

## **Korea's International Trade Policy in the Global Age**

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### **INTRODUCTION**

**A**s Korea strives to build a world-class economy, its trade policy aims at promoting free and open trade at home and abroad. This article will explain why we adopted this goal and what policy actions we are undertaking.

The first half of this article explains how Korea's current trade policy came about. The first section touches briefly on the changes that Korea's trade policy has gone through during the past four decades. The second section discusses the circumstances at the end of the 1990s that called for a break from the past and the adoption of a new direction. The third section deals with the ongoing transformation of the world economy that also necessitated a change in policy direction.

The second half of this article explains what Korea's current international economic and trade policy is. The first section outlines the primary policy objective and goals, while the second section presents the policy actions based on those policy objective and goals.

## THE BACKGROUND FOR KOREA'S CURRENT TRADE POLICY

Korea's policy has developed over the past several decades based both on its domestic needs and the international environment. It is important to know the road taken by Korea in the past in order to understand its current mandate.

### *Korea's Trade Policy in the Past*

In 1945, when Korea was liberated from Japanese colonial rule at the end of World War II, it was one of the world's poorest countries. To make matters worse, in 1950, the Korean War broke out, destroying over two-thirds of the nation's production facilities and most of its infrastructure. Consequently, throughout the 1950s, Korea remained an underdeveloped, traditional agricultural society with nearly 60 percent of the population engaged in farming. The country suffered from extreme poverty, high unemployment, and a lack of natural resources. During that time, Korea's foreign economic policy focused on securing maximum foreign aid. Foreign assistance allowed for the import of only basic goods for economic survival, while exports were minimal. Korea sold a few natural resources overseas, thereby earning small amounts of foreign currency, but there was no formal trade policy, except for limited attention given to import substitution.

Then in 1962, Korea embarked on a massive development process. Following a military coup, a new government was formed, and it launched all-out industrialization efforts. An export-directed development strategy was introduced, and exports of labor-intensive, light manufactured goods were aggressively promoted. The move was based on Korea's comparative advantage in those sectors, which came from its large pool of well-educated, highly-motivated, low-wage labor force. To complement this comparative advantage, various export promotion measures were implemented, and given that the primary goal of export promotion was to earn foreign currency,

imports were discouraged. These concentrated efforts produced dramatic results. Between 1962 and 1970, Korea's exports grew more than 15-fold, and the GNP quadrupled, recording an annual average growth rate of 8.9 percent.

In the 1970s, Korea's exports and economic growth rates increased even faster.<sup>1)</sup> With light manufacturing becoming less important, heavy manufacturing became Korea's new engine for exports. Meanwhile, Korea continued its export promotion and import restriction policies.

By the mid-1980s, Korea's dramatic economic growth had begun attracting international attention, and the aggressive export drive initiated resistance overseas. At home, Korean policy makers saw the need to open markets to create more competition and to boost the international competitiveness of domestic industries.

Thus, an important transformation occurred in Korea's trade policy. A mercantilist focus on export promotion gave way to more emphasis on import liberalization, which continued well into the late-1980s. At the same time, both incoming and outgoing foreign investments were also gradually liberalized, and cross-border capital movement increased significantly. In short, the traditional trade policy of aggressive export promotion and heavy import restrictions came to an end in the 1980s. However, as it turned out, this transformation was not far-reaching enough, and this eventually led to challenges in the late 1990s.

### *Economic Crisis and Building a New Economy in Korea*

By the early 1990s, Korea's trade deficit and current account deficit

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1) In fact, Korea's success during the first two decades of its industrialization was nearly unprecedented in world history. Between 1962 and 1980, the GNP grew by almost 30 times to US \$60.5 billion. Similarly, trade expanded from a mere US \$0.5 billion in 1962, to US \$2.8 billion in 1970, and US \$39.8 billion in 1980. In terms of percentage points, trade grew at an extraordinary annual rate of 40.8 % during the 1960s, and 37.4 % during the 1970s.

had grown significantly. This was partly due to continued trade and investment liberalization in the 1980s. Under the previous market protection, many Korean firms had focused on quantitative expansion rather than on qualitative improvement of their competitiveness. Then in the 1980s, with trade and investment liberalization, domestic producers faced increased international competition. This raised new challenges for Korean firms in both domestic and international markets, and resulted in slowing exports and rapidly increasing imports.

