts about the economic value of non-reciprocal agreements, such as the EU's preferential trade links with the African, Caribbean and Pacific countries because, such arrangements provide limited economic gains and can have protectionist consequences, because they enable strong economies to restrict imports from weaker ones in sensitive sectors, such as agriculture and textiles, which is a clear violation of multilateralism.

Renato Ruggiero, the WTO director-general, recently argued that it risked antagonizing developing nations, which could view it as an exclusionist move.¹¹¹ According to a WTO Secretariat Report, the proportion of world trade conducted within regions has risen from 40.6 per cent in 1958 to 50.4 per cent in 1993. The EU intra-regional trade has increased faster than trade with third parties, though EU trade with third parties has continued to expand according to the gradual demand of members' economic growth. Looking at the picture in specific sectors and taking into account the vague interpretation and application of the rules embodied in the principles of the GATT, it is not difficult to find that the EU exhibits protectionist trends as viewed from the perspective of developing nations. Two contrasting views coexist on the damaging role of regionalism. Closed regionalism hampers the natural flow of trade, but open regionalism such as the APEC could be an accelerating factor to liberalize world trade for the world free trading system. An

¹¹¹. *Financial Times* Thursday, April 27 1995.

OECD report¹¹² reflects the reality of regional groupings in economic cooperation. It says that future international economic relations will be power-based rather than rule-based. An economic bloc is stronger than a single nation. It is also anticipated that increased global competition is accelerating regionalization, making Korea more constrained in its export promotion as an outsider of tight blocs such as the NAFTA and the EU.

The World economy is becoming more and more globalized and regionalized as we enter the latter part of the 1990s.¹¹³ Robert Z Lawrence¹¹⁴ has analysed the rapid expansion of globalization by focusing on an environment in which relatively small differences in institutional practices and shifts in relative competitiveness could cause a large impact on international trade and flows. Lawrence further argues that globalization has generated at least two quite different policy responses in the trading system. First, the globalization of world trade has even led economic policy makers to put forward an idea that the EU and the USA could form a North Atlantic Free Trade Area. The possibility of creating the North Atlantic Free Trade Area was discussed by the US President, Bill Clinton, and

¹¹². OECD, *Long-Term Prospects for the World Economy*, Paris: OECD Publication, 1992, p.117.

¹¹³. Stanley Hoffman, "The Crisis of Liberal Internationalism", *Foreign Affairs*, No. 98, Spring 1995, pp.164-65.

¹¹⁴. Robert Z Lawrence, *Scenarios for the World Trading System and Their Implications for Developing Countries*, OECD Development Center Technical Papers No. 47, OECD, 1991, pp.13-17.

Britain's Prime Minister, John Major, at a meeting in Washington in April 1995; and Germany's Foreign Minister, Klaus Kinkel urged that the idea should be studied further.¹¹⁵ This idea was suggested more officially at the Conservative Blackpool party conference held from the 9th to the 13th October 1995.

Traditionally, international trading rules have put much emphasis on the removal of national barriers and the elimination of policies which discriminate against foreign products and firms. This call for deeper integration implies that we should seek to revise those policies and practices which may inadvertently discriminate against outsiders. The journey towards a fully integrated world trading system will be a very long process. If regionalism is to be adopted as a transitional stage, it must, nevertheless, be a open one, especially on the strict condition that even the transitional period is regulated by multilateral rules.¹¹⁶ The problem lies in the non-enforcement of GATT principles regarding regional integration.

Regionalization is in part a response to globalization; with which it is mutually reinforcing. It takes the form of preferential trade agreements in which participants do not have a common external trade policy or a customs union in which the tying of currencies, the harmonization of some domestic policies or the mutual recognition of standards and regulations. In some

¹¹⁵. "Warning on EU-US Free Trade Area", *The Financial Times*, 24 April 1995, p.6.

¹¹⁶. Center for International Economics, *Western Trade Blocs: Game, set or match for Asia-Pacific and the World Economy*, Canberra, Australia, 1990, p.3.

cases, it can take the form of fully-fledged economic, monetary, and even political union. The orientation of three major regions' regional integration has drawn much attention. In general, NAFTA will be trade liberalizing, despite some clearly restrictive or discriminatory features; East Asia promotes multilateralism with open characteristics, and the EU is characterized by managed liberalization.¹¹⁷

Anderson and Blackhurst further note that "one of the driving forces behind the spread of regionalism is the erosion of the guarantees of markets access in the major industrial nations," that is to improve the security of the access to their major markets.¹¹⁸ In some sense the regionalism of the EU's trade policy fosters the globalization of Korean firms to secure Korea's manufactured exports to the EU. Emerging as a particularly important feature today is far-reaching change as the predominant force of industrial organization. One of the effects of globalization is to reduce economic distance among countries and regions, as well as among the economic actors themselves. Another is to reduce the effective policy sovereignty of national governments vis-a-vis other governments but also vis-a-vis the market internally as well as internationally. Both these effects contribute to a perceived association between globalization and increased international

¹¹⁷. See Kym Anderson and Richard Blackhurst (eds.), *Regional Integration and Global Trading System*, New York: Harvester, 1993, p.7.

¹¹⁸. *Ibid.*, p.12.

interdependence.¹¹⁹ These two intervening variables have great influence on Korea's exports into the EU. The increase of global interdependence, decrease of national policy sovereignty and increased uncertainty and policy sovereignty of a firm, are results of globalization. Among the results of globalization, the increase of uncertainty and instability fosters the trend of regionalization with a closed regional orientation, which is partially reflected in the trade regimes of the EU.

1.5 Empirical Evidence of Regionalism and Globalism in the World

The emergence of the three regional blocs has taken very different forms. The development process of the EU is unique, different from the NAFTA and APEC in that the EU aims at reaching monetary and political Union. The development of trade policy between the EU and South Korea has been chosen because the EU represents the most developed process of regional integration.¹²⁰

As active pushers of globalism, multinational firms have demanded a stable trading environment. Charles Kindleberger argues that a world stabilizer was needed to restore and maintain a stable international economy.¹²¹ In the bipolar world structure, only hegemonic power made it possible for the capitalist economies to have an open and stable international

¹¹⁹. *Ibid.*, p.33.

¹²⁰. See Chapter 2. The History of the EU's Trade Policy, on the uniqueness of the EU development process.

¹²¹. Charles Kindleberger, *The World in Depression 1929-1939*, Berkeley: Univ. of California Press, 1973, pp. 290-310.

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economic system.¹²² Due to the hegemonic leadership of the US, the successful operation of the GATT contributed to a tremendous expansion in total trade volume.¹²³

As the most important player, the multinationals have been major actors in this process. Joan Edelman Spero¹²⁴ describes certain characteristics common to many multinationals:

"A multinational firm is a firm with foreign subsidiaries that extend the firm's production and marketing beyond the boundaries of any one country. Multinational corporations are not simply large corporations that market their products abroad; they are firms that have sent abroad a package of capital, technology, managerial talent, and marketing skills to carry out production in foreign countries. In many cases, the multinational's production is truly worldwide, with different stages of production carried out in different countries. Marketing is also often international. Goods produced in one or more countries are sold throughout the world. Finally, multinational corporations tend to have foreign subsidiaries in many countries. Raymond Veron defined a multinational corporation as one with investments in six or more foreign countries and found that such firms accounted for 80 percent of all foreign subsidiaries of major U.S. corporations".¹²⁵

¹²². Robert Keohane termed the theory "the theory of hegemonic stability" in "The theory of hegemonic stability" and changes in International Economic Regimes, 1967-1977," in Ole R. Holsti, Randolph M. Silversen, and Alexander L. George (eds.), *Change in the International System*, Boulder: Westview Press, 1980. Ch. 6.

¹²³. The 7th Tokyo Round (1973-1979), reduced the average tariff rate to 4.7 percent. Jackson defines the tariff average with tariffs on non-primary products of industrial countries. In John H. Jackson, *The World Trading System: Law and Policies of International Economic Relations*, Cambridge: MIT Press, 1989, pp. 50-55.

¹²⁴. Joan Edelman Spero, *The Politics of International Economic Relations*, Fourth Ed., London: Routledge, 1994, pp.103-104.

¹²⁵. Raymond Veron, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises*, New York: Basic Books, 1971, p.11, quoted in *Ibid.*, p.140.

The definition above clearly suggests the need for a multilateral framework for the multinationals to expand their businesses.

1.5.1 The Uruguay Round of the GATT

The Uruguay Round of the GATT started at Punta del Este, Uruguay in September 1986.¹²⁶ Its main objective was further to liberalize world trade by reducing tariff and other non-tariff barriers. The range of negotiation was so complex that the result would have a great impact on the political and economic order. The product of 2500 days' negotiation was a 550 page final agreement by 117 nations, as a epoch-making event in the world trading system.

According to the practical aims of the Uruguay Round, the outcomes are categorized as follows: 1) further reduction in tariff; 2) prevention of further proliferation of non-tariff barriers; 3) reform in agricultural trade agreement.¹²⁷ The failure of the Uruguay Round of the GATT would have exacerbated trade frictions.¹²⁸ Jagdish Bhagwati¹²⁹ terms the negotiation

¹²⁶. The major motivation was the sharp increase of non-tariff barriers in the international trading system. The initiation of the UR has been described by GATT as the most comprehensive and ambitious yet undertaken. It encompassed the fifteen negotiating topics, including such new areas as intellectual property, foreign investment and services, as well as old, unresolved ones like safeguards and agriculture.

¹²⁷. On the detailed purpose of the UR, see GATT, *Ministerial Declaration on the Uruguay Round*, Geneva, 20 September, 1986.

¹²⁸. Official Publication of the EC, *The Uruguay Round, Global Agreement, Global Benefit*, Luxembourg, 1994.

mechanism of the GATT as "a contractorian institution". Multilateral trade negotiations have given an opportunity for member nations to put forward their claims and requests against the relevant trading partners and seek settlement by means of concessional exchanges.

Table 1.3: The Fifteen Uruguay Round Negotiating Groups

Group	Declared Aims
1. Tariffs	Reduce or eliminate
2. Non-tariff measures	Reduce or eliminate
3. Tropical Products	Fully liberalize, including processed forms, receive special attention
4. Natural resource-based products	Fully liberalize including processed forms
5. Textile and Clothing	Formulate modalities permitting eventual integration into the GATT
6. Agriculture	Increase Liberalization Strengthen GATT rules and disciplines, and make them more operationally effective
7. GATT articles	Review as requested
8. Safeguards	Clarify and reinforce GATT disciplines
9. MTN agreements and arrangements	Improve, clarify, or expand
10. Subsidies and Countervailing measures	Improve GATT disciplines
11. Dispute Settlement	Improve and Strengthen rules and procedures, develop adequate monitoring arrangement
12. Trade-related intellectual property right	Clarify GATT provisions Elaborate new rules and provisions
13. Trade-related investment measures	Elaborate further provisions necessary
14. Functioning of the GATT system	Enhance GATT surveillance of national trade policies Increase ministerial involvement
15. Services	Establish a multilateral framework of principles and rules

Source: GATT, *The Uruguay Round*

¹²⁹. Jagdish Bhagwati, *Protectionism*, Cambridge: MIT press, 1988, pp. 35-36.

The life of a system is determined by practicing the agreed rules of its signatories. The function of the GATT has been limited. This incompleteness gave strong impetus to the successful conclusion of the Uruguay Round.¹³⁰

Bernard Hoekman¹³¹ elaborates that the concept of reciprocity was used in the Uruguay Round. Tariff cuts are to be negotiated through bargaining, reflecting a balance of recognized benefits at the margin rather than via negotiations resulting in a perceived full equality of market access and reverse market access.¹³² To protect nations against unfair trade practices, safeguard and anti-dumping measures were also recognized as key instruments, and were to be refined to increase their efficiency and guarantee fair application without abuse.¹³³

The limitations of the GATT have been recognized in the changing international economic environment. The rise in non-tariff barriers has been a matter of great concern among the

¹³⁰. *World Development Report 1987*, pp. 134-36. It well summarizes the brief history of the Rounds. Negotiations are usually done through the succession of the Rounds. In the case of the EC, the individual members are members of the GATT. But the negotiation representative is the European Commission as a whole. As the number of the negotiating parties increases, each round has taken longer and longer to complete.

¹³¹. Bernard Hoekman, "Determining the Need for Issue Linkages in Multilateral Trade Negotiations", *International Organization*, vol. 43, No.4, Autumn 1989, pp. 694-95.

¹³². Bhagwati, *op. cit.*, pp. 35-38.

¹³³. EC Official Publication Office, *The Uruguay Round*, 1994, Brussels, p.9. There have been various estimates of the potential economic gains of the Uruguay Round, starting from an extra ECU 180 billion of global income a year. In addition to that, a global public procurement market worth ECU 346 billion will be opened up for external tender by the Round.

GATT contracting parties. The sharp rise in abuse was a major motivation for the initiation of the Uruguay Round.¹³⁴ The Uruguay Round tried to achieve more transparency against protectionism in the areas of import-licensing procedures, rules of origin, customs valuation, and pre-shipment inspection. The term "safeguard" is usually used to include a variety of measures for emergency and anti-unfair trade purposes, thus including the GATT Article XIX[see Appendix] safeguards, anti-dumping and countervailing duty actions and so-called grey-area measures which are not subject to GATT rules such as VERs.¹³⁵ The two principal measures allowed in the Uruguay Round are safeguard clauses to protect domestic industries from sudden, unexpected surges in imports and anti-dumping measures to deter resort to unfair trading practices. The gradual phasing out of all grey-area measures such as VER and OMA was agreed. The safeguard Committee will survey and monitor all measures taken and ensure that they are in conformity with the agreements.¹³⁶ The importance of service well reflects that trade in services now accounts for 20 percent of global trade. Updating the trade regimes of the GATT to include services seem, in some sense, to be urgent viewed from the size of the trade in service

¹³⁴. Center for International Economics, *Western Trade Blocs: Game, Set or Match for Asia-Pacific and the World Economy?*, Canberra, Australia, 1990, p.18-19.

¹³⁵. The definition of the term "safeguard" was quoted in Jeffrey Schott, *Uruguay Round*, pp. 18-19.

¹³⁶. Patrick Meserlin, "Anti-dumping", in T. Bark & W. Chae (eds.), *Uruguay Round: Unresolved Issues and Prospects*, Seoul, Korea Institute for International Economic Policy, 1991.

sectors.¹³⁷ The Uruguay Round prevents countries from resorting to unfair practices in trade from expanding and continuing to use them. With increased certainty and expected predictions, members of the WTO will benefit.¹³⁸

The IMF report says that developing nations will suffer from the costs of transition: the decline of benefit from preference schemes, under which industrialized countries allow specified imports with little or no duties, and also high food costs.¹³⁹ As M. Camps and W. Diebold¹⁴⁰ argue that it is right

¹³⁷. Mario Kakabadse, *International Trade in Services: Prospects for Liberalization in the 1990s*, London: Froom Helm, 1987, pp. 61-65.

¹³⁸. *The Financial Times*, 18 November, 1994, says that Market liberalization agreed in the Uruguay Round could benefit all countries and reduce trade conflicts and protectionism. The IMF claimed that given the fairly long implementation period, any transition costs are likely to be felt gradually, providing time to exploit opportunities opened up by the Round.

¹³⁹. The IMF says that preliminary analysis suggests that erosion of preference margins is small. The main beneficiaries have been the more advanced developing nations, which have more to gain from tariff cuts and liberalization of agricultural, textile and apparel trade. However, some nations notably in North Africa and the Caribbean, which rely overwhelmingly on preferences on industrial products, could be adversely affected. Although developing nations importing much of their food might be hurt by higher prices, the farm sector in other countries could thrive as world market distortions are reduced. Countries protecting their farmers may simply replace their quotas with prohibitive tariffs, the report notes, and anti-dumping measures could still be used for protection. Still, the achievement in market liberalization, strengthening of rules and institutions and extension of discipline to new areas will be far reaching the report said. Equally important, it has expressed the environmental issues conducive to tackling future challenges in trade policy.

¹⁴⁰. M. Camps and W. Diebold, Jr. , *The New Multilateralism: Can the World Trading System be Saved*, New York: Council on Foreign Relations, 1983. p.83. Quoted in Il Young Chung, *Korea in a Turbulent World: Challenges of the New International Political, Economic Order and Policy Responses*, Seoul: The Sejong Institute, 1992, pp. 107-108.

that the GATT as an institution should become the centre of the system.

1.5.2 The Creation of the WTO

The WTO is the legal and institutional foundation of the multilateral trading system, and as such will guide the principal to provide the principle contractual obligations determining how governments frame and implement domestic trade legislation and regulations. Moreover, it is the platform on which trade relations among countries evolve through collective debate, negotiation and adjudication.¹⁴¹ Out of all the measures agreed in the Uruguay Round, the most significant was the decision to create the WTO, a more comprehensive and powerful successor to the GATT. Reflecting this mood, Peter Sutherland, head of the GATT, in completion of the Uruguay Round deal in late 1993, hailed the accord as a *defining moment* in

¹⁴¹. Reference is from computer internet information service. The WTO section writes: The WTO was established on 1 January 1995. Governments had conducted the UR on December 15, 1993 and Ministers had given their political backing to the results by signing the Final Act at a meeting in Marrakesh, Morocco in April 1994. The *Marrakesh Declaration* of 15 April 1994, affirmed that the results of the UR would strengthen the world economy and lead to more free trade, investment, employment and income growth throughout the world. The WTO is the embodiment of the UR results and the successor to the GATT. Out of potential membership of 152 nations and territories, 76 governments became members of the WTO on its first day, with some 50 other governments at various stages of completing their domestic ratification procedures, and the remainder engaged in negotiating their terms of entry. Not only does the WTO have a potentially larger membership than GATT (128 by the end of 1994), it also has a much broader scope in terms of the commercial activity and trade policies to which it applies. The GATT applied only to trade in merchandise goods; the WTO covers trade in goods, services and "trade in ideas" or intellectual property.

history which set the stage for further big advances in trade liberalization.¹⁴²

1.5.3 The European Union

By the early 1980s around the time when industrialized countries forced reciprocal opening upon their trading partners, the concept "defensive" changed to "offensive"; it was the offensive policy of forced opening. Avinash Dixit¹⁴³ insists that the violation of the rules of the game of free trade can be resolved by the concept of deterrent or compellent threat. The emphasis of deterrent or compellent threat is focused on the negative aspects of reciprocity in the name of maintenance and protection of the international free trade system. When the concept of reciprocity did fulfil its original purpose, regional solutions must have been another threat.

Table 1.4: Regional Shares of World Output and Trade 1958 and 1990

	share of world World GDP(%)		share of world merchandise exports plus imports(%)	
	1958	1990	1958	1990
Western Europe	26	34	40	46
North America plus Mexico	46	30	20	18
Asia	11	25	14	21

Source: Kym Anderson & Richard Blackhurst, op. cit., p.7.

Despite the rhetoric that the underlying philosophy and

¹⁴². *Financial Times Special, World Economy and Finance: International Financial Institutions under Scrutiny*, Friday October 6 1995, p.10, article on WTO by Guy de Jonquieres.

¹⁴³. Avinash Dixit, "How should the U.S Respond to other countries' Trade Policies?", in Robert M. Stern (ed.), *U.S. Trade Policies in a Changing World Economy*, Cambridge: The MIT Press, 1987, pp. 270-85.

motivation of EU integration was to overcome internal weakness and constraints, and to defeat Europessimism and Eurosclerosis by generating efficiency gains for the European economy through the creation of a large, unified market for improving the international competitiveness of European producers, the Single European Market(SEM) and the Maastricht Treaty of 1991 for the creation of the EU raise the fear of a fortress Europe.

The analysis of Hans-Eckart Scharer¹⁴⁴ is clear and transparent in capturing the negative implications of European Economic integration. He particularly pinpoints the sharp rise of protectionist instruments since 1982. The trade policy instruments of the Community against unfair trade practices have been tightened.¹⁴⁵ For example, in 1982 a revised Common Import Regulation (Reg. 288/32) was adopted, in 1984 a tightened Anti-dumping and Antisubsidies Regulation (Reg.2176/84) was passed,¹⁴⁶ and in the same year the so-called New Trade Policy Instrument (Reg. 2641/84) was enacted, the EU's equivalent to Section 301 of the US Trade Act which applies to all practices not hitherto covered. In 1987, the Antidumping and Antisubsidies Regulation was again changed to prevent evasion of penalty duties through so-called screwdriver factories

¹⁴⁴. Hans-Eckart Scharrer, "Existing Economic Blocs: A Building Block or a Stumbling Block to Wider Forms of Multilateral Trade Forum?", in Jang-Won Such (ed.), *Korea's New International Economic Diplomacy and Globalization Policy*, Seoul: KIEP, pp.45-46.

¹⁴⁵. *Ibid.*, p.46.

¹⁴⁶. New Council Regulations on protection against dumped imports from countries not members of the European Community and dumped or subsidized imports from countries not members of the EC are (EC)No 3283/94, (EC)No 1251/95 and (EC)No 522/94.

(Reg.2423/88). Council Regulation (EC) No 3286/94 of 22 December 1994 laying down community procedures in the field of the common commercial policy aims at ensuring the exercise of the Community's rights under international trade rules, in particular those established under the auspices of the WTO. The above are just a few of the examples of how the EU restrictive trade attitude vis-a-vis non-members has hardened. The 1980s witnessed the EC trade policy shift from tariff to non-tariff barriers (NTBs) and a shift from common policy making to more national discretion. More specifically, this new protectionist tilt, however, does not affect all extra-regional suppliers. EC protectionist measures have become more selective and discriminatory among products and countries of origin, particularly targeting the Asian Newly Industrialized Economies (ANIEs) exporting items such as colour TVs, VCRs and computers, which posed stiff competition to EC products.¹⁴⁷

In the case of the EU, rising protectionist tendencies can be detected in the strict and even arbitrary use of anti-dumping rules, increased application of safeguard measures, implicit and explicit subsidies to the firms in the EU.¹⁴⁸ Also, structural adjustment problems coming from the deepening of the integration process and likely demands for protection coming from new member states cast dark clouds upon hopes of a more open EU

¹⁴⁷. Sun-Taik Han, *European Integration: The Impact On Asian Newly Industrializing Economies*, Paris: OECD Publication, 1992, P.27.

¹⁴⁸. For more detailed proof, see chapter 4. on major trade regimes of the EU.

attitude.¹⁴⁹ Managed liberalization is an unsatisfactory substitute for a genuine one, but poorer liberalization, because it attenuates competition in precisely those sectors in need of enhanced efficiency.¹⁵⁰

1.5.4 NAFTA

NAFTA, initiated in 1988, is the second regional group established in the name of free trade. This eliminates trade restrictions among the US, Canada and Mexico with a high restriction of labour movement. No common external tariff and coordination mechanism of macro-economic policy exists in this region. For the US, the NAFTA is used as a bargaining lever as the decline of the US hegemony reflects the diminishing faith in multilateralism under the umbrella of the GATT. It creates an economic bloc of 360 million people, enhancing the bargaining leverage of the NAFTA with other major trading partners.

Dr. Arthur Dunkel, director general of the GATT, warned that it would be dangerous to assume that the goal of global free trade has been irreversibly achieved.¹⁵¹ Looking at the background from which the above emphasis was derived, the increasing concern of the US about trade imbalances has unleashed various bilateral trade measures such as the Super

¹⁴⁹. Han, Sun-Taik, op. cit., pp. 30-31.

¹⁵⁰. L. Alan Winters, "Expanding EC membership and association accords: recent experience and future prospects," in Kym Anderson and Richard Blackhurst (eds.), *Regional Integration and Global Trading System*, London and New York: Harvester/Wheatsheaf, 1993, p.123.

¹⁵¹. *The Times*, Friday March 4, 1994.

301 provisions. The US has increasingly made frequent use of VERs and anti-dumping measures. Multilateral trade liberalization is undercut by the recent rise in the respectability of "managed trade" and "strategic trade policy", arguments that address not only declining industries but also high-tech industries. Then, a possible creation of an American free trade area may shift the attention of the involved countries away from the multilateral trade talks under the guidance of the GATT, because they will be benefitted much more by the trade diverting effects of such a bloc.

In response to the SEM and growing regionalism in Europe, the US reacted first by resorting to the multilateral framework of the Uruguay Round of the GATT. The market accessibility of the EU seemed dark since the Single European Market. Amid the process of directly influencing on the legislative process of the Community, the US actively found a regional solution. This regional approach took a relatively short time in the conclusion of the Canada-U.S. Free Trade Agreement (CUSTA) in 1988 and subsequently on December 17, 1992 the North American Free Trade Agreement (NAFTA) was signed by the US, Mexico and Canada.

Completion of the Uruguay Round is an obvious critical step that would do much to limit the potential trade and investment diversion resulting from NAFTA.¹⁵² Richard S. Belous and Rebecca S. Hartley analyse the primary force of regionalism through their argument that regionalism provides more

¹⁵². Murray Smith, "The North American Free Trade Agreement: global Impacts," in Kym Anderson and Richard Blackhurst (eds.), *Regional Integration and Global Trading System*, New York and London: Harvester/Wheatsheaf, 1993, pp.100-101.

predictable and controllable adjustment costs and easier harmonization of the technical problems relevant to non-tariff barriers.¹⁵³ In reality, multilateralism, unilateralism, bilateralism, and regionalism co-exist. Among several options, the policy makers choose the most suitable one, case by case, depending on the situation, to maximize national benefits.

As a major clue to explain the changes in the US trade policy, Jeffrey Schott argues that the US decided to change its policy orientation from internationalism to regionalism due to its disappointment with the GATT dispute settlement procedures.¹⁵⁴ Gary Clyde Hufbauer and Jeffrey J. Schott¹⁵⁵ also elaborate that with the successful conclusion of the Uruguay Round, the EU and the NAFTA should continue to be outward-oriented. The success of the Uruguay Round will stabilize the complementary relationship between multilateralism and regionalism. Economic regionalism can be interpreted as the promotion by the government of international economic linkages with countries that are geographically proximate.¹⁵⁶

¹⁵³. Richard S. Belous and Rebecca S. Hartley (eds.), *The Growth of the Regional Trading Blocs in the Global Economy*, Washington D.C.: National Planning Association, 1990, p.132.

¹⁵⁴. Jeffrey I. Schott, "More Trade Area?" No. 27, May 1989, *Institute for International Economics*, Washington D.C, p.42.

¹⁵⁵. Gary Clyde Hufbauer & Jeffrey J. Schott, *NAFTA, an Assessment*, W.D.C: Institute for International Economics, 1993, PP. 116-117.

¹⁵⁶. Robert C. Hine, "Regionalism and the integration of the world economy", *Journal of Common Market Studies*, Volume XXX, No. 2, June, 1992, P.115.

1.5.5 APEC

According to Bollard and Mayes, the relative weak trend of regionalism in the Asian-Pacific finds some roots in 1) previous strong extra-regional trade ties, 2) a lack of perceived need coming from rapid growth of Pacific Rim countries' trade, 3) the diverse nature and interests of those countries, especially because of the Communist/non-Communist division of Asia.

For historical reasons, East Asian countries like China, Korea and Taiwan are very reluctant to develop trade preferences with Japan.¹⁵⁷ The comparatively weak linkages in Asia do not actually produce any substantial disadvantages to those nations in the region. If a disadvantageous situation were to develop in the future, pressures would grow on Japan, which is now emphasizing closer political and commercial ties with its Asian partners, to participate in an intra-Asian trade group. Other regions' growing discrimination against the Asian region would intensify the need for a more institutionalized form of regional economic cooperation. As of now, three signs are detected. The first one is the continuing development of APEC.¹⁵⁸ The second

¹⁵⁷. *Ibid.*, p. 117.

¹⁵⁸. In the Osaka APEC Summit Meeting on the 19th November 1995, Asia-Pacific leaders took a major stride towards making real their vision of free trade for the region by the early 21st century. They took the action agenda for achieving the Bogor commitment to axe all trade and investment barriers in APEC by 2020. The action agenda is composed of three major pillars-trade and investment liberalization, their facilitation, and economic and technical cooperation. The nine principles of the Action Agenda are 1) comprehensiveness; 2) WTO-consistency; 3) Comparability; 4) Non-discrimination; 5) Transparency; 6) Standstill in levels of protection; 7) Simultaneous start, continuous process and differentiated time tables; 8)

one is the increased role of Japan in the ASEAN region as a core nation. The third development is to be recognized in the intensified discussion on forming a Northeast Asia Economic Circle. In the East Asian region, the state has little role in driving economic integration. Instead, the activities of the private sector have stimulated economic integration.

1.6 The Growing EU-ROK Partnership under the WTO

The growing importance of the ROK to the EU is illustrated by the fact that South Korea ranks as the 16th largest main trade partner to the EU, with an import volume of 7,724,166,000 ECU and exports of 7,671,000,000 ECU, accounting for 1.6 percent of the EU's total combined exports and imports.¹⁵⁹ 1993 statistics compare the amount of imports and exports among Japan, US and EU. In import dimension, Korea's import from Japan recorded 17,093,000 ECU, 23.3 percent of Korea's total imports; from the US, it was 15,310,000 ECU, a 21.3 percent, and from the EU, 8,526,000 ECU, 11.8 percent. In the export dimension, the US recorded the largest with a figure of 15,489,000 ECU, 21.7 percent, while Japan recorded 9,876,000 ECU, 13.8 percent and the EU, 7,647,000 ECU, 10.7 percent.

Korea is one of the major export-import nations in world trade, ranking as the 11th largest trading entity by export-import volume. We can not think of Korea's economic development separately from international interdependence. David

Flexibility; 9) Cooperation. The Bogor declaration was adopted in Bogor, an Indonesian city.

¹⁵⁹. Eurostat, January, 1995.

Handerson¹⁶⁰ points at the inter-connectedness of the world economy. The EU is the largest trading identity, with an approximate share of 20 percent in world exports and 20 percent of world imports, excluding intra-EU trade. Korea's efforts to diversify exporting market are naturally aimed at penetrating the EU market. Korea had a share of 2.9 percent in world exports and 2.9 percent in world imports respectively in 1993.

Table 1.5 : Trend in World Trade, Percentage Share of World Trade (Export and Import) unit: %

World 100		1989	1990	1991	1992	1993
EU	Export	19.3	20.3	20.4	20.6	20.0
	Import	20.0	21.7	22.8	22.1	19.2
EFTA	Export	8.0	8.7	8.4	8.2	7.4
	Import	7.9	8.5	8.9	7.6	7.6
US	Export	15.4	15.1	16.4	16.3	16.3
	Import	20.0	19.1	19.0	19.4	20.4
Japan	Export	11.7	11.0	12.2	12.4	12.7
	Import	8.6	8.7	8.8	8.2	8.2
Canada	Export	5.1	4.9	4.9	4.9	5.0
	Import	5.2	4.8	4.9	4.8	5.0
China	Export	2.2	2.5	2.8	3.1	3.2
	Import	2.4	1.9	2.4	2.9	3.5
South Korea	Export	2.6	2.5	2.8	2.7	2.9
	Import	2.4	2.6	3.1	2.8	2.9
Singapore	Export	1.9	2.0	2.3	2.3	2.6
	Import	2.0	2.2	2.5	2.5	2.9

Source: Eurostat, January 1995.

The figures suggest that the EU can not ignore the importance of the ROK, and in a larger context, the dynamic

¹⁶⁰. See David Henderson, "International Economic Cooperation Revisited, "Government and Opposition, Vol.28. No.1, Winter 1993.

market of East Asia in any future EU economic growth strategy. Table 1.5 shows the extent of Korea's dependence upon international trade. As the internationalization of transnational capital fosters the globalization of world trade, as an important variable impacting on a patterns of trade, it is worth looking at Korea's investment in the EU, indicated in table 1.6. Investment in Europe almost doubled in just three years, from US \$153,697,00 in 1990 to US \$346,023,000 in 1993. This is a good reflection of the increasing importance of the EU markets as Korea is diversifying its exporting markets from Asia and North America to other promising regions.

Table 1.6 : Korea's Permitted Overseas Direct Investment by Region: Total (unit: Projects, US \$1,000)

region	year	1967-77	1980	1990	1993
Asia		74(projects)	13	303	861
		54,119(amount)	4,262	761,867	953,870
Middle East		9	8	2	6
		4,128	9,890	564	6,996
North America		76	14	112	86
		18,751	4,768	595,730	419,596
Latin America		15	1	39	34
		1,824	400	54,317	47,882
Europe		32	6	37	48
		4,650	764	153,697	346,223
Africa		15	0	5	6
		15,662	0	16,659	84,486
Oceania		4	3	19	10
		1,911	2,700	41,958	30,276
Total		225	45	517	1,051
		100,735	22,784	1,624,792	1,889,129

Source: The Bank of Korea, *Overseas Direct Investment Statistics Yearbook*, 1994, p.14.

Won-Dong Cho¹⁶¹ has attempted to define future economic cooperation between the ROK and EU with the concept of complementarity. He suggests that Korea and the EU stand to gain a great deal from economic cooperation.

Korea regards the EU as an increasingly valuable and reliable partner in its search to diversify its trade and increase its technological prowess. The EU could also benefit from the expansion of trade with Korea because the ROK is more and more gaining global economic importance as the third largest economy in the Asian Region after Japan and the People's Republic of China (the PRC).

In the same context, Bak-Soo Kim argues that regardless of the challenges that the ROK is currently facing within the EU market, its potential will be developed with the implications that the ROK-EU trade is possibly developing toward intra-industry trade to demonstrate the most rapid growth in world trade.¹⁶²

The EU's position with regard to the ROK is illuminated by the view of the EC Council of Ministers, expressed in a communication by the EC Commission about "Relations between the EC and Korea: Toward a Growing Partnership." The EC Council

¹⁶¹. Won-Dong Cho, "Trade Issues between Korea and the EC: Observation based on the Case Study," in Bak-Soo Kim (ed.), *The Asian Dimension of EC Integration-Problems and Prospects*, Seoul, Korea: Korean Institute For International Economic Policy, pp.73-74. He is a Deputy Director at the International Economics Division, the Economic Planning Board, Korea.

¹⁶². Bak-Soo Kim, "Changes in Trade Structure between the EC and Korea," in Bak-Soo Kim (ed.), *The Asian Dimension of EC Integration-Problems and Prospects*, Seoul, Korea: Korea Institute for International Economic Policy, pp.119-20.

recognized that the degree of mutual economic interaction between the two should be further expanded to reflect the importance of both sides in world trade. It was further confirmed in the Euro-Asian Summit in Bangkok by means of a political and economic co-operation agreement signed by the EU and South Korea, which should assist Korea's application to join the OECD.¹⁶³ Optimism about ROK-EU bilateral trade relations is also shared by Joyce Tan and Jacques Pelkmans¹⁶⁴. Growing of bilateral trade could be expected to be high in the future. Paul Van den Bempt assumes that international relations may develop smoothly and Korea's economy can benefit from this peaceful development in searching for new markets such as the EU.¹⁶⁵

However, contrary to the above arguments, Rolf J. Langhammer¹⁶⁶ has warned the ROK of the possibility of the EU's increased protectionism. His opinion is that the EC, by its nature and history, is a trade-discriminating arrangement and

¹⁶³. Peter Montagnon, "EU deal may aid Korean bid to join OECD", *Financial Times*, Weekend March 2/3, 1996, p.3.

¹⁶⁴. Joyce Tan and Jacques Pelkmans, "Bilateral Trade Relations Between Korea and the EC," in Chung-Ki Min (ed.), *The Economic Cooperation between the EC and Korea: Problems and Prospects*, Papers and Discussions from the Joint KIEP/FES Conference, Seoul: Korea Institute for International Economic Policy, p.120.

¹⁶⁵. Paul Van den Bempt, "The European Community After 1992: Implications for Korean Economy", in Yung Chung (ed.), *Korea in a Turbulent World: Challenges of the New International Political Economic Order and Policy Responses*, Seoul, Korea: The Sejong Institute, 1992, p.350.

¹⁶⁶. Rolf J. Langhammer, "European Economic Integration and its Impact on Future Economic Relations with Korea: Where do we go in the 1990s?", in Soogil Young and Moonsoo Kang (eds.), *The Single European Market and Its Implications for Korea as an NIE*, Papers and Discussions from a Joint KDI/FES Conference, Seoul: Korea Development Institute, 1991, pp.236-54.

this situation will continue beyond the 1990s. Despite the success of the Uruguay Round, discrimination against non-members in merchandise trade is predicted to continue to exist. With the same somewhat negative tone, Ji-hong Kim maintains that reciprocity by sector in the EC would undermine multilateral trade liberalization, and Korea is among the most likely targets of discrimination by the EC.¹⁶⁷

Korea's investment in the European region has been increasing, reflecting the importance of the EU to the future exports of Korean products. Based upon the number of projects, the Bank of Korea official statistics show the regional proportion: the Asian region, 1,659(60.2%), North America, 553(20.1%), and Europe, 194(7.0%). Europe's share of the total is expected to be ever-more expanding. East Asia may be among the most likely candidates for trade friction with the EU. Among the East Asian nations, the ROK seems to be one of the prime targets.¹⁶⁸

This is implied in the EC Commission's *White Paper on Completing the Internal Market*.¹⁶⁹ Regarding external trade relation, it only makes reference to trade with non-members as

¹⁶⁷. Ji-hong Kim, "The structure of Korea's Trade with the EC Countries", in Soogil Young and Moonsoo Kang (eds.), *The Single European Market and Its Implications for Korea as an NIE*, Papers and Discussions from a Joint KDI/FES Conference, Seoul: KDI, 1991, pp.201-36.

¹⁶⁸. Ji-Hong Kim, "The Structure of Korea's Trade with the EC Countries", in Soogil Young and Moonsoo Kang, *The Single European Market and Its Implication for Korea as an ANIE*, Seoul, Korea: Korea Development Institute, 1991, p.211.

¹⁶⁹. Commission of the European Communities, 1985.

follows:" the commercial identity of the Community must be consolidated so that our trading partners will not be given the benefit of a wider market without themselves making similar concession" (Paragraph 19). Social and political pressures to reduce the growth of competitive imports is likely to have a protectionist impact on the sectoral trade policy of the member nations against the ROK.

1.7 Concise Overview of Chapters

In the second Chapter, the development of the EU with regard to trade is surveyed. The historical development of the EU from its birth in the immediate postwar years to the creation of the Single European Market (SEM) is unique in that there are many different political frameworks to govern the market and the development of trade as are shown in NAFTA and APEC. A major concern is how the EU's trade policy has developed over the postwar decades, and how developments have influenced South Korea's access to the European market.

In Chapter Three, as a more specific elaboration of the EU trade regimes, the study attempts to highlight the contradictory dimension of the EU's Non-Tariff Barriers (NTBs) in the postwar period. It also tries to address the way in which the NTBs have affected South Korea by presenting many relevant examples of how specific measures and changes of the trade policies have affected Korea's exports into the EU market. The postwar industrial policy of South Korea is surveyed with specific emphasis on the relationship between the state and large companies, that is Chabols or Korean conglomerates. While it has

been possible for South Korea to make the most of the Bretton Woods system since 1945, the external pressures for Korea's trade liberalization and deregulation force the Korean government to actively pursue multilateralism under the WTO.

Chapter four tries to address two points. The first one is the role of the Korean government in the process of its active participation to the world economy. In the rapid industrialization process, manufacturing industry has played a key role in achieving a Korean miracle. It is also vital to admit the importance of exports, especially manufactured exports, which means South Korea has been heavily dependent upon access to foreign markets for its development. The role of government was a prerequisite to the successful management of the Korean economy. However, the changing international trading environment characterized by regionalism and protectionism, forces the Korean government to comply more actively with the EU's demand for more market opening.

In Chapter Five, the main emphasis is on the general evolution of the EU-Korean relationship with the EU's new perspectives on Korea and increasing partnership despite trade friction between the two. The general pattern of economic exchanges between the two is summarized by the rapid expansion of Korea's exports to the EU and the EU's reciprocal demand for more opening of the Korean market.

Chapter Six deals mainly with the general background of the Uruguay Round and its subsequent conclusion. It also examines the implications for the theme of how the EU-ROK economic relationship has been affected by the conclusion of the Uruguay

Round in general, and how the development of Korean exports has been affected by previous rounds.

Chapter Seven presents a case study to test the impact of regionalism and globalization on a specific industry; three characteristics of the Korean electronics industry development in the postwar period are explored. The key points of the chapter are the increased dependence of the industry upon export markets including the EU, the dependence of the industry upon licensed technology from overseas, and the active role of the government in assisting the development of technology and policy guidelines.

Chapter Eight attempts to show how significant it has been for South Korean electronics firms to have dealt with the world trend of regionalism of the EU and globalization in general. By examining the specific development of Samsung Electronics and LG Electronics and how they have been affected by the changing trade policies in the world dimension, the implications of regionalism and globalization are tested.

CHAPTER TWO. THE HISTORY OF THE EUROPEAN UNION'S TRADE POLICY

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CHAPTER TWO. THE HISTORY OF THE EUROPEAN UNION'S TRADE POLICY

This chapter attempts to provide an analysis of the history of the development of the EU's trade policy with regard to the ROK's exports into the EU market. To understand the political economy of the EU commercial policy with implications for the ROK, it is essential to consider the unique historical setting of the birth of the EU. The need to make the European Community capital-competitive at the global scale has been the overarching aim and the organizing force behind the most significant shifts in EC policies.¹⁷⁰

2.1 The Unique Supranational Characters of the EU and Its Aim of Political Integration

The historical evolution of the EU has been unique. The creation of the European Community was revolutionary in that member states had to concede national sovereignty. Uniquely amongst European and international organizations, it has supranational characteristics. Simon Bulmer finds supranational factors overwhelmingly in the institutional arrangements concerning the economic pillar of activity, the EC.¹⁷¹ It is supranational in that it has its own body of law directly to influence the member states, and the law takes precedence over national law. The autonomy of institutions from member states is very different from the situation of NAFTA and APEC. According

¹⁷⁰. Allan M, Williams, *The European Community* , Cambridge: Basil Blackwell, 1991, P. 112.

¹⁷¹. Simon Bulmer, "History and Institutions of the European Union," in M.J. Artis and N. Lee (eds.), *The Economics of the European Union: Policy and Analysis*, Oxford: Oxford University Press, 1996, p.6.

to Simon Bulmer, the most prominent instances are: the European Commission to serve as an executive civil service; a parliamentary assembly, which has been directly elected since 1979; and a European Court of Justice to make rulings on matters of law. Balanced against these three are two powerful institutions to represent the interests of the member governments, namely the Council of Ministers; and the European Council.¹⁷²

Simon Bulmer distinguishes the uniqueness of the EC from other international economic organizations. He says that this is reflected in the way that economic integration has been a continuing process of evolving goals from the first steps undertaken with the European Coal and Steel Community(ECSC) to the Treaty on European Union(TEU) and beyond. Economic integration has never been an end in itself. It has always served as a means towards the end of political integration.

NAFTA was initiated in a different context. Regional free trade was seen as a primary means to revitalize the economy.¹⁷³ Political integration was never dreamt of. APEC's main purpose is to expand multilateralism by pursuing open regionalism. P. Drysdale¹⁷⁴ has analysed the key structural difference between

¹⁷². The Council of Ministers is composed of national ministers; The European Council is comprised of heads of member governments or state.

¹⁷³. Helen Milner, "Regional Economic Cooperation, global markets and domestic politics: a comparison of NAFTA and the Maastricht Treaty", *Journal of European Public Policy*, 2:3 September 1995, p.348.

¹⁷⁴. P. Drysdale, *International Economic Pluralism: Economic Policy in East Asia and the Pacific*, New York: Columbia University Press, 1988.

Europe and other regions of North America and Asian Pacific. The relative similarity of the Western European economies allowed an intensified regional body to be formed relatively easily, because the gains have been able to come mainly from intra-industry trade specialization. In contrast, the interests of Western Pacific nations will continue to be served best by a strong, open, global trading system.

The evolution of European Community integration was also motivated by the nations' wish to avoid armed conflicts, particularly between France and Germany. Economy serves higher objectives.¹⁷⁵ The immediate economic objective is to raise the prosperity of all the participating states. The farther-reaching objective is one of peace; namely, to lessen the chance of armed conflicts among the participating nations. Empirical support¹⁷⁶ exists for the statement that economic integration reduces conflicts between nations.¹⁷⁷

Historically, the evolution of the EU has occurred over a much longer period than that of NAFTA and APEC. In a move to counter Soviet expansionism, regional integration in Europe enabled the Western Europe to be more solidified among members, aided by the US Marshall Plan. The notable economic progress

¹⁷⁵. Willem, Molle, *The Economics of European Integration*, Aldershot: Dartmouth, 1990, p. 55.

¹⁷⁶. Polacheck, using data for 30 countries in the 1958-1967 period, showed that doubling trade between two countries leads to a 20 percent decline in the frequency of hostilities. Hirsh(1981) suggests that countries feel obliged to adopt a peaceful attitude when a "balance of prosperity" is created instead of a "balance of deterrence." quoted in *Ibid*, pp. 31-39.

¹⁷⁷. *Ibid.*, p. 9.

made by the six members during the first decade of the EEC's existence was facilitated in large part by the fact that major community developments served the interests of both its core members, France and Germany.

Specifically in the Common Commercial Policy(CCP) dimension, since 25th March, 1957, Article 110 of the Treaty of Rome establishing the European Economic Community has been the cornerstone for the signatories of the six founding members to create a customs union or common market. It encompasses harmonized policies in the sectors of agriculture, energy, transport, competition, and problems of regional development issues. The agenda in the EC encompassed monetary union along with the creation of a single internal market in which capital and labour would also be able to move freely within Community territories, thus paving the way for the ultimate political union.¹⁷⁸ Before the creation of the EEC in the European postwar economic integration, six European states- France, Italy, West Germany, Belgium, the Netherlands and Luxembourg- created the European Coal and Steel Community (ECSC) in 1951. The limited integration of the Coal and Steel sector, however, was not a sufficient condition to seek greater European unity. After the failure of a European defence community and European political community formation, the six signed the EEC and

¹⁷⁸. Dominick Salvatore (ed.), *National Trade Policies: Studies in Comparative Economic Policies*, Vol.2, Amsterdam, New York, and Oxford: North-Holland, 1992, p.30.

2.2 Historical Development of the EU Common Trade Policy

A common trade policy is an essential characteristic of a customs union. The basic features of the CCP¹⁸⁰ are incorporated in Articles 110-6 of the Treaty of Rome with two major propositions: a) member states aim to contribute to the harmonious development of world trade; the progressive abolition of restrictions and the lowering of trade barriers (Article 110); b) the CCP was based upon uniform principles with respect to tariffs, the conclusion of trade agreements, liberalization of export policy, anti-dumping measures and subsidies (Article 113). Article 113 also provides the basis for exclusive Community competence in trade policy, decisions by majority voting and for a substantive executive and negotiating role of the Commission. The Court of Justice enhances the CCP by the mechanism that wherever a common policy is developed internally, the external aspects of that policy are

¹⁷⁹. Dennis Swann(ed.), *The Single European Market and Beyond: A Study of the Single European Act*, London and New York: Routledge, 1992, p.6.

¹⁸⁰. Dermot McAleese suggests that for a growing descriptive and analytical literature of the Community's external trade policy, see Sir L. Fielding, *Europe as a global partner*, UACES Occasional Paper 7, University Association for Contemporary European Studies, 1991; D. McAleese, "External Trade Policy," in A. El-Agraa(ed.), *The Economics of European Community*, Third Ed., London: Philip Allan, 1990; W. Molle, *The Economics of European Integration*, Aldershot: Dartmouth, 1990; J. Pelkmans, "Completing the EC internal market: an update and problems ahead," in N. Wagner (ed.), *ASEAN and the EC: The Impact of the 1992*, Singapore: Institute of Southeast Asian Studies, 1991; L. Tsoukalis, *The New European Economy: The Politics and Economics of Integration*, Oxford: Oxford University Press, 1991.

automatically a matter of Community competence.¹⁸¹

The EEC Treaty¹⁸² was technically based on a common market which provided for the elimination of trade barriers within the Community and the establishment of a common external tariff (CET) against the rest of the world. The EEC Treaty also provided for a common market permitting the free movement of capital and labour within the Community territories. Customs duties and quantitative restrictions on intra-area trade were progressively reduced and eliminated in July 1968, one and a half years ahead of schedule.¹⁸³ Though such measures as the Common Agricultural Policy (CAP) were the major feature of the EEC, Common External Tariff (CET) and a number of common commercial policy instruments such as EC-wide quantitative restrictions and legislation dealing with unfair trade practices abroad are the issues most directly relevant to the ROK-EC trade relationship. The Treaty of Rome provided the Community institutions with powers to control NTBs to dismantle quantitative restrictions or quotas on goods sold to each other

¹⁸¹. Dermot McAleese, "The Community's External Trade Policy," in David G. Mayes(ed.). *The External Implications of European Integration*, London and New York: Harvester/Wheatsheaf, 1993, pp.32-35.

¹⁸². The EEC Treaty was one of EC three Communities: the European Coal and Steel Community (ECSC), governed by the Treaty of Paris, and the European Economic Treaty (EEC) and the European Atomic Energy Community (EURATOM), governed by the treaties of Rome. The institutions of the three Communities were merged in 1965 and are henceforth referred to as the European Community(EC).

¹⁸³. Margaret Kelly, et al., *Issues and Development in International Trade Policy*, IMF Occasional Paper No.63, p.88.

to create internal free trade.¹⁸⁴ The freedom to supply goods and services was to be accompanied by the free and undistorted movement of factors of production. Within a twelve-year transition period to end on 31 December 1969, the completion of the common market was expected, but many NTBs and other unfavourable factors inhibited and distorted the flow of factors needed to accomplish the common market. The ingredients of the CCP of the EEC have flowed quite logically from its economic reason *d'être* and its broader political aspirations as follows:¹⁸⁵ a) A Common Customs Tariff whose level has been negotiable with other members of the GATT;b) A common classification of goods for customs purposes, with supporting common rules for customs valuation, rules for suspending or reducing customs duties, rules of origin, and rules whose purpose- as defined in Article 113 of the Treaty¹⁸⁶-is to ensure that "uniform principles" should be applied, in the same way, in all EEC member countries in their trade relations with nonmember states; The article in question lists some of the issues where such uniform principles or rules should apply, encompassing tariff amendments, export policy, the negotiation of international tariff or trade agreements, existing import quotas, protective commercial measures such as antidumping

¹⁸⁴. Dennis Swann, 1992, *op. cit.*, p.6-7.

¹⁸⁵. Dominick Salvatore (ed.), 1992, *op. cit.*, p.35-36.

¹⁸⁶. Based upon this article, the EEC entered into a whole series of international agreements governing particular sectors of international trade or trade with specific countries or groups of countries and members of other regional trade groupings.

cases, and subsidies.¹⁸⁷

Common Customs Tariff reduction agreements were reached during the Dillon Round lasting from May 1961 to March 1962- the average level of the CCT was reduced from 12.5 percent in 1958 to 11.7 percent in 1963. The next GATT Kennedy Round which opened in May 1964 reached an agreement in May 1967, providing for tariff cuts averaging 32 percent for the EEC.¹⁸⁸ Article 113 of the Treaty of Rome requires that the CCP should be administered according to uniform principles in the fields of import quotas, safeguards, and anti-dumping measures and export credits.¹⁸⁹

By 1968, the EC had achieved the abolition of internal customs duties and the application of a common external tariff. Moreover, a common agricultural policy (CAP) was achieved in parallel, based on prices and preferential treatment.¹⁹⁰ The gradual subordination of national sovereignties to Brussels began to be opposed by nationalists. The prospect of a federal political union triggered a revival of nationalism, or at least tactical national rhetoric. This was primarily expressed as a concern for the protection of national sovereignty, especially in relation to the pursuit of independent foreign, security and

¹⁸⁷. Norman Scott, "The Commercial Policy of the European Economic Community", in Domnick Salvatore (ed.), op. cit., p.35.

¹⁸⁸. *Ibid.*, p.36.

¹⁸⁹. *Ibid.*, p.38.

¹⁹⁰. David Arter, *The Politics of European Integration in the 20th Century*, England: Dartmouth Publishing Co., 1993, pp. 35-80.

defence policies.¹⁹¹

Political and economic union means that there is to be free movement of people, goods, services, and capital within the member states in the same context as there is between England and Scotland. In order to achieve all these aims the Rome Treaty created a series of interacting institutions. The European Commission is responsible for all three Communities whose function is to initiate policy proposals and help to administer agreed policies. The key role of the Commission is to administer competition rules as they apply to cartels and dominant firms, state aids, public purchasing and the like.¹⁹² Dennis Swann argues that the Council of Ministers is the most important institution as the EC's law-maker since, it could alone put the official stamp on draft regulations and draft directives emanating from the Commission. Other Community institutions are a Parliamentary Assembly, a Court of Justice, and Economic and Social Committee.¹⁹³ After the transitional period which lasted until 1969, the original six members in due

¹⁹¹. Ibid., p.207.

¹⁹². Dennis Swann, 1992, op. cit., p.10.

¹⁹³. The European Parliament and Economic and Social Committee were basically consultative as the treaty stipulates that on many issues the Council of Ministers would not be acting lawfully in the absence of consultation with them. Another important power of the European Parliament is the authority to dismiss the whole Commission. The major tasks of the Court of Justice were to determine if the member states had fulfilled treaty obligations; to review the legality of Council or Commission acts; to review any failure to act by the Council of Ministers or Commission where the treaty required; and to give preliminary rulings on points of Community law at the request of national courts of member states. Quoted in *ibid.*, p.10.

time increased to nine in 1973 when Denmark, the Irish Republic and the United Kingdom joined. In 1981, 1986 and 1995, respectively the number rose to 10 with the accession of Greece; to twelve with the additional membership of Spain and Portugal; and finally to 15 when Finland, Sweden and Austria joined the EU.

The most important development in the post-1969 period was the EEC Commission's proposal for a Community industrial policy.¹⁹⁴ The Treaty of Rome did not provide any basis for an active industrial policy, leaving this to competitive and market forces. In 1971 one important development in the EC was the Commission's proposal to collaborate in research and technological development. The next year's Paris Summit paved the way for ground-breaking development by the heads of government who called for an environment action programme with a more vigorous approach to social issues. The attempt to build EMU by 1980 was, also, foreshadowed by the Hague Summit of 1969. The intergovernmental approach to develop European Monetary System (EMS) in 1979 has been a limited step to monetary union.¹⁹⁵ Economic union must come before political union of any kind; a single market can only be truly created when the four freedoms are in place.¹⁹⁶ The Single European Act (SEA) of

¹⁹⁴. Dennis Swann, *Competition and Industrial Policy in the European Community*, London: Methuen, 1983, pp.138-61.

¹⁹⁵. Dennis Swann, 1992, op. cit., pp.59-64, 189-200.

¹⁹⁶. Manzoor G.K. and Ishani, Solicitor, *The European Community*, London: Fourmat Publishing, 1992, pp. 183-84.

1986¹⁹⁷ gave the EC further policy competence, especially in the environmental issues, and brought closer together the economic foreign policies of the EC state. From 1990 to 1991, the EC pursued the dual quests of political union and economic and monetary union, culminating in two parallel intergovernmental conferences in Maastricht.

By 1992, not only the East and Central European states but also the richer non-EC countries such as Sweden and Austria were in line for closer links with the EC, and at the beginning of 1995, the richest three nations, Austria, Sweden and Finland became full members of the EU.¹⁹⁸ More co-operative effort created by the governments would be a landmark in the rise of the European Community.¹⁹⁹ At the Maastricht European council on 10 December 1991, the heads of state and government of the twelve EC countries adopted the content of the Treaty of Political Union, with the final document being signed on 7 February 1992. This established a European Union that would envelop the European Community and supplement it with the policies and forms of co-operation established by the treaty. Integration makes the world smaller. The formation of the European Community and the policies it has followed, have affected the economic political and security policies of all

¹⁹⁷. On the detailed impact of the SEM on the ROK, see Chapter Three.

¹⁹⁸. Clive Archer and Fiona Butter, *The European Community: Structure and Process*, London: Pinter Publishers, 1992, p.5.

¹⁹⁹. Ibid, p.5.

countries in Europe and the world.²⁰⁰

2.3 External Impact of the EU Trade Regimes on the ROK

The external relations of the EC have been affected both by internal changes in the EC itself and by developments outside it.²⁰¹ With regard to internal changes, one way to measure the progress of integration is by quantities traded or exchanged. For goods and services this is done in practice by measuring the extent to which the production of one country is consumed in another.²⁰² General world economic integration has been more and more intensively achieved. The progress of integration in the EC has been much faster;²⁰³ and this strongly indicates that the economic integration of the EC serves the national interests. Whether or not the primary motivation for the EC integration was to avoid the war between France and West Germany, the real purpose of integration has already been achieved and progress is being made towards a higher goal.

In harmonization and co-ordination, progress is likely to be slower than in liberalization and deregulation. That is the

²⁰⁰. T. Hitiris, *European Community Economics*, London: Harvester & Wheafsheaf, 1988, p.33.

²⁰¹. A. M. El-Agraa (ed.), *Economics of the European Community, Third Ed.*, London and New York: Philip Allan, 1990, p.436.

²⁰². Ibid., p.472.

²⁰³. Looking, for example, at the ratio between internal and external exports published by Eurostat 1993, in 1958, it was approximately three fifths (internal and external exports accounted for 37 and 63 percent respectively. By 1992, the ratio had been reversed in favour of internal exports with internal exports contributing three fifths of total EU exports.

integration process toward full economic union.²⁰⁴ Economic integration favours integration in other areas from political motives. According to the stages of economic integration²⁰⁵, the EU has been on the road to the Common Market.

²⁰⁴. Ibid., p. 12.

²⁰⁵. a. Free Trade Area (FTA)- all such trade impediments as import duties and quantitative restrictions are abolished among partners.

b. Customs Union (CU)- as in the FTA, all obstacles to the free traffic of goods among partner countries are removed. Moreover, one common external tariff is agreed upon.

c. Common Market (CM)- it is first of all a customs union. Moreover, production factors, that is, labour and capital, may move freely within the CM. Combination of common policies and national policies is possible.

d. Economic Union (EU)- it implies not only a common market but also a high degree of co-ordination or even unification of the most important areas of economic policy, market regulation as well as macro-economic and monetary policies and income redistribution policies. Not only is a common trade policy pursued toward third countries, but external policies concerning production factors and economic sectors are also developed.

e. Monetary Union (MU)- it is a form of co-operation which on top of a common market (notably free movement of a capital) creates either irrevocably fixed exchange rates and full convertibility of the currencies of the member states, or one common currency circulating in all member states. Such a union implies quite a high degree of integration of macro-economic and budget policies.

f. Economic Union and Monetary Union (EMU)- combines the characteristics of both. In view of the close interweaving of monetary and macro policies, integration evolves mostly simultaneously for both policy fields.

g. Full Economic Union (FEU)- it implies the complete unification of the economies involved, and a common policy for many important matters. The situation is then virtually the same as that within one country. Given the many areas integrated, political integration is often implied. -Williem Molle,

Table 2.1: Key Stages in the Development of the European Union

Year	Key Developments
1951	Treaty of Paris is signed, bringing the ECSC into effect from 23 July 1952. Membership comprised Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands.
1957	Treaty of Rome is signed, bringing into effect the EEC and the European Atomic Energy Community(EURATOM) from 1 January 1958.
1965	Merger treaty is signed, with the effect of merging the principle institutions of the three communities from 1967. Henceforth the three communities are known collectively as the EC
1973	Denmark, the Irish Republic, and the UK join the EC on 1 January.
1981	Greece joins the EC on 1 January
1986	Spain and Portugal join the EC on 1 July. The Single European Act is signed, coming into effect on 1 July 1987, and introduces the first systematic revisions to the founding treaties.
1992	Treaty on European Union is signed following broad agreement in December 1991 at a meeting in Maastricht in the Netherlands. It entails systematic revisions to, and extension of, existing treaties. Following ratification, the TEU came into effect on 1 November 1993. Within the EU, the EC represents one "pillar" of activities: the others relate to foreign and security policy; and Justice and home affairs.

Source:M. J. Artis and N. Lee (eds.), *The Economics of the European Union: Policy and Analysis*, Oxford: Oxford University Press, 1994, p.7.

From the viewpoint of the degree of policy integration²⁰⁶,

²⁰⁶. a. Information- partners agree to inform one another about the aims and instruments of the policies they pursue.

b. Consultation- Partners agree that they are obliged not only to inform but also to seek the opinion and advice of others about the policies they intend to execute.

c. Co-ordination - it commits partners to agreement on the actions needed to accomplish a coherent policy for the group. Co-ordination often means the adaptation of regulation to make sure that they are consistent internationally. It may involve the harmonization of national laws and administrative rules.

d. Unification- either the abolition of national

the EU seems to be in a stage of complex co-existence between consultation, co-ordination and unification.

A wide variety of economic and financial issues can no longer be limited to, and indeed in some respects, do not even bear much relationship to, national boundaries and are increasingly vulnerable to outside events. Countries are increasingly unable to act in isolation. They must consult, cooperate, and, some would argue, integrate with one another in the interests of international and national economic stability and growth.²⁰⁷

The EU common commercial policy (CCP) governs market access to manufactured exports from the ROK. Thus, it is important to describe the way in which the various EU policy instruments operate to restrict market access from the ROK's exports. From the Treaty of Paris for the ECSE to the Treaty on European Union, historical and institutional development has accompanied the appropriate development of commercial regimes. Out of the seven conspicuous developments in the EU, the Treaty of Rome to create the European Economic Community (EEC)²⁰⁸ was the

instruments or the adoption of identical instruments for all partners. Here, the national competence to choose instruments is abolished.- Willem Molle, *The Economics of European Integration*, p. 14.

²⁰⁷. Neill Nugent, *The Government and Politics of the European Community*, London: Macmillan Education LTD, 1989, pp. 24-25.

²⁰⁸. The EEC Treaty that took effect on January 1, 1958 provided for the elimination of trade barriers within the Community and the establishment of a common external tariff against the rest of the world. Besides establishing customs union, the treaty provided for a common market permitting the free movement of capital and labour within the community. Customs duties and quantitative restrictions on intra-trade were

cornerstone to the formulation and implementation of the CCP. Table 2.1 above shows some details of significant development.

The EU's trade policy objectives are covered by articles 110 to 116 of the Treaty of Rome. Article 110 of the 1958 Treaty describes the trade policy objectives as follows:²⁰⁹

By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers. The common commercial policy shall take into account the favourable effect which the abolition of customs duties between Member States may have on the increase in the competitive strength of undertakings in those states.

The dual characteristics of the CCP are expressed in Article 110. The EU is first of all committed to a free, multilateral trading system. Apart from the support for the GATT principle, Article 110 also embodies a second principal policy of the formation of a customs union resulting in a common market to discriminate against non-members.²¹⁰ Another

progressively reduced and were eliminated in July 1968.

²⁰⁹. Klaus Heidensohn, *Europe and World Trade*, London and New York: Pinter, 1995, p.51.

²¹⁰. Klaus Heidensohn clearly analyses the twofold dimension of Article 110, specifically on the formation of the Customs Union. He says that the establishment of customs unions and free trade areas is not against GATT rules; the General Agreement makes provision for the creation of trading blocs such as the EU. However, despite its validity of a customs union or free trade area to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories' (GATT Article XXIV), customs unions, while not illegal under GATT rules, are clearly against the spirit of free multilateral trade. Their existence departs from the MFN principle to be embodied in Article I of GATT:

any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or designed for any other country shall be accorded immediately and

dimension of the Communities' external trade policy is aimed at helping the development and industrialization of the Third World. The major beneficiaries of Article 131 of the Treaty of Rome²¹¹ are nations and territories which, for historical reasons, have special linkages with members. A typical example of this mechanism is GSP.²¹² The review of institutional actors influencing trade regimes since the Treaty of Rome is meaningful. The major frame of trade policy mechanism has remained unchanged, except for minor adjustments.

The Treaty of Rome under Article 4²¹³ provides for the operation of the EEC by four principal bodies: the Commission; the Council; the Court of Justice; and the Assembly, now the

unconditionally to the like product originating in or destined for the territories of all contracting parties.
Quoted in Ibid., p.51.

²¹¹. Article 131- The member states hereby agree to bring into association with the Community the non-European countries and territories which have special relations with Belgium, France, Italy and the Netherlands. These countries and territories, hereinafter referred to as "the countries and territories", are listed in Annex IV to this Treaty. The purpose of this association shall be to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole. In conformity with the principles stated in the Preamble to this Treaty, this association shall in the first place permit the furthering of the interests and prosperity of the inhabitants of these countries and territories in such a manner as to lead them to the economic, social and cultural development which they expect.

²¹². Ibid., p.51.

²¹³. Article 4- 1.The achievement of the tasks entrusted to the Community shall be ensured by: an Assembly, a Council, a Commission, and a Court of Justice. Each of these institutions shall act within the limits of the powers conferred upon it by this Treaty. 2.The Council and the Commission shall be assisted by an economic and social committee acting in a consultative capacity.

European Parliament.²¹⁴ All decisions in general are taken by the Council of Ministers. Apart from some limited cases, the Council can only decide on the basis of a Commission proposal. The Commission is the engine of the EU policy. It is also custodian of the Treaty and the executive arm of the Community.²¹⁵ The duty of the Commission, as laid down in Article 155 of the Treaty, is to observe the Treaty's provisions; propose new or modified policies; and carrying out certain sectors of EEC policy, with regard to agriculture, trade, and the implementation of the single market.²¹⁶

Though the shape and implementation of commercial policy has been managed by the Commission since the inception of the EEC and it has expanded its influence over the past three decades, the main decision-making power is in the hands of the Council of Ministers. Each member state has one member, with the ministerial composition of the Council varying depending on the discussion subjects such as foreign affairs, trade, transport

²¹⁴. Dominick Salvatore (ed). *National Trade Policies: Studies in Comparative Economic Policies*, Vol.2, Amsterdam, New York, Oxford: North-Holland, 1992, p.33.

²¹⁵. This draws heavily from *European Economy*, No 52, 1993.

²¹⁶. The Commission consists of a president and seventeen commissioners, appointed by member governments for a renewable term of four years, two from each large country and one from each of the others. The Commission staff is organized into twenty-three directorates-general, two of which have particular responsibilities for trade. Directorate-general I(DGI) has responsibility for external relations. It is subdivided into eleven directorates, seven of which deal with trade with particular groups of countries; the others are concerned with trade matters in GATT and OECD, with agricultural trade, industrial trade including textiles and steel, and trade policy issues or instruments such as safeguards and anti-dumping measures. Director-General VIII is responsible for development assistance and therefore also deals with trade-related matters.

etc.. Generally, Commission proposals pass through a decision-making process with member states, coordinated by the Committee of Permanent Representatives(COREPER), and simultaneously the Council consults the European Parliament and, where appropriate, the Economic and Social Committee. Council decisions are taken by a simple or a qualified majority vote except for certain cases where the need for unanimity is laid down. When the Council has defined the general policy orientation and the basic regulation has been agreed upon, the Commission is responsible for working out its provisions for its management and for surveillance of Community rules. Trade policy decisions are decided by the express use of majority voting.

In the case of dealings with third nations such as the ROK, a Council decision is required to enter into a negotiation, usually on the basis of a negotiating directive. Coordination during the negotiation is assured by the Article 113 Committee which gives advice to the Commission as negotiator. Final important decisions on commercial relation with the ROK are, thus, determined at the meetings of the Council, where, aided by its secretariat, policy issues are selected and national positions are adjusted. EU summit meetings at head of government level, in which the president of the Commission also is a member, discuss major initiatives and policy guidelines.²¹⁷ Compared with the Commission's strong influence in commercial policy, the Court of Justice and the European Parliament have a

²¹⁷. These meetings take place twice a year. Each nation hosts them in turn, during the each nation presides the Council. The host nation presides over the Council.

minimum role.²¹⁸ The decision making mechanism of the EU is a complex set of checks and balances; therefore decisions are often the result of internal negotiation and compromises.²¹⁹

Economic stagnation, increasing unemployment, and loss of competitiveness during the first half of the 1980s created the need for the Community to remove the remaining physical, technical and fiscal barriers between Member States. A comprehensive and ambitious approach was launched to revitalize the integration process. The Single European Act (SEA) came into effect on 1 July 1987. According to the SEA, the range of common EC policies and objectives was extended, and institutional changes were made to ensure better functioning of the Community. For example, through Article 18 of SEA, a new Article 100a was inserted in the EEC Treaty to establish qualified majority voting for Council decisions on the internal market. Among many measures, what concerned the ROK was the necessary completion of the Community's common commercial policy

²¹⁸. The Court of Justice adjudicates in case there is a breach of Community law and can impose fines. The European Parliament can intervene in commercial policy matters only in case the EC has a special relationship with a new member country or when the question of future membership arises.

²¹⁹. In the decision-making process, the Commission is first responsible for analysing the facts, e.g. injury, and for proposing the appropriate measure. Internal argument and disagreement could happen at this stage about the analysis and solution. At the next stage, the pattern often repeats as some form of consultation or other advisory process takes place with the Member states. What makes the decision process more complicated than that of a state is the fact that different governmental positions have to be taken into account, in addition to the normally opposing views of different sectors of industry and of consumers. Divergent views also emerge in the third stage. The EU decisions tend to be the product of several internal processes of reconciling divergent views to reflect the middle-ground of compromise.

and the elimination of the remaining national quantitative restrictions to bring a significant liberalization for third country imports. The harmonization of different national standards, legal regulations and testing and certification requirements is crucial both to the completion of the single market and to the realization of its full economic benefits. The opening of a public procurement market in pursuing similar liberalization efforts at the international level in the context of a multilateral government procurement code, provides major trade opportunities for producers inside as well as outside the EU. The creation of a single financial market with the generation of new trade opportunities through the liberalization and deregulation of these services markets provides more easy access to the EU for non-members.²²⁰

After the Maastricht Treaty, the sections of the EEC Treaty concerning the common commercial policy were slightly revised under the agreed rules. Out of the Articles 110 to 116 of the EEC Treaty concerned with commercial policies, Articles 111, 114 and 116 were dropped while Articles 110 and 112 remained unchanged[see appendix]. Without changing the substance of Articles 113 on content and instruments of commercial policy and 115 on deflection of trade, partial redrafting was done.

The institutional actors shape commercial policy by means of various instruments. Despite frequent amendments of the regulation contents, the main restrictive instruments concerning the ROK's exports are the *Common Customs Tariff* (Council

²²⁰. This is only relevant part of the SEA to the ROK business activities.

Regulation No 2886/89), the Common Rule for Import (No 288/82), the Common Procedures for the Administration of Quantitative Restrictions (Regulation No 1023/70), and the New Commercial Policy Instrument (Regulation No 2641/84)²²¹, Common Rules for exports (Regulation No 2603/69).²²² Council Regulation No 3283/94 and No 3284/94 of 22 December 1994 on protection against dumped and subsidized imports from non-members of the EU and No 3285/94 on the common rules for imports serve as new legal devices for the commercial regime. Especially under the auspices of the WTO, Council Regulation No 3286/94[see Appendix] which laid down Community procedures in the field of the common commercial policy, serves to ensure the exercise of the Community's rights under international trade rules.²²³

In EU-ROK economic relations, the instruments affecting the ROK's exports of manufactured and semi-manufactured goods are

²²¹. In December 1994, the New Trade Barriers Regulation(TBR) replaced the 1984 New Commercial Policy Instrument, specifying internal procedures for actions against objectionable or illicit trade practices abroad, including certain areas of services and intellectual property. The actions must be authorized under international dispute settlement provisions. The new commercial policy instrument essentially provided the EU with a mechanism for counteraction in the case of illicit commercial practices affecting either the Communities' imports or exports from the EU to the rest of the world; broadly speaking, it corresponds to Section 301 of the US Trade Act.

²²². The EU system of commercial defence was reorganized in December 1994. New regulations for anti-dumping, countervailing and safeguard measures incorporate the relevant WTO provisions, with some additions or modifications. While safeguard actions remain subject to member States' qualified majority approval in the Council, the threshold for definitive anti-dumping and countervailing duties was reduced to a simple majority vote, easing access to these instruments.

²²³. *Official Journal of the European Communities*, L 349, Vol.37, 31 December 1994.

very important. When the Common Customs Tariff (CCT), as the main trade policy instrument was introduced in the mid-1960s, the average level of the duty was 12.5 percent. It was reduced after the Tokyo Round to 6 percent. All imports into the EU are subject to duty or duty-free entry in accordance with their classification in the EU Harmonized Tariff Schedule, comprising some 9,500 lines. The weighted average of tariffs on all EC imports was 5.7 percent at the outset of the Uruguay Round and the unweighted average came to 6.5 percent. Tariffs for industrial products are lower and more evenly spread across tariff items than agricultural products. Nearly all EC imports, of which 99 percent are from MFN sources, enter under bound or partially bound tariffs. After the Uruguay Round, CCT as a trade barrier lost its relative significance.

In the major EC trade arrangements with the developing countries, the Generalized System of Preference (GSP)²²⁴ has been applied to the ROK. Under this scheme, the Community waives customs duties on imports of manufactures from developing countries, with the exception of so-called sensitive products, as well as reducing duties on imports of agricultural and food products which do not conflict with the Common Agricultural Policy (CAP). The ROK has benefitted under this scheme.

²²⁴. An international agreement negotiated under the auspices of GATT, providing for temporary and non-reciprocal duty preference accorded by the developed to the developing nations. A ten-year waiver from the GATT most-favoured provision was granted in 1971 to permit the implementation of the GSP. The waiver was not renewed because of the 1979 GATT decision on "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries" resulting from the Tokyo Round(the enabling clause).

Eurostat statistics show that during 1992, the ROK benefitted in the ratio of 86.8 percent, amounting to US\$ 8.32 billions, out of the total amount, US\$9.587 billions, of the total amount of from the ROK. Actually, the practical application of non-tariff was only applied to 21 percent, equivalent to US\$ 2.13 billions.²²⁵ However, in recent years, as the forerunner of the ANIEs, the ROK has been priority listed for exclusion from this scheme. The principle that the EC grants unilaterally, i.e. without any formal agreement and without involving reciprocity, a series of generalized duty reductions for imports originating from developing nations, has not been available to the ROK since 1988.²²⁶ In 1992 the ROK regained GSP favour from the EU. The Commission adopted a new guideline for the period of ten years (1995-2004) on 1 June 1994. From the year 1995, the new guideline excludes larger a proportion of manufactured goods, accounting for 92 percent of the GSP. According to the regulation of graduation system, highly-developed countries will be excluded in the foreseeable future.

The core legislative mechanism on the tariff and statistical nomenclature and on the Common Customs Tariff is

²²⁵. KOTRA, *The EU Marketing Strategy in the WTO Trading Environment*, KOTRA Material 94-30, 1994, pp.111-113. In Korean.

²²⁶. There are two significant exceptions to this principle: Korea and Taiwan. Korea, although a former GSP beneficiary, was in 1988 explicitly and on a temporary basis, suspended from enjoying preference under the system. Taiwan, which does not belong to the UN, has never been granted GSP status. The ROK has regained the preference for the time being, but again, the Commission intends to withdraw the privilege from the ROK.

Commission Regulation (EEC) No 2886/89²²⁷ amending Annex I to Council Regulation (EEC) No 2658/87.²²⁸ Of course, there have been many amendments since the first introduction. The original regulation on the Common Customs Tariff was Regulation (EEC) No 950/68, which was later amended to Regulation (EEC) No 1/73 of 19 December 1972, with regard to the Treaty establishing the European Economic Community, and in particular Articles 28 and 113.²²⁹ What matters much more in the ROK's access to the EU market is non-tariff barriers. The above institutional legal frameworks in the form of Regulations are major instruments to employ non-tariff measures to curb imports which it is considered are being traded on unfair terms or are harmful to the EU's domestic producers. As the main EU import regulations, Council Regulation No 288/82 covers the core elements, although it has been amended many times.²³⁰ The regulation starts from

²²⁷. Klaus Heidensohn in his book, *Europe and World Trade*, 1995, p.53, well summarizes the importance of the Council Regulation No.2886/89 which covers what represents the centre-piece of the CCP, namely the Common Customs Tariff (CCT) levied on imports into the Communities. The CCT is composed of more than 9,000 tariff lines with either conventional tariff rates (applicable to all imports from countries which qualify for MFN treatment) or autonomous levies (applicable to items such as a wide range of food products for which no conventional rates exist).

²²⁸. See Commission Regulation (EEC) No 2886/89 of 2 August 1989, amending Annex I to Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff, *Official Journal of European Communities*, 2.10.89.

²²⁹. *Official Journal of European Communities*, No L1, 1.1.73.

²³⁰. See original text of the Council Regulation(EEC) No 288/82 of 5 February 1982 on common rules for imports, *Official Journal of the European Communities*, No L 35, 9.2.82.

the general premise of unrestricted market access. What crucially concerns the ROK is the enumeration of specific exceptions to allow for the maintenance of surveillance measures or of quantitative restrictions. This provides the legal basis for introducing surveillance measures or imposing quantitative restraints (safeguard) in specified circumstances.²³¹ The regulation is applicable to all kinds of products except agricultural products. Multi-fibre Agreement (MFA)²³² products and ECSC products are included. Several import arrangements for products from State-trading countries are regulated by No 1765/82²³³ and No 3420/83.²³⁴ Surveillance measures and quantitative restrictions - the so-called residual restrictions, were reduced in scope by amendments in 1989.

The Commission plays a central role in beginning investigations on safeguard measures, to determine whether justification is valid in light of the available information. So

²³¹. An advisory committee is set up for consultations between Member states and the Commission on possible actions. The Commission is the competent body for initiating investigations on a safeguard measures on the justification of available information.

²³². System of bilateral quotas for trade in textiles and clothing regulating exports from countries of the "South" and transition economies to the industrialized world.

²³³. See original text of Council Regulation (EEC) No 1765/82 of 30 June 1982 on common rules for imports from state-trading countries, *Official Journal of the European Communities*, No L 195, 5.7.82.

²³⁴. Trade relations with Central and East European countries are regulated by new cooperation or association agreements. See original text of the Council Regulation (EEC) No 3420/83 of 14 November 1983 on import arrangements for products originating in State-trading countries, not liberalized at Community level, *Official Journal of European Communities*, No L346, 8.12.83.

far, the investigation has usually been undertaken at the request of member states. The introduction of surveillance measures²³⁵ is usually determined in terms of the effects of increased imports on production and employment in the industries affected by import penetration. Article 9²³⁶ of Regulation No 288/82 has specifications on information. In an emergency situation, Articles 15 and 16 of Regulation 288/82²³⁷ serve as the legal basis for the Commission to take immediate action to impose quantitative restrictions to prevent substantial injury. Article 16 of Regulation No 288/82, further enables the Commission to propose that the Council introduce safeguard measures through a qualified majority voting mechanism. In this situation, actions may take the form of any proper measures such as the negotiation of restraint arrangements with the exporting country. Since its inception in 1982, the Commission has taken protective measures frequently under the Regulation. Measures may also be applied to imports from certain nations for certain regions of the Community.²³⁸ The compatibility of these measures with the multilateral framework of the GATT Article

²³⁵. These apply in the case of imports threatening to cause injury to EC producers and if the Community's interests so require. According to regulation No 288/82, surveillance measures lapse at the end of the second half of calendar year after their introduction, in the absence of specific provision. In certain cases, after notification to the Commission, Member States may take surveillance measures at the national level.

²³⁶. See original text of Article 9 of the Regulation in *Official Journal of European Communities*, No L 35, 9.2.82.

²³⁷. See Ibid.

²³⁸. Commission Regulation No 561/88 provides a legal basis for taking protective measures in favour of certain regions, and against certain trading partners.

XIX:1 is significant for the ROK's trade with the EU.²³⁹ Another important Council Regulation for the ROK exports into the EU is No 1023/70 which lays down procedures for the establishment and the administration of import and export quotas. Quota volumes and criteria for their distribution among member states are set by the Council, by qualified majority.²⁴⁰

One significant development reflecting the trend of neo-mercantilism was the adoption of the new Commercial Policy Instrument (Regulation No 2641/84).²⁴¹ Its introduction enabled the EU to respond to unfair trade practices abroad which adversely affect its exports. The situation applied where the EU members believed that their access to the market of another country had been unfairly reduced as a result of trade practices. Frank Schoneveld has analysed the European Community's reaction to the illicit commercial trade practices of other countries.²⁴² He argues that the EC introduced

²³⁹. Differences are found between the two measures: Article XIX:1 of the GATT stipulates that, "a contracting party is only entitled to suspend obligations if a product is being imported in such increased quantities and under such conditions as to cause or threaten to cause injury"; while Article 15:1 of Regulation No 288/82 mentions imports "in such greatly increased quantities and /or on such terms or conditions as to cause or threaten substantial injury to Community producers.."

²⁴⁰. Since 27 September 1988 ruling by the Court of Justice(Case 51/87), the national allocation of quotas is not compatible with the principle of free competition in the Common Market. It is no more applicable.

²⁴¹. See specifically paragraph 7 of the Preamble to the Regulation; *Official Journal of European Communities*, L 252, 20.9.84.

²⁴². Frank Schoneveld, "The European Community Reaction to the "Illicit" Commercial Trade Practices of Other Countries," *Journal of World Trade*, pp.17-34.

Regulation 2641/84 with a view to strengthening the common commercial policy with regard, in particular, to protection against illicit commercial practices in international trade, after the EC realized that measures to protect trade such as dumping, subsidy and safeguard measures, were not able to cope with all the illicit and unfair trade.²⁴³ The primary aim was better to ensure that the Community takes action as promptly and efficiently as possible against its trading partners' illicit actions.

With the adoption of 1984 Regulation No 2641/84, the EC then²⁴⁴ came to be equipped with a New Commercial Policy Instrument with a procedural mechanism which may be applied a) to respond to any illicit commercial practices and to remove the injury or b) to exercise the community's rights with regard to third nations.²⁴⁵ When the EU's system of commercial defence was reorganized in December 1994, the New Trade Barriers Regulation replaced it.²⁴⁶

²⁴³. Ibid., p.17.

²⁴⁴. For the sake of readers' convenience, when referring to the historical development of a certain event before the Maastricht Treaty to create the EU, 7 February 1992, I will use the term EC, which comprises three communities: the European Coal and Steel Community (ECSC), governed by the Treaty of Paris, and the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM), governed by the treaties of Rome. The institutions of the three Communities were merged in 1965 and are henceforth referred to as the EC.

²⁴⁵. It allows for imposition of any commercial policy measure compatible with the Community's international obligations and procedures.

²⁴⁶. see Klaus Heidensohn, op. cit., pp.54-61.

As important trade-related measures, quantitative restrictions have been applied against third nations. In order to achieve uniformity of its trade regime, the community has followed a policy based on the progressive elimination of those quantitative restrictions authorized under Article 115 of EEC Treaty. The completion of the internal market has major implications for the maintenance of national quantitative restrictions. Article 115 of the Rome Treaty is incompatible with the objective of eliminating all barriers to the free circulations of goods in single market. It has not been implementable from 1 January 1993, with the abolition of internal barriers.

