DIFFERING PERSPECTIVES ON THE OUTCOME OF THE URUGUAY ROUND OF TRADE NEGOTIATIONS:

The Case Study of India and South Korea

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CERTIFICATE

This is to certify that the M.Phil. dissertation entitled **Differing Perspectives on the Outcome of the Uruguay Round of Trade Negotiations: The Case Study of India and South Korea** submitted by **GYU DEUK YEON** in partial fulfilment of the requirements for the award of degree of **MASTER OF PHILOSOPHY** of Jawaharlal Nehru University is his original work. This has not been published or submitted to any other University for any other purpose. We recommend that this dissertation be placed before the examiners for evaluation.

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CHAPTER I

Background of the Uruguay Round, including the motives behind launching it

1.1 The Birth of GATT

1.1.1 Background for the birth of GATT

The international trade during the inter-War and the Second World War period was characterised by trade strifes, various kinds of discriminations and trade restrictions erected under high protectionist walls[1]. The impact of World War Two on world trade was both cataclysmic and cathartic. By the end of the war tremendous advances in transportation and an unprecedented glut of merchant shipping set the stage for a new era in trade. When the outcome of the war became clear, an historic decision was made to prepare for the restoration of world trade before the end of the conflict[2]. Right before the Second World War ended, allied states contemplated the cause of war, concluding that the mercantilistic protectionist trade policy of each nation in the face of the Great Depression was a main cause of the war. As a result, they agreed that the creation of a liberal international

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1. Muchkund Dubey, "An Unequal Treaty: World Trading Order After GATT", New Age International Limited, India, 1996, p.1.
2. Alan D. Minyard, "The World Trade Organization: History, Structure, and Analysis", WTO Internet Home Page, 1996.

economic system was required to preserve world peace[3].

1.1.2 The establishment of International Monetary Fund and World Bank

In July of 1944 a small country inn in the State of New Hampshire known as Bretton Woods was selected as the site for a series of meetings designed to lay out the economic blueprints for the post-war recovery. Representatives of the United States, Great Britain, Russia, and forty-one other nations reached an accord establishing the International Monetary Fund and the World Bank[4].

1.1.3 The launch of GATT

In an effort to give an early boost to trade liberalization after the Second World War and to begin to correct the large overhang of protectionist measures which remained in place from the early 1930s - tariff negotiations were opened among the 23 founding GATT "contracting parties" in 1946[5]. This first round of negotiations resulted in 45,000 tariff concessions affecting $10 billion - or about one fifth - of world trade. It was also agreed that the value of these concessions should be protected by early - and largely "provisional" - acceptance

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3. Yun Ju Ko, "The political Economy of the Uruguay Round", Seoul, 1994, p.15.
4. Alan D. Minyard, ibid
5. The 23 members were Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxemburg, Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, South Africa, the United Kingdom and the United States.

of some of the trade rules in the draft ITO Charter. The tariff concessions and rules together became known as the General Agreement on Tariffs and Trade and entered into force in January 1948.

Although the ITO Charter was finally agreed at a UN Conference on Trade and Employment in Havana in March 1948, ratification in national legislatures proved impossible in some cases. When the United States' government announced, in 1950, that it would not seek Congressional ratification of the Havana Charter, the ITO was effectively dead. Despite its provisional nature, the GATT remained the only multilateral instrument governing international trade from 1948 until the establishment of the WTO[6].

1.2 The Role of GATT

1.2.1 The substantive norms of GATT

The post-War international trade has by and large been governed by the rules and regulations of GATT. GATT is a particular international trade regime dealing with one international trade issue area: trade barriers. It is based on non-discrimination, transparency and reciprocity as substantive norms.

1.2.1.1 Non-discrimination

Non-discrimination includes national treatment and most-favoured

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6. "A Brief History of GATT", WTO internet home page, 1998.

nation treatment. For example, foreign corporations should be considered national firms in any state according to the language of national treatment which is embodied in the Article III of the GATT. Moreover, if a state called "A" treats a trading country identified "B" on the basis of trade conditions favorable to "B", then the rest of the countries having trade relations with "A" should be treated as equally as "B" by the language of most-favoured-nation which is incorporated in Article I of GATT. Accordingly, the norm of non-discrimination suggests that discriminatory measures to a specific country be eliminated.

1.2.1.2 Transparency

Transparency means that trade regulations, particularly trade barriers should be regularly notified to those who are affected by them as well as through GATT. This also means that these regulations are easily comprehensible and as simple as possible. Tariffication of barriers which take different forms is the way of ensuring transparency.

1.2.1.3 Reciprocity

Reciprocity is a norm of negotiation in which a state making concessions to a trading country should receive equally-estimated concessions from the trading country to which it gave trade concessions. Concessions from both negotiating countries may contribute to the reduction of tariff barriers. Negotiations based on the norm of reciprocity are made non-discriminatory by extending the concessions exchanged to all member nations of the GATT.

1.2.2 Dillon Round to Tokyo Round

A common tariff-cutting formula for almost all of the products under protection was introduced in the Dillon round and implemented in the Kennedy Round. The tariff-cutting formula in the Kennedy Round was to reduce duties on all manufactured goods by 35 percent. Under this approach, the presumptions are that tariffs on all products are to be reduced according to the tariff-cutting rule and that any industry opposing such a reduction must make a special case against doing so. This approach significantly increased the depth of duty cuts. Import duties of the industrial nations on manufactured goods were reduced by about 33 percent in the Tokyo Round. (Table 1.)

As tariffs came down, world trade exploded. Over the period. 1980-92, world trade increased at an average annual rate of 4.9 percent, although world output increased only at an average annual rate of 3.0 percent. In fact, in earlier decades like the 1950s, the 1960s and the 1970s, world trade had increased at even faster rates. These earlier decades were years in which tariffs in developed countries had come down the most. The liberalization in world trade, such as through a reduction in tariffs, cannot have been the only reason for the explosion in world trade. But it was certainly a contributory factor. This is substantiated by the fact that the growth in trade was fastest

Table 1. Multilateral Trade Negotiations Under GATT

Round	Period	Venue	Number of Participating Nations	Items for tariff Concession	Tariff cut (%)
1st	Apr-Oct,1947	Geneva	23	45,000 (*Tariff*)	n.a.
2nd	Apr-Oct,1949	Annocy (France)	33 (extension)	5,000 (Tariff)	n.a.
3nd	Sep,1950-Apr,1951	Torquay (England)	34	8,000 (Tariff)	n.a
4th	Jan-May,1956	Geneva (Switzerland)	22 (after 5 years)	3,000 (Tariff)	n a
5th (Dillon)	May, 1961-Jul,1962	"	45	4,400 (*Tariff*)	7 %
6th (Kennedy)	May,1964-Jun,1967	"	48	30,000 (Tariff & Anti-dumping)	35 %
7th (Tokyo)	Sep,1973-Apr,1979	"	99 (after 6 years)	27,000 (Tariff, non-tariff & "*framework*" agreement)	33 %
8th (Uruguay)	Sep,1986-Dec,1993	"	(117) (after 7 years)		(33%)

Source: John H. Jackson & William J. Davey, "International Economic Relations", West Publishing, 1986.

for manufactures and it is in this sector that GATT has been the most successful in bringing down tariffs or non-tariff measures[7].

1.3 Background Before The Launching of the Uruguay Round

1.3.1 International competition in the world market

During the Cold War, domestic politics had been subordinated to international politics. Security was of great importance both in domestic politics and international relations. The state dominated the market.

7. Bibek Debroy, "Beyond the Uruguay Round: The Indian Perspective on GATT", Sage Publications, India, 1997, p.16

Civil societies tolerated the state dominance over the market in the face of perceived threats from communist countries. Leaders of nations could wield leadership as the external threat was at hand. Domestic economic problems had never been a priority in competition with foreign policy involved in security.

That era has now gone. Now, domestic economic problems such as unemployment and inflation are regarded as important as military dimensions of security. Leadership of nations has got eroded as there is no external power resource to extract national support. After the Cold War, almost all nations have suffered from the lack of leadership. [8].

1.3.2 The importance of domestic politics

Under this situation, domestic politics is the most important factor influencing a nation's foreign policy. Economic ills such as unemployment and inflation have become the main concerns of all countries. Bilateralism and regionalism have begun to take the place of multilateralism. Pressure groups played a pivotal role in influencing some of the agenda of the Uruguay Round.

1.3.3 The influence of multinational corporations

The size of world market expanded as the communist countries collapsed. Multinational corporations became the main actor under this

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8. Paul. R. Krugman, "Competitiveness: A Dangerous Obsession", Foreign Affairs, 73/2, 1994, pp.28-44.

situation. Domestic pressure groups for multinational companies exercised influence over the foreign policy decision-making. Trade-related Intellectual Property Rights (TRIPS), Trade-related Investment Measures (TRIMs) and agriculture in the Uruguay Round are the cases in which domestic pressure groups wielded influence for their incorporation into GATT.

1.3.4 Problems of the developed countries, especially of U.S.

In fact the idea of Uruguay Round trade negotiations under GATT after the conclusion of the Tokyo Round in 1979, was mooted by developed countries, particularly the United States, in the early 1980s. This initiative was taken when the economies of major developed countries were still reeling under the severe recession of 1980 and 1981 and when all projections indicated a historically slower rate of growth for these countries in the near future. Such a low rate of growth was not sufficient to maintain the accustomed increases in the already high standards of living nor the social security system that had become a hallmark of western civilisation. A sluggish growth would not furthermore have enabled these countries to make the long-postponed massive investments in their infrastructure. There was a decline in productivity and competitiveness of the United States partly due to the staggering level of its military expenditures fuelled by the Cold War and the cult of nuclear deterrence. What was at stake for the United States and some of its close allies was their way of life and their continuing hold on the world power structure.

Due to the constraints of a political and institutional nature -- the compulsion to continue the arms race, unwillingness to bring about any change in the pattern of profligate consumption, rigidity of wage structures, the power of domestic lobbies, etc. --these countries, particularly the United States, were not in a position to carry out the structural changes in their economies which could have put them on a path of higher rates of growth. They, therefore, decided to resort to an external means as a substitute for domestic structural adjustment. A new round of trade negotiations was thus conceived as a shot in the arm of the sagging economies of these countries in the early 1980s[9].

1.3.5 United States' attempt to solve her problem

The recurring balance-of-payments deficit and the declining competitiveness of the US economy was sought to be offset by a combination of coercive bilateral measures and a tailor-made new round of multilateral trade negotiations to create expanding space for US goods and services, particularly in the markets of the large size and newly industrializing developing countries. If Super and Special 301 provision of the US Trade and Competitiveness Act 1988 was, to borrow a phrase from Carla Hills, the then US Trade Representative, a crowbar to pry open the markets of developing countries, the new round of trade negotiations was designed to dismantle all the defences of these countries against the unrestricted entry of US goods and services in their markets.

9. M. Dubey, ibid, p.2.

1.3.6 The competitiveness of U.S. multinational corporations

In the early 1980s, there was also a perception in the United States that while it had become less competitive in the world in trade in goods, it had come to acquire a decisive competitive edge in trade in services. The competitiveness of the U.S. multinational corporations surpassed that of Japan and Europe. The following table shows the world market share of these three countries by industry[10].