Under the old protection policy, Korea's financial market had also become significantly outdated. This, in turn, hindered the modernization of the corporate governance and corporate finance of Korean firms. Equity market development was delayed, while corporate finance relied on heavily-leveraged bank financing. Under these circumstances, the capital market began to open during the mid-1990s, and many Korean firms turned away from the outdated domestic capital market and borrowed heavily from overseas, often on a short-term basis. This led to the buildup of a large amount of corporate debt.

In 1997, Korea was hit with a financial crisis. The ever-increasing trade deficit and the growing current account deficit depleted Korea's foreign exchange reserves. Meanwhile, financial contagion spread throughout Southeast Asia and foreign creditors began refusing to roll over Korean firms' short-term debts. In the end, the IMF intervened in December 1997, when Korea was on the verge of announcing a moratorium.

A few weeks after the IMF intervention, an opposition party won the presidential election for the first time in Korea's history, and the new administration of President Kim Dae-jung was inaugurated. President Kim highlighted the structural problems that the Korean economy faced and introduced a comprehensive plan to overhaul the system. A key element of the new economic policy was globalizing the Korean economy. This policy direction was firmly based on the need to address domestic shortcomings and to increase transparency,

accountability, flexibility and the overall competitiveness of the economy.

### *The New World Economy*

The new direction of Korea's trade policy is also based on an understanding of the three following key trends in the world economy.

#### (1) Continued International Cooperation

Korea sees that, despite various difficulties and challenges, multilateral and regional economic cooperation between countries will continue as a sustained trend. The government is convinced that there will be new rounds of WTO negotiations, and through various multilateral and regional fora and mechanisms, such as the OECD, APEC, ASEM, and ASEAN+3, international economic cooperation will continue to liberalize markets, harmonize regulations, promote trade and investment, and manage globalization. This will maximize benefits and minimize negative side effects such as the widening of economic gaps, the digital divide, and environmental and labor concerns. In addition, new bilateral and regional free trade agreements will continue to emerge. In response to this trend, Korea hopes to engage proactively in these global processes by taking active part in shaping the dynamics of new global cooperation.

#### (2) Continued Globalization Driven by the Market

Korea also believes that—with or without deliberate intergovernmental cooperation, and regardless of the will of governments and NGOs—the process of globalization will continue. In other words, the market integration that is opening up national barriers to the movement of goods, services, capital, technology and human resources—an integration that is driven primarily by the

market's logic of minimizing transaction costs—will go on.

Under this market force, national economies are required more than ever to uphold and to further boost openness, transparency and accountability in their economic systems.<sup>2)</sup> In response to this global reality, Korea will continue to open its economy and seek to transform itself into a freer market, where high quality—capital, human and technological—resources flow in and out unhindered. We believe that this is the only way to ensure the competitiveness and prosperity of our economy in the long run.

### (3) Continued Transformation to a Knowledge-based Economy

There has been another important transformation taking place in the global economy recently—the rise of the knowledge-based economy. In production, mass manufacturing has been increasingly giving way to information-related services. Production and development have come to depend on creative individuals, rather than large, organized production systems. On the consumption side, individual tastes have become increasingly important, and producers can no longer compete based on price alone. The revolution in information technology, which is accelerating this trend, has become a main driving force behind globalization.<sup>3)</sup> In light of this, Korea recognizes the need to focus on ways to ensure and enhance economic freedom and secure high-quality human resources regardless of nationality.

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2) One of the most significant consequences of this transformation has been the rise of international standards and the need for global harmonization. Separate national standards in trade, finance, manufacturing, services, and corporate management, such as in accounting and corporate governance, have been giving way to the emergence of new rules that are being unified globally. In the increasingly integrated world market, a country that insists on keeping its own separate rules will simply be left out and will thus, miss opportunities to share the benefits of global prosperity. Korea clearly recognizes this trend and is doing its best to adapt to the changes.

## KOREA'S TRADE POLICY FOR THE GLOBAL AGE

### *Main Objective and Policy Goals*

Keeping in mind these domestic and global realities, Korea is striving to build an advanced, free and open economy. This is the primary objective of the nation's international economic and trade policy.

