

Economic Growth and U.S. Trade Policy in Korea

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日時：November 7, 1994 (15:00-17:00)

場所：ERB-347

The increasing trade and capital flows among the OECD countries as well as the developing countries during the post-war GATT period has been the fundamental force for economic growth worldwide. In particular, the economic dynamism among the Asian NIEs has been attributed to freer trades and capital flows together with technological changes. Such increasing trade and capital flows has become possible mainly due to the liberal trading regimes provided by the GATT framework.

For the liberal international trading environment, the United States has played the most important role by taking the leadership in creation and maintaining international institutions such as IMF, IBRD, GATT, and by bearing the cost of adjustments in the U.S. domestic economy as well as the defense burden for keeping the free world from the threat of Communism.

The developing economies in the Asia-Pacific region as well as Japan have become economically prospered and politically advanced under the U.S. led liberal trading regime and military security, although Japan has been a well known free rider for sometime. The purpose of this paper is to overview the growth performance, the basic development strategy, new challenges, future prospects, and the importance of the U.S. trade policy in Korea. By reminding some of the important concessions in the final Uruguay Round resolution and their possible impacts on the recent trade issues between Korea and the U.S., I will try to explain the basic conjecture that keeping the liberal trading environment under the U.S. leadership, although it seems to be threatened since the fall of the communist block, may be the only answer for

economic efficiency and equity problems within each country as well as among those countries in the region.

It is widely recognized that Korea has successfully implemented its export-led growth strategy during the last thirty years, and there is no doubt that the sustained economic growth in Korea will depend crucially on continuous expansion of its trade. The recent slow down of its economic growth is due to the stagnation in its exports. Continuous export expansion is possible only when Korea maintains good trade relations with its major trade partners, the U.S. being the most dominating one. This is the reason that Korea has actively pursued its import liberalizations starting early on and positively since the mid-1980s, not only because of foreign pressures but for its own interests.

Thus there is no basic difference between Korea and the U.S. on the validity of import liberalizations in Korea, but it appears that there are some differences over the pace of implementations. Most of the complaints from the U.S. are about the slow pace of opening up domestic markets in Korea, and Korea seems to be cautious, asking longer time for adjustments. The case of Korean rice market is a good example.

Since the U.S. is the largest export market and certainly the most important trade partner for Korea, it is extremely important to maintain good trade relations with the U.S. for continuous economic growth in Korea. This is the reason that any threat of retaliation from the U.S. against Korean exports leaves no choices but accommodating the U.S. demands, hopefully as little as possible. It is well known that reciprocity is the basic principle behind the Super 301 provisions, saying as, 'Open your markets. Otherwise, we will close ours.' "In the perception of many Koreans, this appears as an extremely unbalanced division of economic power between the two countries; therefore, it is not always easy for Koreans to accommodate market opening pressures from the U.S., the largest economy in the world."

One last comment is about the trade imbalances between the two countries. Korea

recorded significant trade surpluses with the U.S. during the latter part of 1980s, and understandably the U.S. pressures toward Korea in terms of Anti-dumping charges and Countervailing Duty charges poured on during this period. It should be reminded, however, that the highest Korean trade surplus with the U.S. was only \$9.7 billion out of the total U.S. trade deficit amounting over \$170 billion in 1987, and that Korea's overall trade balance was restored through prompt and severe exchange rate adjustments. Considering the fact that the largest part of the current U.S. trade deficit is resulted from its trade with Japan, it is desirable to have the U.S. dollar devalued further against Japanese yen. Although Japan had the record high trade surplus of over \$120 billion last year, it is also reported that the revaluation of yen during mid-1993 resulted a sharp decrease of its trade surplus in December, 1993.

It is my hope that the UR resolutions and the cosy relations between the two new governments, shown during the U.S. president Bill Clinton's visit to Seoul last July and the APEC's Summit Meeting in Seattle afterwards, will calm down tensions of the trade conflicts between the two countries. It is also hoped that both sides of the Pacific recognize that the idea of the so-called "managed trade" is very often ill-conceived; although the free trade theory will never be the same after the developments of trade theories in the 1980s, it still can be a good policy and useful target in real practice.

(Lecture in English)