As a specific action under the Common Rule for Import (Council Regulation No 288/82), Safeguard actions are taken by the Commission. The requirement for imposition of quantitative restrictions is assessed by an increase in the import volume, the extent of the price-undercutting and the subsequent impact on the EU producers.²⁴⁷ As a frequently used tool to initiate Voluntary Export Restraint (VER), proceedings under Council Regulation No. 288/82 may lead to export restraint arrangements. When the investigation is terminated and prior to taking safeguard actions, the exporting partner is notified of the findings and is given the opportunity to seek a proper restraint

²⁴⁷. Article XI of the GATT prohibits the use of quantitative restrictions as a trade policy instrument. Exception is authorized under Article XIX of the GATT. Safeguard measures can be imposed when an industry is seriously injured or threatened with injury by foreign imports.

arrangement. Member States are then asked to approve the envisaged solution.²⁴⁸

What specially concerns the ROK in its exports to the EU is quantitative restrictions which usually take the form of Voluntary Exports Restraints (VERs) and Orderly Marketing Arrangements (OMAs).²⁴⁹ In VER, the exporting country voluntarily agrees to restrict its exports to a certain amount or to a maximum rate of growth. The restrained partner could benefit by selling its remaining exports at higher prices than before. The Commission is responsible for the quota negotiation and some are community-wide. National quotas still exist. In some sensitive sectors, new quantitative restrictions have been introduced by national governments in the form of VERs. To prevent imports entering through other member states, through invoking Article 115 of the Rome Treaty, the EU attempts to reduce trade deflection by authorizing member states which have restrictions on particular goods imported from outside the community to prevent these goods from being imported from another member state.²⁵⁰

²⁴⁸. Restraints are usually agreed for a three-year period, with digressive application over time. Main product areas concerned include textiles, steel, machinery, consumer electronics, and motor vehicles. Protective actions under regulation 288/82 tend to be confined to a fixed number of member states, but in 1990 EC-wide measures were introduced for the first time.

²⁴⁹. To distinguish between the two is a legal and technical matter. VERs are usually negotiated directly with the foreign export industry whereas OMAs are negotiated between two governments.

²⁵⁰. Alan Matthews, op. cit., p.75.

Regulation No. 2641/84 provides common rules for exports. It was later amended to Council Regulation (EEC) No 3918/91 of 19 December 1991.²⁵¹ The principle of unrestricted trade is the starting point. The regulation, however, authorizes the Commission to introduce export authorization schemes if and when there is a shortage of essential commodities, in addition to the Commission's authority to limit exports from certain regions within and to certain destinations out of the EU territories.²⁵² Such action may be initiated by the Commission at the request of a Member State. Any action is required to be consulted in an advisory committee and has to be approved by the Council by qualified majority. Council Regulation No 2423/88 authorizes the EU to take anti-dumping or anti-subsidy actions.²⁵³ It was adopted in accordance with existing international obligations, from Article VI [see Appendix] of the GATT and 1979 Anti-Dumping Code. Complaints about dumped or subsidized imports can be lodged either directly with the Commission or via Member States. After consultation within the advisory committee with representatives of Member States under the chairmanship of the Commission, the Commission carries out

²⁵¹. *Official Journal of the European Communities*, No L372, 31.12.91.

²⁵². Klaus Heidensohn, op. cit., 1995, p.54.

²⁵³. As the trade protection mechanism of the EU Commercial Policy, the Regulations on Anti-Dumping measures dealing with all the issues are summarized in *Official Journal of European Communities, Directory of Community Legislation in Force and Other Acts of Community Institutions*, Vol.1, Luxembourg, 1995 pp.844-53.

the investigation under its own responsibility, once the initiation of the proceedings is determined.²⁵⁴

In a similar vein, subsidized exports can be subject to the imposition of countervailing duties. In each case, evidence is required that the import causes or threatens to cause economic difficulties for the industry in the importing nation. Firms or industries, as well as governments, can make a direct request for an investigation to the Commission, which is empowered to take decisions, though these may subsequently be reversed by the Council.²⁵⁵ To prevent the circumvention of definitive duties by assembly operations, the EU anti-dumping instrument is concerned with screwdriver plant operations for the assembly of imported parts and components. In some conditions, it can be extended to products whose production and assembly have been carried out within the EU territory with imported inputs. The value of inputs used from the country of exportation must exceed 60 percent. A confidential study for the OECD recently concluded

²⁵⁴. The Council Regulation No 2423/88 stipulates that the investigation shall normally be concluded within one year; it shall normally cover a period of not less than six months immediately prior to its initiation. In accordance with the GATT provisions, both the imposition of provisional duties and of definitive duties are contingent upon the establishment of dumping either by a preliminary examination or a final finding and of injury caused thereby. The initiative may be taken by any natural or legal person or any association acting on behalf of an EC industry. After the Uruguay Round was concluded successfully, the period of investigation and penalty was reduced. The introduction of definitive duties is decided by the Council upon the proposal of the Commission by qualified majority voting. As a rule, the Commission imposes provisional duty only after a finding of dumping and injury, if no price undertaking is agreed.

²⁵⁵. Alan Matthews, *EC Trade Policy and the Third World*, Dublin, Ireland: Gill and Macmillan, 1991, p.74.

that few exports subject to dumping actions by the EU and the US, threatened competition in the importing countries. Despite such criticisms, the EU's regime still has staunch defenders, particularly among southern member states. Opponents say that penalties undermine trade liberalization, hurt consumers and shelter inefficient producers.²⁵⁶ Despite this negative opinion, this instrument has been frequently employed against the ROK's exports into the EU along with the VER. Chapter.3 shows detailed statistics on typical restrictive instruments.

On the nature of the EU trade regimes, Eliot Zupnick²⁵⁷ points out clearly the priority of the political logic over the logic of economics based upon the efficient resource allocation philosophy.

Table 2.2: EU Gains in Export Volume Market Shares and Price Competitiveness, 1973-1990

	1981/1973	1990/1982
Gains(+) Losses(-) in market shares	+0.2	-4.0
Gains(+) Losses(-) in price competitiveness	+2.8	-5.7

Source: Commission of the European Communities, "The European Community as a World Trade Partner," *European Economy*, 58, Luxembourg, OOPEC, 1993, p.13.

It is also proved in that the EU trade policy toward the non-member nations is firmly based upon the US, Japan, and the ANIE's challenge to erode international competitiveness of the EU. One of the explanatory factors behind the accelerated

²⁵⁶. Guy de Jonquieres and Emma Tucker, "Pressure builds for EU to dump its dumping policy," in *Financial Times*, Thursday October 19 1995, p.7.

²⁵⁷. Eliot Zupnick, "EC-US and the 1992: A Prelude to Trade Wars?", *European Affairs*, No. 2. 1992.

market integration process in the 1980s, was external pressure from the above-mentioned competitors.

The deteriorating competitiveness of the member nations gave them more pressure to legitimize the internal market programme. Short-sighted interest groups seem to be gaining the upper hand when the trade policy of the EU is formulated, pressured by the major industrial organizations of the Union.²⁵⁸ This is clearly shown in its adoption of contingent trade regimes.²⁵⁹ The theoretical perspective of the EU trade policy helps to explain why EU protectionism is maintained at the present level or is even on the rise due to the implementation of the market programme. Emphasis lies in that the norms which will eventually gain grounds in the international trade policy will be focusing on special interests. While a broad perspective on world affair or the general interests is necessary, it will not be easy to achieve completely liberal trade regimes in practice.²⁶⁰

The political economy of a trade policy assumes the political system to be asymmetrical in the sense that many collective or political decisions benefit only limited privileged groups, while the costs are dispersed among a great

²⁵⁸. "The end of special interests?", in a OLE NORgaard, Thomas Pedersen and Nikolaj Petersen (eds.), *The European Community in the World Politics*, London: Pinter Publishers, 1993, pp. 69-70.

²⁵⁹. This usually refers to trade regimes such as anti-dumping and countervailing duty, which impede trade flows.

²⁶⁰. Nations usually employ a strategic trade policy with protectionist measures used to help the expansion of those domestic industries for which growing world markets are expected.

number of individuals. It is also in the same context that the political economy of the EU trade policy has been controlled by primarily economic factors first as unemployment and recession, usually caused by low competitiveness of the industry.

Table 2.3: Imports from Preferential Sources, 1977-79, and 1991(%)

Preferential Sources	1977-1979	1991	Change
EFTA Countries	17.3	23.1	+5.8
Mediterranean Cs	5.3	4.9	-0.9
Lome Cs	7.1	3.9	-3.2
Other GSP beneficiaries	33.6	19.7	-13.9
Other Sources	36.8	48.4	+11.6
Total Imports	100	100	

Source : EC Commission

Furthermore, interest groups have lobbied for the adoption of protectionist regimes against non-member nations' products. Import-restrictions under article 115²⁶¹ are normally

²⁶¹. Article 115 of the EEC Treaty: In order to ensure that the execution of measures of commercial policy taken in accordance with this Treaty by and Member State is not obstructed by deflection of trade, or where differences between such members lead to economic difficulties in one or more of the member states, the Commission shall recommend the methods for the requisite cooperation between Member States. Failing this, the Commission shall authorize Member States to take the necessary protective measures, the conditions and details of which it shall determine.

In case of urgency during the transitional period, Member States may themselves take the necessary measures and shall notify them to the other Member States and to the Commission, which may decide that the States concerned shall amend or abolish such measures.

In the selection of such measures, priority shall be given to those which cause the least disturbance to the functioning of the common market and which take into account the need to expedite, as far as possible, the introduction of the common customs tariffs.

implemented on the initiative of well-organized national interest groups who seek protection against competitors from third countries.

Deeper integration has decreased the GSP nations' proportion of the EU total exports. In addition to the gradual erosion of the GSP scheme to the ROK, in the 1990s, environmental concern will be a major leverage to be used for protectionism. Peter Nedergaad²⁶², discussing the source of increase in EU protectionism, argued that it stems from another factor of the internal market programme. The liberalization of the service market is the another source of protectionism.

Table 2.4: The Traditional Hierarchy of EC Trade Relations

Trade Relationship Countries involved		Trade conditions for Exports to the EU
Customs Union	EC	All products and services
Free Trade Area	EFTA	All products except agricultural goods
Mixed	Mediterranean Cs	All products except some agricultural goods and textiles
One Way Preference -Lome Convention and	ACP Cs	All manufactured goods some agricultural goods
One Way Preferences -GSP within Most Favoured Nation Clause	Other third Cs	Manufactured Products quotas
Ad hoc	Non-European developed Cs State Trading Cs	GATT rules Quotas

*Cs means Countries

Source: EC Commission, Quoted in Ole Norgaard, et al. (eds.), *The EC in World Politics*, London and New York: Pinter Publishers, 1993, pp.61-2.

²⁶². Peter Nedergaad, *op.cit.*, pp.60-61.

Exposure to intensified competition in the banking, insurance or transport areas lead relevant interest groups to ask for compensation in the form of extra-EU protection. That kind of compensation will damage third country competitors.

The concept of GSP has to be changed to accommodate the drive for liberalization. Despite the preferential treatment of developing nations by the EU, developing nations have been exposed to discriminatory measures. Laursen's summary is that the effects of GSP have been modest:²⁶³

- 1) GSP in itself has been unambitious;
- 2) EC version has so many exceptions;
- 3) protectionist pressures from producers within the EC are responsible for underutilization of the GSP;
- 4) GSP only deals with tariff-reductions, despite non-tariff barriers are much more important;
- 5) other partners such as the Lome nations, the Mediterranean nations, have been much more privileged than GSP countries in Asia and America;

The ROK, which is on the verge of becoming a member of the OECD group in 1996, has been benefitted by the GSP scheme. The future benefit is expected to be eroded to a considerable degree by the adoption of the new guidelines in the EU. The ROK belongs to a priority category to be reviewed as a newly industrialized nation. Special interest groups in the EU would constantly use EU leverage against the general interests of the world.

²⁶³. Finn Laursen, "The EC, GATT, and the Uruguay Round", in Leon Hurwitz and Christeian Lequesne (eds.), *The State of European Community: Policies, Institutions and Debates in the Transition Years*, Boulder Colorado: Lynne Rienner Publishers, 1991.

2.4 Conclusion: Unique Development of the EU CCP

The emergence of a tri-polar world reflects the end of the bipolar world and it is the result of the decline of US postwar economic hegemony, accompanied by the remarkable success of Japan. The visible acceleration in recent years of the formation or deepening of regional groupings in Europe, North America and Pacific Asia, has been motivated by different political settings and their subsequent requirements. As a remarkable deepening of the EC, the Single European Act (SEA) was signed in February 1986 and came into effect on 1 July 1987. Since the Treaty of Rome, it amounted to the first comprehensive revision of the treaties with motivations as follows:²⁶⁴

- a) a recognition of the need to overcome the *Eurosclerosis* that had characterized the EC economy compared with its global competitors;
- b) a wish to provide a stimulus to the European economy by means of the liberalization associated with the completion of the internal market;
- c) a wish to bring the treaties into line with actual practice in the EC;
- d) a wish to relaunch supranational integration because of the realization that decisional weakness had impeded the collective interest; and
- e) a recognition of the need to make the EC more politically responsive if the Iberian enlargement were not to create political sclerosis.

In the gradual evolution towards the TEU, the regionalism of the EU has been basically unique compared to those of NAFTA and APEC, in that the EU has been aiming at reaching a supranational body; political union. Out of the several motivations to initiate the SEA, a wish to relaunch supranational integration because of the realization that

²⁶⁴. M.J. Artis and N. Lee (eds.), *The Economics of the European Union: Policy and Analysis*, Oxford: Oxford University Press, 1994, p.21.

decisional weakness had impeded the collective interests, deserves particular attention. The logic behind the Single Market Programme, in particular, is one of strengthening the forces of competition in Europe, including a weakening or dilution of the rigidifying and growth-retarding effects of nationally entrenched oligopolies, rent seekers and "distributional cartels" as well as the harmonization of standards and other forms of deep integration.²⁶⁵ Such integration involves harmonization of numerous policies and standards at the domestic level.

The reasons for regional formation of the NAFTA were quite different from the EC's birth:

- a) to strengthen the competitiveness of the three economies, possibly four economies including Chile in the foreseeable future;
- b) to secure the predictability of access to one another's markets;
- c) ironically to stimulate other nations to seek aggressively the multilateral system by seeking conclusion in the negotiations of the Uruguay Round;

Regionalization in North America is centrifugal, centring around the US. Considerable *de facto* economic integration, thus, precedes the major recent *de jure* regional arrangements involving the US- namely the 1988 Canada-US Free Trade Agreement, the 1992 North American Free Trade Agreement (NAFTA). That such *de facto* integration precedes the US moves toward greater *de jure* regionalization stands in contrast to the pattern in Europe, where *de facto* integration has already

²⁶⁵. Charles Oman, *Globalization and Regionalization: The Challenge for Developing Countries*, Paris: OECD Development Centre, 1994, p.60.

followed the *de jure* arrangement, starting in the 1950s. The EU is comprised of nations with similar levels of development, while NAFTA is the first reciprocal free-trade agreement between a developed and a developing nation. The uniqueness of the EU consists in the fact that the EU integration today is a deep policy integration, while the same can not be said of the NAFTA.²⁶⁶

In comparison with the EC, NAFTA was in part a leverage to promote both economic growth and political stability in Mexico from the position of the US.²⁶⁷ In Paul Krugman's analysis, the Mexican government needs NAFTA, and the US has a strong interest in helping that government.²⁶⁸ Mexico's willingness to negotiate confirmed its recent commitment to market principles.²⁶⁹ Another aim of the US has been to project Mexico as a role-model for other developing countries, particularly but not only in Latin America, both in terms of its far-reaching domestic and trade policy reforms, and its willingness to include services, the promotion of intellectual rights, and the reduction of investment barriers in a trade agreement with the

²⁶⁶. Ibid., p.67.

²⁶⁷. Jeffrey P. Bialos & Deborah E. Siegel, "Dispute Resolution Under the NAFTA: The Newer and Improved Model", *The International Lawyer*, Vol.27, No.3, 1993, pp.590-91.

²⁶⁸. Paul Krugman, "The Uncomfortable Truth about NAFTA: Its Foreign Policy, Stupid," *Foreign Affairs*, November/December 1993, Vol.72, No.5, pp.18-19.

²⁶⁹. See more Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, "A North American Free Trade Agreement: Analytical Issues and a Computational Assessment", *The World Economy*, January 1992, pp.15-29; Gary Clyde Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment*, Washington, DC: Institute For International Economics, February 1993.

US.²⁷⁰ As a response to the EU and NAFTA, the East Asian nations were particularly concerned about the possible threat of the collapse of the multilateral trade order. The recent Bogor declaration in Indonesia on the formation of the APEC free trade zone among 18 members reflects their concern on this trend.²⁷¹ Fortunately, a major impetus for the excluded nations to join a group of certain regional bodies, rather stems from their desire to safeguard their ability to continue to pursue outward-oriented development strategies, which is a indication for the further liberalization of world trade. The kind of influences which institutions and political forces have over the integration agreements, is important for open trade.¹⁰³

²⁷⁰. NAFTA provides the model for economic cooperation between developed and developing nations; its encouragement of global as well as regional trade liberalization; its precedent-setting and far-reaching regime for protection of intellectual property rights; its closer linkage between trade, labour, and environmental issues.

²⁷¹. They committed themselves to the goal of free trade and investment in the Pacific by the year 2020- an objective which, if met, would make APEC a trading area dwarfing the EC and NAFTA combined by bringing together 2.2 billion consumers and producers in countries that already account for 41 percent of global commerce. C. Fred Bergsten, Director of Washington's Institute for International Economics and Chairman of Eminent Persons Group that helped set APEC's agenda crowed, "This is the biggest trade initiative in history. It is half the world deciding to eliminate its trade barriers." Quoted in Anthony Spaeth with the title, "Dressed for Success-Meeting in Indonesia, APEC's leaders adopt a sweeping endorsement of free trade," in *Time*, November 28, 1994.

¹⁰³. Kym Anderson & Richard Blackhurst, *Regional Integration and Global Trading System*, Exeter: Harvester Wheatsheaf, 1993, pp. 4-5.

Anderson and Blackhurst summarizes that:

Theorists of economic integration typically rank them as follows; Preferential Trade Agreements or arrangement or areas (PTAS); free trade areas or agreements; customs unions (CUs), which are FTAs, but with same external trade measures for all

Table 2.5 below shows the nature of regional blocs in comparison with the GATT. Basically, regional blocs are discriminatory and inward-oriented. In order for a regional bloc to be open, the exclusive psychology must be changed into an inclusive mentality with more multilateral features. The principles and characteristics of the GATT have been weakened since the EU and NAFTA gained their importance in the world economy. The weakening of multilateralism poses the danger of regional blocs falling into the trap of more discrimination.

The spread of regionalism is in large degree caused by the feeling of uncertainty that guaranteed market-access into a group of major advanced nations is not stable. Expanded use of contingent protection²⁷² measures is also one of the major hidden reasons for countries forming or joining regional bodies. The historical background to the birth of the EC and the creation of the EU has been distinguished by supranational institutionalization, whereas the NAFTA and APEC are, rather a responsive move against protectionism and regionalism.

As we see in table 2.6, when the ratio of liberalization was extraordinarily high in the years of 1950-1973, conspicuous increase of trade exchange was recorded.

Table 2.5: A Comparison of Principles and Characteristics of the GATT and the Regional Trading Bloc Model

member states; common markets (CMs), which allows free movement of factors as well as products between member states; and economic unions (EUs), involving not only common factor market and trade policies but also harmonization of other micro-and macro-economic policies.

²⁷². Use of administrative procedures, e.g., in anti-dumping and countervailing duty investigations in a manner that impedes trade flows.

Principles and Characteristics

Of GATT

Of Regional Trading Bloc

- | | |
|--|---|
| (1) Trade is based on the Principle of non-discrimination | (1) Based on the principle of discrimination |
| (2) All members are bound to grant as favourable treatment to each other as they give to any other member, i.e., most-favoured nation status | (2) Nations within the bloc share special preferences not granted to nations outside the bloc |
| (3) To the maximum extent possible, protection should be provided only through tariffs | (3) Protection is often provided through quantitative restrictions as well as tariffs |
| (4) Basic ideas include economic liberalism, multilateralism, and free trade based upon comparative advantage | (4) Economic nationalism or regionalism, bilateralism and trade often based on strategic trade theory and neomercantilism |
| (5) The system is designed as a community open to all who are willing to follow membership rules | (5) The bloc may not be open to those who wish to join and are willing to follow membership rules |
| (6) The goal is to build a unified and integrated global system | (6) The bloc may function as an exclusive club that generates a "them versus us" psychology |
| (7) Under Article XXIV, three part of test is provided to determine if a regional bloc is consistent with the GATT long run. | (7) In the view of some system advocates, blocs are a way of building a stronger multilateral system in the long run. |

Source: Richard S. Belous and Rebecca S. Hartley (eds.), *The Growth of the Regional Trading Blocs in the Global Economy*, Washington D.C.: National Planning Association, 1990, p.X.

This tremendous increase was mainly caused by substantial reductions of tariff, the removal of the prewar and wartime quantitative reductions in Western Europe, a partial freeing of

capital movement including foreign direct investment flows and the establishment of an effective system of multilateral exchanges and payments with full convertability of the major currencies. Liberalization was achieved via all the available routes- unilateral, regional and multilateral.²⁷³

From the viewpoint of regional bodies with openness, the new WTO system will be supportive, rather than competing. It is also true that a historical survey on whether the post-war integration has supported the multilateral trading system conforming to the rules and procedures laid down in the GATT, shows some less favourable results. This means that some regional agreements contain features working directly against the goal of increased international integration.²⁷⁴ Table

²⁷³. Richard Blackhurst and David Handerson, op. cit., p. 413.

²⁷⁴. See GATT document C/M 253, p.25.

The chairman of the working party on the Canada-U.S Free Trade Agreement Conclusion to the GATT council in November 1991 by observing that:

Over fifty previous working parties on individual customs union or free trade areas had been unable to reach unanimous conclusions as to the GATT consistency of those agreements. On the other hand, no such agreements has been disapproved explicitly... one might question what points was there in establishing a working party if on-one expected it to reach consensus-findings in respect of specific provisions of such agreements, or to recommend to the participants how to meet certain benchmarks. It might not be irrelevant that the working party on the Agreement under consideration commenced work only after a delay of more than two years. As further agreements came along, there might be a risk that they would be treated increasingly superficially and that contracting parties would lose- if they had not already done so- the ability to distinguish between agreements of greater or less GATT-consistency.

2.6: Growth in the Volumes of World GDP and Merchandise

Exports (annual average percentage rate of change),
1870-1987

Year	(1870-1900)	1900-13	1913-50	1950-73	1973-87
GDP	(2.9)	2.5	2.0	4.8	3.3
Merchandise	(3.8)	4.3	0.6	7.6	4.5
Exports					

Source: A. Madison, *The World Economy in the 20th Century*, Paris: OECD, 1989.

Regarding the continued importance of extra-regional trade, it is not likely that we would witness the creation of three well-arranged and inward-looking trading blocs in the new international economic order under the WTO. The reason is that extra-trade is still very important for the welfare-improvement of Europe, North America, and Asia; inward-oriented trade regimes are unlikely to be equally efficient. In conclusion, the emergence of a tripolar world raises vital questions: whether regionalism can either contribute to or be detrimental to a multilateral trading system.

**CHAPTER THREE. MAJOR SPECIFIC TRADE REGIMES OF THE EU
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CHAPTER THREE. MAJOR SPECIFIC TRADE REGIMES OF THE EU AND THE ROK'S INDUSTRIAL POLICY

As an extension of Chapter Two, this chapter further specifically elaborates on the historical development of typical EEC/EC/EU trade regimes with particular focus on NTBs in the postwar period and how they have affected South Korea, giving many relevant examples of how specific measures and changes in policy have affected South Korea. In contrast to the EU side, the development of postwar industrial policy in South Korea is surveyed in the latter half of the chapter. South Korea's industrial policy is surveyed with specific emphasis on the relationship between the state and large companies, and the fact that while in the past the industrialization of South Korea did not operate under conditions of open market access to the South Korean market, the Korean government's recent active efforts towards trade liberalization and deregulation contribute to multilateralism under the WTO.

3.1 Specific Evolution of the EU Trade Policy with Implications for the ROK's Exports

3.1.1 Trade Regimes of the EU in the GATT Framework

The external trade of the EU accounts for one-fifth of world trade. However, the Common Commercial Policy (CCP) receives comparatively little attention. The principles of the CCP are put into effect by means of certain trade policy instruments. One instrument has already been mentioned, namely, the conclusion of regional trade and cooperation agreements. The EU has signed such agreements with EFTA, COMECON, ASEAN, ACP, the Gulf States and Mediterranean countries. Another

instrument is the Common External Tariff (CET) which applies to all imports entering the Community.

Table 3.1: Shares of World Merchandise Exports excluding EU-internal Trade: Leading Exporters, 1992

European Union	20.0 %
USA	15.8
Asian NICs(4)	12.1
Japan	12.0
EFTA	7.9
Canada	4.7
China	3.0
Rest of the World	26.5

Note: ROK is one of the NICs

Source: GATT, *International Trade Statistics*, 1993.

The third instrument is the special tariff preferences provided to LDCs under the generalized system of preferences (GSP). Finally, non-tariff barriers (NTBs) are applied.²⁷⁵

The intention of the founding fathers of the EC was clearly towards a liberal trading order. Article 110²⁷⁶ of the Treaty of Rome refers to the progressive abolition of restrictions on international trade. There is some ambiguity as to precisely what national powers have been transferred to the EU in relation to trade. The European Court of Justice has decided that wide

²⁷⁵. Ali M. El-Agraa (ed.), *The Economics of the European Community*, London: Philip Allen, p. 423.

²⁷⁶. see CHAPTER 4-Commercial Policy

Article 110 - By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers.

The common commercial policy shall take into account the favourable effect which the abolition of customs duties between Member States may have on the increase in the competitive strength of undertakings in those States.

interpretation of Article 113²⁷⁷ is justified in order to allow the EU to control external trade.

As a typical example of managed trade in relation to the Multi-Fibre Agreements (MFA), quotas have been allocated by the Commission to individual member states - this causes some disruption of the internal community market.²⁷⁸ The external relations of the EU are likely to be affected by the internal changes in the EU itself and by developments outside it. Asian Newly Industrializing Economies (ANIEs)²⁷⁹ were very much concerned about enlargement, mainly because it was likely to result in a tougher CCP with more restrictions on successful exporters and greater use of safeguard clauses. The adjustment

²⁷⁷. Article 113:

1. After the transitional period had ended, the common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and the trade agreements, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in case of dumping or subsidies.

2. The Commission shall submit proposals to the Council for implementing the common commercial policy.

3. Where agreements with third countries need to be negotiated, the Commission shall make recommendations to the Council, which shall authorize the Commission to open the necessary negotiations.

The Commission shall conduct these negotiations in consultation with a special committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it.

4. In exercising the powers conferred upon it by this Article, the Council shall act by a qualified majority.

²⁷⁸. Ibid. p. 423.

²⁷⁹. ANIE in this study refers mainly to South Korea, Taiwan, Singapore, and Hong Kong.

to the Mediterranean enlargement and the accession of Greece in 1981 was followed by Spain and Portugal in 1986, which created a trade diversion.²⁸⁰

The Single European Act (SEA) provides another dimension for the changes of trade policy. Our major concern lies in whether the requirement for the amendment of measures will be oriented in the direction of strong protection to create a Fortress Europe, or whether they will be amended to strengthen the EU's stance in support of a liberal trading order. If completion of the internal market succeeds in activating the economy of the member states, harmonization for external competition will be easier. Henderson²⁸¹ pointed out that the completion of the market will itself involve adjustment costs and member states may wish to minimize further dislocation.

In the Uruguay Round negotiations, the EU favoured the

²⁸⁰. Han, Sun-Taik divided the period in his research work, *European Integration: The Impact on Asian Newly Industrializing Economies*, Paris: OECD Development Centre, 1992, pp.14-15, into two: first phase, 1959-72 and second phase, 1973-85. The first phase covers the period from the creation of the EC by the 6 countries to its expansion to 9 countries. It was during this period that the removal of intra-regional tariffs and the establishment of common external tariffs were initiated and completed in 1960 and 1968, respectively. The second phase covers, from 1973 to 1985, the period between the initial enlargement of the EC, up to the signing of the SEA to launch the third phase. Han's estimation of the impact of the first and second phase of integration on ANIE's exports is revealed in table below.

	Normalized-Share Approach	Modified-Balassa Approach
1st Phase	-US\$350 million	-US\$3528 million
2nd Phase	+US\$3470 million	+US\$5940 million

²⁸¹. D. Handerson, 1992: *the External Dimension*, Group of Thirty, New York, 1989, quoted in A M El-Agraa op. cit., p. 439.

strengthening of the GATT structure and disciplines. With regard to the GATT-sensitive reform issues, the NIEs and Japan opposed the position of the EU, that selective safeguard action should be permitted against individual country exports in cases of damage to domestic industry. The removal of tariffs were favoured by the EU, on the other hand, sticking to the position that NTBs are to be dependent upon reciprocal action on the part of trading partners.²⁸² The EU's basic position could be summarized as one of balance and genuine progress in liberalization, which has been the EU's general attitude in other trade negotiations.

The EU, comprising fifteen industrialized countries and incorporating 380 million people within its borders, constitutes the largest trading bloc in the world.

Table 3.2: The EC in world trade 1987

	US\$ billion	%
Value of Exports from		
EC (12)	391	20.2
United States	244	12.6
Japan	229	11.9
Other developed Countries	319	16.5
Developing Countries	490	25.4
State-trading areas	258	13.3
Total	1.931	100.0

Source: GATT International Trade 87-88, Geneva, 1988.

The figures in table 3.2., above, proves the fact that the foreign trade policy of the EU has a big influence on the

²⁸². Reciprocity in the GATT principle applies to trade policy according to which countries must, in international tariff negotiations, reciprocate, i.e. offer tariff concessions in return for receiving tariff concessions. The reciprocal market opening of the EU to the trading partners causes trade friction.

international trading system. Even though the EU's trade policy is based upon liberal principles, third countries, including South Korea, are uneasy about the trade regimes as reflected in the EU's agricultural protection and preferential agreements and NTBs, which are major sources of friction with third countries, and the EU's position on the selective application of quantitative restrictions.

The EU's trade policy is likely to change as it comes under considerable internal and external pressure. The gradual reduction of the CET is a good example of the success of the CCP. Stronger negotiating power was developed, with a more positive approach to the LDCs and active participation in the GATT rounds. However, the application of the CCP is not still unified, in that national quotas continue to exist. In case of export subsidies, no common position of the EU is secured. In addition to that, the EU's external policy decisions are usually dictated by individual national interests, with no special target. The concept of reciprocity²⁸³ is to be more stressed for the EU to move towards a more liberal and ordered international trading environment.

Despite the more liberal rhetoric, protectionism continues to exert an influence on the CCP. The process has been

²⁸³. The *Economist*, 8 July 1989, draws up the following glossary of meanings:

1) Overall reciprocity: is GATT wisdom. All nations open up a little in different ways, but without matching them sector for sector or nation for nation.

2) Sectoral reciprocity: This is based upon the logic: "You can sell widgets on my market only if I can sell widgets on your market."

described as one of conservative resistance.²⁸⁴ With many third countries entering into the international trading system, equipped with much developed economic capacity, conservative resistance is likely to remain. The increasing adoption of Voluntary Export Restraints (VER), undermines the CCP to the extent to which commercial policy ceases to be common at all. The trade policy of the EU, especially on trade with developing countries, is excessively complex. The Community repeatedly claims to adhere, scrupulously, to GATT rules but at the same time its commercial policy measures have a complex preferential bias, for it is not still fully operational at the Community level.²⁸⁵ Article 18 of the Treaty of the Rome, clarifies that the Member State's readiness to contribute to the development of international trade and the lowering of barriers to trade is conditional upon reciprocity and mutual advantage of the agreements entered.²⁸⁶

Though there exists a general EEC framework of preventing protectionism from spreading and helping the growth of the developing nations in the world market, social and political pressures to reduce the growth of competitive imports have had a protectionist impact on sectoral trade policy positions of the Community, especially regarding Japan and the ANIEs, including

²⁸⁴. M. W. Corden, *Trade Policy and Macroeconomic Balance in the World Economy*, IMF Working Paper, 1988.

²⁸⁵. Jacques Pelkmans, "The EC's Trade Policy Toward Developing Countries", in Christopher Stevens and Joan Verloren Van de Maat, *Europe and the International Division of Labour*, London: Hodder and Stoughton, 1987, p.15.

²⁸⁶. Ibid., p.16.

The traditional arguments for the logic of interventionist trade policy²⁸⁸ in developed countries are as follows:

- a. The need to preserve and encourage mature industries such as steel and shipbuilding;
- b. The need to promote and secure sectors that are strategic for growth, such as high-technology industries;
- c. The need to accommodate the special characteristics of disadvantaged sectors, such as agriculture;
- d. The need to protect sectors important for national security and defence;

On the other hand, the non-traditional argument for protection are as follows:

- a. persistent trade imbalances leading to macroeconomic problems;
- b. protection of labour and the high social and budgetary cost of unemployment;
- c. exchange rate changes causing exchange rate instability;
- d. unfair trade practices of other countries;
- e. strategic trade policy;

The traditional and non-traditional arguments are combined to adopt protectionist measures in a particular situation. The EU is not exceptional. There are various kinds of protection such as direct tariffs on imports and non-tariff measures, by which is meant quantitative restrictions, subsidies, government procurement practices and technical barriers to trade. In another dimension, a system of multiple exchange rates with higher rates on imports and low rates on exports, which is similar to a system of tariffs on import and subsidies on export, could be functioning as a device for protection.

²⁸⁷. Ibid., p. 18.

²⁸⁸. T. Hitiris, op. cit., pp. 202-203.

If governments use a whole range of interventionist policies such as grants and loans for industrial developments, promotion of research and development, regional subsidization, and public procurement and preferential allocation of defence contracts, it will have far-reaching implications for foreign trade, for it produces trade protection, and as a result it will bring domestic production effects. Nowadays a new trend of protectionism through the mechanism of trade limitation agreement such as Orderly Marketing Arrangement (OMAs) and Voluntary Export Restraint (VERs) prevails. This means proliferation of non-tariff trade barriers in the form of quantitative restrictions, subsidization and discriminatory administrative measures. Dumping, which aims at profit maximization by price discrimination, is beneficial to the consumers of the importing country, but harmful to the consumers of the exporting country. Dumping is usually controlled by anti-dumping measures by the importing countries.²⁸⁹

However, for the maximization of international trade exchanges, the principle of the GATT is a good guideline in that it is a reciprocal and generally advantageous agreement. The GATT is based on three main principles:²⁹⁰

1. Transparency- Trade liberalization through the reduction of customs tariffs and the general elimination of

²⁸⁹. See, Brian Hindley, "Trade Policy of the European Community", in P. Minsford (ed.), *The Cost of Europe*, Manchester and New York: Manchester University Press, 1992; R.C. Hine, *The Political Economy of European Trade*, Brighton, Wheatsheaf, 1985.

²⁹⁰. Although all the 38 GATT Articles are important it could be argued that three key principles characterizes GATT's overall operation: 1) Non-discrimination; 2) Reciprocity; 3) Transparency.

- quantitative restrictions and other non-tariff barriers to trade;
2. Multilateral Approach to trade liberalization- non-discrimination in trade through the application of the most favoured nation(MFN) clause, with derogations and flexibility necessary to accommodate regional economic integration and more favourable treatment for developing countries.
 3. Reciprocity-although this is not specifically referred to in any of the articles of the text of the GATT, it appears to have established itself as a prominent operating procedure. Trading nations, on the whole, can only be expected to liberalize trade by reducing tariffs provided their trading partners reciprocate.²⁹¹

When third countries take any responses against the protectionist trend coming from regional economic integration, such responses are categorized generally as follows:

1. Seek improvement
2. Retaliate against adverse effects
3. Adopt alternative regional trading arrangements
4. Try to extend the European approach multilaterally
5. Try to establish bilateral agreements
6. Change unilaterally to get the best out of the external environment

The most difficult thing generally faced by third countries is the fact that European integration is not simply a matter of the formation or extension of a trading area, or even the development of a wider set of non-discriminatory economic arrangements. More extensive social and political agreements are involved in the integration. In the case of the Maastricht Treaty, some of the changes relate to improved methods of decision-making; more effective enforcement of decisions, and a great role for direct democracy through the European Parliament (EP), which makes the appropriate response by the third countries much more difficult.

²⁹¹. Klaus Heidensohn, op. cit., 1995, p.151.

Given the situation that world trade has not been as liberal and multilateral as it should have been, a considerable increase of protectionism has developed since the mid-1970s. International organizations like the GATT, the OECD, the World Bank (WB) and the International Monetary Fund (IMF) have repeatedly warned against increasing protectionism and its negative effects on the world economy.²⁹² According to the IMF, there has been an increased tendency in industrial countries to broaden and sharpen trade legislation, particularly in order to deal with unfair foreign competition. Examples are the 1984 Trade and Tariff act of the USA and the New Commercial Policy instrument adopted by the European Community in September 1984.²⁹³

On the evolution of trade policies towards developing countries, the OECD observed, also after implementation of the Tokyo Round, that tariffs confronting developing countries' exports of manufactures to the industrial countries remained above those applying to intra-OECD exports. Moreover, non-tariff barriers facing major developing countries' export products also spread and tightened in the 1980s. The second renewal of the MFA in 1982 and new or strengthened quantitative

²⁹². L.B.M. Mennes Jacob Kol, "Introduction: Trade Policies and Their Effects", in L.B.M. Mennes & Jacob Kohl, *European Trade Policies and the Developing World*, London: Croom Helm, 1988, pp. 1-3.

²⁹³. On the detailed positions of the developing nations against protectionism, see Federal Trust, *The European Community and the Developing Countries*, London: Federal Trust, 1988; L.B.M. Mendes and J. Kohl, *European Trade Policies and the Developing World*, London: Croom Helm, 1988; C. Stevens, *The EEC and the Third World: a Survey*, London: Hodder & Stoughton, 1984.

restrictions in sectors like steel, consumer electronics and footwear are good examples. Requests for protective measures against low cost imports were prevalent among industrialized countries in the 1980s.

The OECD emphasized that the most effective protectionist policy has been to accelerate the product and geographical diversification of developing countries' exports of manufactures. The more advanced NICs have been successful in diversifying out of industries most affected by restrictive trade measures into other labour intensive industries, into unrestrained sub-product areas within industries where protection exists, into new geographical markets and into industries which are less labour-intensive and more intensive in the use of skill. In spite of the efforts by the governments of developed countries, trade restrictions have increased, mainly in the form of discriminatory non-tariff barriers. Hughes and Newbery concluded that during the period 1973-1983, the Newly Industrializing Countries (NICs) were able to sustain a high rate of growth of manufactured exports despite protectionist actions.²⁹⁴ They emphasize that although manufactured imports from developing countries have been growing fast, they still occupied a small share of apparent consumption in the industrial countries, except for clothing; not more than 4 percent in 1981. This is confirmed in a paper by Waelbroeck and Kohl, who showed that the rates of market penetration by

²⁹⁴. Gordon A. Hughes and David M.G. Newbery, *Protection and Developing Countries' Exports of Manufactures, Economic Policy; a European Forum*, Vol. 1, No. 2, April 1986.

developing countries into the EU, the USA, and Japan were still very low, except for textiles and clothing and miscellaneous manufactured goods. They concluded that the developing countries' exports would be expanded if they could increase and diversify supply.²⁹⁵ According to Corden,²⁹⁶ recently revived protectionism could be detected by looking at three considerations:

- a) The adverse effects on trade may come later, since investment in export-oriented activities would be inhibited and since some of the measures concerned were only recent;
- b) The pattern of trade may have been distorted, even though world trade had not decreased;
- c) In the absence of the recent protectionist policies, trade would have expanded so much faster that a shift to more export-oriented growth was hampered.

In establishing the international trade system after World War II, the aim was to end the *laissez faire* for individual governments which had been the main characteristic of the inter-war period and to replace it with a system of internationally-agreed rules governed by certain norms; a transparent and market-conforming instrument of protection, the tariff; the binding of protection; reciprocity; and unconditional non-discrimination. These basic norms serve the essential function of ensuring the existence of a global market. Nondiscrimination is central to this system, whose principle technique of liberalization is reciprocity and whose principle sanction is

²⁹⁵. Jean Waelbroeck and Jacob Kohl, *The Evolving Pattern of World Trade, EC Trade Policy: a European Forum*, Vol. 1, No.2, Chap.3, Apr. 1986, quoted in *Ibid.*, p.6.

²⁹⁶. W.M. Corden, *The Revival of Protectionism*, published by the Group of Thirty, New York, 1984.

retaliation.²⁹⁷

Martin Wolf argues that the EU has contributed significantly to the weakening of the system by adopting policies of preferential liberalization and discrimination of competition and economic change. Consequently, preferences have become the principle instrument of foreign policy, while the tariff has been displaced by discriminatory instruments of protection like Voluntary Export Restraints (VERs). The core of the EU's association policy is preferential treatment for associate countries through the reduction or elimination of tariffs for goods shipped from the associate to the Community and in many cases also by the grant of financial aid. In return, the associate countries offer certain tariff preferences, called "reverse preferences" for the import of community products.²⁹⁸

As the major actors in world trade, during the 1960s under the auspices of the GATT in the so-called Dillon and Kennedy Rounds, the American Government and the Community were the major parties involved in long drawn-out bargaining to reduce tariff barriers and to overcome some of the stubborn non-tariff barriers. In these negotiations the EC Commission assumed an increasingly important role as a negotiator, a role that was given to it by the EEC Treaty as a corollary of its responsibility to evolve common commercial policy

²⁹⁷. Ibid., p. 14.

²⁹⁸. Werner J. Feld, *The European Community in the World Affairs*, p.105.

prerogatives.²⁹⁹ However, the positive role of the EC was much eroded entering the 1980s. Klaus Heidensohn summarizes the discriminatory external effects of the EU's trade policies:³⁰⁰ first, discrimination results from the EU pursuing a common commercial policy;³⁰¹ second, the EU's trade policies have been discriminatory in that the number, range and nature of the special trade agreements concluded by the EU have resulted in a hierarchical preference structure; third, specific trade policy measures have resulted in protectionism on a sectoral basis.³⁰²

3.1.2 Single European Market and the ROK

Intra-regional trade has expanded more rapidly than extra-regional trade during the past decade.³⁰³ A typical example may be seen in the intra-regional trade of the EU.

²⁹⁹. Ibid., pp. 163-167.

³⁰⁰. Klaus Heidensohn, op. cit., 1995, pp.69-71.

³⁰¹. As the underlying reason for this discrimination, Heidensohn analyses that the CETs levied by the Union on imports from third countries and the non-tariff barriers the Union imposed implied that for a large range of goods low cost supplies from third countries have been replaced by higher cost supplies from producers within the Union. Also, the trade diversion effect has been relatively higher for products in industries in which member states have been less competitive in agriculture, electronics, motor vehicles, steel and textile sectors.

³⁰². The sectoral protectionist measures that impeded the South Korea's exports into the EU are surveyed in Chapter Four.

³⁰³. This development is mainly due to the regionalization trend of the world economy, particularly in Europe after SEM and North America after NAFTA, and Pacific Asia after APEC.

Table 3.3 The Rapid Expansion of the EU Intra-regional Trade in the years 1958, 1975, and 1992(unit:%)

		1958	1975	1992
Internal Shares of	Exports	37	52	61
	Imports	35	49	59

Note: Adopted from *Eurostat 1993*.

The rapid increase of intra-EU trade is mainly due to the breaking down of internal barriers to trade, at a rate faster than the breaking down of barriers to trade with third country trading partners.

Table 3.4:EU Internal Trade Ratio

	1973	1980	1985	1990	1991	1992
Export(%)	52.4	55.7	54.4	60.6	61.1	61.7
Import(%)	51.1	49.4	52.7	58.0	57.5	59.7

Sources: IMF International Financial Statistics
GATT International Trade 91-92

The two tables above clearly show the increase of intra-EU trade. In the case of exports, the EU internal trade ratio for 1973 recorded 52.4 percent and continuously increased to reach 61.7 percent in 1992. A similar case could be noticed in the EU import trade ratio. An internal EU import trade ratio of 51.1 percent in 1973, increased to 59.7 percent in 1992. The EU's efforts to break barriers and ensure more rapid economic growth tend to look for inward-oriented solutions.

The European Union's trade policy is clearly distinct in nature from those of APEC or NAFTA. The trade policy of the EU renders the Union comparable not with the regional groupings such as NAFTA or APEC, but rather, states like the U.S.A. and Japan. The supranational stance of the EU towards Asian NIEs is

mainly found in this context. There is also a possibility of the EU falling into the protectionist trap when member states could not compete with their competitors in the case of the EU's low international competitiveness.³⁰⁴

Table 3.5: Mutual Dependence Ratios in Trade between Asia and the EU, and Asia and the U.S, 1980-1991

	Developing Asia/EU	Japan/EU	D-Asia/US	Japan/US
1980	2.16	6.37	1.51	2.57
1988	1.37	3.88	1.59	2.92
1989	1.28	3.46	1.54	2.78
1990	1.39	3.50	1.42	2.57
1991	1.34	3.68	1.27	2.55

* Developing Asia contains the PRC and excludes the Middle East

Source: UN, Monthly Bulletin of Statistics, February 1993; May 1993.

As the mechanism of the EU to regulate the Asian exporters, contingent protection³⁰⁵ is a broader concept than protection through tariff and non-tariff barriers. It comprises pressures such as the issue of which powerful trading partners such as the EU anti-dumping procedures and safeguard provisions try to apply if their opposite partners do not comply with perceptions of "Orderly Marketing", anti-surge conduct, export monitoring, and surveillance. The principle of differential treatment according to the level of national development, which is embodied in the GATT, is actually distorted by this contingent protection

³⁰⁴. Simon Nutall, "The European Union and the Asia-Pacific Region", in Kim Bak-soo (ed.), *The Asian Dimension of EC Integration- Problems and Prospects*, Seoul: KIEP, 1993, pp. 264-265.

³⁰⁵. The concept of "contingent protection" was quoted in Rolf J. Langhammer's "The Economic Effects of European Integration on Asian Countries", Kim Bak-Soo, (ed.), *The Asian Dimension of EC Integration*, Seoul: KIEP, 1993, P.11.

concept.

A conspicuous turn was expected with the launching of the SEM. M. Wolf³⁰⁶ explains the political dimension of the push for integration of the EC 1992 single market. According to him, after years of EC development and expansion to absorb the United Kingdom, Denmark, Ireland, Greece, Spain and Portugal, more intensive development was inevitable.

Table 3.6: Simulated Effects of EC 1992, by Region(changes in 1988 US\$billion)

Region	EC external surplus			No EC external surplus		
	GDP	Exports	Imports	GDP	Exports	Imports
EC	230.8	88.3	-80.3	230.8	20.0	11.8
North America	-20.8	-36.2	-25.3	5.4	2.1	2.7
Asia-Pacific	-12.3	-33.5	-31.7	-0.3	-0.2	0.5
Japan	-17.7	-21.6	-7.6	-2.0	-0.7	-0.4
Australia	1.2	-0.7	-1.5	0.6	0.3	0.2
China	0.2	-1.4	-2.1	0.2	0.0	0.4
India	0.4	-0.7	-1.3	0.2	0.1	0.1
Tigers	-0.8	-7.5	-6.7	0.0	0.0	0.0
ASEAN*	3.9	-1.1	-11.6	0.6	0.0	0.1
Other Asia	0.5	-0.4	-0.9	0.1	0.0	0.1
World	197.6	18.7	-137.2	235.9	21.9	14.9

Source: Center for International Economics, *Western Trade Blocs: Game, Set or Match for Asia-Pacific and World Economy*, Canberra, Australia, 1990, p.35.

Notes: ASEAN* members excludes Singapore because Singapore is included in Tigers.

Especially in the economic dimension, the slow down of the EC economy was the fundamental reason for the Single Market.³⁰⁷

³⁰⁶. M. Wolf, *Liberalism, Nationalism and Mercantilism: Global Implications of the European Community's Programmes for Completing the Internal Market*, New York: Manhattan Institute, 1989.

³⁰⁷. One of the main reasons for slow growth was productivity. In stark comparison with the 1960s, 1970s and the early 1980s, since the middle of the 1980s, productivity has

The simulated effects of EC 1992 shown in Table 3.6 indicates that only Japan and the ANIEs are losers.

Rolf J. Langhammer³⁰⁸ argues that various factors have contributed to the growth of uncertainty in the EU trade regimes. The first reason could be the failure to scrap Article 115 of the EEC Treaty. It is still in the Maastricht Treaty, though the Single European Act provides no scope for any internal trade measure against non-EU sources after 1 January 1993. In particular, there exists no scope for controlling and restricting indirect imports through other member nations. Nor is scope for substituting of such measures as national registration. Maintaining Article 115 in a single market is a clear contradiction in itself. Furthermore, the transition period has turned out to be excessively long. In the past, non-members were mainly subject to the majority of the EU quotas. In the future, they might face increased tariff quotas.

The principle of multilateralism is damaged by a single trade policy-making body in Brussels and the greater Community interest among the member states. There is some possibility of the EU becoming the third member of a cartel dominating the international trading system.³⁰⁹ The implication of the SEM in the international trading arena have occasionally raised concern

only recorded 1 percent, a far lower rate than the 4 percent recorded in the 1960s.

³⁰⁸. Ibid., p.19.

³⁰⁹. This is well illuminated in the message of the US Super-301 the strategic impediment initiative against Japan, which uses access to the US market to force other countries to open their markets to US goods, services and direct investment and which the GATT has been powerless to prevent.

about the possible ill effect on trade with non-member nations. Third countries have been worried about the possible situation that the EU would be tempted to downgrade competitive forces to the detriment of third countries.

The active participation of the Central Eastern European (CEE) nations into the SEM by having preferential access has major implications for Korea's future trade. Without doubt, in investment terms, Eastern Europe has a number of merits in international trade flows caused by its locational proximity.³¹⁰ Hans-Eckarte Scharrer elaborates that the main purpose is probably to extract some compensation - more regional aid, relaxation of competition from third countries, - from the counter regions. This context also has important implications for Korea. Enhanced ties between the EU and the CEE nations through preferential preaccess implies some challenges against Korea. One way to overcome CEE competition is by way of technological development to produce goods more competitive than counterpart products.³¹¹

³¹⁰. See Hans-Eckart Scharrer, "Implications for Eastern European Development," in Soogil Young and Moon Soo Kang (eds.), *The Single European Market and Its Implication for Korea as an NIE*, p. 76.

³¹¹. Hans-Eckart Scharrer elaborates that:

a) Europe is likely to remain a growth area for years to come, even if the economic restructuring and development of Central and Eastern Europe takes longer than initially expected. With prudent political management, CEE nations can offer attractive investment and growth opportunities, a strong demand for Western technology capital goods and consumer goods, and easy access to the markets of Western Europe.

b) A wider preferential area is emerging covering not only the EU and EFTA but all of Europe, reinforcing the observed trend towards economic regionalization. Within that area, locational competition between the centres, the Southern and Eastern regions is likely to intensify.

By setting the rule of origin or national composition to restrict the benefit of trade concessions to all or particular developing countries, the member states could extend the boundary of protectionism.³¹² The integration of the market will surely produce more purchasing power to boost imports. In the position of the outside world, the impact will be much more complex and more ambiguous.³¹³

In the same context, from the view of the ROK, despite this ambiguity and complexity, some conclusions can be reached. Sung Lin Na and Kyttack Hong's research on the possible effect of the SEM on the Republic of Korea estimated the ex-ante effect of EC 1992 Project on Korean export to EU. The usage of the traditional methodology of a customs union predicts that the

c) Members of the group may become increasingly inward-looking. Faced with a sound growth potential, on the one hand, and major adjustment pressures and demand for compensation by other peripheral economies of the Community, on the other, the EU will try solving its internal problems partly at the expense of outsiders, including the ANIEs and Japan. This outcome is unavoidable, however, and its effects may be over-compensated by the trade-creating effects of a growing European Economy.

³¹². Michael Davenport and Sheila Page, *Europe: 1992 and the Developing World*, London: Overseas Development Institute, 1991, pp. 11-15.

³¹³. The reasons for complexity and ambiguity could be summarized as follows:

a. The internal gains and the external impacts of the programme depend crucially on the response of the EC economy to the opportunities that integration provides

b. Crucial decisions about how the programme is to be implemented have still to be taken

c. The evolution of future EC trade policy will to some extent be conditioned by the problems of adjustment of the member states, and perhaps of third countries, to the SEM

d. It will be largely up to third world to exploit the opportunities of the wider, more integrated market and to meet the challenges of more intense competition or tougher technical standards. Ibid, p.2.

EU's market integration effect (price effect) would reduce Korean exports to EC by 2.42 percent in the short-term and by 5.45-5.82 percent in the long term.

While the price effect does not pose any real threats to the ROK, the non-price effect (EU's trade protectionism effect) is considered as a threatening factor. The result is estimated to reduce the share of Korean export commodities on the EU's import restriction list in total Korean export to EC by about 10 percent every year.

The fear of fortress Europe is, according to the study of the Center for International Economics³¹⁴, based on four arguments. First, there is the precedent of the Common Agricultural Policy (CAP), caused by the political forces of Europe. Second, there are rising trends in protectionist sentiment in Europe and North America, as evidenced by rising levels of non-tariff protection. Third, there is the fact that production in the EU will become more concentrated after 1992, with large firms accounting for an increasing share of EU protection, since economies of scale will provide a substantial proportion of the economic gains to be had from EU market integration. The concentration of industry could lead to it seeking more protection. Finally, there is a tendency to resort to the lowest level of access for foreign goods when changing policy.

Korea, as an export-dependent nation, will be no exception

³¹⁴. Center for International Economics, *Western Trade Blocs, Game, Sector Match for Asia-Pacific and the World Economy*, Washington D.C., 1990, pp.39-42.

in facing these constraints by the EU. The creation of a common market was also accelerated by the fact that the US, Japan and the NICs³¹⁵ are gaining more international competitiveness. The figures below clearly show the impact of the EU protectionism on Korea as a tiger.

Table 3.7: Simulated repercussions of "fortress" Europe
EC liberalization(changes in 1988
US\$ billion)

Region	Fortress Europe			EC liberalization		
	GDP	Exports	Imports	GDP	Exports	Imports
EC	-52.2	-57.6	-33.9	116.5	81.4	47.9
North America	-39.5	-21.2	-27.4	30.8	13.9	17.9
Asia-Pacific	-16.4	-14.0	-15.7	8.9	7.6	12.0
Japan	-13.7	-7.6	-4.9	1.9	1.9	1.3
Australia	-0.8	-1.0	-0.7	2.3	1.3	1.0
China	-0.6	-0.2	-2.2	0.9	0.2	3.0
India	-0.3	-0.3	-0.6	0.6	0.5	0.9
Tigers	-1.7	-3.7	-3.8	1.9	2.3	2.4
ASEAN*	0.8	-1.0	-2.9	0.7	0.9	2.7
Other Asia	-0.1	-0.2	-0.4	0.5	0.4	0.8
World	-108.1	-92.8	-76.9	156.2	102.9	77.7

Sources: The Study of the Center for International Economics, Washington D. C., 1990, p.45.

Notes: ASEAN* excludes Singapore. The figures above are based upon the calculation of the "World Trade Model" of the Center for International Economics, 1990.

³¹⁵. NICs here refers to all the Newly Industrializing Countries including Mexico, Brazil, etc. On the other hand, ANIEs are specifically referred to as the Asian four tigers or dragons, Korea, Singapore, Taiwan and Hong Kong. What differentiates the NICs from LDCs (Less Developed Countries) is that NICs broke free from the vicious circle of underdevelopment in terms of both the production and foreign trade structures associated with it, namely heavy concentration on exports of a few primary products. As a result they are rapidly closing the gap with the developed countries (DCs) in terms of their income levels and they are increasingly developing a similar economic structure. Quoted in *EC-NICs Trade: A Statistical Analysis*, 1991, p.11, published by the Office for Official Publications of the European Communities.

Table 3.8: Simulation Results, Korean Exports to the EU
1993-98, US billion

	1993	1994	1995	1996	1997	1998
Baseline Estimations	77.1	85.3	95.5	105.6	116.4	128.3
Hypothetical Est.	74.3	84.2	95.0	105.7	117.1	129.8
Price Effect	-3.4	-2.6	-2.4	-2.2	-1.8	-1.2
Growth Effect	+0.7	+1.5	+2.0	+2.3	+2.6	+2.8

Source: Han, Sun-Taik, p.17.

Nah and Hong adopt a partial equilibrium analysis in that it considers the production, consumption and trade flow of goods in a single market both before the introduction of the 1992 Project and after its completion. They explain that the price effect of EC market integration, in other words, the price reduction effects of EC goods coming from the SEM, is unexpectedly small. According to their statistics, the immediate effect of price reduction of EC goods coming from SEM will reduce Korean export to the EC by 2.42 percent on average. The long-term dynamic effects of economies of scale and increased competition will reduce the export by 5.45-5.82 percent on average. Judging from the above figures, what really worries Koreans is the non-price effects of EC integration such as the external non-tariff barriers imposed by either individual member countries or at the EC. The EC's protectionist measures, such as import restriction count much more than the price effect of the SEM.

Table 3.9: The Share of Korean Exporting Goods Under EC's
Import Restriction Measure

Year	1987	1988	1989	1990(Jan-Mar)
Share	41.0	33.7	22.3	18.6

Source: Economic Planning Board, ROK

The trade barriers of the EU within the region have been lowered as EU integration has proceeded according to the timetable of the 1992 Project.³¹⁶ At the same time, external non-tariff barriers were built up during the transitional period in the name of reciprocity³¹⁷ or in the name of the protection of EU industries. Apart from the 1992 Project, protectionism is expected to affect Korean exports to EU considerably. Though it is premature to estimate the effects of non-tariff barriers on Korean exports to the EU, we gain some insight indirectly by analysing the effects of existing non-tariff barriers on Korean export to the EU. As is shown in the above table 3.9, the share of export goods under the EU's import restriction as a percentage of the total export to the EU is declining considerably. The implication of the data is that the effects of external non-trade barriers, including import restrictions, are much more important than the direct effects of the 1992

³¹⁶. The Commission's official estimates involved calculations of: 1) short-term barrier removal effects; stage 1- costs of barriers affecting trade; stage 2- costs of barriers affecting all production and 2) long-term market integration effects; stage 3- economies of scale from restructuring and increased production; stage 4- competition effects on inefficiency and monopoly rents. Quoted in Klaus Heidensohn, *Europe and World Trade*, 1995, p.38.

³¹⁷. The critics of the new reciprocity, especially those in the foreign official community, maintain that it is thinly disguised protectionism. Ironically, key sponsors of reciprocity legislation consider it a preferable alternative to protection, one that is designed to address trade pressures by increasing U.S imports. Indeed, groups are normally most inclined to support proposals regarding such legislation. Quoted in William R. Cline, "Reciprocity: A New Approach to World Trade Policy," in William R. Cline, (ed), *Trade Policy in 1980s*, Washington D.C: Institute for International Economics, 1986, pp.121-22.

project itself.³¹⁸

Since 1986, the amount of trade between the two trading partners has increased tremendously. In 1989, the total amount of trade reached US\$14 billion or about 12 percent of Korea's foreign trade.³¹⁹ After the U.S.A. and Japan, the EU is Korea's third largest trading partner. Excessive dependence on the U.S.A. and Japan for import sources is an unhealthy feature of the Korean economy which urgently requires Korea to develop another import source, and which bodes well for further expansion of trade between the two trading partners.

There exist also some problems between the two trading partners. The EU considers the Korean Market as a protected one despite the fact that the current liberalization efforts are playing some positive role in reducing the trade friction. In 1987 negotiations with the EC Commission on legal protection for copyrights fell, the EC canceled Korea's GSP status. This is recorded as the EC's first withdrawal of trade preferences for a developing country, which clearly indicates the increased trade friction between the two trading partners. Korea and other Far Eastern nations have been the target of the EC's toughest talk on trade. The EC has taken action against Japanese and Korean exports allegedly being "dumped." Korean exporters have already found some barriers standing in the way of their textile goods and consumer electronic products. Export

³¹⁸. Ibid., pp. 124-25.

³¹⁹. For recent statistics of EU-Korean trade, see the introduction of this thesis, specifically on the justification of the study.

encountering barriers are expected in the future. By the end of 1989, more than 30 Voluntary Export Restraints (VER) were in place, and investigations were underway for anti-dumping measures, and provisional anti-dumping duties of 30 percent were at that time imposed on VTRs, despite a voluntary temporary halt to shipments from Korea.

The SEM would eliminate the trade barriers between the 15 EU states. It is also true that the free movement of goods and services within the Community with the Community standards, will benefit Korean exporters. If those programmes are implemented with the image of "fortress Europe", the international trading system will be in great danger.³²⁰ The Single European Act is likely to heighten competition among participants in the EU markets. In 1989 cross-border acquisitions involving European companies totalled a record of more than 50 billion ECU (US\$ 55 billion). The majority of them were spurred by the consideration that the need for competition from stronger European companies after 1992 was expected to be greater not only in the EU but also Asia, the US, and elsewhere.³²¹

The 1992 Project has both negative and positive implications for Korea. More than the price effect of the EU's integration after the 1992 Project, the non-price effect coming from non-tariff barriers caused by protectionist external policy

³²⁰. Chae Woong Lee, "The EC 1992: Trade Implications for Korea", *Korea and World Affairs*, Seoul: Research Centre for Peace and Reunification of Korea, Spring, 1990, pp. 54-59.

³²¹. Ibid., pp. 64-65.

is surely of great concern to Koreans.³²² The impact of the completion of the internal market and the impact of the increase of protectionism are both, by and large, related to the future export pattern from Korea to the EU. There is a possibility that protectionism against the Korean economy will be more strengthened, considering the characteristics of Korean economic structure. As Korea's export structure has been evolving from traditional labour-intensive products to technology and capital-intensive items such as colour TVs, VCRs and microwave ovens, the intra-regional, sectoral impact of integration is likely to have a significantly adverse effect on the overall prospects of Korean exports.³²³

3.1.3 From Complementarity to Competition in ROK-EU Trade

Korea's market diversification strategy is an effort to reduce heavy dependence on Japan and the US, curtailing external vulnerability. The Ministry of Trade and Industry's 1988 statistics explains this heavy dependence on the two world

³²². On the effect of the SEM, see A. Smith and A.J. Venables, "The cost of non-Europe: An Assessment based on a Formal Model of Imperfect Competition and Economies of Scale," in Commission of the EC, *Research on the Cost of Non-Europe: Basic Findings*, 2, 21, Brussels, 1988; D. Swann (ed.), *The Single European Market and Beyond - A Study of the Wider Implications of the Single European Act*, London: Routledge, 1992.

Smith and Venables tried to estimate the effects of increased competition and market integration assuming non-competitive markets. Abolishing internal trade barriers would have the following effects: internal imports would increase by 45 percent; external imports would be reduced by 25 percent; and the Union's exports would increase by 6 percent.

³²³. Han, Sun-Taik, op. cit., p.20.

economic powers. The United States traditionally has been Korea's biggest export market (35.3% of total exports), Japan next (19.8%) and third, the EU (13.4%) in 1993. The volume of trade with the EU has recently been improved by a gradual increase as a proportion of total exports to foreign nations.³²⁴

Table 3.10: Korea's Exports to the EC by Country(millions of US\$)

	1980	1982	1984	1986	1987	1988
EC total in 1988	2,871	3,027	3,460	4,656	7,415	8,708
West Germany	875	753	924	1,242	2,002	2,368
UK	573	1,099	955	1,034	1,525	1,951
France	291	259	288	543	880	1,070
Netherlands	350	350	373	503	770	825
Italy	229	154	288	319	552	733
Others	553	412	632	984	1,686	1,761

Source: Korea Foreign Trade Association, *The Trends of Foreign Trade, 1988*.

Table 3.11: Korea's Imports from the EC by Country(millions of US\$)

	1980	1982	1984	1986	1987	1988
EC total in 1988	1,837	1,949	3,252	3,720	5,290	6,396
West Germany	637	680	795	1,216	1,799	2,074
UK	304	403	565	454	722	915
France	191	224	347	706	784	1,135
Netherlands	87	110	303	185	266	511
Italy	119	122	205	310	536	638
Others	499	410	1,037	849	1,183	1,123

Source: Korea Foreign Trade Association

In 1993, Korea was the 16th largest trading partner with an import value of 7,724,166,000 ECU, and export value of 7,671,000,000 ECU. The total amount of export and import

³²⁴. Korea Foreign Trade Association Statistics, various years.

combined was 15,395,166,000 ECU, together making 1.6 percent of the EU total trade volume.³²⁵

A detailed analysis of export and import items by classification of industrial supplies, capital equipment, consumer non-durable and consumer durable suggests that Korea-EU economic relations were mutually complementary rather than competitive in the 1980s. However, entering the 1990s, trade friction occurred in high-technology sectors. The general pattern of trade is that the EU provides industrial materials and capital equipment in exchange for durable and non-durable consumer goods. Korea was in 1988 competitive in its non-durable and durable consumer goods of exports such as clothing, electrical appliances and sundries, while industrial supplies and capital goods such as industrial machinery, accounted for the majority of the EC's total exports to Korea in 1988. In achieving Korea's diversification strategy, the trade structure between the EU and Korea has very significant implications. The geographical locations of the EU has been one of the prime reasons why Korea's trade with the EU has been comparatively neglected. Cultural differences have added to the negative factors. However, according to the data of the Economic Planning Board of the ROK, from 1988 onward, reliance of Korean exports on the U.S market has diminished, while Korea's exports to Japan and the EU market have increased respectively from 15 percent and 11 percent in 1985 to 20 percent and 13 percent in 1988 respectively.

³²⁵. Eurostat, 1994.

Table 3.12: Comparison of the EC's Trade with Leading Asian Nations, 1988 million:ECU

Nations	Korea	Japan	Taiwan	Hong Kong	PRC
Total Balance	-2.646	-24.035	-3.515	500	-1,158

Source: KOTRA Statistics, Republic of Korea

For the EU, in 1988, Korea ranked as the 13th import source and the 20th export partner, accounting for 1.8 percent of the EU's imports and -0.8 percent of the EU's exports.³²⁶ In 1992, among the East Asian nations, Korea ranked second to Japan in its total trade volume, of exports and imports combined. Out of a total 141,784 million ECU, Korea advocated 13,662 million ECU with the balance, -1,198 million ECU with the EU.³²⁷

Table 3.13: Overall Trade Between Korea and the EC (millions of US\$, %)

year	1985	1986	1987	1988	1989
Trade Volume	6,304	7,520	11,208	14,178	11,372
Exports	3,246 (10.7)	4,305 (14.0)	6,597 (14.0)	8,131 (13.4)	7,394 (11.0)
Imports	3,058 (9.8)	3,215 (11.2)	4,613 (11.2)	6,047 (11.7)	5,342 (10.2)
Total Balance	188	1,090	1,987	2,084	688

Note: Figures in parentheses represent the share in total exports or import.

Source: Economic Planning Board of South Korea

Complementarity is partially being replaced by competition in mutual trade. The EU provides industrial materials and capital equipment in exchange for textiles, clothing, footwear, travel goods, TVs, radios, VCRs, toys and athletic goods,

³²⁶. In 1993, Korea's trade with the EU reached 1.6 percent of the EU's total trade amount, export and value combined.

³²⁷. Derived from the table: The European Union's Trade with the Countries of Asia in 1992, in The European Commission, *Toward a New Asian Strategy*, 1994, p.31.

artificial plastic goods, and so on.³²⁸

Table 3.15: Major Trade Items (unit:%)

Exports to EC		Imports from EC	
Share of total 1988 export		Share of total 1988 import	
clothing	22.7	Chemical product	28.9
Footwear	7.0	General Machinery	21.6
Home Electrical		Electrical/Electronics	10.5
goods	24.7		
Total	54.4	Total	61.0

Source: Korea Economic Planning Board

Looking into the structure of the goods exported to the EU by Korea, it is easy to reach one conclusion: Korean interest, brought about by the process of European integration, is still very much influenced by traditional merchandise trade and its growth potential rather than by capital transactions and trade in services. A conspicuous development entering the 1990s was the rapid increase of Korea's electronics exports to the EU. In some items like semiconductors, Korea is leading the world markets.

Until 1990, direct exports were favoured by Korean exporters. However, in recent years, Foreign Direct Investment (FDI) within the local market has increased gradually, irrespective of the decline in the level of external protection in the EU and the level of local content requirement. The role of FDI as a means of getting around trade barriers and supplying the large integrated market has been accorded much attention,

³²⁸. Capital equipment: electrical & non-electric machinery, transport equipment. Korea has been competitive in its non-durable and durable consumer goods(61 percent of exports in 1988, while industrial goods and capital goods accounted for 91% of the EC's total exports to Korea in 1988.

thus deserving systematic study. The EU indeed became the largest market in the world in terms of population, trade volume, Gross domestic product and industrial production. In terms of exports, the EU accounted for between 10 to 15 percent of total Korean exports including electric and electronic equipment (35 percent of total exports), textile products and apparel (25 percent) and footwear (7 percent) during the 1980s. Also in terms of imports, the EU accounted for between 7 to 12 percent of total Korean imports whose major items include machinery (22 percent of total imports), chemicals(15 percent), electric and electronic equipment (11 percent).

Table 3.15: EC's Demand for Korea's Exports: Rapidly Increasing Item(86-88)
(Growth rates(%), Millions of Dollars)

SITC 2-Digit Exports(88)	SITC 4-Digit		86-88
Toys	Toys	65	158
Footwear		54	297
Manufactured Metal	Domestic Appliance	48	66
	Container	94	180
	Utensils	63	71
Electronics	Semiconductor	54	375
	Telecommunication Equip	167	103
	Computer and Accessories	53	657
Motor Vehicles	Automobiles	66	113
Plastics	Fishing Equipment	78	82
Other	Musical Instruments	64	76

Note: Goods are selected on the basis of export volumes

Source: Korea Foreign Trade Association

As table 3.15 shows, the major items of Korea's export increase have been electronics, footwear, toys, etc. The erosion of EU competitiveness and the sharpening of Korea's competitiveness have created a new dimension of competition in the high-technology field. The case study of Korea's

electronics industry, presented later, will illuminate this new phase of development.

Asian nations had previously been in an unfavourable situation, with preferential access to the EU market limited to the tariff concessions available under the Community's GSP scheme. The two tables below demonstrate this rapid expansion. As a result of the sharp rise in their exports in 1991, Asian countries accounted for as much as 45 percent of all developing country exports to the EU, as compared to 15 percent in 1980.³²⁹ The ROK has been at the core of this expansion.

Table 3.16: EU Trade with Asia, 1980,1985 and 1990-1993
(in billion ECU)

	1980	1985	1990	1991	1992	1993
Imports	21(23)	32(3)	57(5)	69(21)	72(5)	81(12)
Exports	16(7)	36(19)	48(0)	51(10)	56(9)	71(27)
Trade Balance	-5	4	-9	-18	-16	-10

Source:Eurostat

Percentage Change over previous years in brackets

Table 3.17: EU Imports from NICs in Asian Developing nations, 1985 and 1993(in billion ECU and Percentage shares)

	1985	1993
Total Imports	32(100%)	81(100%)
NIC's Imports	14(45%)	31(38%)

Source: Eurostat

NICs means the four dragons:South Korea, Singapore, Taiwan, and Hong Kong.

From the point of view of developing nations, the status of Korea has been tremendously upgraded in its significance to the

³²⁹. The European Commission, *EC and Developing Countries*, 1994, p.23.

EU. Korea's rank among the 15 leading exporters to the EC (including oil-exporting countries), moved from 14th to 5th in a 13-year period from 1980 to 1993. This development accompanied a change in trade structure with the EU from a labour-intensive dimension to a capital or technology-intensive dimension, with the implication that the relatively complementary position of EU-Korean trade in the 1970s and 1980s is shifting to a more competitive one.³³⁰ Markets for EU exports are likely to be the developing nations. The EU's biggest export markets in the developing world are also major exporters to the EU.³³¹

3.1.3 Major Mechanisms to Restrict the ROK's Exports into the EU

a) Anti-Dumping and Countervailing Duty

Dumping usually happens when the export price of a product is less than in its home market or lower than the cost of production.³³² The instance occurs when the dumping firm discriminates among different purchasers of the same item. Such practices usually distort the original spirit of fair

³³⁰. In 1980, Korea ranked 14th with 2,079 million ECU and 1993, Korea ranked 5th with 7,735 million ECU. Excluding oil exporting nations, in 1980, Korea ranked 5th with 2,079 million ECU and 1993 ranked 4th with 7.735 million ECU.

³³¹. Out of the 15 leading markets for the EU exports, 1980 and 1993, South Korea was the 6th largest EU exporting market with 7,553 million ECU.

³³². On the general picture of anti-dumping in international trade, see John H. Jackson & Edwin A. Vermulst (eds.), *Anti-dumping Law and Practice: A Comparative Study*, London and New York:Harvester Wheatsheaf, 1989, pp.1-23.

competition which is the cornerstone of the liberalization of the world trade.³³³

Anti-dumping³³⁴ is usually resolved through unhealthy measures involving Voluntary Exports Restraints (VERs), Voluntary Import Expansions (VIEs), and other price controlling mechanisms, which clearly encourages illiberal and bilaterally-managed trade practices. Anti-dumping policies, it is often claimed, preserve competition by shielding producers from predatory and monopolistic practices which would otherwise drive them out of business.³³⁵ According to de Jonquieres and Tucker, the EU anti-dumping reformers say they are not out to abolish anti-dumping policy, but simply to get existing rules implemented in a more even-handed way. One of their strongest complaints is that procedures have long been biased in favour of aggrieved producers and have taken little account of competition

³³³. As the head of the European Commission's industry Directorate in January 1995, Dr Stefano Micossi judged that the anti-dumping cases raised serious economic and competition policy concerns. The *Financial Times*, 19 October 1995, reports that a drive is gaining strength in Brussels to reform the policy. The EU is expected to apply stricter criteria when investigating dumping. Trade economists say the policy undermines global trade liberalization, hurts consumers and shelters inefficient producers.

³³⁴. The specific rules to govern the EU's anti-dumping legislation were laid down in Council Regulation No 2423/88 which permits the EU to take anti-dumping measures provided :

- 1) there is evidence of dumped imports;
- 2) industry in the Community has been injured or threatens to be injured by the dumped imports;
- 3) intervention is in the Community's interest.

³³⁵. Guy de Jonquieres and Emma Tucker, "Pressure builds for EU to dump its dumping policy- Opponents say that penalties undermine trade liberalization, hurt consumers and shelter inefficient producers," *Financial Times*, Thursday 19 October 1995, p.7.

in the market concerned, overall economic welfare, international trade patterns or the views of consumers.³³⁶

The general principle of the GATT clearly restricts the unfair abuse of anti-dumping. The Article XIX [see Appendix] of the GATT allows signatory nations to provide temporary protection from a sudden influx of dumping imports, especially when the sudden imports leads to serious injury of the domestic industry; also when imports are unfairly priced or supported by subsidy of exporting nations. Article VI [see Appendix] of the GATT permits the imposition of countervailing duties aimed at restoring fair trade practices. The GATT rules, however, stopped short of giving sufficient explanation as to what constitutes evidence of predatory intent or of threat to an otherwise competitive market. Nor do provisions of the GATT make any reference to consumer interests.

The achievements of the Uruguay Round global trade records would be undermined by governments resorting to abuse of fair practices to protect national interests.³³⁷ Mr. Peter Sutherland, GATT director-general argues that in a review of developments in the trading system since spring 1993, confidence in the new system depended on a willingness to abide by the letter and spirit of the World Trade Organization, which

³³⁶. Despite such criticisms, the EU's regime still has staunch defenders, particularly among southern member states.

³³⁷. On the Uruguay Round anti-dumping agreement, see Gary N. Horlick and Eleanor C. Shea, "The World Trade Organization Anti-Dumping Agreement", *Journal of World Trade*, Vol.29, February 1995, pp.4-31.

succeeded the GATT in January of 1995.³³⁸ He urged judicious use of countries' room for manoeuvre in implementing the Uruguay Round records in order not to erode the benefits for world trade. His anxieties centred on the growing use of anti-dumping actions to keep out cheap imports, and the proliferation of regional trade groupings. Though both are permissible in principle under international trade rules, they are increasingly seen as stretching those rules to the limit and beyond.³³⁹ In the first annual report of the WTO, it is also noticed that anti-dumping and countervailing duty actions continue to play a

³³⁸. Frances Williams, "Sutherland warns over growing recourse to anti-dumping", *Financial Times*, 16, December, 1994.

³³⁹. Of 91 requests for consultation between 1989 and 1994, the first step in GATT's disputes settlements procedure, a quarter related to anti-dumping actions. This partly reflects the rising numbers of such actions and partly "an increasingly wide gap in perceptions of the acceptable limits of actions". After a peak of 251 cases in 1992-3, the number of anti-dumping investigations launched by the 25 members of GATT's anti-dumping code dropped back to 226 in 1993-4. However, this drop mainly reflected the earlier surge in suits brought by US and Canadian steel producers. Investigations initiated by the European Union and Brazil have risen sharply, leaving the EU and the US joint "leader" in 1993-4 with 47 cases each, followed by Australia and Brazil. The US had by far the largest number of anti-dumping measures in force-306 in June 1994, up from 279 a year earlier-while the EU came second with 157, down from 185 the previous year. However, the report points out that the most frequent users of anti-dumping actions are also frequent targets. EU companies head the list (89 cases in the two years to mid-1994), with almost half the cases concerning Germany and France. China was the biggest single country subject to investigation (58 cases), followed by the US (45). The last couple of years also witnessed more anti-dumping suits against imports from eastern Europe, notably Russia and Ukraine. The GATT report says new regional trading arrangements -all in Europe - were notified to GATT between April 1993 and November 1994, bringing to 40 the total notified over the past five years. Also it is generally admitted that GATT's procedures for examining the consistency of free trade pacts with fair trade rules are inadequate. Virtually none of the working parties set up to examine regional trade arrangements has been able to agree on their GATT conformity. *Financial Times*

prominent role in the trade regimes of the US, the EU and increasingly of developing nations.³⁴⁰

The proliferation of regional trade groupings coincided with the rapid rise of use of anti-dumping cases. As a legitimate form of discriminatory protection³⁴¹, which was made more restrictive in new EC legislation, the use of this tool rose in the 1980s. The majority of cases up to the end of the 1980s were initiated by the EU (300 cases) and the U.S. (700 Cases) till the end of the 1980s. In the five-year period from 1988 to 1992³⁴², the EC launched 169 anti-dumping investigations, involving 40 countries, including the People's Republic of China (28 investigations), South Korea (15), and the former Yugoslavia (9). Most developing countries against which investigations were launched were Asian, and included Taiwan (6), Thailand (6), India (4), Indonesia (3) and Singapore (3). The sectors most involved were chemicals and electronics.³⁴³

The growth of anti-dumping procedures as a protectionist device is to be found in the relatively high concentration of anti-dumping cases across industries and relatively low concentration across exporting nations. Looking at the

³⁴⁰. Frances Williams, "WTO chief tries to avoid confrontation", *Financial Times*, Thursday December 14 1995, p.6.

³⁴¹. Brian Hindley in his writing, "Trade Policy of the EC," in P. Minsford (ed.), *The Cost of Europe*, Manchester and New York: Manchester University Press, 1992, however, points out the possibility of using specific tricks in favour of anti-dumping complaints, especially where there is no readily available information on the reference price of a product.

³⁴². The EU Commission, *EC and Developing World*, 1994, p.12.

³⁴³. In Korea's electronics export to the EU, this mechanism has been playing a impeding role.

investigations initiated by exporting country from the period of 1980-1988 and 1985-1992, it is clear that the majority of the cases were against Japan and the ANIEs, reflecting the recent emphasis on high-technology products.³⁴⁴

Table 3.18 : European Community Anti-dumping and Anti-subsidy Cases and Outcomes, 1980-1988

	1980-1983	1984-1986	1987-1988
Investigations Initiated	131	123	105
Provisional Duties Imposed	35	42	34
Investigations Terminated	149	132	86
Definitive Duty	25	33	22
Price Undertaking	88	58	40
Change in Market Situation	4	-	-
No Dumping Finding	17	1	-
No Subsidy Finding	1	1	-
No Injury finding	13	23	12
Others	1	9	8

Source: Commission's Report On the Community's Anti-dumping and Anti-subsidy Activities, various years up to 1987.
For the statistics for 1988, See the Official Journal of the EC.

Table 3.19: Investigations Initiated by Exporting Country, 1980-1988

	1980-1982	1983-1985	1986-1988
U.S.A.	21	2	2
Japan	5	10	14
Other DMEs	17	27	6
Asian NIEs	3	5	22
Other LDCs	20	29	31
Of Wh. Yugoslavia	4	12	10
NMEs Of Wh. China	7	5	-
Total	131	123	105

DMEs: Developed Market Economies;
NIEs: Newly Industrializing Economies;
NMEs: Non-market Economies
Source: Commission's Report

³⁴⁴. For more information on the distribution of cases, See Finger, J. Michael, and Julio Nogues, "International Control of subsidies and Countervailing duties", *The World Bank Economic Review*, 1(4), 1987, pp. 707-25.

Table 3.20: Community Anti-dumping and Anti-subsidy Investigations Initiated by Broad Industry Group, 1980-1986

	Total	1980-1982	1983-1985	1986-1988
Chemical and allied	141	60	35	46
Textile and allied	26	3	5	18
Wood and Paper	24	8	13	3
Mechanical Engineering	68	26	22	20
Iron & Steel	42	17	13	12
Other Metals	18	6	8	4
Others	40	11	27	2
Total	359	131	123	105

Source: Commission's Report

Table 3.21: Anti-dumping Investigations Initiated(1985-92)

Initiator	Total No. of Nations	Advanced	Asia	The rest
Total	1,040	474	297	269
Australia	278	144	87	47
Canada	128	73	31	24
EU	159	42	51	66
USA	298	131	80	87
Korea	9	8	1	0
Advanced	924	401	274	249
Developing	91	49	23	19

Source: GATT

The Steel & Chemical sectors have been subject to a larger proportion of investigations. It is clear that this instrument has been a major tool of the advanced nations. Out of the total 1,040 investigations initiated from 1985 to 1992, advanced nations accounted for 924 investigations, while developing group initiated 91 investigations.

On commodity structure, Patrick. A. Messerlin³⁴⁵ indicates that mechanical engineering also has a high incidence. Most involved were chemicals and electronics. Trade is subject

³⁴⁵. Patrick A. Messerlin, *Experiences of Developing countries with Anti-dumping Laws*, mimeographed, World Bank, 1988.

to protectionist instruments in special VRA. Anti-dumping actions contain a strong protectionist trend.

Table 3.22: EC Anti-Dumping Investigations, 1985-1989

Affected countries	1985	1986	1987	1988	1989	Main affected Products
All countries	36	24	39	40	28	
East Asia	7	5	20	26	13	
Japan	2	1	10	4	3	Semiconductors,
Audio						CD players, TV
						receivers, mobile
						telephones,
						computer-
printers						
South Korea	1	1	5	7	1	cassettes and
						tapes
						electronic
						typewriters
Taiwan	2	-	3	1	1	weighing scales,
						hydraulic
						excavators
Hong Kong	-	-	1	3	2	tungsten,
polyester, denim						
						ammonium, mica
						urea
Other East Asia	2	3	1	11	6	TV receivers,
						Typewriter
						ribbons
						Bearings
China	1	2	7	-	5	tungsten, denim,
						slippers,
						ammonium,
						urea
Latin America	5	4	5	-	1	
Brazil	2	2	1	-	-	kraftpaper, steel
						tubes, and coils,
						polyester, urea
Mexico	1	1	3	-	-	
Eastern Europe	14	11	8	11	9	electric motors,
						cement, steel
						sheets,
Yugoslavia	5	4	3	3	2	tubes, and coils,
						mercury,
						fertilizers,
						potassium, urea

Source: EC Commission data

Measures in the last 2-3 years have usually occurred in the area of high-technology products, and were mainly directed against Japan and Korea. Recent cases were mostly against the ANIEs. As we can see from the tables, all actions except just one, from 1984-1988, have been aimed at East Asian nations. Korea has been one of the most frequent targets of the anti-dumping impositions.