Under this objective, four general policy goals have been set. The first is active participation in the global efforts to build a freer and more open world economic order. The second is strengthening regional and bilateral economic and trade cooperation in ways that meet the new demands of the global age. The third is helping to build a freer and fairer market environment at home. The fourth is fostering domestic bases for more effective international economic and trade policy actions. In order to fulfill each of the four policy goals, Korea is implementing the following policy actions.

### *Policy Actions*

#### (1) Participation in Global Efforts to Build a Freer and More Open World Economic Order

##### (a) Strengthening Multilateral Participation

We believe that the multilateral order of openness in trade best

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3) Today, several trillion dollars are changing hands daily through currency arbitrage and financial investments. Through the internet, a seller in Asia can locate a buyer in Latin America without leaving his/her PC. Corporations can produce and market globally without specific home country bases. Market competition is becoming more "perfect," as participants enter markets from all around the globe, and firms can no longer rely on protected domestic markets. Simply put, national borders are no longer significant hurdles for economic transactions.

guarantees long-term world prosperity. Only through multilaterally-agreed principles and rules can the world keep protectionism in check and further advance free trade. Korea, in fact, has been one of the biggest beneficiaries of the multilateral trade order, and remains a strong believer in the importance of multilateralism in the global economy.

For that reason, Korea has been actively engaged in efforts to launch a new round of WTO negotiations. Such efforts have been made consistently—before and after the Seattle Ministerial Meeting in December 1999. Currently, the government is doing its best to ensure that a new round is launched at the Doha Ministerial Meeting in November 2001. The ongoing efforts have been based on the following beliefs.

First, a new round of WTO negotiations will help the world maintain momentum for continued liberalization. The international community should continue its efforts to further advance multilaterally-orchestrated opening of market as it is the best available means to minimize sectoral resistance to liberalization. Second, a new round will also lead to the strengthening and refining of WTO rules to keep protectionism in check. With the recent rise of anti-dumping and safeguard actions, the world is witnessing the effects of leaving those rules ambiguous. Third, Korea is convinced that a new round will make the WTO more effective and relevant in dealing with various challenges arising from the trend of globalization, including the potential threats of exclusive regionalism.

Korea is absolutely determined to see that the new round of WTO negotiations covers a comprehensive set of agenda items. Not only do WTO members need to clarify anti-dumping rules in order to check protectionist actions, they should also endeavor to further open the market for manufactured products. Moreover, the WTO should not only maintain its relevance, but also become an effective vehicle for the world in dealing with new forms of economic transactions and interactions. Specifically, the world needs new rules on investment, competition policy, government procurement, e-commerce, and other

areas. Korea believes that the WTO should address these issues because it is the best forum the world has for managing the globalization process in this new century.

(b) Active Participation in Global Cooperation in Addressing New Issues

In multilateral cooperative mechanisms, such as the WTO and OECD, Korea hopes to serve as a bridge between developed countries and developing countries. As such, the government has been taking an increasingly active part in the discussions on new issues, such as the environment, investment, competition policy, labor standards, and electronic commerce. It will also continue to seek the further harmonization of domestic rules and regulations through such fora.

Within the OECD, for example, the anti-bribery convention has been signed, and is in the process of being implemented. Korea participated in setting the corporate governance guidelines, and is working with other members on establishing a direction for regulatory reform. The government has been—and will continue to be—actively involved in the OECD's discussion on the new economy, sustainable development, knowledge-based economy, e-commerce, harmful tax competition and other issues.

In other multilateral fora, Korea has strengthened, and will continue to step up its participation in the discussion of these and other issues such as labor, environment, investment, and competition, which are very important in ensuring the competitiveness and prosperity of the Korean economy in the future.

(2) Strengthening Regional and Bilateral Economic and Trade Cooperation for the Global Age

(a) Stepping up Regional Cooperation

To reiterate the government's bottom line, multilateral mechanisms, such as the WTO, offer the best vehicle for achieving international openness in trade. But regional cooperation fora such as

APEC can also support the achievement of this goal.

Based on such a belief, Korea is actively engaged in regional cooperation mechanisms, such as the APEC, ASEM, and ASEAN+3 processes. We believe that the promotion of regional openness can add significant momentum to the international efforts in strengthening the free trade order.