As the table indicates, the U.S. accounts for 99.6% of net profits and 92.7 % of sales in energy-service industries in comparison to Japan

Table 2. Market Share of America, Japan and Europe

Industry	The U.S.		Japan		Europe	
	N-pro	Sales	N-pro	Sales	N-pro	Sales
Energy-Services	99.6	92.7	0.8	1.0	-0.4	6.3
Airplane-Military Tech	81.6	75.8	0	0.4	18.4	23.8
Data	65.1	73.2	10.7	22.2	24.2	4.6
Electronic-parts	65.0	61.8	30.5	35.8	4.5	2.4
leisure, Travel	60.3	45.7	7.4	16.3	32.3	38.1
Electronics	41.1	21.4	25.7	50.7	33.2	27.9
Chemistry	41.0	28.2	13.3	30.3	45.7	41.5
Automobiles	23.6	37.0	31.0	35.3	45.5	27.6
Consumer Durables	16.5	7.6	74.4	66.6	9.1	25.7
Iron-Metal	2.3	10.1	51.2	57.0	46.5	32.9
Total Industry	47.7	37.4	15.5	31.5	36.8	31.1

Period: 1987-1992, Unit: %, N-pro: Net-Profits

Source: "Chosun Ilbo (A Korean Daily Newspaper)", April 1, 1994, p6.

and Europe. That partly explained the US insistence on bringing trade in services and Trade Related Investment measures (TRIMs), within the scope of the new round of trade negotiations. However, as the negotiations proceeded, the United States started slipping behind in

10. Ibid. pp.2-3.

competitiveness in the realm of services too. The US, therefore, subsequently became lukewarm about making far-reaching liberalization commitments at least in some service sectors--particularly financial and basic communication services[11].

1.3.7 The competitiveness of U.S. in agriculture

Another area in which the United States perceived itself to be competitive and hence saw the scope for substantially improving its market access, was agriculture. And here, its interest coincided with that of some of the other low-cost agricultural producing countries, including some developing countries. This led to the formation of the CAIRNS Group of both developed and developing countries, committed to seeing maximum liberalization in agricultural trade. That is how agriculture became a key issue in the negotiations, not only as a major bone of contention between the United States and the European Community but also having the effect of breaking the rank of the developing countries.

1.4 Resistance From The Developing Countries

1.4.1 The developing countries' resistance

In the beginning, the developing countries were reluctant to get involved in another round of trade negotiations so soon after the last round from which their gains were rather limited and yet to be implemented. They believed that GATT should concentrate on

11. Ibid, p.3.

accomplishing the tasks remaining after the Tokyo Round, of redressing the asymmetry of their position in the world trading system, rather than getting involved in a new round of trade negotiations. Some of the specific tasks remaining after the Tokyo round were: reaching an agreement on non-discriminatory safeguard measures, phasing out the Multi-Fibre Agreement and eliminating other grey area measures, and removing restrictions on the access of their tropical products. Developing countries were also very much concerned about the implications of the efforts of developed countries to bring on the GATT agenda, new areas of negotiation, such as Services, Trade-Related Investment Measures (TRIMs) and Trade-Related Intellectual Property Rights (TRIPS). They thought that this expansion of the agenda would amount to an intrusion into their sovereign macro-economic decision-making[12].

1.4.2 G-10

Till the Tokyo Round of GATT negotiations, an informal and loose group of 10 developing countries (known as G-10) had sometimes tried to project a developing country viewpoint[13]. At a Ministerial Meeting in 1982, the United States first argued that a new GATT negotiating round be launched. The big five successfully opposed this, putting across the point of view that the unfinished agenda of the Tokyo

12. Ibid. pp.3-4.

13. These countries were Argentina, Brazil, Egypt, India, Yugoslavia, Chile, Jamaica, Pakistan, Peru and Uruguay, with the first five being the most important.

Round needed to be addressed first. However, by the mid-1980s, the importance of the big five began to weaken and ASEAN, the Andean Group and South Korea, were no longer prepared to unquestioningly accept the leadership of the big five. When the big five opposed the inclusion of services in the Uruguay Round of negotiations, the support from all developing countries as a group was far short of universal[14].

The developed countries, while paying lip-service to the 1982 Programme of Action, fully used the GATT forum for putting relentless pressure on the developing countries for launching a new round of trade negotiations. The developing countries, on the other hand, realized that in the proposed new round of negotiations, they had much to lose and very little to gain. They knew by their past experience that the negotiations would not yield many positive results in the only area of interest to them, i.e. market access. They, therefore, tried to resist the bandwagon of a new round as long as they could[15].

1.5 The Launch of Uruguay Round And Its Progress

1.5.1 The Punta del Este Declaration

The GATT appointed a commission to discuss the available options and make recommendations. In 1985 their report was issued, stating:

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14. Bibek Debroy, ibid, p.29.
15. M. Dubey, ibid, p.4.

"Today the world market is not opening up, it is being choked by a growing accumulation of restrictive measures. Demands for protection are heard in every country, and from one industry after another...We support the launching of a new round of GATT negotiations, provided they are directed toward the primary goal of strengthening the multilateral trading system and further opening world markets...The present accumulation of important trade policy issues in need of resolution is such that we believe a new negotiating round is now needed immediately and should be launched as soon as possible"[16].

When the developing countries were ultimately obliged to yield in Punta del Este in September 1986 when the Uruguay Round was launched, they tried to safeguard their interest as much as they could in the Punta del Este Declaration.

1.5.2 The developing countries took common positions

The new issues introduced by the developed countries into the negotiations were not of the traditional nature, involving simple exchange of trade concessions. They were either in the realm of domestic macro-economic decision-making or had far-reaching external implications. The developing countries had taken common positions on

16. See GATT, "Trade policy for a Better Future", Geneva, 1985, p.47.

related issues, like transfer of technology, dealing with transnational corporations, etc. in the relevant international fora. This precedent should have warranted these countries adopting a common strategic position on these issues in the GATT forum. Unfortunately no such strategy could emerge because of a variety of reasons.

1.5.3 The vulnerability of the developing countries

The unprecedentedly hostile international economic environment of the early 1980s and the failure of the South-South co-operation to take off had made most of the developing countries more vulnerable to pressure from developed countries than ever before. Owing to the harsh economic conditions of the late 1970s and early 1980s, the development process in a large number of these countries had either come to a standstill or suffered serious set-backs. Many of these countries had fallen in the debt trap and had to go to the International Monetary Fund (IMF) and the World Bank for monetary and financial accommodation. The conditionalities imposed on them by the Fund and the Bank had severely curtailed their independence of choice in economic decision-making. By the time the Uruguay Round was launched, more than half of the developing countries had become dependent on developed countries and on the IMF and the World Bank on their behalf, for repeated rescheduling of their debts. In forcing the Uruguay Round, with its agenda of the new areas of negotiation, the developed countries fully exploited this vulnerability and the consequent disarray among the developing countries, and succeeded in breaking their unity. The United States effectively used the Super and Special 301 measures to force a change in the negotiating stance of important developing counties.

By the mid-1980s, the Non-aligned Movement (NAM) and the Group of 77 had ceased to be forums for effective joint action. The developing countries used to adopt in these forums very strong, eloquent and extensive statements reiterating their common positions on major economic issues, including those figuring in the Uruguay Round of Trade Negotiations. But at each critical moment in the negotiations, they used to wilt under bilateral pressure and give up the common position. Thus what they used to perceive in the moment of inspiration to be in their common interest, they used to sacrifice in the moment of desperation, under bilateral pressure. The threats of losing their immediate and short-term advantages in the field of trade and aid obliged them frequently to lose sight of their long-term interests and to refrain from joining any strategic coalition formed to safeguard these interests.

1.5.4 Threat from the developed countries

In arguing for the new round, the developed countries threatened that the entire multilateral trading system would collapse if the new round was not allowed to be launched or concluded to their satisfaction. It was repeatedly stressed that what was at stake was the very future of the multilateral trading system, thus putting the blame for its non-survival entirely upon the shoulders of the so-called detractors of the new round.

Almost in a bid to find an alibi, it was also argued that if the negotiations were not launched and concluded rapidly, the protectionist forces in developed countries would become stronger and protectionist measures against the exports of developing countries would be intensified.

1.5.4.1 Threat from the United States

The United States, in particular, held out another threat: if a multilateral trading system after its image did not emerge from the Uruguay Round, there would be a multiplication of the kind of exclusive trading arrangement that the United States was in the process of concluding with Canada and Mexico. Consequently, the United States and its partners in such arrangements would withdraw from the GATT system, reducing the multilateral trading system to chaos.

1.5.5. Struggle of G-10 amid hostile situation

The tenuous unity of the developing countries in the form of the Group of 10 was maintained almost until the end of the mid-term review of the negotiations at the Ministerial level in Montreal in December 1988. Up to that time, developing countries successfully undertook a damage limitation job in the new areas of the negotiation, and valiantly sought to achieve some positive results in the traditional areas, particularly market access. In Services, they tried to safeguard their nascent service industries and seek enhanced access for those services, particularly labour, in which they had some competitive advantage. In TRIMs, they insisted that they could not discuss investment measures per se, but were prepared to discuss the trade effects of such measures. In TRIPS, they tried to keep outside the negotiations, norms and standards of the protection of Intellectual Property Rights (IPRs). On the positive side, they sought to improve the prospects of their textile exports in the markets of developed countries. They tried to make the safeguards arrangement under GATT, more transparent and non-discriminatory. They sought to strengthen the dispute settlement mechanism under GATT. And finally, they tried to lodge the possible regime on services outside GATT, so as to prevent cross-retaliation[17].

1.5.6 Collapse of the unity of the South

The fragile unity of the South in the Uruguay Round collapsed at the resumed mid-term review of the negotiations in Geneva in April, 1989. By that time, Brazil and Egypt had withdrawn from articulating any developing country position. Yugoslavia was so beset by internal problems that it took no effective part in the negotiations at all. That left India and Argentina, two leaders without any followers[18]. After that, negotiations were conducted by developing countries individually or in coalition with other like-minded countries, both developed and developing. The most important among the grounds conceded in

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17. M. Dubey, ibid. pp. 4-7.
18. B. Debroy, ibid, p.29.

Geneva was the acceptance of the demand of developed countries to bring norms and standards of the protection of IPRs under the discipline of GATT.

1.5.7 Active participation in the later phase of the new round

Between the launching of the Uruguay Round in 1986 till its formal conclusion in the Marrakesh Ministerial Meeting in April 1994, more than 60 developing countries reported unilateral liberalization measures to GATT, 24 acceded to GATT and 24 others were in the process of doing so. One of the reasons for the more active participation of the developing countries in the later phase of the Uruguay Round negotiations was that they wanted to take credit for their unilateral tariff cuts and other trade liberalization measures taken outside the Uruguay Round as a central element of their structural adjustment programmes. However, the basic reason was that for the first time the developed countries took the initiative for a new round of negotiations mainly with the object of prying open the markets of developing countries, and most of the major developing countries negotiated under the duress of Section 301 of the US Trade Act[19].