In addition to a new stress on high-tech products, the EU anti-dumping instruments are employed against firms that establish plants within the community; the EU anti-dumping regulations have been revised to make this applicable.³⁴⁶

Brian Hindley³⁴⁷ clearly explains the process of anti-dumping investigations. An individual or firm may submit a complaint and request for anti-dumping action. The majority of such complaints have been brought by associations of EU manufacturers. If the Commission discovers some evidence of dumping, it consults with an advisory committee of member state representatives. If there is insufficient evidence, the case is dropped. In the opposite case, the Commission proceeds with an investigation, examining the records of importers, producers and other relevant bodies, including the records of exporting firms,

³⁴⁶. Regulation No. 1761/87.

Where a product has been found to be dumped, and since the action was initiated, the firms concerned have begun to assemble that product within the territory of the EC, in this case, anti-dumping duty is extended to the imported components without the procedure of a new anti-dumping investigation into imported parts.

³⁴⁷. Brian Hindley, "Dumping and the Far East Trade of the EC", *The World Economy*, 11.(4), December, 1988, pp. 445-63.

provided that there is no objection from the national government. When some time has passed, after consultation with the advisory committee, a provisional duty may be imposed, which may later be removed if dumping is not established. Undertakings on prices or volume of exports made by exporting firms can lead the Commission, after consultation, to stop the case. However, the exporting firm is required regularly to provide information proving that the undertaking is being respected. In other cases, the Commission may propose that an anti-dumping duty be imposed by the Council, backed by qualified majority voting. The most important part of the investigation involves the calculation of the dumping margin. Article VI (1) [see Appendix] of the GATT gives three possible bases for calculations: The first one is the difference between the export price and the selling price in the nation. The second one is between the export price and the highest comparable price for export to a third nation. The third one is the difference between the export price and construction price. Construction price is the cost of production plus a reasonable sum for selling costs and profits. The difficulty lies in the room for differentiation on the calculations. The EU Commission has defended itself by emphasizing that anti-dumping duties are much lower than the dumping margins established in the investigations.³⁴⁸ Examples of inconsistency with the general principle of the GATT clearly indicates that the anti-dumping

³⁴⁸. Christopher Norall, "New Trends in Anti-dumping Practice in Brussels", *The World Economy*, vol. 9, No. 1, 1986, pp. 97-111.

practice of Brussels is surely protection-oriented.

Table 3.23: EC Trade Barriers on Korean Exports(December 1989)

	EC National		Examples
Quantity Restriction			
.Inter-government agreement	3	6	MFA, Shoes
.Private sector agreement			Electric Ovens
tubes			Colour picture
.Unilateral restriction	1	8	Canned mushrooms, Silverware
Price Restriction			
.Minimum Price	1	5	Picture tubes, VCRs
.Anti-dumping			Polyester,
Videotapes			Shipping Services
Technical & Quality Regulation	0	2	
Radios,TVs,Computers			
Anti-dumping and Safeguard	5	2	Compact Disk
Players			Colour TVs, Shoes
	10	23	Total 33 cases

Source: Economic Planning Board, ROK

Table 3.24: Regional Comparison of Korean Exports under import Regulations(unit:%)

	1985	1986	1987	1988
EC	29.5	35.7	41.0	33.7
U.S.	43.3	33.3	26.5	19.3
Japan	32.0	19.6	19.4	19.7

Source:Economic Planning Board, ROK

The two tables above show the intensified level of resort to non-tariff barriers, during the 1980s.

Anti-dumping measures in the EU have been used principally to protect community industry against price competition originating from predatory dumping, price discrimination caused

by uncertain market situation or comparative advantage. The public policy is strongly regulated by special interest groups of the EU. Empirical data supports the assumption that anti-dumping and anti-subsidy investigations are more likely to take place where there is a high degree of concentration in the industry and where the growth rate of the industry output is low. The logic of concentration is the situation in which an industry is dominated by a few large firms. Empirical work suggests that³⁴⁹ anti-dumping investigations and reviews are triggered by complaints predominantly from highly concentrated sectors, especially where industry growth has been slow or stopped.

Moreover, the Commission has extended anti-dumping actions towards high-tech goods. Unusually, products assembled in the Community by foreign firms using imported components are now being subject to anti-dumping procedures and duties. The new insertion of anti-dumping practice in the service sector has alarmed many developing nations including Korea.

The anti-dumping policy of the EU has been closely related to its industrial policy. The EU does not just react to sectoral pressures for protection, but clearly is identifying certain key sectors, such as consumer electronics, in areas where the EU has vested interests in its future business. Discriminatory procedures devalue the EU's credit and distort the original spirit of the GATT. Anti-dumping measures should

³⁴⁹. Patrick A. Messerlin, *GATT-Inconsistent Outcomes of GATT-consistent Laws: The Long-Term Evolution of the EC Anti-dumping Law*, Mimeographed, World Bank, 1988.

be imposed only when there is clear evidence of predatory dumping.³⁵⁰ The world of extended and deepened interdependence requires more specified and justified rules and norms to be kept by the trading nations.

Table 3.25: No. of Anti-dumping Investigations(1985-1992)

Nation which initiated investigation	Nations which were the targets					
	total	advanced nations	Eastern Europe	Latin America	Africa Middleeast	Asia
Australia	278	144	15	22	10	87
Austria	4	0	4	0	0	0
Brazil	14	3	3	3	0	5
Canada	128	73	13	10	1	31
EU	159	42	56	14	6	51
Finland	13	2	11	0	0	0
India	5	1	0	3	0	1
Japan	3	0	1	0	1	1
Korea	9	8	0	0	0	1
Mexico	63	37	0	10	0	16
New Zealand	31	7	0	0	0	24
Poland	24	24	0	0	0	0
Sweden	11	2	9	0	0	0
USA	298	131	30	45	12	80
Advanced Nations	924	401	128	91	30	274
Developing Nations	91	49	3	16	0	23
Total	1,040	474	132	107	30	297

Source: GATT

Until the Uruguay Round, agreement on Countervailing duties, no clear definition and application categories on this duty, have been suggested since the Tokyo Round in 1979. The new agreement on countervailing duty classifies three categories; prohibited duty, countervailable duty, and allowable duty. The

³⁵⁰. The new Council Regulation 522/94/EEC Title I makes it easier to take anti-dumping and countervailing duty measures by changing the decision-making mechanism from qualified voting to simple Majority, which took effect from 13 March, 1994.

new regulation requires all contracting parties of the WTO to report the details of subsidies to the Subsidy/Countervailing Duty Committee, which would be a basis to analyse how subsidies influence trade patterns. In the case of the EU, this duty has not been used. In contrast, the US has imposed countervailing duties frequently.³⁵¹ Korea has not been impeded by this instrument in exporting to the EU market.

b) Quantitative Restriction and Safeguard Measures

The 1992 programme has been and will be used as a leverage for restricting competition from outside. Furthermore, the transparent understanding of non-tariff barriers seems very difficult because the instruments of protectionism are operated at the EU decision-making level, at the member state level or at both, concurrently. The complex mechanism of administrative and legal complexities further impedes transparency.

Michael Davenport³⁵² says that several points should be understood in the Community trade policy, in order to get the right picture of trade regimes such as quantitative restrictions. European Commission official used to emphasize that third nations would benefit from the creation of the internal market and be expected to undertake reciprocal action to open their markets to EC exports. The concept of reciprocity is, as Davenport indicates, well reflected by the Community's

³⁵¹. In the period 1985-1992, of a total 187 impositions, 106 were by the US.

³⁵². Michael Davenport, *Europe: 1992 and the Developing World*, London: Overseas Development Institute, 1991, pp.102-103.

submission in July 1989 to the GATT Negotiating Group on Textile and Clothing. This is the EC's own version of reciprocity. The summary of the submission is that contributions from all those involved, including the textile-exporting nations according to their level of development, must ensure better access to markets through acting on tariffs and non-tariff measures; it provides for derogations for balance of payments and infant industry reasons.³⁵³

Davenport pinpoints the problem by arguing that there is no suggestion that these contributions should be judged by a GATT committee or any other independent arbitrator. Clearly the Community thinks of itself as a judge to determine the adequacy of contributions. Second, the conditions are sufficiently vague - "according to their level of development" - for the EC to apply its own interpretation. Thirdly, the Community talks about better access to markets, not specifically markets in clothing and textiles, and action on derogations for balance of payment or infant industry reasons. The Community's own interpretation does not pay much attention to the GATT code of "special and differential treatment of the developing nations". The logic of its trade regimes are well read in the national politicians and Commission officials' claim that they are doing this to remedy unfair trading practices.

In a specific Korea-EU economic interaction, the EU has placed trade restrictions on over 30 percent of Korea's total

³⁵³. For more reference, see GATT, "Negotiating Group on Textiles and Clothing", Communications on the European Communities, July 1989.

exports, a higher ratio than that imposed on the US or Japan, mainly defending their positions on the ground that this was done to remedy unfair trading practices.³⁵⁴ It is clear that the ever-declining international competitiveness of the EU industries has forced the Commission and national governments to employ NTBs, including minimum price regulations, countervailing duties and VERS against various items of Korean exports to the region. The table below gives statistics for the quantitative restrictions by the EU and national government till December 1989.³⁵⁵

Table 3.26: EC Quantity Restriction on Korean Exports till Dec. 1989

Quantity Restriction	EC level	National level	Examples
Inter-government agreement	3	6	MFA, Shoes
Private sector agreement			electric ovens
			colour picture tubes
Unilateral restriction	1	8	canned mushrooms
			silverware

³⁵⁴. Regional Comparison of Korean Exports under NTBs, selected years, percentages

	1985	1986	1987	1988
EC	29.5	35.7	41.0	43.5
US	43.3	33.3	26.5	19.3
Japan	32.0	19.6	19.4	19.7

Source: Economic Planning Board of the ROK

³⁵⁵. Restrictions on imports into the Communities have, to a large extent, been remnants of individual member states' trade regimes from before the enactment of the Treaty of Rome. Consequently, many EU restrictions have been levied at member-state level and not by the Communities as a group. The EC restricted imports of more than 120 industrial products at the end of the 1980s. France and Italy accounted for virtually all the quantitative restrictions out of the total restrictions. The problem is that in the majority of cases the import quantity restrictions were imposed on exporting products from Japan and the ANIEs.

Source: Economic Planning Board, ROK

Among the 18 quantity restrictions imposed by the EU and member nations, 14 cases were imposed by individual national governments, and only 4 by the EC regulation. Out of 33 trade friction cases between the EC and Korea up to the end of 1989, 10 were at the Community level and 23 cases at national level.

Table 3.27: EC Non-Tariff Instruments, Government Level and Product Type: Quantification for the Mid-1980s

Government Level	Low-skilled labor-intensive product	Scale product	High-tech product	other product
1. VER National	xx	x	x	
EC	xx	x	x	
2. Anti -Dumping National		xx	x	x
EC				
3. Counter -veiling National		x		
Duties EC				
4. Technical N		x	x	x
regulations EC		x	x	x
certification				
5. Public N			xx	x
Procurement EC				
6. EC N	xx	x		x
Surveillance EC				
7. Minimum N		x	x	
Prices EC				
8. Quotas N	x or xx	x	x	x
EC				

Note: x = some utilization

xx = frequent or severe restrictions

The products referred to excludes agriculture.

Source: Jacques Pelkmans, "The European Community's Trade Policy Towards Developing Countries", in Christopher Stevens and Joan Verloren van de Maat (eds.), *Europe and International Division of Labor: New Patterns of Trade and Investment with Developing Countries*, London: Hodder and Stoughton, 1987, p.21.

Voluntary Export Restraint(VER) is another form of quantity restriction.³⁵⁶ Out of all the EC non-tariff instruments, the importance of the VER can be seen in the table below. The VER began to be used in the late 1970s and became popular in the 1980s. In sectoral terms, the major targets of the regulation were against developing nations' textiles and clothing and electronic products. Korea has traditionally been a major exporting nation of these items to the EU market since the 1970s. The multilateralism of the GATT is damaged by VERs. In the same context, the MFN principle is impeded by measures to limit textiles imports through unilateral restraints and permit the negotiation of bilateral restraint agreement. Country by country discriminatory trade restrictions damage the principle of MFN. The Safeguard Clause (GATT 19) is also abused under MFA for a quota. Safeguard measures should be imposed on imports only when a market disruption or the danger of such a development exist.³⁵⁷

Under the rule of the GATT Article XIX [see Appendix] or

³⁵⁶. A VER is a measure imposed by an importing nation to ensure that an exporting country restricts the volume of its exports to the importing nation on a voluntary basis. It is usually the result of the exporting nations' agreement to keep to certain level. A VER is, therefore, a bilaterally agreed measure to restrict exports on a selective basis. Major targeted items are motor vehicles, steel, machinery, electrical and electronic house-hold equipment, and textiles, which have been affected by export restraint arrangements.

³⁵⁷. The EU has recognized the need to help developing nations to increase their exports into the EU since the Treaty of Rome. As responsibility for trade policy lies with the EU, some Members States have found themselves accepting measures they would not have adopted by their own will. Whenever necessary, all Member States need to safeguard the interests of their own producers.

under a Community instrument or agreement, the EU may impose safeguard actions in the case of market disruption caused by a sudden and sharp increase in imports. The EU have taken 18 actions since the 1979 Tokyo Round, while the US has taken only 4 actions. According to the European Bank for Reconstruction and Development (EBRD), released on 21 September 1993, due to the frequent imposition of anti-dumping and safeguard measures against Chinese and Eastern European products, the amount of exports to the EU diminished greatly from 1989 to 1992. The problem lies in the intentional application of the rules depending on the situation controlled by the logic of politics.³⁵⁸ The legal device of Council Regulation 288/82 itself is similar to that of the Uruguay Round agreement. Korea has been regulated with regard to electronic ovens and CPT, etc. in a voluntary form. The principle of MFN and GSP with special and differential treatment has been interpreted according to the rich nations' own calculations. This is a severe breach of multilateralism.

c) Rules of Origin

In order to qualify for preferential entry into the EU, goods must comply with its origin rules, to ensure that the goods have a certain level of local processing or manufacture. Such goods are allowed duty-free entry. The rules of origin vary

³⁵⁸. The discriminatory feature of this regime was proved in the 1993 negotiation with Russia. The EU expressed its flexible attitude to refrain from using this instrument only against Russia. This shows a lack of consistency in its application and implementation.

from one group of beneficiaries to another. The rules governing the ACP nations are most loose and textile and clothing-relevant application is the most restrictive. For Korea's FDI into the EU, this rule matters greatly in that screwdriver factories which simply assemble components, or repackage finished goods imported from a non-member nation, are subject to regulation.³⁵⁹

d) GSP of the EU

A pyramid of trade preferences in the EU has considerable impact on trade flows. Almost all developing nations are entitled to enjoy preferential access to the EU market. However, its range varies according to nations.³⁶⁰ The EEC in the mid-1971 adopted a GSP scheme based upon the principle of duty-free entry for nearly all manufactured products and reduced rates of duty for selected agricultural and processed agricultural products. This scheme was largely rewritten in 1994. The substantially revised GSP introduced on 1 January 1995 for a further 10-year period, put much weight on sensitive sectors such as high-technology products. One of the main differences between the EU's old and new GSP scheme is the way

³⁵⁹. See KOTRA, *The WTO Trading Environment and Marketing Strategy into the EU*, KOTRA Material 94-30, pp.90-97.

³⁶⁰. At the peak of the EU preferences are the 70 ACP nations linked through the Lome Convention. Next are the developing Mediterranean countries, while the third place is occupied by Asian and Latin American nations, as well as a number of Middle East oil-producing countries, including Iran, Iraq and Kuwait. Korea has been at the bottom of this preference regime by the GSP scheme. Since 1988, Korea has been selectively benefitted by this scheme, sector by sector, and is expected to graduate fully.

in which the interests of EU manufacture are safeguarded in the case of the so-called sensitive products.

In 1986, the EU introduced a policy of differentiation for dealing with the problem posed by the fact that a small number of countries were virtually monopolizing the GSP. Under this policy, GSP status was withdrawn from some countries in sensitive products areas in which they could now be deemed sufficiently competitive, mainly on the basis of their share of the EU market. The EU also added a regional cumulation clause to its GSP rules of origin to encourage regional economic groupings such as ASEAN and the Andean Pact, to utilize the GSP to further their integration process.³⁶¹

The growing competitiveness of a small number of developing nations led to a sharp increase in the number of tariff quotas and ceilings.³⁶² The successful development of the Uruguay Round for tariff negotiations with the active participation of these countries, implied that the role of GSP is now complementary to that of multilateral mechanisms embodied in the WTO.³⁶³ The earlier policy of differentiation has been taken

³⁶¹. See Margaret Kelly, Naheed Kirmani, et al., *Issues and Development in International Trade Policy*, IMF Occasional Paper No.63, pp.100-101.

³⁶². Tariff quota refers to the situation in which a exporting nation exceeds the fixed quota for export.

³⁶³. The new Tariff Modulation System (TMS) replaced all quotas and ceilings under the new GSP scheme. All manufactured products now fall into four categories: very sensitive, sensitive, semi-sensitive, and non-sensitive. Only non-sensitive products now enter the EU duty-free. The GSP duty on very sensitive products, for example, is 85 percent of the MFN rate; in other words, the margin of preference is now 15 percent and not 100 percent. The preference margin on sensitive product is 30 percent and on semi-sensitive product is 65 percent.

to its logical conclusion. Under the new policy of graduation³⁶⁴, the degree of competitiveness of a beneficiary country is measured in terms, not of a specific product as before, but of an entire industrial sector, such as clothing, footwear or consumer electronics. GSP benefits are thus withdrawn for the sector as a whole, in the case of nations considered to be sufficiently competitive to have no further need of them.

The new GSP scheme of the EU plans to withdraw all GSP benefits from most developing countries from 1998, on the basis of criteria to be drawn up in 1997. The EU can also withdraw the benefit either partially or totally in the case of fraud, unfair trading practices, export of goods made by prison labour, the practice of forced labour and inadequate controls on export or transit of drugs.

Since the EU adopted a new guideline to be applied for the period of 1995-2004 on 1 June 1994, Korea has to be more concerned with the implementation of the Uruguay Round Agreements, environmental and labour conditions to reflect the Green Round (GR) and the Blue Round (BR). As one of most newly and most developed nations along with Singapore, Hong Kong, and Taiwan, Korea is expected to be subject to sectoral graduation. Existing sensitive products regulated by fixed duty-free amounts and tariff ceilings are likely to be exempt from the scheme. The GSP scheme will be withdrawn in all textile sectors.

³⁶⁴. The EU secured transparency and objectivity by explaining in detail how the development and specialization indices at the heart of the graduation mechanism. All this information is annexed to the regulation implementing the new GSP scheme for a 4 year period, from 1995-98.

Partial exclusion of the textile sector was applied from 1 July 1994. Manufactured products, which account for 92 percent of GSP benefits as a major exporting group, will be to a large extent excluded from the scheme. Among the concerned sectors, cars, semiconductors, footwear and electronics are the prime targets.³⁶⁵ The new guideline favours sectoral/national graduation and this will be a big impediment to the ANIEs, with an increased tariff burden.³⁶⁶

e) Tariff and other Barriers

Since the Community's common external tariff was introduced in 1968, it has been lowered during the subsequent Tokyo Round of multilateral trade negotiations. The current average rate of the EU is 5.7 percent, as compared with 5.5 percent in the US, and those are in the process of gradually being lowered to 3.6 percent and 3.5 percent respectively in four years time after

³⁶⁵. KOTRA Material 94-30, pp.106-113.

³⁶⁶. The Eurostat statistics of the year 1992, show that the EU total imports from Korea reached US \$9,587 million dollars. In practice, the amount of the imports actually benefitting from the GSP scheme without duty was US \$2,013 million dollars, 21 percent of the total. Consequently, in case textile and manufactured goods are in practice withdrawn from this scheme, the actual burden of tariff is calculated to be US \$114 million dollars, based upon the average tariff rate of 5.7 percent, applied to the GSP benefitted amount in 1992. This would deteriorate price competitiveness of Korean products in the EU market. The only way to deal with this obstacle is to promote technology-intensive products and enhance quality competitiveness. The more Korea moves up into high technology and quality-intensive goods, the fiercer will be the trade friction with the EU.

the official launching of the WTO, on 1 January 1995.³⁶⁷ Exceptions to the common external tariffs of the EU are made for imports entering under its GSP scheme and under the preferential trade agreements that it has negotiated with other countries or country groups.³⁶⁸

Table 3.28: Reduced Tariff of Major Advanced Nations
(unit: US\$ million, %)

Nation	MFN-applied imports('92)	Weighted Average tariff rates present after UR		reduction rate
Australia	25,152	20.1	12.2	39
Austria	5,768	10.5	7.1	32
Canada	28,429	9.0	4.8	47
EU	196,801	5.7	3.6	37
Finland	4,237	5.5	3.8	31
Iceland	334	18.2	11.5	37
Japan	132,907	3.9	1.7	56
New Zealand	4,996	23.8	11.9	50
Norway	6,192	3.6	2.0	44
USA	297,291	5.4	3.5	35
Switzerland	10,227	2.2	1.5	32
Sweden	10,324	4.6	3.1	33
South African Republic	14,286	24.6	17.3	30
Total	736,944	6.3	3.9	39

Source: GATT Secretariat Data Base

In non-tariff import, it was in general 20 percent before the Uruguay Round. After the Uruguay Round it increased tremendously to 44 percent. The EU application of non-tariff increased from 24 percent to 38 percent. In the case of Korea, the tariff is about to be reduced from 18 percent to 8.3 percent

³⁶⁷. Since electronics are Korea's strategic export products, the rate of tariff reduction on this sector will not be tremendous, as the current rate is relatively low in comparison with other sectors.

³⁶⁸. The EC Commission special report, *European Economy*, 1994, Appendix I. European Community Trade and Industrial Policies, p.90.

after the Uruguay Round.

Table 3.29: Non-Tariff Rate after the Uruguay Round
(unit: US\$ million, %)

nation	MFN-applied import amount('92)	non-tariff rate present after UR	
EU	196,801	24	38
Japan	132,907	35	71
USA	297,291	10	40

Source: GATT Data Base

The rest of the advanced group has been omitted.

In addition to the surveyed measure to impede the natural flow of Korean exports to the EU market, there exist many other barriers such as regulations for intellectual property protection and to regulate counterfeited goods; sectoral quotas like MFA; technical barriers, and so on.

3.2 The Development of the ROK's Industrial Policy

3.2.1 Government-Business Relationship

When we talk about the miracle of the Korean economy, the role of government is at the core of its success. Lee, Kye-uk³⁶⁹ elaborates that the successful economic performance was not the result of inward-looking industrial targeting³⁷⁰ or protectionist policies; rather it was the result of outward-

³⁶⁹. Lee Kye-uk, "The Role of Government in Korea's Industrial Development", in Lee, Kyu-uk (ed.), *Industrial Development Policies and Issues*, Seoul: Korea Development Institute, 1986, p.30.

³⁷⁰. Lee, Kye-uk defines industrial targeting as government measures that aim to influence the development of specific industries through protection of the domestic market and, or through provision of tax, financial and other incentives which affect the allocation of productive resources. Ibid, p.2.

looking industrial policies. He further argues that Korea's market system has always been market oriented and it has not been the Korean government but businessmen who saw the opportunities for profit, made the necessary investment and tried to produce in the most efficient way. The government, he argues, has set the basic rules for their investments through providing tax, financial, or market incentives for their investments; but the results in general have been to promote efficient allocation of resources in the direction of properly exploiting the nation's comparative advantage.³⁷¹ Edward Chen shares the same view, asserting that "state intervention is largely absent, What the state provided is simply a suitable environment for the entrepreneurs to perform their functions."³⁷² More emphatically, Milton and Rose Friedman also argue that Korea is one of the most successful East Asian economies which extensively relied on private markets.³⁷³ John Fei further claims that the major reason for the success of the East Asian NICs on the policy front, can be traced to the "lessening of government interferences" in the market economy

³⁷¹. Ibid., p.30.

³⁷². E.K.Y. Chen, *Hyper-growth in Asian Economies: A Comparative Study of Hong Kong, Japan, Korea, Singapore, and Taiwan*, London: Macmillan, 1979, pp.41-43.

³⁷³. Friedman, M., and R. Friedman, *Free to Choose: A Personal Statement*, New York: Harcourt Brace Jovanovich, 1980, p.57. Quoted in Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton: Princeton University Press, 1990, p.22.

during the export-oriented phase.³⁷⁴

In contrast, Bronwen Dalton attaches more importance to the role of government.³⁷⁵ She argues that the Korean economy has been one of the capitalist world's most tightly supervised. Korea's state orchestrated rapid industrialization over the past three decades has employed a development strategy characterized by its marked autonomy from social forces. Dalton is supported by academic argument such as the Capitalist Development State (CDS) thesis, which places special emphasis on the role of state planning in NICs, pointing to three characteristics³⁷⁶ of a developmental state, based upon research into the role of the state in managing and successfully promoting economic development in NICs such as the ROK.³⁷⁷ Parvez Hasen says that:

³⁷⁴. Fei, J., G. Ranis, and S. Kuo, *Growth with Equity: The Taiwan Case*, New York: Oxford University Press, 1979. Quoted in Robert Wade, 1990, p.22.

³⁷⁵. Bronwen Dalton, "Economic Liberalization in the Republic of Korea", *Asian Studies Review*, Vol.17, No.2, November 1993, p.63.

³⁷⁶. Firstly, the developmental state is insulated from social forces, due to a state-society linkage to exclude other groups from the decision-making process, which in turn insulates state bureaucrats and allows them to function technocratically; A second characteristic is a high degree of state-bureaucratic cohesiveness, which is a general agreement among the bureaucracy and politicians on government-set priorities, particularly the overriding importance of promoting economic growth. Conflicts of opinion are removed, and the decision-making process is characterized by a readiness to accept consensus. Finally, the developmental state has a range of instruments of control available to ensure compliance and cooperation from other groups within the society.

³⁷⁷. For a general introduction to the theory see Fred Deyo (ed.), *The Political Economy of New Asian Industrialism*, Ithaca, NY: Cornell University Press, 1987; Chalmers Johnson, "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," and Stephen Haggard, "The East Asian NICs in Comparative Perspective,"

"The Korean economy depends in large measure on private enterprise operating under highly centralized government guidance. In Korea, the government role is considerably more direct than that of merely setting the broad rules of the game and in influencing the economy directly through market forces. In fact, the government seems to be a participant and often the determining influence in nearly all business decisions."³⁷⁸

Robert Wade³⁷⁹ cites, Edward Mason and associates' similar argument in their business-government analysis:³⁸⁰

"The rapid economic growth that began in South Korea in the early 1960s and has accelerated since then has been a government-directed development in which the principal engine has been private enterprise. The relationship between a government committed to a central direction of economic development and a highly dynamic private sector that confronts the planning machinery with a continually changing structure of economic activities presents a set of interconnections difficult to penetrate and describe. Planning in South Korea, if it is interpreted to include not only policy formulation but also the techniques of policy implementation, is substantially more than "indicative." The hand of government reaches down rather far into the activities of individual firms with its manipulation of incentives and disincentives. At the same time, the situation can in no sense be described in terms of a command economy."

The role of government in economic development is determined by industrial policy orientation. It includes many different elements - from a plan to aid particular industries

Annals of the American Academy of Political and Social Science
No.55, 1989.

³⁷⁸. P. Hasan, *Korea, Problems and Issues in a Rapidly Growing Economy*, Baltimore: Johns Hopkins University Press, 1976, p.29. Quoted in Robert Wade, 1990, p.24.

³⁷⁹. Robert Wade, *Governing the Market*, 1990, p.24.

³⁸⁰. Edward Mason, et al., *The Economic and Social Modernization of the Republic of Korea*, Cambridge: Harvard University Press, 1980, p.254. Quoted in Robert Wade, 1990, p.24.

with subsidies, tariffs, and tax breaks to more centralized planning to identify growth areas for development. They are usually distinguished in terms of the degree of government intervention and objectives underlying this intervention.³⁸¹

George C. Lodge³⁸² provided a basis for the classified representation of capitalist economies as *individualistic* or *communitarianistic*. Laissez-faire competition characterized by individualistic capitalism and centralized planning featured by communitarianistic characteristics are at the extremes of the spectrum. In the middle ground are European socialism or administrative guidance in Japan.³⁸³

Hugh Neuberger³⁸⁴ takes an example of US intervention the purpose of which is regulation. Chalmers Johnson³⁸⁵ takes the Japanese government intervention as having strongly focused on developing the national economy and recognizing the need to

³⁸¹. Richard M. Steers, Yoo Keun Shin and Gerardo R. Ungson, *The Chabol: Korea's New Industrial Might*, New York: Harper & Row Publishers, 1992, pp.22-23.

³⁸². George C. Lodge, "Roles and Relationships of Business and Government," *Business in the Contemporary World*, Vol.1, No.2, Winter 1989, pp.93-108, quoted in *Ibid.*, p.24.

³⁸³. The individual plays a central role in laissez-faire to pursue individual needs, achieve the best results for all. Centralized planning has been exemplified in the former Soviet Union or North Korea. The People's Republic of China's total planning of the economy is being mixed with the market principle. Actually, every government intervenes in the private sector; the only difference among them is the underlying purpose for the intervention.

³⁸⁴. Hugh Neuberger, *Business-Government Relations*, 1983, The Japan Society of New York Material, quoted in *Ibid.*, p23.

³⁸⁵. Chalmers Johnson (ed.), *The Industrial Policy Debate*, San Francisco: Institute for Contemporary Studies, 1984, quoted in *Chabol*, p.24.

shape competitive activity so that development in a particular direction will occur. Korea is similar to Japan.

There are two types of industrial policies. *Defensive industrial policies* preserve existing structures, maintain employment, and protect beleaguered industries.³⁸⁶ On the other hand, *Adaptive industrial policies* encourage and facilitate industrial change by providing resources from aging or declining sectors to more productive sectors. The specification of sunset or sunrise industries, as practiced by the Japanese and Korean governments, is an example of an adaptive industrial policy.³⁸⁷

Kim Kwang-Suk and Michael Roemer³⁸⁸ argue that political factors have always played a crucial part in promoting or discouraging entrepreneurial ventures in Korea. The Korean *Miracle*³⁸⁹ is not a triumph of individualistic capitalism, but of a pragmatic non-ideological mixture of market and non-market forces. Where the market did not work, the government showed no hesitation in intervening by means ranging from a friendly phone call to public ownership.

³⁸⁶. Quantitative restrictions are a tool of defensive industrial policy.

³⁸⁷. Richard M. Steers, Yoo Keun Shin, and Gerardo R. Ungson, op. cit., p.25.

³⁸⁸. Kim Kwang-Suk and Michael Roemer, *Growth and Structural Transformation*, Boston, MA: Harvard University Press, 1979.

³⁸⁹. The Korean economy, indeed, has achieved remarkable growth during the past three decades. Korea has become the 12th largest trading nation in the world, from a poor farming nation thirty years ago. On the speed of the development, looking at the statistics of the period from 1962 to 1983, the most outstanding factor in this expansion was the growth of exports, which increased from \$ 55 million in 1962 to \$ 24.4 billion in 1983. More details are in Chapter 5.

As a result, the government-business relationship in Korea has been much stronger than in Western capitalist societies. Korea belongs to the category of High Performing Asian Economies (HPAEs), in which in one form or another, the government has intervened systematically, and through multiple channels to foster development.³⁹⁰ John Page emphasized the predominant role of government by arguing that government policy interventions were conducted through "targeted and subsidized credit to selected industries, low deposit rates and ceilings on borrowing rates to increase profits and retained earnings, protection of domestic import substitutes, subsidies to declining industries, the establishment and financial support of government banks, public investment in applied research, firm- and industry specific export targets, development of export-marketing institutions, and wide sharing of information between public and private sectors."³⁹¹ The industrial policy of Korea has been rather similar to that of Japan in shaping competitive activity to achieve a particular goal. A review of the relationship between government and business in Korea helps explain the existence of many of the prominent features of the Korean economy.

Korean industrial policy can be classified into three evolutionary stages: 1) the "take-off" period from 1961-73, 2) the shift from general export promotion to sectoral policy from

³⁹⁰. John M. Page called the successful East Asian Economies including Korea and Japan, the High Performing Asian Economies in his article, "The East Asian Miracle: An Introduction", *World Development*, Vol.22, No.4. pp.615-25.

³⁹¹. Ibid., p.615.

1973-1979, and 3) trade and financial liberalization, from 1979 to the present.³⁹²

1) The take-off period: 1961-73

After 1945, aggressive export policies and rapid industrialization were adopted with the enactment of a new policy to promote the inflow of foreign resources and accelerate exports, characterized by intervention in export promotion, industrial finance, and protectionism. Outward-looking development, the development of basic infrastructure, the modernization of the nation's industrial structure, the development of several key raw material supplying industries and export promotion were the major goals, with important incentives provided to encourage export.³⁹³ During this period, several key reforms were instituted, including fiscal and monetary policies aimed at increasing public and private saving; a uniform exchange rate; and, in 1970, a free trade zone. Incentives in general favored export-oriented industries; but based upon growing domestic demand and protection of the domestic market. Import substitution was also accomplished in the areas of raw material supplying industries. Little industrial targeting was done by the government at this stage.³⁹⁴

2) Sectoral Policy: 1973-79

³⁹². Richard M. Steers et.al., op. cit., p.26-29.

³⁹³. Lee, Kyu-uk, op. cit., pp.6-7.

³⁹⁴. See Kim, Kwang Suk, "Outward-looking industrialization Strategy: the case of Korea," in Hong and Krueger (eds.), *Trade and Development in Korea*, KDI Press, 1975.

The Government-business relationship was cemented and intensified in this period. More typical sector-oriented import substitution initiatives were impeded by the desire to accelerate changes in Korean comparative advantage, and support large-scale, capital-intensive industries. Special incentives were granted to these strategic industries, through means such as tax exemptions, custom rebates, access to foreign exchange, and other forms of protection. Thus, from 1973-79, the government was deeply involved in the allocation of resources to promote the development of specific industries. Partially helped by such strong promotion by the government, and partially because of the inevitable maturing of Korea's industrial structure, heavy and chemical industries grew rapidly.³⁹⁵

The success of government initiatives in the private sector can be explained by the lack of capital. This made the Korean *Chabols* dependent on government for financial assistance and equipped the government with leverage in implementing its export goals.³⁹⁶ The *Chabols* came into prominence in the 1970s. A *Chabol* can be defined as *a business group consisting of large companies which are owned and managed by family members or relatives in many diversified business areas*. In other words, it is a financial clique consisting of varied corporate enterprises engaged in diverse businesses and typically owned

³⁹⁵. For details of the Korean heavy chemical industry drive, see Richard M. Auty, *Economic Development and Industrial Policy: Korea, Brazil, Mexico, India, and China*, London: Mansell, 1994, pp.123-142.

³⁹⁶. Jon Woronoff, *Asia's Miracle Economies*, Tokyo: the Lotus Press, 1986.

and controlled by one or two interrelated family groups.³⁹⁷

The policy of selecting and supporting particular individuals and their companies who were considered loyal and reliable led to the formation of large business groups. The Chabols have been Korea's leading agents of the exports of capital goods and related services. These Chabol groups have spurred growth in a variety of basic and advanced industries, such as steel, shipbuilding, consumer electronics, petrochemicals, and industrial construction.³⁹⁸

3) Trade Liberalization Policy: 1979 and Onward

Coming into the 1980s, structural difficulties arose in the Korean economy. The painful experience of having encouraged over investment in heavy and chemical industries led to a dilemma regarding the government's ability to choose promising industries for promotion. The prolonged import protection for many Korean industries and the restrictions on direct foreign investment impeded investment by Korean firms in technology and human resources development. To introduce more foreign competition into the economy, liberalization of imports and direct foreign investment were carried out; to promote more efficient allocation of resources, preferences for specific industries were reduced, competition-limiting activities banned,

³⁹⁷. Yoo Sangjin and Lee Sang M., "Management Style and Practice of Korean Chabols", *California Management Review*, Summer 1987, pp.95-110.

³⁹⁸. Lee, Kyu-uk, op. cit., p.28.

and financial reforms done.³⁹⁹

The process of import liberalization, in fact, began in 1979, arising from the government's firm conviction that foreign competition was necessary for Korean industries to continue to maintain their competitiveness in the international market.⁴⁰⁰ Korea's embarking on liberalization in 1979 was due to the recognition of the importance of indicative planning and the role of the market. The government began to abandon the former preference for large, heavy-industry firms, in favour of smaller and medium-sized firms. The aim of these steps was to reduce government intervention and open up the market to greater competition.

Table 3.30: Korea's Import Liberalization Ratios

	1980	1985	1989	1990	1991
Overall Average	68.6	87.7	95.5	96.4	97.2
Industrial products	70.0	89.7	99.6	99.8	99.9
Agricultural Products	55.9	66.4	71.9	83.3	84.9

Source: Korea Development Institute

³⁹⁹. See Woo Jung-en, *Race to the Swift: State Finance in Korea's Industrialization*, Princeton: Princeton University Press, 1990, p.67.

⁴⁰⁰. In terms of financial regulation, various state agencies practiced "administrative guidance" based on the implementation of a range of incentive measures and rewards, including cheap loans, subsidies, and tax breaks, as well as some punitive measures as a means of ensuring active cooperation of business to realize economic growth. The financial measures to control the attitudes of businessmen centred around the provision of cheap credit to firms which demonstrated their capacity to lead export-oriented industrialization. These policy funds were used to develop further their exports competitiveness by achieving greater economies of scale. The capacity of the state to promote export depended on its ability to mobilize Korea's financial markets. Thus, there developed a strong government-business linkage via the chain of developmental strategy and financial-market management.

The liberalization programme has progressed smoothly since 1979.

Over time, increased emphasis is placed on the market mechanism rather than on state control, in the name of economic efficiency, continued growth and easing international pressure.

Table 3.31: Investment Liberalization Ratio

	1984	1987	1989	1990	1991
All Industries	66.1	78.9	79.0	79.3	79.4
Manufacturing	86.0	97.5	97.5	97.7	97.7
Services	47.2	60.8	61.0	61.4	61.8

Source:KDI

Table 3.32: Tariff Rate

	1984	1985	1989	1990	1993
Total Average	23.7	21.3	12.7	11.4	7.9
Industrial Products	22.6	20.3	11.2	9.7	6.2
Agricultural Products	31.4	28.8	20.6	19.9	16.6

Source:KDI

A policy of economic liberalization has been a strategic decision of Korea in the context of both changing international politics and economics, and domestic socio-structural arrangement.⁴⁰¹

3.2.2 Korea's Industrial Policy of Deregulation and Liberalization

For the promotion of EU-Korean economic exchanges, given the unprecedented level of global interdependence, Korea should comply with the international call for more market opening.

⁴⁰¹. See Young, Soo-Gil, *New Challenges to the Korean Economy and their International Implications*, KDI Working Paper 9004, Seoul, 1990; *Trade Policy Problems of Republic of Korea and the Uruguay Round*, KDI Working Paper 8913, Seoul.

Since the inauguration of Kim, Young Sam's government in February 1993, although Korea has been making efforts to open up further, several obstacles still exist. The globalization initiative includes the comprehensive and substantial opening of the country's domestic market.⁴⁰²

The main stumbling block for EU exporters is the existence of non-tariff barriers.⁴⁰³ Foreign exporters still face structural barriers such as lengthy customs clearance time, ambiguous regulations and anti-consumption campaigns led by the private and public sector. Foreign investors suffer from lack of skilled workers and have to compete with Korean companies allegedly employing illegal foreign labour. The Korean government's push for self-sufficiency, Emiko Terazono argues in the *Financial Survey on South Korea*, is also bad news for the EU exporters.⁴⁰⁴ Meanwhile, deregulation presents a dilemma for the Korean government. The government tried to use regulations to rein in the Chabols or conglomerates, which dominate the vast majority of the Korean economy.⁴⁰⁵ Globalization means that

⁴⁰². South Korea: Trade Industry and Finance, p.33, *Financial Times*, Friday October 20 1995.

⁴⁰³. According to the Political and Economic Risk Consultancy, a Hong-Kong-based consulting company, Korea ranks second in discrimination against foreign investment following India.

⁴⁰⁴. In May 1995, the Korean government announced its "import substitution" program affecting 105 products imported into Korea. This is likely to hurt the EU, since the list includes products such as machinery and electronic components, which the region currently provides.

⁴⁰⁵. The tactic has so far only distorted the market mechanism for market entry. Restrictive measures by the government sheltered the Chabols and created more inefficiencies at the expense of small and medium-sized companies. It is

Korean companies should be internationalized, and Korea should bow to international pressure to increase opportunities for foreign players in the domestic market.

The peculiar structure of the Korean economy needs the active cooperation of Korean Chabols as the major actors of globalization. Despite the recent government efforts to slim down operations and improve efficiency, Chabols are relentlessly expanding their activities.⁴⁰⁶ John Burton in his special article on Korea, "Still reluctant to take the plunge," in the *Financial Times* survey, argues that the expansion of Chabol and their concentration on production economies of scale has created serious weakness in the industrial structure, at a time when Korea is on the brink of transformation as the trade barriers and financial struts propping up the protectionist economies are dismantled.⁴⁰⁷

During the rapid development stage in the 1970s, an economic regime of development mercantilism emerged to protect the growth of Chabol, consisting of restricting imports to the level dictated by the foreign exchange constraints, while calling for export maximization. Various types of export assistance as well as widespread import restrictions in the form

expected that deregulation will allow other Chabols to expand further.

⁴⁰⁶. During the half year period, April to October, 1995, the number of subsidiaries among the top 30 chabols has increased from 623 to 647, according to the Korean government Fair Trade Commission.

⁴⁰⁷. For references on the weakness of the Korean Chabol, see Kim, Ki-Tae, et al., *The Structure of Korean Economy*, Seoul: Hanol Academy 1993. In Korean.

of both quantitative restrictions and high tariff, were utilized for launching into rapid export-led growth. A high level of protection and assistance, was maintained where import restrictions, in particular, were considered a key to both limiting the size of the current account deficit and promoting infant industries.⁴⁰⁸

Those conditions favourable to the growth of Chabols, paradoxically induced a lack of attention to research and development.⁴⁰⁹ Another structural weakness of Chabols lies in the weak industrial foundations. The unsophisticated small and medium-sized firms which constitutes the extensive subcontracting network of Chabols, have insufficient capacity to provide the necessary machinery and components. Productivity and industrial wages lag behind those of Japan.

Economic deregulation is dismantling trade barriers erected as protection from foreign competition.⁴¹⁰ The pressure of financial liberalization schedule⁴¹¹ is forcing Chabols to turn

⁴⁰⁸. Duk-Hoon Lee, *The External Policy of Korea*, KDI Working Paper No. 9205, Seoul, January 1992, p.13.

⁴⁰⁹. For example, aside from its cutting-edge prominence in computer memory chips, Korea still depends upon imported technology for most of its products. The increasing challenge of Korean products in the overseas market create more difficulty in receiving necessary technology from foreigners.

⁴¹⁰. On the other side of the coin, deregulation means greater autonomy of Chabols from government intervention. Some believe, in the executive sector, that they will be able to handle any adverse effects with their capacity to enter more markets. Their confidence largely lies in an aggressive overseas expansion. Newly emerging markets in Eastern Europe, Asia and Latin America will be the new source of export growth.

⁴¹¹. The prospect for economic liberalization, including the financial sector, is generally good. Even in the event of higher levels of protectionism, a greater degree of

to the financial market for credit as the government reduces their preferential access to bank loans and abandons the low-interest state-subsidized state policy loans that have financed expansion during the past three decades.⁴¹²

The external pressures to open the market further by removing non-tariff barriers and domestic deregulation and liberalization measures to open more foreign competition, are causing Chabols to establish their presence in developed countries by establishing manufacturing facilities and distribution networks, and by marketing products under their own brand names. Of course, this implies an active policy dimension to deal with the emerging protectionism of regional blocs.⁴¹³

Asia was the initial destination for a wide range of smaller Korean investments in the 1970s, then North American followed. The European region has become a more recent focus of attention. According to the Korea Institute of Industrial Economics and Trade, FDI by Korean companies reached a cumulative total of \$7.65 billion at the end of 1994, compared with just \$1.5 billion at the end of the 1980s. Overseas

liberalization will be necessary for the more complex and more mature Korean economy to function. A developed Korea requires advanced financial intermediaries, and such intermediaries will only emerge in a more liberalized environment. Continued economic growth will need more liberalization of the financial sector.

⁴¹². *Financial Times*, Friday October 20 1995, p.31.

⁴¹³. Korean companies have been establishing worldwide production facilities, mainly for the purpose of escaping high wage costs at home, to improve penetration of the foreign market, to source components more easily, and to acquire more advanced foreign technologies. They could also take advantage of overseas banks and financial markets which offer lower interest rates and capital costs than in Korea.

manufacturing investment is increasing rapidly, especially in electronics, accounting already for 54.8 percent of the cumulative total. The globalization programme of Chabols, along with the government push, encourages manufacturing, marketing and all the main business activities in a particular nation or region.⁴¹⁴ According to Andrew Baxter, as a result of their globalization strategy for western nations, Korean companies are expanding the range of their activities overseas beyond manufacturing to avoid anti-dumping complaints - the primary reason, for example, why Samsung Electronics began producing TV sets in Billingham, northern England in 1987.⁴¹⁵

The analysis of Han, Sun-Taik⁴¹⁶ presents the results of a survey of the motivations of Korean electronics FDI in the EU. Market factors accounted for 89.2 percent and defensive motivations, i.e., securing market accessibility, were the primary rationale. Local content requirement and rule of origin are the other factors that induce forced investment. By

⁴¹⁴. Andrew Baxter argues that a twin-track strategy is clearly identifiable in recent overseas investment, in *Financial Times*, South Korea Special Report on Trade, Industry and Finance, Friday October 20 1995, p.32. According to the twin-track strategy, in the developed world, Korean firms want market access and a physical presence that will mean they are increasingly viewed as multinationals, or at least international, rather than Korean. This will have the effect of circumventing trade barriers. In the developing world, locations for low-cost manufacturing are a target as domestic wage costs surge. Also, market access is considered, especially in countries such as China.

⁴¹⁵. For details on the background and management strategy of Samsung Electronics and FDI in Billingham, see the Case Study.

⁴¹⁶. Han, Sun-Taik, *European Integration: The Impact on Asian Newly Industrializing Economies*, Paris: OECD Development Centre, 1992, p.24.

applying local content requirements, the EU forces foreign companies with manufacturing facilities in Europe first, to use European components and then, to invest further for local production of parts and components.⁴¹⁷

Table 3.33: Motivations of Korean FDI into the EU
(percentage shares)

Motivations	Share
. to secure market access from protectionist measures	45.5
. to explore market chances, i.e., from EC integration and/ or East European markets	33.7
. as a global strategy of the headquarters	13.9
. to acquire high-technology or know-how	5.0
. to benefit from skilled manpower	1.0
. to have easy access to parts and components	-
. to benefit from low financial costs	-

Source: Han, Sun-Taik's Survey, OECD

The Korean government's globalization strategy as a part of industrial policy encourages a more sophisticated strategy different from the above ones surveyed in the two tables.

Table 3.34: Source of Korean Firm's Price Competitiveness (percentage shares)

Sources	Share
. relatively cheap supply of parts and components	41.9
. cost-saving management or process technology	22.6
. efficiency in production equipment and facility	22.6
. relatively cheap salary of managers sent from the parent company	6.5
. cheap labour cost	1.6
. relatively low financial cost	1.6
. others	3.2

Source: Han, Sun-Taik's Survey, OECD

As an example of Samsung Electronics strategy, the

⁴¹⁷. See for details, Jun, Y.W. and S.G. Kim, *The Korean Electronics Industry: Current Status, Perspectives and Policy Options*, mimeo, 1989.

Billingham factory serves a different dimension from the past ones.⁴¹⁸ While Billingham remains a manufacturing plant, Samsung's new 450 million pounds electronics complex at nearby Wynnard opened in October 1995. This site is going to have its own research and development centre to carry out product development and engineering. Networks of component supply are being developed by the Koreans in Europe. Samsung produces colour picture tubes at a factory in Berlin which supplies TV plants at Billingham and in Hungary. LG Electronics is considering a TV components plant in Europe.⁴¹⁹

The industrial policy of Korea is moving into a new dimension of active policy orientations, as opposed to the past passive lines. The drastic liberalization and deregulation programme induce Chabols to develop aggressive strategies to remain competitive in the world market. Globalization and regionalization of the world economy are strong intervening variables to determine the industrial policy of the Korean government in general and Chabols' new business' strategies in particular.

Actively responding to external pressures to open more market, the industrial policy of Korea has pursued free trade as a main principle since the 1980s. In specific policy measures to

⁴¹⁸. See the case study

⁴¹⁹. This means that Korean companies are at the stage of aggressively considering moving some of their foreign manufacturing locations for strategic or financial reasons.

adopt the EU's demand⁴²⁰, automatic import license approval has been greatly expanded, tariffs reduced, and most importantly, import procedures have been sharply streamlined. Protection of Intellectual Property Right (IPR) has been dramatically intensified, and service liberalization has been accelerated in opening the insurance market opening to European firms, opening capital and security markets, opening the telecommunications market, liberalizing maritime transportation and opening distribution businesses for foreign companies. The agricultural market has been moving towards greater liberalization since the Uruguay Round.⁴²¹

According to Korean government material⁴²², Korea's overall trade surplus with Europe decreased and will continue to decrease as Korea's market opening initiatives progress and the Korean economy matures. Also, the deterioration in price competitiveness caused by wage increases, and currency depreciation against those of the major European nations, function to decrease Korea's trade surplus with the EU. Of

⁴²⁰. As a result of Korea's policies, imports from the European countries increased by 20.4 percent, significantly higher than the 14.6 percent annual increase rate of overall Korean imports, for the period 1984-88. The European share of the Korean market expanded continuously from 8.4 percent in 1975 to 14.2 percent in 1990.

⁴²¹. In view of the importance of Europe as a trading partner, the Korean government has extended foreign currency loans to finance imports, adopted an import diversification programme to favour a switch to European suppliers and supported special trade shows and buying missions to boost imports from the European countries.

⁴²². Ministry of Trade and Industry, ROK, *Toward a new Era in Korea-Europe Relations: A Growing Partnership*, Seoul, 1989, p.14-15.

course, the Korean trading system is not completely free. More work needs to be done. Liberalization should be carried out with structural adjustment.⁴²³

Entering the 1990s, the major thrust of Korean industrial policy is focused on liberalization and deregulation. If the growth in world trade continues and international trade is not constrained, then Korea will prosper. The continued growth of the Korean economy implies its increasing complexity and maturity. As a complex economy with worldwide trade links, the prospect for economic liberalization is good. The more economic liberalization is achieved, the more the state will abandon control mechanisms.⁴²⁴ The industrial policy of Korea will move towards expanding bilateral economic cooperation. Korea's commitment to free trade is firm and will continue to be a building block for the EU's market expansion as Korea pushes continuous deregulation and its liberalization programme.

⁴²³. The Korean government is working strenuously to address the more fundamental issue of restructuring its economy by:

a) Accelerating the rationalization and liberalization of its economy; b) Encouraging private industry to reduce its dependence on exports; c) Promoting a more evenly balanced income distribution, which would tend to boost consumer demand; and d) Strengthening the basic framework of a free market system.

⁴²⁴. Bronwen Dalton, op. cit., p.76.

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CHAPTER FOUR. THE ROK'S ACTIVE PARTICIPATION IN THE WORLD ECONOMY

In the rapid industrialization process of South Korea, manufacturing industry has played a key role in achieving a Korean miracle. In the analysis of Korea's active participation in the world economy, it is also vital to recognize the importance of exports, especially manufactured exports which means that South Korea has depended heavily upon access to foreign markets for its development. These two trends have been actively supported by effective state intervention, including measures to protect the domestic market. However, the changing international trading environment forces Korea to comply more actively with the general trend of import liberalization and deregulation.

4.1 South Korea's Active Participation in the World Economic Structure with Korea's Strategic Focus on Manufacturing and Exports by Government Intervention

Korea's economic development since the end of the Korean War can be characterized as a process of very rapid industrialization. At the end of the Korean War in 1953, the economy in South Korea faced huge problems. The nation was severely burdened by a vast overpopulation problem aggravated by the massive inflow of refugees from north of the 38th parallel. It is no exaggeration to say that the South Korean economy in the 1950s was characterized by a vicious circle of poverty,

hyperinflation and high dependency on foreign aid.⁴²⁵

Subsequent economic growth has been led by the rapid development of the non-agricultural sectors, particularly manufacturing industries. As a result of that policy, the structure of national production has brought tremendous changes. The movement of industrial output towards more sophisticated manufactured product has accompanied a new phase in the share of manufacturing in Korea's gross domestic product.

Table 4.1: The Structure of Korean Exports

1961		1975		1991	
Export	Percentage	Export	Percentage	Export	Percentage
1. Iron Ore	13.0	Textile, Garments	36.2	Electronic Products	28.0
2. Tungsten	12.6	Electronic Products	9.9	Textile, Garments	21.5
3. Raw Silk	6.7	Steel Products	4.6	Steel Products	6.3
4. Anthracite	5.8	Plywood	4.1	Ships	5.7
5. Squid	5.5	Footwear	3.8	Footwear	5.3
6. Other Fish	4.5	Deep-sea Fish	3.6	Chemical Products	4.2
7. Graphite	4.2	Ships	2.7	General Machinery	3.3
8. Plywood	3.3	Metal Products	2.4	Automobiles	3.2
9. Grain	3.3	Petroleum Products	1.9	Fishing Products	2.3
10. Animal Fur	3.0	Synthetic Resin Products	1.7	Petroleum Products	2.0
Total	62.0		69.9		81.9

Source: Sakong, Il, 1993.

It is also clear that foreign trade has played a leading role in the process of industrialization in Korea, due to the scarcity of natural resources and the limited size of the domestic market. As a result, the maintenance of the open economy has been a consistent policy.

⁴²⁵. Choong Yong Ahn, "Economic Development of South Korea, 1945-1985, : Strategies and Performance", Korea and World Affairs, Spring, 1986, P. 91.

Table 4.2 : Korea's Trade Dependence

year	1965	1975	1985	1988	1990	1995
Export/GNP	5.8	28.0	35.8	40.05	32.2	
Import/GNP	13.7	38.2	38.0	33.5	33.5	
Trade/GNP	19.5	66.2	73.8	74.0	65.7	

Source: Korea National Statistics Office, *Major Statistics of the Korean Economy*, Seoul, 1991.

It is comparatively recently that Korea has been considered as an important trading partner in the international economy. In 1990, Korea's most important trading partners were Japan (export to Korea 6.1 percent and import from Korea 5.0 percent),⁴²⁶ the U.S.A. (export to Korea 3.7 percent and imports from Korea 3.7 percent) and Australia (exports to Korea 5.7 percent and imports from Korea 2.4 percent). Korea's share of trade with the EU was much lower than with the three major Korean trade partners. Although it has been a comparatively recent development, the diversification strategy of the Korean government has caused the volume of South Korea's exports to increase rapidly.

Table 4.3 : Korea's Share in Foreign Countries' Imports and Exports(%)

	1979		1990	
	Export	Import	Export	Import
Japan	6.1	3.1	6.1	5.0
US	2.3	2.0	3.7	3.7
Australia	2.7	1.0	5.7	2.4
Canada	0.5	0.7	0.9	1.6
EU(revised from EC)	0.3	0.4	0.5	0.6
World	1.2	0.9	1.7	1.7

Source: IMF, *Direction of Trade Statistics*, 1985 and 1991

⁴²⁶. This means six percent of Japan's total exports.

In terms of total trade turnover, by 1990, Korea had become the 7th largest trader of the US and Japan's second largest trading partner.

The historical development of Korea's industrial policies in the post-war period may be divided into three phases.⁴²⁷ The first phase lasted from the end of the Korean War to 1960, and was characterized by easy import substitution. The second phase encompassed the years 1961-1965 and the period was characterized by the transition toward an export-oriented policy. The third phase began in 1966 and was a period in which the export-oriented industrialization strategy became institutionalized.⁴²⁸

Over the period from 1962 to 1983, the Gross National Product (GNP) of South Korea grew at an average rate of 8.1 percent a year in real terms.⁴²⁹ In 1995, the lowering of trade barriers represented a major threat and challenge to the Korean economy because Korea traditionally relied on its protected domestic market for earnings. Since 1980, Korea has rapidly implemented market liberalization policies. The government liberalized the importation of 95 products on 1 January 1990 as one of a series of import liberalization measures.

⁴²⁷. In Chapter 3, South Korea's Industrial Policy with particular reference to government, intervention is surveyed in detail.

⁴²⁸. Edward S. Mason (ed.), *The Economic and Social Modernization of the Republic of Korea*, U.S.A., MA: Harvard University Press, 1980, pp. 125-26.

⁴²⁹. Choong Yong Ahn, op. cit., p. 92.

Table 4.4 : Liberalization Ratios

Year	1980	1985	1989	1990	1991	1993	1995
Overall Average							
In Import	68.6	87.7	95.5	96.4	97.2		
In Tariff Rates	23.7	21.3	12.7	11.4	7.9		
In Investment	66.1	78.9	79.0	79.3	79.4		

Source: adapted from the Major Statistics of the Korean Economy published by Korea National Statistics Office, Seoul, 1991.

In 1991, the import liberalization ratio grew to 72.2 percent from 68.6 percent in 1980. The conclusion of the Uruguay Round of the GATT has increased pressure to remove trade barriers. As a result of the opening of the market for agricultural products in Korea, the import liberalization ratio has increased from 66.4 percent in 1985 to 84.7 percent in 1991. The Korean government proposed the 1992-4 programme to open further Korea's agricultural markets, which was implemented without delay, and the subsequent 1995-1997 programme to remove remaining agricultural import restrictions is in process. In line with the import liberalization process, Korea is making efforts to accelerate structural reforms in the agricultural sector in order to enhance efficiency and productivity in this sector.

The liberalization of FDI, foreign exchange transactions and capital markets are also very crucial measures towards the internationalization and globalization of the Korean economy. The liberalization of financial services may increase the chances for the EU to increase its exports to the Korean

market.⁴³⁰

Table 4.5: Key Facts on South Korea

Area.....	99,000 sq km
Population.....	44.5 million
Head of State.....	Kim, Young-sam
Currency.....	Won
Average exchange rate.....	1993 \$=803.7 1994 \$=776.2

Economy	1993	1994
GDP (mkt prices, W'000bn)....	265.5	304.3*
Real GDP growth(%).....	5.5	8.1*
Annual % change in inflation..	4.8	6.3
Inds. production(%).....	4.4	10.9*
Foreign reserves**(\$bn).....	21.3	24.0***
Stk mkt indx(% change yr end)..	27.7	18.6
Unemployment rate(%).....	2.8	2.4
Trade.....		
Current account balance(\$bn)...	0.4	-4.8
Exports(\$bn).....	82.2	96.4
Imports(\$bn).....	83.8	102.3
Main Trading Partners***(% , 1993)		
.....Exports		Imports
USA.....	22.1	21.4
Japan.....	14.1	23.9
Hong Kong.....	7.8	2.1
Germany.....	4.4	4.7
Singapore.....	3.8	3.7

Source: EIU, World Bank, IMF, Economist, Datastream, quoted in *Financial Times Survey on Korea*, Monday June 26 1995.

Note:*Estimate, **Excluding gold, December figures, ***End November,****Share of total trade.

Opening up the domestic economy to foreign imports almost completely is a hard task. However, Korea has decided to jump into the main stream of free trade and economic liberalization. The hard task of complete liberalization is defined by John Burton who describes Korea's internationalization strategy as "reform with a nationalist tinge".⁴³¹

Before the 1960s, Korea's economy was characterized by

⁴³⁰. Jongchul Lim, "Growth and Structural Change", *Korean Economic Journal*, 30, no. 3, pp.257-86.

⁴³¹. *Financial Times Survey*, Monday June 26 1995.

severe economic dislocation caused by liberation from the Japanese, partition between South and North Korea along the 38th parallel, and finally the Korean War.⁴³² During the period between 1953-1957, South Korea's recovery was largely due to foreign aid.⁴³³ The major aim of national economic policy was to reconstruct the infrastructure and industrial facilities destroyed by the Korean War. Industrial policy during the 1950s remained inward-looking. Consequently, exports grew slowly and fluctuated. The government also tried to promote exports but very slow levels of growth were attained throughout the 1950s. Import substitution continued to play a larger role than export promotion.⁴³⁴

From 1962 to the mid-1970s, the export-led development and economic policy of a military government shifted from inward-looking reconstruction and stabilization to export-led rapid economic development. The First Five Year economic development plan (1962-1966) fundamentally changed the Korean economic development strategy of inward-looking import-substitution, to

⁴³². Ki-Joon Cho, *Economic History of Korea*, Seoul: Inshinsa, 1984, pp. 328-29.

⁴³³. The most notable feature of the Korean economy during the 1950s was its heavy dependence on US economic help. Before the Korean War, US assistance consisted mostly of food and relief supplies. But after the War, it shifted to raw materials and capital goods for industrial use. The total amount of aid from the US and international organizations reached approximately \$3 billion during this period. International assistance reached its peak in 1957 and 1958, began to decrease slowly in 1959, and ended at the end of the 1960s. In the latter half of the 1950s, US aid accounted for almost 80 percent of the 1960s total aid amount. Quoted in Cho Soon, *The Dynamics of Korean Economic Development*, Washington, DC: Institute for International Economics, March 1994, p.13.

⁴³⁴. Choong Yong Ahn, op. cit., p.98.

the strategy of an outward- looking, export-oriented economy. This export-oriented development strategy opened up a completely new avenue for economic growth and industrialization, which is well illustrated by the rapid growth of commodity exports, an average increase of 35 percent a year in real terms from the early 1960s to the late 1970s. An abundant supply of labour and few natural resources and small domestic market compelled the Korean government to adopt an outward-oriented development strategy. The core of policy was to make the most of South Korea's comparative advantage in labour-intensive manufactured goods for export. Government intervention proved to be effective in combining an unlimited supply of labour, export orientation, and importation of foreign capital. Incentives were on the whole provided automatically; and the incentive system was little modified over time.⁴³⁵

Table 4.6: Targets and Performance of the first five-year plan

Indicator	Target	Performance
Economic Growth Rate(%)	7.1	7.8
Investment as a share of GNP	22.6	17.0
Domestic saving as a share of GNP	9.2	8.8
Foreign saving as a share of GNP	13.4	8.2
Current account in 1966(\$million)	-246.6	-103.4
Exports in 1966(\$million)	137.5	250.4
Annual average percentage change		43.7
Imports in 1966(\$million)	492.3	679.9
Annual average percentage change		19.1

Source: Economic Planning Board, Bank of Korea, *National Accounts*, 1990.

As a result of the outward-looking development strategies, the annual growth rate of GNP in real terms as shown in Table

⁴³⁵. Bela Balassa, *The Newly Industrializing Countries in the World Economy*, New York: Pergamon Press, 1976, pp. 12-13.

4.7, accelerated from a modest 4.1 percent during the period from 1953-1962 to 9.6 percent in the 1962-1976 period.⁴³⁶

Table 4.7: Annual Real Growth Rate of GNP by Industrial Origin and Exports, 1956-1976.

	1972	1975	1976	1977	1978	1979
Exports	1,624.1	5,081.0	7,715.3	10,046.5	12,710.6	15,055.5
Imports	2,522.0	7,274.4	8,773.6	10,810.5	14,971.9	20,338.6
Trade Balance	-897.9	-2,193.4	-1,058.3	-764.1	-2,261.3	-5,283.1
		1972-76	1977	1978	1979	
Average Annual Growth Rate						
Exports		48.5	30.2	26.5	18.4	
Imports		29.7	23.2	38.5	35.8	

Source: Bank of Korea

Manufactured exports helped to lead this extraordinary

⁴³⁶. This conspicuous development was generally guided by basic guidelines in the planning documents of the government for economic policies:

a) Korean economic development should be achieved through industrialization. While in the initial stage the light industries should be established to increase income and employment. Heavy and chemical industries would be established as the industrial structure is deepened;

b) Economic development should be achieved under government control and leadership. The government should determine the direction of policies based upon economic development planning. The goals of economic development should be achieved partly through the price mechanism and partly through government investment and financing. The government may employ other means than the price mechanism for promoting priority industries;

c) Although in principle firms should be owned and managed privately, the government could complement and replace private decisions in the case of major investments;

d) To finance investments required for economic development, foreign capital flow should be induced. To increase employment and repay foreign debts, the increase in exports should have top priority among economic policy measures;

e) For economic development, growth should have a higher priority than redressing imbalances in income distribution and unevenness in industrial development across geographical regions because growth was expected eventually to take care of these problems. Furthermore, some inflation should be tolerated; it is natural that high growth rates should be accompanied by some inflation.

economic expansion. Table 4.7 indicates that the annual real growth rate of commodity exports was 36.8 percent under the guidance of the export expansion regime that began in the early 1960s to the mid-1970s. On the other hand, the rate of economic growth guided by the import substitution regime achieved 7.6 percent average annual increase. During the period 1967-1977, despite the emphasis on export-oriented industrialization, import substitution in selected industries was also promoted by means of tax concessions and the allocation of preferential credits. Shipbuilding, iron and steel, machinery and petrochemicals were the major items for import-substitution.⁴³⁷

Table 4.8: Direct Contribution to Growth in Manufacturing, 1960-1973

Source of Growth	1960-63	1963-66	1966-68	1968-70	1970-73
Export Expansion	4.8	14.2	12.4	15.1	35.9
Import Substitution	-2.8	0.2	11.4	7.2	-4.0

Source: Larry E. Westphal and Kwang Suk Kim, "Industrial Policy and Development in Korea", *The World Bank Staff Working Paper*, No. 263, World Bank, 1977.

The share of Korea's primary exports out of the total export volume declined from 73 percent of the total in 1962 to only 14 percent in 1971, whereas that of industrial products increased sharply from 27 percent to 86 percent over the same period. Despite the continuing expansion of traditional light industry products, a trend emerged toward the direction of sophisticated, skill-intensive products. On the imports side, the share of capital goods jumped from 17 percent in 1962 to 29

⁴³⁷. Edward S. Mason, op. cit., pp. 131-32.

percent by 1971. Korea had been able to break out of the import-substitution which has been a typical characteristic of many developing countries, and had moved toward a modern, integrated manufacturing structure producing both intermediate and capital goods. Pack and Page argue that the active promotion of manufactured exports was a significant factor in the success of High Performing Asian Economies (HPAEs), including South Korea.⁴³⁸ Manufactured export growth provided a powerful mechanism for technological upgrading in imperfect world technology markets.

A high rate of economic growth was attained continuously during the period of 1967-1975, led mainly by the rapid expansion of manufacturing, which was made possible by the ever-increasing exports of labour-intensive manufactured goods. The government policy of growth maximization through export-oriented industrialization during the 1960s, however, resulted in some neglect of agricultural development. Each of the first three five-year plans contained its own goals and policy direction. But one consistent, basic policy goal has dominated all plans; export-oriented industrialization and growth. Other government policy objectives were consistent with the basic goal.⁴³⁹

⁴³⁸. Howard Pack and Larry E. Page, Jr., "Accumulation, exports and growth in the high-performing Asian economies", Background paper for the *East Asian Miracle*, Washington DC: World Bank, Policy Research Department, 1993.

⁴³⁹. Kwang Suk Kim and Michael Rosmer, *Growth and Structural Transformation, Studies in the Modernization of the Republic of Korea: 1945-1975*, Cambridge, Massachusetts: Harvard University Press, 1981.

Table 4.9: Targets and performance of the second five-year plan(1967-71)

Indicator	Targets	Performance
Economic growth rate(%)	7.0	9.5
Investment as a share of GNP	19.0	26.1
Domestic saving as a share of GNP	11.6	16.1
Foreign saving as a share of GNP	7.5	10.2
Current account in 1971(\$million)	-95.8	-847.5
Exports in 1971(\$million)	550.0	1132.3
Annual average percentage change		35.2
Imports in 1971(\$million)	894.0	2178.2
Annual average percentage change		26.2

Sources: Economic Planning Board; Bank of Korea, *National Accounts*, 1990

As a means to pursue export promotion, there have been many incentive policies for industrialization.⁴⁴⁰

Table 4.10: Korea's Major Export-Promotion Incentives

Type of incentive	Duration
Tax incentives	
Commodity tax exemption	April 1950-73
Business tax exemption	January 1962-73
Reduction of corporation and income tax by 50% on earnings from exports	January 1961-December 1972
Accelerated depreciation on allowance for fixed capital directly used for export production in mining, fishing, and manufacturing	January 1961-1973
Tax credit for foreign market development expenditures	August 1969-1973
Foreign market reserve system established	1973
Overseas business loss reserve system established	1973
Overseas investment loss reserve system established	1973

⁴⁴⁰. See Hong, Wontak, *Trade, Distortions and Employment Growth in Korea*, Seoul: KDI Press, 1979.

Tariff Incentives

Tariff exemptions on capital equipment on export production	March 1964-December 1973
Tariff payments on an installment basis for capital equipment used in export production	January 1974-
Tariff exemptions on raw material imports for export promotion	July 1975
Tariff drawback on imported raw material used for export production	July 1975
Wastage allowance	July 1965-
Deferred payment system for tariff	July 1975-October 1988
Financial incentives	
Financing for export sales	February 1948-July 1955
Export shipment financing	June 1950-July 1955
Export promotion fund financed by counterpart fund	November 1959-January 1964
Financing imports of materials to be used in export production	October 1961-February 1972
Export credits(trade credits before 1961)	June 1950-
Financing suppliers of US offshore military procurement	September 1962
Fund to promote the export industry	July 1964-September 1969
Fund to convert small and medium-size firms into export industries	February 1964-
Fund to prepare exports of agricultural and fishery products	September 1969-
Foreign currency loans	May 1967-
Foreign exports on credits	October 1969-
Automatic export financing ceiling for large exporters	1976-
Overall export financing system introduced	October 1985-
Differentiated export financing for large versus small and medium companies	October 1986-

Other promotion schemes

Foreign exchange deposit system	June 1949-January 1961
Trading license based on export performance	January 1953
An export bonus with preferential foreign exchange	1951-May 1961
Payment of export subsidy	1954-55 and 1960-65
Discount on railroad freight rate	1958-
Monopoly rights on exports of specific items to specific areas	April 1960-November 1980
Creation of exporters' associations for various export products	September 1961-
Financing KOTRA	March 1962
Export-import link system 1966-	Nov. 1962-Mar. 1965,
Discount on electricity rate	1965-76
Waiver issue for shipping	1965-
Local L/C system	March 1965-
Differential treatment of traders based on export performance	February 1967
Export insurance	January 1969
General trading company	May 1975
Export-import bank	June 1976-
Special loan privileges for small and medium exporters' raw material imports	August 1987-
Export financing for big corporations discontinued	February 1988-

Source: Hong, Wontak, *Trade, Distortions and Employment Growth in Korea*, Seoul: KDI Press, 1979, and other official documents on export promotion measures.

From the end of the Korean War to the mid-1970s, South Korea's industrial policies evolved around a continued

orientation toward an open economy. For example, through these incentive policies, the export-oriented industrialization strategy became institutionalized. In the pursuit of export-oriented industrialization, import substitution in selected industries was also promoted by means of tax concessions and the allocation of preferential credits. The import-substitution industries in this regard included shipbuilding, iron and steel, machinery and petrochemicals. Some of these industries were promoted not only for import substitution but also export expansion.

From the early 1970s to 1980, a policy of industrial development of heavy and chemical industries and agricultural and rural development was implemented.⁴⁴ In the Fourth economic development plan, with the slogans of "growth," "efficiency," and "equality", the balanced growth between industrial and agricultural sectors was formalized.

Table 4.11: Trade Expansion in the 1970s

Period	Primary	Secondary Total	Manufactur -ing	Tertiary	GNP	Commodity
1953-1961	2.5	10.8	11.1	4.3	4.1	7.6
1962-1976	4.5	17.9	18.5	9.4	9.6	36.8

Source: Computed from Bank of Korea, *Economic Statistics Year Book*, various years, quoted in Kwang Suk Kim and Michael Roemer, op. cit.

Also an important policy shift was made to the heavy chemical sectors in order to promote the import substitution of intermediate materials and capital goods and to serve the growth

⁴⁴. On the macroeconomic impacts of Korea's heavy industry drive, see Richard M. Auty, 1994, pp.123-42.

of strategic export industries.⁴⁴²

The continuous growth of GNP during the 1970s was really tremendous. The manufacturing sector was the main engine of Korea's rapid growth, with its annual growth more than double that of the rest of the economy. Also in this period, exports continued to grow very rapidly but imports remained larger in value than exports, causing the balance of payment to deteriorate further. By the latter half of 1979, the South Korean economy began to show some signs of strain. For instance, Commodity exports in real terms declined in 1979 for the first time since Korea began its industrialization in the early 1960s, and the growth rate of GNP fell sharply to 6.4 percent in that year, the smallest rise since 1972. More seriously, the balance of payment situation deteriorated with the heaviest-yet debt obligation burden.

Table 4.12: Target and performance of the third five-year plan(1972-76)

Indicator	Targets	Performances
Economic growth rate (%)	8.6	9.1
Investment as a share of GNP	27.6	27.1
Domestic saving as a share of GNP	19.5	20.8
Foreign saving as a share of GNP	5.4	6.7
Current account in 1976 (\$million)	-359.0	-313.6
Export in 1976	3510.0	7814.6
Annual average percentage change		47.1
Imports in 1976	3993.0	8405.1
Annual average percentage change		31.0

Source: Economic Planning Board; Bank of Korea, *National Accounts*, 1990

At the end of the decade, the South Korean economy began to experience widening structural imbalances in connection with

⁴⁴². See Cho Soon, op. cit., 1994, pp.38-46.

a long period of sustained rapid growth and relatively high inflation.

The underlying strains and pressures were exacerbated in 1980 by a disastrous harvest, a rise in international prices and interest rates, and domestic political disturbances. Consequently, South Korea's economic performance worsened sharply. The loss of competitiveness of industries, compounded by slower market growth and greater protection abroad, caused export volumes to shrink. The fifth Five-Year Plan (1982-1986) clearly reflected the basic tone of economic management: a) continued high growth, b) price stability, c) improvement in income distribution. The proportion of freely importable items among all commodities rose from 54 percent in 1978 to 71 percent in 1981, and to 80 percent in 1983. Foreign investors were allowed access to pharmaceuticals, food processing and services through the liberalization of foreign ownership restrictions. The upshot of all reforms has been a greater reliance on free market mechanisms than on government control in the allocation of resource.⁴⁴³

During the period from 1945 to 1985, South Korea changed from an impoverished economy to an industrialized, export-dependent economy. It is agreed that the economic modernization

⁴⁴³. The trend towards economic reform by means of liberalization deregulation is expected to continue. For, example, Korea chose to forgo the use of trade barriers to safeguard its balance of payments position (Article 18 of the GATT). As a result, all remaining trade barriers will be removed or brought into conformity with GATT rules by 1 July 1997.

of South Korea during those 40 years was dynamic and rapid.⁴⁴⁴ Korea now needs to upgrade its industrial structure and to promote vigorously technology intensive products so that its manufactured products can be more competitive in world markets. These strategic products include semi-conductors, automobiles and machinery and equipments. While pursuing this structural shift to keep exports in line with South Korea's shifting comparative advantage and thereby maintain the momentum of development, South Korea needs to resolve many urgent socioeconomic problems such as ever-widening income inequality within Korea, increasing demands for social welfare, and the service burden of outstanding foreign debt.⁴⁴⁵

According to Kwang-Suk, Kim and Michael Roemer,⁴⁴⁶ political factors have always played a crucial part in promoting or discouraging entrepreneurial ventures in the Republic of Korea. The role of state intervention is very important in explaining Korea's economic development strategy. John M. Page has answered the question of what caused East Asia's success.⁴⁴⁷ In his conclusion, he argues that High Performing Asian Economies (HPAE) achieved high growth by getting the

⁴⁴⁴. To prove the validity of this argument, see P Hasan, *Korea, Problems and Issues in a Rapidly Growing Economy*, Baltimore: Johns Hopkins University Press, 1976; E.K.Y. Chen, *Hyper-growth in Asian economies: A Comparative Study of Hong Kong, Japan, Korea, Singapore and Taiwan*, London: Macmillan, 1979.

⁴⁴⁵. Ibid., pp. 110-15.

⁴⁴⁶. Kim, Kwang-Suk, and Michael Roemer, *Growth and Structural Transformation*, M.A., Harvard Univ. Press, 1979.

⁴⁴⁷. John M. Page, "The East Asian Miracle: An Introduction," *World Development*, Vol.22, No.4, p.624-5.

basics right. Private domestic investment, combined with rapidly growing human capital, were the principal engines of growth. High-levels of domestic savings sustained the HPAE's high investment levels. Export-push strategies have been by far the most generally successful selective approach employed by the successful Asian economies.⁴⁴⁸

The Korean miracle is not a triumph of laissez faire, but of a pragmatic non-ideological mixture of market and non-market forces. The Government showed no hesitation in intervening by various means in case the market did not work well. Korean firms heavily depended on borrowed funds and state intervention, which was actively carried out through the control of the financial institutions by state power. Import controls are of crucial importance to facilitate an outward-oriented strategy.⁴⁴⁹ Permission to engage in foreign trade was restricted to those parties holding a trader licence.

Export promotion policies have also been adopted to utilize South Korea's considerable comparative advantage in the production of labour-intensive manufactures. Restrictive monetary and fiscal policies have been used to cope with the inflationary aftermath of oil shocks, and measures have been taken to provide the new technology need to increase skill-

⁴⁴⁸. On the details of Korea's policies for rapid growth in a changing world economy, see Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization*, New York: Oxford University Press, 1989; Joseph E. Stiglitz, "Some lessons from the Asian miracle", Background paper for the *East Asian Miracle*, Washington DC:World Bank, Policy Research Department, 1993.

⁴⁴⁹. On the import control mechanisms of Korea, see Chapter Three, the new industrial policy of deregulation and liberalization section.

intensive production. Extraordinary government emphasis has been placed on promoting exports, and this has helped the economy in two principal ways. One is that export production constitutes a particularly efficient use of Korea's resources. The other is that exports have been the key to the massive investment and expansion of industrial capacity required for Korea's high rates of GNP growth.

A combination of cheap labour and active entrepreneurship was probably behind the rapid growth of textiles, plywood, apparel and other labor-intensive manufactures. From 1970 to 1977, South Korean wages were less than one-third of Japanese wages in those industries, and value-added per worker productivity was more than a third as high.

Outward-looking policies have been preferable to inward-looking, for export production generates greater earning effects and therefore improves human resources, creates closer ties with more advanced economies and thus encourages competition, and overcomes the limitations of the small Korean domestic market, by providing economies of scale for world markets.⁴⁵⁰

South Korea's high growth strategy was promoted by the import-increasing effect of export expansion. However, what has threatened South Korea's economic development, has been both world economic recession and protectionism. The latter has emerged as a key issue in the world trading system during the 1980s, threatening to impede the rapid expansion of Korea's exports.

⁴⁵⁰. Donald B. Keeling, "Outward-looking Policies and Economic Development", *Economic Journal*, 77, 1967, pp. 313-20.

The characteristics of Korean industry are:

- 1) A rapidly changing comparative advantage;
- 2) A highly-concentrated export market, prone to protectionist pressures;
- 3) A high degree of industrial concentration;
- 4) A strong technological dependence on Japan, which is a primary supplier of imported manufactured inputs.⁴⁵¹

South Korea has been under a great deal of pressure from the US and the EU to open the market and abandon privileges such as the GSP (Generalized System of Preferences) benefits. Korea now urgently needs technological development. Though the outward-looking strategy or export-oriented economic development strategy is more vulnerable to external influences like world economic recession and increased protectionism, it is still a better choice for the rapid promotion of a nation's wealth. Since the Korean democratization movement in 1987, government intervention has been drastically reduced. An extension of loan distribution to small or medium sized companies, liberalization of import control and decrease in tariffs, and a recognition of intellectual property has been facilitated.

Table 4.12: Targets of the seventh five-year plan(1992-96)

Indicator	Targets					
	Average	1992	1993	1994	1995	1996
Economic growth rate(%)	7.5	7.0	7.0	7.5	8.0	8.0
Investment as share of GNDI	36.4	38.2	37.1	36.3	35.4	34.8
Domestic savings as a share of GNDI	35.5	34.7	34.8	35.2	36.1	36.6
Foreign saving as a share of GNDI	-0.6	-2.7	-1.6	-0.4	0.5	1.4
Current account (\$billion)	-	-8.0	-5.0	-1.5	2.0	6.5
Exports (\$billion)	-	78.5	89.4	101.8	116.0	131.6
Imports (\$billion)	-	85.5	93.7	103.3	114.5	126.1

GNDI: gross national disposable income

⁴⁵¹. Danny M, Leipziger, "Industrial Restructuring in Korea," *World Development*, 16.1, 1988, pp. 121-135.

Source: Economic Planning Board, Korea.

The progress of socio-economic development has produced a more relaxed political environment, reducing authoritarian mechanisms to maintain social and political stability.⁴⁵² In order to accommodate domestic and external challenges and to achieve sustained growth, the seventh five-year plan targeted strengthened competitiveness of industry, enhanced equity and balanced development, and the pursuit of internationalization and liberalization, ultimately aiming to provide the basis for national unification. Under the slogan of "pursuing an advanced economy and society, and heading toward national unification", ten major tasks were chosen by the Korean government:⁴⁵³

1) Competitiveness-strengthening

- a) Reorganize the educational and human resources development system so that they can supply human resources of technical manpower to accommodate the needs of an industrialized society.
- b) Enhance the technological development base and innovation, and prepare to keep pace with the information age.
- c) To promote the efficiency of the transportation system, invest more in infrastructure.
- d) Disperse the ownership of conglomerates and establish a professional management system to raise the efficiency of business organizations and industrial structure, thus, to provide small & medium companies with more competitive edge.
- e) In preparation for further agricultural market opening and to raise income levels, reorganize the regional and

⁴⁵². The volume and structure of the economy has grown too large and too complicated to be coped with by simple measures of macroeconomic management. The external trading environment is changing rapidly, with more uncertainties, and more pressures are felt to complete market opening. Technological protectionism proliferates.

⁴⁵³. see Korean Economic Planning Board, *The Seventh Five-Year Economic Development Plan(1992-1997)*, Seoul: Official Government Report on the future Korean economy. In Korean.

coastal society to cope with the sudden changes and enhance equal development among provinces.

- f) Solve the shortage of housing facilities, to curb real estate speculation, and regulate environmental pollution.
- g) For the general promotion of social welfare, expand the coverage of the national pension scheme to include farmers and fishermen, and promote the activities of culture and art.