In APEC, Korea has been actively engaged in designing and improving APEC's Individual Action Plans and Collective Action Plans to achieve more open trade in the Asia-Pacific region. In addition, it has hosted the APEC Investment Mart and continues to work together with other member economies to promote more active investment flows within the Asia-Pacific region. In addition to playing a leading role in APEC discussions on the knowledge-based economy, Korea has hosted the APEC Seoul Forum to address issues regarding national and international economic disparities. In the future, it will focus its efforts on utilizing APEC to promote more business cooperation in the region.

Through active participation in the ASEAN+3 process, Korea is accelerating the efforts to promote greater economic cooperation and freer economic exchange in East Asia. There is much diversity and economic dynamism in the region, and these characteristics provide great potential for close regional cooperation, shared prosperity and future growth. In short, it is expected that East Asia will play an increasingly important role in the global community. As an ASEAN+3 member, Korea is actively participating in the pursuit of further openness and reform. In addition to this effort, it is conducting joint research projects on Korea-China-Japan economic cooperation to discover new possibilities for advancing regional economic cooperation.

These cooperative efforts extend to ASEM as well. There, various measures are being promoted for more trade facilitation and investment promotion between Asia and Europe. Korea's dedication to this ASEM goal was further highlighted in October 2000, when Korea hosted the Third ASEM Summit Meeting in Seoul and invited

the heads of the other 25 ASEM member states.

In addition to participation in these regional fora, Korea sees the need to achieve openness through bilateral mechanisms as well, which is evident with the rapidly increasing number of countries that are setting up bilateral free trade arrangements. While Korea has been one of the few exceptions to this trend, but it has clearly recognized the increasing need to join such arrangements. We believe such bilateral schemes, when properly constructed, will offer added openness and more “trade creation,” rather than “trade diversion.”

Thus, the Korea government is working on bilateral investment treaties with the United States and Japan. It has also been actively considering bilateral free trade agreements with several trading partners. As a first step, details of a Free Trade Agreement (FTA) with Chile are presently being worked out. In addition to Chile, Korea will actively seek other partners with whom it can promote further openness in trade and investment.

Korea's focus on bilateral cooperation goes beyond trade and investment issues, however. Now being set up are an increasing number of bilateral cooperation agreements for issues including energy, fisheries, marine and air transport, social security for expatriates, and investment protection and guarantees. These agreements provide a crucial basis for more active cross-border cooperation.

#### (b) Strengthening Mutually Beneficial Bilateral Relations

Creating and maintaining cooperative and mutually beneficial bilateral economic relationships is one of the top priorities for Korea's international trade policy. For that reason, the government has stepped up efforts to actively address bilateral trade-related issues that our trading partners raise.

Korea is the world's 11th largest economy and 12th largest trading nation. Considering the number of economic transactions that occur for an economy of this size, it is only natural that the nation faces various bilateral trade issues with its trading partners. Many of the

issues can be worked out with improved understanding. Therefore, efforts have been made to generate better communications and to enhance cooperation with trading partners. Korea has been proactive in seeking individualized solutions clarifying facts, and also in preventing misunderstandings before disputes actually occur.

The roles played by international businesses operating in Korea are important in this regard. Business organizations, including the American and EU Chambers of Commerce in Korea, issue annual reports on Korean market conditions, in which they point out problems of market access and regulatory barriers. While some points are based on misunderstanding and misanalysis, the government takes their inputs very seriously, not only because—as President Kim Dae-jung has said repeatedly—“a business in Korea is a Korean business,” but also because these organizations provide both momentum and specific direction for efforts to improve Korea’s market conditions. The Korean government is committed to maintaining close cooperative partnerships with international businesses in Korea and to addressing the issues they face in the Korean market.

It is absolutely clear that private sector dialogue and cooperation offers the best vehicle for strengthening ties between Korea and its major trading partners and for resolving misunderstandings and disagreements on specific economic issues. It is further understood that the governments ultimately and inevitably must take a backseat in this process. The Korean government is fully committed to helping create an environment that encourages and supports active private sector initiatives, even in the backseat.