1.5.8 The objectives of U.S. in the new round

In Punta del Este, it was envisaged that the negotiations would be concluded by the end of 1990. In May 1990, the then US President, Mr George Bush, said:

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19. M. Dubey, ibid. pp. 8-9.

"Our direction is to open markets, expanding trade and negotiating a set of clear and enforceable rules to govern world trade. This is the path to prosperity and growth and high employment. My top trade priority for this year is an ambitious multilateral agreement..."[20)]

This was an obvious reference to US thinking on GATT. President Bush later added,

"This round of GATT is an ambitious undertaking--the last, best chance for the world to enter the next century with free and fair trade for all. So let me be blunt: To the United States, no agreement is better than a bad agreement...even as we are driving at full speed to complete the Round, the US is also making progress in market-opening negotiations with Japan; in keeping the flow of goods and services open with Canada and Mexico; by intensifying our dialogue with the dynamic states of the Pacific Rim; and by ensuring that America will have access to Europe after creation of this historic single market."

"Our objective is to anchor these countries in the ideal of freedom, economic as well as political. And so we are

20. B. Debroy, ibid.

striving for free trade not just because it is good for America, but because it is good for all mankind."[21]

1.5.8.1 The influence of U.S. multinational corporations

Meanwhile, the motivation of the developed countries in repeatedly harping on the principle of free trade became obvious when several leading US companies and business organisations announced the formation of a high-powered MTN (Multilateral Trade Negotiations) Coalition. Chaired by former US Trade Representative William Brock, the group included American Express, General Motors, IBM, General Electric, Cargill, Citicorp, Proctor & Gamble and other companies, as well as the US Council for International Business, American Business Conference, National Association of Manufacturers, Coalition of Service Industries, International Investment Alliance and Intellectual Property Committee.

The Coalition, thus, was a broad alliance of American private sector interests whose commitment to the GATT talks was based on furthering its business interests.

Mr Brock's statements were a give-away. For example, while he said that the MTN Coalition's focus was on farm reforms, he maintained that

"agriculture is not the issue...rather it is the lynchpin to

21. Devinder Sharma, "GATT to WTO: Seeds of Despair", Konark Publishers PVT. LTD., Delhi, 1995, p5.

agreement on issues of greater magnitude, issues that really matter, like intellectual property protection, services, investment and subsidies."[22]

1.5.8.2 G-7 and G-77

The MTN Coalition began to actively campaign for pushing through "global economic reforms" under GATT umbrella and the G-7 countries pledged themselves to a "high-level of personal involvement to exercise the political leadership necessary" to ensure the success of the Uruguay Round. The G-77 counties on the other hand were split and did not put up even limited resistance.

Former US Agriculture Secretary, Clayton Yeutter, went to the extent of saying that a

> "successful end to the Uruguay Round negotiations is ten times more important to the US than good relations with the Soviet Union."[23]

With the collapse of the Soviet Union and the prevailing recession in the American economy, the successful completion of the GATT negotiations had become a matter of life and death for the US. And this was clearly evident the way President Clinton pushed for its acceptance while seeking for its ratification in the US Senate.

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22. Ibid.
23. Ibid, p6.

1.5.9 Arther Dunkel's proposal

The negotiations dragged on for one year more than the stipulated time for its conclusion. At that stage, the then Director General of GATT, Mr. Arther Dunkel, presented a Draft Final Act, embodying what he thought could be the agreed outcome of the Uruguay Round. This was offered as a single treaty no element of which could be considered as agreed until the total package was agreed. The persisting differences between the EC and the United States on the Agreement on Agriculture, the attempt of Japan to retain its rice protection policy, difference between US and France on the extent of the liberalisation of cinematic material, the attempt of the United States to still tighten the noose round the developing countries in the area of TRIPS and their import of textiles from developed countries, combined with domestic political developments in some of the major developed countries, resulted in a further delay of two years.

1.6 Conclusion of Uruguay Round

1.6.1 The Final Act

The Final Act embodying the results of the Uruguay Round was ultimately agreed to on 15 December, 1993 and formally approved and signed at the Ministerial level in Marrakesh, Morocco, on 15 April, 1994. When the treaty came up for authentication at a meeting of the foreign ministers at Marrakesh, President Bill Clinton of the United States had remarked, "Today, we have succeeded in opening the world market for the American products."[24]

This is exactly what the US had been trying for all these years. The ratification of the Uruguay Round was, therefore, more important to the US and its allies than to any of the developing countries.

1.6.2 World Trade Organization

After the receipt of the necessary number of ratifications, the Agreement on WTO came into effect from January 1, 1995. Table 3 gives a chronology of events leading to the completion of the process of the Uruguay Round negotiations.

The WTO has five specific functions, as set out in Article III of the Agreement.

First, the WTO 'shall facilitate the implementation, administration and operation, and further the objectives, of this Agreement and of the Multilateral Trade Agreements, and shall also provide the framework for the implementation, administration and operation of the Plurilateral Trade Agreements'.

Second, the WTO 'shall provide the forum for negotiations among its Members concerning their multilateral trade relations in matters dealt with under the agreements in the Annexes to this Agreement'.

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24. D. Sharma, ibid, p.4.

Table 3. The major landmarks in the Uruguay Round chronology

Date	Events
20 Sep. 1986	A Ministerial Declaration launches the eighth GATT Round at Punta del Este, Uruguay. 105 countries agree to take part in the negotiations, 94 of whom are GATT members.
28 Jan. 1987	A negotiating structure with the TNC at the top is adopted and 15 negotiating groups begin their work.
5-9 Dec. 1988	A ministerial Conference in Montreal undertakes a mid-term review of the Uruguay Round.
3-7 Dec. 1990	Ministerial Conference in Brussels proves to be abortive.
26 Feb. 1991	The TNC adopts a work programme for resuming the negotiations.
20 Dec. 1991	Arthur Dunkel prepares a Draft Final Act to aid the negotiations. The Dunkel Draft does not include any market access commitments.
13 Jan. 1992	The TNC accepts the Dunkel Draft as a basis for beginning negotiations, although the European Community (EC) refuses to accept the package on agriculture.
13 Apr. 1992	The TNC admits that without bilateral market access negotiations between the United States and the EC, the Uruguay Round will break down.
20 Nov. 1992	The US and EC conclude an accord on agriculture at Blair House, Washington.
28 Feb. 1993	US 'fast track' negotiating authority expires and causes problems for the negotiations.
8 Jun. 1993	France expresses reservations about the Blair House accord.
30 June 1993	The US Congress extends 'fast track' negotiating authority to President Clinton, but sets a deadline of 15 December 1993.
1 Jul. 1993	Peter Sutherland takes over as Director General of GATT.
7 Jul. 1993	At the G-7 summit in Tokyo, a substantial market access package is agreed upon.
14 Jul. 1993	Negotiations start again in Geneva.
31 Aug. 1993	An intensified work programme is adopted by the TNC and it is agreed that the negotiations must end by 15 December 1993.
14 Dec. 1993	US Trade Representative Mickey Kantor arrives at an agreement with EC Commissioner Leon Brittan.
15 Dec. 1993	The TNC meets and the Uruguay Round negotiations end.
12-15 Apr. 1994	The Ministerial Meeting at Marrakesh, Morocco, ratifies the results of the Uruguay Round.
30 Dec. 1994	India accepts membership of the WTO
1 Jan. 1995	The WTO enters into force
1 May 1995	Renato Ruggiero assumes charge as Director General of the WTO for four years.

Source: Bibek Debroy, ibid. pp.37-38.

Third, the WTO 'shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes'.

Fourth, the WTO 'shall administer the Trade Policy Review Mechanism'.

Fifth, 'with a view to achieving greater coherence in global economic policy-making, the World Trade Organization shall cooperate, as appropriate, with the International Monetary Fund and with the International Bank for Reconstruction and Development and its affiliated agencies'.

1.7 Characteristics of Uruguay Round

The Uruguay Round was different from all previous rounds of trade negotiations in several way. This was the only round which the developing countries went on resisting for several years and when they ultimately did agree to its being launched, they saw their main task as minimizing the damage that the round could inflict upon their economies rather than securing any significant gains for themselves out of it. Therefore much of the claim now being made as to how much the developing countries have got out of the negotiations, is in the nature of a rationalization of the inevitable.

Secondly, these were the first GATT trade negotiations in which the developed countries, apart from seeking the liberalization of the agricultural trade in all countries, targeted the markets and the economic playing fields of a dozen or so large-size and more developed among developing countries, including India, seeking liberalisation for their goods and services. This circumstance gave to these developing countries a bargaining power of the kind they had not enjoyed in any of the previous rounds of trade negotiations which were conducted mainly among the 'principal suppliers' and in which the concessions exchanged in the process were extended to all others on the basis of the Most-Favoured-Nation principle. Developing countries lamentably failed to take advantage of this unique bargaining power, mainly because under the pressure of the IMF and World Bank, they were already committed to a much extensive programme of unilateral liberalization than that involved in the Uruguay Round.

Thirdly, these were the most far-reaching negotiations ever undertaken under GATT. For the first time, it brought agriculture under the discipline of GATT. It established separate rules and regimes in the new areas of TRIPS, TRIMs and Services. The Final Act includes as many as 19 new instruments constituting Multilateral Agreements on Trade in Goods, 4 Plurilateral Trade agreements, an Agreement each on TRIPS and Services, an Understanding on Dispute Settlement, an Agreement on Trade Policy Review Mechanism and numerous Decisions and Declarations adopted at the Marrakesh Ministerial Meeting.

Finally, these were also the first GATT trade negotiations which went beyond the traditional GATT jurisdiction of regulating trans-border trade transactions and paved the way for a massive intrusion into "the sovereign economic space" of the developing countries. The new regimes under TRIPS, TRIMs and Services provide for right to establishment and operation in the sovereign territory of other states and significant moderation in the macro-economic policies followed by Member States, which go much beyond the realm of trade. These regimes will have serious implications in terms of abridging the economic sovereignty of developing counties, upsetting their development priorities and inhibiting their pursuit of self-reliant growth based on the maximum utilization of their own material and human resources[25].

25. M. Dubey, ibid. pp.10-11.

CHAPTER II

Respective Roles of India And South Korea During the Uruguay Round

2.1 The Role of India

2.1.1 India resisted the move to launch the new round

During the initial years, India played a leading role in resisting the move to launch the new round and withstanding the Northern pressure. In this, it received strong support from other developing countries. However, as the pressure mounted, the will of the governments of developing countries began to weaken. Ultimately these countries yielded to the pressure and the developed countries succeeded not only in launching the new round but also in pushing through their entire agenda.

2.1.2 India's struggle during the new round

By the time the developing country members of GATT came to Punta del Este, their unity and cohesion had been severely dented. The developing country members of the CAIRNS Group appeared to be concerned only with agriculture and were reluctant to coordinate their position with those of other developing countries. Consequently, at Punta del Este, a group of only 10 developing countries, consisting of India, Yugoslavia, Egypt, Brazil, Nigeria, Peru, Cuba, Tanzania, Kenya and Nicaragua, were left to defend the interest of developing countries as a whole.

In March 1990, India had expressed deep concern over attempts being made to restructure the international economic order in a manner which could only lead to strengthen the grip of the advanced countries on the world economy. Voicing India's concern, the commerce minister, Mr. Arun Nehru, had strongly urged developing countries to stand together so as to ensure that international economic relations were not reshaped to their detriment at the end of the Uruguay Round of multilateral trade negotiations under GATT[1].