2) Active industrialization and liberalization and National unification

- a) Deregulate interest rate, foreign exchange, and foreign investment in the capital market to liberalize the financial system. Reduce the realm of government control in private economic management.
- b) Expand service and agricultural market opening, and enhance the competitive edge of these sectors. Develop the economic system to meet international trade norms to push the world liberalization drive and to expand the category of FDI to foreign lands.
- c) Develop the basis for national integration by gradually promoting economic cooperation with North Korea.

The "tiger economies" of the Asia-Pacific region have sailed through the G7 recession with an extraordinary growth rate of up to 10 percent a year. It is quite true that Korea has become a new nexus of growing prosperity on the world stage.⁴⁵⁴ A more difficult question Korea faces today is how to advance to the next stage of joining in the group of advanced industrial nations, with much more investment and development in high-technology industries.

The successful conclusion of the Uruguay Round gives Korea a new challenge because Korea is realigning new demands for responsibility sharing with domestic political resistance to market opening and sensitivities to necessary but difficult

⁴⁵⁴. The Times, Friday March 4 1994.

adjustments in agriculture and finance.⁴⁵⁵

Table 4.13: Korean Composition of Trade Market by Principal Countries(%)

Year	1975	1979	1985	1988	1990	1995
Exports						
US	30.2	29.1	35.5	35.3	29.8	
Japan	25.4	22.3	15.0	19.3	19.4	
EU	18.5	15.3	16.8	16.1	16.7	
Hong Kong	3.6	3.5	5.2	5.9	5.8	
Taiwan	1.3	1.1	0.6	1.6	1.9	
Australia	1.2	1.1	1.2	1.4	1.5	
Imports						
US	25.9	22.6	20.8	24.6	24.3	
Japan	33.5	32.7	24.3	30.7	26.6	
EU	8.4	10.3	11.2	11.7	14.2	
Hong Kong	0.3	0.4	1.6	1.1	0.9	
Taiwan	2.3	1.0	1.1	2.1	2.1	
Australia	2.8	2.9	3.6	3.5	3.7	

Source: Korea National Statistics Office, *Major Statistics of the Korean Economy*, Seoul, 1991

Thomas R. Callaghy⁴⁵⁶ describes the historical characteristics of Korean economic development by insisting that during the last forty years, Korea has become an impressive economic and industrial power- a transformation of quite startling speed and scope. In 1950, Korea had a per capita income of \$146(in 1974 U.S. dollar), while the figures for Nigeria and Kenya were \$150 and \$129 respectively. Nigeria and Kenya, on the other hand, while stronger African cases, had not

⁴⁵⁵. Il Sakong, *Korea in the World Economy*, Washington. D.C: Institute for International Economics, 1993, pp. 144-45.

⁴⁵⁶. Thomas R. Callaghy, "Vision and Politics in the Transformation of the Global Political Economy: Lessons from the Second and Third Worlds", in Robert O. Slater, Barry M. Schultz and Steven R. Dorr, (eds.), *Global Transformation and the Third World*, London: Adamantine Press, 1993, pp. 184-89.

achieved conspicuous success, despite Nigeria's abundant oil resources.⁴⁵⁷

He further elaborates that Korea is almost the paradigmatic case of economic transformation in the Cold War era. South Korea, however, does not match the neoclassical liberal prescriptions of the IMF and the World Bank. Though Korea transformed its economy through heavy statist policies, the role of the market and an export-oriented strategy played a major role. According to Callaghy's view, following the Japanese model, a series of military governments centralized economic decision-making in the hands of technocrats who were delegated considerable economic powers; created considerable state autonomy from key social groups, especially labour; established a controlled yet close tacit alliance with large business groups, the *chabols*; and structured the bureaucracy; bringing about considerable institutional transformation. This new developmental apparatus reversed a relatively short experiment with import-substitution industrialization and set about a dynamic pursuit of further export-oriented industrialization. The Korean government provided the *Chabols* with credit, subsidies, information, logistical assistance, protection, and controlled labour, yet forced them follow world market signals and to cope with international competition and some domestic

⁴⁵⁷. The GNP per capita figures(in 1989 U.S. dollars) and their respective average annual growth rates for 1965-1989 were: Korea, \$4400 and 7.0%; Nigeria, \$250 and 0.2%; and Kenya, \$360 and 2.0%.

competition.⁴⁵⁸

The relative overall world economic growth and relative openness of the advanced nations' market in the 1960s and the 1970s helped Korea's success. Callaghy points to the strategic differences in the development process between the Korean case and those of Latin America in that Korea relied more on aid and borrowing from the international capital markets and less on foreign direct investments(FDI), on the other hand having far less initial presence of foreign capital. Due to substantial societal and cultural integration and relatively high levels of education, he asserts, Korea was able to gain higher levels of both stateness and cosmopolitanism than did Latin America-factors which became ingredients in its success. Koreans tried to establish links with the world economy by venturing out to acquire and master new technologies, knowledge, and institutions to build up their local capacities; and they learned to manage and manipulate their integrated economic structure into the world economy.

In the early the 1980s after success of its high speed growth, Korea became faced with several factors to be adjusted, due to the changed social structure brought about by the rapid economic development. Internally, the government confronted high pressure for political liberalization, and externally it confronted a high demand for economic liberalization.

⁴⁵⁸. For more general information on Korean economic policy, see Economic Planning Board, *Economic Policy of the Development Era*, Seoul: EPB, 1982(in Korean); and *The Twenty-Year History of the Economic Planning Board*, Seoul: EPB, 1982(in Korean).

Throughout some turbulent experiences, the Korean government extended partial political liberalization and economic liberalization, bringing challenges.⁴⁵⁹ More than anything else, Korea had to pay back some of the costs of the economic transformation and come to terms with the threats of external factors. Despite substantial pressure for higher wages and fair distribution of wealth, Korea saw the new emergence of a labour relation based upon reciprocal concessions. In order to maintain its international competitive edge, Korea launched a major infrastructure rehabilitation programme, while Korean firms invested in East and South Asia and in Europe, including Eastern Europe. In 1989, the growth rate was only 6.8 percent and was described as recession, but in 1990 the rate was 8.8 percent. It fell to 8.4 percent in 1991 and a projected 7.3 percent for 1992, 5.5 percent for 1995. The liberalization of the Korean economy, accelerated by the conclusion of the Uruguay Round, requires more capability to manage the difficult situation and to formulate and implement economic policy with much more openness, but Korea is expected to move toward its own versions of embedded liberalism and embedded economy.⁴⁶⁰

Korea's industrial structure, featured by large conglomerates, or chabols bears some unique characteristics. Chabols usually export high-tech products and sophisticated consumer durables, competing with industrialized economies.

⁴⁵⁹. Tun-jen Cheng and Lawrence B. Krause, "Democracy and Development: With Special Attention to Korea," *Journal of Northeast Asian Studies*, Vol.10, No.3, Summer 1991.

⁴⁶⁰. Ibid., p.189.

Foreign observers see the Korean economy as larger than it really is, because of its outward appearance.

For the sustained growth of the Korean economy, the most significant public good is the maintenance of an open, global and multilateral economic system which is freely accessible and non-discriminatory to all trade partners.⁴⁶¹

Table 4.14 : U.S., Japan, Korea Shares of World Trade, 1962-1990(%)

Year	Export			Import		
	U.S	Japan	Korea	U.S	Japan	Korea
1962-66	15.95	4.41	0.08	12.86	4.53	0.30
1967-71	14.83	6.33	0.25	14.37	5.79	0.63
1972-76	12.74	7.02	0.60	13.76	6.90	0.81
1977-81	11.97	7.02	1.00	14.20	6.91	1.19
1982-86	12.16	9.32	1.55	17.09	6.99	1.54
1987	10.75	9.78	1.65	17.42	6.20	1.68
1988	11.95	9.82	2.25	16.57	6.75	1.87
1989	12.49	9.40	2.14	16.45	7.00	2.05
1990	13.52	9.87	2.23	n.a	7.86	2.32
1987-1990	12.18	9.72	2.07	16.81	6.95	1.98
1962-1990 Overall Average	13.34	7.29	0.89	14.70	6.32	1.05

n.a : not available

Source: International Monetary Fund, 1990.

The outward-looking stance of Korea is of continuous importance to its survival as one of the industrialized nations. Furthermore, the changed international environments is helping Korea continued integration of Korea's economic system into the world economy through its export-led, outward-looking stance.⁴⁶²

⁴⁶¹. Charles R. Frank, Kwang S. Kim, and Larry E. Westphal, *Foreign Trade Regimes & Economic Development: South Korea*, Vol. 7, New York: National Bureau of Economic Research, Columbia University Press, 1975.

⁴⁶². On Korea's need for international economic cooperation, see Hak Soo Kim, *Korea's International Economic Cooperation: Policy Issues and Recommendations*, Seoul: Korea

Fred Bergsten⁴⁶³ says the reduced role of military security as the predominant driver in the international relations leaves the way open for more vigorous voices of economic frictions and disputes. The end of the Cold War has led the world into a period where economics has become the dominant factor in determining international relations. Korea has been on the verge of joining the ranks of industrially advanced nations since the World War II. Once Korea attains this status successfully, its significance as a model of outward-looking, developing economies will increase. One of the important steps to Korea's cultural integration into the world is to be found in the establishment of Korea International Cooperation Agency (KOICA). The KOICA will cover such projects as granting aid, technical assistance, training foreign personnel, sending Korean expert to developing nations, and training Korean personnel for international cooperation and activities.⁴⁶⁴

In the international economic scene, the recent history of Korea's FDI is a typical example of international cooperation. Il Sagong elaborates that from 1987 to 1990, the average annual growth rate in FDI, on approval basis, in actual investment, and in the accumulated total amount, was 49.9 percent, 80.3 percent and 39.85 percent respectively. Despite the sharp increase of Korean FDI, its ratio to total GNP in the 1990 was less than 1

Institute for International Economic Policy, 1991.

⁴⁶³. Fred. C. Bergsten, *America in the World Economy: A Strategy for the 1990s*, Washington. D.C.:Institute for International Economics, 1988, pp. 96-112.

Korean FDI, its ratio to total GNP in the 1990 was less than 1 percent.

The rapid increase in Korea's outgoing FDI in recent years reflects two mutually reinforcing forces.

Table 4.15: Annual growth rate of Korea's outgoing FDI, 1987-1990(percentages)

Annual growth rate of FDI	1987	1988	1989	1990	Average 1987-90
On approval basis	47.3	132.1	45.8	39.6	66.2
Number of cases					
Amount	-0.8	34.8	93.1	72.6	49.9
In actual investment					
No. of cases	82.0	81.3	53.9	44.9	65.5
Amount	130.08	-45.8	128.8	107.3	80.03
In accumulated net Investment					
No. of cases	12.4	25.1	34.6	38.4	27.6
Amount	52.6	15.8	29.0	61.7	39.8

Source: Bank of Korea. *Economics Statistics Yearbook*, various issues.

First, Korean businesses are participating in the current international trend toward globalization of business operations. Korean companies face growing pressure to globalize their business by shifting parts of their aggressive export drive into offshore production. High labour and land costs at home are eroding competitiveness of some industries, particularly the electronics industry which has led recent overseas expansion. "Low-cost production is the key survival in the consumer electronics industry where there is over-capacity worldwide."⁴⁶⁵

The Bank of Korea statistics show the amount of overseas direct investment. Until November 1994, Asia shared the amount

⁴⁶⁵. *Financial Times*, 9 February, 1995- Guy de Jonquieres and John Burton ask if the stampede abroad by South Korean corporations is brave or foolish with the article title, "Big Gamble on a European thrust".

of \$4,191 million, with North America, \$3,002 million, Europe, \$1,290 million, Latin America, \$ 312 million, and other regions, \$920 million respectively. Behind this overseas expansion, the avoidance of trade barriers, high domestic wages, an appreciating local currency, the spread of regionalism and protectionism have been the major hidden elements. The different factor endowment in local nation and raw materials, and the need to acquire necessary skills and technologies have played a crucial role to favour FDI as a way to achieve an outward orientation in Korea's trade policy. Korea's experience of a balance of payments surplus in 1986 caused the Korean government to liberalize regulations on outgoing FDI. The financial resources of Korean firms enabled them actively to participate in global business activities, accelerated by the relaxation of tight foreign exchange controls in 1994.

Il Sakong elaborates that the distribution trend by industry and by country of outgoing FDI are worth noting. Almost half of Korea's outgoing FDI, in terms of total outstanding net investment, was to the manufacturing sector concentrated in North America and Southeast Asia. However, the regionalization of the world economy has induced the FDI the into European region.⁴⁶⁶ As a typical sector of FDI, leading

⁴⁶⁶. Korea's main investment projects in Europe by conglomerates:

Samsung

- \$700m consumer electronics complex, Wynyrd, UK, 1994-2000
- \$16m excavator plant in Harrogate, UK, 1995
- \$15m colour TV factory at Billingham, UK 1990
- \$30m with Texas Instruments, semiconductor assembly plant, Porto, Portugal, 1994

Korean electric and electronic firms generated the recent surge in machinery sector FDI, investing primarily in US until 1987. The plural flow of FDI from the US to other regions has been noticed. During the period of 1988-89, FDI in this sector was directed toward other geographic areas. Out of 38 newly approved projects, 24 went to the Asian region, 9 to the European nations, and only 3 to the U.S.A. The turning point of the Korean economy heavily requires more investment into the EU region as a way of tackling regionalism and globalism, successfully to accomplish the Korean government's market diversification strategy.⁴⁶⁷

- \$120m colour picture tube factory, Berlin, Germany, 1994-1997

Daewoo

- \$42m VCR plant, Antrim, Northern Ireland, 1988
- \$23m microwave oven plant, Longway, France, 1988
- \$37m colour TV plant, Fameck, France, 1993
- \$150 colour tube factory, Longway, France, 1993-1995
- \$138m cathode ray tube factory, Lorraine, France, 1993
- \$10m excavator plant, Frameries, Belgium, 1990
- \$759m car factory, Craiora, Romania, 1994-95

LG(Lucky-Goldstar)

- \$40m colour TV and microwave oven factory, Newcastle, UK, 1994-1995
- \$40m VCR factory, Worms, Germany, 1986
- \$10m refrigerator/freezer plant, Naples, Italy, 1990

Hyundai

- \$10-\$15m excavator factory, Geel, Belgium, 1995

Source: *Financial Times* 9 February 1995

⁴⁶⁷. On the turning point of the Korean economy, see Moo-ki Bae, "The Turning Point in the Korean Economy," *Developing Economies*, Vol.20, 1982.

Another feature of Korean overseas direct investment is the increased amount of direct investment by small and medium sized firms. Their share of FDI in 1980 was 2.8 percent of the total cases and 1.85 percent of the total amount. These cases increased rapidly in recent years, reaching 32.6 percent and 9.9 percent respectively in 1989, which is a good indication of Korea's business globalization strategy to deal with regionalism and protectionism. The upward trend of Korea's outgoing FDI continued until 1990. Around that time, the structural factors in the Korean economy changed factor endowment and impeded the rapid increase. However it is assumed that Korea's economic integration into the world economy by means of FDI will continue in the coming years. Deepening mutual interdependence is created by FDI. In the past, compared to foreign borrowing, FDI was not a popular way of doing business among Korean entrepreneurs, who preferred to use foreign debt rather than share benefits with foreign business partners. Technology transfer can take place through patents, licenses, FDI, and the import of capital equipment with embodied technology, and among these, FDI was not a popular option. However, the rising regionalism and protectionism have made it as one of the popular options in the business globalization strategy.⁴⁶⁸

In response to Korea's efforts to internationalize the domestic market, foreign direct investment toward South Korea increased by 264.3 percent to \$102m in January 1995 from the previous year. According to the Finance and Economy Ministry in

⁴⁶⁸. See Il Sakong, 1994, pp.114-123.

Korea, Japan was the biggest foreign contributor during February 1995 with \$37m for nine projects, followed by the US with \$18m and the European Union with \$5m. At the same time the previous year, the US had led the list with \$14m; Japan and the European Union invested \$5m each.⁴⁶⁹

One optimistic sign of Korea's further integration into the world economy is well reflected in Korea's stress upon continuing reform⁴⁷⁰ such as to achieve complete import liberalization, radical deregulation in the financial sector and foreigners' investment in Korea, based upon globalization, which gives new impetus to speed up the outward-looking stance of the Korean economy. According to the statistics of the Ministry of Finance and Economy, Korea was expected to reach US \$10,000 Per Capita Income in 1995 and has already achieved the target. This implies continuous growth of the economy at an annual rate of 7-9 percent. The theme of the presidential statement⁴⁷¹ could be summarized in the policy goal for globalization. The national task of globalization has been sufficiently crucial to make the year 1995 "the first year of globalization" and lay a firm strategic foundation for this national task.

⁴⁶⁹. *Financial Times*, Wednesday February 15 1995- News: Asia-Pacific

⁴⁷⁰. Major content of reform is well surveyed in Chapter Three, in the latter part of the section on Korea's industrial policy section of the latter part.

⁴⁷¹. This refers to the presidential statement on the 1995 government policy, quoted in *Korea News Review*, 14 January 1995.

4.2 Korea's Globalization Efforts for the Growing Partnership with the EU

The European Union appears as a rather protectionist bloc to South Korea. Consequently, the external trade policy of the EU is of vital concern to the economic-policy makers in the business sectors of Korean society. The import and export diversification strategy of the Korean economic development plan has paid much attention to the enlarged market potential of the EU. The export-oriented development strategy of Korea and the new need to diversify its exporting market, require further cooperation and promotion of bilateral economic relations between the ROK and the EU. Table 4.13 reflects the importance of the EU market. In absolute trade share, the most important individual trade partners for Korea are the US, Japan and the EU. These trading partners together account for 70 percent of Korea's trade.

As one of the promoting factors to improve the level of trade between the EU and Korea, Korea's continuous pursuit of an outward-looking development strategy and more opening of the Korean market are necessary conditions to comply with the EU's demand for reciprocal market access.⁴⁷² As a active way of tackling reciprocity, Korea could positively promote the principle of open regionalism in the Pacific Rim endorsed by a

⁴⁷². About the future desirable directions of Korea's economic policy formulation, Danny M. Leipziger and Peter Petri well elaborated in the article, "Korean Industrial Policy: Legacies of the Past and Directions for the future," in Lee-Jay Cho and Yoon Hyung Kim (eds.), *Korea's Political Economy: International Perspective*, Honolulu, Hawaii: University of Hawaii Press, 1993.

regional cooperation body, APEC.⁴⁷³ Korea should work to ensure that APEC becomes a better institutionalized free trade zone for promoting regional stability and prosperity.⁴⁷⁴

For the purpose of more liberalization of the Korean economy through the slogan of "globalization and internationalization," the Kim Young Sam government has aired an important foreign policy change in two dimensions:

- a. A change in focus from the North to the South;
- b. A change from bilateralism to multilateralism;

The multilateral concept of Korea's new policy direction of the present government stands distinctive from that of the previous government of Korea. At the Korean Council on Foreign Relations in May 1993, the foreign Minister of Republic of Korea, Dr. Sung-Joo Han presented a five-point foreign policy related to Korea's new diplomacy for the future. Also in the same category, President Kim Young Sam made a speech at the Pacific Basin Economic Council(PBEC) meeting held in Seoul May 22-26, 1993. The foreign minister, in elaborating on the president's PBEC speech on the "Pacific era and Korea's new diplomacy", revealed the following five fundamentals for Korea's new diplomacy:

⁴⁷³. Trade Ministers from 18 Pacific Rim governments on 16 November 1995 cleared the final obstacles to an agreement to free all trade and investment in the region by 2020. The APEC members reached a swift compromise on a 15-point "action-agenda" for joint and individual liberalization measures. The plan, to be launched formally at the start of 1997, calls on APEC members, which together account for half of world trade, to open their markets by cutting tariffs, liberalizing services, public procurement and investment, and harmonizing industrial standards. Quoted in *Financial Times* Friday November 17 1995, p.4.

⁴⁷⁴. Il Sakong, op. cit., p.211.

- 1) Globalism; 2) Diversification; 3) Multidimensionalism;
- 4) Regional cooperation; 5) Future Orientation;

These policy fundamentals in Kim's Government are the result of the policy changes⁴⁷⁵ designed to meet changes that have taken place in the international environment concomitant with the emergence of a new international order. The export-first policy within the framework of an outward-looking development strategy is not likely to be changed, though a little shift to a less extreme export -promotion strategy is expected.

An outward-looking development strategy is often defined as either "export promotion" or "trade liberalization". In case of Korea, the outward-looking development strategy was implemented primarily through export promotion. Much in the same policy line, Korea's outward-looking stance in its economic policy and external liberalization measures is likely to constitute a positive factor to promote and deepen the trade relation between the EU and Korea in the future.⁴⁷⁶

⁴⁷⁵. See the middle part of this chapter.

⁴⁷⁶. Only an open economy will maximize the EU-Korean economic exchanges. Open regionalism of the EU with more liberalization of the Korean economy would be the best condition for the promotion of the exchanges. On the role of the open economy, see Michael Bruno, "Opening Up: Liberalization with Stabilization," in Rudiger Dornbusch, F. Helmers, and C. H. Lesile, (eds.), *The Open Economy*, EDI Series in Economic Development, London: Oxford University Press, 1988.

Table 4.16 : Major Economic Indicators of Korea

year	1961	1971	1986	1988	1989	1990	1991	1995
GNP Growth(%)	5.6	8.6	12.9	12.4	6.8	9.0	8.6	7.5
Per Capita GNP (US\$)	82	289	2.505	4.129	4.944	5.569	6.515	9.750

Source: Korea National Statistics Office, *Major Statistics of the Korean Economy*, Seoul, 1991.

The concept of globalism in the Korea's new diplomacy is that Korea will actively take part in global affairs and intensify the degree of inter-dependence among nations in the world. Multidimensionalism refers to comprehensive cooperation in every interactions, including security, economy, environment and culture. Also, by enhancing the diplomacy of regional cooperation, Korea is required to pursue open regionalism which contributes to building a common world community.⁴⁷⁷ The multidimensionalism of the economy should be accompanied by the liberalization of the Korean economy to the level of the advanced group under the WTO.

⁴⁷⁷. Han, Sung-Joo, "Fundamental of Korean New Diplomacy: New Korea's Diplomacy toward the World and the Future", *Korea and World Affairs*, vol. 17, No. 2, Summer 1993, pp. 227-245.

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CHAPTER FIVE. THE DEVELOPMENT OF TRADE BETWEEN SOUTH KOREA AND THE EUROPEAN UNION

This chapter elaborates on South Korea-EU relations with particular focus on trade exchanges. Given the Republic of Korea's heavy reliance on the US and Japan, a dependence which is due to reasons of history as well as geography, Korea inevitably has paid more attention to its relationship with them than with the EC/EU since the Treaty of Rome. Since the establishment of diplomatic relations with the Community in 1965, the framework of the GATT has served in discussing bilateral trade problems. Entering the 1980s, with growing protectionism, regionalism, and Korea's urgent need to diversify both its markets and its sources of supply, Korea came to regard the EU as of much more strategic importance than in the 1960s and 1970s. Thus, together with the EC's recognition, in the same context, of the importance of the ANIEs to its future economic activities, led to a decision to hold "Annual Consultations between the Commission and Korea" since 1983.

5.1 General Evolution of EU-Korean Relations

5.1.1 The EU's New Perspective on the ROK

Brian Bridges' emphasis on the geographical distance between Europe and Korea seems to have lost meaning in this age of information and telecommunication.⁴⁷⁸ Europeans have in recent years been strongly aware of South Korea as one of the

⁴⁷⁸. Brian Bridges, *Korea and the West*. London: Routledge & Kegan Paul for RIIA, 1986, pp.76-80.

newly developing economies. Since the Korean War in 1953, the relationship between the EC and South Korea has been traditionally confined to economic interaction. Economic relations between the two have been characterized by imbalances, sectoral concentration and a recent surge of Korea's export into the EU market.⁴⁷⁹

To the Europeans, the rise of Asia where South Korea plays an leading role, has many implications for future economic strategies.⁴⁸⁰ The dynamism of East Asian Economies, including South Korea gives rise to a need for the EU to adopt more proactive strategies, emphasizing fuller and increasingly targeted use of economic cooperation to promote European trade and investment. In reviewing the EU's existing policy instruments relevant to South Korea, several dimensions remain to be considered.

South Korea's bilateral relations with the EU have been epitomized by the visit to Brussels on March 1995 of Kim, Young Sam, the ROK President. Before that, South Korea requested a formalized arrangement. In this sense, the Joint Communique by

⁴⁷⁹. The details of the characteristics are surveyed in sub-chapters 5.2.

⁴⁸⁰. The World Bank estimates that half the growth in the global economy will come from East and Southeast Asia alone by the year 2000. This growth will ensure that by the year 2000 one billion Asians will have significant consumer spending power and of these, 400 million will have average disposable incomes as high, if not higher, than their European or US contemporaries. The European Union therefore needs to accord Asia a higher priority than is at present the case. Quoted in Commission of the European Communities, *Toward a New Asia Strategy*, Brussels, 13 July, 1994, p.1.

the Presidency of the Council of the EU and the ROK is historic.⁴⁸¹

With a view to encouraging closer contacts between economic operators, the Korean government, supported by the European Commission, took the initiative in organizing a symposium in Brussels on September 16 and 17, 1981. The purpose of the seminar was to provide European and Korean industrialists, bankers and traders with an opportunity to identify commercial and investment chances by exchanging information and

⁴⁸¹. Council of the EU Press Release 5219/95, Brussels, 6 March 1995.

The content of the Joint Communique is as follows:

1. On the occasion of the visit by His Excellency, Mr KIM YOUNG SAM, President of the ROK, the Presidency of the Council of the EU and the ROK:

- bearing in mind the progress already achieved, especially in the economic and commercial field;
- also bearing in mind the two parties' growing importance on the international stage, declare their determination to reinforce and intensify their mutual relations, especially in the political, economic, technological and cultural fields.

2. The two parties will draw upon common values and aspirations and will seek to:

- emphasize their common commitment to democracy and respect for human rights, and their commitment to preserving peace and establishing a just and stable international order in keeping with the UN Charter;
- reinforce their common interest in closer cooperation and reaffirm their undertaking to implement scrupulously the commitments entered into within the WTO;
- hold the necessary discussions to ensure better mutual understanding;
- develop mutual understanding, increase cooperation, and endeavour to identify areas of agreement on international issues, in particular non-proliferation and disarmament, the fight against terrorism, drug trafficking and money laundering, and other matters affecting peace and international stability.

opinion.⁴⁸² The emergence of the NICs more or less coincided with extremely difficult economic conditions in the EC.⁴⁸³ The resulting tensions are reflected in the Community's relations with South Korea. Consequently in 1979, 1982 and 1987, sectoral trade agreements in textiles and steel were conducted and establishment of a delegation for more consultation was initiated in 1989.

There is no regional level political dialogue such as the ASEAN has with the EU. However, South Korea participates in a ministerial level meeting every year in the framework of the ASEAN Post Ministerial Conference(PMC) where the EU is one of the dialogue partners, the others being the US, Canada, Australia, New Zealand, Japan.⁴⁸⁴ The recent accord between Europe and Asia to increase volume of exchanges, which was agreed in Bangkok on March 1st and 2nd, surely is an optimistic development. A meeting of 15 European leaders with ten of their Asian counterparts was an opportunity for Euro-Asian talk.⁴⁸⁵ In a wider context, multilateral-cooperation has been implemented in the context of the GATT where the role of South Korea has increased tremendously, commensurate with Korea's growing importance in world trade and also through the UN framework.

⁴⁸². Commission of the European Communities, *The EC and the Republic of Korea*, European Information in External Relations No. 52/81, September 1981, p.2.

⁴⁸³. Ibid., p.6.

⁴⁸⁴. The upgraded status of South Korea is reflected in this participation.

⁴⁸⁵. *The Economist*, March 2nd-8th 1996, p.18-19.

As has been surveyed in the previous chapters, the core part of the EU's commercial policy toward South Korea has been a call for Korea's further liberalization within the multilateral system with respect for all rules and commitments. South Korea has been requested to open more markets for European business in its bilateral negotiations. Various degrees of trade promotion measures from the EU perspective have been undertaken, with the Member States being the major performers of each policy line, with the coordination of the EU.⁴⁸⁶

The GSP of the EU⁴⁸⁷ has been unilaterally offered to Korea. On the 1 June 1994, the Commission adopted its Communication to the Council and the European Parliament relating to the revision and updating of the principles to be followed in the elaboration of the new scheme to be applied for the period 1995 to 2004. This new guideline is predicted to deprive South Korea from being granted preferential market access in many sectors.⁴⁸⁸ South Korea is definitely one of

⁴⁸⁶. Since the SEM, the power of the EU Commission has gained more momentum in a number of trade policy instruments such as anti-dumping and safeguard measures.

⁴⁸⁷. The Republic of Korea was among the major beneficiaries of the EC's GSP scheme since it was initiated in 1971. It is true that the steady rise of Korean exports to the EC market since the early parts of the 1970s, may be attributed to the GSP. Consequently, Korea is one of the nations most severely affected by the EC's policy of a much sharper differentiation in the allocation of benefits in the industrial sector. This scheme consisted of total exemption from customs duties for all industrial products and partial exemption of certain products. This was revamped for a new decade of operating in the 1980s. Tariff quotas were later drawn up so as to afford a certain amount of protection for sensitive products that face highly competitive exports from some countries such as South Korea.

⁴⁸⁸. See chapter Three.

those nations which has become not only important partner of world affairs, but also a competitor in trade.⁴⁸⁹

The European Commission Report further argues that Europe's interests in Asia are: 1) to benefit from the economic opportunities and to respond to the economic challenges in the region which contains the world fastest growing countries, and which could represent between a quarter and a third of the world economy by the year 2000.⁴⁹⁰ South Korea is surely regarded as the major partner to achieve the above-mentioned goal of the EU. The need for EU's new strategy towards South Korea lies in the fact that the EU needs to strengthen its economic presence in Asia for the purpose of maintaining its leading role in the world economy. Otherwise, the EU stands to lose out on the economic miracle taking place in Asia because of the strong competition; from Japan and the US, and also increasingly from the companies within the region's newly industrialized and capital-rich countries such as South Korea or Taiwan. The report further argues that if the EU companies are unable to take a full share of the world's main centre of growth in the next decade, this will affect their profits and competitiveness, not only in Asian markets, but also world-wide. If the EU loses out on the economic miracle taking place in Asia, this is expected

⁴⁸⁹. Commission of the European Communities, *Toward a New Asian Strategy*, Brussels, 13 July, 1994, p.10.

⁴⁹⁰. Ibid., p.13.

The other two main concerns are first to integrate into the open, market-based world trading system those Asian countries such as China, India or Vietnam which are moving from state controls to market-oriented economies; and second to assist in the enormous problems of poverty alleviation.

to have political costs, and at the very least it will exacerbate the calls for more defensive policies from those who regard Asia as a threat rather than as a valuable partner, which in turn will further reduce the benefits to be gained from Asia.⁴⁹¹

In particular consideration of South Korea's position, the EU is expected to place greater emphasis on market opening, for trade in goods and in services and to select priority sectors for economic cooperation to reflect its own comparative advantage, e.g., banking, energy, environmental technologies, transport equipment, telecommunications, etc.

5.1.2 Intensified Partnership on Turbulence of Trade Frictions

The rapid expansion of mutual trade resulted in a Korean export surge in the mid-1980s. The rapid increase of Korea's exports have hovered around the \$7 billion level with trade surplus of \$2 billion in 1988. The subsequent gradual decline of Korea's exports has been due to the declining competitiveness of Korean manufacturing sectors. 1991 recorded a turning point with the EC recording a trade surplus with Korea. Despite comparatively balanced development, trade relations have been friction-oriented, as both parties have politicized trade through sectoral disputes, bilateral export restraints and ambiguous application of multilateral rules.⁴⁹²

⁴⁹¹.Ibid., pp.17-18.

⁴⁹². Kim Chung-Soo, "Development and Liberalization of the Korean Economy from the Perspective of Korean-Europe Economic Relations, unpublished paper, KIET, April 1985.

Table 5.1: The EC's Trade with the Republic of Korea, 1975-83(9 months)(million ECUs)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Imports	619	1014	1268	1428	1688	1972	2338	2402	2023
Exports	474	532	659	1001	1245	941	1120	1297	1151
Balance	-145	-482	-609	-427	-443	-1031	-1218	-1105	-872

Note: For 1980 one ECU equalled \$ 1.39

Source:EUROSTAT

Table 5.2: Overall Trade between Korea and the EC (millions of US\$, %)

	1985	1986	1987	1988	1989
Trade Volume	6304	7520	11208	14178	11372
Exports		3246(10.7)	4305(14.0)	6597(14.0)	8131(13.4)
					7394(11.0)
Imports		3058(9.8)	3215(11.2)	4613(11.2)	6047(11.7)
					5342(10.2)
Trade Balance	188	1090	1987	2084	688

Note: Figures in parentheses represent the share in total exports or Imports

Source: Economic Planning Board, Korea.

The market opening pressure of the EU was intensively developed in the second half of the 1980s. The suspension of the GSP from South Korea in 1987 marked the culmination of the EU's complaints against unfair trading practices. The EU's complaints directly created room for the abuse of non-tariff barriers to deter the rapid increase of Korean exports. Thus, the system of effective protection for strategic industries induced the Korean FDI into the manufacturing sector. Indeed, about 75 percent of Korean FDI into the EU has been in the electronics sector, which has been most affected by restrictive measures such as anti-dumping and other grey area measures. In addition to the passive dimension, a more active dimension to

the Korean FDI was pushed by the strategy of globalization of business activities and the efforts actively of exploit the opportunity of a SEM without internal barriers. It is also true that the SEM raises some psychological fears among the Korean businessmen. Amid this kind of uncertain environment, diplomatic efforts to improve the understanding between the two partners have continued to produce some results.⁴⁹³

Brian Bridges⁴⁹⁴ points out that, traditionally, South Korea have been of little political importance, and heavily dependent on the US, whereas, Europeans preferred multilateral political frameworks such as NATO. Despite slight recognition accorded by the EU to Korea in the 1960s, with EC-South Korean diplomatic relations signed in 1965, it was only in May 1989 that the Korean Mission in Brussels took place and the EC Commission Delegation Office only opened in March 1990. The gradual status-upgrading of South Korea in the international community in the 1980s rendered individual EC member nations and the EC Commission more interested in drawing South Korea into a range of discussions on mutually beneficial fields. From 1983, Foreign ministerial-level meetings started.⁴⁹⁵

⁴⁹³. EC vice-President Frans Andriessen visited Seoul in 1989. He proposed cooperative development of high definition television and asked the Koreans to adopt European standards.

⁴⁹⁴. Brian Bridges, "Europe and Korea: Time for a Relationship," *The Journal of East Asian Affairs*, Vol.VI, No.2, Summer/Fall, 1992, p.321.

⁴⁹⁵. The two parties decided to hold "Annual Consultations between the Commission and Korea," alternating between Seoul and Brussels, and these contacts have now become institutionalized. The first consultations, at ministerial level, were held in the Korean capital at the end of March 1983. The next round took place in Brussels at the beginning of July, 1984.

The increased importance of commercial contention during the 1980s and 1990s naturally called for more substantial political or cultural understanding. Apart from the economic dimension, Korea needed to broaden its interests away from excessive dependence on the US to a new dimension like the EU. The strengthened EU relationship would be an important balancer in Korea's coordination efforts between the US and Japan. This kind of awareness was followed by the visit of former presidents, Chun Doo-Whan and Roh Tae Woo in 1986 and 1989 respectively. It is a pity that those visits did not produce any subsequent efforts on the Korean side and were poorly reciprocated on the European side. More aggressive efforts are expected in the interdependent nature of the global economy. South Korea needs to be equipped with more competence in dealing with the multicultural EU.⁴⁹⁶

5.2 The General Pattern of EU-Korean Economic Interaction: Rapid Expansion of Korea's Exports and the EU's Call for more Liberalization in Korean Market

It was during the latter part of the 1980s that trade relation between the two regions drew keen attention from both sides. Although the diplomatic relationship between the two started in 1965, it was only in the latter part of the 1970s

⁴⁹⁶. Brian Bridges summarizes the three important variables in the Euro-Korean relationship in the 1990s. The first one is the development of South Korea's own economic and political role in international affairs and how the EU fits into Korea's world view; the second one is the evolution of the EC after 1992; and the third one is how the deepening and widening processes affects both Korea's economic growth potential and its ability to act with unity in foreign and economic policy-making with developments in the trilateral and broader multilateral context.

that both regarded each other as major trading partners. Korea, especially, began to pay more attention to the EC when it came face to face with the urgent problems of growing protectionism, and the need to diversify both its markets and its sources of supply.⁴⁹⁷ Between 1975-1980, the EC represented a growing market for Korean products; its imports from Korea increased by 220 percent, and the Community accounted for around 15 percent of total Korean exports. Growth of the Community's exports to Korea have been less dramatic, however. Between 1975 and 1979 exports increased by 163 percent.⁴⁹⁸

To the Korean People, the U.S.A. and Japan are still regarded as more important partners in trade than the EU. However, Korea's need to diversify its markets has naturally led it to turn much more attention to the unified single EU market after the 1992 Programme. The importance of the ANIEs to the EU has also induced the EU commercial Commission officials to pay much more attention to them on multilateral trade issues. The ministerial levels of meeting and more systematic efforts well prove that the two partners are strategically interwoven in the world trading system. On the 15th November, 1993, Korea and the EU had a ministerial level meeting between Leon Brittan, vice president and Commissioner for external economic relations of the EU Commission and Han Sung Joo, Minister of Foreign Affairs, Republic of Korea. Both sides agreed to conclude a

⁴⁹⁷. Commission of the EC, *The EC and The Republic of Korea*, European Information on External Relations No. 52/81, September 1981, p.2.

⁴⁹⁸. Ibid. p.2.

basic agreement on relations as soon as possible. The new accord will establish new relations between the two sides in all fields, including economic, trade and political, in the future.⁴⁹⁹

They also agreed to form a Korea-EC wisemen's club to study ways of promoting EC-Korea ties toward the 21st century. Minister Han asked the EC nations to continue to allow Korea to retain GSP status until 1996, when Korea joins the OECD. EC Commissioner Leon Brittan pointed out that the EC needs a promise from South Korea that the Korean market should be more open to allow easier access, on the condition that no duty will be higher than 20 percent. He also expressed the hope that South Korea would harmonize duties on textiles and clothing from the EC at 12 percent and allow EC markets to participate in the pharmaceutical sector. Regarding the financial service market, he expressed the wish that South Korea would further liberalize its banking, securities, investment trusts, investment advisory services, life and non-life insurance and insurance brokerage market. Brittan argued that the new opportunities opened up by the European Single Market would be exploited by Korean businessmen in view of the strength of the Korean economy: Cars, chemicals and chips increased their share of total Korean sales to Europe due to the Korean technological development. The completion of the intellectual property right protection, Korea's market access, Korea's high tariff rates, Korea's

⁴⁹⁹. Korea and EC have had annual high-level consultations between ministerial-level officials since the early 1980s, but agreed to change the name to a ministerial conference in November, 1993.

financial market opening and public procurement were the major pending issues for the EU.⁵⁰⁰

Korea's shift from labour-intensive industries to those of a less labour-intensive nature through the use of comparative advantage raised policy problems for the EU. The EU's response to South Korea has been much more sophisticated, enough to produce the sectoral protectionism that prevailed at the beginning of the previous decade. The EU has two problems with Korea. The economic one is that the combination of product specificity and extreme import growth rates can cause severe problems for a limited group of firms and traders. Thus, the cost of the short run adjustment might be pushed up beyond the society's gains from trade. The institutional problem is that the GATT Article 19 on "market disruption" was inadequate to protect the declining sectors of the EU industry, prompting the EU to argue for a selective safeguard clause, to persuade NICs into accepting the VERs (Voluntary Export Restraints) and to employ anti-dumping laws more intensively. With respect to the social and economic adjustment costs of targeting, the EU has reverted to a host of a sectoral approaches, some dating back as far as the 1960s. The Multi-Fibre Agreement in textiles and clothing, VERs in steel, certain consumer electronics, footwear and a protectionist tilt in anti-dumping cases have brought perhaps up to a third of EU-NICs trade under special restriction

⁵⁰⁰.Korea Newsreview, 30 November, 1993.

provisions.⁵⁰¹

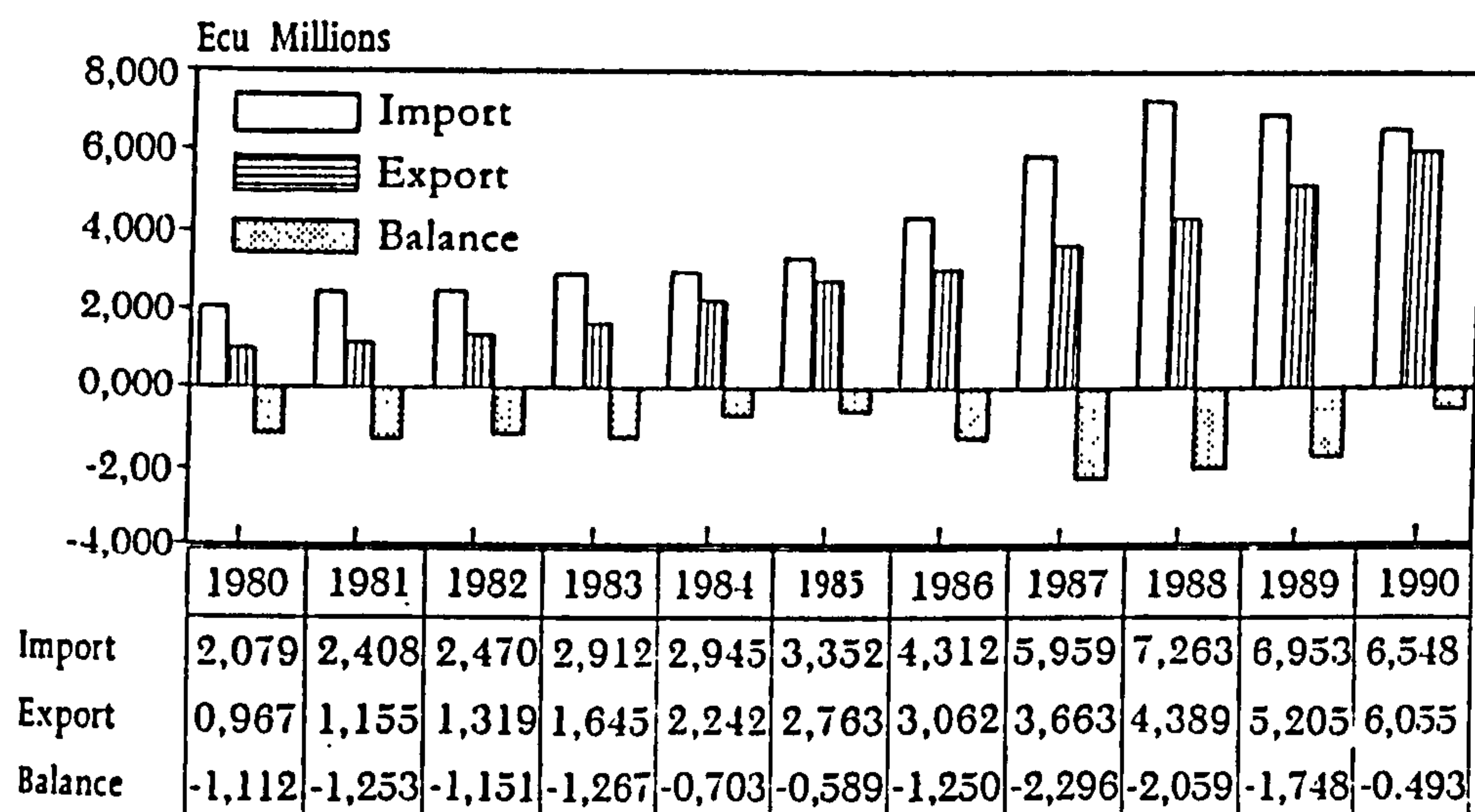
The 1992 Programme has brought the revitalization of EU business and given the Member States some confidence. The regulation of trade with the NICs has been reduced by the Commission; the Commission has become very cautious of price undertakings in anti-dumping policy; and is attempting to bring more VETs to the EU level and phase them out at that level. The Commission has initiated adjustment as a substitute for protection. It seems to be advocating a liberal market mechanism toward global competitiveness.⁵⁰² If it pursues that market-oriented industrial policy, the trade between EU and Korea is expected to increase tremendously. On the other hand, the outline of the internal market, the EC Commission's White Paper of 1985, devotes only a single sentence to trade with nonmember states: "The commercial identity of the Community must be consolidated so that our trading partners will not be given

⁵⁰¹. Joyce Tan and Jacques Pelkmans, "Bilateral Trade Relations Between Korea and the EC," in Min Chung Ki (ed.), *Korea-EC Economic Relations*, Seoul: Korea Institute for International Economic Policy, 1991, pp.101-2.

⁵⁰². Keith Joseph has a different views on the role of the EC. He argues that the EC's position is incoherent: "It says the internal market is enriching because this allows comparative advantage full play. We rebels agree on that. The Commission then somersaults and says that free trade with the rest of the Community must be blocked by quotas, tariffs, and anti-dumping measures and voluntary (meaning compulsory) restraints. The EC has evolved an entirely new corpus of law - bogus impediments to trade. It is wrong-headed to say free trade with Belgium is beneficial but free trade with Argentina or Poland is bad. This is the schizophrenic position our superiors try to maintain. Discrimination against free trade is the *leitmotiv* of the EC's trade policies. Maastricht was a triumph for protectionism." Quoted in *The Daily Telegraph*, Friday, January 12, 1996, p.18. The title of the concerned article, "Why the Tories are the real party of the stakeholder."

the benefit of the wider market without making concessions themselves." ⁵⁰³

Table and Exhibit 5.3: Community Trade with Korea: 1980-1990



Source: EC Commission

The analysis of Joyce Tan and Jacques Pelkmans based on the Graphics above revealed that the export value of Korean products to the EU more than doubled between 1980 and 1988. Their bilateral trade relations analysis can be summarized as follows:

- The trade balance represented a falling share of EC exports: still bordering around 100 percent of EC exports in the early 1980s;
- The dynamics in the trade relation stemmed from Korean exports leading up to 1988, and from EC exports beginning in 1986;
- The 1990 EC exports represented 12.1 percent of Korean imports; their exports to the EC amounted to 13.5 percent of overall Korean exports. This put the EC in third place, for Korean export, behind the US and Japan (both 19.5 percent). On the Korean import side, the EC was still third, after Japan (26.3 percent) and the US (16.8 percent);
- The UK and Germany took in more than 50 percent of Korean exports to the EC; interestingly, France and

⁵⁰³. Completion of the International Market, White Paper from the Commission to the Council, Office for Official Publications of the EC, Luxembourg, 1985, p, 8.

Italy both had a trade surplus with Korea in 1990.⁵⁰⁴

The product structure of Korean exports and main products is explained in the two tables below.

Table 5.4: Product Structure of Korean Exports to the EC (billion US \$:%)

Primary products	0.16	6.2	0.18	2.3	0.19	2.6
Iron and Steel	0.11	4.3	0.07	0.8	0.09	1.2
Chemicals	0.03	1.1	0.17	2.1	0.7	2.4
Machinery and cars	0.5	19.6	3.36	42.2	3.10	42.9
Office/telecom Equipment	0.3	11.7	2.32	29.1	2.04	28.3
Electrical machinery	0.02	0.7	0.37	4.6	0.34	4.7
Textiles	0.23	9.0	0.39	4.8	0.44	6.1
Clothing	0.89	34.9	1.66	20.8	1.28	17.8
Other consumer Goods	0.5	19.6	1.80	22.6	1.67	23.2
Total	2.55		7.97		7.21	

Source: GATT, *International Trade 1989-1990*, Vol. II. Quoted in Ibid.

Note: Columns do not add to total as some sectoral exports have not been included.

The protectionism of the EU against Korea's export is prevalent in all major import-competing products. Joyce Tan and Jacques Pelkmans classified the protectionism mechanisms by items.

Those are as follows:⁵⁰⁵

- . Consumer electronics products such as video cassette recorders-price undertakings
- . Colour TVs-Anti Dumping Duties
- . CD players-AD duties
- . Colour TV tubes-Voluntary Exports Restraints at floor price
- . Video Tape-Price Undertakings
- . Electronic Oven-VERs
- . Textiles and Clothing-Multi-Fibre Agreement
- . Synthetic Fibres-AD duties

⁵⁰⁴. Ibid., p, 104.

⁵⁰⁵. Ibid.

- . Steel- Quotas in the framework of the manifest crisis regime of the Community, lifted in 1990.
- . Cars- Statistical Surveillance
- * Only toys were not given any protection

Table 5.5: Main Korean Export Products for the EC (million US \$: %)

	1988	1989	1990	1991 first half (compared to first half 1990)	% growth 1991
Electronics					
Electrical	2,885	2,568	3,141	1,819	32.2
Colour T	173	117	278	155	44.9
Parts & electronic components	720	781	950	559	29.4
Textiles & clothing	2,192	1,887	1,894	1,031	24.8
Clothing	1,633	1,256	1,179	680	37.9
Shoes	568	480	727	425	27.6
Toys	212	201	173	80	-2.4
Steel	104	126	145	59	-15.7
Cars	113	142	124	155	117.0
Total	8,132	7,394	8,843	4,999	31.0

Source: MITI-Seoul. Quoted in Ibid.

Ji Hong Kim similarly maintains that in 1988, 33.7 percent of all Korean exports to the EC ran up against non-tariff barriers, declining from 41 percent in 1987. In textiles alone 72 percent of Korean exports suffered under MFA restrictions. Not surprisingly, some sectors have been more severely affected than others. A few industries of labour-intensive production have found themselves facing a highly difficult situation, in a critical case, marked by factory closures and job losses. Factory closures and job losses were the direct reasons for the EC concluding sectoral agreements in specific areas with exporting nations for the purpose of enabling the EC's industry

to adjust to the changing economic situation.⁵⁰⁶

The Community has been much concerned with the increase in the NICs' market penetration into the EC market. Non-tariff barriers and grey-area measures have resulted from the Community's strong fear of such penetration. It seems reasonable to say that Korea did not properly deal with the emerging dissatisfaction about its trade policy discretion. Although the manifestations of Korean trade policy have not been so much bound by GATT rules as those of the EU have been, the Community appears to be in a position that when imports seriously hurt employment in the concerned industries, it avails itself of great discretion, too, especially in grey area measures evading the GATT rules. Amid that kind of continuing process, the product structure of the EC protection against Korea has gradually become similar to that of the items Korea exports to the EC.⁵⁰⁷

The antidumping policy of the EC has been a major concern to Korean trade policy makers, who regard this as the highest priority issue in bilateral relations. Anti-dumping measures against electronic consumer goods have become gradually more important and have been used as the main tool of restriction

⁵⁰⁶. Faced with economic stagnation or even recession, it has not always been easy for the EC to keep liberal free trade policy lines, in specific cases as regard its relations with ANIEs, of which Korea is one of the forerunners. Reflecting the difficulties, the EC has concluded agreements or sectoral arrangements for textiles and steel with Korea and other nations, along with other products which have been particularly hard hit by the recession.

⁵⁰⁷. Joyce Tan and Jacques Pelkmans, op. cit., p. 108.

against Korea's export expansion. Under pressure from the industries concerned, the Commission initiated antidumping procedures on colour Television sets, video-tapes, tape-recorders, microwave ovens, and compact disc players. During a period of five years(1986-1990), a total of 19 Antidumping(AD) case initiations were applied to Korea, out of a total of 173 initiations. In comparison, China had 18 cases and Japan 17 cases.⁵⁰⁸ The other three ANIEs together were subject to initiation of only 13 AD cases. In 1989, 0.9 percent of EC imports were covered by the four Asian NIEs.

The consumer electronics sector was severely affected by the AD measures. In 1990, the EC levied AD duties ranging from 8.3 percent to 32 percent on compact disc player, on small colour TVs ranging from 10.2 percent to 19.6 percent and on audio tape cassettes, up to 80 percent. In 1989, AD duties were imposed on VCRs, as well as on video cassette tapes.⁵⁰⁹ The EC was all the more disturbed by Korean exports since they threaten market shares previously held by European companies instead of reducing Japanese shares. As a strategy to avoid the AD

⁵⁰⁸. For more statistics on anti-dumping duties imposed on Korean products, see Chapter Three on major trade- restrictive mechanisms.

⁵⁰⁹. The export of Korean VTRs rose from 34,000 units in 1985 to 700,000 units during only the first six months of 1988. Three Korean conglomerates, Samsung, Goldstar and Daewoo, voluntarily suspended exports of television sets and video-tape recorders to avoid anti-dumping action by the EC. Nevertheless, the EC decided on investigation and imposed anti-dumping duties on some products, up to 30%. And in 1987, the EC Commission upheld its first complaint about the services industry and imposed dumping duties on Hyundai Merchant Marine for unfair pricing of its cargo service.- Financial Times, August 24, 1988. Quoted in Beate Neuss, " The European Community and South Korea, Korea and World Affairs, Spring 1990, pp. 105.

retaliation, Korean firms established subsidiary operations in the EC. The estimated average antidumping duty between 1980 and 1985 was 23 percent. As a result trade was decreased by 40 percent. The local-content rule is sometimes used to protect European industries which lack competitiveness in strategic areas involving high-technology and electronics. The EU, however, argues that anti-dumping duties are necessary because the NICs comparative advantage is gained through "social dumping" and partly with undervalued currencies.

If we look at VERS to EC or Member States, an illustrative list shows the VERS for Denmark, the U.K, Benelux and Germany for frame on non-rubber footwear, and for the UK on radios, black and white TV sets, footwear and communication equipment, together with the EC-wide steel quotas.

Over the 1985-1988 period, Korea's footwear exports to the EC increased tremendously, by 649 percent. In the compact disc player AD cases, a 23-fold increase in the volume of Japanese and Korean exports over five years is reported, occupying two-thirds of the EC market.⁵¹⁰ The effort to create a Single European Market was the answer of the Europeans to economic and technological challenge from the U.S.A., Japan, and the four Asian NICs.

The European nations felt that their middle-sized economies could not survive the global competition unless they strove for economies of scale as well. The dynamic development of the Pacific region fostered Europe's fear of decline.

⁵¹⁰. Beate, Neuss, op. cit., p.110.

Table 5.6: VERs for Korean Exports to EC or Member States

product	type of measure	EC/Member State(s)
1. frozen squid	reference prices	Italy
2. footwear excl. slippers	VER+prior EC surveillance	EC-wide
3. footwear	VER at industry level	Ireland
4. microwave ovens	export moderation at industry level	EC-wide*
5. VTRs	export moderation/ monitoring exports/ EC surveillance	EC-wide
6. metal flatware	VER at industry level	Benelux**

Notes: *The Commission is not aware of this VER.

** The government of Belgium and Netherlands are not aware of this VER.

Source: GATT, 1991, quoted in Ibid.

To maintain Europe's wealth and stability, it needed to restore its competitiveness in the world market, especially in high technology products. Korea's high-tech product export to the EU had been increasing rapidly. Semi-conductor showed much potential for export with tremendous expansion into the future EU market.⁵¹¹

By the end of 1989, the general liberalization ratio in South Korea had reached 95 percent. In 1987, nearly 38 percent of Korean exports to the EC were subject to import restrictions. The EC has a number of instruments of trade policy which can be utilized against Korean, and other non-EC country exports to reduce volume by means of VERs, national quotas, import surveillance mechanisms and anti-dumping actions.⁵¹² EC

⁵¹¹. Ibid., pp. 91-92.

⁵¹². Pelkmans surveyed the EC's non-tariff instruments for the mid-1980s in his article, "The EC's Trade Policy Toward Developing Countries," edited by Stevens & Themaat, *Europe and International Division of Labour*, Hodder and Stoughton, 1987.

policies are affected by the complex interplay between the Commission, member governments and European companies. European consumers favour cheaper Korean TVs, but EC manufacturers do not. Since the mid-1980s, Korea has promoted a diversification campaign designed to reduce their dependence on Japanese imports, particularly in intermediate technology and components. Looking to EC companies as alternative suppliers was one of the main themes of the former President Chun Doo-Whan's visit to Western Europe in 1986, yet no substantial measures were followed.

Korean export opportunities will be enlarged by the improved of access to the EU market. The improvement of access to the EU market will be applied to textiles and clothing for technical reasons; the overall EU quota will be utilized to boost exports because any possible barriers to the intra-EC trade deflection removal will be created by the non-application of Article 115 after 1992. . The anticipated amount of extended market potential for Korea in 1992 was calculated to be 15-20 percent. In case of cars, where different sectors may be subject to national quotas, though EC-wide quotas do not exist, it is expected that quota-free trade shall be available after 1999. The EU does not have any restrictions on the car exports by Korea. Car market competition in the EU is very high. The EU car industry is very nervous of the Japanese penetration. Price and quality brings competitive advantages. Korean cars

He typically mentioned VER, anti-dumping, countervailing duties, technical regulations and certification, public procurement, EC surveillance, minimum prices and quotas.

may have comparative advantage in prices. In counter-strategy against the price advantage of Korean cars, the price strategy of some EC production is to build plants in sites of low wages such as the Central Eastern European nations. The combination of price and quality will be a decisive factor in competition with the EU. The Korean footwear industry is faced with the danger of being thwarted by East European competition and by the EU's efforts to preempt further protection by adjustment assistance and R & D programmes. Protectionist measures in consumer electronics are very strong in the EU. The strategic element of the consumer industry has compelled the EC to initiate anti-dumping cases, since this sector offers such strong opportunity for Korea to penetrate into the EC market. Nobody can foresee the absence of protection against Korea in the 1990s. Telecom terminal equipment and services have bright prospects to exploit, but will also bring barriers for Korea deal with.

In 1990, Korea ranked as 15th in the EC exports market and 17th among import sources. The ever-expanding trend of EU-Korean exchanges changed the ranking from 17th and 15th to about 12th for both exports and import in 1993. The EU exports to Korea grew six-fold larger during the 1980s. The machine sector, chemicals and pharmaceuticals occupied two-thirds of EC exports to Korea. In 1979, EC was able to benefit favors because Korean tariff and non-tariff barriers were low. The trade pattern with the EC reflects complementarity based on comparative advantages, especially in the sectors of machines and chemicals. The Korean government claimed a comparative advantage.

Table 5.7: Product Structure of EC Exports to Korea: 1979-1990 (ECUs and percentages)

	mio ECU	%	mio ECU	%	mio ECU	%
Agri-food+beverage, etc.	29.1	2.3	73.6	2.4	150.2	2.5
Raw materials + veg.	20.8	1.6	96.2	3.1	162.3	2.7
Oils, fats, fuels, gas, etc.	13.1	1.0	31.5	1.0	10.0	0.2
Chemicals	142.2	11.2	502.8	16.4	982.6	15.4
Various manufactures*	191.3	15.0	663.2	21.7	1456.	224.0
Machinery+transp. eq.	790.8	62.1	1304.9	42.6	2799.0	46.2
Special articles+gold	86.6	6.8	389.5	12.7	549.1	9.0

Note: *SITC 6+8

Source: EC Commission, quoted in Ibid.

The EC's protectionism was based upon the product structure of Korean exports to the Community. EC's exports were faced with high protection in the Korean market. In this context, some products like high quality clothing, industrial textiles, carpets, specialty steels, high performance cars, luxury travel articles, quality shoes and jewellery, having a high income flexibility, are critical to the exploitation of Europe's comparative advantages.

Korea also has trading barriers against the EC exports. The social campaigns against the use of excessive luxury items could be considered as perhaps the most feared one. The government monitors persons who consume luxury items, backing up the campaign effect, which gave special worries to the EC exporters. The general business of importing into Korea takes trouble. We can see two conspicuous structural problems. One is the access to finance for deferral of imports payments. The other is formal and informal economic entries to distribution. Finance liberalization measures would solve the problem. On the other hand the Korean conglomerates' distribution cartel is not

checked, as is the EC distribution, by the Korean government's competition policies. Entry into the Korean market is much more difficult than its entry into the EC. For example, in spirits, the discriminatory taxation on domestic quasi-substitutes like liquor tax and education tax leads to dramatic price discrepancies, causing these EC products to sell for below their potential. Also, luxury cars costing above 70 million won are taxed seven times higher than cheap cars; EC cars are almost all priced higher than 70 million won.⁵¹³

In the case of services, effective market access and equal competitive opportunity is regarded as fair from the European point of view, Korean markets are still heavily restricted and closed. EU policy in this respect strongly favour the opening up of the insurance and securities markets, making it easy for EU businesses to enjoy effective market access and the same competitive opportunities.⁵¹⁴ Still, many restrictions are placed on investment in warehousing and storage, and preferential treatments is accorded to state-owned enterprises. Property rights, issues including patents and copyrights have also clouded relations. The problem of counterfeiting was regarded by the EC as theft. Design, brand image, quality reputation and originality need legal protection. The high quality industry of the European Community will be fatally

⁵¹³. Ibid., pp. 115-118.

⁵¹⁴. Kwang Suk, Kim, "Industrial Policy and Trade Liberalization in Korea," *Sanyon Ronchong*, Seoul, 1987, pp.1-30.

affected without such a legal framework.⁵¹⁵

South Korea is also affected by the 1992 Programme in a multidimensional way.⁵¹⁶ There is a complex interaction between the EU's efforts to agree on Common External Tariffs (CET), to agree on a common external trade position and the continuing progress toward removing the intra-EU barriers. South Korea's major concern lies in the ease of market access to the EU and the extent of EU market liberalization to third countries.

Generally the prospects for the two countries' exports to each other's markets are bright. In the Korean market, the EU feels it critical to improve access to all levels of import and distribution trade and to enjoy protection for it. Since 1989, Korea has been in competition with Eastern European countries in small metal products, textiles and clothing, domestic appliances and footwear, and such competition is expected to rise in the future. Korea could sell and invest there for the purpose of utilizing the region as a base to the EU. Korea is attempting to create higher value-added products, through innovation, R & D and high skill contents.

Korea's liberalization efforts would also involve abolition of existing national quantitative restrictions, such as VERs. In this respect, the speed with which regional trading blocs in Europe are completed after 1992 is the big question.

⁵¹⁵. Brian Bridges, "Deepening the EC-Korean Economic Relationship," *Korea and World Affairs*, Spring, 1990, pp. 79-80.

⁵¹⁶. Chapter Three on SEM and Korea explains in detail the impact of SEM on Korea, with statistical calculation.

National quantitative import restrictions in sensitive sectors such as automobiles, textiles, footwear⁵¹⁷ and consumer electronics matter much to the Korean side. To move beyond those sectors toward more future-oriented directions, every efforts should be made to develop high-tech industry, much national support. As the third largest trade partner of Korea just after the U.S.A. and Japan, the EU is a very important group of countries, accounting for 14 percent of Korea's total exports, and 20 percent of its imports. In terms of investment, the EU occupies about 12 percent of FDI in Korea and the EC has about 7 percent of Korea's outward FDI. Since 1989, Korean exports have been decreasing in the industries closely related the anti-dumping regulation. Computers and VCRs were typical cases. Looking at the frequency of dumping cases between 1987 to 1990, we could find 6 cases in the U.S., 2 cases in Canada, 9 cases in Australia, but 18 cases in the EC. Some inconsistent anti-dumping regulations have been found in the EC case.⁵¹⁸

Most frequently targeted items are colour television sets, video-tape recorders, microwave ovens and compact disc readers. A typical case of anti-dumping investigations was initiated when

⁵¹⁷. Korea is very competitive in this industry also, and is the EC's second-largest supplier, exporting 45 million pairs of shoes per year to the EC in the middle of the 1980s.

⁵¹⁸. In the case of colour TVs, with the exception of Japan, which was the main export country, only Korea was accused of dumping. Hong Kong and China were added as targets to be examined and reviewed for anti-dumping cases when the issue of discrimination was raised. In the car radio case, Malaysia and Singapore had a tremendous amount of car radios in the market, but only Korean firms were accused of dumping. Judging from those facts, the EC anti-dumping system maybe regarded to be negatively affecting Korea's Exports to the EC.

the export of Korean VTRs rapidly increased to 700,000 units during only the first six months of 1988 from a mere 34,000 units in 1985. According to the report of the *Financial Times* August 24, 1988, upon the strong pressure of the EC, three chabols, Samsung, Goldstar and Daewoo voluntarily suspended exports of television sets and video-tape recorders to alleviate the trade friction. Despite the chabol's measures of voluntary suspension, investigation was done and anti-dumping duties of up to 30 percent were imposed.

As a response strategy to avoid anti-dumping, the Korean firms established subsidiary operations in the EC.⁵¹⁹ These products disturbed the EC by threatening market shares of the previous European companies'. However, by creating a new article 13.10 of the EC anti-dumping regulations, screw-driver operations were deterred.⁵²⁰ As a liberal trading member in the world, Korea needs to stick to the liberalization policy. Regarding the manufacturing sector, almost 100 percent is open to the outside world. This is important in view of the Non-EC countries' very great concern about the potential for protectionism of the EU member countries. The heterogeneity of member nations often strengthens the inclination to view favourably requests for protection from fellow-member countries which suffer not only from foreign imports but also from an indigenous difficulty of adjustment. The EC single market, thus,

⁵¹⁹. See the case study of Chapter. Eight.

⁵²⁰. O. Grolig, P. Bogaert, "The Newly Amended EEC Anti-Dumping Regulation: Black Holes in the Community Market," *Journal of World Trade Law*, Vol.21, No.6, December 1987, p.80-83.

pocesses a potential for strong protectionism. The articles of the Single European Act relating to non-members include articles regarding trade relations. Article 19 states that "the outside countries can not have the benefit of the single market without any reciprocal compensation and measures." Article 30 is in regard to the common trade policy of the EC. Compared to the U.S.A., and Japan, the EC lags behind in high-tech industries, such as telecommunications, semiconductors and computers. In these sectors, and other public procurement sections or in the industrial sector where their competition edge is inferior to that of Japan or U.S.A. and Asian NICs, preferential treatment will be given to non-European firms, thus discriminating and excluding outside companies who participate in such areas; the automobile, steel, and electronics parts. National quotas of the above sectors could be replaced by the EC common quota system. The rule of origin or the anti-dumping act maybe intensified.

Korea's efforts to liberalize its market should not be ignored. As far as the manufacturing sectors are concerned, as of 1990, the domestic markets were almost completely opened, except for a few items, to Japan's exports. Upon strong pressure from the US to open up domestic markets for services and agricultural products since 1987,⁵²¹ Korea took a series of measures such as a new copyright law, extension of intellectual property protection to computer software, substantial opening of the insurance market, national treatment for foreign banks,

⁵²¹. Ministry of Finance, "88 White Paper on Tariff Rates Reform," Bureau of Tariff, February, 1989. In Korean.

allowance of greater participation to foreign firms in trading company and distribution networks, opening of motion picture markets, and total opening of advertising markets by 1991, and finally gradual opening of the capital and security market during 1991-1992. The account surplus in 1987 had amounted to nearly \$10 billion, which exacerbated trade frictions with the US. This also increased US pressure to appreciate the Korean currency drastically. The answer to the US challenge was completely to liberalize the imports of manufacture, for instance, by licensing the number of Automatic Approval(AA) items and lowering the rates of tariff as scheduled, making special concessional tariff cuts, eliminating the Surveillance List,⁵²² and revising Special laws to restrict imports even for items on the automatic approval list.⁵²³

The Korean National Assembly passed the "new tariff schedule" in December 1988, to be conducted over a five-year period of 1989-1993.⁵²⁴ The simple arithmetic basic tariff rate for manufactured products was scheduled to fall from 16.9 percent in 1988 to 11.2 percent in 1989, and to 6.2 percent in

⁵²². The application of the Import Surveillance System, which was introduced in 1977 for monitoring the import situation of newly liberalized products and for resuming protection in case sharp rises in imports inflicted damage on specific sectors, was abolished in January 1989.

⁵²³. Ministry of Finance, Korea, Report, 1989.

⁵²⁴. The strong pressure of the US government caused the Korean government to start dismantling various tariff and nontariff barriers in 1987. The Korean government reduced tariffs on 1.873 items regarded as priorities by the US, which included passenger cars, tobacco products, cosmetics, electrical goods, and paper and paperboard. Furthermore, in February 1989, tariff, on 203 items of particular US concern were reduced, including such items as chocolate, refrigerators, and computers.

1993; that for agricultural products from 25.2 percent in 1988 to 20.6 percent in 1989 and to 17.9 percent in 1993; and that for all commodities from 18.1 percent in 1988 to 12.7 percent in 1989 and to 7.9 percent in 1993. These measures of the import liberalization movement that began in the early 1980s were nearly completed by the end of the decade.⁵²⁵

In a relatively short period of time, in the latter half of the 1980s, Korea was in the midst of political democratization and economic internationalization. Although EU underestimated the Korean government's efforts toward further market liberalization, tremendous increase in inward FDI in the manufacturing sector illustrate that liberalization efforts have already some fruit.

Table 5.8: Import liberalization in items, 1976-92

Year	Total No. of items	Automatic approval(AA) items	Restricted items	Prohibited items	Liberalization ratio(share of AA items)
1976	1,312	669	579	64	51.0*
1980	7,465	5,183	2,282	0	69.5***
1983	7,560	6,078	1,482	0	80.4***
1986	7,915	7,252	663	0	91.6***
1990	10,274	9,898	376	0	96.3****
1992	10,321	10,079	242	0	97.7****

* Based on 4-digit level under Standard Industrial Trade Classification

**Based on 4-digit level under Customs Cooperation Council Nomenclature

***Based on 8-digit level under Customs Cooperation Council Nomenclature

****Based on 10-digit level under Harmonized Commodity Description and Coding system.

Source: Ministry of Trade and Industry, Korea

⁵²⁵. Ministry of Finance, "88 White Paper on Tariff Rates Reform," 1989.

Table 5.9: Foreign direct investment: liberalization status, 1980-November 1992(percentage)

Date	Liberalization ratio*overall	Liberalization ratio, manufacturing
1980	49.9	
1983	60.9	80.0
July 1984	66.1	86.0
Octo. 1985	76.3	92.5
July 1987	78.9	91.5
July 1989	79.0	97.5
July 1990	79.1	97.7
Jan. 1991	79.4	97.7
Nov. 1992	81.7	97.8

* Number of sectors eligible for FDI over the number of all industrial sectors

Source: Ministry of Korea, *Financial Statistics*, various issues.

The nation's total incoming FDI approved between 1992 and 1991(as of January 1991) was \$ 8.0 billion, out of which 80 percent had entered Korea since 1982, at the time FDI reforms were conducted.⁵²⁶

Table 5.10: FDI by country of origin on an approval basis, 1962-90

year	Japan		US		Europe		Other		Total
	US\$1000	%							
1962-66	8,329	17.6	24,984	52.7	10,841	22.9	3,257	6.9	47,411
1967-71	89,688	41.0	95,340	43.6	9,891	4.5	23,701	10.8	218,620
1972-76	627,059	71.3	134,955	15.3	38,775	4.4	78,636	8.9	879,425
1977-81	300,851	41.7	235,660	32.7	95,311	13.2	88,827	12.3	720,649
1982-86	876,190	49.6	581,623	32.9	191,735	10.8	118,181	6.7	1,767,729
1987	497,014	46.7	255,140	24.0	210,484	19.8	100,689	9.5	1,063,327
1988	696,244	54.3	284,401	22.2	242,926	18.9	59,161	4.6	1,282,732
1989	461,528	42.3	328,792	30.2	211,913	19.4	88,046	8.1	1,090,279
1990	235,792	29.4	317,465	39.6	206,709	25.8	42,566	5.3	802,532
1991	226,239	16.2	296,556	21.2	823,130	59.0	50,161	3.6	1,396,096
Total	4,018,934	43.4	2,554,926	27.6	2,041,715	22.0	653,225	7.0	9,268,800

Source: Ministry of Finance, Korea, *Financial Statistics*, various issues.

⁵²⁶. Il Sakong, op. cit., p.116.

More than 40 percent of total FDI flows, or 58 percent of the FDI cases from 1962 to 1991, came from Japan and about 30 percent of FDI originated in the US. However, in recent years, the European share of FDI has been increasing as the Korean economy gradually becomes more and more integrated with the European economies. Table 5.10 above provides detailed statistics on the gradual increase of the European FDI.

The Korean government is still committed to overall market liberalization, including the financial markets, and, it is not likely that there will be any changes in that direction. Korea needs to be more specific in its definition of rules. The internationalization of the Korean economy will result in improved economic status and development. Despite the various difficulties, Korea has actively participated in multilateral negotiations. The conclusion of the Uruguay Round trade talks⁵²⁷ is compelling the Korean government to accelerate its adaptation to the norms of advanced countries in promoting trade and industry. According to the MOITE (Ministry of Trade, Industry and Energy)⁵²⁸, the Uruguay Round agreement on subsidies and countervailing duties itself may be disadvantageous to Korea. But since it will be implemented together with other agreements which are advantageous to Korea, such as the deal on safeguard which will abolish the VERs, Korea

⁵²⁷. See Chap. Six for further implications of the Uruguay Round for Korea.

⁵²⁸. The Ministry of Energy and Resources was merged into the Ministry of Industry and Trade.

is expected to see its exports increase marginally.

The government has been scaling down its direct investment in trade and industry promotion in preparation for winning membership to the OECD by 1996. However, the Uruguay Round agreement on subsidies and countervailing duties is forcing Korea to amend its industrial promotion system. The main tenet of the agreement is that each government should refrain from providing direct support to specific industries or firms in order to boost exports or curtail imports. As the Korean economy used to depend heavily upon exports for growth, it revised a wide array of institutional arrangements to support domestic businesses engaged in export or import substitution.

As a way to find a new route toward more competitiveness, Korean industry is strongly urged to develop technology to compete with industries in advanced countries. From short-sightedness, this non-interventionist policy seems to affect the fates of many individual firms. However, in the long run, the process will also affect Korea's industrial structure as a whole.⁵²⁹

⁵²⁹.Korea Newsreview, December 25, 1993.

The content of prohibited subsidies

* According to a report of the Ministry of Finance, the following export promotion measures are certain to be categorized as "prohibited subsidies" as defined in the new UR agreement on Subsidies and Countervailing Duties.

- The provision of bank loans for small exports to secure materials for export goods
- The provision of loans to encourage small exports to invest in production facilities
- Taxational benefits to small exports when they depreciate their foreign currency-earning assets
- The taxation practices which define money reserved by exporters either for possible losses in selling goods

The exchange of personnel between the Federation of Korean Industries and its European counterparts, the European Parliament and the Korean National Assembly and many other young organizations is expected to contribute to a deepened mental understanding. In order to develop the Europe-Korean relations into a more substantial and mutually beneficial one, both parties need to make more positive efforts.⁵³⁰

It is apparent that the European Union will surely enhance its position toward a more regionalized market mechanism if it will secure greater benefits. The Pacific Basin, where South Korea is located, is the least integrated region of world trade. If protection-oriented regionalism deepens and is more substantially facilitated, a fragmented world economy will be developed, which may far from helpful for the growth and wealth of all the trade contracting parties.

According to the statistics and study result of the KOTRA⁵³¹, Korean firms need a new strategy to do business in the EU market. The first proposal is that local direct investment or establishment of firms in the local areas will be

abroad or for exploration of new markets as tax-deductible

* Under the new UR agreement, Korea, a developing country is compelled to abolish these export promotion policy tools within 8 years from the date the agreement goes into effect. Korea may also be required to abolish "export financing system under which banks offer relatively low cost loans to small exporters who have received letters of credit from foreign buyer.

⁵³⁰. Brian Bridges, op. cit., p. 85.

⁵³¹. KOTRA, *Marketing Strategy in the EC after the Completion of the Internal Market*, 1993.

very much desirable. The image of fortress Europe has induced the U.S. and Japan and also other exporting nations to have physical presence in the EU, to invest in the region. Despite the heavy burden of initial costs, difficulties in management, hardships in material supply, fund and distribution routes, provided that the demand for the product consumption is high and a high speed of growth rates on the item is expected, Korean firms are advised to invest in the territories of the EU.

Companies could accumulate direct experience and will secure a mutual cooperation framework against common third competitors in the same products. Another pattern of co-managing the local factory is joint venture, though we expect some frictions in management. This would save companies from heavy costs and R & D. One of the most popular strategies for the EU after the 1992 plan has been the Merger & Acquisition. Its main benefit lies in that it could take over all the existing resources including labour force, production facilities, market for product and distribution network. This, however, necessitates information on the previous history of the company. From the position of the government authorities, efforts must be focused upon the careful examination of friendly bilateral Korea-EU relations. Against the EU's requirement for reciprocity, the Korean government needs to be more careful in its national legislation and practices in sensitive areas. Korea, to a reciprocal degree, needs to liberalize the market access for the exports of goods, services and capital from the EU. It is quite natural for Korea to take appropriate measures in case the agreement is not properly recognized by the EU. The

legislation on capital movements, banking, financial services, transport matters and public procurement, face the authorities of the EU with sophisticated task of identifying shortcomings in their nations and proposing appropriate countervailing actions.

Korea naturally pays attention to the fact that the EU has strong complaints with respect to the control of capital movements by Korea, the internal financial market and access to important sections of service; intellectual property right, counterfeiting, insurance law, banking etc.

The EU will create strengthened trade policy regimes against non-member nations. For the benefit of Korea, the mainstream of the EU trade regimes should be open-oriented.⁵³² As countermeasures to cope with challenges constraints, three dimensional approaches are needed; i.e. at the macroeconomic, firms and government authority levels. The levelling-up of the EU standards on product and more strict application of the rules of origin definitely require Korea to move production units to appropriate industrial sites in the EU market to avoid trade barriers. Korea-EU trade relations depends heavily upon the future trade order, which will be shaped through agreements of

⁵³². Leon Brittan, Vice President of the Commission of the EU, in *Shaping Framework for global trade: challenge for the EC*, Jean Monnet Regional Lecture, European Access, No.3, 1993, distinguished between free trade and open trade: Open trade is not free trade. Free trade is possible within the Community because the rules guaranteeing a level playing field are strong and firmly in force. However, we can not yet do away with the old instruments of trade protection: safeguard actions, anti-dumping and countervailing duties where subsidies have been granted contrary to international standard. Quoted in Frank McDonald and Stephen Dearden(eds.), *European Economic Integration*, 2d ed., London and New York: Longman Group LTD. 1992, pp. 239-50.

multilateral negotiations and regional tendencies with specific bilateral relations. However, the major denominator shall be how competitive the Korean economy proves to be in the rapidly-changing world trading system.

CHAPTER SIX. THE SUCCESSFUL CONCLUSION OF THE URUGUAY ROUND AND ITS IMPACT ON THE RELATIONSHIP BETWEEN THE REPUBLIC OF KOREA AND EUROPEAN UNION

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CHAPTER SIX. THE SUCCESSFUL CONCLUSION OF THE URUGUAY ROUND AND ITS IMPACT ON THE RELATIONSHIP BETWEEN THE EUROPEAN AND SOUTH KOREA

This chapter tries to address the general background to the launch of the Uruguay Round and subsequent conclusion; and also attempts to find implications for the central theme of how the European Union-South Korean relationship has been affected by the conclusion of the Uruguay Round in trading regimes in general, how the development of Korean exports has been affected by previous rounds of the GATT and what were the stance of the companies and government of Korea and the European Union during the Round in particular, with specific evidence of Korea's willingness to assume the role of provider of multilateral collective goods.

6.1 The Changes of the World Trading Environment and the Creation of the World Trade Organization

6.1.1 The Background to the Uruguay Round Negotiations

After the birth of the General Agreement on Tariff and Trade (GATT) in 1948, the contracting parties made efforts to ensure world trade liberalization through multilateral trade negotiations, of which seven had been held, by the end of the 1970s. Despite efforts to pursue liberalization of world trade, the slump and imbalance of the world economy between the developed and underdeveloped nations since the 1980s caused the proliferation of new trade protectionism.

Table 6.1: Multilateral Trade Negotiation of the GATT

No.	Name of Nego.	No. of Participants	Period
1	Geneva Round	23	April 1947-October 1947
2	Annecy Round	13	April 1949-October 1949
3	Torquay Round	38	September 1950-April 1951
4	Geneva Round	26	January 1956-May 1956
5	Dillon Round	26	May 1961-July 1962
6	Kennedy Round	62	May 1964-June 1964
7	Tokyo Round	97	September 1973-July 1979
8	Uruguay Round	117	September 1986-December 1993

Source: Kim, Ki Hong, *GATT, Uruguay Round and Korea*, Seoul, Korea: Hanul, 1991, p.27. In Korean.

The resurgence of protectionism accompanied by the formation of a Single European Market (SEM) stimulated the formation of the North Atlantic Free Trade Area (NAFTA) in North America and Asia Pacific Economic Council (APEC) in the Pacific Rim.⁵³³

The sharp decline of US industrial competitiveness and its trade deficit was exacerbated when the dynamic nations in East Asia such as Japan, South Korea, Taiwan, Hong Kong, and Singapore emerged as strong competitors in high-tech industrial and manufacturing sectors. Trade friction between the dynamic East Asian nations and the advanced group represented by the US and the EC, was ever more intensified, resulting in sudden proliferation of new trade protectionism.⁵³⁴ The ineffectiveness of the GATT dispute settlement mechanism,

⁵³³. Ji, Young Hee, Young Weon Ha, et.al., *The Uruguay Round and Firms' Response Strategies*, Seoul, Korea: Korea Economic Research Institute, 1993, pp.1-2.

⁵³⁴. In order to protect the declining industrial sectors, e.g., textiles, steel etc., the industrialized group of nations abused the multilateral regulations of the GATT by adopting import regulations and using Grey Area Measures such as Voluntary Export Restraint and Orderly Marketing Arrangement.

surveillance function, caused the advanced nations to use bilateral means based upon their economic powers, to achieve their trade-related goals. This development required comprehensive multilateral trade negotiations within the GATT framework. The market-opening pressures of the US and EC against the defensive industrializing nations including South Korea accelerated the need for the dynamic group in East Asia to absorb those pressures through multilateral negotiations.⁵³⁵

The Punta Del Este Conference in 1986 declared a Round of negotiations to ensure the maintenance of a free international trading system. The most obvious purpose consisted in further liberalizing trade by the reduction of tariff and non-tariff barriers. The other aim was to correct some serious omissions in the international trading system. The exclusion of service in the GATT framework, despite its making up over 20 percent of global trade, and inadequate protection of intellectual property rights (IPRs), emerged as the problems, in the fair management of general trade. Thus, international rule-setting was clearly required to address the problems. The core purpose was to bring up to date the rules governing international trade, in line with the realities of the new international trading environment. As a counter move to deter protectionism and regionalism, the reestablishment of multilateralism as the mainstay of the international trading system was a prerequisite.⁵³⁶

⁵³⁵. Kim, Yong Il and Seung Ki Park, *Interpretation of the Final Uruguay Round Agreements*, Seoul, Korea: Korea Trade and Economy, 1994, p.11.

⁵³⁶. The Commission of the European Communities, *The Uruguay Round*, Brussels, 1994, p.8.