When efforts to clarify misunderstandings and resolve disagreement through private sector dialogue are not enough, the Korean government will seek a new common ground with its counterparts through dialogue and cooperation. The final result must be a win-win outcome for both Korea and its counterpart. The outcome will be sought, based on the interests of the involved Korean industry, other indirectly related sectors, and the general well-being of

Korean consumers.

However, failing that, Korea—whenever possible—will resort to the WTO's Dispute Settlement Mechanism. For the resolution of bilateral disputes, Korea will not use means that are incompatible with multilateral rules and norms.

Korea's efforts to build stronger bilateral ties are not limited to enhancing relations with its major trading partners. It is dedicated to opening and developing new opportunities with emerging markets around the world. Trade missions are being sent to these markets and various events to boost economic and trade cooperation with those markets are being set up. Meanwhile, through Korea's embassies and missions overseas, the government is also keeping Korean businesses informed of overseas market conditions and opportunities.

#### (c) Working with Developing Economies

The current administration has stepped up Korea's work with developing economies, and continues to emphasize its commitment to universal values, such as the promotion of democracy and the market economy. Helping developing economies to advance these values is an important agenda.

Particularly with regard to building a market economy and bringing about greater economic development, Korea wants to share its experience and expertise with developing countries. On this front, the Korea International Cooperation Agency (KOICA) has been actively involved in inviting technical trainees from developing countries and in sending Korean training experts overseas.

To that end, with regard to Least Developed Countries (LDCs), Korea has been working to help increase their exports. Korea accepted the WTO recommendation to allow tariff-free access for LDCs' key products. Furthermore, through the WTO, Korea is participating in global efforts for international-trade related capacity-building in the LDCs. Korea is inviting people from LDCs for training in international trade and WTO agreements. In order to contribute to global efforts to alleviate LDCs' debts, Korea has made contributions to the World

Bank. In addition, it is committed to sharing its experience in overcoming the challenge of capital mobilization for initiating economic development, including its experience with macroeconomic management and policies for promoting foreign direct investment.

(d) Cooperation to Meet the Challenges of Globalization

Globalization, despite all of its great benefits, has certain undesirable side effects. The most serious one is that those without proper skills in the knowledge-and information-based economy fall behind. This is true for both individuals and countries. Today, the gap between those who move ahead and those who fall behind can grow as fast as the rate of technological changes, a phenomenon that is termed the digital gap or the digital divide. The great benefits of globalization cannot be guaranteed in the long run, unless the global community shares and enjoys them together.

Korea is deeply committed to addressing this issue, and working to promote this issue as a key agenda in regional fora, such as APEC and ASEM. It has initiated, hosted and supported several programs on this issue in those fora, and such efforts will continue in the future.

The issue can be addressed on several fronts. One important focus is on human resources development, which can be achieved through education and training, while another entails the building of information infrastructure. Through the aforementioned KOICA, training and other technical support programs that focus on human resource development assistance, Korea is working to narrow the digital gap. Furthermore, it is helping to build telecommunications infrastructure in developing economies and LDCs.

Another important challenge brought about by globalization is increasing financial volatility. Panic, as well as, herd behavior can wipe out billions, even trillions of dollars, from financial markets around the world in a short time, and without rational reasons. In order to minimize the negative effects of such irrational financial market swings, Korea is actively involved in building financial cooperation with the members of ASEAN+3 and APEC.

### (3) Helping to Build a Freer and Fairer Domestic Market Environment

As stated earlier, the primary objective of Korea's trade policy is to build an advanced, free and open economy in Korea. Therefore, an important action agenda is its focus at home. In that regard, Korea is pursuing the following directions.

#### (a) Furthering Trade and Investment Liberalization

As a dedicated member of GATT and the WTO, Korea has taken actions to lower tariffs and to remove non-tariff barriers over the past several decades. While it has met internationally-required responsibilities and made great progress, as in any other economy in the world, Korea's process of liberalization never ends. Korea is determined to continue to eliminate existing and new barriers to the movement of goods, services and human resources across borders. It is its hope to attract more foreign investment into Korea and to help Korean firms invest abroad, which is one of the main reasons for its participation in efforts to launch a new round of WTO negotiations. Such efforts also extend to greater participation in OECD activities.

Korea is continuing its discussions with partners to establish free trade agreements (FTAs) and bilateral investment treaties (BITs), keeping in mind the benefits that further trade and investment liberalization can bring to Korea. Trade policy makers in Korea are certain that this continuation of liberalization is the best way to further enhance transparency, accountability, flexibility and the competitiveness of the Korean economy.