In a message read out at the first ever meeting of senior officials of developing countries being hosted by India, to evolve a stand on issues being currently debated in the Uruguay Round, Mr. Nehru asked participants to work out a common strategy. He said this was necessary to ensure that the development dimension was not lost sight of and the developing countries emerged strengthened from the negotiations and not weakened. Nearly 40 delegates from Asia, Africa and Latin America attended the two day meet. Mr. Nehru said the new round of multilateral trade negotiations which was launched at Punta Del Este (Uruguay) three and a half years ago, presented an opportunity for developing countries to preserve and strengthen the multilateral trade system, to make the international system more responsive to their economic situation and to secure greater

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1. Press trust of India, "Need to safeguard trade interest" New times, Hyderabad 21 March 1990.

liberalization in areas of their export interest[2].

He stressed that a tendency had been noted on the part of a number of participants to deviate from the central task and instead try to enlarge the scope of negotiations to cover other aspects of international economic relations. A large number of countries thought alike and had responded to India's invitation to attend the meeting. Mr. S. P. Shula, commerce secretary, who chaired the opening session said the purpose of the meeting was to take stock, evaluate, analyse and coordinate the position so that the interests of developing countries were fully safeguarded as the Uruguay Round approached its final and most critical phase. Understanding the urgent need for such consultations, he pointed out that while the industrialized countries had a number of mechanisms for holding consultations on trade and economic issues, including the OECD, the developing countries had not been able to establish any comparable forum or mechanism for exchange of views. The meeting was intended to fill this vital gap.

Prof. Muchkund Dubey, former secretary, ministry of external affairs, cautioned that

> "If even at this point of the Uruguay Round we are not able to present a common stand it will be too late for us....If ever there was a need for common position among developing countries, it is in the Uruguay Round.[3]"

2. Ibid.
3. Ibid.

He attributed the present disarray to the pressures to which developing countries were being subjected and the relentless manner in which the developed nations were pursuing their goals.

All the participants, including delegates from China, Pakistan, Brazil, Indonesia, Mexico, Kenya, Egypt, Jamaica and Peru, welcomed the initiative taken by India to mobilise the developing countries. They were unanimous in pointing to the imbalance in the progress of negotiations so far and the commonality of interest on basic issues despite the differing perceptions in particular areas.

Mr. Li Zhongzu, chief of GATT affairs, ministry of foreign economic relations of China, noted the pressures on developing countries in new areas, including the bid to change GATT rules providing for differential treatment to developing countries. He said the meeting would facilitate the formulations of appropriate regulating position so that the interest of the developing countries could not be brushed aside.

Mr. Qureshi, commerce secretary of Pakistan, agreed with the Indian approach of evolving strong ties to deal with the four main areas of negotiation--market access, rule making, trade related intellectual property rights (TRIPS) and services. The need for unity in specific sections such as textiles, agriculture, tropical products and tariff reduction was also emphasized[4].

India had assumed the role of spearheading the struggle of the

4. Ibid.

developing countries in GATT and in the Uruguay Round to resist the bid on the part of the developed countries, particularly the US, to impose on the world community a trade regime that was harmful to the interests of the developing countries or the great bulk of them. In American perception India was the "most obstructionist" nation with regard to the US plans to expand global trade with the introduction of services and intellectual property rights as legitimate items of trade. Though the struggle was dramatized as a duel between the US and India, it was, in fact, a much wider and deeper struggle in which the developing countries were pitted against the developed ones.

2.1.3 Pressure from the United States

India's position in the on-going negotiations and the alignments that were taking shape was going to be all the more vulnerable when its dependence on foreign credits and investments not only persisted but was tending to grow.

A dominant section of the official and non-official opinion was in favour of the liberalization of the domestic economy and for giving strong support to multilateralism in foreign trade.

Until the last days of the resumed mid-term review session in Montreal in December 1988, India had firmly adhered to the position that GATT was not the forum to discuss norms and standards of IPR protection nor could a higher level of IPR protection be a part of a liberal multilateral trading system. Then came the sudden reversal of India's position and abject surrender in Geneva in April, 1989. What led to the shift in Government of India's position has to remain a mystery for sometime to come. The argument given in justification of this turnabout in policy is that India found itself isolated in Geneva. However, the issue is not whether India was isolated, which might as well have been the case, but how this isolation came about. The fact is that Indians brought this isolation upon themselves as a part of a conscious policy. From the time of the mid-term review session of the Trade Negotiation Committee in Montreal, the word passed on to the Indian delegation at the political level was: "Do not appear to be ganging up against the Americans". In operational terms, it meant that India should not try to be on the vanguard of the struggle of the developing countries and should leave the leadership role to some other developing country or countries. Consequently, at Montreal, the Indian delegation did not even take the initiative of convening a meeting of like-minded developing countries to adopt common positions on various issues.

India's retreat in Geneva came as a surprise to many developing countries, particularly from Africa. They knew that they were too vulnerable to put up a credible fight, but they somehow believed that India was the only developing country capable of offering resistance on their behalf. At the NAM Summit in Harare in 1986, Col. Gadafi of Libya had said that India was the only non-aligned country. Such an encomium from this unsuspected quarter may not have come as music to the ears of the Indian delegation in Harare but there was certainly a ring of truth in this remark at that time[5].

5. M. Dubey, ibid, pp. 7-8.

2.1.4 Reluctance of the government of India

Since Mr. Arthur Dunkel presented a Draft Final Act in December 1991, the Government of India did not take any step known to the public, to renegotiate on issues of interest to India. No indication was given to the Parliament or to the public that the minimum must which India should have taken up for renegotiation had been identified. Nor was there any indication that either the Director General of GATT or major negotiating partners had been notified of India's negotiating position. On the contrary, the notes prepared and the statements made by the Government of India sought to bring out the great virtues of the Dunkel Draft Text from the point of view of India and gave reasons why India should sign this text on the dotted lines. During this period, the Government of India also stuck to its policy of not taking any initiative to mobilise the support of other developing and like-minded countries, to bolster its position.

It was only towards the end of 1992, and that too under the strong pressure of nation-wide agitation mounted against some of the key provisions of the Dunkel Text, that the Government of India bestirred itself and identified a few issues in which Indian's interest needed to be protected. But that was too little and too late. There was no substantial change in the Dunkel Draft as finally adopted, from the point of view of India's interest.

Thus, India in spite of having taken a leading role in fighting the provisions of new round which were biassed against developing nations, yielded to the pressure from the developed ones, especially the US. However India succeeded in highlighting the interests of the South in an otherwise North dominated environment.

2.2 The Role of South Korea

2.2.1 Korea's active participation and negotiation structure

After becoming an official member of GATT in 1976, Korea achieved rapid economic development primarily due to a dramatic expansion in exports under the free trading environment provided by the multilateral trading system of GATT.

However, Korea remained a developing country up to the mid-1980s, mainly owing to its chronic current account deficits and high level of foreign debt. That was the reason why Korea's participation in the Tokyo round in the 1970s was very limited.

Since the mid-1980s, however, when Korea's current account balances turned into surpluses of a sizable amount, the Korean government started to pursue bold liberalization policies. Korean policymakers firmly believed that, in the interdependent world, to achieve the status of an advanced nation, Korea needed liberalization and internationalization of its economy based on fair and free international competition, which, in turn, could only be accomplished through a strengthened multilateral trading system. Strong evidences of Korea's commitment to active liberalization of its economy were its decisions in November 1988 to become an IMF Article VIII nation and in October, 1989, to no longer invoke Article 18-Section B of the

GATT permitting imposition of restrictions on balance-of-payments grounds.

Being a relatively small resource-scarce country with a high dependence on foreign trade, Korea needed a free multilateral trading system for its continued growth. Furthermore, to avoid unilateral and bilateral liberalization pressures from major trading countries, and also to preempt the trend toward protectionism and regionalism, Korea believed that it must join others in strengthening the multilateral trading system of GATT.

In the area of agriculture, Korea continued to emphasize that negotiations should strike a balance between legitimate interest of exporters and importers, recognizing the differing levels of agricultural development of participating countries[6)]. Korea looked forward to a balanced framework for negotiation which should sufficiently accommodate non-trade considerations, particularly with respect to major agricultural products such as rice, which were of vital interest to Korean farmers.

According to Korea, a reform of trade in agriculture was certainly important for the success of the Uruguay Round, but in achieving this reform, the vital interests of all participating countries should be properly considered. Thus, Korea had been an active participant in the Uruguay Round from its beginning[7)].

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6. See "Uruguay round: Situation and Tasks", Korea Foreign Trade Association, Seoul, 1990.
7. Kyung Ju Lo, "A Study on the Implications of Liberalizing the Agriculture Trade Market", Seoul, Korea, June 1992, pp24-26.

Five government ministries and their counterparts in Korea's Permanent Mission in Geneva had been involved in the negotiating process[8]. Fifteen negotiating issues were divided into seven working level subgroups which were responsible for drafting Korea's position in each negotiation area.

The initial position formed by the seven working level subgroups were then reported to the Uruguay Round Steering Committee that was chaired by the Assistant Minister for International Policy Coordination of the Economic Planning Board and consisted of representatives from the seven subgroups. The Steering Committee was thus responsible for reviewing the positions formed by the subgroups and coming up with Korea's final positions on each of the negotiation areas. The Ministry of Agriculture, Forestry and Fisheries (MOAFF) along with the Korea Rural Economic Institute (KREI) was in charge of agriculture and tropical products.

2.2.2 Korea's Participation in the Uruguay Round

Korea had been an active supporter of the Uruguay Round since the early stage of discussion even before the Punta Del Este meeting. In fact, along with a few other developing countries in the Asia-Pacific region, Korea helped the U.S. and other developed countries successfully to promote the launching of the round by supporting their position on services, among other things.

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8. See "Uruguay Round: Negotiations and Tasks to be Resolved", Economic Policy Institute, 1990.

This attitude reflected at least three concerns. One was the concern over the continuing deterioration of the international trading environment and the genuine fear that the multilateral trading system would continue to weaken. There was also the concern with the prospect of increasing bilateral trade policy pressures from the U.S. and other developed countries for liberalization of Korea's trade policy regime. It was hoped that multilateral discussions, as well as cooperation with the U.S., would help blunt the bilateral offensives. Lastly, and not least importantly, Korea had already begun to liberalize its trade policy regime, providing some assurance that it could make some of the requested concessions and also, perhaps, receive some concessions from the developed countries in exchange.

Since the early 1980s, Korea was increasingly active at the GATT and this new activism continued at the Uruguay Round. This is shown, for example, by the fact that Korea participated in the Consultative Group of 18, as well as the so-called Green Room Consultation since 1985. At the Uruguay Round, Korea chaired two of the 14 negotiating groups. Also, it was a member of the Peace Group which consisted of 14 moderate and small countries, developing and developed.

The following were the Korean government's positions on individual negotiating issues[9].

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9. In this regard, Korea, Taiwan, Singapore and Hong Kong initiated a dialogue with the OECD by participating in an informal seminar with the latter held in Paris in January 1989. Malaysia and Thailand were also invited but did not take part.