6.1.2 The Launching of the World Trade Organization and Its Meaning for World Trading System

The World Trade Organization (WTO) is a comprehensive new start for the international trading system, which contains vast and huge regulations to deepen and broaden the scope of multilateral rule-making, ranging from agricultural trade to trade in services, as well as the Trade-Related Intellectual Properties (TRIPs) and Trade-Related Investment Measures (TRIMs).⁵³⁷ As the capacity of the GATT could no longer accommodate the rapid expansion of world trade in services, TRIPs and TRIMs, etc., the exacerbation of trade frictions led to ever more arbitrary unilateral action of protectionist measures in the industrialized group and to more dangerous forms of closed regionalism in Europe and North America. Before surveying the details of the WTO and its impact on the ROK-EU trade relations, we need to understand what the GATT has been and how it has been operating.

Since foundation in 1947 along with the International Monetary Fund (IMF) and World Bank (WB), the GATT was one of the institutions to regulate the international economy and prevent a recurrence of the disastrous policies.⁵³⁸ The major function of the GATT was to oversee international trade in goods and particularly the liberalization of world trade by means of a

⁵³⁷. Commission of the EC, *The Uruguay Round*, p.27.

⁵³⁸. Ibid., p.8.

negotiated reduction in tariff barriers.⁵³⁹ The original draft Charter for an ITO, a new specialized agency of the United Nations (UN) was not only intended to provide world trade disciplines but also contained rules relating to employment, commodity agreements, restrictive business practices, international investment and services.

In 1946, tariff negotiation were opened among the 23 founding GATT "contracting parties" in an effort to promote world trade liberalization and to deter protectionism which had been in place from the early 1930s. The first Round resulted in 45,000 tariff concessions affecting \$10 billion- or about one-fifth of the world trade.⁵⁴⁰ The tariff concessions and rules together by the name of the GATT entered into force in January

⁵³⁹. The scope of the GATT, as a result, was limited. To complement this, there had originally been plans to found the International Trade Organization (ITO), which were ultimately canceled due to the failure of a number of nations to ratify the Agreement. The progress of the GATT system was proceeded through a succession of Rounds. The EC participated in a group represented by the European Commission as a whole, though individual member states are the members of the GATT. As world trade rapidly expanded, the issues have become more and more complicated. As the number of contracting parties increased and as the number of the areas covered has risen, the succession of Rounds took longer and longer, as time went on. The functioning of the GATT on a consensus basis and to achieve agreement between 117 industrialized and developing members, with widely divergent and even opposing views, was a far more challenging task than between a few members, as was the case at the initial stage in 1947.

⁵⁴⁰. The second Annecy Round in 1949 produced 5,000 tariff concessions with 32 participating nations, the third Torquay, 8,700 tariff concessions with 34 participating nations; the fourth Geneva Round, 3,000 tariff concessions with 22 participants; the fifth Dillon Round, 4,000 tariff concessions with 23 participants; the sixth Kennedy Round, 30,300 tariff concessions with 46 participants; and the seventh Tokyo Round, 250,000 tariff concessions with 99 participants.

1948.⁵⁴¹ The multilateral trade negotiations by the name of Rounds provided developing and less developed nations with a chance of influencing the multilateral system by allowing participants to seek and secure advantages across a wide range of issues.⁵⁴²

The Tokyo Round conducted between 1973 and 1979 with 102 participating countries became the basis for the Uruguay Round.⁵⁴³ Despite the tremendous success in tariff reductions in manufacturing sectors, the Round failed to cope with the fundamental problems affecting farm trade and also failed to provide a new agreement on "safeguards". A series of agreements on non-tariff barriers referred to as "codes" came later to serve as the basis for amendment and extension in the Uruguay Round. The Tokyo Round Agreements on non-tariff barriers were as

⁵⁴¹. Although the ITO Charter was finally agreed at a UN Conference on Trade and Employment in Havana in March 1948, ratification faced some troubles and the US announced in 1950 that it would not seek Congressional ratification of the Havana Charter, which meant the death of the ITO. Since then, the GATT remained the only multilateral instrument to regulate international trade from 1948 until the establishment of the WTO, January 1995.

⁵⁴². The experience of the Rounds tells that concessions can be made easily in the context of a package to contain politically and economically attractive benefits. By the mechanism, most of the GATT's Rounds were aimed at reducing tariffs. The Kennedy Round in the mid-sixties included a new GATT Anti-Dumping Agreement and the Tokyo Round in the 1970s was conspicuous in extending and improving the free world trading system.

⁵⁴³. The reduction of tariff cut was one-third in the world's nine major industrial markets, bringing the average tariff on manufactured products down to 4.7 percent compared with about 40 percent in 1948. The tariff reductions, phased in over a period of 8 years, involved an element of harmonization, bringing the highest tariffs down proportionately more than the lowest. Quoted in Internet Information.

follows:

- 1) Subsidies and countervailing measures-interpreting Articles VI, XVI and XXIII of the General Agreement
- 2) Technical Barriers to trade-sometimes called the Standards Code
- 3) Import licensing procedures
- 4) Government Procurement
- 5) Customs valuation-interpreting Article VII
- 6) Anti-dumping-interpreting Article VI and replacing the Kennedy Round Anti-Dumping Code
- 7) Bovine Meat Arrangement
- 8) International Dairy Arrangement
- 9) Trade in Civil Aircraft

The WTO embraced those non-tariff measures by multilateral commitments and plurilateral agreements.⁵⁴⁴ Given its provisional nature and limited field of action, the success of GATT in promoting and securing the liberalization of much of world trade over 47 years is incontestable.

How was South Korea affected by the previous GATT Rounds? The argument of Ki Hong Kim is that since the membership of the GATT in April 1967, Korea has been regarded as one of the most successful nations in using the GATT system to increase international trade. Korea depends on trade for 60 percent of total GNP and thus, the MFN principle and GSP of the GATT helped to expand Korea's exports especially to the US and EC market. The strengthening of multilateralism through the several rounds of the GATT has created favourable circumstances for Korea's export expansion. The major GATT Principles of Most-Favoured-Nation Treatment, National Treatment on Internal Taxation and Regulation, General Elimination of Quantitative Restrictions and

⁵⁴⁴. Subsidies, countervailing measures, technical barriers to trade, import licensing, customs valuation and anti-dumping are multilaterally committed in the WTO framework and government procurement; bovine meat, dairy products and civil aircraft remain plurilateral agreements.

Negotiations on a reciprocal and mutually advantageous basis, all have functioned to help boost Korean exports into the EC/EU market.

The initial Rounds of the GATT, Geneva, Annecy, Torquay and Dillon concentrated their negotiations on tariff-reductions, while the Kennedy Round first dealt with non-tariff barriers. The Tokyo, and Uruguay Rounds produced substantial agreements on non-tariff barriers. Korea for the first time joined in the Kennedy Round tariff-reduction negotiations after becoming GATT contracting party. An average 35 percent reduction of tariff in 30,000 items was aimed at improving multilateral, liberal world trading order, by which South Korea was able to export manufactured items more easily to the EC market. The relative decline of US competitiveness in the latter part of the 1960s was accompanied by the sharp rise of EC and Japanese competitiveness to compete with US-manufactured products.

The resurgence of a new protectionism was inevitable due to the failure of the world economic readjustment caused by the relative decline of the US economy. Thus, new protectionism was targeted at protecting uncompetitive declining industrial sectors by using non-tariff barriers. In order to deal with this situation, the Tokyo Round was launched in September 1973, ending in November 1979. The importance of this Round was the shift of the focal negotiation agenda from traditional tariff reduction to non-tariff clarification efforts. The favourable treatment of developing nations, including South Korea, was guaranteed by the GSP. The benefit of the GSP was complemented by the Graduation Concept which also required appropriate duty

of benefitted parties, according to their level of development. In the early 1980s, intensified trade frictions between the industrialized group and the newly emerging group, such as Japan, and the NICs, were the underlying motivation for the industrialized group to abuse or violate the GATT regulations by employing grey area measures such as VERs, OMAs etc. Korea was one of trade-dependent nations most severely-affected, by the abuse of non-tariff barriers. In this sense, the GATT Rounds efforts to reduce tariff or clarify the non-tariff barriers were important in its export-expansion strategy. An average 33 percent reduction of tariff after the Tokyo Round also helped the Korean products to sell in industrialized nations' market.⁵⁴⁵

The creation of the WTO originated from the Ministerial Meeting of GATT members in Geneva. After four years painful negotiations⁵⁴⁶ on the work programme, the Uruguay Round was launched in September 1986 in Punta del Este, Uruguay. A negotiating agenda was accepted to cover virtually every outstanding trade policy issue, including the extension of the trading system into services and intellectual property. In 1988, the Ministerial Meeting in Montreal, Canada took the form of a "Mid-term Review, which led to the elaboration of the

⁵⁴⁵. Yong Il, Kim and Park Seung Ki, *Interpretation of the Final Uruguay Round Agreement*, Seoul, Korea: Korea Trade and Economy, January 1994, pp.10-11.

⁵⁴⁶. It took four years of exploration and clarification of issues, and painstaking consensus-building, until the launching of the Uruguay Round, mainly due to the stalled meeting on agriculture.

negotiating mandate for the second stage of the Round.⁵⁴⁷

The Ministerial Meeting in Brussels in December 1990 disagreed on the nature of commitments to future agricultural trade reform, which brought about the extension of the Round. By December 1991, a comprehensive draft text was prepared of the "Final Act", containing legal texts fulfilling every part of the Punta del Este mandate, excluding only market access results. The following two years witnessed continuous negotiations of successes and failures. Irrespective of the deadlines, farm trade, services, market access, anti-dumping rules and the proposed creation of the new institution were hot debating issues. Furthermore, as the major points of conflicts, there were discrepancies between US and EC in agricultural issues which was a central block for a final, successful conclusion. A final resolution on all issues and conclusion on negotiations on market access for goods and services came into being on 15 December 1993. The 125 participating governments signed the deal at the meeting in Marrakesh, Morocco, on 15 April 1994.⁵⁴⁸

The signature of the final deal at last brought about the

⁵⁴⁷. Ministers agreed a package of early results to include some concessions on market access for tropical products, aiming at assisting developing group of nations as well as a streamlined dispute settlement system and the Trade Policy Review Mechanism to provide for the first comprehensive, systematic and regular reviews of national trade policies and practices of GATT members.

⁵⁴⁸. The participating nations adopted a declaration (composed of 8 sub-sections) to build upon the success of the Uruguay Round through the participation of their economies in the world trading system, based upon open, market-oriented policies and the commitments set out in the Uruguay Round Agreements and Decisions.

establishment of the comprehensive WTO in January 1995.⁵⁴⁹

The WTO is much more comprehensive than the GATT. It is open to whoever agrees to adhere to the whole package of the Uruguay Round. Unlike the previous negotiations, members should accept a "single acceptance of all aspects of the agreement." This reflects the breadth of the agreement and the balance struck between the negotiators in the various sectors, increasing transparency and certainty. To be a member of the WTO requires exact awareness of its obligations, too, for a member has to accept the whole package.⁵⁵⁰

⁵⁴⁹. The WTO was established, according to the Marrakesh Agreement recognizing that relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development; recognizing that there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development; and thus, being desirous of contributing these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to elimination of discriminatory treatment in international trade relations; resolved, therefore, to develop an integrated, more viable and durable multilateral trading system encompassing the General Agreement on Tariff and Trade, the results of past trade liberalization efforts, and all of the results of the Uruguay Round of Multilateral Trade Negotiations; and determined to preserve the basic principles and to further the objectives underlying this multilateral trading system.

⁵⁵⁰. Those nations not being a position to accept the whole package, will remain within the old GATT framework, which will exist continuously with the limited, frozen situation in the pre-Uruguay Round with implications that the trade-liberalizing schedules within the Round will only be available to those nations that are members of the WTO.

To give a clearer understanding on the comprehensiveness of the WTO in comparison with the GATT, the following differences will serve to distinguish between them:⁵⁵¹

- 1) Whereas the GATT was a set of rules, a multilateral agreement with no institutional foundation, only a small number of associated secretariats which had its origin in the failed attempt to found an ITO in the 1940s, the WTO is a permanent institution with its own secretariat.
- 2) The WTO are fully and permanently committed, where the GATT has been provisional even if government chose to treat it as a permanent after more than forty years.
- 3) The regulations of the GATT only covered trade in merchandise goods. On the other hand, the WTO covers trade in services, and trade-related aspects of intellectual property in addition to trade in goods.
- 4) While GATT was a multilateral instrument, added by many new agreements with plurilateral and selective nature by the 1980s, the agreements of the WTO are almost all multilateral and thus, involve commitment for the entire membership.
- 5) The WTO dispute settlement system is faster, more automatic, and thus much less susceptible to blockages than the old GATT system, on the other hand, the implementation of WTO dispute findings will also be more easily assured.

The dual existence of the old GATT framework along with the new WTO framework is guaranteed by the end of the 1995 to allow all the GATT member nations to accede to the WTO and to create an overlap of activity in areas like dispute settlement. The updated version of the GATT 1994⁵⁵² is an integral part of the

⁵⁵¹. Kim, Young Il & Park, Seung Ki, op. cit., pp. 20-23; and Internet Service, WTO Home Page.

⁵⁵². The General Agreement on Tariffs and Trade 1994 shall consist of: a) the provisions in the General Agreement on Tariff and Trade, dated 30 October 1947, annexed to the Final Act Adopted at the Conclusion of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment (excluding the Protocol of Provisional Application), as rectified, amended or modified by the terms of legal instruments which have entered into force before the date of entry into force of the WTO Agreements; b) the provisions of the legal instruments set forth that have entered into force

WTO Agreement which will continue to give the key disciplines in international trade of goods.

6.2 The Influence of the Uruguay Round on the ROK-EU Trade Relations

6.2.1 General Overview of the Agreement

The underlying theoretical support for the conclusion of the Uruguay Round is important in the analysis of the Uruguay Round. Traditional trade theorists' emphasis on the advantages of maximum productivity is based upon a strong conviction that international free trade will boost world development. Robert Baldwin⁵⁵³ insists that international commerce based upon comparative advantage leads to efficient use of resources both nationally and globally by inducing countries to concentrate on what they can do best. The gains from specialization and ensuing trade are so conspicuous that any country choosing free trade can benefit.

The problem of trade policy formulation is based upon the fact that the costs of increased import competition are highly concentrated, while its benefits are widely distributed. If the logic of benefit is based upon the concept that concession is defined by reduction of one's own tariffs and gain by opening of the other's market, the international trading system will fall

under the GATT 1947 before the date of entry into force of the WTO Agreement;c) the understandings ;d)the Marrakesh Protocol to GATT 1994.

⁵⁵³. Robert Baldwin, " The Political Economy of Trade Policy", *Journal of Economic Perspectives*, vol. 3, No. 4, Fall, 1989.

into disorder as all pursue their own interests. The successful conclusion of the recently completed multilateral trade negotiations to launch the WTO serve to reduce the spread of protectionism and unilateralism. The factors deterring against protectionism and regionalism are well illuminated in section 1. of the Marrakesh Declaration of 15 April, 1994.⁵⁵⁴

C. Fred Begsten⁵⁵⁵ summarizes the danger of an international trading system without the functioning of an effective watchdog:

The end of the Cold War could sharply heighten the prospect of a trade war... security and economic issues remained largely compartmentalized in all of the industrial democracies. Removal of the security blanket could erode this separation. In short, there is an intimate interaction between the basic international political and economic transformations; removal of the security blanket increases their risk of economic conflict, which could erode security ties.

The end of the Cold War implies a new type of international conflicts caused by the collapse and breakup of

⁵⁵⁴. Declaration:1. Ministers salute the historic achievement represented by the conclusion of the Round, which they believe will strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world. In particular, they welcome:

- the stronger and clear legal framework they have adopted for the conduct of international trade, including a more effective and reliable dispute settlement mechanism,
- the global reduction by 40 percent of tariffs and wider market-opening agreements on goods, and the increased predictability and security represented by a major expansion in the scope of tariff commitments, and,
- the establishment of a multilateral framework of disciplines for trade in services and for the protection of trade-related intellectual property rights, as well as the reinforced multilateral trade provisions in agriculture and in textiles and clothing.

⁵⁵⁵. C. Fred Bergsten, "The World Economy after the Cold War," *Foreign Affairs*, vol. 69, No. 3, Summer 1990, P. 98.

the former Soviet Union. It was context of such a radical transformation of the international system that the Uruguay Round opened in September 1986.⁵⁵⁶

In this vein, the completed agreement would be the engine to push ahead with a world welfare maximization scheme to promote peace and prosperity in the 1990s. If all contracting parties complete ratification procedures and stick to the rules of the agreement, it would greatly contribute to invigorating the free multilateral trading system, reducing some uncertainties existing in the previous framework of the GATT. Had the negotiation failed, resort to use of unilateral and regional measures to extend protectionism would proliferate. The fundamental structural changes of the international system require a new framework to embrace all the conflicting factors ; rules for everybody, not just for the strong. The collapse of the free trade regime will produce unstable factors. Provided that we can achieve the necessary reforms and changes for the successful management of the international free trading system, it is hoped that everybody will reap more benefits.

The product of 2500 days' negotiation, a 550 page final agreement by 117 nations, is a epoch-making event for world trade. The main objective of the Uruguay Round was to further

⁵⁵⁶. The major motivation was caused by the sharp increase of non-tariff barriers in the international trading system. The initiation of the UR has been described by GATT as the most comprehensive and ambitious yet undertaken. It encompasses fifteen negotiating topics, including such new areas as intellectual property, foreign investment and services, as well as old, unresolved ones like safeguards and agriculture.

liberalize the world trade by reducing tariff and other non-tariff barriers.

Table 6.2: The Fifteen UR Negotiating Groups

Group	Declared Aims
1. Tariffs	Reduce or eliminate
2. Non-tariff measures	Reduce or eliminate
3. Tropical Products	Fully liberalize, including processed forms, receive special attention
4. Natural resource-based products	Fully liberalize including processed forms
5. Textile and Clothing	Formulate modalities permitting eventual integration into the GATT
6. Agriculture disciplines,	Increase Liberalization Strengthen GATT rules and make them more operationally effective
7. GATT articles	Review as requested
8. Safeguards	Clarify and reinforce GATT disciplines
9. MTN agreements and arrangements	Improve, clarify, or expand
10. Subsidies and Countervailing measures	Improve GATT disciplines
11. Dispute Settlement	Improve and Strengthen rules and procedures, develop adequate monitoring arrangement
12. Trade-related intellectual property right	Clarify GATT provisions Elaborate new rules and provisions
13. Trade-related investment measures necessary	Elaborate further provisions
14. Functioning of the GATT system	Enhance GATT surveillance of national trade policies Increase ministerial involvement
15. Services	Establish a multilateral framework of principles and rules

Source:GATT

It also sought to correct critical omissions into the international trading system. The inclusion of trade in services, occupying 20 percent of the world trade, and the intellectual property rights(IPRs), which have an adverse

impact on trade, was aimed at having more predictability, clarity and certainty in international trade. It aimed to bring the up-to-date the rules that govern international trade, in line with the transformed realities of the new international trading environment. The major deficiencies of the GATT dispute settlement mechanism were to be adapted to a changed reality with much more flexibility. The question of multilateral level cooperation was addressed for the purpose of ensuring that the link between trade policies and other policies, growth and development, was recognized and, if possible, to help the developing regions. Fair multilateral cooperation is to be institutionally established by following the agreements.

According to the practical aims of the Uruguay Round, the outcomes are categorized as follows: 1) further reduction in tariffs; 2) prevention of further proliferation of non-tariff barriers; 3) reform in agricultural trade agreement.⁵⁵⁷

At least on the surface, all the participating members wished to reinforce multilateralism as the mainstay of the international trading system and decrease the potentially malevolent rise of inward-looking regionalism. The paradoxical inference that the gradual erosion of the international public good accompanied by the relative decline of the US hegemony has gradually invited greater proliferation of trade protectionism, reminds us of the fact that the

⁵⁵⁷. On the detailed purposes of the UR, see GATT, *Ministerial Declaration on the Uruguay Round*, Geneva, 20 September, 1986.

initiation of the Uruguay Round itself reflected the rapid increase of protectionism before the Round. The failure of the Uruguay Round might have produced an exacerbation of trade frictions, which could have led to more arbitrary unilateral action, a slide to overt protectionism and a subversion of outward-looking regionalism into a more dangerous form of closed regionalism.⁵⁵⁸

The common rules to be remembered are well elucidated in the three basic principles of the GATT: non-discrimination or most favoured-nation treatment(MFN), open markets and fair trade. Jagdish Bhagwati⁵⁵⁹ terms the negotiation mechanism of the GATT "a contractarian institution". Multilateral trade negotiations have provided an opportunity through which member nations make their claims and request against the relevant trading partners and seek settlement negotiations through giving concessional exchanges. The life of a system is determined by the wills and actions of its signatories.⁵⁶⁰ Usually, international trade rules are made through these multilateral trade negotiations. The GATT was mainly charged with regulating international trade in goods through the

⁵⁵⁸. Official Publication of the EC, *The Uruguay Round, Global Agreement, Global Benefit*, Luxembourg, 1994.

⁵⁵⁹. Jagdish Bhagwati, *Protectionism*, Cambridge: MIT press, 1988, pp. 35-36.

⁵⁶⁰. The life of the WTO system, in this context, remains to be seen. An *Economist* article, "Mickey Kantor, trade cop," already points out the arbitrariness of the strong player by saying that "The WTO's dispute settlement mechanism, after all, is worth little if member nations that flout multilateral rules are not brought to book." Quoted in *The Economist*, January 13 1996, p.85.

liberalization of the world trade by the negotiated reduction of the tariff barriers. The function of the GATT was limited, which gave strong impetus to the successful conclusion of the Uruguay Round.⁵⁶¹

The Uruguay Round took seven years because the GATT works on a consensus basis and it was difficult agreement among 117 members, with widely divergent and even opposing views. Usually, the successful completion of the Rounds is helped by the nature and process of negotiations: that of reciprocity through which trade barriers are lowered in return for changes of rough equivalence by trading partners. Through this mechanism, the Uruguay Round has resulted in a further liberalization of international trade by tremendous substantial tariff reductions and also by an expansion of the coverage of the system. The conclusion will guarantee the continuous upward trend of the world trade in recent years. This has very crucial implications for both the EU and ROK. The extension of the GATT rules into service and agricultural sectors creates new challenges and opportunities for them both. By further liberalization, Korea with its traditional outward-looking development strategy, will soon become more integrated into the world economic structure.

⁵⁶¹. *World Development Report 1987*, pp. 134-36. It well summarizes the brief history of the Rounds.

Negotiations are usually done through the succession of the Rounds. In case of the EC, the individual members are members of the GATT. But the negotiation representative is the European Commission as a whole. As the number of negotiating parties increases, each round has taken longer and longer to complete.

As Bernard Hoekman⁵⁶² elaborates that the concept of reciprocity was used in the Uruguay Round. Tariffs cuts are to be negotiated through bargaining, reflecting a balance of recognized benefits at the margin rather than via negotiations resulting in a perceived full equality of market access and reverse market access.⁵⁶³ The prospects of agreements is increased, allowing different nations to proceed with negotiations by the level of their marketing openness, admitting the diversities of the political economic situation of the nations.

To prevent the abuse of the system, better rules and disciplines have been negotiated along with liberalization. To protect nations against unfair trade practices, safeguards and anti-dumping were also recognized as the key instruments, by refining to increase their efficiency and guarantee fair application without being abused.⁵⁶⁴ The revised dispute

⁵⁶². Bernard Hoekman, "Determining the Need for Issue Linkages in Multilateral Trade Negotiations", *International Organization*, vol. 43, No.4, Autumn 1989, pp. 694-95.

⁵⁶³. Bhagwati, op. cit., pp. 35-38.

⁵⁶⁴. Agreement on implementation of Article VI of the GATT 1994 covers all the aspects of anti-dumping: it includes Principles, Determination of Dumping, Determination of the Injury, Definition of Domestic Industry, Initiation and Subsequent Investigation, Evidence, Provisional Measures, Price Undertakings, Imposition and Collection of Anti-Dumping Duties, Retroactivity, Duration and Review of Anti-Dumping Duties and Price Undertakings, Public Notice and Explanation of Determinations, Judicial Review, Anti-Dumping Action on Behalf of a Third Country, Developing Country Members, Committee on Anti-Dumping Practices, Consultation and Dispute Settlement and Final Provisions. The Agreement on Safeguards includes General Provision, Conditions, Investigation, Determination of Serious Injury or Threat Thereof, Application of Safeguard Measures, Provisional Safeguard Measures, Duration and Review of Safeguard Measures, Level of Concessions and Other Obligations, Developing

settlement procedure will help Korean firms with more transparency and clarity, providing them with the means of finally settling trade differences, consequently reducing the disruption and uncertainty created by action of the strong against the weak.⁵⁶⁵

The right accorded by the GATT for all member nations to levy anti-dumping or countervailing duties in case their industries are injured by goods dumped in their market or with the help of subsidies, greatly benefitted the industrialized nations which have weak international competitiveness in manufactured goods. The Korean business circle is happy with the new capacity of the WTO to regulate artificial subventions not to abuse the original spirit of the liberal trade regime.⁵⁶⁶

J. Pelkman pointed out that the ineffectiveness of the former GATT mechanism resulted from its being practiced under the international anarchy system. Its effectiveness was largely determined by the determination of the major trading powers to conform to the rules and codes of the GATT or

Country Members, Pre-existing Article XIX Measures, Prohibition and Elimination of Certain Measures, Notification and Consultation, Surveillance, and Dispute Settlement.

⁵⁶⁵. EC Official Publication Office, *The Uruguay Round*, 1994, Brussels, p.9.

There have been a various estimates of the potential economic gains of the UR, starting from an extra ECU 180 billion of global income a year. In addition, a global public procurement market worth ECU 346 billion will be opened up for external tender by the Round.

⁵⁶⁶. J. Pelkmans, "Collective Management and Economic Cooperation", in Cesare Merlini (ed), *Economic Summit and Western Decision-Making*, London: Groom Helm, 1984, pp. 98-100.

otherwise. The limitations of the GATT in the changing international economic environment have been recognized. Trade has contributed to the conspicuous development of the developing nations with outward-looking development strategies. In particular, the ANIEs in East Asia have been the major beneficiaries from the dismantling of the high import barriers.⁵⁶⁷

The conclusion of the Uruguay Round will give impetus for more economic exchanges. The changed structure of international politics is also very favourable for economic expansion of trade. Taking advantage of these changes, the Uruguay Round creates an environment where all the contracting parties will benefit, provided they keep to the rules of the game in the WTO framework.

Table 6.3: Growth Rate of Production and Exports, 1965-1980(in %)

GDP Growth Rate	1965-73	1973-80	1980-89
World	5.0	3.3	3.1
OECD Members	4.7	3.0	3.0
Developing Nations	6.5	4.7	3.8
<hr/>			
Growth Rate of Export Volume			
World	9.2	4.9	4.1
OECD Members	9.5	5.4	4.1
Developing Nations	5.1	3.5	5.4

Source: World Bank, *World Development Report, 1991*

According to the Ministerial Declaration of Punta del Este, the aims of the multilateral trade negotiations were:

- 1) to bring about further liberalization and expansion of world trade;

⁵⁶⁷. According to a World Bank Report, 1963-1973, the annual average GDP growth rate was 9.5 percent for the strongly outward-oriented group, more than the double 4.1 percent attained by the strongly inward-oriented group.

- 2) to strengthen the role of the GATT, improve the multilateral trading system based upon the principles and rules of the GATT and bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines;
- 3) to increase the responsiveness of the GATT system to the evolving international environments;
- 4) to foster current cooperative action at the national and international levels.

The degree of market accessibility through the reduction of tariff and non-tariff barriers by at least a third, was the major debating topic. Reduction of tariff barriers within a 5 year period was a particular result. As a result of various commitments, the final level of tariff for industrialized nations will be decreased from an average of 5 percent to approximately 3.5 percent. To South Korea, non-tariff barriers have been a major impediment to its exports to the EU. However, based upon the concept of reciprocity, developing nations will also be limited in the use of non-tariff barriers. The new balance of payment agreement improved transparency by notification of criteria used to impose restrictions and this, combined with a reinforced consultation procedure and ultimate recourse to dispute settlement, should ensure that any such actions are justifiable. The sector of textiles and clothing has traditionally been a major source of trade friction between the developed and developing nations. The Multifibre Agreement(MFA) will be gradually phased out over the 10 years period available to those members who have difficulties in its adjustment to this changed regime.

Bradly McDonald⁵⁶⁸ argues that from its initial stage, two issues characterized the negotiations with regard to the agricultural sector. One is the reduction of the EC subsidies and the other is liberalization. These had been ceaseless requests by the US and Cairns group for the EC to reduce its domestic and export subsidies. Major exporters insist that all kinds of domestic support policies and protectionist measures should be replaced by tariff. The main focus of negotiation was aimed at agricultural policy instruments for protection. The fixing of tariffs of the existing protection system still allow Community Preference, though greater market access is guaranteed. Setting of minimum export levels and a proposed cut of 36 percent in the new tariff will change the agricultural market. Internal support regimes are allowed to be used and discretionary action is, as a result, possible. The upper limit of 20 percent cut in the global level of internal support over six years is significant. The problem of export subsidies is solved through the commitment by developed nations to reduce export subsidies by 36 percent over a six year period and to decrease the amount of subsidized export by 21 percent over the same period. The major outcome of negotiation in this sector is aimed at a more stable world trading environment, which will make the sector more market-oriented and compatible to the GATT. In parallel with this, the new agreements allows the use of sanitary and phytosanitary measures against protection.

⁵⁶⁸. Bradly McDonald, "Agricultural Negotiations in the UR", *The World Economy*, vol. 13, No.3, September 1990, pp. 298-300.

The reduction of bureaucratic procedures relevant to international trade could bring about more costs and duration of time than is really needed. The Uruguay Round tried to have more transparency against protectionism in the areas of import-licensing procedures, rules of origin, customs valuation, and pre-shipment inspection. In abnormal situations, a nation could seek ways to impose higher levels of protection. The term "safeguard" is usually used, to include a variety emergency measures and anti-unfair trade practices, thus including the GATT Article XIX [see Appendix] safeguards, anti-dumping and countervailing duty actions and so-called grey-area measures which are not subject to GATT rules, such as Voluntary Export Restraints (VERs).⁵⁶⁹

The trend to frequent use of discriminatory and restrictive measures outside the GATT suggests that its safeguard rules are inappropriate and ineffective. The two principal measures allowed in the Uruguay Round are safeguard clauses to protect domestic industries from sudden, unexpected surges in imports and anti-dumping measures to deter against the resort to unfair trading practices. The results of the negotiation reinforced the effectiveness of the instrument, on the other hand limiting the scope and duration of measures. The gradual phasing out of all grey-area measures such as VER and Orderly Marketing Arrangement (OMA) was agreed. In the adopted regulation mechanism, the safeguard Committee will survey and monitor all measures taken and ensure that they are in conformity with the

⁵⁶⁹. A definition of the term "safeguard" was quoted in Jeffrey Schott, *Uruguay Round*, pp. 18-19.

Table 6.4: Uruguay Round: main results

Liberalization

Agriculture

- Tariffication of non-tariff barriers
- Reduction of domestic farm support, production and export subsidies
- import barriers
- Gradual opening of Japan's and South Korea's rice market

Textiles and clothing

- Gradual incorporation of the MFA into the GATT over ten years(1995-2005) via: dismantling of quotas, reduction of tariffs and other trade barriers.

Services[General Agreement on Trade in Services(GATS)]

- Introduction of basic fair trade principles such as non-discrimination
- Abolition of market access unless incompatible with regulations established by member countries' national schedules.
- Special(restrictive) provisions for air transport, labour movement, financial services and telecommunications.
- Further negotiations, especially on financial services.

Intellectual Property Right[Agreement on Trade Related Aspects of Intellectual Property Rights(TRIPs), including trade in counterfeit goods]

- Introduction of measures to protect copyrights, patents, trademarks and geographical indication.
- Third World countries allowed more years to conform to agreement.

Investment[Agreement on Trade-Related Investment Measures(TRIMs)]

- No TRIMs attempts by any government to make the operation of a foreign company within its borders conditional to be used.
- Publication of specific TRIMs deemed to be inconsistent with Articles III concerning national treatment and XI concerning quantitative restrictions on imports.

Public Procurement

- Agreement restricted to 12 signatories(Austria, Canada, EU, Finland, Hong Kong, Israel, Japan, Norway, South Korea, Sweden, Switzerland, USA).
- Tokyo Round agreement extended to open more areas- services, procurement by local/regional governments and public utilities- to international competition.
- Telecommunications and aircraft excluded.

⁵⁷⁰. Patrick Meserlin, " Anti-dumping", in T. Bark & W. Chae (eds.), *Uruguay Round: Unresolved Issues and Prospects*, Seoul, Korea Institute for International Economic Policy, 1991.

Industrial Tariffs

- Increase in the share of trade of goods that is tariff-bound (tariffs are not allowed to increase).
- Increase in the share of trade at zero-bound tariffs.
- Cut of tariffs by industrialized countries by, on average, one third.

Technical Barriers

- Improved rules to reduce trade distortion resulting from restrictive technical regulations (technical norms, testing and certification producers) via harmonized international standards.
- Exchange of information on technical regulations between member countries to create more market transparency.

Origin Rules

- Attempt to avoid trade obstacles by standardizing rules of origin largely thwarted by specific exclusion or origin- rules used, for example, in the EU's preferential trade agreements.

GATT System

Anti-dumping and safeguard measures

- New rules for determining dumping, establishing injury to industry, dumping investigations.
- Introduction of time limits on the use of anti-dumping duties.
- Phasing out of grey measures such as VERs.

Subsidies

- Agreement list of prohibited subsidies including those favoring exports and discriminating against the use of imported goods in domestic production but excluding agriculture, aircraft, regional aid, research and development.
- Third World countries allowed to phase out export subsidies over a longer period of time than developed countries.

Settlement of Disputes

- Removal of consensus voting.
- Introduction of stricter time limits for adoption and implementation of reports.
- Streamlining of procedure with provision for appeals and binding arbitration.
- Curtailment of unilateral decisions by members to seek trade remedies outside the GATT system such as, for example, America's Super 301 clause.

World Trade Organization (change in name of the original Multilateral Trade Organization).

- To be operative not later than 1995.
 - Permanent world trade body covering in addition goods, services, and intellectual property rights.
 - Single institutional framework embracing the GATT, as modified by the multilateral trade agreements embodied in the Uruguay Round and plurilateral trade agreements.
 - Supposed to operate, like its predecessor, on the basis of consensus except for dispute settlements.
-

Source: *Financial Times*, 16 December, pp.4-5.

According to Meserlin, a single consensus seemed to be hard to reach. The negotiations on anti-dumping in the Uruguay Round were targeted at two issues; the enforcement of classic anti-dumping rules embodied in the anti-dumping code of the Tokyo Round and the introduction of new anti-dumping issues not covered by the code. The major conflicts on anti-dumping was between the U.S. and the EU's different positions. The past different regulations and different interpretations of the major trading powers made anti-dumping one of the frequent abuses of the trade rules. The Uruguay Round tried to clarify the complexity and to increase predictability and transparency. The most conspicuous achievement of the Uruguay Round is the acceptance of the principle that firms may, during their starting up period, sell up to 20 percent of their production at a loss, which gives great flexibility in the firms' market strategies.

The question of subsidies in trade is very complex and controversial. Subsidies can be given for economic and non-economic purposes. Ambiguous rules on subsidies could create very distorted results in international trade. For the purpose of ensuring more certainty and clarity, the Uruguay Round provided the green list that will not be subject to retaliatory action by other parties, if they are in conformity with the rules on subsidies. The green list includes regional aid, support for research and development and environmental subsidies with a differentiated discipline for the developed, developing

and less-developed nations. The Uruguay Round defined subsidies as a legitimate tool of social and economy policy, but with more stricter regulation over their use.

The importance of service well reflects that trade in services now accounts for 20 percent of global trade. Updating the trade regimes of the GATT to include services seemed, in some sense, to be urgent, in view of the size of the trade in service sectors.⁵⁷¹ Kakabadse elaborates that the key sources of conflicts in the services negotiations were the different ways and levels of liberalizing services trade, how to apply the MFN principle, and to what extent to allow exemptions with regard to specific service sectors. The anarchy of international service sector rules is subject to very differentiated national rules in terms of access, including reciprocity and other forms of discrimination. The general agreement on trade in services establishes the principle of most favoured nation condition. Some exemptions to MFN are to be sought in specific situations. One of the major sectors in the service area is the financial sector, which forms an integral part of the GATS. For the first time in the history of international economic cooperation, a wide range of banking, securities and insurance activities will be subject to enforceable rules and disciplines on a multilateral level.

Trade-related intellectual properties (TRIPs) and trade-related investment measures (TRIMs) are also an epoch-making

⁵⁷¹. Mario Kakabadse, *International Trade in Services: Prospects for Liberalization in the 1990s*, London: Groom Helm, 1987, pp. 61-65.

achievement of the Agreement. The steeply increasing share of world trade involving intellectual property right and Foreign Direct Investment (FDI) is an important feature of the global economy. The Uruguay Round has deepened and broadened the boundary of multilateral rule-making. The WTO will become an important actor in the international political economy. It will be able to coordinate with other organizations like the IMF or World Bank, etc. to achieve greater coherence in global economic policy-making. The concept of transparency and clarity is especially very crucial to the developing nations.⁵⁷²

Developing nations must bear in mind that fact that they can no longer expect free-riding in the changed setting. South Korea is willing to assume the role of providing multilateral collective goods by responding to the reciprocal outer demands of market liberalization and willing to contribute to helping developing nations in need of help, with financial resources and economic development experience.⁵⁷³ Attention was drawn to the influence of the ANIEs on other developing nations which have adopted free trade in the conclusion of the Round. The economic success of the outward-looking strategies of East Asian NIEs

⁵⁷². The WTO is not the successor of the GATT, 1947. The WTO is a new body open to everyone who agrees to abide by the entire Uruguay Round Package.

⁵⁷³. The GATT demand for Korea's greater role in the management of the GATT institutions resulted in Korea's payment of management fund, of 1,486,720 Swiss Francs, 2.02 percent of the total 73.6 million Francs, which was the sixth largest amount in 1990. Korea's responsibility-sharing efforts to keep the international public good, and multilateral trade rules, were more clearly proved in Uruguay Round negotiations, When she acted as a mediator between the industrialized group and the third world.

creates a strong influence toward free-trade. The rising protectionism of the major trading powers will be slowed down by the conclusion of the Round. Both the developed and developing countries face chances and challenges. The Uruguay Round prevents countries not only resorting to unfair practices in trade, but also from expanding and continuing to use unfair practices. With increased certainty and predictability, all members of the WTO will be in the realm of obligations.⁵⁷⁴

The IMF report says that developing nations will suffer from the costs of transition: the decline of benefit from preference schemes, under which industrialized countries allow specified imports with low or no duties, and also high food costs.⁵⁷⁵ M. Camps and W. Diebold⁵⁷⁶ argue that the GATT as

⁵⁷⁴. *The Financial Times*, 18 November, 1994, says that Market liberalization agreed in the UR could benefit all countries and reduce trade conflicts and protectionism. The IMF analysed that given the fairly long implementation period, any transition costs are likely to be felt gradually, providing time to exploit opportunities opened up by the Round.

⁵⁷⁵. The IMF says that preliminary analysis suggest that erosion of preference margins is small. The main beneficiaries have been the more advanced developing nations, which have more to gain from tariff cuts and liberalization of agricultural textile and apparel trade. However, some nations, notably in North Africa and the Caribbean, which rely overwhelmingly on preferences on industrial products, could be adversely affected. Although developing nations importing much of their food might be hurt by higher prices, farm sectors in other countries could thrive as world market distortions are reduced. Countries protecting their farmers may simply replace their quotas with prohibitive tariffs, the report notes, and anti-dumping measures could still be used for protection. Still, the achievement in market liberalization, strengthening of rules and institutions and extension of discipline to new areas will be far reaching, the report said. Equally important, it has uttered the environmental issues conducive for tackling future challenges in trade policy.

an institution should become the center of the world trading system. But what matters more is not which particular instrument is used, but whether nations accept the fact that the international trading system, the rules and procedures, method of cooperation, formal and informal, that ensure order, promote freedom and provide fairness-is in peril and will only be revised when cooperation is deepened and widened. Those nations whose actions importantly shape the system bear a special responsibility.

6.2.2 Positions and Responses of the Participating Actors

The US, as the most influential negotiator of the Uruguay Round, was very much interested in the bottom line objectives of agricultural and service trade liberalization. Those two sectors will help improve the current deficit of balance of payments. Other key objectives of the US were intellectual property rights and trade-related investment issues, new disciplines on subsidies and anti-dumping policies, and improved dispute settlement procedures. In a similar category, the key objectives of the EU were new rules on services and intellectual rights; acceptance of the principle of selective application of safeguard measures, reforms in dispute settlement including the U.S. Section 301, and the institutional reform of the GATT. Similar contents are observed in case of Japan: strengthening

⁵⁷⁶. M. Camps and W. Diebold, Jr. , *The New Multilateralism: Can the World Trading System be saved*, New York: Council on Foreign Relations, 1983. p.83. - Quoted in Il Young Chung, *Korea in a Turbulent World: Challenges of the New International Political, Economic Order and Policy Responses*, Seoul: The Sejong Institute, 1992, pp. 107-108.

the dispute settlements procedures including anti-dumping, limits on U.S. Section 301, and a new rules on services, investment, and intellectual property rights. Developing nations including South Korea, (though South Korea differs from pure developing nations), focused on agricultural and textile liberalization in the developed nations.

The enhancing of multilateral rules and disciplines will benefit the developing group because they are weak in bilateral negotiations with the OECD group. In particular, the ANIEs, including South Korea, were keenly interested in improving anti-dumping and safeguard codes and dispute settlement procedures and removing various non-tariff barriers in the industrialized economies.

a) Position of the EU in the Uruguay Round

The basic position of the EC in the Round is reflected in the EC's need to be fully aware of over-ambitious programmes accompanied by unrealistic expectations in reference to the US maximalist tendencies.⁵⁷⁷ Stephen Woolcock quoted the European Commission's mandate⁵⁷⁸ as the basis for argument ground that a multilateral approach, including coordination of monetary policy and exchange rates as well as trade, is needed if protectionist policies are to be adequately dealt with. To the

⁵⁷⁷. Jonathan Story (ed.), *The New Europe: Politics and Government and Economy since 1945*, Oxford and Cambridge in the US: Blackwell, 1993, pp.298-99.

⁵⁷⁸. European Commission, *Mandate for the Uruguay Round trade negotiations*, unpublished, 1986. Quoted in Stephen Woolcock, "Trade Diplomacy and the European Community," in Jonathan Story (ed.), *The New Europe: Politics, Government and Economy since 1945*, Oxford and Cambridge: Blackwell, 1993, p.313.

EC, the major aim of the Round was to strengthen and reinvigorate the open multilateral trading system. He further argues that with respect to the US, the EC tried to review the special advantages of some contracting parties in the form of waivers and grandfather provisions.⁵⁷⁹ Japan was another target to which the mandate referred, specifically to the imbalance in real advantages between Japan and her partners. The EC also took the issue of continued special and differential treatment for developing nations with specific reference to the graduation of newly industrialized nations. Newly industrialized nations were asked to accept greater rights and obligations in the GATT.

Woolcock says that the mandate was non-committal on quantitative restrictions, or grey area measures. There was only a general reference to textiles and clothing, mainly because of the Italian and Portuguese resistance to liberalization. As a token of the selfish position of the EC, the mandate stressed that negotiations should not raise the issues in the policies of the contracting parties in agriculture, such as the Common Agricultural Policy (CAP), and all forms of agricultural support should be considered as characteristics of the EC system.⁵⁸⁰

b) Responses and Stances of Korean Government and Firms

Since Korea became an official member of the GATT in April 1967, the GATT system has been a basis to utilize

⁵⁷⁹. Ibid., p.298.

⁵⁸⁰. The Safeguard issue was one of the EC's priorities, partly because it remained an unresolved issue from the previous Round(Tokyo), though tackled in the 1982 Ministerial Meeting, and subsequently in 1983 and 1984.

multilateralism or freedom in the world trading environment, for Korea's rapid export expansion.⁵⁸¹ Korea's improved economic status enabled it to contribute to the management fund of the GATT as the sixth largest contributor.⁵⁸² The significance of the GATT system to Korea has been so manifest that the multilateral Uruguay Round negotiations were a good chance to express Korea's views on conflictual issues of trade between industrialized and developing groups, as a mediator between the two conspicuously divergent views.

The impact of the Uruguay Round on Korea's economy could be analysed into four categories: a) Manufactured-Products market opening issue (tariff, non-tariff, textile and clothing, agriculture, tropical product); b) Institutional reform issues (GATT Articles, MTN Agreement, Subsidies, Countervailing measures, Dispute settlement procedure, Strengthening of GATT functions); c) Market opening of service sector and protection of intellectual property right (IPR); d) Trade-Related Investment Measures (TRIMs). Agricultural market opening threatens the farming basis of Korea in the countryside. Tariff

⁵⁸¹. The specific examples of the favours of the GATT system have been Most-Favoured Nation Principle, and the GSP system, both of which provided South Korea with easy market access to the advanced markets.

⁵⁸². According to the GATT Press Release, 1477, in 1989 Korea grew to be the 13th largest trading entity of the world with the export amount of US \$62.3 billion, 2.0 percent share of the world total export amount, ranking 13th and the import amount, US \$61.5 billion, 1.9 percent and ranking 13th in importing amount. South Korea paid the GATT management fund, 1,486,720 Swiss Francs in 1990, which was the 2.02 percent of the total fund 73.6 million Franc, the sixth largest amount a contracting nation paid in the year. This shows that Korea had already become such important player in the GATT trading system.

reduction and clarification of non-tariff barriers will accelerate the value of foreign products imported into the Korean market. The gradual phasing out of Multifibre Agreement (MFA) also can not guarantee Korea a clear increase in exports in the framework of the GATT principle. The institution-reforming issue could create potential for Korea to get more easy access to the exporting market, especially to the EU market. The domestic market-opening of the service sector and intellectual property rights (IPR) are expected to have great impact on the domestic economic activities.⁵⁸³

On specific tariff issues, the expected reduction of tariff will have both negative and positive effects on Korean strategic export items and import items respectively. Enhancement of international competitiveness is the priority of Korean government plans. Anti-dumping, subsidies and countervailing duties, agriculture, safeguards, textiles and clothing, dispute settlement, trade in services, TRIPs and TRIMs are all important areas to be considered.⁵⁸⁴

⁵⁸³. The opening of non-manufacturing sectors is a challenge to the Korean economy. IPR influences trade pattern in that high-technology product-related IPR protection will change the trading pattern. The application of MFN in IPR, extending to all the contracting nations implies negative aspects for the Korean economy. The service sector even includes the cultural dimension.

⁵⁸⁴. See GATT Publications on general issues, *Draft Financial Act embodying the results of the Uruguay Round of Multilateral Trade Negotiations*, MTN.TNC/W/FA, December 1991; *Final Act embodying the results of the Uruguay Round of Multilateral Trade Negotiations*, MTN/FA, December 1993; and on the specific Korea-related issues, Korea Institute for International Economic Policy, *General Review of the Uruguay Round: Sectoral Analysis of the Final Agreements*, Policy Study Material 93-25, Seoul, December 1993.

6.2.3 Tariff Reduction and More Clarity in Anti-Dumping

a) Tariff

Tariff has been at the heart of the GATT system and dominated the Uruguay Round negotiations.

Table 6.5: Classification of Domestic Industries-Related Negotiating Agenda

Negotiating Agenda	Relevant Domestic Industries	Contents
Tariff	All concerned	Market-opening by tariff reduction
Non-Tariff	All concerned	Market-opening by reducing or eliminating NTBs
Textile & clothing trade	Textile industry & clothing	Phasing out of MFA and liberalization of the
Natural Product	Mining industry	Little impact on Korea
Tropical Product	Tropical Product	Little impact on Korea
GATT Articles Safeguard MTN Agreement Subsidies Countervailing Measures Dispute Settlement Mechanism Strengthening of the GATT function	All Concerned	These issues usually have indirect impact as the institutional reform is conducted
Agriculture product	Agriculture	Market-opening in agricultural sector
Service Trade	Service Industry	Market-opening
IPR	Industries concerned with high-tech sector	Protection of IPR
TRIMs	All concerned	Liberalization of Investment measures

Source: Kim, Ki Hong, op. cit, p.245.

The aim in tariff negotiations was to reduce tariff barriers by at least a third in principle within a five-year period, and to reduce uncertainty through expanding the range of bound tariffs to include a wider range of products for which contracting parties were committed to keep the same level of tariffs.⁵⁸⁵

For the EU exporters, tariffs will fall further as the main industrialized nations have reduced their tariffs to a lower level.⁵⁸⁶ In total, about 40 percent of the EU industrial imports will be duty free in the future. Involved sectors are construction equipment, agricultural equipment, steel, beer, medical equipment, pharmaceuticals, toys, paper, furniture and distilled spirits, which would affect in excess of ECU 10 billion of EU Exports and over ECU 7 billion of EU imports.⁵⁸⁷ The duty-free imports of the EU will directly affect the competitiveness of EU exports as well as make imports cheaper, benefitting both the consumer and manufacturers.⁵⁸⁸

Evaluating the impact on South Korea, the Korea Institute

⁵⁸⁵. For details of negotiation process, see Korea Institute for International Economic Policy, *The Uruguay Round: Progress of Sectoral Negotiations and Prospects*, October, 1990; Kim, Ki Hong, op. cit.; Korea Institute for Industrial Economics & Trade, *The Major Contents of International Commercial Negotiations and Its Policies*, June, 1990.

⁵⁸⁶. The EU's agreement to reduce tariff will drop the present average tariff rate, 5.7 percent to 3.6 percent after the Uruguay Round.

⁵⁸⁷. The EC Commission, *The Uruguay Round*, p.13.

⁵⁸⁸. According to the GATT data, the proportion of the duty-free import after the Uruguay Round is expected to increase from the present 24 percent to 39 percent, \$196,801 million.

for Industrial Economics and Trade (KIET) predicted that the agreed tariff reduction of the Uruguay Round will increase Korean export by \$5 billion and import by \$500 million, reducing the trade deficit by \$4.5 billion annually in future years, after reduction has been completed. The Korea Institute for International Economic Policy (KIEP) calculated an export increase of \$22.5 billion and import increase of \$8 billion in the coming 10 year period. In the same context, Korea Development Institute (KDI) suggested the positive effects of the tariff reductions in the WTO framework would be a five percent increase of Korea's exports and 0.3-0.6 percent import increase during the next five years.⁵⁸⁹ Benefitted sectors are predicted to be steel, metal, chemical, petroleum, rubber, shipbuilding, electronics and semiconductors whereas disadvantaged sectors are expected to be construction equipment, machinery, medical equipment, pharmaceuticals, footwear, textile, and environment equipment.

By reduction of tariffs after the Uruguay Round, the electronics sector will be benefitted to gain more international competitiveness in the international market.⁵⁹⁰ In the domestic market, the electronics sector has been protected by relatively high import tariffs.

⁵⁸⁹. Kim, Yong Il & Park, Seung Ki, op. cit., p.67.

⁵⁹⁰. Ministry of Industry & Trade and Energy, *The Progress Report of the Uruguay Round*, Government Coordination Material 91-2, 1991, p.5-7.

Table 6.6 Tariff Structure in Korea (unit:%)

	1986	1987	1988	1989	1990
Manufactured Goods	18.7	18.2	16.9	11.2	9.7
Raw Material	10.0	9.8	9.8	3.9	3.9
Semi-finished Material	18.1	17.8	17.1	11.7	10.7
Completed Goods	21.8	21.1	19.1	13.3	11.4

Source:Ministry of Finance, ROK.

Therefore, the reduction of import tariff⁵⁹¹ will diminish price competitiveness as we could see the higher tariff rate of finished products rather than raw material and semi-manufactured goods.

Tariff barriers and special tariffs such as special consumption tax assisted by non-tariff barriers, in fact, helped the Chabols' dominant share of domestic market in car and electronics sectors. More imports of EU products are predicted.

b) Anti-Dumping

This has been one of the most frequently used measures to protect certain industrial sectors. The major trading powers, however, have applied different regulations and interpretations. The exacerbation by the US and EU distorted the natural flow of trade. The major task of the negotiation in anti-dumping was to increase the predictability of actions. The clarification of the definition of overheads and profits and the fair comparison of prices will help Korean exporters to avoid the restrictive import regulations of the EU. In the year 1992, Korea's exports

⁵⁹¹. Korea's tariff reduction is expected to drop from the present 18 percent to 8.3 percent after the Uruguay Round

restricted by anti-dumping and other restrictive measures reached 8 percent out of the total. Export expansion in the electronics and steel sectors is expected to increase.⁵⁹²

By the new agreement, firms may sell up 20 percent of their production during their start-up period at a loss, which would provide businesses with greater flexibility in their business strategies. One omission is the non-existence of any common formula to deal with the problem of circumvention, i.e., the re-routing of exports to avoid anti-dumping actions, though individual members of the EU are entitled to develop their own legislation to deal with this problem within the framework of the GATT.⁵⁹³

⁵⁹². Kim, Yong Il and Park, Seung Ki, op. cit., p.85 and see Kim Ki Hong, op. cit, pp.141-147. In Korean.

⁵⁹³. The introduction of the sun-set clause will result in a five-yearly review of each AD action to see if it is still valid. The methodology has been fixed and a disclosure obligation laid down, which will make the procedures of the AD more predictable and transparent.

CHAPTER SEVEN. THE POSTWAR DEVELOPMENT OF THE SOUTH KOREAN ELECTRONICS INDUSTRY

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CHAPTER SEVEN. THE POSTWAR DEVELOPMENT OF THE SOUTH KOREAN ELECTRONICS INDUSTRY

This chapter examines three characteristics of the Korean electronics industry with regard to its postwar development. The key points of the chapter are the increasing dependence of the industry upon the export market including the European Union, the dependence of the industry upon licensed technology from overseas, and the active role of government in assisting the development of technology and setting policy guidelines. The Korean electronics industry is now under pressure to undertake FDI but lacks its own indigenous research and development capacity, and also lacks means to ensure access to its overseas markets. The problem is that liberalization of the market may guarantee access to markets of products, but it does not guarantee access to technology. Another problem is that demands for liberalization mean major reforms in the South Korean domestic market--above all, a reduction in the role of government. Liberalization will inevitably involve a loss of control over the pattern of development of the industry. It is important to emphasize that the Korean government has assisted the industry to develop its own products and research and development capability, and the demands for liberalization and a reduction in the role of government intervention are a problem for the industry, given the importance of the role played by the South Korean state in the promotion of the electronics industry in the postwar period.

7.1 The Characteristics of the Development of the South Korean Electronics Industry

Before examining the peculiar characteristics of the development of the Korean electronics industry, it would be advisable to look at the general characteristics of the electronics industry. The electronics industry today constitutes one of the largest industries in the world economy. It also continues to grow faster than any other industry, thus being regarded as the engine of growth for production and trade of industrial products, as much as of services.⁵⁹⁴

Table 7.1: The Comparison of Growth Rates in Electronics Industry and Economy as a whole(unit: \$ Billion)

	standard year	year size	predicted year	year size	growth rate
World Economy in GDP	1983	8,001	2000	16,688	4.4 %
World Electronics industry	1982	335	1992	841	9.6
South Korea GDP	1984	49,147	2000	147,118	7.1
Korean Electronics industry	1983	1,503	2000	16,986	15.3

Source: Electronics Industry Association of Korea Data

The importance of the industry goes beyond its direct contribution to world trade and output growth. The electronics industry is central to the process of industrial transformation. As an incubator of pervasive technological and organizational innovations, this industry is supposed to submit outdated industrial and market structures to creative destruction, thus,

⁵⁹⁴. OECD Development Centre Studies, *Competing in the Electronics Industry: The Experience of Newly Industrializing Economies*, Paris, 1992, p.13.

paving the way for their modernization.⁵⁹⁵ The significance of the industry has caused the Korean government to accord it strategic importance as the engine of economic growth.

Korea faces a turning point in its industrial policy orientation. It is not an exaggeration to argue that the industrial structure of Korea possesses great potential-arguably the greatest potential of any ANIEs.⁵⁹⁶ The general industrial growth of Korea is still vulnerable to the international trading environment. Korea has owed much of its success to an aggressive approach to technology acquisition, as well as a favorable international environment that has made it a natural collaborator in an international struggle between US and Japanese companies.⁵⁹⁷

According to the Electronics Industry Association of Korea (EIAK)⁵⁹⁸, the Korean electronics industry has achieved such conspicuous development that it is regarded as the world's sixth largest producing nation. In consumer electronics dimension alone, including electronics products and electronic components

⁵⁹⁵. Ibid., p.14.

⁵⁹⁶. See Ernst, D, and D. O'Connor, *Technology and Global Competition: The Challenge for Newly Industrializing Economies*, OECD Development Centre Studies, Paris, 1989.

⁵⁹⁷. Martin Bloom, *Technological Change in the Korean Electronics Industry*, Paris: OECD Development Centre Studies, 1992, pp. 124-25.

⁵⁹⁸. Electronic Industries Association of Korea, 1987-88 *Electronic Industry of Korea*.

and parts, particularly semiconductors,⁵⁹⁹ it ranks third just behind US and Japan. To understand the EU-South Korean economic relationship, a sectoral case study of the electronics industry illustrates how the rapid expansion of Korea's exports to the European Union have caused severe trade frictions. The trade friction has been largest in the consumer electronics sector. South Korea is the second largest producer of colour televisions in the world. In the case of microwave-ovens, of which was initiated in 1980, 1987 recorded South Korea as the largest producer, with 30 percent of the world market in comparison to Japan's 25 percent; Korea has now claimed 40 percent of the world market for VCRs. In total videotape production, it occupies the second place in the world, just behind Japan, and has 60 percent of the world market for standard grade videotapes. As Korean companies diversify and upgrade into progressively higher technology sectors like the semiconductor, Korean technological capabilities and marketing capacities are predicted to be upgraded, and dependence on Japanese and other foreign technologies is likely to be diminished.⁶⁰⁰ Korean firms have become competitors with advanced firms in OECD groups. The key to success has been provided by a coherent and co-ordinated strategy. The Korean electronics industry is widely regarded as one of the most successful examples of industrial

⁵⁹⁹. The *Fortune Magazine*, 14 August 1978 and 31 July 1989, shows that the rapid development of the sector is typically represented by Samsung Electronics's tremendous development in only ten years, from the 197th largest industrial company to the 20th, then to the 15th, excluding US firms.

⁶⁰⁰. Martin D. Bloom, op. cit., pp.20-21.

latecomer strategies. The experience of this industry is unique in the Korean context. One aspect of its uniqueness is that it has relied historically more heavily on foreign investment than any other sector. The replacement of consumer electronics exports by component exports has been a fundamental change. During the last few years, industrial electronics exports have grown very rapidly, and export-oriented assembly of integrated circuits has been completed with fully integrated production of sophisticated computer memories. Despite its own efforts to get accustomed to the changed international environment, the Korean electronics industry is in a very difficult stage of adjustment to a new internal and external environment. Growing protectionism in the US and the EU create formidable challenges to future success. Major competitors in Japan limit the access of the Korean firms to strategic technologies. Foreign firms' tough application of intellectual property right(IPR) and demands to liberalize the Korean market are also impeding the continued success for development of the Korean electronics industry.

The internal environment also impedes further sophisticated development, as could be found in steep wage increases. The importance of Korea's electronics industry as a strategic choice for the future growth engine is facing a difficult phase of adjustment. In the future Korea-EU economic relations, exports of Korea's electronics products are expected to be aware of

continuous trade friction with the EU.⁶⁰¹

7.1.1 Dependence of the Korean Electronics Industry upon Export and Licensed Technology from Overseas

The Korean government adopted a policy of rapid industrial development, based on large scale foreign borrowing to finance investment in export industries. In the promotion of the electronics industry, the same incentives were offered by providing the most successful exporters with a range of benefits- including preferential access to loans at a subsidized interest rate, exemption from certain taxes, discounts on power and freight costs, and access to import licences for machinery and components.⁶⁰² Consequently, the electronics industry in Korea could easily obtain raw materials, components, and machinery that were necessary for producing these exports.⁶⁰³

a) Dependence on Exports

Martin Bloom further argues that the policy options of the Korean electronics firms were largely determined by the Korean

⁶⁰¹. On the future implications of the strategy in the Korean Electronics Industry against the EU, see Yong-Wook Jun and Sang-Gook Kim, "Structure and Strategy in the Korean Electronics Industry," paper prepared for the project on Technological Change in the Electronics Sector, OECD Development Centre, Paris, 1990.

⁶⁰². Martin D. H. Bloom, "Globalization and the Korean Electronics Industry," *The Pacific Review*, Vol.6, No.2, 1993, p.120.

⁶⁰³. The concentration of economic power into a few key industrial groups was achieved by measures which were linked to control over market entry into some export sectors that were protected against imports and against domestic competition.

government's decision for export-led growth.⁶⁰⁴ The concentration of economic power in a few business groups like Samsung, Hyundai, Daewoo, and Lucky-Goldstar was achieved by the special relationship with the government, thus building up export volume as fast as possible in order to obtain the maximum amount of government incentives. It can be said that the promotion of the industry was in line with the government framework of export-led growth, depending upon foreign markets.⁶⁰⁵

Though the basic strategic target of the electronics sector was export-led growth, the domestic market also played a crucial role in the rapid development process.⁶⁰⁶ The Korean market is still, however, too small for cost-effective production of many electronic products.

⁶⁰⁴. Even as of now, the South Korean market with 45 million consumers falls behind that of Japan with 120 million. Korean companies can not compete without access to overseas markets. For most of the electronics goods produced by Korea, overseas markets will remain crucial for the foreseeable future.

⁶⁰⁵. In the export promotion of the electronics sector, limited technological capacity, little brand recognition overseas and no international marketing presence made the Korean government obtain both process and product technologies and access to overseas market through OEM or subcontract production within joint-ventures, though margins were lower and control over product development was overseas. This was due to the characteristics of the industry, whereby technologies are continuously changing, as are the components incorporating those technologies and the end products.

⁶⁰⁶. Prior to 1969, most production of electronics in Korea was for the domestic market. In that year, 52 percent of production was exported, and the level reached 80 percent in 1973. In the 1980s, the level varied between 55 and 65 percent. Consequently, the promotion of production directed to the domestic market has remain below 50 percent throughout the past 20 years.

Table 7.2: Electronics Exports- Products- 1980-87
(percentage of production exported)

	1980	1981	1982	1983	1984	1985	1986	1987
Total Exports	70	58	54	54	60	60	64	64
Semiconductors	100	96	96	95	102	92	92	91
Audio Products	90	90	75	64	73	65	71	79
Televisions	84	57	49	55	69	74	78	77
Computer&Peripherals	59	36	76	55	65	76	80	75
VCRs	0	0	0	0	0	40	78	82
Microwave Ovens	100	94	89	55	92	83	89	90
Video and Audio Tapes	105	88	69	70	74	80	86	83
Telephones	25	16	43	79	64	59	72	74
CRTs	58	11	4	6	11	50	45	40
Magnetic Heads	126	122	117	94	88	83	80	76

Note: More than 100 percent of production may be exported for several reasons. For example, there may be time delays between production in a year and its subsequent export, while some imports may be re-exported.

Source: Martin Bloom, 1992, p.43.

Table 7.3: Electronics Exports- Products- 1980-87
(Million dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
Total Exports	2015	2210	2201	3093	4448	4549	7170	11195
Semiconductors	425	483	623	812	1297	1062	1359	
1967								
Audio Products	462	489	407	464	672	558	754	1573
Televisions	415	489	410	624	751	624	955	1297
Computers & Peripherals	6	12	36	112	283	402	707	1089
VCRs	-	-	-	-	-	205	593	895
Microwave Ovens	11	23	58	116	244	214	483	639
Video & Audio Tapes	41	66	66	100	212	227	426	533
Telephones	6	7	33	152	94	113	183	344
CRTs	57	22	8	17	40	196	244	314
Magnetic Heads	22	32	42	73	109	94	165	176
Others	28 %	27	24	20	17	19	18	21

Source: Electronic Industries Association of Korea, quoted in Martin Bloom, p.42.

As a result, for the major export items, exports represent

at least 75 percent of production.⁶⁰⁷

Table 7.4: Statistics of Production, Export, Import
from 1988 to 1993(unit: Million US \$)

		Industrial Equipment	Consumer Equipment	Sub-Total	Component	Grand Total
1988	Production	4573	9211	13784	9474	23531
	Export	3225	6436	9661	6070	15731
	Import	2287	622	2909	5219	8128
1989	Production	6097	10247	16344	12291	28635
	Export	3485	5948	9433	7131	16564
	Import	2573	670	3243	5683	8926
1990	Production	6345	10141	16486	12432	28918
	Export	3481	5727	9208	8016	17224
	Import	3068	724	3792	6057	9849
1991	Production	7104	11054	18158	14946	33104
	Export	3895	6054	9949	9385	19334
	Import	3530	743	4273	6973	11246
1992	Production	7221	10540	17761	15631	33392
	Export	4227	5966	10193	10490	20683
	Import	3205	777	3982	7668	11650
1993	Production	8172	11198	19370	17095	36465
	Export	4928	6253	11181	11045	22226
	Import	3796	856	4652	7613	12265
Growth	Production	13.2	6.2	9.1	9.4	9.2
Rate(%)	Export	16.6	4.8	9.7	5.3	7.5
1993/1992	Import	18.4	10.2	16.8	0.7	5.3

Source: EIAK, 1994.

Note: Only recent years have been selected for simplicity.

From 1980 to 1987, the importance of exports remained almost at the same level. The Electronics Industries Association of Korea (EIAK) statistics on production, export and

⁶⁰⁷. Martin Bloom, *Technological Change in the Korean Electronics Industry*, Paris: OECD Development Centre, 1992, pp.33-35.

import from 1988 to 1993, show a gradual increase in all three indicators. In 1992/1993, the growth rate in the sector recorded 9.2 percent, 7.5 percent, and 5.3 percent in production, export and import respectively. The growth rate has been gradual and continuous.

Admitting the importance of export for the Korean electronics industry, production for the domestic market in the 1960s and the early 1970s was crucial for radios, black and white televisions, and many other consumer electronics products. This provided the local companies with the conditions to improve quality and price competitiveness before exploring export markets.⁶⁰⁸ Through the 1980s, a pattern of domestic production aiming at the gradual expansion of exports occurred.⁶⁰⁹ While strategic emphasis on the expansion of electronics goods is accorded more importance the future engine of the Korean economy, sales in the domestic market are also expected to play an important role for local Korean companies. Martin Bloom emphasizes that in a commercial world where size is of crucial importance, domestic sales could provide a base level of production. They could also assist in product development, especially where in-house production or government procurement is involved. The impact of economic liberalization on imports

⁶⁰⁸. Martin Bloom, op. cit., 1992, p.34-35.

⁶⁰⁹. Computers and telephones production expanded in this pattern of domestic production to leading to a gradual expansion of exports in the 1980s. For VCRs, the domestic market was a prerequisite as technology licensing restrictions denied access to export markets until 1985. The first assembly of colour televisions reversed the situation with the government ban on domestic sales, quotas having previously been applied on the domestic sales of consumer electronics goods produced locally. Quoted in Martin Bloom, 1992, p. 24 .

will further increase competition in the domestic market.⁶¹⁰

b) Dependence on Foreign Technology

At the initial stage of development in the 1960s, Korean companies owned little technology, little research infrastructure and lacked skilled manpower. The totally-owned American subsidiaries in Korea gave little technology to domestic firms. Without foreign production technology, Samsung Electronics and Lucky-Goldstar had little choice but to acquire technology by purchasing machinery and equipment for electronics assembly. The operation of machinery and equipment enabled them to develop the requisite managerial skills. Aided by their productive low-cost female labour to assemble the basic components and other raw materials, the firms enlarged their overseas market on an OEM basis, with their own brand sales on the domestic market.⁶¹¹ Foreign technology was essential and licensing increased in importance. Korea's own research activities developed and activities expanded to speed up the further absorption of technology into Korean industry.⁶¹²

⁶¹⁰. For the maximum utilization of the domestic market, certain sectors were much favoured with preference for local content requirement for foreign products and local suppliers; government purchasing has been a effective part of government industrial strategy.

⁶¹¹. Martin Bloom, 1993, p.120.

⁶¹². Samsung and Goldstar(now called LG Electronics) utilized joint ventures with Japanese firms to obtain necessary technology in the 1970s. At a later stage, technology-licensing and Original Equipment Manufacturing(OEM) were major routes for Samsung and Goldstar's technology absorption and acquisition as they expanded their own research activities in the electronics sector when the Japanese partners withdrew their joint ventures. The major role of these research institutes in the technological dimension was in assistance to select technologies for licence and in their absorption.

Thanks to the vigorous efforts to acquire basic production technologies to operate machinery and equipment for assembly operations, assisted by recruitment of production management manpower from foreign ventures established in Korea and of Koreans working in the electronics industry in the US, production efficiency improved so considerably that Samsung and LG Electronics could use the latest equipment. However, OEM operation of the industry resulted in a lack of sophistication in production engineering, designing and automated production skills. Korean firms had to try to adapt production machinery to low-volume specialized products to escape the stage of concentration on high-volume of standard products.

As one way of tackling technological handicap, Korean firms strove to make efforts on component production and product development by rapidly expanding their research facilities. Government also assisted in providing incentives along with the extension of the public research system, so that Samsung and LG Electronics could localize product development. With additional government measures to assist in technology acquisition and absorption, they have mastered production processes used in certain major components.⁶¹³ Lucky-Goldstar and Samsung have mastered cathode ray tubes (CRTs) production processes for both television and computers and magnetrons for microwave ovens.

⁶¹³. To achieve this sort of success, the import of foreign technologies increased tremendously from an average of 32 annually in the 1970s to 121 in the 1980s, the amount of total royalties paid to foreigners being US \$1,760 million by the end of 1990.

Table 7.5: The Regional Composition of Korea's Technology Imports by 1990.

	Total	US	Japan	EU	others
No.of Technology Import	1,733(100%)	633(36.5)	870(50.2)	202(11.7)	28(1.6)

Source: EIAK Data

Table 7.6: Comparison of South Korean, US and Japanese Technological level in Electronics

	Basic Science	Applied Tech.	Industrial Tech.		
			Design	Process	Assembly
Korea	Low	Middle	Middle	Middle	High
Japan	Middle	High	High	High	High
US	High	High	High	Middle	Middle

Source: Ministry of Science and Technology, ROK

They are now tackling key materials technologies used for electronic components. Although the level of production skills is advanced, precision-engineering has fallen behind that of the advanced group.

Korean design and product development capabilities still fall behind these of Japan and the US. Still, formidable barriers remain.

Table 7.7: The Export Ratio in Key Korean Electronic Products

Item	Export(\$ million, %) in 1991
Audio	1,579(8.2)
Colour-TV	1,505(7.8)
VTR	1,287(6.7)
Computer	2,120(11.0)
Semiconductor	5,654(29.2)

Source: EIAK, Monthly Progress Report, February 1991

Note: () represents the ratio out of the total exports

Denis Fred Simon and Changrok Soh's definition of techno-nationalism suggests that the post-war period commercial technology issues are likely to become intertwined with basic

national security concerns.⁶¹⁴

Table 7.8: Major Items Export Ratio in Brand Name

	1989	1990	1991
Colour-TV	46.6 %	54.0	60.3
VTR	38.7	40.9	45.5
Electronic Oven	29.1	30.5	34.3

Source: Ministry of Industry, Trade and Energy, ROK

In this context, how to reduce the dependence on foreign technology is of vital importance. The keen awareness of this importance during the last three decades has caused Korea to make great strides in the field of technological development. The Korean economy, once featured by an emphasis on low-cost labour, assembly-type operations has shifted to a new commitment to skill-intensive and knowledge-intensive industries. By gradually increasing total research and development spending in both private and government sectors, Korea has reduced its dependence on foreign suppliers for technology, while some sectors have increased their dependence on others.⁶¹⁵

⁶¹⁴. Denis Fred Simon and Changrok Soh, "Korea's Technological Development," *The Pacific Review*, 1993, Vol.7, No.1, p.89.

⁶¹⁵. This was in part due to a well-developed, well-articulated science and technology system to combine the strengths of business, academia and government.

In the electronic sector, structural problems still exist. The analysis of the Korea Institute for Industrial Economics and Trade (KIET) mentions five problems.⁶¹⁶ The most important structural problem is the backwardness of design and product development technology.⁶¹⁷ The others are weak key materials industry, high volume production of standard product, heavy proportion of OEM export out of the total, and a weak domestic market.

Table 7.9: Domestic Consumption Ratio(unit:%)

Item	Ratio
Consumer electronic products	45.2
Industrial electronic products	45.2
Computers	29.3
Communication Equipment	57.0
Components and parts	32.9
Semiconductors	11.5
others	56.4
Total	41.6

Source: EIAK, 1991 Statistics of Electric & Electronics Products.

In Korean.

The weak domestic market does not function as the test base before a newly-developed item is exported into the foreign market. High dependence on export recorded 58.4 percent in 1991. In addition, the ratio of Original Equipment Manufacturing(OEM) export is 70 percent, which creates a barrier to shifting from low-technology mass production to small-scale

⁶¹⁶. KIET, *The Vision of Korean Industry and Development Strategies toward the 21st Century*, Seoul, Korea, 1994, p.45. In Korean.

⁶¹⁷. For more detailed understanding of Korea's technological development problems, see Changrok Soh, "Political Economy and Technological Innovation: Implications for Development of High-tech industries," *The Korean Journal of Policy Studies*, Vol. VII, 1992.

production of more specialized products.⁶¹⁸

7.1.2 Government Intervention in Strategic Industries

In order to overcome the challenges of adjustment to a new era, broader measures need to be taken by government circles as well as by combined strategy of firms and government. These may include, the strengthening of local parts and components production, nurturing of small and medium sized firm sector, management of domestic market liberalization to minimize disruptions, and steady maintenance of access to foreign markets and technology.

In a developing economy with manufacturing for export being the "engine of economic growth", policy formulation on choice of industry for international specialization has a critical impact on the development performance of a country. Industries to be promoted for export purposes, must be selected properly if the country is to succeed in attaining modern economic growth strength through industrialization.⁶¹⁹ The electronics industry has been promoted as the strategic sector in many industrialized nations. Furthermore, with ever increasing emphasis on technological innovation and with consumption demand for electronics products rapidly expanding, the electronics industry is leading the production innovation in the

⁶¹⁸. KIET Study Report, 1994, pp.45-47.

⁶¹⁹. See Chenery, H. B. and Hughes, H., *The International Division of Labor: The Case of Industry*, IBRD, Staff Working Paper, No. 123, 1972.

- Johnson, H.G., *Comparative Cost and Commercial Policy Theory for a Developing World Economy*, Stockholm: Almqvist and Wiksell, 1968.

manufacturing process.

In this vein, the Korean electronics industry has high potential to be explored and also has an obligation to create new competitiveness, based upon the accumulation of technological experience helped by the high-growth of the industry. It should contribute to the restructuring of industrial structure to an advanced stage and to the expansion of exports; hence, to ultimate economic expansion. The Korean electronics industry is considered as one of the most dynamic export-oriented industries in the recent development pattern of Korean industries. At the initial stages of Korea's industrialization, Korea put export manufacturing in the forefront of its development strategy, and electronics was promoted as one of the core industries. The development strategy of government and the inflow of FDI were major stimuli for the rapid growth of this industry. The close government-Chabol relationship in Korea over the past four decades has been the basis of a government-controlled industrial policy that has facilitated growth and development.⁶²⁰ The Korean government's indicative planning and mechanisms to steer its economy in the desired direction was complemented by the proper role of the Chabols in maximizing growth potential,⁶²¹ despite criticisms of political favouritism and uncontrolled expansion. George C. Lodge's classification of Japan and Korea as being in the

⁶²⁰. See Chapter. Three, Korean Government-business Relationship section.

⁶²¹. Korea's growth rate has been remarkable, averaging almost 9 percent per annum in the period 1965-1985. Exports grew by over 100 percent from 1980 to 1986.

category of communitarianism featured by the developmental role of government seems to be a good analysis.⁶²²

The international specialization plan required Korean government intervention. The electronics industry produces both final goods and electronic components. Final goods can be divided into consumer goods and industrial equipments. The industry was initially identified with consumer goods but over the past 40 years, it has shown remarkable growth through technological innovations in the production of electronic parts and components. The diffusion of innovation and technology to the other developed countries has been rather rapid in the electronics industry. While the electronics industry in general is highly research-oriented and technology-intensive, its production processes are separated into a technology-intensive phase and a labour-intensive phase. The production of semi-conductors requires both chemical and testing processes corresponding to the technology-intensive phase and assembly process at the labour-intensive phase.⁶²³ Whatever the limitations of the industry in terms of dependence on foreign-technology and OEM sales, it has achieved a very conspicuous success.

Korea shares the same attributes as Japan has had. It has

⁶²². George C. Lodge, "Roles and Relationships of Business and Government," in *Business in the Contemporary World*, Winter, 1989, pp.93-108.

⁶²³. For more specialized understanding of the semiconductor industry, see J.E. Tilton, *International Diffusion of the technology: The Case of Semiconductors*, Washington, D.C.: The Brookings Institution, 1971; UN-Centre on Transnational Corporations, *Transnational Corporations in the International Semiconductor Industry*, New York, 1985.

a rather short history of development initiated with the first domestic production of transistor radios in 1958. During the second half of the 1960s, the multinational corporations began to invest in Korea's electronics industry.⁶²⁴ From its initial stages of development, the Korean electronics industry was promoted as an export-industry. The government was very active in inducing foreign capital into the electronics field. It offered various incentives and favours to foreign investors and special privileges to the electronics industry. The rapid expansion of this sector was largely attributable to the investment of multinational corporations and the export-oriented development policy of the government.

At the initial stage, export markets for Korean electronics were geographically highly concentrated into a few regions. In 1973, 62 percent of the total exports went to the US, 15.6 percent to Hong Kong, and 13 percent to Japan. The pattern was based upon the fact that many American and Japanese firms established foreign subsidiaries and joint ventures in Korea to tackle the upsurging labour costs in their local territories. Consequently, the products of these subsidiaries and joint ventures were channelled either to their home markets or to their main customers.⁶²⁵

The historical evaluation of the characteristics of the

⁶²⁴. The multinational corporations which invested in Korea during this period include Komy Corp., Fairchild, Motorola, Signetics, Contrea Data, etc. Quoted in Wontak Hong and Anne, O. Kueger (eds.), *Trade and Development in Korea*, Seoul: Korea Development Institute, 1975, p. 109.

⁶²⁵. Ibid., p.113.

Korean electronics industry from the perspective of its adoption of a pattern of international specialization deserves attention. The imitation pattern involves a nation's borrowing technology and imitating the new product of other nations. Also, domestic market conditions provided incentives for technological diffusion. New technologies were brought in by foreign subsidiaries through their authorized access to the know-how of innovating nations. Such development has been generally evident in the Asian nations, Taiwan, Hong Kong, Singapore, and South Korea. In these nations, the underlying force behind the export expansion of electronics products was provided by the multinational corporations and by the proper role of the government. Multinational corporations brought into Korea capital, technology, production experience and market facilities, the only resource to be provided by Korea was cheap labour. The most attractive feature of Korea for foreign investors was the abundant supply of relatively skilled workers with low wage rates and high productivity.⁶²⁶ Also target-oriented approaches of the government in the past succeeded to a considerable level. In the future, however, it will not be adequate to cure the shortcomings of the past development pattern.

⁶²⁶. Ibid., p.117. As pointed out already, comparative advantage in the electronics industry shifted among the advanced nations over the product cycle, stemming from a combination of technological diffusion, economics of learning and low wages. The multinational corporations were setting up a base in a low-wage countries to supply markets in developed nations.

7.1.2 Vulnerability of the Korean Electronics Industry

The vulnerability of the Korean electronics industry is highly influenced by the trade policy of the competing nations. In the past four decades, the favourable international trading environment enabled Korea's electronics industry to achieve rapid development with the active support of government. Korean electronics firms are now forced to move up markets and diversify their product range in response to pressures on their existing business, particularly in consumer electronics markets. The heavy dependence on imported components indicates the comparative low level of accumulated technology and low level of sophistication. Samsung Electronics, with components imports of 36-60 percent of the value of its main products from Japan in 1987, was at the middle level of accumulated technology or accumulation. By and large, the major Korean electronics firms were not in the category of high level technology accumulation in 1987. Around the mid-1980s with an average of 60 percent of all components imported and almost 60 percent of domestic production of components in foreign owned subsidiaries or joint ventures, vulnerability remained at the same level. Despite tremendous strides of the industry, it still has a long way to go in technological sophistication to reach the level of top-ranking firms in the industrialized nations.

However, looking at the recent agreement between NEC, the Japanese electronics company, and Samsung, Korea's largest semiconductor manufacturer in 1995, to produce semiconductor chips jointly in Europe, Korean firms' technological level in the international scene has been recognized. This project is

particularly meaningful in that the project was negotiated on equal terms in technology and its marketing capability. Of the world's 10 largest manufacturers of current generation 4-megabyte D-Rams, six are Japanese and three are Korean. Samsung's strong financial capacity and its ability to invest quickly in development projects and manufacturing operations, and NEC's greater expertise in the non-memory chip field with sophisticated technology, are complementarity and mutually beneficial.

However, despite a few successful cases, lack of sophistication of technology has become an important constraint for the future business strategy of Korean firms.⁶²⁷ The heavy dependence on imports of components and local joint-venture production does not reduce the vulnerability of Korean manufacturers, and gives comparatively little strategic leverage. High-value added, imported components increase ex-factory prices, thus giving Korean firms smaller margins. The heavy dependence on foreign components ultimately makes the Korean product more vulnerable to foreign competition.⁶²⁸

The problem is not acquisition of technology, but of acquisition of technology at the early stages of its production-life cycle. The capacity of the Korean companies to get and absorb technology, to produce and develop new products, and to adjust to changing circumstances, in some measure, is a reflection of the level of the development of Korea's research

⁶²⁷. The constraints of the Korean electronics company is generally surveyed in Chap. 8.

⁶²⁸. Martin Bloom, *op. cit.*, pp.15-16.

infrastructure. They are asked to be able to develop new product ideas and produce them at a competitive cost in order to create and promote a new market, tackling the major trade barriers of the existent market. Research and development is very significant. Its structure has been built up in a few Korean companies, which will be functioning as the basis of technological creation in the future. As of now, the innovative capability of Korean firms is not high, though more efforts are expected to bear fruits in the latter part of the 1990s.⁶²⁹

7.1.4 Trade Liberalization Pressure Upon Korean Electronics Industry

Korea benefitted very much from the favourable international environment at the initial stage of its industrial development. The situation has changed⁶³⁰, partly as a result of its own success and that of other exporters. The government can no longer control industrial development as it did in the past. Internal and external pressures and constraints are forcing both the Korean government and industry to respond in ways which require modification of Korea's traditional

⁶²⁹. The core argument of this part is based upon a personal interview with Seung Koo OH, Senior Economist, American & European Studies Dept. Samsung Economic Research Institute, Seoul, Korea. It was done in 23 July 1994 at the Research Institute.