#### (b) Promoting Deregulation and Fair Competition

Through active participation in multilateral cooperation mechanisms, Korea seeks to adopt norms and regulations that are internationally accepted through global consensus. The current government will continue to eliminate regulations in Korea that limit the freedom and creativity of business activities of firms and individuals, regardless of their nationality.

Following on emerging global standards, the nation will focus on improving systems of fair competition, recognizing that such issues include corporate disclosure and governance. Through the active incorporation of global standards, Korea is determined to help raise transparency and accountability in business activities so that all businesses and investors—regardless of nationality—can feel comfortable operating, and any investor can feel safe about investing in Korea. Issues of fair competition also include the protection of intellectual property rights (IPR). In the age of the knowledge-based economy, proper IPR protection is critical, not only for international businesses operating in Korea, but also for Korean businesses that aspire to become global competitors. The government of Korea is keenly aware of the significance of IPR, and, in that regard, will strive to create the best possible business environment.

(c) Letting the Facts be Known

As Korea continues structural reforms and liberalization efforts, it is important that the world know the facts about national efforts and dedication to those causes. By doing so, Korea hopes to gain the trust of the world community and strengthen its position as a responsible partner in global cooperation. It will also help to minimize bilateral economic disputes that arise from misunderstandings.

At home, the Korean government will seek to improve the general public's understanding of reform and liberalization efforts, its achievements so far, and the efforts that are still needed. This is important in making sure that such reform and liberalization efforts continue in the future. With the world community wrestling with rising confusion and misunderstanding about the benefits of liberalization and globalization, Korea must maintain its own clear understanding of the issues. This is critical because Korea has been, and hopes to remain, one of the biggest beneficiaries of an open global economic system. For that reason, the Korean government will strengthen its programs to promote public awareness on the benefits of liberalization and globalization. This will help the government

secure a firmer basis for successfully implementing Korea's international economic and trade policy.

#### (4) Strengthening the Basis for More Effective Policy Design and Implementation

With regard to international economic and trade issues, the Korean government is mindful that no one in this increasingly complex world market can have complete information on specific issues, and that no one can come up with the best solutions independently. For that reason, the Korean government is working on better information sharing and coordination among different government agencies, officials, and experts. It is now designing new consultation mechanisms for greater and more effective intra-government and government-private sector dialogue and consultation. Consultation with the private sector is particularly important for the Korean government for two reasons. First and foremost, Korea's trade policy is a tool for serving the businesses and people in Korea. Second, regarding many issues in this increasingly complex global market, the government may not have the experience, expertise and information that the private sector offers.

In this regard, Korea is also broadening the scope of participation in its international economic and trade policy-making process. The measures include more extensive use of public hearings for trade issues and expansion of activities of policy advisory committees, which are composed of private sector representatives and experts. Korea hopes that this will result in policies that better address the people's overall interests and needs, and stronger domestic consensus, support and momentum behind government policy actions.

### SUMMARY AND CLOSING

Korea's economic growth for the past four decades owes much to

the open world economy. In the face of growing global economic integration, Korea cannot afford to be left out of this trend. Korea's industries are heavily export-oriented. And currently, with 73 percent of Korea's GDP depending on international trade, its economic prosperity, and even its survival, depend critically on its active participation in the world economy.

For these reasons, Korea is dedicated to maintaining and further promoting openness at home and abroad. It is determined more than ever to promote free trade in both domestic and international markets.

With this as the backdrop, the key points of this article are summarized as follows. The primary objective of Korea's international economic and trade policy is to build an advanced, free and open economy. To accomplish this, Korea is actively participating in international cooperative efforts to establish a freer and more open world economic system. Also Korea is stepping up regional and bilateral cooperation efforts to respond to the new challenges of the global age. Through these policies, Korea is seeking to build a freer and fairer market at home and strengthening domestic bases for more effective policy actions abroad.

As one of the major trading nations in the world, Korea takes its global responsibilities seriously and is doing its best to create a more prosperous world economy, a new, dependable partner in the global economic order. And, as the world will see, Korea's commitment will be best demonstrated through its future actions.