2.2.2.1 Standstill and Rollback (S&R)

Korea was of the view that strict surveillance of new protectionist measures and protectionist legislation in each country required to be promoted for the effective enforcement of standstill, while major traders needed willingly to take initiatives to implement roll-back.

2.2.2.2 Agricultural Products

According to Korea's viewpoint, the successful conclusion of the Uruguay Round depended most critically on the success of the negotiations on agriculture. Complete agricultural trade liberalization did not seem to be a realistic goal, however. In many countries, agriculture played a special role, defying the argument for completely freeing trade in agriculture. The most prominent aspect of agriculture requiring special consideration was the importance of food security. Because of this, a country such as Korea had to maintain a certain minimum capacity to supply basic foodstuffs, such as staple cereals, domestically, and this in turn required maintenance of certain levels of farm population and production capacity.

2.2.2.3 Tropical Products

Negotiations on tropical products were important because many developing countries depended on these products for export earnings and also because they were linked to negotiations on other issues. One important issue was coverage. Negotiations on tropical products needed to exclude products which competed with temperate zone products, including rice.

2.2.2.4 Natural Resource Products

Korea thought that the Uruguay Round negotiations on natural resource products should be limited to those covered by the 1982 GATT work program, i.e., nonferrous metals and minerals, and forestry and fishery products. It should not be extended to other areas such as energy resources and construction materials. As it happened, this item was dropped during the course of the negotiations.

2.2.2.5 Non-Tariff Measures

It was Korea's view that the negotiations on non-tariff measures should focus on those practices not discussed by other negotiating groups, although other practices need not to be excluded. Those measures which were inconsistent with the GATT should be relegated to roll-back negotiations.

In order to secure the participation of as many countries as possible, and to seek maximum liberalization of trade measures, negotiations should rely on a multilateral formula approach as much as possible, rather than on a request-and-offer approach. There were suggestions that all non-tariff measures should be quantified first to facilitate negotiation, but this approach was not commendable since it ignored individual peculiarities of various measures.

2.2.2.6 Tariffs

Korea had a lot to offer at the Uruguay Round in the negotiations on tariffs. While Korea was bound by previous negotiations on 13 percent of all tariff lines, it had effected large unilateral tariff cuts over a broad range of industrial products since then, with these tariffs scheduled to come down by 1993 to an average level of 6 percent or one-fourth the level that existed at the beginning of the 1980s. Korea took advantage of this opportunity to ask for elimination of high tariffs in developed countries which affected a number of Korea's exports.

Tariffs on agricultural products remained relatively high and their early reduction might have made liberalization of import restrictions on other products, difficult. Hence, Korea argued that its tariffs on agricultural products should be excluded from substantial cuts for the time being, and in any case should be discussed in the agricultural products negotiations.

2.2.2.7 Safeguards, Grey-Area Measures and MFA Quotas

Korea took the view that safeguards should not be allowed to be selective, and the GATT principle of nondiscrimination should be reaffirmed. There should be no negotiation for moderating the grey-area measures. The only issue of negotiation was that the existing grey-area measures should be rolled back and through standstill commitments, new ones should not be introduced. By the same token, trade in textiles and clothing should be integrated into the GATT, with a view to phasing out MFA quotas.

2.2.2.8 Anti-dumping Duties, Subsidies, and Countervailing Duties

Korea stressed that the negotiations should provide for the elimination of these national regulatory practices which were inconsistent with the GATT codes. In particular, conditions permitting counteractions, specifically, the injury criterion, should be more strictly rather than loosely defined. The Subsidies Code should recognize and permit domestic subsidies warranted by legitimate social and economic objectives such as industrial restructuring.

2.2.2.9 Intellectual Property Rights (TRIPS)

Appropriate protection of intellectual property rights which gave due attention not only to the rights of the intellectual property rights owner but also to the rights of the user, was of crucial importance for the smooth expansion of international trade. In this regard, multilateral efforts to establish international norms for the protection of intellectual property rights were highly desirable.

In principle, these norms should be discussed under the auspices of property rights organizations such as WIPO and not the GATT. If necessary, however, the GATT should provide provisions to help enforce those norms. And the GATT negotiations should accord developing countries special and more favorable treatment in view of their need for the transfer of technology.

2.2.2.10 Trade Related Investment Measures (TRIMs)

Korea agreed with the developed nations that the pattern of trade was sensitive to investment measures, and Uruguay Round discussion of this linkage was very appropriate. But the Uruguay Round negotiations should not discuss all investment measures; rather, they should be limited to those which had direct or substantial impact on trade such as local content requirements, export performance requirements, remittance restrictions, and foreign exchange controls.

Korea agreed that negotiations should address restrictive business practices by transnational corporations. Also, the developing countries should be accorded differential treatment.

2.2.2.11 Services

The Uruguay Round negotiations should address not only border transactions but also factor movements. The negotiations should, in particular, cover the international movement of service employees. But there should be appropriate restrictions on factor movements insofar as the movement of factors such as labor and capital could entail political and social problems.

National treatment was acceptable as a matter of principle but not necessarily applied to all services, and should be introduced on a gradual basis. MFN treatment should be accorded unconditionally. Laws, regulations and guidelines concerning services should be made transparent by making them available to the public at least by the time of their enactment, although not necessarily earlier. Requiring national governments to provide foreign suppliers with opportunities to express their opinions prior to policy decisions might be an infringement of national sovereignty.

The negotiations should also allow for exceptions to rules governing services, based on policy considerations of national security and cultural objectives. The services agreement should also include rules concerning government monopolies, subsidies and other practices which affect services trade. It should also be compatible with economic growth and development of developing countries, according them differential treatment.

2.2.2.12 Institutional Issues

The GATT dispute settlement mechanism needed to be strengthened in order to enforce the GATT rules and commitments more effectively.

In addition to taking these positions on the negotiating issues as summarized above, Korea also submitted proposals addressing tariffs, antidumping duties and subsidies. Korea also took part in the preparation of the Peace Group proposal on non-tariff measures, as well as one on textiles and clothing by the International Textiles and Clothing Bureau. Also, together with Hong Kong, Singapore, Australia and New Zealand, Korea submitted a joint proposal on safeguards[10)].

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10. Soogil Young, Trade Policy Problems of the Republic of Korea and the Uruguay Round, KDI, Seoul, 1989, pp57-64

2.2.3 Problems of Korean approach to Uruguay Round

The foregoing brief review of the Korean government's approach to the Uruguay Round seems to depict a posture which is more rhetorical than effective. This is shown, for example, by the fact that Korea did not notify the S&R surveillance body of any of the grey-area measures its products faced abroad. Korea's failure to notify the S&R surveillance body was an irony, considering its very strong position on grey-area measures and on national "protectionist legislations" which presumably included the 1988 U.S. Trade Act.

Korea also appeared to be soft-pedalling on the strengthening of the dispute settlement mechanism. This attitude did not seem entirely consistent with the government's stated firm belief in the strengthening of the multilateral trading system given the importance of these issues to this objective[11].

Korea had submitted a number of written proposals for each of the individual negotiating groups and took active part in both formal and informal negotiating sessions. Korea also made great efforts to facilitate the talks by trying to play the role of intermediary between advanced and developing countries.

However, it had not been easy for Korea to participate in the multilateral trade talks, mainly due to its lack of experience. In a way, the Uruguay Round was the first multilateral trade negotiation in which Korean was a full participant.

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11. Soogil Young, ibid, pp65-67.

Furthermore, the Uruguay Round covered a wide range of complex issues which made it all the more difficult for Korea to participate effectively. Not only did Korea lack experience in multilateral trade negotiation, but Korean negotiators also faced great political pressures from domestic industries as well as various interest groups.

At the Brussels' ministerial meeting held in December of 1990, an impasse in the agricultural negotiation eventually led to the breakdown of the Uruguay Round negotiations. Korea was severely criticized for contributing to the breakdown of the trade talks[12]. U.S. officials claimed that Korea was not as supportive in the round negotiations as it might be[13]. Foreign countries viewed Korea as being already at the threshold of advanced country status, while Korea still saw itself as a developing country. This type of perception gap had made Korea's position at the negotiations extremely difficult, especially when Korea tried to play the role of intermediary between advanced and developing countries[14].

Korea and India approached the new round from two different poles. At the start of the negotiations, Korea saw the Uruguay Round as an opportunity whereas India saw it as a threat to its interest. While India on behalf of the developing nations, spearheaded the opposition against launching the new round, Korea assisted US and the developed countries in preparing the ground for the negotiations. Korea

12. In Ho Kim, "Uruguay Round Negotiations and the Korean Economy", Economic Planning Board, 1990.
13. See "Uruguay Round: U.S. Officials Describe Crisis", Washington, 1990.
14. Kyung Ju Lo, ibid, pp.27-30.

tried to act as an intermediary between the North and the South. But as the negotiations progressed Korea came to realize that some of the thrusts of the developed countries, particularly the United States, would adversely affect its domestic economy especially in the agriculture and services sectors. Thus, Korea changed its stance in order to defend its own interest at the later part of the round.

CHAPTER III

Difference in the Structure and Competitiveness of the Indian Economy and the South Korean Economy

Perspective on the Uruguay Round of trade negotiations differs from country to country and industry to industry, based on their competitiveness. Therefore, before examining differing perspectives of India and South Korea on the outcome of the new round, it might be useful to situate the two countries in the world economy, in terms of the structures and competitiveness of their economies. Competitiveness is defined as "the ability of a country to create added value & thus increase national wealth by managing assets and processes, attractiveness & aggressiveness, globality and proximity, and by integrating these relationship into an economic and social model[1]."

3.1 The Structure and Competitiveness of the Indian Economy

3.1.1 The Present State of Indian Economy

3.1.1.1 Low Level of Development

Indian economy is no longer a stagnant economy it was during the

1. International Institute for Management Development, "World Competitiveness" Lausanne, Switzerland, 1998.

British period. Since independence it has been on the move upward and is at present much better off in comparison with its position before. However, despite this, it still exhibits strongly some features which characterize an underdeveloped economy.

3.1.1.1.1 Massive Poverty

One fact that outstands every other is that the mass of the Indian people are very poor. The income of the people as also their consumption are on an average very small. The per capita income, which indicates the welfare of the people, has remained very low all through since independence. In 1994-95, it was (at 1980-81 prices) around Rs. 2282 which, on a monthly basis, comes to just about Rs. 200, and, on a daily basis, Rs. 7. The people living below the poverty line are over 168 million. These people do not have purchasing power even to meet their minimum calorie needs for physical existence[2)].

3.1.1.1.2 Large Unutilized Resources

While the Indian population is, by and large, poor, the country is rich in natural resources. But these resources have not been fully used, or converted into material goods and services to the extent it is possible. In some of the minerals, India occupies a leading position in the world: iron ore resources are the fourth largest, manganese the third largest, and ilmenite and keyamite deposits are among the largest

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2. A.N. Aggarwal, "Indian Economy: Problems of Development and Planning", 22nd revised edition, New Delhi, 1996.

in the world. Among the renewable resources, the most important-water and forests, are available in ample quantities. India is blessed with a large number of perennial rivers. Besides the known resources, there lie large many resources yet unexplored. In particular, marine resources i.e., resources under the oceans, are known to be rich in various minerals and vast quantities of fish and plant life. As is being discovered these days, there is a large potential of oil-resources also. All this should have made the country rich materially. But a large number of known resources are not being tapped fully, and a lot many have not yet been touched and explored[3].