⁶³⁰. On the changed situation of the world trading environment, Chapters, I, II, III give details. Technological factors are mainly discussed in this chapter. Regarding the paradox of the U.S. role in reflecting the transformed circumstances of the world trading system, Jay Branegan wrote a short article, "Uncle Sam Won't play: The U.S. pulls out of a crucial deal on financial services. Is it still committed to free commerce?" *Time*, July 24, 1995.

industrialization and adjustment strategy. Korean exports have been expanded with rapidity, which has caused considerable trade friction in Korea's major export markets- the US and the EU. The accessibility of the Korean markets to their manufacturers and businessmen has been recognized as a core dispute point. In particular, the US has pressed for a revaluation of the Korean Won to reduce the competitiveness of Korea's export products. Liberalization of Korea's trade regime was also demanded in the Uruguay Round negotiations.⁶³¹ In particular, the Korean government promoted revision of 48 relevant domestic laws to suit the multilateral trade record, including those concerned with farm subsidy, tariff rates, and trade procedures by the end of 1995. This was done in the belief of the importance of international trust-building is important.⁶³²

The Korean government is on the process of liberalization of imports.⁶³³ Korea is faced with the task of liberalizing imports fast enough to satisfy the US and the European demands.

⁶³¹. According to the report of *Korea Newsreview*, November 18, 1995, Korea will newly open 22 business sectors to foreign investment and expand the scope of liberalization for 26 partially-opened industries between 1996-2000, according to a government plan. Out of the 48 business areas, 27 will be opened fully to foreign corporate investors with the remaining 21 partially opened, according to the '95 five-year foreign investment opening programme announced by the Ministry of Finance and Economy. Partially opened between 1996 and 2000 will be such industries as investment trust, general and specialized tutoring, rental of housing units and regular air cargo services. Foreign investors will be allowed to set up wholly-owned corporations engaging in fully-opened business sectors, while their stake or scope of operation will be restricted in partially-opened areas.

⁶³² *Korea Newsreview*, May 20, 1995, p.22.

⁶³³. On Korea's market liberalization efforts, see Chapter 5.

The government also has to protect domestic markets, especially where production is still based upon assembly of imported components. Gradual liberalization of imports with step-by-step improvement of transparency is making the Korean economy more integrated into the world economic system. In the mid-1970s, Korea gradually started to liberalize current account transactions. In 1978, an ambitious intermediate-term import liberalization plan was announced, suspended and resumed in 1981 with the adoption of import-surveillance system and preannounced schedule. The next import liberalization schedule was announced in 1984, and extended in 1985 to include the period 1986-1989. The speed of liberalization was particularly accelerated since 1986 when Korea began to record trade surpluses. A tariff reduction schedule was also announced in early 1983 and again in 1988.⁶³⁴

Table 7.10: Average Tariff Rates, 1980-92(percentages)

year	Average Tariff Rate
1980	24.9
1981	24.9
1982	23.7
1983	23.7
1984	21.9
1985	21.3
1986	19.9
1987	19.3
1988	18.1
1989	12.7
1990	11.4
1991	11.4
1992	10.1

Source: The Office of Customs Administration, Korea.

⁶³⁴. Il Sakong, *Korea in the World Economy*, Washington DC: Institute for International Economics, January 1993, pp.208-209.

As a strategic response to protectionism in the US, and too heavy reliance on Japan for key components imports, Korea is endeavoring to decrease its high degree of dependence on the two nations in its trade: this is usually aimed at increasing imports of components from the US and Europe, while promoting the increase of exports of finished products to Europe, Japan, China and the member nations of the CIS. As a commercial strategy, the Korean subsidiaries of conglomerates have begun to sell products overseas, under their own brand names through overseas agents or their own sales networks.

7.1.5 Foreign Direct Investment by the Korean Electronics Industry

As a response to external pressures, Korean companies are moving some production overseas. Since 1987, Samsung Electronics and Goldstar have been leading the overseas investment shift as part of their diversification strategy.⁶³⁵ Major companies have set up assembly operations in the US and Europe to seek more market accessibility. If allowed, they import components from Korea or traditional suppliers. But, this is very vulnerable to the rules of origin. The second type of investment is to build overseas factories to overcome the high costs of labour in local markets, as was done in Southeast Asia. The third one is that the larger companies have set up or acquired overseas design or research operations bases, especially in

⁶³⁵. According to the statistics of *Fortune*, July 29, 1991, out of 45 largest world electronics companies, Samsung ranked the third in sales value, with \$45,042 million; Daewoo ranked 33th with sales \$22,260 million, and Goldstar 34th, with \$4,225 million.

California, to help them in semiconductor, telecommunications and industrial electronics fields.

Table 7.11: Outgoing FDI, 1968-1990

Years	Total approval		Accumulated net investment		
	No. of cases	Thousands of dollars	No. of Cases	Thousands of	dollars
d	o	l	a	r	s
1972	15	2,739	32	18,311	
1976	39	17,800	100	56,537	
1979	51	102,412	269	126,499	
1983	67	83,240	401	393,383	
1986	74	358,504	475	633,341	
1987	109	356,235	534	966,056	
1988	253	479,593	668	1,119,162	
1989	369	926,935	899	1,444,144	
1990	515	1,600,000	1,244	2,335,500	

Sources: Bank of Korea, Economic Statistics Yearbook, various issues.

Table 7.12: Annual growth rate of Korea's outgoing FDI, 1987-90

Annual growth rates of FDI	1987	1988	1989	1990	Average 1987-1990
On approval basis					
No. of cases	47.3	132.1	45.8	39.6	66.2
Amount	-0.8	34.8	93.1	72.6	49.9
In actual investment					
No. of cases	82.0	81.3	53.9	44.9	65.5
Amount	130.8	-45.8	128.8	107.3	80.3
In accumulated net investment					
No. of cases	12.4	25.1	34.6	38.4	27.6
Amount	52.6	15.8	29.0	61.7	39.8

Source: Bank of Korea, Economic Statistics Yearbook, various issues.

7.1.6 Electronic Sector's Heavy Dependence on the Chabols

Korea's electronics sector is substantially concentrated in the subsidiaries of Samsung, Lucky-Goldstar, Daewoo and Hyundai,

occupy 56 percent of total production and 41 percent of all foreign technology agreements. 80 percent of all the private research staff in this sector are employed by these four groups. Their special privileges allow them to have access to government research facilities and project funds. In case of quantitative restrictions from the exporting nations, these four groups receive a much higher allocation of any quotas. Government policies to cut the power of the *Chabols* were introduced to reduce the influence of the large conglomerates.⁶³⁶

Table 7.13: Chabols' share of employment and shipment, 1977-87(percentages)

Top Chabols	Employment			Shipment share		
	1977	1982	1987	1977	1982	1987
Top 5	9.1	8.4	9.9	15.7	22.6	22.0
Top 10	12.5	12.2	11.9	21.2	30.2	28.2
Top 15	14.4	14.5	14.0	25.6	33.9	31.6
Top 20	17.4	16.0	15.1	29.3	36.6	33.9
Top 25	18.9	17.1	16.3	31.9	38.8	35.8
Top 30	20.5	18.6	17.6	34.1	40.7	37.3

Source: Kyu-Uck Lee and Jae-Hyung Lee, *Business Group and Concentration of Economic Power*, Seoul: Korea Development Institute Press, 1990. In Korean.

The changes in the international trading environment have forced Korea's strategy to be modified. In the face of environmental uncertainties, more coordinated and intensified cooperation is needed between governments and corporate organizations.

⁶³⁶. On October 9 1995, the Ministry of Finance and Economy announced measures to liberalize and foster healthy FDI by Korean firms. The new policy guidelines call for companies to finance at least 20 percent of an overseas project with their own funds when the investment amount is \$100 million or more. It is likely to be an excessive burden in the long run.

Table 7.14: Chabols' share of shipment in manufacturing sectors, 1987(percentages)

Top chabols	Food beverage tobacco	Textiles wearing apparel leather	Chemicals petroleum, coal rubber, and plastic products	Fabricated metal products, machinery and equipment
Top 5	4.9	6.3	27.4	40.9
Top 10	6.0	10.2	37.0	46.4
Top 15	18.3	13.5	40.6	47.1
Top 20	22.6	13.5	46.2	47.8
Top 25	23.8	18.2	46.3	48.7
Top 30	26.2	20.4	49.0	49.2

Source: Ibid.

The past successful experience of export-led growth based upon foreign technology and components will no more be effective as leverage in establishing international competitiveness. With the political repercussions of export expansion, increasing trade restrictions require less intervention by the government in the management of the economy.

Success is usually assured to large integrated companies capable of financing the massive investments needed to commercialize newly developed technologies and operate smoothly without failure in the competitive international markets. In this context, the large conglomerates are in the best position to secure chances to diminish the level of dependence on foreign technology and imported components with high ex-factory costs. After an economy achieves a certain expansion, government control loses its validity, from the efficiency point of view. Large companies with distribution and information networks will become more able to compete internationally without government assistance and start to move their production offshore to pursue a globalization strategy.

Korean companies are trying to diversify into higher technology sectors. As in the past, licensing, joint ventures and OEM deals tied to imported foreign components will also play a certain role in attracting more higher technologies.⁶³⁷

The democratization movement leading to the major labour strikes and upsurge in wage levels, coupled with the high level of the won, Korean currency, has greatly undermined some of the cost advantages that Korea has enjoyed in the past. The development path of the electronics industry in the 1980s has also generated a number of challenges and constraints which require more fundamental and creative operation.⁶³⁸

7.1.7 South Korea's Electronics Products Exports into the EU Market

According to the EIAK's estimation,⁶³⁹ Korea's electronics industry will continue to record an annual increase of 12.1 percent in production rate, and 12.4 percent in export

⁶³⁷. It is true that export-led growth based on foreign technology and components provides a method of rapid industrial development. However, with the more restrictive measures in technology acquisition, it is a high-burdened strategy in case there is no large market or strong technological base.

⁶³⁸. See Kim Kwang Suk and Michael Roemer, "Growth and Structural Transformation", *Studies in the Modernization of the Republic of Korea: 1945-1975*, Cambridge, Massachusetts: Council on East Asian Studies, Harvard University, 1979 ; Jones, P. Leory and Il Sakong, "Government Business, and Entrepreneurship in Economic Development: The Korea Case", *Studies in the Modernization of the Republic of Korea ; 1987-1988 Electronics Industry of Korea*, Electronics Industry Association of Korea; 1994 *Electronics Industry of Korea*, Electronics Industry Association of Korea.

⁶³⁹. EIAK, *Electronics Industry Almanac*, 1992.

increase rate until the year 2001. Thus, the share of the electronics industry in the manufacturing sector by the year 2001 will be expanded from 14.4 percent in 1991 to 16 percent. Exports' share of the total manufacturing sectors will be increased from 27.4 percent to 34.4 percent.

Table 7.15 : Amount of production, export and import
from 1992-1993 in Korea (unit: \$1,000 US)

Year	1992	1993	Growth Rate(%) in Amount
Production	26,079,518	29,264,068	12.2
Import	11,650,340	12,265,998	5.3
Export	20,683,127	22,227,131	7.5
Indirect	3,303,430	3,501,856	6.0
Domestic	6,976,665	8,039,493	15.2

Source: Electronics Industries Association of Korea, *Statistics of Electronic and Electrical Industries*, Seoul, Korea, 1993, p. 9.

* Some statistics modified.

Looking specifically at the EU market, we can see that the EU has lost competitiveness in comparison with Japan and the US, except in the communications equipment sector. As a result of this, the EU has frequently resorted to non-tariff measures of anti-dumping, quota restrictions and other import restriction measures. The EU's efforts to restore its competitiveness are reflected in its programme to develop technological power by launching the EUREKA programme, including the ESPRIT plan in the electronics and information industry field, and the RACE plan in the communications industry.⁶⁴⁰ After launching of the Single European Market, firms' strategic alliances and collaborations within the single market proliferated to improve international competitiveness. Korea should take advantage of overseas

⁶⁴⁰. EIAK's *Electronics Industry Almanac*, 1992.

production by utilizing the benefit of international standardization.⁶⁴¹

Table 7.16: Major Quantity and Amount of Korea's Export to European Nations in 1992 and 1993 in Industrial Equipment, Component, and Consumer Equipment Total
(unit: QTY:1,000 PCS, Set AMT:1,000 US\$)

Year	1992		1993		Growth Rate(%)
	Quantity	Amount	Quantity	Amount	
Belgium	28,502	124,198	31,154	96,641	-22.2
Denmark	40,819	31,352	26,431	32,843	4.8
France	667,817	359,635	656,616	362,986	0.8
Germany	1,572,506	1,139,458	613,906	1,061,748	-6.8
Greece	6,474	21,543	7,033	27,014	25.4
Ireland	20,659	27,974	12,084	24,988	-10.7
Italy	249,249	195,789	242,551	178,492	-8.8
Luxembourg	353,854	332,983	210,176	334,439	0.4
Portugal	6,466	34,803	3,568	23,440	-32.8
Spain	48,251	168,965	58,415	187,322	10.8
U.K	514,778	639,712	584,958	708,480	10.7
Austria	104,141	119,548	97,116	115,102	-3.7
Finland	39,649	28,286	7,446	31,748	12.2
Norway	715	26,926	1,369	34,604	28.5
Sweden	23,295	77,406	32,478	97,955	26.5
Switzerland	24,690	68,464	25,257	65,481	-4.4
Turkey	171,289	204,170	268,277	202,470	-0.8

Source: Electronics Industries Association of Korea, *Statistics of Electronic and Electrical Industries*, Seoul, Korea, 1993, pp. 49-206.

* Only the total of each nation is quoted.

The only way to overcome market entry barriers is through the promotion of international competitiveness in prices and quality.⁶⁴² Woo argued that among the many sectors, the manufacturing sector should be the engine of the future growth

⁶⁴¹. KIET, *The Vision of Korean Industry and its Development Strategy*, Seoul: KIET Publication, 1994, p.54. In Korean.

⁶⁴². I had a informal chat with Woo, Kook-Bin, Deputy-Director of International Cooperation Department, Korean Productivity Center, Seoul, Korea, August, 1994. The general topic was the regionalization and globalization of the world economy and Korea's manufacturing sector's response strategy.

by restoring its production vitality, and securing comparative advantage in the world structure of international division of labor.

Entering the 1990s, we witness the co-existence of the spread of a free trade regime and regionalization of the world economy, which are the major features of the new international economic order. The globalization of the world economy is accelerated by the successful conclusion of the Uruguay Round. Since 1987, Korea's electronics industry has been leading the growth of the Korean economy as the biggest exporting industry sector. It accounts for 14 percent of domestic manufacturing production and for 27 percent of the total exports. However from 1989, we have seen the relative slowdown of the export expansion rate. This is partly caused by the heavy dependence on foreign technology and key components and materials and the mass production system for low and middle level products, export through OEM and finally the weak domestic market demand, accompanied by structural problems.

Focusing on the future domestic market, an annual 12.1 percent production increase and 12.4 percent annual export increase is expected, making this a growth-leading sector. By the year 2001, production and exports of Korea's electronics industry in the world market are estimated to rank as 5th.

The most important factor in reaching the target is production base expansion by Korean technology, and change of major production items toward the high VAT items such as industrial equipment.

Table 7.17 : Korean Electronics Companies in 1988
(US million dollars and %)

Companies	Amount of Sales
Samsung Electronics	4,427
Goldstar	4,131
Daewoo Electronics	1,622
Goldstar Cable	830
Samsung Electron Devices	829
Hyundai Electronics Industries	677
Samsung Electro-Mechanics	581
Taihan Electric Wire	478
SKC	405
Samsung Corning	378
Goldstar Semiconductor	357
IBM Korea	342
Motorola Korea	307
Anam Industrial	300
Samsung Aerospace	300
Daewoo Telecommunications	251
Goldstar Alps Electronics	249
Orion Electric	246
Goldstar Telecommunications	239
Korea Electronics	224

Name of the company	Proportion of the sales
Samsung	23.4%
Goldstar	22.9%
Daewoo	6.8%
Hyundai	3.2%
Others	40.0%

Source: *Korea's Top Electronics Companies*, Electronics Korea, October and November 1988.

* Samsung Electronics was merged with Samsung Semiconductor and Telecommunications in 1988.

7.2 Korean Electronics Industry's Strategy of Globalization & Localization; and the EU's Restrictive Trends in Korea's Electronics Exports

7.2.1 Dilemmas of the Korean Electronics Industry

In the era of a technological development trade war⁶⁴³, a

⁶⁴³. The concept of the trade war has been intensified since the collapse of the Cold War structure. A new trade order requires the competitiveness of firms to survive in an ever-increasing competition to seek more national benefits. See more P. Cowhey and J. Aronson, "A New Trade Order," *Foreign Affairs*,

key aspect of Korea's development process has been the acquisition and absorption of technology. In the Korean case, as in the other developing nations, there was little technological ability at the initial stages of development. Inadequate research infrastructure and shortages of skilled manpower hindered the smooth development of Korea's electronics industry. Foreign technologies were vital and joint ventures provided the main source of foreign technology into the Korean industry.⁶⁴⁴ The main features of the electronics industry in the initial development stage are reflected in its characteristics and general situation today. Large companies, as well as medium and small-sized companies, are afraid of transformation in line with the world trend of internationalization. Traditionally, growth of the electronics industry was firmly rooted in the consumption of the domestic market. Internationalization should not be aimed at escaping firms' lack of competitiveness. Rather it should be aimed at constructing a strong base in credit and technology in the overseas market. Those efforts must include greater specialization and sophistication of the electronics firms, active technology development and marketing strategies, close cooperation between large and small firms, and finally, continuous education for internationalization of human

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⁶⁴⁴. On the importance of technology for economic growth, see D. Ernst, "Innovation, International Diffusion of technologies and the World economy-Comments," in F Areangeli, P. David and G.Dosi (eds.), *Technology Diffusion and Economic Growth*, Oxford and New York: Oxford University Press, 1991.

resources.⁶⁴⁵

The strategic importance of Korea's electronics industry can be seen from the data. Out of the total exports in 1982, the electronics industry contributed 9.5 percent. This proportion rapidly increased to 27 percent in 1992. This increase was mainly caused by a huge facility investment and good labour force with cheap wages, with export-promotion incentives by the government. As a result of this rapid growth, Korea ranks the sixth largest electronics products-producing nation, with 7.6 percent output out of the world-total output; in particular, it ranks third in home appliances, just behind Japan and the US.⁶⁴⁶

Table 7.18: Share of the Electronics Industry in Korea's Economy (unit: \$ million, billion Won, %)

	Exports			Production		
	Electronics	Total	Ratio	Electronics	Total	Ratio
1982	2,069	21,853	9.5	791	14,996	5.3
1987	11,133	47,281	23.5	3,208	34,903	9.2
1992	20,683	76,632	27.0	6,885	63,209	10.9

Source: Korea's Electronics Industry Association

The growth of Korea's electronics industry under the assembly structure has produced the following features:

- a. low ratio of industrial electronics because its growth depended heavily on finished, natural products;
- b. the weak competitiveness of the Korean firms because of the dependence of key technology, components and parts, and brands on the foreign firms, resulting in low

⁶⁴⁵. Korea Electronics Daily, Tuesday, 19, April, 1994-Special annual series, "Let's promote the competitiveness of Korea's electronics industry".

⁶⁴⁶. The rapid increase of the FDI into Europe and the ASEAN region would upgrade the status of Korea as one of the most fastest growing electronics nations. For more details, see Chapter 8.

- localization ratio of key components, and high OEM method;
- c. a few items targeted towards exports based upon price competitiveness;
- d. low efficiency and weak self-growth base because of the monopoly of the market by the big assembly firms and the backwardness of small and medium sized firms;
- e. heavy dependence on the US and Japan for technology transfer and components imports.

Table 7.19: Position of Korea's Electronics Industry in the World (unit:\$ 100 million)

Nations	Total Output	Home Electronics	Industrial Component	
USA	2,010	60	1,509	441
Japan	1,857	312	947	598
Germany	508	38	359	111
France	289	17	231	41
UK	277	23	207	47
S. Korea	263	68	70	125
Italy	224	9	187	28
Singapore	168	19	94	55
Taiwan	154	15	81	58
Brazil	126	22	83	21

Source: Korea's Electronics Industry Association

The structural changes in the domestic markets have shaken the base that made the growth possible. The 100 percent liberalization of imports regulations after 1988 in the electronics sector and the deregulation of imports procedures, presented challenges and risks to the electronics firms in Korea. Foreign firms' domestic market penetration will be accelerated since the opening of the distribution market in July, 1993.⁶⁴⁷ Table 7.20 shows the sudden increase in rates of electronics products imports to the Korean market.

The liberalization of the electronics sector was conducted

⁶⁴⁷. On the Korean government liberalization scheme, see Chap. Four; on specific foreign investment liberalization, see Ministry of Finance, Republic of Korea, The Guide to Foreign Investment in Korea, Seoul, pp.96-121.

via the government' gradual liberalization scheme. The opening of the distribution market and 100 percent liberalization of the import regulations of the electronics sector were in active response to the demands of the US and the EU, further accelerated by the Uruguay Round Negotiations.

Table 7.20: Importing Trend of Major Electronics Items, 1993, the End of May, 1994(unit: \$1,000, Percent)

Item Ratio	1993 Increase Ratio		End of May 1994	Increase
Wire communication equipment	204,229	14.1	92,905	64.9
Cordless Communication equipment	718,419	18.5	343,172	53.7
Computer	1,851,761	13.0	865,443	34.2
Measuring equipment	361,952	30.0	236,033	107.0
Semiconductor	5,041,679	-7.1	2,390,189	14.0
Color TV	8,759	17.6	3,375	11.5
VTR	21,409	-22.3	14,475	66.3
Audio equipment	512,246	15.5	193,086	1.1
Refrigerator	27,290	1.5	16,794	81.4

Source: EIAK, *Conference Material for Government-Private Firms Consultation Meeting on Electronics Sector*, 8 July 1994, p.14.

As a subsequent symptom of these measures, it has been common in recent years to see foreign electronics products in departments and distribution networks in Korea.⁶⁴⁸

Table 7.21: Ratios of the US home electronics market Share by Nations(unit: %)

	1988	1990	1991	1992	1993(January-August)
S. Korea	12.5	10.1	10.0	9.9	8.3
Japan	55.1	52.5	51.9	46.0	46.1
Malaysia	-	2.0	7.5	10.2	10.7
PR China	-	-	6.5	7.3	7.9

Source: EIAK

Table 7.21 also shows the very difficult position of Korea,

⁶⁴⁸.EIAK 1992 *Electronics Industry Almanac*, p.60.

being followed by Malaysia and People's Republic of China. Korea is in the position of a sandwich between highly sophisticated products and the low and middle range products manufactured by the ASEAN, China and Mexico whose cheap labour gives price competitiveness.⁶⁴⁹

7.2.2 Globalization, Liberalization as a Strategic Choice

As one of the fostering factors to stimulate Korea's internationalization and globalization, the world trend of regionalization is restricting the favourable international environment Korea has enjoyed in the past. The rapid integration of the EU and formation of the NAFTA, is intended to maximize their economic benefits at the possible expense of shaking the international liberal trade regime. The creation of trade blocs may work against the smooth development of the Korean electronics industry. The elimination of the tariff among regional body members and strengthened rules of origin impedes the natural flow of Korea's exports to the market.

However, FDI environment is improved by economies of scale, and member nations incentives to attract more FDIs, despite the rules of origin and increased local contents requirement. The successful completion of the Uruguay Round and creation of the WTO strengthens multilateral disciplines to foster electronics industry trade in the world dimension. The export market will be a little more expanded by the reduction of tariffs, the

⁶⁴⁹.South Korea's difficulty is to escape technological dependence on Japan and the US and also how to run ahead of those the industrializing nations in ASEAN and China with more sophisticated, technology-intensive products.

expected greater clarity in application of restrictive measures in anti-dumping, more transparent rules of origin, relaxation of technological barriers and participation in the local government procurement markets. The Green Round will have great impact on the competitiveness of the industry in the international arena because it needs pan-national efforts.⁶⁵⁰ The regulations on environment-damaging materials will change the trade patterns of the nations due to discrepancies in the environmental costs.⁶⁵¹ The Green Round poses not only challenges, but also opportunities to Korean firms. The development of environmentally-friendly technology would give Korea more credibility.

The sophistication of the business structure is detrimental to upgrading business competitive edge. This efforts requires a new approach for the internationalization of firms. Korea should graduate from the old formula of Original Equipment Manufacturing (OEM) exports and technology transfer, if possible, through the development of sophisticated technologies. The reason is quite simple: the structural change of

⁶⁵⁰. The role of government in tackling the GR issues will be important, as it has been in technology development. The industrialization of East Asia including Korea, as has been surveyed in the chap. 6.1, has been characterized by the proper combined role of the public and private sectors. Those who want to have more information on the government intervention for the sustained economic growth, see R. Wade, *Governing the Markets: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton: Princeton University Press, 1990.

⁶⁵¹. According to the Montreal Agreements, the usage of CFCs for the manufacturing of electronics products will be totally banned from the year 1996. Unless a substitute is developed, it will be totally impossible for firms to produce or export items such as refrigerators and air conditioners in which CFCs have played an important role.

international environment makes it no longer possible for the firms to expand their export markets without owning their own technologies. Only through the development and acquisition of new technologies, can firms be forerunners in the market. The continuous expansion of overseas markets is possible only when technological development capacity is secured.⁶⁵²

The stages of internationalization are gradual. The gradual stages of internationalization are as follows:⁶⁵³

- 1) the stage for domestic market;
- 2) the stage for promoting exports;
- 3) the stage for marketing for foreign local market;
- 4) the stage for local production for local market;
- 5) the stage for regional or global integration.

Viewed in terms of the above stages, the Korean electronics industry is in the process of shifting from the stage of export-promotion to the stages of FDIs for local production for local market led by the home electronics industry. More specific flows of the stages are as follows:⁶⁵⁴

- a) concentration on domestic market;
- b) OEM exports;
- c) self-brand exports;
- d) FDIs;
- e) networking of overseas production base.

The OEM ratio in export is about 70 percent. The second problem is the concentration of export items on colour TVs, semiconductors and audio equipment, reaching 62.9 percent of the

⁶⁵². Just looking at the competitiveness side, the technological factor is most important in the electronics industry.

⁶⁵³. Young-Wook Chun and Dong-Jin Yoon, *Internationalization Strategies of the Korean Electronics Industry in an era of Globalization*, Research Project on Korean Electronics Industry, 1993, p.14. In Korean.

⁶⁵⁴. Ibid.

total exports of the electronics, as is the heavy market concentration on the US and the EU, 32.4 percent and 14.9 percent respectively.

a) FDI as a Means for Globalization

Especially in the consumer electronics field, FDI has always been foremost in Chabols' globalization scheme in tackling protectionism.

Table 7.22: Ratio and composition of Korean Electronics Industry Exports(unit: \$ million, %)

year		1980	1985	1991	1992
Export	amount	1,964	4,590	19,334	20,683
	ratio	68.9	63.0	58.4	61.9
Composition of	US	44.7	59.2	32.2	32.4
Export	EU	13.9	11.7	17.3	14.9
Market	Japan	14.2	9.8	9.4	8.4
	Asia	12.9	11.8	22.1	26.1
	Others	14.3	7.4	19.0	18.2

Source: Electronics Industries Association of Korea

Table 7.23: Electronics Exports-Products-1988-1989 (unit: million dollars)

	1988	1989*
Total Exports	15,162	16,875
Semiconductors	3,179	4,336
Computers and related	1,872	2,046
VCRs	1,322	1,434
Televisions	1,417	1,419
Radios	1,362	1,275
Microwave Ovens	843	894
Video and Audio Tapes	684	850
CRTs	637	702
Telephones	341	413
Others	3,505	3,628

* calculation based upon 9 months data

Source: Electronics Korea

FDI⁶⁵⁵ into the advanced nations was mainly aimed at import restrictions, with the pattern of assembling consumer electronics. Since the early part of the 1980s, Korea's electronics industry began to invest overseas to tackle the advanced nations' protectionism, especially the abuse of anti-dumping cases and the minimum price regulation. The annual rapid increase of consumer electronics exports by 30-40 percent in the early 1980s, caused the US and the EC to raise non-tariff barriers to protect their domestic industries.

Table 7.24: Electronics Exports Direction-1987

	Value(million dollars)	% of total value
Total	11,195	100
US	4,938	44
Japan	984	9
West Germany	601	5
United Kingdom	598	5
Hong Kong	523	5
Canada	350	3
France	331	3
Singapore	304	3
Malaysia	205	2
Italy	176	2
Netherlands	175	2
Australia	166	2
Spain	155	1
Taiwan	149	1
Panama	109	1
Others	1,431	12

Source: Electronics Industries Association of Korea

⁶⁵⁵. A simple example of the benefit of FDI is to be found if the concerned firm wants to continue to export to existing markets which impose restrictions. For example, Samsung Electronics was charged 15.95 percent anti-dumping duty on C-TV exported to the US in 1984; it is much more cost-effective to have local production with additional 7 percent production costs, rather than paying the 15.95 percent anti-dumping duty based upon C.I.F. price.

In addition to that, as a way of reducing unemployment rate and to correct the balance of payment deficit, they used various incentives to induce foreign firms' local production in their own territories.⁶⁵⁶ Table 7.25 below shows motives for establishing local production lines.

FDI into developing nations was mainly aimed at dealing with high labour costs in the domestic market. Small and medium sized companies actively invested in other labour-cheap developing areas. Table 7.26 shows the regional distribution.

Table 7.25: Domestic Consumer Electronics Firms' Primary Motives for FDI

	Europe	N.America	S.E. Asia	Total
Cheap labour cost	1	2	8	11
Trade Restriction	7	3	-	10
Market Penetration	9	3	4	16
Competitive FDI	1	2	-	3
Acquisition of advanced Technology	-	1	-	1
Export expansion for semi-finished product	1	-	-	1
For consumption in domestic market	-	-	-	-
Development of export base for third nations	2	1	4	7

Source: KIET Investigation, quoted in Park, Sung-Tak, et. al., op. cit, p. 66-67.

Southeast Asia received Korea's FDI, mainly because Korea sought cheap labour costs, while Europe and North America were selected mainly for the purpose of avoiding trade restrictions and expanding or exploiting market shares.

⁶⁵⁶. Sung-Tak Park, et al., *FDI Strategy of Korean Consumer Electronics Industry*, KIET Research Paper No. 300, Seoul, Korea: Korea Institute for Industrial Economics and Trade, January 1994, p.64. In Korean.

Table 7.26: Korea's FDI by the analysis of year and region

	Europe	N. America	S.E. Asia	China	Total
1981	-	1	-	-	1
1986	1	-	-	-	1
1987	1	-	-	-	1
1988	4	2	3	-	9
1989	4	-	2	-	6
1990	1	1	2	1	5
1991	2	-	-	-	2
1992	1	-	-	-	1
Total	14	4	7	1	26

Source: KIET

* This KIET investigation by questionnaire was carried out among the three big Korean consumer electronics firms, Samsung, Daewoo and Goldstar.

As a more sophisticated form of FDI, international strategic alliances began to acquire much significance. Several characteristics of Korea's globalization in electronics industry can be classified as follows:

- a. Korea is at a transitional stage from export orientation to the initial stages of FDI with a sudden upsurge since 1988 in FDI.
- b. the main pattern of FDI could be defined as a defensive and passive one as main means of escaping trade restrictions imposed by the major exporting market or to solve the problem of labour wage increase in Korea. Usually, this has been done in the style of assembly, though since the 1990s, substantial production schemes have been actively pursued.
- c. Firms lack transferable competitiveness: unlike the firms of the advanced nations in the US, the EU and Japan with the technical capability of transferable technology development and experience of marketing, Korean firms have been expanded by the force of low-wage, government support and domestic market protection, massive production facilities, and vertical integration of components, which makes transfer to the international scheme impossible.
- d. Hasty internationalization: without the previous accumulation of firms' own experience and knowledge, with the sudden increase of the domestic labour costs and labour disputes forced the firms to seek FDI, many firms lack marketing strategies, which causes some

confusion.⁶⁵⁷

- e. The concentration of the region centring around ASEAN and People's Republic of China: the recent trend to diversify the regions does not change the major flow of the FDI into Southeast Asia and China;

As has been surveyed above, the internationalization of the Korean electronics industry crucially lacks the business management capability in the foreign local market to promote comparative advantages and to change the industrial structure into a sophisticated one, suitable for the local environment. Another task of Korea's electronics industry is to restructure the industry and management structure to concentrate on technology and knowledge-intensive products. The purpose of internationalization should focus on establishing global system for competitiveness based upon a sophisticated business structure. The global competitiveness system means the promotion of the global competitive edge in the electronics industry by the global deployment of managerial resources with global networking and upgrading local adaptability capacity.⁶⁵⁸

Korean companies are moving production bases overseas. Many multinational corporations in the overseas market have been shifting from exporting to the setting up of overseas assembly and then to full-fledged manufacturing operations, ending up as almost local companies. In case of the multinationals, this

⁶⁵⁷. Apart from these domestic factors, the resurgence of protectionism in the US and the EU has been the underlying basis for Korea to push ahead with hasty FDIs.

⁶⁵⁸. On the globalization of the world trade, see Charles Oman, *Globalization and Regionalization: The Challenge for Developing Countries*, Paris: Development Centre Studies Series in OECD Publication, 1994.

process took rather long time. With a few exceptions, the progression for Japanese firms has been more recent. The pressures pushing Japanese firms⁶⁵⁹ are almost the same, yet more intense for Korean firms.⁶⁶⁰

Looking into the electronics industry overseas investment, Samsung and Goldstar have been leading overseas investment since 1987.⁶⁶¹

⁶⁵⁹. Stefano Micossi and Gianfranco Viesti elaborate in "Japanese direct manufacturing investment in Europe," in L. Alan Winters and Anthony J. Venables (eds.), *European Integration: Trade and Industry*, Cambridge: Cambridge University Press, 1991, pp.210-11, that "the theory of FDI and multinational corporations has identified three key components in the motivation to invest abroad: the existence of ownership advantages in product or process technology, organization and marketing skills, economies of scale or joint production; the fact that these advantages can best be exploited internally to the companies, rather than by selling or licensing them to other firms; and the strong interdependence within these advantages, the possibility of exploiting them internally, and the choice of location". According to the Jetro survey, "avoidance of trade frictions ranks first in the decision to set up local assembly units in general, electronic and transport machinery." The bibliography of Stefano and Gianfranco's writing gives the full title of the Jetro survey: *Jetro, Current management situation of Japanese manufacturing enterprises in Europe: Fifth Survey Report, March 1989, Tokyo, Japan.*

⁶⁶⁰. On future possible orientations of FDI for multinationals, see D. Julius, *Global Companies and Public Policy: The Growing Challenge of FDI*, London: The Royal Institute of International Affairs, 1990.

⁶⁶¹. The aggregate overseas investment amounted up to \$11.9 billion for about 5,800 projects as of the end of August, 1995. There were times when overseas investments were synonymous with plant relocations. Led by cash-rich large groups, such as Samsung and LG, however, the latest trends in overseas investment are the merger and acquisition of foreign firms, which the company officials say are more effective in acquiring up-to-date technology and local marketing. According to *Korea Newsreview*, November 11, 1995, local analysts say the latest phenomenon indicates that Korean firms' overseas investments are shifting from the beginning to a middle stage. In a few years, Korean firms will enter into an aggressive investment stage, armed with advanced offshore financing and M & A techniques.

Table 7.27: Overseas Investments by Major Korean Electronics Manufacturers until 1990

Location	Product	Output	Date	Notes
Samsung Electronics				
Portugal- Estoril investment	Colour TVs Audio	300 000	1982	55:45 joint venture \$7 million
USA- Roxbury, N.J.	Products Colour TVs	1000 000	1984	
	Microwave ovens	400 000		
UK- Billingham	Microwave Ovens	500 000	1987	
	VCRs	120 000		
	Colour TVs	400 000	1988	
Mexico	Colour TVs	400 000	1988	
	Colour TVs Chassis	400 000		solely of US plant
Thailand	Colour TVs	300 000	1988	Thai Samsung: 51:49 Joint Venture with Saha Group
	Cassette recorders	200 000		50% of total production to be exported
Spain -Valles	VCRs	250 000	1989	
	Colour TVs	300 000		
	Microwave Ovens			
China	TVs, VCRs,		1989	
	refrigerators		1989	
	cassette radios		1989	
Hungary	Colour TVs	300 000	1989	50:50 joint venture with Orion Radio Electrical Works
	Microwave ovens			
Turkey	Colour TVs		1989	
Samsung Electro-Mechanics				
Portugal Thailand - Bangkok	TV parts		1990	
	Household electrical appliance parts			1990 \$23 million
Samsung Electron Devices				
Spain	CPT for TVs		1990	

Goldstar

USA- huntsville
,Alabama

Colour TVs 1 200 000 1983
Microwave
ovens 300 000 1986
VCRs 1988

West Germany-
Worms

Colour TVs 300 000 1986
VCRs 400 000 1986
Microwave
ovens 600 000

Mexico

Colour TV
chassis 45 000 1987

Thailand

TVs 200 000 1987 50:50 joint venture
with Mittor

Washing
machines,etc. 30 000 1987

Turkey

Microwave
ovens 200 000 1988 25:75 joint venture
with Vestel

Indonesia-
Jakarta

Colour TVs 200 000 1988

Black & White
TVs 100 000 1988

Cassette
players 200 000 1988

United Kingdom

Microwave
ovens 300 000 1988

Thailand

Telephones 500 000 1988 \$1.5 million, 60:40
joint venture

Philippines

Washing
Machines 50 000 1989

Telephones 30 000

China

Colour TVs 150 000 1989

Hungary

Small consumer
electricity
refrigerators 1989

Goldstar Alps Electronics

West Germany

VCR decks and heads 1990

Daewoo

France-longwy

Microwave
ovens 30 000 1988 51:49 joint venture
with JCB

UK-Northern
Ireland

VCRs

Sammi Sound Technology

Thailand

Speakers 2.4

million March 88
\$182 000 plant

Taiyang Electric Lamp

Thailand	Electric bulbs	1.2 million Sep. 88	\$300 000 joint venture
			with P.U.C. Co.

Jung Poong Products

India	Switches	16 million	\$4 million joint venture with Universal Electronics
China	Electronic components		

Daeshin Chonyon

Bombay-India	Transformers and coils
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Source: Quoted in Martin Bloom, *Technological Change in the Korean Electronics Industry*, Paris: OECD Development Centre, 1992, pp. 109-112.

The recent announcement of Samsung Heavy Industry's FDI in Harrogate, UK is a good example of a hasty decision to avoid anti-dumping by the EU. In contrast to this case, Samsung Electronics' FDI into Billingham, Cleveland, UK is a good example of a well-prepared case to promote the group's globalization strategy.⁶⁶²

As part of an aggressive globalization strategy, Hyundai has also unveiled a ambitious long-term investment plan up to 2000 to build a \$1.3 billion semiconductor factory in Eugene,

⁶⁶². Samsung Group Chairman, Lee Kun-hee said recently, "For us businesses, going abroad is not just one of many options, it is the very strategy for corporate survival." FDI has become a major corporate business strategy.

Oregon, US. Samsung Electronics has also announced \$1.5 billion semiconductor project in Austin, Texas and recently bought a stake in U.S. personal computer maker AST Research Inc. at a cost of \$370 million. LG Electronics announced a plan to purchase Zenith Electronics Co. of the US for \$350 million.⁶³

Summing up the general features of Korea's overseas investment, we can identify three distinct patterns in the overseas investment of the Korean manufacturing electronics industry. The leading firms in Korea, Samsung, Goldstar, Daewoo and Hyundai have set up assembly operations in the US and Europe to gain market access and acquire technology. If conditions allowed, Korean firms could take components from Korea or their original suppliers, which are often blocked and vulnerable to some local restrictions. For example, the European Commission has introduced a minimum contents requirement on Korean Assembly in Europe, and in 1989 then increased the level from 20 percent to 40 percent. As a result of this, magnetic heads for VCRs are being sourced from Phillips. Another restriction is that Korean manufacturers were limited to imports of 900,000 CRTs into Europe in 1989, a reduced amount of one-third over the 1987 levels. In order to overcome these restrictive measures, the major electronic firms in Korea set up manufacturing operations in Europe in the 1990s.⁶⁴ In case of the US market, the

⁶³. *The Korea Newsreview*, November 11 1995 further tells that Daewoo Motor Co. plans to buy a Polish auto company FSO at \$1 billion; and Hyundai Motor Co. is to set up a joint-venture auto assembly plant in Turkey, investing \$400 million.

⁶⁴. "Samsung Electronics records the biggest investment in Europe by any Korean company. Samsung, the largest company in Korea, the 14th largest in the world and the fifth largest

inability to import CRTS has forced Korean producers to concentrate on larger-size televisions using CRTs which have been purchased from RCA, Zenith and so on.

The second category of investment is to establish overseas operations to overcome the problems of the cost pressures, as has been well shown in investments in the region of Southeast Asia. The third type of investment is that the big firms have set up or acquired overseas design or research operations, for example in California, to assist them in the semiconductor,

manufacturer of electronics products, is pouring 600 million pounds into establishing a complex that will stimulate an area hit by economic recession and unemployment. The investment, supplemented by central and local government grants, will create more than 3,000 jobs by the year 2000 and many through construction and contracts. The building of the complex will be in two phases. The first phase will be ready in August 1995, when the manufacture of personal computer monitors and microwave ovens will begin. In 1997 work will begin on the second phase, to be completed by the end of the decade- factories to manufacture fax machines, colour display tubes and personal computers, and centres for training, administration and research and development. Samsung is considering further expansion on the Teeside site, which will be the group's base for supplying Europe. At the same time the group's European headquarters is moving into Britain. Furthermore, the Teeside project is an integral part of Samsung's ambitious international strategy of establishing five continental production bases serving markets in Europe, USA, South America, Japan, and China. The choice of the 200-acre Wynyard park site was automatic as Samsung opened a television factory at Billingham, only a few miles away, seven years ago. The group values the infrastructure of roads, ports, airports and utilities in the North-East that are vital to successful business. From its experience at Billingham, Samsung has also come to value the people who take pride in the quality of their work. Despite its size, Samsung appreciates that achieving success globally is dependent on being first-class locally, and its policy is to build strong relationship with the people in the countries where it operates. In addition, by devoted 7 percent of its annual turnover to research and development, Samsung demonstrates that enhancing quality of life through innovation is as important as creating business." This will be a typical example of the Korean firms' future globalization.

Quoted from the Financial Times, December 11, 1994.

telecommunications and industrial electronics fields.⁶⁶⁵ As a result of sudden and numerous overseas investments, Samsung and Goldstar have become multinationals. For LG Electronics, for example, about 7 percent of its sales of consumer electronics products were supplied from overseas sales in 1988 and the aim was 15 percent by 1991; a level is equivalent to that of Japanese electronics companies. Their overseas research activities are also innovative, as late starters of the electronics industry.⁶⁶⁶

From the experiences and systemized studies of the Korean electronics industry, several proposals could be presented for the future internationalization strategy.⁶⁶⁷

- 1) Gradual approaches to avoid uncertainties;
- 2) Feasibility studies in consideration of its high task;

⁶⁶⁵. Clifford Mark and Jonathan Moore, "Overseas Attractions, Entrepreneurs Shift production to low-cost countries", *Far Eastern Economic Review*, 16 March 1989, pp.98-101.

⁶⁶⁶. Samsung Electronics and Goldstar will be extended multinationals with more technological and production capacities in the 2000s. *Annual Analysis Book of Electronics Industry, 1992*, published by Korea Electronics Industry Association, predicts that the export value of electronics goods will reach 38 % of total exports. In 1970, 1988 and 1992, it recorded 7 percent, 22 percent and 32 percent respectively. This rapid increase suggests that the electronics industry in Korea will lead Korea's future economic growth with an estimated annual growth rate of 10.6 percent by the year 2000. Korean Electronics Industry Association, Chap.3. The Role of Electronics Industry in the 2000s, in *Annual Analysis Book of Korean Electronics Industry*, Seoul, Korea, 1992, p.7.

⁶⁶⁷. The role of the government is changing. The government should leave investment to the private sector because it is the businesses themselves who can make the best decisions in this respect and take the ultimate responsibility for the results. Instead, the government should take up areas that can not be taken by the individual companies, such as the gathering of information, fostering of manpower and constructing social infrastructure.

3) The enhancement of the firm's own international competitiveness;

However, pessimistic side of industry draws the same attention as the optimistic one. Korean firms' competitive advantages in the overseas markets are based, to a larger extent, upon the temporary characteristics of cheap management costs, intensive managers' efforts, supply capacity of semi-finished products, technology and components production suitable for the local markets, rather than on product differentiation ability, supported by technology and brand image. As a higher level of internationalization is achieved, it will become more important for firms to have their own competitive advantage.

To promote the competitiveness of the Korean firms, FDI serves several purposes in technological acquisition, strengthening of the marketing capability and aggressive deployment of small and medium sized components firms.⁶⁶⁸ Complementary strategic alliances promotes comparative advantage.

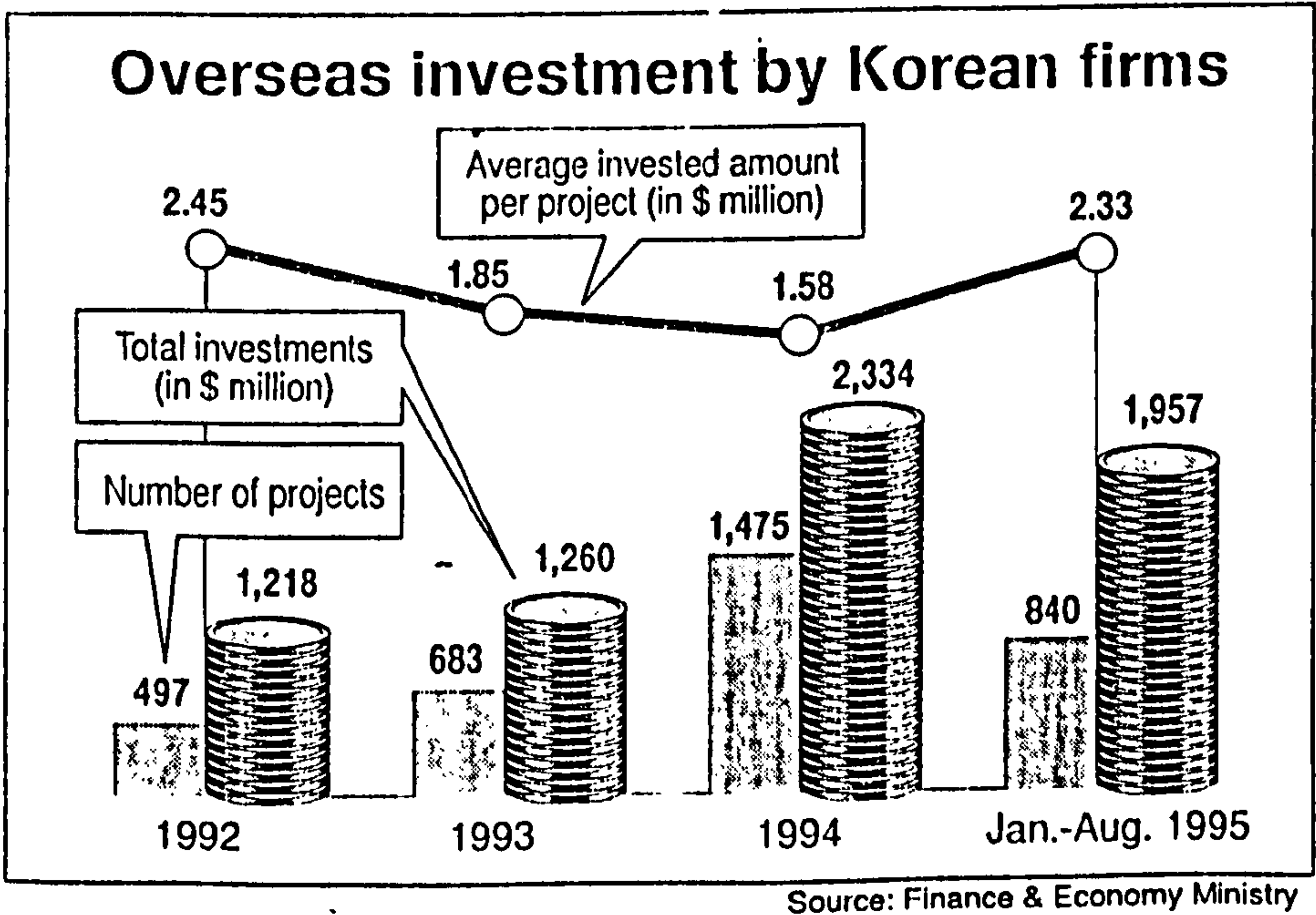
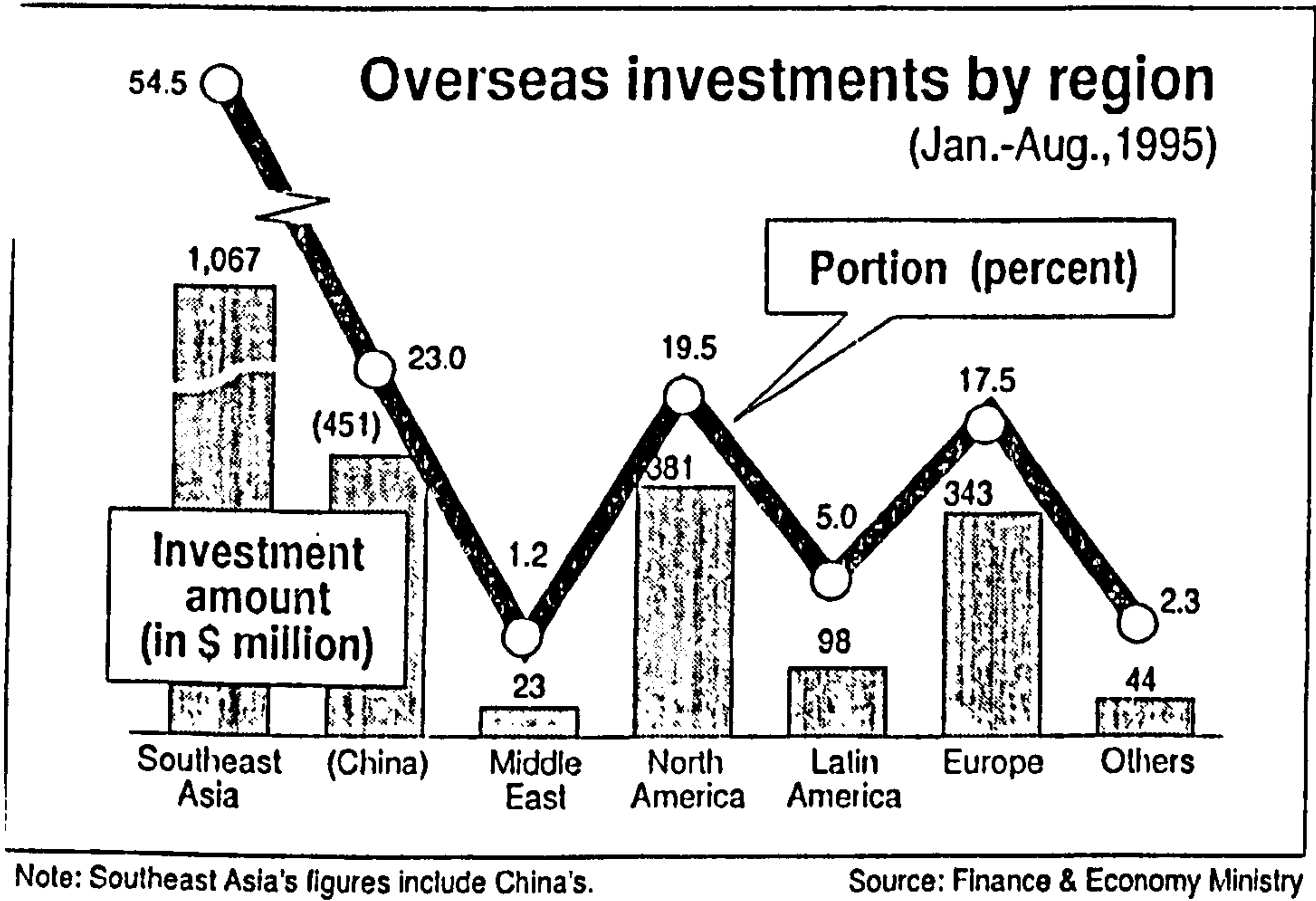
b) Management Innovation and Changed Role of Government

The way of thinking in business management must be internationalized. Management culture needs to be innovative.

⁶⁶⁸. Out of the total 160 Korean firms approved to invest abroad by the Korean government in August, 117 or 73.1 percent were small businesses. The small investors' portion which remained at around 30 percent in 1989, has since kept rising to 44.3 percent in 1991, 51.4 percent in 1992, 58.6 percent in 1993 and 65.7 percent in 1994. The changing direction of small companies' investment is noticed in their focus shift from such labour-intensive businesses as textile, leather and toy manufacturing to technology-intensive ones such as electrical and electronic goods.

"Think Global, and Act Local" will be a guiding principle. Autonomy of branches in the overseas market will make firms' strategy more practical.

Figure 7.1: Korea's Overseas Investment by Amount and Region



The concentration of the decision-making power into the headquarters will be diffused more into local operational subsidiaries. Local adaptability is usually cemented through the mutual exchanges of understanding between firms and local people such as active contribution to local cultural development or offering economic development funds, etc.⁶⁶⁹

The role of government is no less important in the success of the internationalization strategy. Providing incentives to help FDI for technology acquisition and setting the dialogue channel between the large assembly corporations and small and medium sized components firms is the duty of the government.⁶⁷⁰

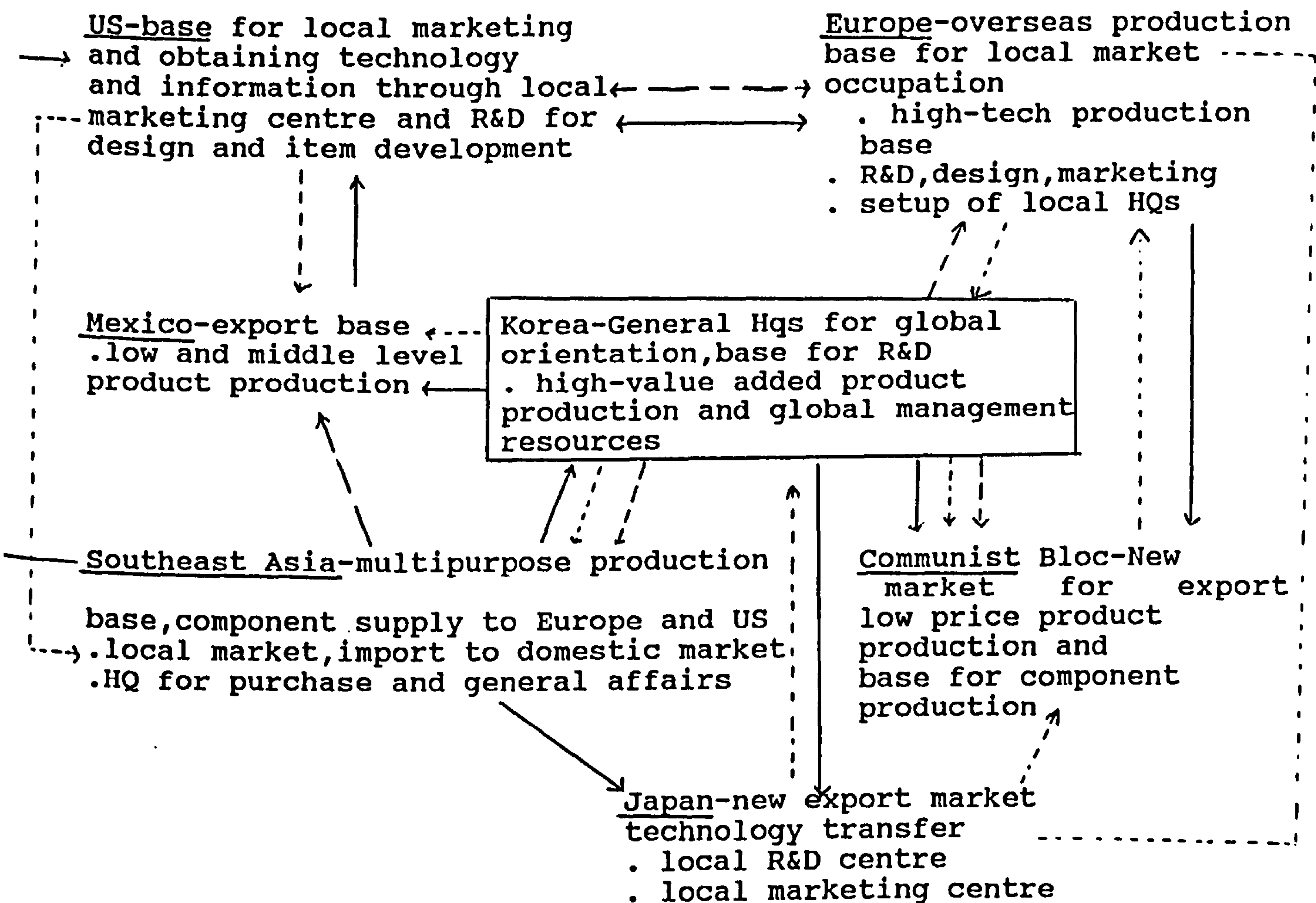
In order to prevent a industrial phenomenon of hollow, the Korean government should allow foreign workers with low wages to work in the Korean firms. Financial and technological support for high-value added product is crucial, with automatic facility investment. This means that the role of government will remain crucial, even in an era of globalization. Deregulation and inducing measures for foreign FDI into Korean territory should be aimed at the ultimate goal of Korean firms' structural adjustment and sophistication.

⁶⁶⁹. The problems and proposals of the Korean firm's strategy are based upon an interview with Dr. Kim, Bak-Soo, Research Fellow at the Korea Institute for International Economic Policy, Seoul, Korea, in July, 1994.

⁶⁷⁰. In this new industrial era, the government role is to improve the domestic business environment, set up a long-term investment attraction strategy and stick to it consistently. Thus, the companies should be the very ones to be nearest to their markets and places which can provide various factors of production at the lowest costs in this integrated and globalized economy.

Figure 7.2 : System Picture of Korean Electronics Firms
Global Networking as globalization Strategy

—————finished products
-----components
.....technology



Source: Young-Wook Chun and Dong-Jin Yoon, *Internationalization Strategies of the Korean Electronics Industry in an era of Globalization*, Research Project on Korean Electronics Industry, 1993. In Korean.

* Yong-Wook Chun is a professor at the Dept. of Trade, ChoongAng University, Seoul, Korea and Dong-Jin Yoon is a advisor to IlEun Investment Co. in Seoul.

7.2.3 Restrictive Trade Measures of the EU against the Korean Electronics Products Export

Looking at importing sources of the EU consumer electronics products, the EU's concern for South Korea can be evaluated accurately. Japan, South Korea, Taiwan, Hong Kong and Singapore are the major exporting nations to the EU market in consumer electronics products. Korea ranks the third biggest importing source with a 6.9 percent share of the EU's total imports in consumer electronics, after Japan's 44.8 percent share and People's Republic of China's 8.2 percent.⁶⁷¹ The economic slump period of 1988-1992 in Europe only witnessed average annual 0.9 percent increase in the EU consumer electronics market, while the period of 1983-1988 recorded a average annual 8.3 percent increase. The consumption demand for consumer electronics products caused by the continuous economic slump continued to grow even in the early part of the 1990s.⁶⁷²

Table 7.28: Consumer Electronics Consumption Demand and Production in the EU Market(unit:Million ECU)

	1989	1990	1991	1992	1993
Consumption	51855	54309	55366	51453	47200
Production	40664	42864	42210	39684	36000
Employee (Thousand)	387.4	384.6	375.6	356.9	338.0

Note: Eurostat Prediction in 1993

Source:KOTRA, Study Report, 1993.

⁶⁷¹. Looking at the 1992 statistics for the value, excluding audio in consumer electronics, the EU imported 5,255 million ECU from Japan, 955 million ECU from PRC and 800 million ECU from Korea out of the total 11,643 million ECU, coming from outside the EU market. Quoted in KOTRA statistics, 1993.

⁶⁷². Even in 1992/1993, a decrease of 8.3 percent was recorded. EACEM predicts a gradual slow increase in consumption of 1.2 percent during the period 1994-1997.

The decrease of consumption and production and reduced number of employees in the electronics sector has forced the EU Commission to take measures to protect the industry.⁶⁷³ As a response to this sector's lack of competitiveness, the European Community Commission launched a Five-year Scientific Technology Development Programme in 1987. The *ESPRIT*, *RACE* and *BRAIN* projects are part of the programme. Another one is *EUREKA*, which is being implemented under the project name of *JESSI*.⁶⁷⁴ The Projects are aimed at increasing national competitiveness and creating industrial technological base.⁶⁷⁵ Usually, industrial policy is a base to produce a specific trade policy. The EU's industrial policy in aiding research and development project is potentially related to competitiveness of the industries concerned. The degree of government intervention and

⁶⁷³. Entering 1992, consumption and production showed a declining trend, from 554 billion ECU in 1991 to 514 billion ECU in 1992, and 422 billion ECU in 1991 to 397 billion ECU in 1992 respectively. The number of employees decreased by 20,000 during the year of 1991/1992. The period of 1985-1992, furthermore, recorded 44 percent increase in labour cost per unit, although the productivity index in the EU consumer electronics industry increased by 30 percent. The sharp decline of competitiveness in the consumer electronics sector caused the expected cancellation of GSP to South Korea in sensitive items from January 1996 and resort to the frequent abuse of anti-dumping measures against the export of Korean electronics products.

⁶⁷⁴. In order for European firms to deal with fierce competition ever intensified after the Uruguay Round, direct marketing, productivity enhancement, quality control, and development of a new product are major issues as a response strategy. Joint investment in computers, telecommunications and specialization of comparative advantageous product and more than anything else, strategic alliance in R & D are on a sharp increase. For example, Thomson and Philips are collaborating in HD TV development and also in the technology development of a flat TV screen, LCD(Liquid Crystal Display).

⁶⁷⁵. EIAK, *1992 Electronics Industry in General*, Seoul, Korea, p.17.

the objectives of industrial policy determine the trade policy orientation.⁶⁷⁶

Reflecting the EU's difficulties in the consumer electronics sector, the EU is predicted to suspend its extension of Generalized System of Preferences(GSP) favours⁶⁷⁷ to Korean made cars, electronics, footwear and textile products from 1 January 1996.⁶⁷⁸ The EU has decided, furthermore, to jack up the import tariff rate on CD-ROM drivers to 14 percent from the present 3.9 percent starting 22 November 1995. Korean makers of cars, electronics, footwear and textile goods are likely to face serious difficulties in their exports of such products to the EU

⁶⁷⁶."Industrial policy can mean many different things from a plan to aid particular industries with subsidies, tariffs, and tax breaks to more centralized planning that identifies growth rates for development." Quoted in Richard M. Steers, Yoo Keun shin and Gerardo R. Ungson, *The Chabol: Korea's New Industrial Might*, New York: Harper & Row Publishers, 1992, p.22.

⁶⁷⁷. *Generalized System of Preferences: Guidelines for the 1990s*, Published by the Commission of the EC, COM(90) 329 Final, Brussels, 6, July 1990, explains that the system was originally designed to give developing nations more favourable access to the markets of developed nations. Conceived in the early 1960s with UNCTAD, launched at the 2nd UNCTAD Conference in New Delhi in February-March 1968 and finalized by Resolution 21(II) of the Special Committee on Preferences in October 1970, it was subsequently implemented by means of various national schemes. The EC was one of the first industrialized powers to introduce such a scheme on 1 July 1971. The developing nations are no longer a homogenous group. Their situation now ranges from that of dynamic and competitive economies such as South Korea to that of the least developed nations where the vast majority of the population is at minimum subsistence level. The suspension of GSP from Korea starting from January 1996, is a measure to restrict GSP benefit for exporting nations to protect the Community market from explosive penetration by sensitive products.

⁶⁷⁸. *The Korea News Review*, November 11, 1995, p.4.

in the future.⁶⁷⁹

The third GSP management plan covering 1995-2004 is expected to revise its regulations especially to accommodate the Uruguay Round Agreements. The European Association of Consumer Electronics Manufacturers and other relevant industrial associations finally succeeded in lobbying to suspend the GSP toward South Korea in sensitive electronic product areas.⁶⁸⁰ The EU's GSP has been applied into two categories; sensitive products (Annex I)⁶⁸¹ and non-sensitive (Annex II) products with varying degrees of favours.⁶⁸² In case of sensitive products (Annex I), Fixed Duty Free Amounts and Community Tariff

⁶⁷⁹. The spokesman of the Ministry of Trade, Industry and Energy further said after the EU's decision to cancel the GSP favor to Korea that the EU Executive Committee would abolish the extension of GSP favours to specific goods produced by some developing countries with an annual per capita GNP of more than \$6,000, beginning 1 January 1996. South Korea, Singapore, Saudi Arabia, and Brunei will be affected, and in particular, in the Korean case, the EU's step is expected to dampen Korean exports of textile fabrics, plastic, rubber, automobiles, steel and machinery and electronics products in the future.

⁶⁸⁰. At the EC-Korean Ministerial Talk in September 1992, the EC decided to reopen GSP favour toward Korea from the year 1992. Since its suspension in 1988 January, caused by the Korea's discriminatory measures against the EU in IPR measures, in comparison with the US, after 4 years suspension in the system regained its favour for the next 4 years.

⁶⁸¹. The classifications of Annex I and II are based on the degree of sensitivity, which means that the rest of the items excluded from the list of sensitive products belong to Annex II category. Typical items of Annex I are television receivers, reception apparatus, clocks, electrical capacitors, electric filament lamps, automatic data-processing machines, ball bearings, with greatest external diameter not exceeding 30mm, microwave ovens, turntables and so on. These are just rough categories because details writings are too complex to deal with here.

⁶⁸². The total beneficiaries of the EU GSP have been 133 developing nations, including 42 least developed nations and 25 protectorate territories.

Ceilings have been applied.⁶⁸³ Fixed duty free amounts are applied to sensitive products of competitive nations. Within the fixed duty-free export amount, South Korea was able to export without incurring the Community's import tariff, but, in case of exceeding the fixed amount, automatic application of tariff was restored. The Community Tariff Ceiling is applied to the remaining sensitive products on a community-wide basis. If the ceiling is exceeded, member nations of the EC can request the Commission to impose a tariff on the product.⁶⁸⁴ The non-sensitive items, on which no tariff is imposed, can also be in the category of Reference Base through which the EU reviews imposition of tariff when the item exceeds more than 6 percent of the total EU import in the item from outside nations in Annex I Items and 2 percent in Annex II items.⁶⁸⁵ The gradual five-year tariff reduction schedule and Korean firms' FDI into the EU local market is likely to diminish the negative impact of import tariffs in Korea's consumer electronics product export to the EU

⁶⁸³. EIAK, *Korean Electronics Industry Almanac 1992*, pp. 251-56.

⁶⁸⁴. EIAK, *The 1992 Electronics Industry in General*, Seoul, Korea, p.252-54 in detail shows the classified items and amount in application of Fixed Duty-Free Amount and Community Tariff Ceiling. See Index.

⁶⁸⁵. The practical application of the Uruguay Round Agreement in tariff reduction within the EU GSP framework, especially in consumer electronics industry, does not produce substantial import tariff reduction in the EU. The major export items of Korean enterprises to the EU market such as VCR, C-TV will continue to be subject to 14 percent tariff. On the other hand, CPT, electronic oven and vacuum cleaners will be subject to a reduced tariff from 15.0 percent, 5.1 percent and 4.0 percent to the 14.0 percent, 5.0 percent and 2.2 percent respectively.

market in the future.⁶⁸⁶ However, according to the EU tariff reduction plan of the Uruguay Round, Computer Peripherals, microprocessors, S-RAMs and telephones will be exempted from tariff imposition.⁶⁸⁷ The new GSP guideline which was announced on 3 June 1994 by the European Commission, states that sensitive products (Annex I) will be subject to at 75 percent of the Most-Favoured Nation (MFN) tariff rate. The EU's graduation formula of Item/Nation method in GSP management after 1995 January will greatly reduce the GSP favours Korean electronics and electric export items have enjoyed so far.⁶⁸⁸

Non-tariff barriers are much influenced by the Uruguay Round Agreement. The Safeguard Agreement in the Round requires that VERS and OMAs and other grey area measurers should be notified to the Safeguard Committee in the WTO within 180 days and as a following step, those measures should be abolished within four years from the date when the Agreement becomes effective. There does not exist any formal agreement on export/import restrictions between the EU Commission and South Korean government. However, between the firms and industrial associations, VERS in MWO and CPT exist.

⁶⁸⁶. KOTRA Material 94-30, p.171.

⁶⁸⁷. Fax machines, tape recorders and home refrigerators will benefit from tariff reduction, from the tariff reduction from 7.7 percent to 3.6 percent, 9.5 to 6.0 and 3.8 to 1.5, respectively.

⁶⁸⁸. The KOTRA Material 94-30, pp.172-73.

Table 7.29: Exports and Imports of the EU in Consumer Electronics Industry(unit: million ECU)

Nations	Export	Import
Japan	54	5,225
People's China(PRC)	5	955
South Korea	12	800
Austria	317	761
Singapore	67	745
USA	282	735
Malaysia	32	354
Taiwan	7	338
Hong Kong	50	227
Turkey	38	186
Indonesia	3	88
Brazil	15	72
Total	1,167	11,643

Source: EACEM

The export/import amount with South Korea in the consumer electronics sector alone is heavily unbalanced. In this sector alone, a 788 million ECU trade surplus is recorded on the Korean side. To tackle this unbalanced import/export amount, largely caused by uncompetitiveness of the European firms, anti-dumping measures have been employed.⁶⁸⁹ The recent example of anti-dumping imposition on imports of microwave ovens originating in the Republic of Korea reflects the general characteristics of past impositions.⁶⁹⁰

According to the proposal for Council Regulation, provisional anti-dumping duty has been extended on imports of microwave ovens originating in the People's Republic of China,

⁶⁸⁹. For general statistics of AD, see Chapter 4.

⁶⁹⁰. Commission of the EC, Proposal for a Council Regulation, Brussels, 10 November 1995, COM(95) 462 Final.

the Republic of Korea, Thailand and Malaysia.⁶⁹¹ The legal foundation used to impose anti-dumping duty are the Treaty to establish the EC Council Regulation (EC) No 3283/94 of 22 December 1994 on protection against dumped imports from countries not members of the EC, as last amended by Regulation (EC) No 1251/91; Council Regulation (EC) No 2423/88 of 11 July 1988 on protection against dumped or subsidized imports, as last amended by Regulation (EC) No 522/94; and Commission Regulation (EC) No 1645/95 to impose a provisional anti-dumping duty.⁶⁹² Those Regulations concerning anti-dumping are expected to be used as restrictive trade measures against Korea's exports in the electronics sector even after the Uruguay Round Agreement became effective.⁶⁹³

⁶⁹¹. Article 1- The validity of the provisional anti-dumping duty on imports of microwave ovens originating in the People's Republic of China, the Republic of Korea, Thailand and Malaysia imposed by Regulation(EC) No 1645/95 is hereby extended for a period of two months and shall expire on 8 January 1996. It shall cease to apply if, before that date, the Council adopts definitive measures or if the proceedings is terminated pursuant to Article 9 of Regulation(EC) No 2423/88.

Article 2- The Regulation shall enter into force on the day following that of its publication in the Official Journal of the EC. This Regulation shall be binding in its entirety and directly applicable in all Member States.

⁶⁹². Even in the legal definition of the anti-dumping category, clarity is lacking, despite considerable improvements in contrast to clear definition of subsidy/countervailing duty in the Uruguay Round Agreement.

⁶⁹³. On the agreed new legal foundation of non-tariff barriers in the WTO framework, see *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Text*, Published by the WTO, 1995. Special agreements on technical barriers on trade, rules of origin, import licensing procedures, subsidies and countervailing duties and safeguards have implications for non-tariff barriers, pp. 39-325.

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CHAPTER EIGHT. THE SOUTH KOREAN ELECTRONICS INDUSTRY: A CASE STUDY OF ITS DEVELOPMENT

This chapter tries to examine the specific development of Samsung Electronics and LG Electronics, how they have been affected by changing trade policies, and how they have responded to them, especially to globalization and regionalism. The heavy role of government in the rapid expansion of Korea's electronics industry is in the process of adjustment to a new dimension as we have seen Korean society's demand for a separation of the state from the Chabols. One thing to be noted is that the growth history of the two firms is rather similar, in the context that a close government-Chabol relationship has been the main basis for the rapid expansion of the industry and its subsequent exports.

8.1 Similar Development Pattern of the Two Leading Korean Electronics Firms: Samsung Electronics and LG Electronics

8.1.1 Efficiency of the Chabol through Economy of Scale

In the enhancement of international competitiveness, market transactions plays a crucial point, and are often used as an instrument for protecting or amplifying a dominant market position. Market transactions are more easily and more efficiently created with more efficiency by large firms, which have great economy of scale and scope than smaller ones usually do. Generally, strategic decision-making is becoming more and more centralized, while actual practices are implemented by more specialized functional units. Good companies are more and more characterized by an extensive network of commercial affiliates.

They usually sell their products worldwide. The manufacturing is usually done by a few highly efficient and specialized mono-product factories. The production process is usually supported by the new information technology coming from global product divisions and central service centres including finance, procurement, advertising, Research and Development, electronic data processing and transport facilities.⁶⁹⁴

The two subsidiaries of Korean business groups or Chabols—the Samsung and the Lucky-Goldstar Group, occupy about a 45 percent share of Korea's electronics and telecommunications industry production and employ well over half of all research human resources in this sector. The economy of scale dimension enables the two groups to be effective global competitors, a good example of the globalization of business activity based upon a competitive advantage. In the process of Korea's rapid economic development, the electronics activities of the two groups have played key roles.⁶⁹⁵ Samsung and LG have been at

⁶⁹⁴. OECD, *Competing in the Electronics Industry*, pp. 37-38.

⁶⁹⁵. Since the late 1970s, four Asian tigers including South Korea, after a previous rush out of the low income group appeared as if they were able to offset the stability of the "club" formed by industrialized nations at OECD: they were exporting more and more manufactured products to OECD nations. These facts, among others, illustrate the reality of a dynamic change mainly driven by a competitive search of greater efficiency. Technology improvement, search of the best practice of existing technologies, higher qualifications of labour, higher quality of goods, optimization of interrelationships among all actors involved in design, production and marketing, form the main points contributing to enhance productivity. The electronics industry has played a key role in this development. Quoted in U. Muldur and R. Petrella (ed.), *Science and Technology Policy: The European Community and the Globalization of Technology and the Economy*, Brussels: The Commission of the European Communities, 1994, p.243, in Chapter NINE. Globalization in the Electronics Industry by Marc Humbert.

the core of the most active electronics firms which have moved their production facilities overseas, establishing overseas assembly operations, joint ventures and research facilities, sometimes through the acquisition of overseas firms.⁶⁹⁶

8.1.2 Heavy Dependence on Foreign Technology

Subcontracting assembly operations has been a major strategy in the success of Samsung and LG Electronics. They negotiated with foreign firms, equipped with production technology, product design skills as well as marketing and distribution channels, to sub-contract some assembly operations to companies in an economy where lower labour costs would enable both parties to gain. Because of this, Korean firms came to ignore active investment in international marketing channels and boosting their technological capabilities. This situation naturally led to weaknesses that restricted their options and speed of development. The access to production technologies was a very important part in the early stage of Korea's development.⁶⁹⁷

Component technologies determine competitiveness in the modern electronics industry. The management domain was governed by a direct response to the policies of the Korean government and the prevailing international economic and political environment. Samsung and

⁶⁹⁶. Martin D. H. Bloom, " Globalization and the Korean Electronics Industry," *The Pacific Review*, vol. 6, No. 2, 1993.

⁶⁹⁷. See Sang Chul Suh, " Development of a New Industry through Exports: the Electronics Industry in Korea", in Wontack Hong and Anne O. Krueger (eds.), *Trade and Development in Korea*, Seoul, Korea: Korea Development Institute, 1975.

LG were restricted in their ability to share these strategies. Instead, they became global companies in some respects by virtue of the role they came to play in the globalization of Japanese companies and in the counter strategies of American firms to compete with the Japanese.

Samsung and LG Electronics depend heavily upon foreign components and original equipment manufacturing (OEM).⁶⁹⁸ This makes them limited in their capacity to adopt a more wider range of strategies. ANIEs including South Korea, have pursued export-oriented growth strategies. In this context, the electronics industry has been leading rapid industrialization to push ahead with economic growth.⁶⁹⁹

Traditionally, since the late 1960s, Korea has been competing on the basis of low-cost skilled engineering and technical labour. Foreign technologies still continue to play a critical role. Korea has been relying heavily on licensing. The Korean government has been playing an active role⁷⁰⁰ in encouraging capital accumulation and private sector risk-taking in pursuit of export market opportunities created by new technologies, and by strengthening of indigenous R and D capabilities.

⁶⁹⁸. Martin D. H. Bloom defines the OEM as the situation where a company arranges for another company to produce an item under its own brand name, and often to its own design. It is a type of subcontracting relationship.

⁶⁹⁹. On Korea's relationship between industrial policy and the Electronics industry, see Korea Electronics Industry Association, *Annual Electronics Industry Data Book*, Seoul, Korea, every year. In Korean.

⁷⁰⁰. Ibid., p.106.

Table 8.1: Top 10 Exports Items in 1970, 1980, and 1991

1970		1980	1991
1.textiles & garments 28.0	40.8	% textiles	28.6 electronics
2.plywood 21.5	11.0	electronics	11.4 textile,garment
3.wigs 6.3	10.8	steel products	10.6 steel products
4.Iron ore 5.7	5.9	footwear	5.2 ships
5.electronics products 5.3	3.5	ships	3.5 footwear
6.confectionery 4.2	2.3	synthetic resin	3.3 chemical product
7.footwear 3.3	2.1	metal products	2.5general machinery
8.tobacco and products 3.2	1.6	plywood	2.0 automobiles
9.steel products 2.3	1.5	deep-sea fish	2.0 fishing products
10.metal products product2.0	1.5	electric products	1.9 petroleum

Source:Korea Foreign Association Trade Yearbook, various issues.

High education levels have contributed to production of relatively large numbers of scientists and engineers, but specialized high standard human resources have been deficient.⁷⁰¹

The only way to enter into the advanced group of the electronics industry is by technological development and acquisition. The technologies available on licence are not state of the art, but a generation or more old. However, in the specific case of South Korean Chabols, the proper timing of entry into the D-RAM market made possible the licencing state of the art timing technology from US firms, which pocess superior designs but inferior production capabilities. Most advanced

⁷⁰¹. see sub-chapter 7.3.

group electronics firms in Japan, the US and Europe are seeking to strengthen the protective mechanisms to limit the leakage of new technologies at the initial stage of commercialization. Therefore, the accumulated capacity of the Korean electronics firms to access most-recent technologies depends heavily upon the level of their own key technologies or the amount of other exchangeable assets they have. Only highly specialized expertise will enable Korea to acquire the advanced technologies.

Only a few firms are in a position to seek equal partnership with advanced electronics firms in the US or Japan. An important question for research is whether Korean firms will be able to create the partnership to narrow the technology gap.⁷⁰² The problem for South Korean firms is increasing difficulties in gaining access to key technologies which they need to upgrade their industrial structure. Apart from business strategies, in the generation and diffusion of new technologies, international trade regimes relate in particular to the pattern of economic and political conflict in the national context and with regard to international transactions. In addition, the input of new technologies is regulated to a great extent by the basic features of the industrial market and organizational structures and by the driving forces pushing the current internationalization of industrial production and of related

⁷⁰². Among many factors influencing the export of electronics products to the EU, technology and market access seem to be the most important dimensions to be tackled with systematic efforts.

services.⁷⁰³

There is a logical evolution in a newly industrializing nation's technology acquisition strategy as absorption capacity matures. In an initial stage of technology acquisition, FDI probably accounts for a major source of technology, technology licensing being less important. Innovative technology acquisition strategies like strategic partnership with firms in the industrialized group are not easily available. Licensing becomes a more fruitful technology source.⁷⁰⁴

Table 8.2: Number of Technology Imports from 1962-1990 in Electric & Electronic sector (unit: No)

1962-80	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	Total
326	33	60	79	78	125	131	162	209	227	212	1,642

Source: EIAK, Electronics Industry Almanac in 1992, p.306.

The government role is very important in accelerating the transition from a more passive to a more active technology acquisition strategy.⁷⁰⁵ A number of South Korean Chabols have technology tie-ups with OECD firms in high-technology. In case of semiconductors, Samsung with Intel and Hyundai with Texas Instruments are conspicuous. Such arrangements may be one way of countering the general tendency toward more restrictive conditions of access to new technologies. A strategic partnership establishes a relationship between the firms where the progress of technology of each is critical to the

⁷⁰³. Susan Strange, "Protectionism and World Politics", *International organization*, Vol.39, pp.233-59, 1985.

⁷⁰⁴. From 1962 to the end of 1990, a total 6,944 technology imports were carried out in Korea.

⁷⁰⁵. Ibid., p.107.

competitive success of the other. Thus, technology exchange could be more extensive than in traditional OEM arrangements such as Korea used to have. The easiest way for Korean firms to establish such partnership is through possession of key technologies or some other complementary assets needed by the opposite firms.⁷⁰⁶ Korean firms have been quite unable to shift from being multi-product to multi-technology firms. This increases reliance on external technology acquisition. International technology networks have been boosted by the external technology acquisition, cutting across national boundaries. Privatization of the international technology flows makes it much harder for Korean firms to penetrate into the higher value-added markets. OECD nations dominate international technology acquisition. The fourth main reason for partnership is access to finance; access to the pool of cheap scientists, engineers and designers; and access to national R and D subsidies, government procurement markets, and national regional collaborative projects. Certainly, Korean firms have been unable to have full access to international technology networks.⁷⁰⁷

International technology diffusion has been limited because electronics market leaders have introduced a variety of entry deterrence measures aiming to restrict the rate of technology diffusion. Potential competitors including Korean firms have

⁷⁰⁶. Efficient manufacturing capacity and quick delivery network could be complementary assets.

⁷⁰⁷. For more details, See K. H. Keller, "Science and Technology", *Foreign Affairs*, Fall, 1990.

continuously been restricted in licensing core technologies. Even access to "pre-competitive" research has been restricted by governments to strengthen the competitiveness of their electronics industries. Technology diffusion and generation will determine, to a large extent, the possibility of South Korea's joining in the group of advanced nations. Given the limited R and D and design resources at present, South Korea is required to expand those resources to put its firms in the first rank in the world market. More importantly, making more effective use of those resources through collaborative R and D is very essential.