3.1.1.1.3 Predominance of Agriculture

The national income is to a large extent derived from agriculture. The contribution of agriculture to the national income is as high as about 30%, as against over 27% of mining, manufacturing industries, and construction and the rest about 43% of others.

The occupational structure of India is like that of an underdeveloped country. In such a country, a substantial proportion of the workforce is engaged in agriculture, and a very small proportion is found engaged in industry and services. This format fits in with India's statistical picture. (See table 1) Agriculture is the major economic activity of a very large proportion of the working population. As much as 67% of labour force is engaged in this sector. In industries, only 13% of workers are engaged, and in services, over 20% of the

3. Ibid.

workforce is engaged. This means that industries and services together provide work only to one-third of the workforce. It is thus obvious that in the country's economy, agriculture is of great importance. However not only production, but also productivity in Indian agriculture is very low; it is about one-third of the productivity in the country's industries and services[4].

It is because of the inadequate development of industries and services that a substantial part of the labour force is compelled to remain in the agricultural sector. As the agricultural sector itself is backward, all the workers are not needed there either. Many of them are surplus and their productivity is almost nil. Undoubtedly this large-scale unemployment and underemployment in villages constitute a big economic and social problem. Thus, it is clear that India's occupational structure is lopsided, with too many people living on agriculture and too few engaged in industries and services. Further, the agricultural sector, though the biggest provider of work to a large majority of workers, is the most backward. This explains why the overall picture of the Indian economy is one of backwardness, despite some modern industries and services.

There is a lot of trading, internal and external, that pertains to agricultural products. Many industrial activities depend upon agricultural raw materials. Most of India's population lives in villages.

4. Ibid.

Table 1. Occupational distribution of working population (percentage)

Sector and industrial categories	1901	1911	1921	1931	1951	1961	1971	1981	1991
1. *Agricultural Sector*	71.7	74.9	76.8	74.8	72.1	71.8	72.1	70.6	66.7
Cultivators	50.6	49.8	54.4	54.1	50.0	52.1	43.4	42.1	38.4
Agricultural labourers	16.9	20.6	17.4	24.8	16.7	16.7	26.3	26.3	26.4
Livestock, forestry, fishing etc.	4.2	4.5	4.2	4.9	2.6	2.3	2.4	2.2	1.9
2. *Industrial Sector*	12.6	11.1	0.5	10.2	10.7	12.2	11.2	12.9	12.7
Mining & quarrying	0.1	0.2	0.3	0.3	0.6	0.5	0.5	0.5	0.6
Large and small industries	11.7	9.0	9.3	8.9	9.0	10.6	9.5	10.9	10.2
Construction	0.8	1.0	0.9	1.0	1.1	1.1	1.2	1.5	1.9
3. *Service Sector*	15.7	14.0	13.5	15.0	17.2	16.0	16.7	16.5	20.5
Trade and commerce	6.1	5.5	5.7	5.6	5.2	4.0	5.6	5.9	7.5
Transport, storage and communications	1.1	1.1	0.9	1.0	1.5	1.6	2.4	2.5	2.8
Other Services	8.5	7.4	6.9	8.4	10.5	10.4	8.7	8.1	10.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Population Censuses, Statistical Outline of India, 1994-95.

3.1.1.1.4 Heavy Population Pressure

India's population is large and rising at a fast rate. The total, according to the 1991 census, is more than 846 millions. But equally significant is the fact that the population has grown at a fast rate, and continues to do so. The latest census reveals that the population has grown at a rate of 2.1 percent for the 1981-90 decade.

3.1.1.1.5 Large Unemployment

Particularly in the non-agricultural fields, most Indians are underemployed. (See table 2)

With even agriculture not expanding adequately, the village population does not work full time. They do not have enough work to keep them busy throughout the day or the year. In towns and cities, there is a considerable number of people who suffer from open unemployment. This number, though small in the context of total population, is significant because many of them have school level or higher education and training. Their unemployment involves not merely the wastage of physical human capacity, but also society's scarce resources spent on education and training[5].

Table 2. Working Population Ratios (1901-91)

Year	Persons	Males	Females
1901	46.1	60.8	31.7
1911	48.1	62.0	33.7
1921	46.9	60.4	32.6
1931	43.8	58.1	28.8
1951	39.1	53.9	23.4
1961	43.1	57.3	28.0
1971	34.2	52.7	14.2
1981	36.7	52.6	19.7
1991	37.7	57.6	22.7

Source: Census Reports

3.1.1.1.6 Capital Deficiency

India suffers from capital deficiency both in terms of physical capital and human capital. As for physical capital, its total stock is not adequate for equipping well the entire labour-force and for the full utilization of natural resources. The capital formation, which has been slow till recently, has accelerated in the last few years. But with fast rising population and increasing labour supply, the per head capital

5. Ibid.

continues to be small.

The position in respect of human capital, which depends on education, training, health facilities etc., is far from satisfactory. At present as per 1991 census, only 52 percent of the population is literate. In respect of health too the facilities are grossly short of requirements. An indication of the inadequacy is the small number of physicians and hospital facilities in the country.

3.1.1.1.7 Low-level Technology

In most parts of the unorganized sector which account for a large part of the economy, the methods of production are old and traditional. In agriculture, in certain areas, notably the Punjab, Haryana and western Uttar Pradesh, and in certain crops like wheat and rice, technologies have made impressive forward strides. But in large many areas, and in many crops, low-yielding techniques continue to dominate. In industry, there is again to be found a similar technological dualism. While modern industry largely in the organized sector uses the most advanced techniques, there are vast number of industrial activities, largely in the villages, which are being carried on with simple and even elementary resources. There is equally important deficiency in producing new products and searching for new resources.

3.1.1.2 Progressive Features

As pointed out above, the Indian economy is an underdeveloped one. But such a judgment is only partially true. For, there have been certain improvements in the economy since independence in 1947, which are permanent and structural in nature. These have the potential of sustaining economic life at a higher level. These changes are in respect of output, productive capacity, and the human factor of the country. These together are pointers to the developing character of the Indian economy.

3.1.1.2.1 Uptrend in Output

One aspect of the progress is that there has been an unmistakable upward trend in the output of the economy. This is reflected in the per capita income, as also in the agricultural and industrial production. The per capita income has been marked by an uptrend during the past four decades. At 1970-71 prices, the growth-rate of per capita income has been more than 1.5 % in the three and a half decades since the beginning of planning in 1951. At 1980-81 prices, the New Series indicate also an uptrend in the per capita income of over 3%. There have no doubt been some years when the increase has been small, nil or even negative. But overall, the trend rate has been positive for the entire period when taken at a stretch. Historically, this has been a significant achievement, as the growth rate before independence remained nearly stagnant during the British period. Equally, perhaps more significant is the uptrend in agricultural and industrial production. In the case of agricultural output, the trend growth rate since 1951 has been 2.7%. It is significantly higher than 0.3% growth before independence. No less significant, in fact, more impressive, has been the rise in the industrial output, at over 6% per annum. (Table 3) Before independence, it was a mere 2.0%. Either of these two rates separately is higher than the production growth rate since independence. Compared to the historical rates which have been very small, these growth rates mark a phase of an upward movement in production[6].

Table 3. Annual Growth-Rates in Major Sectors of Industry

(in percent)

Year weight	Mining (11.46)	Manufacturing (77.11)	Electricity (11.43)	General (100.00)
(1)	(2)	(3)	(4)	(5)
1981-82	17.7	7.9	10.2	9.3
1982-83	12.4	1.4	5.7	3.2
1983-84	11.7	5.7	7.6	6.7
1984-85	8.9	8.0	12.0	8.6
1985-86	4.1	9.7	8.5	8.7
1986-87	6.2	9.4	10.3	9.1
1987-88	3.8	7.9	7.7	7.3
1988-89	7.9	8.7	9.5	8.7
1989-90	6.3	8.6	10.8	8.6
1990-91	4.5	9.0	7.8	8.3
Average(1980-81 to 1990-91)	8.4	7.6	9.0	7.9
1991-92	0.6	(-)0.8	8.5	0.6
1992-93	0.6	2.2	5.0	2.3
1993-94	3.5	3.6	7.4	4.1
1994-95	6.2	9.0	8.5	8.6
(1995-96 Apr.-Sept.)	12.5	12.0	10.9	12.0

Source: Government of India, Economic Survey, 1995-96

The rising trend in the growth rate, however suffered a setback in the early nineties. The rate fell from over 8 percent in 1990-91 to under one percent in 1991-92, to over 2 percent in 1992-93 and to over 4 percent in 1993-94. But it has recovered sharply since then,

6. Ibid.

rising to 8.6 percent in 1994-95 (Table 3). The earlier steep decline in the growth rate was caused by the government's policies to stabilize the economy (i.e., reducing/eliminating the large fiscal and balance of payments deficits and curbing the high inflationary rise in prices) and to restructure it to make it more competitive and efficient. These policies have involved compression in imports, adversely affecting import dependent industries; reduction in Government's expenditure reducing aggregate demand for the industrial products; rise in the interest rates causing an increase in the industrial costs; devaluation of the rupee making import-inputs expensive etc. However, this decline in the growth rate was considered to be a transitory phase. After these restrictive measures were somewhat softened, the growth rate went up to its level in 1990-91. Thus despite deviations, the overall trend can be described as one of reasonably high growth.

3.1.1.2.2 Some Structural Changes in Industries

Besides the uptrend in the growth rate, the industrial scene has been marked by a change in the structural composition of industries which is of considerable significance for the economy. (Table 4)

For quite long since the Second Plan, the basic and capital goods industries witnessed a rapid growth. It, in fact, remained higher than the general growth rate of industries. As a result, the industrial structure now leans quite heavily towards the capacity-building industries. This trend started since the Second Plan (1956-61) which accorded the highest priority to these industries.

Table 4. Growth rates in Industrial Production by Use-based Classification

(Base: 1980-81 = 100)

Industry group	Weight	1981 -82	1985 -86	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95
I. Basic goods	39.42	10.9	6.8	3.8	8.2	2.6	9.5	3.8
II. Capital goods	16.43	6.7	10.6	17.4	-12.8	-0.1	-4.2	25.0
III. Intermediate goods	20.51	3.7	7.5	6.1	-0.7	5.3	11.8	3.9
IV. Consumer goods	23.65	13.8	12.5	10.4	-1.8	1.9	3.9	8.5
(a) Consumer durables	2.55	10.9	18.7	14.8	-12.5	-0.7	16.1	9.8
(b) Consumer non-durables	21.10	14.1	11.5	9.4	1.2	2.5	1.3	8.2

Source: Government of India, Economic Survey, 1995-96
Note: Figures within brackets indicate percentage change over the preceding year.