In terms of technological capability, Samsung seems to be a little more advanced with more integrated production facilities than LG Electronics. On the other hand, LG has more wide-spread production facilities. In terms of overseas marketing, they have a similar level of OEM production and similar range of their own marketing networks. The management styles of the two firms, however, differ: Samsung prefers centralization, while LG prefers diffused management. The major frame of their internationalization programme assisted by government, has stressed export-led growth. OEM based upon imported machinery and components is the most effective strategy they have employed. External pressures forced the two firms to follow a strategy of internationalization and globalization. At the initial stages of Korea's industrialization, Korea suffered a lack of research infrastructure and skilled labour force. By importing machinery and equipment for electronics assembly, Korean firms could obtain the necessary skills to operate those

equipments. Low-cost female labour was utilized to assemble the basic components. Production technology was obtained mainly from Japanese firms, with whom joint ventures were established especially in the consumer electronics sector. At a later stage, technology licensing and OEM agreements played important roles. The expansion of research activities assisted in the selection of technologies to license and in their subsequent absorption. The efforts of learning to operate the machinery and equipment for assembly purpose enabled these firms to acquire production technologies. Despite their increased production, efficiency assisted by the recruitment of production management from the foreign ventures established in Korea and of Koreans working in the electronics industry in the US, high-volume production of standard products has been the key production trend, limited by the OEM schemes. In order to produce a lower volume of more specialized products, Korea would need much more advanced production engineering and skills to design automated production systems. The present production skills are quite high, but there are some defects in precision engineering. The government has assisted Samsung and LG Electronics with measures to proceed with the localization of product development, as well as for acquisition and absorption of technology. They are trying to develop key materials technologies used for electrical components.⁷⁰⁸

⁷⁰⁸. Samsung and Goldstar have now mastered production processes used in certain major components, including cathode ray tubes (CRTs) for both televisions and computers and magnetrons for microwave ovens. The backwardness of design and product development capabilities overwhelm successes as with the first micro-oven that Samsung developed in the 1970s. For the

8.1.3 Strengthening Own-Brand Name Export and Distribution Network

After proper production, selling the products under the company's its own brand names seems to be a much more difficult task than the task of acquiring and absorbing foreign production technologies. The market leaders, mainly firms in the US, Japan and EU, often control distribution channels. A weak brand image and perception of low quality on the part of foreigners is a big obstacle. The profitability of the OEM is low for the sub-contractor. Samsung and LG face the difficult task of overcoming these barriers. The supply of key components by foreign firms gives them leverage over Korean firms; however, continuous efforts by Korean firms have gradually reduced the degree of dependence on foreign components and technology. The level of OEM can be reduced only by building up overseas marketing networks. Without globalization strategies in the domain of both technology acquisition and assembly activities, even future business prospects will not be bright. The OEM scheme has restricted the firms' ability to develop their technological bases and expand their overseas market networks. Success in the acquisition and absorption of assembly techniques has not been matched in design and component technologies. These structural

two firms to be in line with the advanced firms in the US, Japan, and EU, they still need to overcome formidable barriers. However, these barriers are being reduced as they close the gap with the world first class firms.

impediments limit further upgrading to advanced level.⁷⁰⁹

8.1.4 Government Support for the Chabols

In the outward-looking stance and export-led development strategies of Korea⁷¹⁰, the Korean government adopted a policy of rapid development aided by large-scale foreign borrowing, and imports of raw materials, components and machinery. The strong incentive for successful exports led to a concentration of economic power into Chabols. They were favoured through the means of preferential access to loans at subsidized interest rate, tax exemptions in certain areas, discounts on power and foreign costs and access to import licences for machinery and components. The concentration of economic power in Chabols provided the Samsung and Lucky-Goldstar Groups with the resources to enter and eventually dominate the electronics industry in the Korean market. Their strategy of building up export volume to obtain maximum government incentives was boosted by the special linkages with government research

⁷⁰⁹. *Business Korea*, December 1989, pp.46-47.

⁷¹⁰. On the export-led growth, see Anne O. Krueger, "The Experience and Lessons of Asia's Super-exporters," in V. Corbo et al., (eds.), *Export-oriented Development Strategies: The Success of five Newly Industrializing Countries*, London: Westview Press, Boulder Co., 1985; I. M. D. Little, "Trade and Industrialization Revisited," unpublished paper, Nuffield College, Oxford, 1994; World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press for the World Bank, W.D.C., 1993; Park Chong Kee (ed.). *Essays on the Korean Economy Volume III. Macroeconomic and Industrial Development in Korea*, Seoul: Korea Development Institute, 1980.

facilities.⁷¹¹ The recent corruption scandal of former South Korean President, Roh, Tae Woo⁷¹² is a clear example of close government-Chabols linkages.⁷¹³ The natural exchange of favours between the top executives in government circles and Korean Conglomerates has been a traditional basis of strong government support for Chabols through various incentives.⁷¹⁴ The government used its power through preferential loans and interest rate, through licensing authorizations and through inclusion of certain companies in its five-year economic development plans, selecting and then guiding those chosen for success.⁷¹⁵ In exchange for government support of the companies, the Chabols offered money to those in power, in the name of political contributions.⁷¹⁶ The government control of

⁷¹¹. The Korean Government technology policy mainly favoured the big conglomerates. Technological imbalance between the large and small companies has been widened due to this prejudiced technological policy.

⁷¹². In a tearful press conference, the retired general admitted that he had controlled a \$650 million secret fund as President of the ROK from 1988 to 1993 and had kept \$221 million for his own use. The money was from Chabols, South Korea's huge conglomerates.

⁷¹³. To be connected to the core figures of the power, companies had to support the incumbent political party, make the donations to the right causes, and succeed with their sponsored ventures. Failure to accomplish any of these activities could and sometimes did lead to a terminations of financing and immediate bankruptcy.

⁷¹⁴. See Edward W. Desmond, "I take responsibility," *Time*, 27 November 1995, p.75.

⁷¹⁵. Richard M. Steers, Yoo Keun Shin and Gerardo R. Ungson, *The Chabol: Korea's New Industrial Might*, London and New York: Harper & Row, Publishers, 1990, p.43.

⁷¹⁶. See the result of companies' disloyalty to the ruling circle in Mark Clifford, "Filing for divorce(Kukje), *Far Eastern Economic Review*, 21 April, pp.58-60.

Chabols are expected to be diminished and incentives to them is likely gradually to disappear, leaving management of huge family-oriented businesses to market principles with stricter measures to regulate unfair business practices.

However, state will continue to play a significant role in developing new state of the art technologies. The degree and form of state intervention is bound to vary widely, but there are several key policy areas which can not be neglected by government when they try to create the conditions for exploiting new technological opportunities. The major areas are as follows:

- a) strengthening indigenous technology development and absorption capabilities;
- b) developing the human resources base needed for industrial development;
- c) providing an environment in which flexible adjustment of production structures in the face of changing demand conditions is possible;
- d) facilitating access to information about, and the acquisition of new technologies by domestic firms;

In case of industrial transformation, in managing the trade-off between specialization and diversification, South Korean conglomerates are faced with the problem of how to transform management from its traditional family style supported by high degree of centralization of decision-making, to a more professional and less centralized management system, able to respond more flexibly to changing technological requirements and market conditions.⁷¹⁷

⁷¹⁷. Paradoxically enough, the deregulation, privatization and liberalization efforts of the Korean government efforts particularly since the Kim Young Sam Administration, seem to give more power to the concentrated management style of family dominance as government loses more power to regulate them by measures of policy guidelines and regulations.

8.1.5 Unbalanced Relationship with Japan

As a response to Japanese firms moving their production bases overseas in the early 1970s, the Korean government tried to tie the initial Korean electronics producers to a Japanese strategy for globalization.⁷¹⁸ Samsung and LG Electronics benefitted in some respects from Japan's investment.⁷¹⁹ The Korean firms' passive development strategy forced upon them by the Japanese strategy for globalization, produced an unbalanced relationship between the two nations: electronics components and parts remain the one area where the Japanese still take control, accounting for almost 60 percent of total components production, mostly through joint-ventures.

8.1.6 Globalization Strategies and Responses to Regionalism

In the era of regionalization and globalization of the world economy, localization and globalization of the electronics industry is a prerequisite for successful management of the

⁷¹⁸. On the Japanese globalization strategy, see B. Yamada, *Internationalization Strategies of Japanese Electronics Companies: Implications for Asian Newly Industrializing Economies*, Technical Paper No. 28, OECD Development Centre, Paris, 1990.

⁷¹⁹. Samsung, for example, established joint ventures with NEC and Sanyo Electric, the Lucky-Goldstar group with NEC and Alps Electric. By 1976, more than 50% of all employment in electronics industry was foreign-owned or joint-venture firms. The success of Korean firms' export strategies was accompanied by withdrawals of the Japanese companies in the 1980s. Consequently, employment in wholly-owned foreign subsidiaries declined by a third between 1976 and 1985. On the contrary, employment in the industry as a whole grew by about 50%. Despite this figure, their share in Korean electronics exports fell from 55% in 1972 to 40% in 1980.

industry. The growing trade frictions with the US, the EU and advanced nations, forced the Samsung and LG Electronics to seek globalization strategies. Also, the appreciation of the Korean currency, the Won, and the unionization of the Korean labour force, forced the Korean firms to seek overseas production where costs were relatively cheaper. The advanced market leaders' continuous demand for the liberalization of Korea's trade regime, compelled Samsung and LG Electronics to establish international marketing networks.

In addition to overseas design or research operations, they built assembly operations in the US, Mexico, and Europe to solve the problem of barriers to market access. Different types of overseas investments were mainly aimed at securing market access.⁷²⁰ The restricted environment, however, caused the total sales records of consumer electronics overseas to fall well below the target.⁷²¹

a) FDI into the EU to Avoid NTBs

Looking specifically at Korea's FDI into the EU, market security has been the most important motivation, as the EU's

⁷²⁰.According to Han, Sun-Taik's survey in *European Integration: The Impact on Asian Newly Industrializing Economies*, OECD Development Centre Document, Paris, 1992, p.24, major motivations of Korea's FDI into the EU have been a) to secure market access from protectionist measures;b) to explore market opportunities;c) as an active global strategy of firms;d) to acquire high-technology or know-how;e) to benefit from skilled manpower;f) to have easy access to parts and components;g) to benefit from low financial costs.

⁷²¹. Mark Clifford and Jonathan Moore," Overseas Attractions, Entrepreneurs' Shift Production to Low-cost countries", *Far Eastern Economic Review*,16, March, 1989, pp. 88-89.

protectionist measures, particularly anti-dumping litigations, have proved to be relentlessly effective in impeding exports of Korean electronics products. The typical period of 1987-1991 witnessed several anti-dumping investigations against South Korea. An industrial association filed a complaint to the EC to initiate an anti-dumping investigation⁷²² against Korean and Japanese-produced Compact Disc Players on 16 January 1987. After imposing a provisional duty ranging from 20.1 to 32.5 percent on 13 July 1989, on 17 January 1987 the European Commission imposed anti-dumping duties on Samsung's products at 10.7 percent on Goldstar's(now called LG Electronics)products at 26.1 percent, on Haitai Electronics at 19.4 percent and Dongwon Electronics at 14.4 percent.⁷²³

Exports of major Korean electronics products decreased substantially between 1987 and 1989, both at the national and the firm level. Moreover, the fact that 8 out of the total 15 cases of the Korea's Foreign Direct Investment were undertaken within 2 years from the initiation of the anti-dumping investigations gives strong credence to the defensive position of Korean electronics FDI.⁷²⁴

b) Dual Characteristics of FDI By Samsung and LG

The Samsung and LG electronics FDI into the EU has dual characteristics. Despite the loss-making of almost half of the

⁷²². The legal foundation for this action was EC Regulation No.2176/84(anti-dumping).

⁷²³. Eleven Japanese companies were subjected to by anti-dumping duty by this decision, ranging from 6.4 percent to 33.9 percent of the dumping margin.

⁷²⁴. Han, Sun-Taik, 1992, p.24.

Korean FDI in the EU⁷²⁵, the two firms have undertaken a somewhat defensive type of investment to serve as an export-extension strategy when export markets are threatened by protectionism.⁷²⁶

Table 8.3: Anti-Dumping Impositions against Korean Firms, 1987-1991

Date of Imposing Duties	Item	Companies Targeted	Result of Dumping Duty	Legal Regulation
17 Dec. 1987	Compact Disc Player	Goldstar Samsung Haitai Dongwon	26.1 % 10.7 19.4 14.4	EC Reg. No2176/84
1 Sep. 1988	VCR	Provisional Daewoo Goldstar Samsung	29.2% 26.4 25.2	EC Reg. No2176/84
19 June, 1988	Video Tape	Saehan Media SunKyung Kolon Goldstar	1.9 % 3.8 2.9 2.9	EC Reg. No2176/84
27 Apr. 1990 No2176/84	Small Colour TVs	Daewoo Goldstar Samsung Others	 10.4 10.5 19.6	10.2% EC Rego.
13 Nov. 1990 No2423/88	Audio Tape	Provisional SunKyung Others	 19.4	Magnetic 3.1%
31 July 1990 No.2423/88	Car Radio	Commission's ban on Korean-made car radio indirect importing through France Targeted Firms: Samsung Electronics and other 65 firms		

Source: EIAK, *Korean Electronics Industry Almanac in 1992*, pp.246-50

⁷²⁵. The survey result of Han, Sun-Taik show that 42.1 percent of Korean FDI in the EU are loss-making and only a quarter of them are profitable.

⁷²⁶. Han, Sun-Taik, 1992, p.27.

Table 8.4: Business Performances of Korean Electronics FDI
in the EU

Profitable	Loss-making	Not yet known
26.3 %	42.1 %	31.6 %

Source: Han, Sun-Taik's Survey

Han argues that in spite of various studies stressing the beneficial effects of the EC 1992 programmes on growth and import demand, third nations in general and developing nations including South Korea in particular feared that the EC would become more discriminatory toward non-members and build higher protective trade barriers. His opinion survey of Korean businessmen in the EC region confirms the growing sense of uneasiness: a striking 85.7 percent responded that the external policy of the EC would become more protectionist after 1992, while a mere 7.1 percent said to the contrary.⁷²⁷ Their active globalization plans have also been major determinants.⁷²⁸

8.1.7 EU's Various Restrictive Barriers against Samsung and LG Electronics Penetration

For Samsung and LG to be in the group of world market leaders, they have to overcome regulatory barriers:⁷²⁹ The world market leaders impede the advancement of the other firms to penetrate into the market of their occupation. To this end, they usually employ deterrence strategies. It is very important

⁷²⁷. Han, Sun-Taik, 1992, p.27.

⁷²⁸. Sub-chapter 8.2 discusses on globalization plans in detail.

⁷²⁹. OECD, *Competing in the Electronics Industry: The experience of Newly Industrializing Economies*, pp.40-41.

to note that neo-mercantilism prevails, transcending national boundaries. Bilateral, regional or even multilateral, international arrangements restrict the developing nations' access to market and technology. The variety of such supra-national arrangements has increased tremendously, ranging from price ceiling and market access regulations to joint R and D consortia, and technology export restrictions.⁷³⁰

Those restrictions are on market access, whether through discriminatory access to "government procurement markets (telecommunications; computer equipment for the public administrations and the educational sector) or through market share quotas and "market reservation schemes"; and restrictions on the establishment of firms in a particular activity, through, for instance, statutory monopolies, investment licensing and restrictions on FDI; and regulations concerning standards for product design, quality and reliability, and interface and connectivity requirements; and restrictions on access to

⁷³⁰. Examples: the September 1986 US-Japanese trade agreements on semiconductors to create a bilateral, cartel-like managed trade agreement; the European Communications Sectoral Research consortia, in particular ESPRIT; and the still quite pervasive restrictions to the international disseminations of so-called "dual-use technologies as codified in the past COCOM lists. Despite the successive conclusion of the UR to salvage the multinational trade system, such supra-national regulatory barriers to international trade investment, and technology flows will further increase in importance.

For further reference, see C.V. Prestowitz, *Trading Places, How we allowed Japan to take the lead*, New York: Basic Books, 1988; L. Mytelka, (eds.), *Strategic Partnerships and the World Economy*, London, 1991; C. Haklisch and N.S. Vonortas, "Export Controls and the International Technical System: The Semiconductor Industry", Center for Science and Technology Policy, New York: Rensselaer Polytechnic Institute, 1988; S. Ostry, *Government & Cooperation in a shrinking World: Trade & Innovation Policies in the US, Europe and Japan*, Council on Foreign Relations Press, New York, 1990.

scientific and technological knowledge and particular types of qualified labour, through intellectual property rights protection, technology export controls and restrictions on the mobility of scientific-technical personnel; limitations on access to core components, subassemblies and materials; restrictions on access to capital; restrictions on pricing behaviour and the establishment of distribution channels; and finally restrictions concerning the final behavior of potential entrants, particularly with regard to discriminatory fiscal treatment and restrictions on profit repatriation."⁷³¹

Restrictive measures adopted by the electronics firms in the industrialized nations of the US and EU, deter Samsung and LG from reaching the same technological and organizational level. The changed trade environment is forcing the Korean government and the electronics firms in Korea to seek new strategies for a new direction with a stronger technological base. The following section, 8.2, will show response strategies, especially Samsung's strategies against regionalism and LG's on the globalization of world economy.

8.2 A Case Study of the Two Korean Firms Responses to Regionalism and Globalization

8.2.1 Samsung Electronics

A study of the characteristics of Samsung Electronics in

⁷³¹. The difficulties of the later comers should be removed by developing proper strategies in the future. On future strategic responses, see Martin D. Bloom, op. cit., chapter 5., pp.113-125.

general and in particular, its business strategies to deal with regionalism and globalism⁷³² concludes that Samsung electronics is not exceptional in sharing the general problems of the Korean electronics industry.⁷³³ LG, Hyundai, Daewoo⁷³⁴, and Anam

⁷³². This sub-chapter is based solely upon primary sources. Among many primary sources, the four principal sources are as follows: 1) Chun Young-Wook and Yoon Dong-Jin, *Internationalization of the Korean Electronics Industry in an era of globalization*, Research Project paper; 2) Samsung's Study Report on Response Strategies against the EU Integration; 3) Samsung's Blueprint on the Vision of the Samsung in the 2000; 4) Samsung Group Planning Team Task Force, *Report on the Group's Internationalization Strategy*, March 1994. In addition to the above, the Ministry of Industry, Trade and Energy Study Paper, *The Impact of Japanese Currency Appreciation on the Korea's Exports to the EU Market*, Trade Promotion Bureau, June 1994; Ministry of Industry, Trade and Energy, Bureau of Electric and Electronics Industry, *The Results of the UR Negotiations and Response Strategies: Focusing on Electric and Electronics Industry*, Policy Reference Material 1994-1; Ministry of Industry, Trade and Energy, *Korea's Response Strategies on SEM of the EC since its initiation*, Market Study Reference Material, November 1993. All in Korean.

⁷³³. Interviews and review of documents were mainly carried out during my visit to Seoul from the middle of May 1994 to the Middle of September 1994. Except for the on-the-spot interviews done on the 26th, July 1995 at Samsung's Billingham factory which are surveyed in detail in Appendix I, all the interviews and small opinion exchanges were done at Samsung Group Headquarters Building in Seoul. Among those are Seung Ro Yoon, Assistant Manager, Marketing & Regional Strategy Team for Europe, International Operations Office; Yong Suk Cho, Manager, International Strategy Corporate Planning Office; Yun Hawn Kim, Assistant Manager, Marketing & Regional Strategy Team, International Operations Office, all in Samsung Electronics Co. LTD.; and Seung Koo Oh, Ph.D., Senior Economist, American & European Studies Dept., Samsung Economic Research Institute, Seoul, Korea.

⁷³⁴. *Financial Times*, Tuesday August 15 1995, introduces the rapid expansion of Daewoo Electronics. South Korea's third largest company also recorded a 45.6 per cent rise in first-half net-earnings to Won24.9bn. The rapid profit growth is mainly due to increased overseas sales of consumer electronics and appliances, as Daewoo expanded marketing abroad to reduce its dependence on the Korean market, which has been subject to intensifying competition and recent price cuts. Daewoo put much focus on the export of high-margin, own-brand consumer products to developing countries, while accelerating overseas production

electronics share common structural problems.⁷³⁵ Export market diversification is also a vital issue to Korean firms. Rising protectionism of the EU is making Korean exports very vulnerable to external factors.

a) Major Tasks of Samsung Electronics

Technology diffusion is an important phenomenon that could shape future international trade flows. There are two basic assumptions on the future technology diffusion perspectives. One is pessimistic and the other is rather optimistic, though with some reservations. The pessimistic view is of a scenario where current trends towards a more restrictive electronics industry structure by advanced firms continue to exist or even be expanded with more restrictive barriers for latecomers. On the other hand, the optimistic scenario is based on the assumption that the international technological system will

in the EU and North America. Sales rose by 23 percent to Won 1,429bn.

⁷³⁵. The common structural problems of the major Korean Electronics firms are illustrated by Chun Young-Wook and Yoon Dong-Jin in their research paper, p.6 Assembly operation by OEM produces the following characteristics:

- 1) The proportion of consumer electronics is much higher than that of industrial electronics;
- 2) Heavy dependence on key technologies, component, and brandname as a result of low domestic supply of key components and the high ratio of OEM resulted in the firms' structural weakness in international competitiveness;
- 3) Export-led growth strategy with concentration on a few items was conducted with price competitiveness;
- 4) Expansion of assembly operation accompanied on oligopolistic market structure, while small & medium sized firms' backwardness impeded the growth of self-growth basis and efficiency;
- 5) Foreign technology-licensing, component imports and export market heavily depended upon the US and Japan.

become more open and accessible to late comers.⁷³⁶ For the optimistic view to be materialized into reality, the industrialized nations' government policies and firms' strategies should be substantially modified. From a long-term perspective, such policies would create substantial benefits for all the nations in the world. Unfortunately, however, the policies and strategies of the world's leading firms are more firmly rooted on the basis of short-sighted assessments of their own interests, even at the expense of jeopardizing those longer term gains.⁷³⁷ As a matter of fact, the rapid proliferation of high-tech neo-mercantilism has been spread all over the advanced group to such an extent that to reverse the trend is no easy task. In this sense, the insistence on a neo-liberal free market world economy, can not be guaranteed to produce fundamental changes required to reduce barriers to international technology diffusion.

In order for Korean firms to secure a complementary relationship, where both partners would bring in their respective strong areas and which would create a new potential for expanding mutual flows of trade, investment and technology, multidimensional strategies in close collaboration between government and private sectors are greatly needed. South Korean firms, including Samsung Electronics, are today involved in a

⁷³⁶. It is not safe to say that this is 100 percent right. Actually in some sectors like the Electronics, the deterrence strategies of the advanced firms in OECD group play a significant role in preventing Korean firms from acquiring state of the art technology.

⁷³⁷. In cognitive context, this is based upon the soil of protectionism.

network of co-operation agreements⁷³⁸ with some of their major American and Japanese competitors, from the range of sub-contracting arrangements to joint technology developments projects. South Korean firms' manufacturing prowess and speedy delivery are, in these agreements, complemented by these partners' product design and market success. The recent agreement between NEC, the Japanese electronics company and Samsung, South Korea's largest semiconductor manufacturer, to produce semiconductor chips jointly in Europe, is the latest example of what the Koreans call, according to the report of Michiyo Nakamoto and John Burton of *The Financial Times*, "sleeping with the enemy" and the Japanese call "helping each other out." NEC's agreement to provide Samsung Electronics with 100,000 chips a month will enable Samsung to avoid high European Union tariffs on semiconductor imports.⁷³⁹

The world economic outlook depicted in the table gives Samsung both challenges and opportunities. World trade is expected to increase at a rate of from 3.5 percent to 5.5

⁷³⁸. See the tables in this chapter, major Korean firms' FDI into the EU

⁷³⁹. The dominance of Japanese and Korean companies in the memory chip market has encouraged co-operation between the two countries' industries in production, as well as where soaring costs have made investments in new facilities prohibitively expensive for many companies to commit on their own. One reason is to disperse risks associated with these projects which involve huge amounts of cash and are subject to market volatility. The Korean-Japanese alliance is designed to take advantage of each other's strength for their mutual benefit. The Japanese are advanced in chip design, while the Koreans excel in the production process. Another reason Samsung has attracted alliances is its financial strength. It reported net profit of \$1 billion for 1994 because of its fast growing exports of its D-Ram chips. Samsung expects the Japanese alliance to help it acquire the semiconductor technology it lacks.

percent. The industrial restructuring of the OECD group, low interest rates, other nations' reinvigoration in investment, are helping this favourable trend to be expanded. The conclusion of the Uruguay Round is giving an indefinite dimension to competition and world regional economic trend will determine the major trend of economic patterns in the future. The ever-intensifying restrictive measures of the OECD group against the developing nations' desperate efforts to technology acquisition are giving hard time to Samsung.

Table 8.5: Japanese/Korean Electronics Cooperation Agreement from 1989 to August 1995

year	Agreement Content
1989	Hitachi/Goldstar Electron: supply of Hitachi memory chip design
1992	Toshiba/Samsung Electronics: joint development of flash memory chip technology
1993	Ok Electric/Samsung Electronics: co-operation in 16-megabit D-Ram development NEC/Samsung Electronics: exchange of information on development of 256-megabit D-Ram chips Fujitsu/Hyundai Electronics: cooperation in memory chip development
1994	Alps Electric/Goldstar: co-operation in development of advanced liquid crystal display technology
1995	Toshiba-Samsung Electronics: co-development of manufacturing processes for integrated circuits used in consumer electronics NEC/Samsung Electronics: co-production of 4-megabit and 16-megabit D-Ram chips in Europe

Source: *Financial Times*

In addition, the debate on the activation of the Green Round and Blue Round, open up some new dimensions for Samsung to consider in its future business strategies.

Table 8.6: Prospects for Economic Growth Rate(unit:%)

	'87-'92	2-'97	7-2002
The World Total	2.0	3.1	3.7
US	1.9	2.9	2.8
Japan	4.3	3.5	3.5
EU	2.9	2.2	2.6
NIEs+ASEAN	7.6	7.1	6.6
Central and Southern America and Latin America	1.9	3.7	4.7

Quoted in Samsung's Report, *Internationalization Strategies*, Samsung Group Secretary Board, Planning Section.

b) FDI as Strategic Responses to NTBs(Anti-Dumping) of the EU

As a specific response of regionalism to the European Union and as part of the active globalization strategy of the Korean firms, FDI has increased tremendously during the last six years. Samsung has carried out 129 investments in all, of which 57 were for the main function of sales, 42 for production, 17 for research and development, 7 for resource development. In case of production investments, 18 have gone to the ASEAN region, 7 to Europe, and 6 to People's Republic of China. The classification according to the Groups subsidiaries is 18 to Samsung Corporation, 15 to Samsung and 8 to electronics-relevant subsidiaries. Three investments have exceeded \$ 50 million. Out of total investments, Samsung Corporation invested 48 cases, Samsung Electronics 43 cases and 12 cases went to the electronics-relevant subsidiaries within Samsung

Corporation.⁷⁴⁰

Looking into the EU region with more specificity, Samsung's response strategy toward European market shares common features with the group's general globalization strategies. This means the deepening and widening of insiderization into the EU territories. Samsung Electronics' FDI into the EU in the 1980s was strongly motivated by the shift of the community trade policy away from tariff to non-tariff barriers, and from common policy-making to more national discretion.⁷⁴¹

Table 8.7: General Situation of the Samsung's Overseas Businesses(\$ 100 million, person)

	till the end of '87	'93	increase rate
No. of bases	120	307	260%
No. of nations	42	59	140%
Total Output	188	500	270%
Overseas output	45	125	280%
Exports	43	106	250%
Local Production in overseas	1	9	900%
Amount of Total Investment overseas	0.7	11	1,600%
No. of Investments	29	129	440%
No. of Overseas local workers	1.950	19,970	1,000%
Samsung men in overseas	440	940	210%

Source: Samsung Group's Report on the Internationalization Strategy

Samsung Electronics was more affected by the non-tariff barriers as the EC trade protectionist measures have become more

⁷⁴⁰. Samsung Group's Report on Internationalization Strategy.

⁷⁴¹. Han, Sun-Taik, 1992, p.27.

selective and discriminatory among products and countries of origin. The EC's selective, intensified application of non-tariff barriers against Korea's colour TVs, VCRs, and computers, presented ever more stiff competition. The proliferation of the EU NTBs to Korean electronics product exports resulted in continuous decline in the comparison ratio of 1992/1993.⁷⁴²

Table 8.8: Korea's Export to the EU in Industrial Equipment, Components and Consumer Equipment in 1992/1993(unit:US \$1000)

	1992	1993	Growth Rate %
Belgium	124198	96641	-22.2
Denmark	31352	32843	4.8
France	359635	362986	0.9
Germany	1139458	1061748	-6.8
Greece	21543	27014	25.4
Ireland	27974	24988	-10.7
Italy	195789	178492	-8.8
Luxembourg	755	1044	38.3
Netherlands	332983	334439	0.4
Portugal	34803	23440	-32.8
Spain	168965	187322	10.9
U.K	639712	708480	10.7
Austria	119548	115102	-3.7
Finland	28286	31748	12.2
Sweden	77406	97955	26.5

Note: Simplified from EIAK statistics
Source:EIAK, 1994

Concerning the arbitrariness and nationalistic discrimination in applying the local content rules, two points need mentioning: 1)regarding product-qualification: given the situation that many EU companies, e.g., Philips and Thomson, are producing consumer electronics using parts and components or even ready-made appliances supplied on an OEM basis by Japanese

⁷⁴². Electronics Industries Association of Korea(EIAK), *Statistics of Electronic & Electrical Industries in 1993*, section on export by commodity and country, pp.49-256, Seoul, April, 1994.

and ANIE companies, a strict application of the rules to all products regardless of their national origins or ownership would disqualify many products of European companies as European.

Table 8.9: Korea's Imports from the EU in Industrial Equipment, Components, and Consumer Equipment, 1992/1993(unit: US\$ 1000)

	1992	1993	Growth Rate %
Belgium	82353	31980	-61.2
Denmark	12660	8764	-30.8
France	151539	104038	-31.3
Germany	262099	331347	26.4
Greece	27	60	122.2
Ireland	13312	30738	55.8
Italy	39452	47160	19.5
Netherlands	0	1003	0.0
Portugal	668	1090	63.2
Spain	5014	7179	40.7
UK	125899	146307	16.2
Austria	14228	15361	7.5
Finland	35052	62100	77.2
Sweden	36001	26801	-36.0

Source: EIAK, 1994

In particular, when it comes to multi-sourced products, identification procedures may prove to be very complicated or even impossible in some cases and may result in highly arbitrary decisions; 2) regarding national origins: because of increasing cross investments and strategic alliances among Multinational Corporations(MNCs), traditional ownership-based classifications of national origins may become even more obsolete, not to mention violating the OECD's national treatment rules.⁷⁴³

The basis for the EU to employ arbitrariness in application of the EU non-tariff barriers is Korea's trade surpluses vis-a-vis the EU. Though South Korea is pushing rapid liberalization in imports policies, the bilateral trade balance will not be

⁷⁴³. Han, Sun-Taik, 1992, p.37.

easily restored because of traditional high savings propensities and export-oriented industrial structures.

Table 8.10: Korean Exports of Consumer Electronics to the EC, Effect of Anti-Dumping Measures(US\$ million)

	Colour-TV*	VCR**	MWO***
1987	198.5	318.2	168.1
1988	173.4	232.9	243.3
1989	117.5	92.9	193.3
1988/1989 in %	67.7	39.9	79.5

Note: * countervailing duties on Colour-TV(14") as of December 24, 1988(Daewoo;10.2%, Goldstar;10.4%, Samsung;10.4%, others;19.6%)

** minimum price undertaking at 215 ECU/VCR on February 28,1989. When increases in unit price after the minimum price undertaking are considered, decreases in export volume are likely to be even more drastic. See Table 9.6 which shows an example of a lots of market shares.

*** VER at 31% of the EC market share for Korea and newly imposed safety and technical regulations in 1989.

Source: Han, Sun-Taik's compiling from EIAK, 1990.

Table 8.11 Effect of Anti-Dumping Measures on VCR Exports Company A Exports to France

	1987	1988	1989
Volume(unit)	38,541	66,372	15,529
Market Share(%)	3.50	4.02	0.80

Source: Han, Sun-Taik's Interview

As a result, the EU's likelihood of the resorting to non-tariff measures to restrict imports from South Korea remains high.⁷⁴⁴ The legal foundation for use of restrictive measures, except tariff, is Article 19 of the White Paper(1985), which stipulates that "the commercial identity of the Community must

⁷⁴⁴. The Korean share of exports subject to the former EC NTBs expanded from 29.5 percent in 1985 to 43.5 percent in 1988, which clearly explains the concern of the EU to protect its industries from competitive Korean exports.

be consolidated so our trading partners will not be given the benefit of a wider market without themselves making similar concessions." Grey area measures are used to impose the costs of adjustment on the non-members, in the name of unfair trade practices.

In the specific case of anti-dumping, 19 cases were investigated during the period 1985-90, more than double the number of cases in the 1972-84.

Table 8.12: Non-Tariff Barriers of the EC on Korean Exports as of April 1991

	Cases	Examples
Quantitative Restrictions	31	
.Inter-government agreement	10	MFA, shoes
.Private sector agreement	9	microwave ovens CPT
.Unilateral restrictions	12	canned mushrooms silverware
Price Restrictions	15	
.Minimum price	8	CPT, VCR, Monosodium
.Anti-dumping	7	polyester, CDP, Videotape shipping service
Technical and quality regulations	4	radios, TVs, Pcs
Cases Under Investigations	8	
.Anti-dumping	7	polyester, gas lighter car-radio, memory-chips
.Safeguard	1	shoes

Source: Economic Planning Board, ROK

Why Samsung Electronics has been especially affected by this measure may be explained by Samsung's product shift from labour-intensive products such as textiles and footwear to technology and capital-intensive goods such as colour TVs, VCRs, MWOs, CD players, and memory chips as future strategic exporting items. Those technology, capital and knowledge-intensive items are major products of Samsung Electronics exports to the EU

market.⁷⁴⁵

The recent principal example of Samsung Group's response strategy to regionalism of the EU, specifically anti-dumping on Korean products is Samsung's decision to build a plant in Yorkshire, UK.⁷⁴⁶ Following the announcement by Samsung Electronics in October 1995 of plans for a 450 million pounds electronics complex at Wynyard, Cleveland,⁷⁴⁷ Samsung heavy industries announced 10 million pounds investment in the Yorkshire and Humberside region, UK. The announcement to intention to build a factory to produce 21-tonne crawler excavators in the latter part of 1995, with an employment effect of 100 at the initial stage, to be increased to between 500 and 600 by the year 2000, was a hasty defensive decision in response to anti-dumping actions imposed by the EU. The decision came little more than a month after a group of European excavator manufacturers filed a long-awaited anti-dumping complaint against their main Korean rivals. Chris Tighe and Andrew Baxter, reporters of *The Financial Times*, conclude that the complaint from the Europeans encouraged the Samsung Heavy

⁷⁴⁵. According to the statistics of the Economic Planning Board of ROK, regional comparison of Korean exports under NTBS in 1988 was 43.5 percent of the EU, 19.3 percent of the US and finally 19.7 percent of Japan, a sharp increase from the 1985 shares of 29.5, 43.3, and 32.0 respectively.

⁷⁴⁶. *Financial Times*, Tuesday 13 January 1995.

⁷⁴⁷. The major motives and expectations of the huge FDI by Samsung are well explored by A sub-Case Study of Samsung Electronics Factory in Billingham, through direct interview with Project & Maintenance Manager, H.G. Noh of Samsung Electronics Manufacturing UK LTD.. The interview was done in the reception room of the factory, from 11 a.m to 12:30 p.m, on the 26th, July 1995. This study is in Appendix.

Industry to accelerate plans for setting up excavator factories within the EU.⁷⁴⁸

As H.G. Roh, Project and Maintenance Manager of Samsung Electronics Manufacturing UK LTD., clearly suggested in a direct interview, that future active responses against the proliferation of NTBs in the EU would be made through continuous development of differentiated products, strategic alliances and joint ventures. Samsung Electronics shares common characteristics with other Chabols in their motivations to launch FDI in the EU region. European governments have recently stepped up their efforts to win a bigger share of Korea's global spending spree. They are increasingly courting investment with high-level trade missions and offers of generous financial incentives.⁷⁴⁹

Another underlying motive of Korean Chabols' FDI into the EU is that, unlike Japanese manufacturers which enjoyed commanding superiority in quality, productivity and technology when they started moving abroad, many Korean companies including Samsung Electronics are attracted to Europe by chances to

⁷⁴⁸. The effectiveness of anti-dumping measures has induced Korean FDI into the EU to create more jobs for local people. The speediness of the proceedings as well as the investigating rules that are set up to generally produce positive results encourage the Commission to resort to anti-dumping procedures more frequently than it would otherwise. However, the Agreement of the Uruguay Round to shorten the period of the investigations and to define the terms of dumping based on multilateral rules, to a certain degree, will deter the arbitrariness of EU anti-dumping regime. The basic effect is likely to remain even when more transparency and clarity is applied in the process of investigations and judgement on dumping.

⁷⁴⁹. Guy De Jonquieres and John Burton, "Big Gamble on a European Thrust," *Financial Times*, February 10 1995.

acquire industrial know-how.⁷⁵⁰ Korean FDIs have been induced to set up in Europe. According to John Burton and Guy De Jonquieres, "the keenest spur has been a succession of anti-dumping cases brought by the European manufacturers which claim they are being injured by Korean exports sold at artificially low prices." So sensitive have Korean manufacturers become to such complaints that they have sometimes chosen to sidestep them by setting up plants in Europe even before Brussels has opened formal anti-dumping procedures.⁷⁵¹

Table:8.13: Korea's Overseas Direct Investment by Region
1985-the end of November 1994(unit:\$ million)

Asia	Latin America	North America	Europe	Others
4,191	312	3,002	1,290	929

Source:Bank of Korea

Table 8.14: Korea's Main Investment Project in Europe

Samsung

- . \$700m consumer electronics complex, Wynyard,UK, 1994-2000
- . \$16m excavator plant in Harrogate, UK 1995
- . \$15m colour TV factory at Billingham UK,1990
- . \$30m with Texas Instrument, semiconductor assembly plant, Oporto, Portugal, 1994.
- . \$120m colour picture tube factory, Berlin, Germany, 1994-1997

⁷⁵⁰. Samsung Wants to buy Rollei, a German camera maker, and Nouville Piquerez, a Swiss clock company. In particular, Samsung Electronics, with its ambition to become one of the world top five electronics companies by 2000 is planning to build large consumer electronics production complexes in the UK, Mexico, China and Thailand. The Group recently unveiled plans to build semiconductor plants in Europe, the US and South-East Asia, at a cost of \$ 1 Billion each, by 1997. On March 1995, Samsung Electronics paid \$387 million for a 40 percent stake in US-based AST Research, the world sixth largest personal computer maker, to improve the performance of its computer business.

⁷⁵¹. A recent such case is the Samsung 's decision to invest to build an excavator factory in Yorkshire, UK. Similarly, Hyudai Heavy Industries decided to invest \$ 10-15 million in an excavator factory in Geel, Belgium, in 1995.

Daewoo

- . \$42m VCR plant, Antrim, Northern Ireland, 1988
 - . \$23m microwave oven plant, Longwy, France, 1988
 - . \$37m colour TV plant, Fameck, France, 1993
 - . \$150m colour tube factory, Longwy, France, 1993-1995
 - . \$138m cathode ray tube factory, Lorraine, France, 1993
 - . \$10m excavator plant, Frameries, Belgium, 1990
 - . \$759m car factory, Craiora, Romania, 1994-1995
-

LG(Lucky-Goldstar)

- . \$40m colour TV and microwave oven factory, Newcastle, UK, 1994-1995
 - . \$40m VCR factory, Worms, Germany, 1986
 - . \$10m refrigerator/freezer plant, Naples, Italy, 1990
-

Hyundai

- . \$10-415m excavator factory, Geel, Belgium, 1995
-

Source: *Financial Times*, February 10 1995.

Some lessons could be drawn from the overseas investments. By the end of 1993, the number of overseas investments reached 307, in 59 different nations. However, the size of the investments has been very small and their management capabilities very low. Thus, they have been unable to meet the qualification for international competitiveness. In particular, the lack of strategic alliances or merger and acquisition is very critical to the internationalization strategy. The lack of experience in local business was not the main consideration in either joint or single investments.

Also, in its strategy to seek production bases in overseas markets, the underlying motive was to seek low labour costs, and to avoid anti-dumping in the short-term. Thus, the whole picture was rather defensive. Sudden changes in local market forced the investments to be withdrawn in 3-4 years in some extreme negative examples. The intervention of the Samsung headquarters in Seoul, in local management, in the main areas of important

decision-making, resulted in delay in establishing a local management responsibility system.

During the last four years, the total overseas production and sales recorded a rapid expansion rate of 17 percent annually. According to the annual estimation of 1994, the total overseas production and sales occupied 31 percent out of the group's total output. The proportion of the electronics industry's output was extraordinarily high.

Table 8.15: Sectoral Overseas Export, Production and Sales of Samsung Group(unit:\$100 million)

	'91(%)	'92	'93	'94	Average Annual Growth Rate
Electronics	49.9(57)	58.6	81.0	100.6(71)	26%
Trade	18.6(21)	22.3	22.1	19.7(14)	2%
Engineering	9.5(11)	11.2	10.7	10.9(8)	5%
Textiles	7.9(9)	7.7	7.9	6.0(4)	-9%

Source: Samsung Group's Report

* Total Overseas Output includes Exports, Overseas Production, Trade Between the third nations.

c) Samsung Electronics Active Globalization Strategy in the World of Interdependence

Samsung Group reorganized its management, aiming to reduce the number of subsidiaries to shift business focus to more future-oriented sector as part of its corporate strategy for the next century.⁷⁵² To that end, Samsung reorganized its affiliates into four core business sub-groups- electronics, machinery, chemicals; and finance and insurance. Another management innovation is to let heads of each sub-group take

⁷⁵². *Korean News Review*, November 5, 1994, p.23.

responsibility for their management.⁷⁵³ This programme is in line with the Kim, Young Sam government's "segyehwa" programme.⁷⁵⁴ Samsung should overcome the negative image of the Korean government reform programme, which a *Financial Times Survey on South Korea*, called "reform with a nationalistic tinge", by stipulating that Korea has decided to jump into the mainstream of free trade and economic liberalization-but intends to do so in its own fashion.⁷⁵⁵

What the main trading partners-the US, Japan, and the EU-expect is greater access to Korea's financial market and the lowering of importing barriers. The EU's trade restrictive measures of NTBs against Samsung Electronics exports are partially based upon the concept of reciprocity in that Seoul's programme for trade and financial liberalization in their scope and pace fall short of the EU demand.⁷⁵⁶ The lowering of trade

⁷⁵³. The goal of the plan is to push ahead with Samsung's management strategies in preparation for the coming century. The restructuring plan is seen as unusual in the country where business groups, chabols, are keen on expanding their business areas. Under the plan, 16 subsidiaries will be separated from the group and 10 affiliates will be merged into other Samsung firms by at least 1998.

⁷⁵⁴. It means globalization. The Korean government and the media over the past year have debated what to call the policy of economic liberalization and market opening. Internationalization was rejected because it implied that the changes would be primarily internal and guided by foreign influences, whereas globalization mainly focuses on increasing Korea's presence abroad, e.g. by establishing more manufacturing plants.

⁷⁵⁵. *Financial Times Survey on South Korea*, Monday June 26 1995.

⁷⁵⁶. Article 19 of the White Paper in 1985- The commercial identity of the Community must be consolidated so our trading partners will not be given the benefit of a wider market without themselves making similar concessions.

barriers poses another difficulty to Samsung Electronics, which relies on a protected domestic market for earnings since exports usually offer only slim profit margins;⁷⁵⁷ thus, opening up to the imports of consumer electronics is a challenging task.⁷⁵⁸ Korean government efforts to meet the demand of the industrialized group like the EU were revealed under the name of the Five-Year Investment Liberalization Plan in June 1993.⁷⁵⁹ In order to liberalize 132 of the total 224 foreign investment restricted businesses, 113 restricted businesses will be liberalized, in 19 businesses will be newly established or expanded. In 1997, among a total of 1,148 projects, 35 projects will be partially liberalized and 1,037 projects will be completely open to foreign investment.⁷⁶⁰

⁷⁵⁷. However, the strength of Samsung Electronics is shown in the memory chip market. The recent surge in memory chips exports enabled the Samsung Electronics to record a 296 percent jump in net profits to won 1,130bn(\$1.49bn) for the first half of the 1995. As the largest producer of D-Ram memory chips with a 15 percent global market share, it has benefitted from a supply shortage that has enabled it to raise prices. According to the report of John Burton in Seoul, *Financial Times* Tuesday August 15 1995, Semiconductor sales account for 90 percent of the net earnings of Samsung Electronics, which also produces consumer electronics, and telecommunications and computer equipment. Analysts predict that full net earnings are likely to exceed \$2bn, which would give Samsung the highest profits for any Korean company for a second consecutive year. Samsung reported net earnings of \$1.2bn for 1994.

⁷⁵⁸. *Financial Times Survey*, Monday June 26 1995 on South Korea.

⁷⁵⁹. Ministry of Finance, Republic of Korea, *The Guide to Foreign Investment in Korea*, 1995, pp.97-97.

⁷⁶⁰. According to the Ministry of Finance's Five-Year Investment Liberalization Plan, the foreign investment liberalization ratio will be increased from 83 percent in the first half of 1993 to 93.4 percent in 1997. Quoted in *Ibid.*, p.96.

By revising the 1993 Plan, plan for acceleration of foreign investment liberalization was announced in June 1994. The acceleration programme was aimed at advancing the liberalization schedule or preparing additional liberalization plans for businesses which no OECD member countries are restricting and aimed at upgrading domestic industrial competitiveness and public welfare. Of the businesses included or postponed in the current Five-Year Foreign Investment Liberalization Plan, 57 businesses will be eligible for early or additional liberalization.⁷⁶¹

Table 8.16: Korea's Five-Year Foreign Investment Liberalization Plan(1993-1997)

Industries year	Restricted No. of Businesses to be liberalized by						Total
	Businesses	Jul. 1993	Jan. 1994	Jan. 1995	Jan. 1996	Jan. 1997	
Agriculture, Fishery and Mining	35	5	5	1	3	9	23
Manufacturing	14	2	-	-	2	5	9
Services	175	9	22	34	13	22	100
Total	224	16	27	35	18	36	132
Liberalization Ratio	83.0%	85.1	86.9	89.6	90.9	93.4	-

Source: Ministry of Finance, Korea, *The Guide to Foreign Investment in Korea*, 1995, p.96.

The group reorganization has larger implications when we note the fact that the government wants to reduce the Chabol's dependence on bank credits obtained by government favours. Samsung's globalization strategy is an active effort to accommodate the wave of free trade and economic liberalization under the WTO framework. For Samsung's specific insiderization

⁷⁶¹. For more detailed schedule and businesses, see Ibid., pp.99-120.

strategy into the EU to bear fruit, total flow of business from production, sales, after service to advertisements should be managed by the local management bases without heavy intervention of central headquarters in Korea. To upgrade Samsung's own brand name to the level of THOMSON, and PHILIPS has been one of the major tasks if the company is to survive in the ever-competitive world market. The localization and insiderization of the whole manufacturing business should be practiced and expanded to every corner of business activities.⁷⁶²

In a micro-response strategy, specialization of the items and setting up of local production base in the EU is likely to boost the market share. To take advantages of the special status of the tariff favour which central Eastern European nations, including the Czech and Hungarian Republics are entitled to receive from the EU, Samsung will have production bases in those Eastern and Central European nations. The special tariff favour ranges from 3 percent to 14 percent. A pan-European distribution centre, supported by enhanced distribution networks in addition to the five already-existing sales subsidiaries and two distributor systems, is required.

To a considerable degree, the decision-making powers of the Seoul Headquarters are to be decentralized to the European

⁷⁶². As a response strategy of Samsung Electronics against the regionalism and globalization of the world trend, Yun-Hwan Kim mentioned the insiderization concept on which many other company managers completely agree as a future electronics businesses. The interview with Yun-Hwan Kim, Assistant Manager, Marketing & Regional Strategy Team, International Operations Office, Samsung Electronics, was done at Samsung Electronics Co. LTD. Meeting Room, Joong-Ang Daily News Bldg, Seoul, Korea, on 16 August 1994.

headquarters, giving more autonomy. The establishment of a Euroservice centre and its management aided by integrated, pan-European advertisement is required. The financial centre needs to be more substantially upgraded and supported.⁷⁶³ Environmental regulation measures emerge as the main potential obstacle to the expansion of business there. Information on further integration is to be monitored through the information centre in Brussels.⁷⁶⁴

The inter-connected networking of production and sales requires the foundation of a pan-European logistics system. The long-term development picture of European operations should again be focused on the following sub-tasks:

1. Enlargement and restructuring of local design, R and D function capability;
2. Upgrading of local test LAB function;
3. Best strategy in service in Europe;
4. More intensified collaboration with other pan-European distribution companies;
5. Establishment of European holding company;
6. The aggressive expansion of strategic alliances with local firms;
7. The continuous push for insiderization of all the business sectors;
8. Proper programmes to contribute to the local communities.

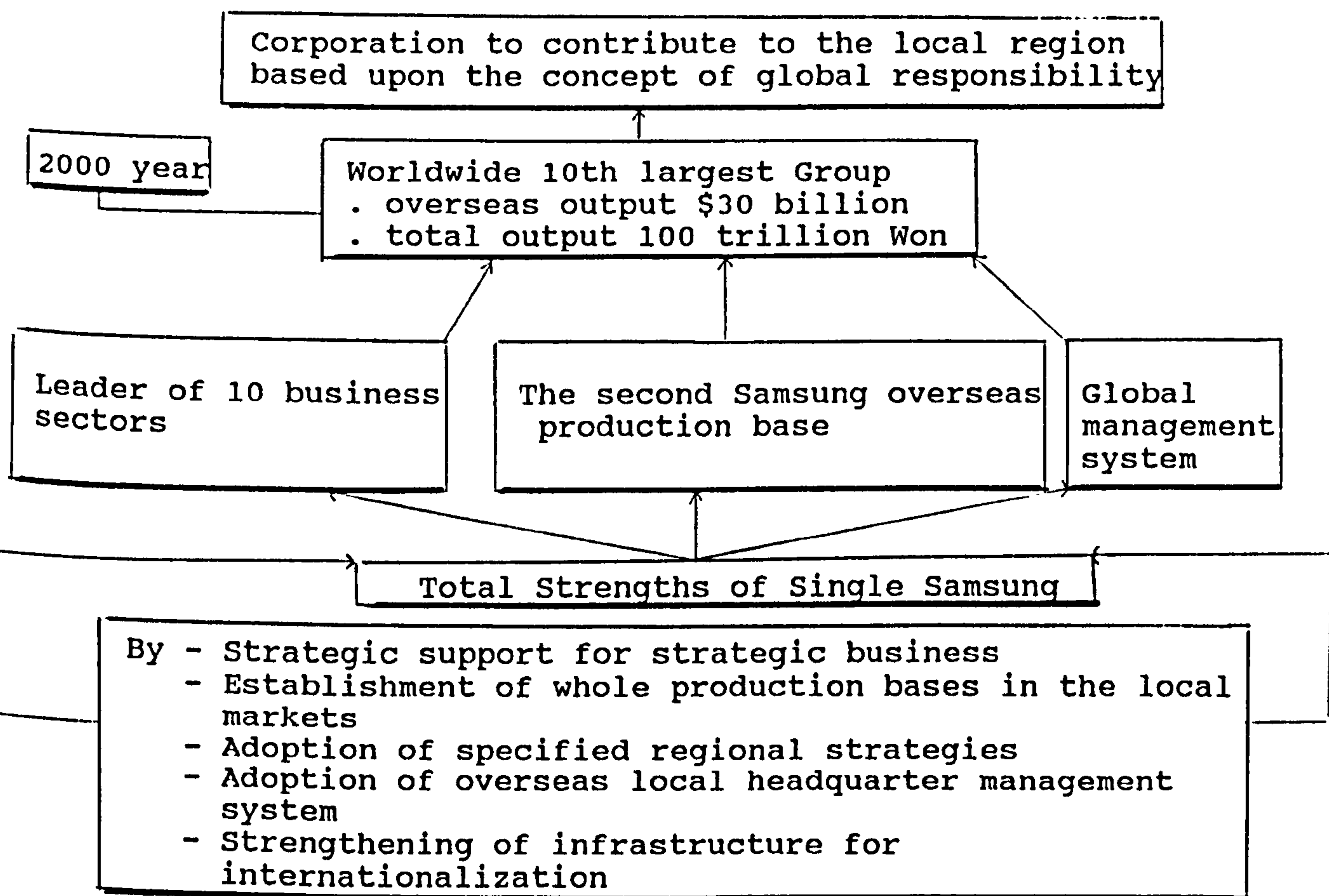
The success of Samsung's business strategy depends strongly on the successful implementation of an internationalization strategy in both practical and cultural dimensions. Domestic political changes in Korea are geared

⁷⁶³. The Strategies are outlined in *Samsung Group's Report*.

⁷⁶⁴. To aid understanding of Samsung's international strategy, Yong Suk Cho, Manager, International strategy, Corporate Planning Office, Samsung Electronics, gave me valuable comments and answers in an exclusive interview with him in Summer, 1994.

toward deregulation, liberalization, and internationalization. Consumers' tastes are becoming assimilated due to the development of the Mass Media, telecommunications and information technologies. National boundaries do not have much significance in business strategy.

Figure 8.1: Internationalization Vision of Samsung in the 21st century



In an age of infinite competition, firms need continuous innovation and creative response to meet the new challenges and overcome the constraints.

Despite its large overseas output, amounting to \$1416 million by 1994, Samsung has only a middle-level brand image.

The creation of its own brand name with high value-added product is absolutely necessary. Management in production planning, product design, and sales forecasting needs to be decentralized to the local production base headquarters. The strengthening of an independently viable distribution network is much needed.

Table 8.17 : Classification of Intangible Investments

A. Developing knowledge and competence base

- . Research and Development including R & D for software design
 - . Technology acquisition(patents & licenses)
 - . Technology Monitoring and Search
 - . Design
 - . Adaptive engineering based on feedback from shop floor
 - . Training
-

B. Complementary Support Activities

- . Organizational restructuring
 - . Continuous level-up of human resources development
 - . Sophistication of information system and implementation
 - . Software maintenance
 - . System engineering
-

C. Market-relevant Activities

- . Market intelligence and marketing
 - . Distribution networks and sales channels
 - . Customer services
-

Quoted in OECD Development Centre, *Competing in the Electronics Industry, the Experience of Newly Industrializing Economies*, p.34.

As a programme to consolidate the infrastructure for internationalization, systematic recruitment, training and proper human resources management are important factors. International management specialists are in short supply. By intensive efforts to recruit local people, language and cultural barriers will be alleviated. Information management is another important criterion. Systematic networking for collecting,

analysing and utilizing information is a decisive factor in business. Because Samsung Electronics' goal is to be the 5th largest maker in 2000, Samsung needs more than anything else systematic networks to interconnect worldwide five production bases, centring around Korea as a general headquarter, the South-East Asian nations, North America, Europe and Mainland China. It will enlarge the overseas production of components and industrial electronics like semiconductors, CPT, FBT, DY, TDX etc.

In order to achieve efficient overseas production, Samsung needs to establish an integrated system of global logistics, and to extend its R and D bases and design centres.⁷⁶⁵

The distinction of the region will be determined by the trend of the economic bloc, economies of scale, the industrial structure and the level of economic development. In addition to political system changes, cultural trends, and geographic proximity are the main criteria for classification of the world market into four large regions with 10 sub-regional classifications. The EU market is designated as an advanced market.

* Advanced markets: North America, Western Europe, Japan; these markets account for the 60 percent of the world GDP. The strategic importance of these markets is that the success of business in these region will be critical to the linking success of business in the less developed markets. Key strategic items should achieve a market share of at least 5 percent by prioritization in resource allocation. The electronics industry will challenge this potential with all out efforts. More investments are required in the electronics sector to consolidate the whole production base system, and the sales base in Spain, UK, Ireland and so on.

⁷⁶⁵. Suggestions on business strategies are based upon the Samsung Group's Report.

The importance of intangible investment is more than ever emphasized. Developing knowledge and competence base, and activating complementary support activities are regarded as basic principles to determine the international competitiveness of Samsung. In this vein, the regional strategy for relevant sector group business, the plan to secure the world first class product, the running of customer centres in major regions, and the upgrading of Samsung's brand image are important factors to be consolidated. The establishment of regional headquarters and the whole production base supported by international human resources are also crucial areas for Samsung. The overseas information management system is to be strengthened by the setting up of a data bank on a regional bases, and the use of the diplomatic corporate Ambassador system.⁷⁶⁶

Investments in the electronics industry have been increasing rapidly. By 1991, the total overseas output of the electronics sector reached \$ 5,000 million with \$ 4,644 million exported from domestic markets and with \$ 356 million locally produced and sold. The figure for total overseas output increased tremendously to \$ 10,074 million with \$ 8,608 million exported from the domestic production and \$ 1,466 million produced and sold locally. The average annual growth rate of exports and local production recorded 23 percent and 60 percent respectively from 1991 to 1994, with a general total growth rate of 26 percent.

⁷⁶⁶. The policy suggestions are based upon the Samsung Group's Special Report for Globalization.

Table 8.18 : Samsung's Overseas Production, Sales,
Management bases

	Functional Classification			
	Sales	Production	R & D	Others
Asia	78	25	12	13
North America	39	2	11	12
Latin America	15	7	-	-
Europe	46	7	3	9
Middle East	27	1	-	-
Total	205	42	26	34

Industry Sectoral Classification
Electronics Heavy Industry Chemistry Trade Others

	Electronics	Heavy Industry	Chemistry	Trade	Others
Asia	49	16	2	40	21
North America	31	4	-	10	19
Latin America	6	-	-	16	-
Europe	28	5	-	18	14
Middle East	10	2	-	16	-
Total	124	27	2	100	54

Source: Samsung Group's Report

This rapid increase was led by the tremendous expansion of semiconductor exports, recording an average growth rate of 50 percent, while the consumer electronics sectors recorded a general growth rate of 12 percent during the same period.

Table 8.19: Samsung Overseas Investment(No. of investment,
\$ million)by the end of the 1993.

	Functional Classification				Total
	Sales	Production	R & D	Others	
No. of investments	57	42	17	13	129
Amount of investment	212	775	31	81	1,099

	Regional Classification				
	Asia	America Latin North	Europe	Middle East	
No. of Investments	58	8	29	32	2
No. of amount	436	8	187	414	54

Source: Samsung Group's Report

In the total group overseas output, in 1991 \$ 8,748 million was achieved with the export amount of \$ 8,311, and local production of \$ 437 million. This figure increased to \$ 14,150 million with \$ 12,528 million recorded exports and \$ 1,622 million local production respectively. The overall growth rate of overseas output 17 percent with 15 percent in exports and 55 percent in local overseas production. The rapid expansion of electronics industry exports is leading Samsung's globalization strategy.

Table 8.20: Total Overseas Sectoral Sales of Samsung(unit: million, %)

sectors	1994			average annual growth rate		
	export	local production	subtotal	export	local production	subtotal
electronics	8,608	1,466	10,074	23	60	26
consumer	2,318	984	3,302	5	40	2
semi-conductor	3,827	-	3,827	50	-	50
Engineering	1,093	-	1,093	5	-	5
Heavy industry	895	-	895	5	-	5
aerospace	197	-	197	20	-	20
chemistry	416	-	416	40	-	40
textiles	440	156	596	-15	24	-9
corporation (trade)	1,971	-	1,971	2	-	2
-export	1,067	-	1,067	-8	-	-8
-trade between the third nations	904	-	904	24	-	24
Total	12,528	1,622	14,150	15	55	17

Source: Samsung Group's Report

8.2.2 LG Electronics Focus on a Globalization Plan

In this sub-chapter, the main focus is on the future dimension of LG Electronics' active globalization plans. Of course, these plans include strategies to tackle the regionalism of the EU.

By a comprehensive analysis of globalization plan of the LG, implications for specific detailed measures against specific restrictive measures of the EU import, trade regimes are broadly covered. The case study of Korean electronics firms in the context of the regionalization and globalization of the world economy reveals the urgent task of the Korean firms to push ahead with technological innovation and the business strategy of insiderization to adapt to the rapidly-changing world business environment. The ever-intensified economic interdependence of the world economy has shifted the underlying forces to create a new dimension of competition. The epicenter of competition has shifted today beyond the sphere of production to research and development and other forms of intangible investment and to the coordination of increasingly complex network transactions with component suppliers, customers and external technology sources.⁷⁶⁷

⁷⁶⁷. About the new international competitiveness dimension and its implications after the Uruguay Round on the Korean Electronics industry, see Ministry of Trade and Industry, Korea, *Agreements of the Uruguay Round Negotiations and Korea's Response Strategies*, Policy Reference Material, 1994-1, Seoul, pp.65-73. In Korean.

Table 8.21 : The Ratio of Firm's own Brand Exports in Major Items

	1989	1990	1991
Colour-TV	46.0	54.0	60.3
VTR	38.7	40.9	45.5
Micro Oven	29.1	30.5	34.3

Source: Ministry of Trade and Industry, Republic of Korea

Table 8.22 : The Ratio of Domestic Consumption of Major Items(%)

Classification	domestic consumption ratio
Consumer electronics	45.2
Industrial electronics	45.2
Computer	29.3
Telecommunications equipment	57.0
Electronic components	32.9
Semiconductor	11.5
other components	56.4
Electronics Industry Total	41.6

Source: Electronics Industry Association of Korea, *Statistics of Electronic & Electrical Industries*, Seoul, Korea, April, 1994.

Furthermore, competition increasingly centres on the capacity to define the rules of the game through standards and other forms of regulatory barriers. Simultaneously, new and increasingly severe entry barriers have emerged in related areas, such as the securing of key components and software; and the huge costs involved in setting up global distribution and marketing networks.⁷⁶⁸

a) Dilemmas of LG Electronics

⁷⁶⁸. OECD Development Centre Studies, *Competing in the Electronics Industry: the experience of newly industrialized economies*, Paris: OECD Publication, 1992, pp. 263-64.

The basic dilemmas of the LG Electronics are almost the same as those facing Samsung Electronics has. One of the adverse changes affecting Korean electronic companies like LG Electronics⁷⁶⁹ is to be found in the changed situation of the international technology market. Technology acquisition has become much more harder.⁷⁷⁰ Demand for development in Korea has been increasingly strong. Difficulties of technology acquisition add troubles to the original problems of market access to the EU. Most ANIEs continue to rely predominantly on the US, Japanese and the EU. Much more important, the majority of their exports are channelled through the old formula of OEM arrangements. A small range of shift to higher value-added, more skill-intensive products and services has been achieved. In addition to that, the heavy dependence for core components on Japanese and foreign exchange constraints may restrict the future growth prospects.⁷⁷¹

⁷⁶⁹. *Time*, July 31, 1995, Wendy Cole and K.C. Whang writes in article, "A Case of Remote Control," by saying that The LG Group became South Korea's first Chabul to establish a major beachhead in American consumer electronics. The firm, whose Goldstar TV sets account for just 1.7 percent of the US sales, could hardly restrain its glee, proclaiming that the \$351 million deal thrust it into "the same league as other top-class markers."

⁷⁷⁰. On the difficulties of technology acquisition, see the general technological development in the World Bank publication, *Developing the Electronics Industry*, 1993.

⁷⁷¹. The negative development of the three closely interrelated changes in international technology market are as follows:

- the growing importance of soaring external technology and the spread of private international technology networks;
- a shift from buyers' to sellers' market in important segments of the international technology market;
- and changes in the prevailing techno-economic paradigm.

R. Boyer⁷⁷² insists, "the main thrust of current management approaches attempts to reconcile economies of scale with economies of scope and to reap the interactive learning economies inherent to closer-producer links." A number of important sectors of this industry are currently experiencing insufficient growth of demand from a homogeneous, rapidly-growing mass-market to a growing variety of highly differentiated market segments. As a result, competitive strategies have to cope with much more complex and often contradictory requirements, where price and non-price forms of competitions are closely intertwined. The great changes in techno-economic paradigm suggest that Korean firms including LG Electronics should experiment with new strategies and organizational structures. In the past, electronics companies in Korea, Taiwan, Singapore and Hong Kong could avoid the huge costs burdens and risks involved in research and development and in establishing international distribution and marketing networks, mainly through judicious, creative imitation of foreign technology and by integrating into the global supply networks of American, Japanese, and European companies.⁷⁷³

LG Electronics has not fully met expectations regarding

OECD, *Competing in the Electronics Industry: The Experience of NIEs*, 1992, p.264.

⁷⁷². R. Boyer, "New Directions in Management Practices and work organization: general principles and National trajections", paper presented to the OECD-TEP conference on Technological Change as a social process, Helsinki, December 1989.

⁷⁷³. Ibid. p.266

upgrading its technological capabilities and organizational competencies in accordance with the requirements of the competitive environment, though the new firm's long term strategies continue to include innovative measures to catch up with the new techno-economic paradigm. So far, many firms in the ANIEs have not fully achieved the expected viable strategic responses enabling them to cope with the new dynamics of entry barriers.⁷⁷⁴

Korean electronic firms, including LG Electronics, are in desperate need of radical change. Local-based research, technology and market development capacities need to be fundamentally strengthened. When the technology market remained fairly open, technology capability formation was geared primarily toward the rapid diffusion of existing technology rather than the creation of new technology. During the initial follow-up era, assimilating the rich stock of available technological knowledge was, thus, the main concern. The imitation approaches adopted enabled firms to improve upon and incrementally upgrade the imported technology. That kind of situation put little emphasis on marketing intelligence and design capabilities. In the past they followed the design paradigm and market development patterns achieved by the forerunners in market shares, so long as they could achieve production at lower costs and with comparable quality, and if there was no restriction on access to markets and distribution

⁷⁷⁴. See the part of Newly Industrializing Countries development situation in electronics in D. Todd, *The World Electronics Industry*, Routledge, 1990.

networks.⁷⁷⁵ Consequently the strategy of LG Electronics mainly focused on an emphasis that would lead to this kind of policy being maintained in the changing international competitive market.

Ernst and O'Connor⁷⁷⁶ say that first-tier Asian NIEs including Korea have to cope with much more difficult requirements in a much more hostile international environment. The proliferation of "high-tech neomercantilism" creates much greater hardship in coping with restrictions imposed upon international trade, investment and technology flows, in sharp contrast to Japanese, American and European firms.⁷⁷⁷ Korean firms including LG Electronics are still not comparatively qualified to be in the forefront of bringing new products to the market, to commercialize technology ahead of one's competitors. To a great degree, this is detrimental to competitive success.⁷⁷⁸

In the same broad context as the firms in the first-tier

⁷⁷⁵. Ibid, p.268.

⁷⁷⁶. D. Ernst and D. O'Connor, *Technology and Competition: The Challenge for Newly Industrializing Economies*, Paris: OECD Development Center Studies, 1989.

⁷⁷⁷. On the European Electronics industry in Consumer field, see BIS Mackintosh, *The Competitiveness of the European Consumer Electronics Industry*, May 1990; Commission of the European Communities, *Improving the Functioning of Consumer Electronics Industry*, 1991; and on the U.S. situation, see Committee on Technology and International Economic and Trade Issues, USA, *The Competitive Status of the U.S. Electronics Industry*, National Academy Press, 1984.

⁷⁷⁸. The structural weaknesses of the electronics sector are well described by T.W. Kang in his essay, "The High-Tech Push into Electronics," *Is Korea Next Japan?: Understanding the Structure, Strategy, and Tactics of America's Next Competitor*, New York: The Free Press, 1989, pp.85-111.

Asian NIEs, Korean electronic firms have also striven in collaboration with government to address these new competitive requirements. As a result, Korean firms have reached a relatively high technology level. Technological capabilities are recognizable. Despite this progress, major uncertainties are lying ahead. LG Electronics has also made great efforts to adjust to intensifying costs and other competitive pressures since the early 1980s. They have made efforts to promote product quality into new markets as well as to diversify in new markets. A gradual shift has been made from the labour-intensive assembly of low-cost components and consumer devices to much more integrated forms of production of sophisticated and specialized products. This improvement is illustrated in the recent announcement that Zenith, the last American TV maker, had succumbed to its losses and sold out to its South Korean competitor, LG Electronics.⁷⁷⁹ The last US-owned manufacturer of television sets had given up its independence.⁷⁸⁰ LG Electronics is to pay more than \$350 million (pounds 220m) to increase its small minority stake in Zenith to create the largest consumer electronics group in North America.⁷⁸¹

⁷⁷⁹. *Time*, July 31, 1995, p.27.

⁷⁸⁰. Richard Tomkins, "Last US-owned TV maker falls to Seoul: Loss-making Zenith Electronics surrenders independence to the South Korean LG Group," *Financial Times*, July 18, 1995.

⁷⁸¹. Zenith, based in Glenview, Illinois, is a relatively small television manufacturer in a worldwide market dominated by companies such as Sony, Matsushita, Philips and Thompson. Beset by intense price competition, it has failed to gain a net profit since 1988. According to Richard Tomkins in New York, *Financial Times* Reporter, it has been the only US-based television set manufacturer since France's Thompson paid \$ 800m cash and its medical equipment division for General Electric's GE and RCA

Efforts have been made to acquire capabilities now for the design and fabrication of integrated circuits. Along with this strenuous efforts, the increased importance of industrial electronics in personal computers and peripheral equipment has been recognized.⁷⁸² J. Fayerberg⁷⁸³ defines international competitiveness by describing that the main factors influencing differences in international competitiveness and growth across countries are technological competitiveness; and ability on delivery-cost competitiveness also affect competitiveness and growth to some extent, but less so than many seem to believe. Since the late 1980s, Korean firms have faced many hardships in promoting competitiveness. Their export competitiveness has eroded substantially, primarily because of upsurging labour costs and appreciation of the Korean Won. However, in addition to these traditional factors, there are more elements to be considered. As *Fayerberg* defines competitiveness, technological and delivery competitiveness affected the erosion of export competitiveness. Firm-level technological capabilities and national-level innovation ability helped erode the competitiveness.

One of the major problem of Korean firms lies in their

television brands in 1988. Thompson followed the move by pouring \$ 300m of investment into its US plants.

⁷⁸². Korean firms ran ahead in pursuing indirect entry strategies that focus on niche markets relevant to specialized needs and capabilities. They tried to implement "quick follower" or "fast second" strategies for a few high-end applications, such as laptop computers, and a new generation of colour TV sets and video cassette recorders.

⁷⁸³. J. Fayerberg, "International Competitiveness", *The European Journal*, vol. 98, June 1988, pp. 370-71.

failure to reduce their dependence on Japanese components. On the other hand, firms in Taiwan and Singapore have achieved some success where both firms and government have experimented with new organizational approaches, allowing the pooling of scarce resources and the reduction of costs involved in technology acquisition, product design and market development. Traditional patterns of industrial organization should be abolished. In Korea, size and economies of scale have been the major frameworks of their strategies. Partial success has been achieved in pooling domestic resources. Fortunately, Korean firms like Samsung Electronics and LG Electronics which are parts of extremely powerful conglomerates, may possess capability to deal with these barriers with relative ease in comparison with most of the local electronic companies.⁷⁸⁴

b) LG Electronics Strategies on Regionalism and Globalization

Still, LG is in a hard transitional process of shifting the balance in favour of its own brand name sales versus OEM sales. The setting up of global marketing intelligence and distribution network is crucial, apart from huge and increasing investment in research and product development.⁷⁸⁵ The core

⁷⁸⁴. KDI, *A Study on Improving the International Competitiveness of Consumer Electronics Industry*, September, 1990. In Korean.

⁷⁸⁵. See M. D. H. Bloom, *Technological Change and Korean Electronics Industry*, Paris: OECD Development Centre Studies, 1992; Kim, Ilyong and Chung, Sunyang, "R & D Cooperation between large Manufacturing Companies and suppliers", mimeo, Centre for Science and Technology Policy, Korea Advanced Institute of Science and Technology, Seoul, 1991; Kim, Ilyong and Kim Chiyong,

defects lies in the predominance of technology decisions shaped by the strategies of the leading oligopolist. Apart from a strong external technology acquisition strategy, organizational innovation demand within firms leaves much for scope for reorganization and productivity improvements. Korean firms' organizational conservatism, with a centralized research and development model, is in sharp contrast with the progressive decentralization of research and development(R and D) in Japanese, US and European firms. In the recent past, the leading electronics companies in Korea were still centralizing research and development laboratories in Korea for the purpose of concentrating scarce R and D resources. The 1990s have been making this picture rather different with the active pursuit of a globalization strategy. The rigidity caused by centralization of management and decision-making is unhelpful to active market interactions and feedbacks among various economic actors. The centralization of R and D critically lacks the complex requirements of innovation.⁷⁸⁶

The Korea's centralized R and D structure are basic

Comparison of Korean to Western R & D- Project selection factors for new product development", mimeo, Seoul: Science and Technology Policy Institute, Korea Advanced Institute for Science and Technology, 1991.

Kim, Linsu, " National System of Industrial Innovation: Dynamics of Capability Building in Korea", working paper 91-1, Business Management Research Center, Korea University, Seoul, 1991.

⁷⁸⁶. Actually Korea was in a limited situation forced to adopt a quite extreme form of centralization for the purpose of in-house technology generation as the international market had become increasingly restricted.

reasons for the weak status of technology networks among the different actors involved in the process of technology generation and diffusion. Also excessive vertical integration between the large electronics manufacturing firms and their suppliers of parts and components produces high fixed costs burdens and limited flexibility.

One more weakness of the innovation system is that the education system of has been mainly targeted at the training of mid-level managers, engineers and technicians. Today, the education system must be focused upon training special human resources who are devoted to research and product design, and market development. The poor investment in higher educational institutions have resulted in the undercapacity to provide necessary human research capital. As a consequence, Korea including the LG Electronics has failed to develop a stock of highly trained scientists and engineers, which are greatly needed in the 1990s to upgrade Korea's international competitiveness. However, public research and development laboratories in Korea have played an important role in strengthening technology acquisition capabilities and in overcoming constraints to the diffusion of new information technologies. Despite the relative advancement of the system of innovation, Korea has not reached a stage of advanced level in firm organization, product design and market development capabilities; nor in the level of development of supplier networks and related industries.

In the larger context of economic neo-liberalism, we need proper government intervention and new patterns of interaction

between the private sector and government. In some senses, the role of government in the electronics industry is becoming more and more important in networking strategies, strategic partnering and business-government consortia. Technological development and diffusion is not left solely to the invisible hands of the market. Korea has more constraining factors in technology diffusion, which naturally requires government intervention and the spread of network transactions.

In general summary, the present global economic environment is considerably more hostile than in the past. The World electronics industry is still dominated by a privileged small group of advanced firms in US, Japan and Europe. However, Korean firms have made considerable progress and have become involved in international competition, though with vulnerability. New competitive requirements imposed by the world economic globalization trend create more difficulties for Korean firms. However, Korean firms have steadily accumulated financial strength and technological capabilities to implement their restructuring strategies.⁷⁸⁷

c) LG Electronics Globalization Plans

The definition of globalization by LG Electronics is firmly based upon the three categories. The first category is localization.⁷⁸⁸ All managerial activities could be performed

⁷⁸⁷. *Electronics Korea*, May 1993.

⁷⁸⁸. This section is based mainly upon the future plan document, *Globalization Directions of G Company*, done by Strategic Planning Room of the LG in July 1994.

in the local market where local customers live, with localization of management resources and know-how.⁷⁸⁹ In order to achieve this target, the firm must be rooted in local soil as a genuine insider in the local market.

The second category is detailed reflection on the characteristics of the local market. Full understanding of the local people's culture is the foundation to meet genuine needs for the production of differentiated products and provision of services. In this strategy, what is utmost importance is the firm's capability to interpret the customer's real tastes and needs; and to reflect these in actual productions and designs. The differentiation of products, and a marketing strategy derived from the correct reading of local customers' needs, would be critical in this plan.

The third category is networking. Synergetic effects will be created through active communication and efficient management of internal networks. The active exchanges of management resources, system skill and know-how among firm's local bases would provide a chance to maximize the utilization of firm's resources. The co-sharing of new information, skill and know-how would function smoothly through the networking system.⁷⁹⁰

⁷⁸⁹. With regard to Korean firms' strategy, I interviewed many relevant government officials and research fellows in the research institute. Among them, AN, Jae-Dong, middle-ranking official in electronic machinery industry division, Ministry of Trade, Industry & Energy of Republic of Korea, and specifically on Goldstar's general situation and strategies, Kang, Seon-Gu, Analyst, Economic Research Division, Lucky-Goldstar Economic Research Institute have been indispensable for this writing.

⁷⁹⁰. The major content of LG Electronics response strategies is based on LG Group's Report on "Directions of Globalization," by Strategic Planning Section of LG Group, April

As a forerunner among Korea's electronic firms, LG Electronics needs to meet the new requirements in the new international environment. In order to be a first class firm in the coming 21st century, globalization and localization are two axes to be pursued by LG Electronics in the rapidly changing international politico-economic order, with ever fiercer market-sharing competition. The macroenvironment is characterized by conflicting structure of the world economy. After the Cold War with the arrival of a borderless, indefinite cooperation age; and with the regionalization of the world economy to produce continuous trade frictions, the new competitive environment is usually classified as follows:⁷⁹¹

- a) Maturization of the existing consumer markets and consequent intensification of market-sharing competition;
- b) Fierce competition in newly-opening markets for predominant market share;
- c) Completion of the international technological acquisition in high-tech future-oriented areas;
- d) Liberalization of the Korean markets and the inevitability of the global competition even in the Korean local market.

The new competitive environment creates new needs for LG Electronics to push ahead with:⁷⁹²

- a) Becoming a first class firm in the 21st century;
- b) Stable consolidation of the already existing overseas management bases;
- c) Creation of differentiated competitiveness;
- d) Continuous search for finding growth opportunities.

By the pursuit of an active globalization strategy, by the

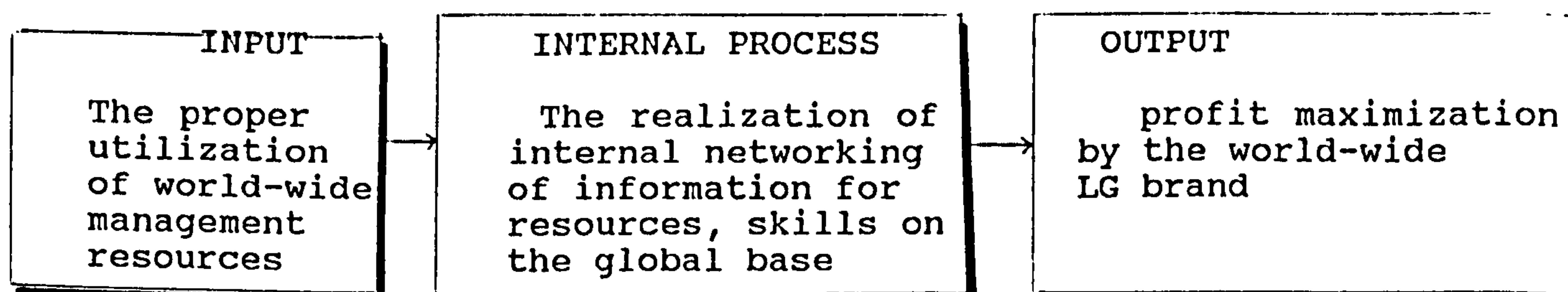
1994.

⁷⁹¹. The Report's Analysis, April 1994.

⁷⁹². The Group Report, April 1994, p.2.

year 2000, LG Electronics plans to be one of the world's first class electronic firms. A rough picture of the grand strategy could be summarized by the following.⁷⁹³

The big dimension of localization of the managerial activities and management system of global networking is also very significant.



The setting-up of five world-wide five production bases in demand for local consumption is covered by local production and the utilization of a world-wide networking system to supply those goods produced in the local production bases. The EU's non-tariff barriers will only be erased by these localization efforts.

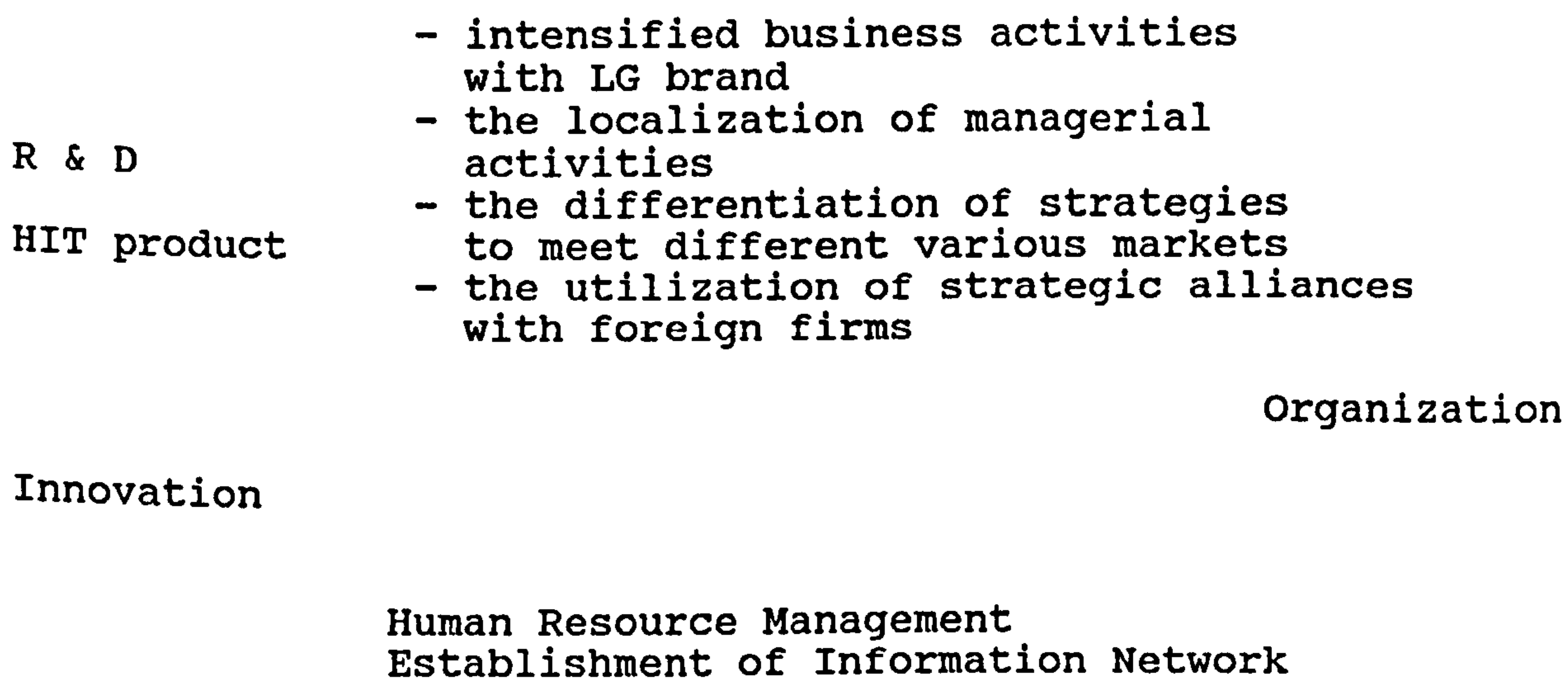
The five production networks will be located in the Korean local market, People's Republic of China, the South-East Asian nations, the US, and finally in Europe. Production planning or product designing will be accomplished in the local markets to meet the peculiar local situation on the demand side. In addition to the production networks, the component supply network should be a global connection-based system. Each production base had better have its own components supply base.

⁷⁹³. The Group's Report, April 1994, p.3.

Strategic key components are to be supplied from the domestic production base to other world-wide production bases. Firms concerned with the supply of components had better follow the setting up of the overseas production affiliates. Subsidiary component firms and cooperative subcontracting small and medium-sized firms should join the globalization strategy by moving their production bases into the same local areas in which the major production firms are operating.