As against this, the growth rates of intermediate goods and consumer goods have mostly been lower than the general growth rate. It needs to be mentioned that of the two types of consumer goods, namely, durable and non-durable consumer goods, the former witnessed a higher rate, which compares well with that of the basic and capital industries. The result of a fast growth of the basic and capital goods industries is that the country's capacity for the production of industrial goods has been much expanded. This structural change is significant as it allows a country to build infrastructure which facilitates direct productive activities. It also improves possibilities of producing machines which produce consumer goods. In fact, it is for this reason that much diversification in the products has taken place in the country. And for the same reason the country is no longer dependent on imports of some goods of vital importance for the economy. This has also enabled the country to produce goods which cannot be imported or imported with great difficulty. The greater importance of these industries is also reflected in India's exports, as the export of manufactured goods has gone up substantially.

3.1.1.2.3 Increase in Productive Capacity

There has also been an increase in the productive capacity of the country. The progress in this sphere is to be seen in the rates of investment, economic and social capital, and structural changes in the economy. Besides, some modernization of the economy has also taken place. The rate of capital formation has gone up quite high. The gross capital formation at present hovering around 24%, is a considerable jump-up from that under 10% in 1950-51. At this level, it compares well with middle-income countries of the world. An equally significant aspect of the investment is that quite a substantial part of it is matched by domestic saving. The contribution of foreign resources has been small indeed, at least quantitatively. There has also been a rapid and sizeable increase in the economic and social capital. With investment rate rising during all these years, the stock of capital has gone up. This includes capital goods like buildings for factories, storage, and for commercial and residential purposes. The production of machines capable of producing machines, as also consumer goods have expanded substantially. Large increase has also taken place in the irrigation capacity with the construction of dams, canals, wells, etc. Significant progress has also taken place in the installed capacity for electricity generation. Transport facilities have also improved a lot with the extension of roads, railway tracks, airports, as also rise in the manufacturing capacity for engines, vehicles etc[7].

7. Ibid.

3.1.1.2.4 Improvement in Human Capital.

There has been a sizeable progress in the formation of human capital. There is much by way of quantitative achievements. The number of educational institutions has increased by more than three times from 2.31 lakhs in 1951-52 to more than 8 lakhs in 1990-91. The expansion has taken place in education at all the levels, namely, primary, middle and high /higher secondary, college, professional institutions and universities. These institutions cater to various courses and skills, namely, arts, commerce, science, engineering, technology, medicine etc. The enrollment in these institutions has gone up enormously from 24 million in 1950-51 to about 48 million in 1984-85. In this respect India ranks third in the world.

According to a report prepared by the U.S Embassy:

> "India has the world's third largest pool of scientific and technical personnel, which serves as an important attraction for foreign investors. Most managerial and technical people, and many skilled workers, speak English and many have studied or worked abroad. Unemployment and underemployment are high, providing an abundance of labor.[8)]"

There is also considerable increase in the number of literates. As

8. "1997 Country Commercial Guide: India", Report prepared by U.S. Embassy New Delhi, released by the Bureau of Economic and Business Affairs, August 1996.

per the latest census of 1991, the literates form more than half (52.1%) of the population (of 7 years age and above). This constitutes an improvement over 1981 when the literacy rate was 43.6 %.

Something has also been achieved in the spheres of health facilities and the health status of the people. There is, for example, a considerable increase in the number of institutions imparting medical education as also for the training of ancillary health personnel like nurses, mid-wives etc. The number of medical colleges has gone up from 28 in 1950-51 to 128 in 1988-89, and that of dental colleges from 4 to 43. Hospital and dispensaries too have increased much, the former from about 3,000 to over 10,000 and the latter from about 7,000 to about 30,000. The number of registered medical practitioners has increased substantially from about 60,000 to over 3,60,000. The number of registered nurses too has gone up from over 15,000 to about 2,42,000. As a result of these expanding health facilities, there is an improvement in the health status of the people. The life expectancy at birth, the most important index of the advances in health, has gone up. It now stands at 61 years; it was as low as 32 years in 1950-51. Another improvement of vital importance has taken place in the rate of infant mortality. It has declined from 146 per thousand in 1951 to 90 in 1991. There is again, a considerable reduction in the incidence of communicable diseases.

3.1.1.2.5 Some Modernization

Equally symbolic of the developing character of India are the modernization trends as reflected in a variety of structural changes in its economy.

Although there is no basic change in the overall picture of occupational pattern, yet one can discern some significant developments in some sectors, and in some regions of the country. For example, the number of workers in modern industries is on the increase. This is indicative of the fact that the country is producing new products and using new and modern techniques[9].

The Indian computer industry has been recording an impressive annual growth rate of over 30 percent during the past years. This trend is expected to continue for the next three to five years. Portables, micros, workstations, and mid-range systems all recorded a moderate to spectacular growth during the past two years.

At present the Indian industry assembles computers with imported components and indigenous technology. The locally manufactured computers cater to low-end applications while the imported computers continue to facilitate CAD, CAM, CASE, multi-media, and other high-end applications.

The Indian computer hardware industry grew from $940 million in 1994-95 to an estimated $1372 million during 1995-96, reflecting a growth of 40%. This industry is targeted to reach $1920 million by 1996-97. An average annual growth of 35-40 percent is forecast for this industry segment. Several new projects and office automation

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9. A. N. Aggarwal, Ibid.

efforts of the existing large projects will support this growth trend.

The Indian computer software industry grew at an annual compound growth rate of 46 percent and reached USD 1.2 billion in 1995. Software exports, which is the main stay of the Indian computer software industry, grew by more than 38 percent. (Table 5) The domestic market, that earlier lagged behind, grew by more than 45 percent, making India one of the largest emerging markets[10].

Furthermore, there is an impressive expansion of job opportunities in services like education, health, science, railways, communications etc. These changes are indicative of the fact that the process of modernization of the economy is underway. But these changes, important though they are, are not quantitatively so large as to produce a noticeable change in the overall occupational pattern.

Table 5. The Indian computer software industry

(U.S.$MILLION)	1994-95	1995-96	1996-97(Est.)
Total Market Size	419.00	567.50	776.50
Total Local Production	763.00	1046.00	1433.00
Total Exports	449.00	615.00	842.50
Total Imports	105.00	136.50	186.00
Exchange rates used: US $1=Rs.	32.75	34.95	35.00

Source: Report prepared by U.S Embassy in India

However, of particular importance are the changes that have taken place in the 1981-91 decade. Alongside, and perhaps reflecting the

10. "97 Country commercial guide: India", ibid.

modest rise in per capita income, the shift away from agriculture is somewhat significant in 1991 compared to 1981 or even earlier. Equally significant is the fact that this shift can perhaps be related to the rise in the services sector. It is so in the sense that just as there is a fall in the share of agriculture, there is almost an equal rise in the services sector. Or in other words, the fall in the agricultural sector has been largely made up by a rise in the services sector. The manufacturing sector has shown a marginal fall of no significance. This means that the change in the occupational structure in 1981-91 decade signifies rising work in the services sector, rather than in the commodity sector. This perhaps points to the emergence of positive growth forces in the economy[11].

In some states, the changes in the proportion of workers in agriculture also seem to go with the growth of agriculture. For example, in recent years, in state like the Punjab, Madhya Pradesh, Kerala and Maharashtra, the share of agriculture in the workforce has decreased. These are the states where agriculture is important and is growing rapidly. In states like U.P., Rajasthan, Assam and Orissa, where also agriculture is important, the share of agriculture in the workforce has increased. In these states the growth of agriculture has been rather slow.

The level of per capita income of different states too seems to tell a familiar story about the occupational structure. In states where per capita income is about the same as the all-India level (e.g., Punjab,

11. A. N. Aggarwal, ibid.

Kerala, Gujarat, Tamil Nadu, Maharashtra), the share of agriculture in the workforce is low and that of industrial and services high. On the other hand in states where per capita income is less than the all-India level (e.g., Madhya Pradesh, Bihar, U.P., Rajasthan), the share of agriculture in the working force is high and that of non agricultural sector is low. Thus, although the country's occupational pattern shows no significant changes, yet some regions of the country do show some changes in their occupational structure.

3.2 The Structure and Competitiveness of the Korean Economy

3.2.1 Development up to 1988

3.2.1.1 Emergence of Korea as an Industrial Nation

Within a quarter century, Korea transformed itself from a typical backward economy into one of the so-called NICs (Newly Industrializing Countries). Korea in the 1950s, with a per capita GNP of less than \$600 (in 1988 dollar prices) and more than two-thirds of its population engaged in the primary sector, possessed all the familiar characteristics of an extremely underdeveloped economy. With the energetic execution of export-oriented growth strategy since the early 1960s, however, annual commodity exports expanded from less than \$30 million (of mostly primary products) in the 1950s to \$60 billion (of mostly manufactured products) in 1988, and the growth rate of the Korean economy jumped from about 4 percent per annum on an average in 1953-61 to about 8 percent in 1962-66 and to about 9 percent in 1967-88. The commodity-export / GNP ratio increased from less than 1 percent in 1960 to about 35.2 percent in 1988. Per capita GNP amounted to about $4,040 in 1988.

The proportion of persons employed in the primary sector declined from about 64 percent of total employed persons in 1963 to about 20 percent in 1988 (producing 10.8 percent of GNP), while that in the manufacturing sector expanded from about 8 percent to 27 percent (producing 31.6 percent of GNP in 1988). During 1963-88, the unemployment rate declined from 16.2 percent to 2.5 percent[12].

3.2.1.2 Characteristics of Korean Economy

A distinguishing characteristic of the Korean economy is the speed at which it has undergone structural change (See Table 6). Such dynamism is natural, however, in the light of the rapid growth of the economy that began in the early 1960s (See Table 7)[13].

During the period 1965-88, Korea's GNP grew 9 percent annually while its per capita GNP increased from 100 dollars to 4,040 dollars. Korea's high economic growth has been sustained by rapid export-led industrialization. Goods exports, mostly manufactures, increased more than 20 percent a year in real terms.

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12. "Export-oriented growth of korea: A possible path to advanced economy", International Economic Journal 27, Volume 4, Number 2, Summer 1990.
13. Soogil Young, "Korea's Economic Structure And Trade Pattern", Seoul, 1989.

Table 6. Structure of the Korean Economy: 1965 and 1988

(dollars, percent)

	1965	1988
GNP/capita	105	4,040
Unemployment rate	7.4	2.5
GNP structure:		
agriculture, forestry and fishing	37.6	9.7
mining	2.0	0.7
manufacturing	17.8	34.3
construction	3.4	7.2
other social overhead services	5.3	10.6
.electricity, gas and water	1.3	3.0
.transportation and storage	3.4	5.2
.communication	0.6	2.4
others	34.1	37.5
Employment structure:		
agriculture, forestry and fishing	58.6	20.7
mining	0.9	0.8
manufacturing	9.4	27.7
construction	2.9	6.1
others[1]	31.0	44.8
Heavy industries in manufacturing value-added	33.4	58.8
Manufactured goods exports	61.1	94.4
Goods exports/GNP	5.8	35.2
Goods imports/GNP	13.7	28.4
Exports of nonfactor services/GNP	2.7	6.2
Imports of nonfactor services/GNP	2.2	3.4
Wages and investment income:		
foreign receipt/GNP	1.0	0.9
foreign payment/GNP	0.1	2.3
Unrequited transfers(net)/GNP	6.8	0.8
Current-account balance/GNP	0.3	8.3

Source: Bank of Korea, "National Income in Korea", 1978.
____________, "National Accounts", April 1989.
Korea Economic Planning Board, "Major Statistics of the Korean Economy"

Note: 1) Includes the so-called overhead services other than construction such as electricity, gas, water, transportation, storage and communication.