Technological change can not be separated from market structures, patterns of competition and social regulation, and from the quality of the education system and of the labour force.⁷⁹⁴ Korean electronic firms' world status is still unstable. In order for LG Electronics to globalize successfully, the government should play a certain role in helping it to develop a structural competitive edge against its rivals.

Figure 9.2: The Realization of Vision



⁷⁹⁴. OECD Development Centre, *Technology and Global Competition: The Challenge for Newly Industrializing Economies*, Paris: OECD Publication, 1989, p.20.

Table 8.23: The Position of Korean Electronics Industry in the World (unit: 100 million dollars)

electronics general	1980				1990			
	(a)	(b)	(c)	(d)	a	b	c	d
World	2,615	383	1,610	622	7,549	1,477	4,428	1,644
domestic	29	11	4	14	331	111	71	149
ratio	1.1	2.9	0.2	0.2	4.4	7.5	1.6	9.1

Source: World Electronics Data, 1992

The recent upsurge of aggressive high-tech neo-mercantilism⁷⁹⁵ treating science and technology primarily as weapons in international competition has become prevalent worldwide. The firm's success is determined by multidimensional factors.⁷⁹⁶ As LG electronics is aware of the importance of R and D, capital equipment and distribution network in the firm's strategy, it will put much focus on the concentration of the growing fixed capital cost burden of these elements.⁷⁹⁷

We live in an era in which comparative advantage, international competitiveness and the international division of labour results, in large measure, from corporate strategies and

⁷⁹⁵. The basic definition of this term is based upon the revival of the protectionist trend in which advanced firm try to deter the late entry of rival firms from developing countries.

⁷⁹⁶. F. Fajnzylber, " Technical Change and Economic Development-Issues for a Research Agenda", Santiago de Chile, 1988, p.2-Quoted in Ibid, p.26.

⁷⁹⁷. See D. Ernst, *The Global Race in Microelectronics Innovation and Corporate Strategies in a period of crisis*, campus, Frankfurt and New York, 1983. Chap.4 "The Interaction between Recent Technological Breakthroughs and Industrial Restructuring".

national policies rather than from natural endowments.⁷⁹⁸ It is still true that vertically integrated multinational corporations are the dominant form of business organization. New forms of inter-firm cooperation have emerged which are commonly subsumed under the headline of "strategic alliance".⁷⁹⁹ Strategic

⁷⁹⁸. For more information, See, G. Dosi and L. Soete, "Technological Change and International Trade", in G. Dosi et. al., (eds.), *Technical Change and Economic Theory*, London and New York, 1988; Henry K. Kierzkowski (ed), *Monopolistic Competition and International Trade*, Oxford: Clarendon Press, 1984; Robert G. Gilpin, "Implications for the changing Trade Regime for US-Japanese Relations", in Inoguchi et. al., (eds.), *The Political Economy of Japan : The Changing International Context*, vol.2, Stanford University Press, 1988, p.164.

⁷⁹⁹. Pucik says in his article, V. Pucik, " Strategic alliances, organizational learning, and competitive advantage: the HRM agenda", *Human Resource Management*, Spring, 27(1), 77-93, that in the past alliances were mainly concerned with reducing capital investment needs and lowering the risk of entry to new markets, but that the current emphasis is mainly concerned with taking advantage of the increased speed of technological change and adjusting to the rapidly growing competitiveness of global markets. The types of alliance in Pucik's classification are :

1. Alliances for technological change, e.g. cross-licensing
2. Co-production and OEM agreement
3. Sales and distribution ties
4. Joint product development programmes
5. The creation of joint ventures

Professor Kanter takes a similar view in frank language: "Getting the benefits of what another organization offers without the risks and responsibility of owning it, is the ultimate form of leverage" She identifies three fundamental types of alliance in her book, R. M. Kanter, *When Giants Learn to Dance*, London: Simon & Schuster, 1989, as follows:

1. Multi-company service consortia, e.g. for R&D
2. Opportunistic alliances set up to take advantage of specific situations, e.g. most joint ventures
3. Stakeholder alliances, referred to by other researchers as vertical alliances, or alliances between companies at difficult parts of the value chain, e.g. supply/producer complementary coalitions.

Quoted in David Faulkner, *International Strategic Alliances*, London: McGRAW-Hill Book Company, 1995, pp.24-25.

alliances are a new reflection of the changed economic environment. This does not mean that classified forms of inter-firm cooperation have disappeared. The changed world economic order requires changed global business strategies.

In the case of LG electronics as a relative latecomer in the international electronics industry, the problem is that global competition is still predominantly formulated by rivalries among the US, Japan and Western Europe. They usually determine product standards and paradigms for technological and organizational innovations and consequently they set up rules for competition. In this unfavourable situation, Korea and Taiwan's exports and out-going direct investment flows have stimulated those advanced nations to lead to a panoply of countervailing protectionist measures.⁸⁰⁰ The differentiation of strategies according to the different local markets and the intensification of strategic inter-firm alliances are crucial tools for the success of LG Electronics' global strategy.⁸⁰¹

⁸⁰⁰. For example, in semiconductors, the active investment of Korean firms like Samsung, Hyundai, Daewoo, Lucky-Goldstar into computer memories posed a challenge to the leading Japanese producers who dominate this largest segment of the semiconductor industry. From the zero-base in 1985, Korea's share of the world market in 256 D-RAMs increased to 6% in 1986 to 9% in 1987. And in 1988 we witnessed a four-fold larger increase than in 1987 as far as the sales to the US were concerned. The problem is will it be possible to continue to increase the share of the market, particularly in higher-value-added segments.

⁸⁰¹. The formulation and implementation of strategies are and will be continuously influenced by the complex web of interplay among the four dimensions. I have uttered these factors several times since the start of this thesis. In Samsung and LG's response strategies, firm level factors like technology, organizational capacity have been emphasized very much. However, the other factors such as cognitive factors, international systems factor, and domestic factors, influence, to a considerable degree, business of those firms.

d) Organizational Reforms of the LG Electronics

LG Electronics has engineered a striking reversal in fortunes. It has regained its lead in consumer electronics from Samsung, while net profit soared from 15.3 million pounds in 1991 to Won104.6bn in 1994. The chief financial officer at the firm says that the biggest reason for the growth in profits is management reforms.⁸⁰² In the 1980s, Goldstar was burdened with ills that plagued Korean companies, such as authoritarian management structure and an emphasis on economies of scale rather than product quality. LG scrapped loss-making operations and cut its labour force by 20 percent to 29,000 workers. Employees were also given greater responsibility in managing assembly lines.⁸⁰³ Management structure was also reformed. LG had suffered from a rigid bureaucracy and a concentration of decision-making at the top, which impeded the flexible corporate response to changing market conditions. As a remedy, LG performed a business restructuring in 1992 that included decentralized decision-making and an effort to reflect consumer orientation. Furthermore, professional managers were promoted to senior positions and replaced executives from the Koo family,

⁸⁰². John Burton, "Changes at South Korea's LG Electronics have led to a sharp reversal in fortunes," *Financial Times*, Monday 25 September 1995.

⁸⁰³. According to a Management Survey of the *Financial Times*, improved production efficiency was proved by the fact that while it used to take 33 workers to make 1,000 TV sets, it now takes 20 workers to produce 2,000. The number of defective products has fallen sharply, with the ratio of consumer electronic items needing after-sales repairs dropping from 20 percent to 4 percent.

owner of the LG Group. Management reform resulted in successful development of new popular products that enabled LG Electronics to regain its leading market position.⁸⁰⁴

Chang Byung Woo, a senior managing director at LG International who supervises consumer product exports, says that the reforms contributed to the breaking down of artificial barriers between divisions, such as R and D, production and marketing.⁸⁰⁵ John Burton also hypothesizes in his article that the true test of management reforms may come as LG Electronics expands in scale in the foreseeable future, by combining with LG Group's semiconductor division and moreover telecommunications equipment subsidiary, which will create an electronics giant comparable in size to Samsung Electronics and such Japanese rivals as Hitachi, Toshiba, and Mitsubishi Electric.

⁸⁰⁴. Analysts blame the strict top-down hierarchical structure of Korean companies for the lack of product innovation since it hinders communication between senior managers and staff who deal directly with consumers. Quoted in *Financial Times*, September 25 1995.

⁸⁰⁵. Quoted in *Ibid*.

CHAP. NINE. CONCLUSION: Regionalism and Globalization of the
World Economy and Its Implications for the ROK-EU
Economic Relationship

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CHAPTER NINE. Conclusion: Regionalism and Globalization of the World Economy and Its Implication for the ROK-EU Economic Relationship

9.1 Regionalism and Globalization: the Need for Korea's Trade Liberalization and the EU's Commitment to Multilateralism

Due to the scarcity of natural resources and limited size of the domestic market, foreign trade has played a leading role in Korea's rapid industrialization process. Consequently, the maintenance of an open economy, heavy control on importing notwithstanding, has been a consistent policy. It is also comparatively recently that Korea has been regarded as an important trading entity in the world economy. In 1990, Korea's most important trading partners were Japan (export to Korea 6.1 percent out of Japan's total exports amount and import from Korea 5.0 percent), the US (export to Korea 3.7 percent and imports from Korea 3.7 percent) and Australia (exports to Korea 5.7 percent and imports from Korea 2.4 percent). Korea's share of trade with EU rapidly increased from 0.5 percent and 0.6 percent of export and import respectively in 1990 to an approximate level of 2.0 percent for each export and import at the end of the 1993.

In the study of international political economy in general, and in the analysis of the EU-Korean economic relations in particular, the development of the potentially influential trends of regionalism and globalization is of great importance in the world trading system. In this context, this thesis is a small contribution to the understanding of the international

political economy of regionalism and globalization.

Many problems have arisen as a consequence of the end of the Bretton Woods system and the redefinition of the leadership role of the US. It may be a multipolar or tripolar world, but the problem is that mechanisms such as the Group of Seven industrialized nations (G-7), and OECD are not yet powerful enough to handle major trade problems. The globalization and regionalization of the world economy is accelerated by the active role of the multinationals. However, in the policy-making dimension, the rise of the international political economy is a problem because political economy has traditionally been focused on the state as the key actor in international economic relations. The theoretical review of International Political Economy clearly reveals the limitation of the existent theoretical paradigms, because they do not accommodate regionalism and globalization in the world trading system.

For trade policy makers, multinationals present a problem because whilst the companies are the major beneficiaries and the major forces behind international trade and the demands for ever greater liberalization and globalization of trade, it is politicians and governments that are responsible for negotiating trade policies. There are at least two, possibly contradictory responses to developments in today's global economy. The first is the demand for increased liberalization of world trade. The demand principally arises from multinationals and from governments of highly competitive and export-dependent economies. The increased liberalization of the world trade requires the ROK and the EU to abandon the protectionist

policies that have protected their domestic economies and enabled their economies to industrialize rapidly. The most obvious manifestation of the move towards liberalization of world trade on a global basis is the completion of the Uruguay Round of the GATT and the establishment of the World Trade Organization. The second response is the growth of regional trade blocs, i.e. the European Union, NAFTA, and APEC. Not only is there a problem because these are very different patterns of economic organization of the management; there is also the possibility that these blocs will be used to undermine and contradict the reduction of tariffs and the NTBs inherent in the establishment of the WTO.

Korea regards the EU as an increasingly valuable and reliable partner in its search to diversify its export markets and to increase its technological prowess. The EU also needs the potential partnership of Korea in trade as the ROK is gaining more and more importance as the third largest economy, after only Japan and the People's Republic of China, in the Asian region. Korea has been benefitted by the EU Generalized System of Preference (GSP) scheme. The future benefit is expected to be eroded to a considerable degree by the adoption of the new guidelines in the EU. The ROK is the priority group to be reviewed as a newly industrialized nation. The spread of regionalism is in much sense caused by the fear that reciprocal access to markets among trading-partners is unstable. Frequent use of contingent protection creates barriers for the ROK's exports into the EU.

As the biggest influencer in the international trading

system, protectionism of the EU continues to exert an influence on the Common Commercial Policy (CCP), despite the liberal rhetoric. The Community repeatedly claims to adhere to the GATT rules, but at the same time its commercial policy measures have a complex preferential bias because it is not yet fully operational at the Community level. Though there exists general EEC framework to prevent protectionism from spreading and to help the growth of the developing nations in the world market, social and political pressures to reduce the growth of competitive imports have had a protectionist impact on the sectoral trade policy positions of the Community.

South Korea has been concerned about the possibility that the EU will be tempted to downgrade competitive forces, to the detriment of third countries. Sung Lin Na and Kyttack Hong's research on the possible effect of a Single European Market (SEM) toward the ROK estimated the ex-ante effect of the EC 1992 Project on Korean exports to the EU. The usage of the traditional methodology of customs union predicts that the EU's market integration effect (price effect) would reduce Korean exports to the EC by 2.42 percent in the short-term and by 5.45-5.82 percent in the long term. The short-term here means the immediate static effect, that is, the cost and price reduction effect caused by the removal of all internal barriers. The long term means the further cost and price reduction effect with some economies of scale and strengthened competition within the community. What really worries Korean business circles, is non-price effects of EC integration, such as the external non-tariff barriers imposed by individual member countries' at EC level.

In 1992, among the East Asian nations, Korea ranked the second in its export and import trade, next to Japan. Complementarity has been partially replaced by competition in mutual trade. A very high level of commercial dynamism is occurring toward Europe, and among Asian nations, Korea has been at the core of this dynamism as a newly successful economy with export-led growth.

Among the major mechanisms to restrict the ROK's exports into the EU, anti-dumping duty has been employed most frequently. The proliferation of regional groupings coincided with the rapid rise of anti-dumping cases. As a legitimate form of discriminatory protection more restrictive in new EC legislation, the use of this tool rose sharply in the 1980s. In the five year period of 1988-1992, the EC launched 169 anti-dumping investigations, involving 40 nations. South Korean exports were impeded by 14 such investigations. The majority of the cases were against Japan and ANIEs, the recent ones largely on the ANIEs. Korea has been one of the most frequent targets of the anti-dumping impositions. The anti-dumping policy of the EU has been closely related with its industrial policy. The EU does not just react to sectoral pressures for protection, but clearly is identifying certain key sectors, such as consumer electronics, in areas where the EU wishes to retain a commercial and industrial presence.

It is clear that declining international competitiveness of the EU industries have been forcing the Commission and national governments to employ NTBs, including minimum price regulations, countervailing duties and VERs against various items of Korean

exports to the region. It is intended under the new GSP scheme of the EU to withdraw all GSP schemes from most newly developed nations including the ROK from 1998, on the basis of criteria to be drawn up in 1997. Under the new policy of graduation, the competitiveness of a beneficiary is measured in terms, not of a specific product as before, but of an entire industrial sector, such as clothing, footwear, and consumer electronics. GSP benefits are thus withdrawn for the sector as a whole in the case where nations are considered to be sufficiently competitive to have no further need of them. Korea belongs to the priority group for graduation.

In the development of the ROK's industrial policy, the government-business relationship has been at the core of its policy effects. Lee, Kye-uk, Edward Chen, and Milton and Rose Friedman share the view that Korea is one of the successful economies which has extensively relied on private markets. In a similar vein, John Fei further argues that the major stance of the East Asian NICs on the policy front, has been the "lessening of government interferences" in the market economy during the export-oriented phase. On the contrary, Bronwen Dalton put more weight on the role of government. Dalton is supported by academic arguments such as the Capitalist Development State (CDS) thesis. The CDS gives special attention on the role of state planning. Parvez Hasen argues that the Korean economy depended in large measure on private enterprises operating under highly centralized government guidance. Kim Kwang-suk and Michael Roemer also concluded that political factors have always played a crucial role in promoting or discouraging

entrepreneurial ventures in Korea.

The recent economic deregulation and liberalization which are gradually dismantling the close government-business relations pose new threats to the Korean economy. Although the Chabols are being compelled to rely on financial markets for credit as the government adopts measures to gradually phase out their preferential access to bank loans and state-supported policy loans, the Korean conglomerates are also partially benefitted since the past heavy government intervention is removed. The reason why they welcome deregulation is partially to be found in the belief of corporate executives that Chabols, with their great economy of scale and resources, could emerge stronger in a market-oriented economy.

On sixth December 1995, President Kim Young Sam of the ROK showed strong will to break with the past corruptions by changing the name of the ruling Democratic Liberal Party to the New Korea party, after ex-president Roh Tae Woo was charged on fifth December 1995 with taking \$369 million in bribes from businessmen while he was in presidential office. The ruling Democratic Liberal party was founded in 1990 through a merger of Mr Roh's party and two opposition groups, one led by Kim Young Sam himself. This is a clear indication of a government intention to create a new government-Chabol linkage.

Of course, it is true that Chabols' intimate relations with government allowed them to become a source of South Korea's rapid growth, backed by cheap loans. It remains to be seen whether Chabols, autonomous from government intervention, will stand to gain as much economic benefit as they did when

supported by strong government intervention in the past.

The Korean government's recent efforts to deregulate and further open the market in response to the demands of the advanced nations gives both challenges and chances to the Chabols. The recent slush fund scandal of a ex-president Roh in late October forced business groups to make changes to clean up their corrupt image. Ex-president Roh had collected a staggering \$650 million in corporate contributions during his five-year tenure, under a long-held custom of amassing "governing funds." Seven heads of Korea's largest Chabols, such as Samsung and Daewoo, were later indicted without detention. This slush fund scandal proved the close and shady relationship between Korea's powerful conglomerates and bureaucrats. The Chabol's subsequent image-cleaning drives, after the scandal, included Hyundai Group, the biggest Chabol of Korea, undertaking massive reshuffling of executives and delegating more management power, and expected schedules for reducing owners' personal stakes in companies. Daewoo Group, Dong Ah Business Group and Samsung took similar measures.

The Chabols' innovating measures are a boosting factor for more government deregulation. The past government regulation was the prime reason for bribery, as businesses needed government favours to enter new commercial markets, to obtain profitable projects, and to secure credit. Korean business's international competitiveness will be strengthened in the long term by more deregulation of the Korean economy and stepped-up market liberalization. Deregulation and market opening poses constraints and challenges to the Korean companies. However, by

following market principles, Korean businesses will be given more chances of enhancing their competitiveness. Of course, some degree of government intervention is required to ensure compliance with economic rules such as regulating the flow of corporate funds. Nevertheless, the slush fund scandal has confirmed the position of a noninterventionist approach to eradicate old malpractices.

In contrast to internal pressures for change, pressure for change from outside seems to have a stronger impact on Chabols. The external pressures to open more market by removing non-tariff barriers and the domestic deregulation and liberalization measures to open more foreign competition, are causing chabols to establish their presence in developed countries by establishing manufacturing facilities, distribution networks and by marketing products under their own brand names. If a firm is already a global market player and very competitive in the international market, as in the semiconductor sector of Korean Chabols, government intervention is very small because these firms have little need of government favours. Their major concern is to upgrade their international competitiveness. Globalization and regionalization of the world economy as external pressures for change, are strong intervening variables to determine the industrial policy of the Korean government in general and the Chabols' new business strategies in particular.

Since 1980, Korea has rapidly implemented market liberalization policies. The government liberalized the importation of 95 products on 1 January 1990 as one of a series of import liberalization measures. The import liberalization

ratio grew to 97.2 percent in 1991 from 68.6 percent in 1980. The liberalization of FDI, foreign exchange transactions and capital markets are also very important steps towards the internationalization and globalization of the Korean economy.

In order to accommodate domestic and external challenges and to achieve sustained growth in the 1990s, the seventh five-year plan (1992-1996) aimed to strengthen competitiveness of industry, to enhance equity and balanced development, and to pursue internationalization and liberalization. Through the deregulation of interest rate, foreign exchange, and foreign investment in the capital market to liberalize the financial system and by reducing government control in private sectors, the Korean government has responded to the demand of the advanced nations for market opening. The rising regionalism and protectionism make Foreign Direct Investment(FDI) one of the popular options in business globalization strategy. The export-oriented development strategy of Korea and the new demand to diversity its exporting markets, require further cooperation and promotion of bilateral economic relations between the ROK and the EU.

Korea's shift from labour-intensive industries to less labour-intensive sectors based on comparative advantage, has given rise to concern to protect strategic sectors of the EU. The EU's response to South Korea has been much more specific, enough to produce sectoral protectionism. The Multi-Fibre Agreement (MFA) in textiles and clothing, Voluntary Export Restraints (VERs) in steel, certain consumer electronics, footwear and a protectionist tilt in anti-dumping cases have

brought perhaps a third of EU-NICS trade under restrictive provisions. The 1992 Programme has brought the revitalization of EU business and Member States' confidence. The analysis of Joyce Tan and Jacques Pelkmans and Ji Hong Kim came to the conclusion that the protection of the EU market against Korea's export is prevalent in all major import-competing products. Kim argues that in 1988, 33.7 percent of all Korean exports to the EC ran up against non-tariff barriers, declining from 41 percent in 1987. Textiles alone suffered 72 percent of Korea's exports under MFA restrictions. Anti-dumping policy of the EC has been a major concern to Korean trade policy makers who regard this as the highest priority issue in bilateral relations.

Korea also has trading barriers against EC exports such as the social campaigns against consumption of luxury items, and the difficulty of the importing process. There are two structural problems. One is the access of finance to deferral of import payments. The other is formal and informal economic entries to distribution. Entry into the Korean market is more difficult than into the EU. However, Korea's efforts to liberalize its market should not be ignored. The Korean Assembly passed the "new tariff schedule" in December 1988, to be conducted over a five year period of 1989-1993. The simple arithmetic basic tariff rate for manufactured products was scheduled to fall from 16.9 percent in 1988 to 11.2 percent in 1989, and to 6.2 percent in 1993. During the successful conclusion of the Uruguay Round of the GATT, more reduction was agreed for the future. In import liberalization in items ratio (Automatic Approval) reached 97.7 percent in 1992. The inward

FDI in the manufacturing sector has increased tremendously. This shows that liberalization efforts have already borne fruit. In November 1992, the overall liberalization ratio reached 81.7 percent and in manufacturing specifically, 97.8 percent. More than 40 percent of total FDI flows, or 58 percent of the FDI cases from 1962 to 1991, came from Japan, and about 30 percent of FDI originated in the US. However, in recent years, the European share of FDI into the Korean market has increased rapidly as the Korean economy gradually becomes more and more integrated with the European economies. In 1991 alone Europe occupied 59 percent, though the average ratio of 1962-1991 was only 22 percent.

A sectoral case study of the electronics industry has demonstrated the manner in which the rapid expansion of Korea's exports to the European Union have caused severe trade frictions. Korea has become a competitor with OECD nations. The key to success has been provided by a coherent and co-ordinated strategy. The Korean electronics industry is regarded as one of the most successful examples of industrial latecomer strategies. One of its distinctive features is that it has relied historically more heavily on foreign investment than any other sector. In the promotion of the electronics industry, the Korean government has provided the most successful exporters with a range of incentives- including preferential access to loans at subsidized interest rate, exemption from certain taxes, discounts on power and freight costs, and access to import licences for machinery and components.

Pressures and constraints are forcing both the Korean

government and the electronics industry to respond to the internal and external pressures in certain ways which require modification of Korea's traditional industrialization and adjustment strategy. Market accessibility of the Korean markets is recognized as a core dispute point by manufacturers and businessmen. Liberalization of Korea's trade regime was also demanded in the Uruguay Round negotiations of the GATT. Korea is faced with the task of liberalizing imports fast enough to satisfy the US and European demands.

In an effort to avoid external pressures, major companies have set up assembly operations in the US and Europe to seek more market access. The second type of investment is to build overseas factories to overcome the high costs of labour in the local market, as had been done in Southeast Asia. The larger companies also have set up or acquired overseas design or research operations bases to help them in semiconductor, telecommunications and industrial electronics fields. The Chabols are in the best position to secure chances to reduce the level of dependence on foreign technology and imported components.

With Korea's exports to the EU markets in the sector, the EU lost competitiveness in comparison with Japan and the US, except in the communication equipment sector. As a result of its low competitiveness, the EU frequently resorted to non-tariff measures of anti-dumping, quota restrictions and other import restriction measures. The EU's reciprocal demand for Korea's import liberalization after 1988 presents Korean firms with both challenges and risks. Korea is in the position of a sandwich

between the highly sophisticated products and low and middle range products manufactured by ASEAN, China and Mexico, whose cheap labour creates price competitiveness.

The internationalization of Korea's electronics industry is somewhat impeded by the lack of business management capability in the foreign local market to promote comparative advantages and to change the industrial structure into a sophisticated one, suitable for the local environments. Another task of Korea's electronics industry is to restructure the industry and management to concentrate on technology and knowledge-intensive products.

In consideration of the EU's gradually eroded-competitiveness in the consumer electronics sector, the EU was predicted to suspend its extension of Generalized System of Preferences (GSP) favours to Korean made cars, electronics, footwear and textile products from 1996. Korean made electronics products are likely to face serious difficulties in their exports of such products to the EU in the future. The export/import amount with South Korea in the consumer electronics sector alone is heavily unbalanced, with 788 million ECU trade surplus recorded on the Korean side. To tackle this imbalance, the EU frequently adopts anti-dumping measures.

By examining the specific development of Samsung Electronics and LG Electronics and how they have been affected by changing trade policies in the world dimension, the implications of regionalism and globalization have been tested. The leading Korean Electronics firms have in common a history of rapid growth aided by active government intervention. As

subsidiaries of large Korean Chabols, Samsung and the Lucky-Goldstar Group, they account for about 45 percent share of Korea's electronics and telecommunication industry production and employ well over half of all research human resources in this sector. The 1995 agreement between Samsung Electronics and NEC of Japan to produce semiconductors jointly in Europe is the example of how successful Samsung has been in technology development and its internationalization strategy. Samsung Electronics's response strategy toward European market has been based upon globalization and insiderization plans. In particular, Samsung Electronics FDI into the EU in the 1980s was strongly motivated by the shift of the Community policy away from tariff to NTBs. The EC's selective, intensified application of NTBs against Korean-made colour TVs, VCRs and computers, presented Samsung with more burdens. This trade friction has been aggravated more as Samsung shifted its export items from labour-intensive products such as textiles and footwear to technology, knowledge and capital-intensive goods. Samsung needs to tackle the EU's NTBs through continuous sophistication of differentiated products, strategic alliances and joint ventures.

Samsung's globalization strategy is an active efforts to accommodate the wave of free trade and economic liberalization under the WTO framework. For Samsung's insiderization strategy into the EU to bear fruit, total flow of business from production, sales, after service to advertisements should be managed by foreign local management bases, without heavy intervention of central headquarters in Korea.

LG Electronics' dilemma is found in the changed situation

of the international technology market because technology acquisition has become much harder. Thanks to vigorous efforts to promote product quality in new markets, a gradual shift has been made from the labour-intensive assembly of low-cost components and consumer devices to much more integrated forms of production of sophisticated and specialized products. The setting up of global marketing intelligence and distribution network is crucial. The definition of globalization by the LG Electronics is based on three categories: a) localization; b) complete understanding on the characteristics of local markets; c) networking. The EU's non-tariff barriers will be alleviated by the localization of the managerial activities and management system of global-networking. The setting-up of five world-wide production bases will cover demand for local consumption. The recent upsurge of aggressive high-tech neo-mercantilism which treats science and technology primarily as weapons in international competition, which has become prevalent worldwide, necessitates more active globalization schemes on the part of LG.

No other power bloc or power seems able or prepared to become a dominant power in providing international public goods, as the US had been since the end of the Second World War. Free trade is not a politically stable policy in a dynamic economic world, in the absence of such leadership. Fortunately, however, the WTO is likely to expand world free trade regimes with the implication that EU-Korean economic exchanges will rapidly expand. Nations are unlikely to be able to stop market forces from preventing the decline in employment. General protectionism

is also not a politically stable policy in a rapidly changing economic environment. Moreover, politically important strategic industries will be pressing for the opening of the markets and they will recognize the need to open domestic markets to achieve results.

The new protectionism threatening the international trading regime is related to significant structural changes in world production that have brought about a decline in the dominant economic position of the US, and a concomitant rise of the EU and Japan to international prominence and the emergence of a highly competitive group of newly industrializing countries.⁸⁰⁶

Korea, being a forerunner of the ANIEs, faces a difficult adjustment period, which has implications for trade relations with the EU. In the extreme negative dimension, the evolving world-wide trading regimes are increasingly characterized by more government control and private cartelization than throughout most of the postwar period, which gives little leverage to Korea's external trade policies. The recent trend of non-tariff protectionism at the specific industry level is expected to continue in the EU, US and Japan, inflicting more burdens on Korean exporters.

Given the needs of export-dependent and multinational

⁸⁰⁶. About the Western world view of the public good, Charles P. Kindleberger addressed the 98th meeting of the American Economic Association in New York, 29 December 1985, under the title of "International Public Goods without International Government." In his speech, by any forms or provisions, the international public good is a prerequisite for a stable world trading system.

firms, as well as their greater importance to the state, strong domestic pressures for liberal trade policies may co-exist with important protectionist pressures. Contrary to this view, despite the optimistic prediction, industrialized countries are predicted to seek short-term economic reciprocity. And the developing nations with particular political relationships with certain trading powers will continue to be exempt from the full-reciprocity requirement. Instead, great weight will be placed on bilateral trade relations to reduce non-tariff trade distortions. The WTO will provide broad framework for the negotiations. The various and discriminatory nature of non-tariff barriers will make true multilateral negotiations too vulnerable.

Along with the launching of the WTO, the long-term benefit of the trade rules will be publicized for the promotion of the trade between the two regions.

Table 9.1: The Coming Boom (Real GDP Growth and annual average %)

Nation Group	1974-1993	1994-2003
Rich Industrial Nations	2.9	2.7
Developing Nations	3.0	4.8
of Which		
East Asia	7.5	7.6
South Asia	4.8	5.3
Latin America	2.6	3.4
Eastern Europe and former Soviet Union	2.0	3.9
Middle East and North Africa	1.2	3.8

Source: World Bank

The WTO is, hopefully, to be developed into a strong, independent body like IMF and World Bank for the smooth functioning of the world free trading system. It should help

settle trade disputes by giving greater predictability and transparency to the world trading system. New protectionism should be eroded by the effective management of the multilateral framework. To expand the category of free trade to the utmost, rule and norm-based practices of international trade supported by stable security environment are a prerequisite.

According to the World Bank statistics based upon GDPs at PPP (purchasing power parity) in 1992, Korea ranked 15th largest, and by 2020, is expected to upgrade its status to the 7th largest. This kind of conspicuous achievement will be achieved when free trade and multilateralism take precedence over protectionism, unilateralism, and bilateralism. Korea should bear in mind that so long as rich OECD nations have higher education standards, and better management with superior infrastructure, their productivity will be higher than that of Korea. Aggressive investment in education and infrastructure should be undertaken to meet the level of leading nations. As the role of multinationals is ever-increasing, the Korean *Chabols* have many advantages to compete in the international markets.

The case studies of Korea's electronic firms' internationalization and globalization strategy indicate the ever-increasing inter-dependence of the world economy. Multilateralism and open regionalism are the best options for EU-Korea trade expansion in the future. As the electronics industry takes the lead in Korea's future business strategies, the active responses to trade protectionism based upon regionalism, will bear fruit by active pursuit of

internationalization and globalization. Free trade and opening of the market based upon multilateralism will be the major agenda of future trade negotiations. Reciprocal and mutually advantageous development will only be achieved through multilateralism. In the short term, the EU may find it more profitable to engage in bilateral negotiations with its external trade partners. But such bilateralism or unilateralism may break away from the even-handed principle of multilateral trade rules embodied in the Article of the GATT under the WTO.

9.2 Suggestions for the Korean Government and Business Circle

Regarding the policy implications for the Korean government and business circle in the future, the conclusions of this study provide several proposals. The stage of extensive growth has gone. Korea needs a much more liberal approach with respect to international trade and investment. Korea has to overcome any barriers in achieving its national goal of becoming an advanced nation. In order to achieve the target, Korea needs to adhere to the principles of a free and multilateral trading system.

Korea has not yet established a firm institutional basis for the long-term prosperity of its domestic capitalism. The government's recent efforts to deregulate and privatize the Korean economy have almost achieved a free and competitive system. A symbol of Korea's embracing of the new world trade order was her wish for a Korean candidate, Kim, Chul Soo, to become the head of the new World Trade Organization, which later resulted in him gaining the position of a deputy-head. Another

was its application for membership of the OECD. Bethan Hutton describes Korea's approach to free trade as cautious.⁸⁰⁷ Hutton may be right in saying that in some sections of Korean society, the desire of the outside world to open up to import of foreign products and investments is still considered as a threat. However, the phrase "segyehwa", which means globalization, symbolizes Korea's stance towards the foreign world. Korea's main trading partners- the US, the EU and Japan, constantly call for easier access to Korea's financial market and lowering of trade barriers.

Despite the constant calls, full-scale economic liberalization is unlikely to happen in the foreseeable future. However, the Kim Young Sam Government's reforms to unravel the close links between the state and big business are a clear symptom of a tilt toward market principles. Strong state intervention through a government-controlled financial system has created economic discrepancies between Chabols and small businesses. John Burton argues that the lowering of trade barriers poses a big threat to the Chabols, which depended heavily upon the protected domestic market.⁸⁰⁸

The Chabol issue is characterized by the public's sense of unfairness in the process of their rapid growth and by the concentration of economic power. They used to get privileged access to bank loans and real estate holdings. Growth was achieved at the expense of others-the weak and the poor.

⁸⁰⁷. *Financial Times*, Monday June 26 1995.

⁸⁰⁸. *Financial Times*, Monday June 26 1995.

Sometimes, wealth was sought by means of socially unproductive, rent-seeking businesses. The ever-growing wealth has been concentrated in the ownership of a few family members. For both legitimacy and distributional equity reasons, according to SaKong Il, the measures of inducing Chabols to distribute their equity shares widely must be continuously adopted. From an international competitiveness perspective, support for the principle of growth and diversification should be encouraged, provided they grow and become diversified with their own funds.

The readjustment of close government-business linkages should, in a broad context, be based on the basic assumption that Korean firms should promote their competitiveness to compete with international businesses and affiliated firms of larger international conglomerates. As a part of this programme, the Korean government has encouraged the Chabols to specialize in a few industrial sectors by granting unlimited bank loans to two or three core industries selected by the Chabol with state approval. For example, Samsung Groups' core business sectors approved by the Korean government are electronics, machinery and chemicals; Hyundai's are motor vehicles, electronics and energy; LG's are electronics, chemicals and energy; and Daewoo's are motor vehicles, machinery and distribution. For the core sector scheme to be successful, anti-trust and fair trade laws should be strictly applied while eliminating the past special favours such as privileged access to cheaper financial resources and fiscal subsidies. The new government-business relationship will be more based upon the concept of economic efficiency. Of course, a strong role of government should be maintained in

creating a stable macroeconomic environment and a microeconomic environment conducive to productive and future-oriented business activities.

In January 1995, the Korean government adopted measures to allow the Chabols to expand further if the family owners reduced their shareholdings to less than 20 percent. This marked a retreat from the past position of the government which tried to reduce the economic power of the thirty largest chabols. The hierarchical system and the monolithic line of command have to be restructured into a system of cooperation with specialization. To promote the long-term productivity of the Korean economy, the Korean conglomerates' social responsibilities and their efforts to contribute to the development of society by fair distribution of their benefits, are prerequisites. The merger of the Economic Planning Board and Finance Ministry into the Board of Finance and Economy in December 1994 was a clear attempt to push economic deregulation. Deregulation based upon market discipline will make the Chabols invest more money in product research and development, thus making the Korean economy more efficient. Korea's commercial diplomacy will be enhanced, according to the assistant minister for planning and management of the Ministry of Trade, Industry and Energy (MOITE), by actively participating in the WTO's Trade Policy Review Body, in the sectoral boards and committees of the global trade policy. The MOITE, in an advancement of trade-related rules and practices, will liberalize the export licensing system by approving potential trading firms, and gradually reduce the number of items subjected to import

restrictions. The creation of a finance and economy board was seen as an attempt to revitalize the economic liberalization programme. The government restructuring in December 1994 was targeted at reducing the power of bureaucrats who are conservative to reforms. The prime minister's office take-over of the Fair Trade Commission (FTC) from the former Economic Planning Board has been efficient in controlling the Chabols.

The most important responsibility of those in charge of the economic management of a developing nation is to set up institutions that conform economic activity to the long-term development of a nation. The Korean economy has been managed by an authoritarian government during the last four decades, with a set of strong bureaucratic institutions geared only toward growth-oriented economic policies. The new civilian government has adopted several measures to achieve economic democratization since 1992. An authoritarian government is no longer appropriate in a new order where it is necessary to embrace diverse needs of the world trading system. A new government structure with a new philosophy to accommodate the changed realities is strongly demanded. A "truly strong government" should be referred to as one which is able to maximize the national potential by deriving a broad national consensus through a rational and democratic procedure. Only a legitimate one, with rational and democratic features, could successfully accomplish its grand responsibility to lead the nation towards accomplishing people's aspirations.

As the world economic integration deepens, the deepening of mutual interdependence by world economic integration inevitably creates the need for a new relationship between Korea and the

rest of the world. In the past four decades, Korea has been fully geared toward mobilizing all available resources for industrialization, aided by a set of mercantilist policies in trade, investment, and industry. At the initial stages of development, this policy was justified.

Nowadays, the situation exposes Korea to a new dimension of international competition. In order to have the trade policy instrument to play by international norms and rules, the political economy of Korea requires rather steady structural adjustment and more liberalization in every sector.⁸⁰⁹ The major economic agents of Korea need to be equipped with new attitudes and values to tackle the new challenges.

Structural adjustment and liberalization⁸¹⁰ based on reciprocity are posing both challenges and opportunities for the Korean people. The concept of globalism in Korea's new diplomacy is that Korea will actively take part in global affairs and intensify the degree of inter-dependence among nations in the world. The concept of diplomacy diversification is also rooted in a multilateral context. Multidimensionalism refers to "comprehensive cooperation in every interaction including

⁸⁰⁹. On the transitional characteristics of the economy, see SaKong Il, "Korea at Crossroads," *International Economic Insights*, November/December:10-14, Washington D.C.: Institute for International Economics, 1990.

⁸¹⁰. With regard to EU-Korean economic interaction, the liberalization of the Korea's financial market is the major concern. On the liberalization of the Korea's financial market, see Nam, Chong-Hyun, "Liberalization of Korean Financial Market," Seoul: Korea Development Institute, 1992 Mimeo.

security, economy, environment, and culture."⁸¹¹ Also, by enhancing the diplomacy of regional cooperation, Korea will be pursuing the open regionalism which contribute to building a common community in the world. It is only by liberalizing its own domestic economy that South Korea will be able to command the political and moral authority to persuade the European Union and other major trade partners to adopt a similar agenda in their trade regimes.

⁸¹¹. Han, Sung-Joo, "Fundamental of Korean New Diplomacy: New Korea's Diplomacy toward the World and the Future", *Korea and World Affairs*, vol. 17, No. 2, Summer 1993, pp. 227-245.

APPENDIX I.A sub-Case Study of Samsung Electronics Factory in Billingham, UK through direct Interview with Project & Maintenance Manager, H.G. Noh of Samsung Electronics Manufacturing UK LTD., Billingham factory, at the reception room of the factory, from 11 a.m to 12:30 p.m, on the 26th, July 1995

a) A Short Overview of birth of the Factory and its Future Plans:

The Samsung Group is the World's 18th largest company with 27 businesses ranging from electronics, engineering and chemicals to financial and information services. Founded in 1938 in Taegu, Korea by the late Chairman Lee, Byung-Chull, Samsung has accomplished remarkable growth, achieving 1994 up to date opening 307 offices in 59 nations. Samsung Electronics was founded in 1969 and started making black and white TVs in 1972. The company has grown to be one of the most advanced level firms, including everything from simple household consumer products to the most technologically sophisticated semiconductors. Samsung Electronics Manufacturing U.K. Ltd.(S.E.M.U.K.) was established in 1987 and is the only manufacturing site for Samsung in the UK. At the beginning stage SEMUK produced MWO, followed in May 1988 with VCR and then in November 1991 we also started to produce Fax machines 1992 saw many changes. SEMUK applied for and were successful with an application to Samsung to concentrate on Colour Television manufacture. CTV production continues to increase and two more lines opened in 1994. The workforce at SEMUK has increased from 85 in January 1992 to the current figure of 420 and is soon to be increased to about 1,000, to open the 2nd factory in the Billingham. These are further plans to recruit up to 3,000 people in 1997. Samsung faces many changes and challenges as the regionalization and globalization of the world economy deepens. Only by creating products and services that are both competitive and of the highest quality, will Samsung successfully accomplish the task of internationalization and globalization. As part of this scheme, this factory will serve as the combined electronics manufacturing, R & D, design, and distribution base for all Europe.¹

¹. This short introduction to Samsung is based upon the interviews and SEMUK, No. 1, March 1995.

b) Questionnaire for Interviews to Investigate the underlying Motives of FDI in the EU

Q.1] Why was it established here, in Billingham, UK?

A.of Noh] Three considerations were important. The first one is the easiness of abundant labour with relatively cheap labour costs caused by high-unemployment rate in the UK. The second one is that the Cleveland area as an industrial complex, occupies almost 30 percent of the UK manufacturing output. Thirdly, sea transportation has been an important condition to export products through nearby ports like Newcastle.

Q.2] Have you felt any particular impact of SEM for the management of this factory or future business strategy?

A.N] So far, not so much. One thing to mention is the local content rule, e.g., to use Phillips components.

Q.3] Was the FDI of this factory a part of Samsung Group's Globalization Plan?

A.N] The regionalization of the world economy requires the combined know-how of management for internationalization and for the creation of the synergy effects. This is a part of a project to realize the vision of a European market.

Q.4] Did NTB play any particular role in the further 4.6 billion pounds investment?

A.N] At the initial stage of Korea's FDI into Europe, the NTB factor was the major concern. However, the major concern for FDI seems to have shifted to the combined programme of insiderization to secure locally adapted products through local-specific design and technology.

Q.5] What could be the role of this factory for Samsung's future European business strategies?

A.N] This factory will serve as the combined European production base as Samsung tries to realize the 7 world bloc approach by the division of North America, Europe, China, ASEAN, Southeast Africa, and South America.

Q.6] Does Samsung have any particular response strategies for the regionalization of the EU economy?

A.N] Technological development and active insiderization could be a typical example.

Q.7] In the setting up process of this factory, the factor of technological capacity and the internationalization of the consumer taste, which out of the four dimensions(cognitive, international system, domestic politics, and firm's level), plays the biggest role as a motivating source to more investment for future business?

A.N] On the technological side, it is possible to seek close cooperation with engineers of UK and Germany. Local-designing capacity will be more strengthened up to 100 percent completion stage in the future by comprehensive recruitment of relevant personnel.

Q.8] As a manager of the 2nd largest electronics manufacturing factory in Europe, what do you think the trade regimes of the EU will be in the future?

A.N] It will produce both challenges and chances for Samsung.

Q.9] For the stable management of this factory, how do you guess the multilateralism under the WTO would help to remove business restrictions and constraints not only toward Europe, but also for the world market?

A.N] As long as we have high technological capacity and good distribution system, and information network, multilateralism co-existing with regionalism does help to expand business with more rapidity.

Q.10] What is the ratio of your R & D expenditures to your total sales?

A.N] As far as this factory is concerned, it is at the initial stage.

Q.11] Was the motive for this FDI based upon the following factors?(many of them are based upon

Hong- Gue Lee's questions in "Korea's Direct Investment in the EC," contained in KDI's Single European Market and Its Implications for Korea as an NIE

a. high production costs at home

A.N] It was one of several factors to be considered.

b. new market development in the EU

A.N] Sales subsidiaries in Europe in cooperation with our factory makes strategies. And regional allocation is usually done in Seoul Headquarters.

c. for export to another country, especially to eastern bloc nations

A.N] In the future, the Hungarian factory will be in charge of that.

d. For the protection of the existing market in the EU and to increase the market shares

A.N] Of course, in case of TV, 100 percent Samsung brand image will be promoted by this factory production, for the expansion of the market.

e. For circumvention of tariffs and quotas imposition by the EU

A.N] That was one of the major reasons to seek FDI into this region.

f. for acquisition of new technologies in the EU

A.N] It is true that the technological level of Europe in advanced firms is a little higher than that of Samsung except for a few items, which means that R & D base in London will play an important part to realize Samsung's insiderization of Europe market.

g. for access to new materials developed in the EU

A.N] Probably some, but I do not have detailed knowledge of that.

h. to deal with an uncertain world economic environment coming from growing protectionism, fluctuating exchange rates and interest rates, and possible recession

A.N] I think so.

i. to secure a favourable position in the world financial market resulting from the internationalization of the production

A.N] A UK government's favourable response, if we ask, is expected in the future.

j. to consolidate home market position by utilizing economies of scope, scale, or technological information ensuing internationalization

A.N] We could not ignore the image of UK as the birth nation of industrial revolution in the middle of the 19th century. "Made in UK" would upgrade Samsung's brand image and could suit specific local demand.

k. to extend production lines by using common production facilities, sales, and distribution systems, and brand names

A.N] We did consider that. The main plan was to create new production, sales and distribution capacities in Europe.

Q.12] Any particular reasons for the selection of this host nation?

A.N] Infrastructure in the Cleveland area are good. Domestic political factors of the UK in terms of labour policy, employment policy will influence the operation of the factory. However, the potential of the UK market growth did not look so bright; rather this factory was mainly aimed at expanding the whole European market.

Q.13] Are your subsidiaries in the EU mostly joint ventures or wholly owned operation?

A.N] 100 percent Samsung capital

Q.14] What is the ratio of sales in the EU, the amount of exports to third nations, the local production of the EU to total production?

- A.N] I do not have data, but I do know that it is increasing every year.
- Q.15] What is the percentage of local employment in your subsidiaries in labour and technical and managerial staff?
- A.N] Only 8 Korean managers are in charge of the workforce of 450 and 500 two factories, as of now.
- Q.16] Where do you place the quality of your product?
- A.N] I think Samsung have the same level of functioning technology, but fall a little behind in designing capacity and in a few highly sophisticated products like grandvisions.
- Q.17] What is the ratio of exporting back to Korea from this factory?
- A.N] 0 percent
- Q.18] Did the local content rule play a big role in establishing this factory?
- A.N] We currently have a local content ratio of 76 percent. The future task will be 100 percent localization to accommodate Samsung's vision of internationalization and localization.
- Q.19] As the manager of the 2nd largest electronics manufacturing factory in Europe, what do you think of the future electronics industry's prospects in Europe?
- A.N] I foresee a steady growth of 2-3 percent annually. Sophisticated products will be more widespread in the existing market.
- Q.20] Will the domestic politics of Korea have a certain impact on the future electronics industry of Korea as a high-tech sector?
- A.N] In case of the electronics industry, the current industrial policy of the Korean government will not be changing for the foreseeable future. The active government support for R & D in basic science is becoming all the more crucial for ultimate competitiveness.

Q.21] How will the further integration of the EU in terms of deepening and enlargement shape the future business strategy of Samsung electronics in the future?

A.N] I do not think there will be any radical changes. Just steady growth in market share is expected, as it is going on. But the unification of regulations on business by more deepening of the business interdependence among member nations will change the pattern of business and we will seek various response strategies according to the issues.

Q.22] Does Samsung have any other specific plans against the regionalization and globalization of the world economy?

A.N] Considering the importance of high-level human resources, Samsung will invest in education and training. The productivity of Samsung depends upon the quality of manpower Samsung produces in the future. In collaboration with the government, much attention should be paid for the future hollow phenomenon in Korea's manufacturing sector because of aggressively moving production bases to other local territories.

Q.23] In the EU-Korean economic relation, what will be the most important thing for both of the two entities to bear in mind for the strenuous expansion of mutual trade?

A.N] Korea needs to advertise more in the European region. Despite tremendous growth and affirmative factors to be known, I can see some negative image of Korea embedded in people's minds, based on slight knowledge of the backward Korea of the 1950s and 1960s. The new image of Korea should be promoted by active public relations and advertisement activities. Secondly, too fierce competition among Korean domestic firms in the electronics sector does not create a good countermeasure to tackle the EU regionalism; some coordination efforts need to be made on this point. What is most important of all could be the credibility between the Korean government and EU member nations for long-term development of more enhanced ties.

Q.24] If the former Eastern European nations become full members of the EU, what are the

challenges and opportunities for the Samsung Electronics?

A.N] I don't expect any big changes in our business.

Q.25] Could close regionalism prevail in Europe against the rapid expansion of ANIE's exports?

A.N] Only through continuous sophistication of differentiated products, strategic alliances and joint ventures, the firm's competitiveness could be maintained even against close regionalism.

APPENDIX II. INTERVIEWS

Oh, Seung Koo, Senior Economist, American & European Studies Section, Samsung Economic Research Institute, Seoul, Korea, on "Major Challenges and Constraints of Samsung Electronics," 23 July 1994 at the Research Institute.

Noh, H.G., Manager of Project & Maintenance, Samsung Electronics Factory in Billingham, U.K., on, "Future Prospect of Samsung's Business as a Foreign Subsidiary," at the Reception Room of the factory on the 26th, July 1995.

Woo, Kook-Bin, Deputy-Director, International Cooperation Department, Korea Productivity Center, Seoul, Korea, August, 1994. This interview was an informal chat.

Kim, Yun-Hwan, Assistant Manager, Marketing & Regional Strategy Team, International Operations Office, Samsung Electronics CO., LTD, on "Proper Response Strategies of Samsung Electronics against the Regionalism and Globalization of the World Economy," at Meeting Room, Joong-Ang Daily News Building, on 17 August, 1994

An, Jae-Dong, Electronic Machinery Industry Division, Ministry of Trade, Industry & Energy of Republic of Korea, on "Korean Electronics Firms Strategies on Regionalism and Globalization," in 25 June, 1994, at the Ministry Office.

Kang, Seon-Gu, Analyst, Economic Research Division, Lucky-Goldstar Economic Research Institute, on "LG Electronics Strategies on Globalism," on 24 July 1994, at the Research Institute.

Cho, Yong-Suk, Manager, Internationalization Strategy Corporate Planning Office, Samsung Electronics, on "Samsung Electronics Internationalization Strategy," on 26 July 1994, at his working office.

Yoon, Seung-Ro, Assistant Manager, Marketing & Regional Strategy Team for Europe, International Operations Office, Samsung Electronics, "On Samsung Electronics Business Strategies in the Future," on 25 July, 1994, at the Samsung Office.

Nah, Chang-Yup, Euro Division, Area Research Dept., Korean Trade Promotion Corporation(KOTRA), "On General EU-Korean Economic Relations," on 3 August, 1994, at the KOTRA Office.

Park, Ki-Jong and Shin, Ki-Sung, Reporters, *The Electronic Times*, Seoul, "On the General Problems of the Korean Electronics Industry," on 24 July, 1994, at the newspaper office.

Lee, Sang-Keun, Manager, Planning Dept. Electronics Industries Association of Korea, "On the New Strategies of the Korean Electronics Industry in the Future in an era of regionalism and globalization," on 27 June, 1994, at the EIAK Office.

APPENDIX III

TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY(Article 110-6)

Commercial Policy

Article 110- By establishing a customs union between themselves the Member States intend to contribute, in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchange and the lowering of customs barriers. The common commercial policy shall take into account the favorable incidence which the abolition of customs duties as between Member States may have on the increase of the competitive strength of the enterprises in those States.

Article 111- In the course of the transitional period and without prejudice to Articles 115 and 116, the following provisions shall apply:

1. Member States shall co-ordinate their commercial relations with third countries in such a way as to bring about, not later than at the expiry of the transitional period, for the establishment of the common action and regarding the achievement of a uniform commercial policy.

The Commission shall submit to the Council Proposals regarding the procedure to be applied, in the course of the transitional period, for the establishment of common action and regarding the achievement of a uniform commercial policy.

2. The Commission shall submit to the Council recommendations with a view to tariff negotiations with third countries concerning the common customs tariff.

The Council shall authorize the Commission to open such negotiations.

The Commission shall conduct these negotiations in consultation with a special committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it.

3. The Council shall, when exercising the power conferred upon it under this Article, act during the first two stages by means of a unanimous vote and subsequently by means of a qualified majority vote.

4. Member States shall, in consultation with the Commission take all necessary measures with the object, in particular, of adjusting their tariff agreements in force with third countries in order that the entry into force of the common customs tariff may not be delayed.

5. Member states shall aim at securing uniformity between themselves at as high a level as possible of their lists of

liberalization in regard to third countries or groups of third countries. For this purpose the Commission shall make any appropriate recommendations to Member States.

If Member States abolish or reduce quantitative restrictions in regard to third countries they shall inform the Commission beforehand and shall accord identical treatment to the other Member States.

Article 112- Without prejudice to obligations undertaken by Member States within the framework of other international organizations, their measures to aid exports to third countries shall be progressively harmonized before the end of the transitional period to the extent necessary to ensure that competition between enterprises within the community shall not be distorted.

On a proposal of the Commission, the Council, acting until the end of the second stage by means of a unanimous vote and subsequently by means of a qualified majority vote, shall issue the directives necessary for this purpose.

2. The preceding provisions shall not apply to such drawbacks on customs duties or charges with equivalent effect nor to such refunds of indirect charges including turnover taxes, excise duties, and other indirect taxes as are accorded in connection with exports of goods from a Member State to a third country, to the extent that such drawbacks or refunds do not exceed the charges which have been imposed, directly or indirectly, on the products exported.

Article 113- After the expiry of the transitional period, the common commercial policy shall be based on uniform principles, particularly in regard to tariff amendments, the conclusion of tariff or trade agreements, the alignment of measures of liberalization export policy and protective commercial measures including measures to be taken in cases of dumping or subsidies.

2. The Commission shall submit proposals to the Council for the putting into effect of this common commercial policy.

3. Where agreements with third countries require to be negotiated, the Commission shall make recommendations to the Council, which will authorize the Commission to open the necessary negotiations.

The Commission shall conduct these negotiations in consultation with a special Committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it.

4. The Council, shall, when exercising the powers conferred upon it by this Article, act by means of a qualified majority vote.

Article 114- The agreement referred to in Article 111, paragraph 2, and in Article 113 shall be concluded on behalf of the community by the Council acting during the first two stages by means of a unanimous vote and subsequently by means of a qualified majority vote.

Article 115- In order to ensure that the execution of measures of commercial policy taken in conformity with this Treaty by any Member State shall not be prevented by diversions of commercial traffic, or where disparities between such measures lead to economic difficulties in one or more of the Member States, the

Commission shall recommend the methods whereby the other Member States provides the necessary co-operation. Failing this, the Commission shall authorize the Member States to take the necessary protective measures of which it shall determine the conditions and particulars.

In case of emergency and during the transitional period, Member States may themselves take such necessary measures and shall notify them to the other Member States and also to the Commission which may decide that the State concerned shall amend or revoke such measures.

In choosing such measures, policy shall be given to those which cause the least disturbance to the functioning of the Common Market and which take due account of the necessity for expediting, as far as possible, the introduction of the common customs tariff.

Article 116- As from the end of the transitional period, Member States shall in respect of all matters of particular interest in regard to the Common Market, within the framework of any international organizations of an economic character, only proceed by way of common action. The Commission for this purpose submit to the Council, which shall act by means of a qualified majority vote, proposals concerning the scope and implementation of such common action.

During the transitional period, Member States shall consult with each other with a view to concerting their action and as far as possible, adopting uniform attitude.

APPENDIX IV. THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Article I

General Most-Favoured-Nation Treatment

1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III,* any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

2. The provisions of paragraph 1 of this Article shall not require the elimination of any preferences in respect of import duties or charges which do not exceed the levels provided for in paragraph 4 of this Article and which fall within the following descriptions:

- (a) Preferences in force exclusively between two or more of the territories listed in Annex A, subject to the conditions set forth therein;
- (b) Preferences in force exclusively between two or more territories which on July 1, 1939, were connected by common sovereignty or relations of protection or suzerainty and which are listed in Annexes B, C and D, subject to the conditions set forth therein;
- (c) Preferences in force exclusively between the United States of America and the Republic of Cuba;
- (d) Preferences in force exclusively between neighbouring countries listed in Annexes E and F.

3. The provisions of paragraph 1 shall not apply to preferences between the countries formerly a part of the Ottoman Empire and detached from it on July 24, 1923, provided such preferences are approved under paragraph 5¹ of Article XXV, which shall be applied in this respect in the light of paragraph 1 of Article XXIX.

4. The margin of preference* on any product in respect of which a preference is permitted under paragraph 2 of this Article but is not specifically set forth as a maximum margin of preference in the appropriate Schedule annexed to this Agreement shall not exceed:

- (a) in respect of duties or charges on any product described in such Schedule, the difference between the most-favoured-nation and preferential rates provided for therein; if no preferential rate is provided for, the preferential rate shall for the purposes of this paragraph be taken to be that in force on April 10, 1947, and, if no most-favoured-nation rate is provided for, the margin shall not exceed the difference between the most-favoured-nation and preferential rates existing on April 10, 1947;
- (b) in respect of duties or charges on any product not described in the appropriate Schedule, the difference between the most-favoured-nation and preferential rates existing on April 10, 1947.

In the case of the contracting parties named in Annex G, the date of April 10, 1947, referred to in subparagraph (a) and (b) of this paragraph shall be replaced by the respective dates set forth in that Annex.

origin, and shall be computed on the basis of screen time per theatre per year or the equivalent thereof;

- (b) With the exception of screen time reserved for films of national origin under a screen quota, screen time including that released by administrative action from screen time reserved for films of national origin, shall not be allocated formally or in effect among sources of supply;
- (c) Notwithstanding the provisions of subparagraph (b) of this Article, any contracting party may maintain screen quotas conforming to the requirements of subparagraph (a) of this Article which reserve a minimum proportion of screen time for films of a specified origin other than that of the contracting party imposing such screen quotas; *Provided* that no such minimum proportion of screen time shall be increased above the level in effect on April 10, 1947;
- (d) Screen quotas shall be subject to negotiation for their limitation, liberalization or elimination.

Article VI

Anti-dumping and Countervailing Duties

1. The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For the purposes of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another

- (a) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,
- (b) in the absence of such domestic price, is less than either
 - (i) the highest comparable price for the like product for export to any third country in the ordinary course of trade, or
 - (ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.

Due allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.*

2. In order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such product. For the purposes of this Article, the margin of dumping is the price difference determined in accordance with the provisions of paragraph 1.*

3. No countervailing duty shall be levied on any product of the territory of any contracting party imported into the territory of another contracting party in excess of an amount equal to the estimated bounty or subsidy determined to have been granted, directly or indirectly, on the manufacture, production or export of such product in the country of origin or exportation, including any special subsidy to the transportation of a particular product. The term "countervailing duty" shall be understood to mean a special duty levied for the purpose of offsetting any bounty or subsidy bestowed, directly, or indirectly, upon the manufacture, production or export of any merchandise.*

4. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes.

5. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to both anti-dumping and countervailing duties to compensate for the same situation of dumping or export subsidization.

6. (a) No contracting party shall levy any anti-dumping or countervailing duty on the importation of any product of the territory of another contracting party unless it determines that the effect of the dumping or subsidization, as the case may be, is such as to cause or threaten material injury to an established domestic industry, or is such as to retard materially the establishment of a domestic industry.

(b) The CONTRACTING PARTIES may waive the requirement of subparagraph (a) of this paragraph so as to permit a contracting party to levy an anti-dumping or countervailing duty on the importation of any product for the purpose of offsetting dumping or subsidization which causes or threatens material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party. The CONTRACTING PARTIES shall waive the requirements of subparagraph (a) of this paragraph, so as to permit the levying of a countervailing duty, in cases in which they find that a subsidy is causing or threatening material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party.*

(c) In exceptional circumstances, however, where delay might cause damage which would be difficult to repair, a contracting party may levy a countervailing duty for the purpose referred to in subparagraph (b) of this paragraph without the prior approval of the CONTRACTING PARTIES; *Provided* that such action shall be reported immediately to the CONTRACTING PARTIES and that the countervailing duty shall be withdrawn promptly if the CONTRACTING PARTIES disapprove.

7. A system for the stabilization of the domestic price or of the return to domestic producers of a primary commodity, independently of the movements of export prices, which results at times in the sale of the commodity for export at a price lower than the comparable price charged for the like commodity to buyers in the domestic market, shall be presumed not to result in material injury within the meaning of paragraph 6 if it is determined by consultation among the contracting parties substantially interested in the commodity concerned that:

- (a) the system has also resulted in the sale of the commodity for export at a price higher than the comparable price charged for the like commodity to buyers in the domestic market, and
- (b) the system is so operated, either because of the effective regulation of production, or otherwise, as not to stimulate exports unduly or otherwise seriously prejudice the interests of other contracting parties.

*Article XI**

General Elimination of Quantitative Restrictions

1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

2. The provisions of paragraph 1 of this Article shall not extend to the following:

- (a) Export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party;
- (b) Import and export prohibitions or restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities in international trade;
- (c) Import restrictions on any agricultural or fisheries product, imported in any form,* necessary to the enforcement of governmental measures which operate:
 - (i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted; or
 - (ii) to remove a temporary surplus of the like domestic product, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted, by making the surplus available to certain groups of domestic consumers free of charge or at prices below the current market level; or
 - (iii) to restrict the quantities permitted to be produced of any animal product the production of which is directly dependent, wholly or mainly, on the imported commodity, if the domestic production of that commodity is relatively negligible.

Any contracting party applying restrictions on the importation of any product pursuant to subparagraph (c) of this paragraph shall give public notice of the total quantity or value of the product permitted to be imported during a specified future period and of any change in such quantity or value. Moreover, any restrictions applied under (i) above shall not be such as will reduce the total of imports

relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of restrictions. In determining this proportion, the contracting party shall pay due regard to the proportion prevailing during a previous representative period and to any special factors* which may have affected or may be affecting the trade in the product concerned.

*Article XII**

Restrictions to Safeguard the Balance of Payments

1. Notwithstanding the provisions of paragraph 1 of Article XI, any contracting party, in order to safeguard its external financial position and its balance of payments, may restrict the quantity or value of merchandise permitted to be imported, subject to the provisions of the following paragraphs of this Article.

2. (a) Import restrictions instituted, maintained or intensified by a contracting party under this Article shall not exceed those necessary:

- (i) to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves, or
- (ii) in the case of a contracting party with very low monetary reserves, to achieve a reasonable rate of increase in its reserves.

Due regard shall be paid in either case to any special factors which may be affecting the reserves of such contracting party or its need for reserves, including, where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

(b) Contracting parties applying restrictions under sub-paragraph (a) of this paragraph shall progressively relax them as such conditions improve, maintaining them only to the extent that the conditions specified in that sub-paragraph still justify their application. They shall eliminate the restrictions when conditions would no longer justify their institution or maintenance under that subparagraph.

3. (a) Contracting parties undertake, in carrying out their domestic policies, to pay due regard to the need for maintaining or restoring equilibrium in their balance of payments on a sound and lasting basis and to the desirability of avoiding an uneconomic employment of productive resources. They recognize that, in order to achieve these ends, it is desirable so far as possible to adopt measures which expand rather than contract international trade.

(b) Contracting parties applying restrictions under this Article may determine the incidence of the restrictions on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential.

(c) Contracting parties applying restrictions under this Article undertake:

- (i) to avoid unnecessary damage to the commercial or economic interests of any other contracting party;*
- (ii) not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade; and
- (iii) not to apply restrictions which would prevent the importations of commercial samples or prevent compliance with patent, trade mark, copyright, or similar procedures.

(d) The contracting parties recognize that, as a result of domestic policies directed towards the achievement and maintenance of full and productive employment or towards the development of economic resources, a contracting party may experience a high level of demand for imports involving a threat to its monetary reserves of the sort referred to in paragraph 2 (a) of this Article. Accordingly, a contracting party otherwise complying with the provisions of this Article shall not be required to withdraw or modify restrictions on the ground that a change in those policies would render unnecessary restrictions which it is applying under this Article.

4. (a) Any contracting party applying new restrictions or raising the general level of its existing restrictions by a substantial intensification of the measures applied under this Article shall immediately after instituting or intensifying such restrictions (or, in circumstances in which prior consultation is practicable, before doing so) consult with the CONTRACTING PARTIES as to the nature of its balance of payments difficulties, alternative corrective measures which may be available, and the possible effect of the restrictions on the economies of other contracting parties.

(b) On a date to be determined by them,⁴ the CONTRACTING PARTIES shall review all restrictions still applied under this Article on that date. Beginning one year after that date, contracting parties applying import restrictions under this Article shall enter into consultations of the type provided for in subparagraph (a) of this paragraph with the CONTRACTING PARTIES annually.

(c) (i) If, in the course of consultations with a contracting party under subparagraph (a) or (b) above, the CONTRACTING PARTIES find that the restrictions are not consistent with provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV), they shall indicate the nature of the inconsistency and may advise that the restrictions be suitably modified.

(ii) If, however, as a result of the consultations, the CONTRACTING PARTIES determine that the restrictions are being applied in a manner involving an inconsistency of a serious nature with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that

damage to the trade of any contracting party is caused or threatened thereby, they shall so inform the contracting party applying the restrictions and shall make appropriate recommendations for securing conformity with such provisions within the specified period of time. If such contracting party does not comply with these recommendations within the specified period, the CONTRACTING PARTIES may release any contracting party the trade of which is adversely affected by the restrictions from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(d) The CONTRACTING PARTIES shall invite any contracting party which is applying restrictions under this Article to enter into consultations with them at the request of any contracting party which can establish a *prima facie* case that the restrictions are inconsistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that its trade is adversely affected thereby. However, no such invitation shall be issued unless the CONTRACTING PARTIES have ascertained that direct discussions between the contracting parties concerned have not been successful. If, as a result of the consultations with the CONTRACTING PARTIES, no agreement is reached and they determine that the restrictions are being applied inconsistently with such provisions, and that damage to the trade of the contracting party initiating the procedure is caused or threatened thereby, they shall recommend the withdrawal or modification of the restrictions. If the restrictions are not withdrawn or modified within such time as the CONTRACTING PARTIES may prescribe, they may release the contracting party initiating the procedure from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(e) In proceeding under this paragraph, the CONTRACTING PARTIES shall have due regard to any special external factors adversely affecting the export trade of the contracting party applying the restrictions.⁵

(f) Determinations under this paragraph shall be rendered expeditiously and, if possible, within sixty days of the initiation of the consultations.

5. If there is a persistent and widespread application of import restrictions under this Article, indicating the existence of a general disequilibrium which is restricting international trade, the CONTRACTING PARTIES shall initiate discussions to consider whether other measures might be taken, either by those contracting parties the balance of payments of which are under pressure or by those the balance of payments of which are tending to be exceptionally favourable, or by any appropriate intergovernmental organization, to remove the underlying causes of the disequilibrium. On the invitation of the CONTRACTING PARTIES, contracting parties shall participate in such discussions.

*Article XIII**

Non-discriminatory Administration of Quantitative Restrictions

1. No prohibition or restriction shall be applied by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation of any product destined for the territory of any other contracting party, unless the importation of the like product of all third countries or the exportation of the like product to all third countries is similarly prohibited or restricted.

2. In applying import restrictions to any product, contracting parties shall aim at a distribution of trade in such product approaching as closely as possible the shares which the various contracting parties might be expected to obtain in the absence of such restrictions and to this end shall observe the following provisions:

- (a) Wherever practicable, quotas representing the total amount of permitted imports (whether allocated among supplying countries or not) shall be fixed, and notice given of their amount in accordance with paragraph 3 (b) of this Article;
- (b) In cases in which quotas are not practicable, the restrictions may be applied by means of import licences or permits without a quota;
- (c) Contracting parties shall not, except for purposes of operating quotas allocated in accordance with subparagraph (d) of this paragraph, require that import licences or permits be utilized for the importation of the product concerned from a particular country or source;
- (d) In cases in which a quota is allocated among supplying countries the contracting party applying the restrictions may seek agreement with respect to the allocation of shares in the quota with all other contracting parties having a substantial interest in supplying the product concerned. In cases in which this method is not reasonably practicable, the contracting party concerned shall allot to contracting parties having a substantial interest in supplying the product shares based upon the proportions, supplied by such contracting parties during a previous representative period, of the total quantity or value of imports of the product, due account being taken of any special factors which may have affected or may be affecting the trade in the product. No conditions or formalities shall be imposed which would prevent any contracting party from utilizing fully the share of any such total quantity or value which has been allotted to it, subject to importation being made within any prescribed period to which the quota may relate.*

3. (a) In cases in which import licences are issued in connection with import restrictions, the contracting party applying the restrictions shall provide, upon the request of any contracting party having an interest in the trade in the product concerned, all relevant information concerning the administration of the restrictions, the import licences granted over a recent period and the distribution of such licences among supplying countries; *Provided* that there shall be no obligation to supply information as to the names of importing or supplying enterprises.

(b) In the case of import restrictions involving the fixing of quotas, the contracting party applying the restrictions shall give public notice of the total quantity or value of the product or products which will be permitted to be imported during a specified future period and of any change in such quantity or value. Any supplies of the product in question which were *en route* at the time at which public notice was given shall not be excluded from entry; *Provided* that they may be counted so far as practicable, against the quantity permitted to be imported in the period in question, and also, where necessary, against the quantities permitted to be imported in the next following period or periods; and *Provided* further that if any contracting party customarily exempts from such restrictions products entered for consumption or withdrawn from warehouse for consumption during a period of thirty days after the day of such public notice, such practice shall be considered full compliance with this subparagraph.

(c) In the case of quotas allocated among supplying countries, the contracting party applying the restrictions shall promptly inform all other contracting parties having an interest in supplying the product concerned of the shares in the quota currently allocated, by quantity or value, to the various supplying countries and shall give public notice thereof.

4. With regard to restrictions applied in accordance with paragraph 2 (d) of this Article or under paragraph 2 (c) of Article XI, the selection of a representative period for any product and the appraisal of any special factors* affecting the trade in the product shall be made initially by the contracting party applying the restriction; *Provided* that such contracting party shall, upon the request of any other contracting party having a substantial interest in supplying that product or upon the request of the CONTRACTING PARTIES, consult promptly with the other contracting party or the CONTRACTING PARTIES regarding the need for an adjustment of the proportion determined or of the base period selected, or for the reappraisal of the special factors involved, or for the elimination of conditions, formalities or any other provisions established unilaterally relating to the allocation of an adequate quota or its unrestricted utilization.

5. The provisions of this Article shall apply to any tariff quota instituted or maintained by any contracting party, and, in so far as applicable, the principles of this Article shall also extend to export restrictions.

Article XIV*

Exceptions to the Rule of Non-discrimination

1. A contracting party which applies restrictions under Article XII or under Section B of Article XVIII may, in the application of such restrictions, deviate from the provisions of Article XIII in a manner having equivalent effect to restrictions on payments and transfers for current international transactions which that contracting party may at that time apply under Article VIII or XIV of the Articles of Agreement of the International Monetary Fund, or under analogous provisions of a special exchange agreement entered into pursuant to paragraph 6 of Article XV.*

2. A contracting party which is applying import restrictions under Article XII or under Section B of Article XVIII may, with the consent of the CONTRACTING PARTIES, temporarily deviate from the provisions of Article XIII in respect of a small part of its external trade where the benefits to the contracting party or contracting parties concerned substantially outweigh any injury which may result to the trade of other contracting parties.*

3. The provisions of Article XIII shall not preclude a group of territories having a common quota in the International Monetary Fund from applying against imports from other countries, but not among themselves, restrictions in accordance with the provisions of Article XII or of Section B of Article XVIII on condition that such restrictions are in all other respects consistent with the provisions of Article XIII.

4. A contracting party applying import restrictions under Article XII or under Section B of Article XVIII shall not be precluded by Articles XI to XV or Section B of Article XVIII of this Agreement from applying measures to direct its exports in such a manner as to increase its earnings of currencies which it can use without deviation from the provisions of Article XIII.

5. A contracting party shall not be precluded by Articles XI to XV, inclusive, or by Section B of Article XVIII, of this Agreement from applying quantitative restrictions:

- (a) having equivalent effect to exchange restrictions authorized under Section 3 (b) of Article VII of the Articles of Agreement of the International Monetary Fund, or
- (b) under the preferential arrangements provided for in Annex A of this Agreement, pending the outcome of the negotiations referred to therein.

*Article XVI**

Subsidies

Section A – Subsidies in General

1. If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the CONTRACTING PARTIES in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary. In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any such subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party

or parties concerned, or with the CONTRACTING PARTIES, the possibility of limiting the subsidization.

Section B – Additional Provisions on Export Subsidies*

2. The contracting parties recognize that the granting by a contracting party of a subsidy on the export of any product may have harmful effects for other contracting parties, both importing and exporting, may cause undue disturbance to their normal commercial interests, and may hinder the achievement of the objectives of this Agreement.
3. Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or may be affecting such trade in the product.*
4. Further, as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market. Until 31 December 1957 no contracting party shall extend the scope of any such subsidization beyond that existing on 1 January 1955 by the introduction of new, or the extension of existing, subsidies.*
5. The CONTRACTING PARTIES shall review the operation of the provisions of this Article from time to time with a view to examining its effectiveness, in the light of actual experience, in promoting the objectives of this Agreement and avoiding subsidization seriously prejudicial to the trade or interests of contracting parties.

Article XIX

Emergency Action on Imports of Particular Products

1. (a) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

(b) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in subparagraph (a) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or in part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

2. Before any contracting party shall take action pursuant to the provisions of paragraph 1 of this Article, it shall give notice in writing to the CONTRACTING PARTIES as far in advance as may be practicable and shall afford the CONTRACTING PARTIES and those contracting parties having a substantial interest as exporters of the product concerned an opportunity to consult with it in respect of the proposed action. When such notice is given in relation to a concession with respect to a preference, the notice shall name the contracting party which has requested the action. In critical circumstances, where delay would cause damage which it would be difficult to repair, action under paragraph 1 of this Article may be taken provisionally without prior consultation, on the condition that consultation shall be effected immediately after taking such action.

3. (a) If agreement among the interested contracting parties with respect to the action is not reached, the contracting party which proposes to take or continue the action shall, nevertheless, be free to do so, and if such action is taken or continued, the affected contracting parties shall then be free, not later than ninety days after such action is taken, to suspend, upon the expiration of thirty days from the day on which written notice of such suspension is received by the CONTRACTING PARTIES, the application to the trade of the contracting party

taking such action, or, in the case envisaged in paragraph 1 (b) of this Article, to the trade of the contracting party requesting such action, of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove.

(b) Notwithstanding the provisions of subparagraph (a) of this paragraph, where action is taken under paragraph 2 of this Article without prior consultation and causes or threatens serious injury in the territory of a contracting party to the domestic producers of products affected by the action, that contracting party shall, where delay would cause damage difficult to repair, be free to suspend, upon the taking of the action and throughout the period of consultation, such concessions or other obligations as may be necessary to prevent or remedy the injury.

Article XXIV

Territorial Application — Frontier Traffic — Customs Unions and Free-trade Areas

1. The provisions of this Agreement shall apply to the metropolitan customs territories of the contracting parties and to any other customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application. Each such customs territory shall, exclusively for the purposes of the territorial application of this Agreement, be treated as though it were a contracting party; *Provided* that the provisions of this paragraph shall not be construed to create any rights or obligations as between two or more customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application by a single contracting party.

2. For the purposes of this Agreement a customs territory shall be understood to mean any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories.

3. The provisions of this Agreement shall not be construed to prevent:
 - (a) Advantages accorded by any contracting party to adjacent countries in order to facilitate frontier traffic;
 - (b) Advantages accorded to the trade with the Free Territory of Trieste by countries contiguous to that territory, provided that such advantages are not in conflict with the Treaties of Peace arising out of the Second World War.
4. The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.
5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; *Provided that*:
 - (a) with respect to a customs union, or an interim agreement leading to a formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;
 - (b) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement as the case may be; and
 - (c) any interim agreement referred to in subparagraphs (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.
6. If, in fulfilling the requirements of subparagraph 5 (a), a contracting party proposes to increase any rate of duty inconsistently with the provisions of Article II, the procedure set forth in Article XXVIII shall apply. In providing for compensatory adjustment, due account shall be taken of the compensation already afforded by the reduction brought about in the corresponding duty of the other constituents of the union.
7. (a) Any contracting party deciding to enter into a customs union or free-trade area, or an interim agreement leading to the formation of such a union or area, shall promptly notify the CONTRACTING PARTIES and shall make available to them such information regarding the proposed union or area as will enable them to make such reports and recommendations to contracting parties as they may deem appropriate.

(b) If, after having studied the plan and schedule included in an interim agreement referred to in paragraph 5 in consultation with the parties to that agreement and taking due account of the information made available in accordance with the provisions of subparagraph (a), the CONTRACTING PARTIES find that such agreement is not likely to result in the formation of a customs union or of a free-trade area within the period contemplated by the parties to the agreement or that such period is not a reasonable one, the CONTRACTING PARTIES shall make recommendations to the parties to the agreement. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations.

(c) Any substantial change in the plan or schedule referred to in paragraph 5 (c) shall be communicated to the CONTRACTING PARTIES, which may request the contracting parties concerned to consult with them if the change seems likely to jeopardize or delay unduly the formation of the customs union or of the free-trade area.

8. For the purposes of this Agreement:

(a) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that

(i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,

(ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;

(b) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

9. The preferences referred to in paragraph 2 of Article I shall not be affected by the formation of a customs union or of a free-trade area but may be eliminated or adjusted by means of negotiations with contracting parties affected.* This procedure of negotiations with affected contracting parties shall, in particular, apply to the elimination of preferences required to conform with the provisions of paragraph 8 (a)(i) and paragraph 8 (b).

10. The CONTRACTING PARTIES may by a two-thirds majority approve proposals which do not fully comply with the requirements of paragraphs 5 to 9 inclusive, provided that such proposals lead to the formation of a customs union or a free-trade area in the sense of this Article.

11. Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis.*

12. Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territories.

Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994

Members.

Having regard to the provisions of Article XXIV of GATT 1994;

Recognizing that customs unions and free-trade areas have greatly increased in number and importance since the establishment of GATT 1947 and today cover a significant proportion of world trade;

Recognizing the contribution to the expansion of world trade that may be made by closer integration between the economies of the parties to such agreements;

Recognizing also that such contribution is increased if the elimination between the constituent territories of duties and other restrictive regulations of commerce extends to all trade, and diminished if any major sector of trade is excluded;

Reaffirming that the purpose of such agreements should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other Members with such territories; and that in their formation or enlargement the parties to them should to the greatest possible extent avoid creating adverse effects on the trade of other Members;

Convinced also of the need to reinforce the effectiveness of the role of the Council for Trade in Goods in reviewing agreements notified under Article XXIV, by clarifying the criteria and procedures for the assessment of new or enlarged agreements, and improving the transparency of all Article XXIV agreements;

Recognizing the need for a common understanding of the obligations of Members under paragraph 12 of Article XXIV;

Hereby agree as follows:

1. Customs unions, free-trade areas, and interim agreements leading to the formation of a customs union or free-trade area, to be consistent with Article XXIV, must satisfy, *inter alia*, the provisions of paragraphs 5, 6, 7 and 8 of that Article.

Article XXIV:5

2. The evaluation under paragraph 5(a) of Article XXIV of the general incidence of the duties and other regulations of commerce applicable before and after the formation of a customs union shall in respect of duties and charges be based upon an overall assessment of weighted average tariff rates and of customs duties collected. This assessment shall be based on import statistics for a previous representative period to be supplied by the customs union, on a tariff-line basis and in values and quantities, broken down by WTO country of origin. The Secretariat shall compute the weighted average tariff rates and customs duties collected in accordance with the methodology used in the assessment of tariff offers in the Uruguay Round of Multilateral Trade Negotiations. For this purpose, the duties and charges to be taken into consideration shall be the applied rates of duty. It is recognized that for the purpose of the overall assessment of the incidence of other regulations of commerce for which quantification and aggregation are difficult, the examination of individual measures, regulations, products covered and trade flows affected may be required.

3. The "reasonable length of time" referred to in paragraph 5(c) of Article XXIV should exceed 10 years only in exceptional cases. In cases where Members parties to an interim agreement believe that 10 years would be insufficient they shall provide a full explanation to the Council for Trade in Goods of the need for a longer period.

Article XXIV:6

4. Paragraph 6 of Article XXIV establishes the procedure to be followed when a Member forming a customs union proposes to increase a bound rate of duty. In this regard Members reaffirm that the procedure set forth in Article XXVIII, as elaborated in the guidelines adopted on 10 November 1980 (BISD 27S/26-28) and in the Understanding on the Interpretation of Article XXVIII of GATT 1994, must be commenced before tariff concessions are modified or withdrawn upon the formation of a customs union or an interim agreement leading to the formation of a customs union.

5. These negotiations will be entered into in good faith with a view to achieving mutually satisfactory compensatory adjustment. In such negotiations, as required by paragraph 6 of Article XXIV, due account shall be taken of reductions of duties on the same tariff line made by other constituents of the customs union upon its formation. Should such reductions not be sufficient to provide the necessary compensatory adjustment, the customs union would offer compensation, which may take the form of reductions of duties on other tariff lines. Such an offer shall be taken into consideration by the Members having negotiating rights in the binding being modified or withdrawn. Should the compensatory adjustment remain unacceptable, negotiations should be continued.

Where, despite such efforts, agreement in negotiations on compensatory adjustment under Article XXVIII as elaborated by the Understanding on the Interpretation of Article XXVIII of GATT 1994 cannot be reached within a reasonable period from the initiation of negotiations, the customs union shall, nevertheless, be free to modify or withdraw the concessions; affected Members shall then be free to withdraw substantially equivalent concessions in accordance with Article XXVIII.

6. GATT 1994 imposes no obligation on Members benefiting from a reduction of duties consequent upon the formation of a customs union, or an interim agreement leading to the formation of a customs union, to provide compensatory adjustment to its constituents.

Review of Customs Unions and Free-Trade Areas

7. All notifications made under paragraph 7(a) of Article XXIV shall be examined by a working party in the light of the relevant provisions of GATT 1994 and of paragraph 1 of this Understanding. The working party shall submit a report to the Council for Trade in Goods on its findings in this regard. The Council for Trade in Goods may make such recommendations to Members as it deems appropriate.

8. In regard to interim agreements, the working party may in its report make appropriate recommendations on the proposed time-frame and on measures required to complete the formation of the customs union or free-trade area. It may if necessary provide for further review of the agreement.

9. Members parties to an interim agreement shall notify substantial changes in the plan and schedule included in that agreement to the Council for Trade in Goods and, if so requested, the Council shall examine the changes.

10. Should an interim agreement notified under paragraph 7(a) of Article XXIV not include a plan and schedule, contrary to paragraph 5(c) of Article XXIV, the working party shall in its report recommend such a plan and schedule. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations. Provision shall be made for subsequent review of the implementation of the recommendations.

11. Customs unions and constituents of free-trade areas shall report periodically to the Council for Trade in Goods, as envisaged by the CONTRACTING PARTIES to GATT 1947 in their instruction to the GATT 1947 Council concerning reports on regional agreements (BISD 18S/38), on the operation of the relevant agreement. Any significant changes and/or developments in the agreements should be reported as they occur.

Dispute Settlement

12. The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding may be invoked with respect to any matters arising from the application of those provisions of Article XXIV relating to customs unions, free-trade areas or interim agreements leading to the formation of a customs union or free-trade area.

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