Furthermore, the GNP share of manufacturing nearly doubled from

18 to 34 percent while that of agriculture fell drastically from 38 to 10 percent. Some time around the mid-seventies, the widespread labor surplus disappeared. Furthermore, with the rising share of heavy industries in manufacturing, there has been an increasing sophistication in technological capabilities [14].

Table 7. Average Annual Rates of Increase: 1965-88

(percent)

GNP	9.0
Population	1.6
GNP/capita	7.3
Investment	15.6
Exports[2)]	22.1
Imports[2)]	17.0

Source: Bank of Korea, "National Income in Korea, 1978.
____________ , "National Accounts", April 1989.
Korea Economic Planning Board, "Major Statistics of the Korean Economy"

Notes: 1) In real terms.
2) Both goods and nonfactor services included.

3.2.1.3 Improvement in Service Sectors

Services, already a large sector in the sixties, have grown in terms of both income and employment generated (Table 6), under the strict protection of the Korean government. Construction, which is considered a part of what are called social overhead services in Korea, accounted for 7 percent of GNP in 1988. Since the sixties, there has been an especially rapid increase in the employment share not only of construction but also of other services. Other social overhead services such as electricity, gas, water, transportation, storage, and

14. Ibid

communication, together have grown to account for 11 percent of GNP. In addition, other services such as wholesale and retail trade, banking, insurance, business services, personal services and community services have also grown to account for 38 percent of GNP in 1988.

Korea's economy is now one of the most trade-dependent in the world. In 1988, exports of goods alone amounted to 59.7 billion dollars, 35 percent of GNP. Trade in nonfactor services has also grown with exports amounting to 6 percent of GNP in 1988, although imports were considerably less (Table 6). Thus, Korea trades heavily not only in goods but also in nonfactor services[15].

3.2.1.4 Trade Partners

Internationally, Korea has just begun to carry weight as a trade partner (Table 8).

Table 8. Korea's Share in Foreign Counties' Imports and Exports: 1987

Country	Imports	Exports
Japan	5.4	5.8
U.S.	4.2	3.2
Australia	2.6	4.1
Canada	1.5	0.9
EC	1.8	1.1
World	1.9	1.6

Source: IMF, "Direction of Trade Statistics", 1988.

In Japan, the US., and Australia, in particular, Korea accounted for

15. Ibid.

5.4, 4.2 and 2.6 percent of total imports in 1987, respectively. At the same time, Korea accounted for 5.8, 3.2 and 4.1 percent of total exports from those countries. Korea's share in the trade of other countries, however, is considerably smaller. This is especially true for the external trade of EC countries. Korea's share in total world trade as measured by exports was 1.9 % in 1987, making Korea the 13th largest trader in the world. In the same year, in terms of the total trade turnover, Korea was the 7th and 2nd largest trader to U.S. and Japan, respectively.

Except in 1965 and 1979, Korea experienced current account deficits up until 1986. Assisted by the so-called "three blessings", drops in the oil price, interest rate and dollar value in 1985, surpluses began to appear, reaching 4.9 percent, 7.7 percent, and 8.4 percent of GNP in 1986, 1987 and 1988, respectively. With the sharp worsening of the current account in the wake of the second oil shock and the subsequent world recession during the early 1980s, the amount of foreign debt increased to a level exceeding 50 percent of GNP, reaching 45 billion dollars by the end of 1985. By the end of 1988, however, it was down to 18 percent of GNP, or 31 billion dollars. In the meantime, the country's holding of foreign assets increased from 11 billion to 24 billion.

3.2.1.5 A Rapid Structural Shift

A rapid structural shift towards capital- and technology-intensive products has accompanied the rapid growth of Korea's manufactured exports (Table 9). Textile products, which are relatively labor-intensive, still account for as much as a quarter of all exports while footwear accounts for 6 percent. The share of electronic products such as television sets and semiconductors is nearly as large as that of textile products, and the other leading export products are mostly capital- and technology-intensive, such as steel products, passenger cars, and electrical appliances[16].

Table 9. Korea's 10 Largest Export Items: 1987

(billion dollars, percent)

Ranking	Items	Value	Proportion
1	Textile products	11.7	24.8
2	Electronic products	10.1	21.5
3	road motor vehicles & parts	3.2	6.8
4	Footwear	2.8	6.0
5	Iron & steel products	2.8	5.8
6	Marine products	1.6	3.4
7	Electrical equipment	1.5	3.1
8	Synthetic Fibre products	1.3	2.8
9	General machinery	1.3	2.8
10	Ships	1.1	2.4
Subtotal		37.4	79.4
Total export		47.3	100.0

Source: Korea Foreign Traders Association, "Trade and Balance-of-Payments Statistics", April 1988.

3.2.2 Struggle to Improve Competitiveness Since 1989

3.2.2.1 Setbacks

Between 1989-92, the Korean economy experienced difficult challenges and setbacks and had to adjust to major changes in both

16. Ibid.

domestic and international market conditions. With the collapse of the former Soviet Union and the Eastern Bloc, the role of economics in shaping international relations was rapidly growing[17].

The figures in Table 10 reflect the falling competitiveness of Korean exports. The average annual rate of increase in total exports dropped from 26 percent in the 1986-88 period to only 6 percent in the 1989-92 period[18]. A breakdown of the 1989-92 period shows that 1989 was a year of particularly slow growth in exports.

Table 10. Exports by Principal Commodity (MTI Classification)

	1986-88	1989-92	1988		1990		1991		1992	
	Average Annual Rate of Increase	Average Annual Rate of Increase	Amount	%	Amount	%	Amount	%	Amount	%
Total Exports	26.1	6.0	623.8	2.8	650.2	4.2	718.7	10.5	766.6	6.7
Light Industrial Products	28.6	1.5	244.8	3.1	151.0	2.3	254.8	1.7	252.6	-0.9
Textiles	25.8	2.7	151.4	7.3	147.0	-3.1	155.0	5.5	157.1	1.4
Footwear	34.3	- 4.3	35.9	-5.6	43.1	20.1	38.4	10.9	31.8	-17.2
Toys & Dolls	27.3	-18.9	8.9	-9.1	7.3	-17.9	6.1	-16.2	4.2	-31.1
Heavy Industrial Product	26.8	9.4	344.8	2.7	367.0	6.5	430.6	17.3	481.0	11.7
Electric & Electronics	49.7	7.3	170.9	5.1	178.7	4.3	201.6	12.8	215.7	7.0
Ships & Boats	-29.4	23.6	17.9	1.6	28.0	56.7	41.2	47.3	41.1	-0.2
Automotive Vehicles	88.0	-3.2	23.2	-35.3	21.6	-7.2	25.7	19.3	31.5	22.3
Iron or Steel Products	17.0	8.2	43.0	9.6	42.4	-1.4	45.1	6.4	53.7	19.1
General Machine	41.2	19.7	14.1	16.3	17.8	26.2	23.4	31.7	24.8	6.0

Source: Office of Customs Administration, Republic of Korea
Major Statistics of the Korean Economy 1993, Korea Foreign Trade Association.
Trade Annual Report, Respective years, Korea foreign Trade Association.
* %: Percentage change from the same period of the previous year.

Between 1986-88, strong growth was recorded in all of Korea's major export sectors in the light manufacturing industry: the exports of

17. Eul Young Park, "Economy in Transition: An Analysis of Korean Export Performance from 1986 to 1992", Korea Development Institute, 1994.
18. Growth rates were calculated as the percentage change of export sales from the same period in the previous year.

textile goods grew by 25.8 percent, toys and dolls by 27.3 percent, and footwear by 34.3 percent. The performance in the heavy industrial sectors was mixed, however. Exports of automotive vehicles and electric and electronics goods grew at phenomenal rates, though this was partly due to a small starting base: by 88 percent and 50 percent, respectively. Exports of iron and steel products grew at a more modest pace, at about 17 percent annually. But the exports value of ships and boats declined, at an average annual rate of 29 percent.

3.2.2.2 New Competitors

Prior to the emergence of new competitors like China and ASEAN, Korean export products were most competitive in relatively labor and skill intensive sectors and a critical edge was maintained through Korea's ability to market goods, which do not require very sophisticated technology, with dependable quality and at low prices.

However, these new competitors are undercutting the price competitiveness of Korean goods by producing goods of comparable quality and selling them at lower prices. The decline in Korea's overall market share in the U.S. and Japan is mainly the result of Korea's deteriorating price competitiveness in the industries that it once was most competitive in, namely textiles, garments, shoes, toys, and other relatively labor and skill-intensive industries in the light manufacturing sector[19].

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19. Ibid.

3.2.2.3 Expansion of Its Export Sales in the Region

Korea has been especially successful among the NIEs (Newly Industrializing Economies) in expanding its export sales in the region. In 1991, its exports to other NIEs increased by 26 percent, while its exports to the Southeast Asian countries grew by 32 percent. Korea made heavy investments in the more capital and technology intensive heavy and chemical industries (HCIs) during the late 1970s. These industries are producing goods with rapidly rising international competitiveness. The potential contribution of these economies to the Korean economy is expected to be large. For instance, Korean exports in the shipbuilding, auto and electronics industries are rapidly gaining competitive advantage in the markets of developing economies. Because of the closer fit which exists between the demand composition of the newly developing economies and the supply composition of Korean products, Korean HCI products are performing better in countries like China and ASEAN than in the U.S. or Japan.

The price range of Korean HCI products is considered very reasonable by the consumers of these developing countries, while the quality, though somewhat inferior to the standards of top model products, is acceptable. The better fit between the demand and supply composition in developing economies has given Korean exporters more competitive positions in the HCIs of these countries than of the developed ones, and has contributed to Korea's dynamic export performance in the regional markets between 1990-92[20].

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20. Ibid.

3.2.2.4 Changes in the Cost of Labor

In 1989 while Korea's nominal wage levels increased by the biggest increment, by 25.1 percent, in the same year, labor productivity increased by the smallest increment, by 7.0 percent. (See table 11 and 12) However, the overall growth rate in Korea's labor productivity was higher between 1989-92 than between 1986-88.

Table 11. Annual Nominal Wage Increase
(Manufacturing)

(Local Currency, %)

	Korea	Taiwan	Hong Kong	Singapore	Japan	China
1986	9.2	10.1	8.2	1.2	1.5	15.8
1987	11.6	9.9	12.3	3.5	1.7	9.8
1988	19.6	10.9	14.7	10.6	4.5	19.7
1989	25.1	14.6	14.6	11.3	5.7	10.8
1990	20.2	13.5	14.3	12.3	5.3	10.6
1991	16.9	11.0	11.8	11.3	3.4	9.3
1992	15.7	10.3	9.6[1)]	9.6	1.2	17.0
Average Rate of Increase (%)						
1986-88	13.4	10.3	11.7	5.1	2.6	15.0
1989-92	19.4	12.3	12.6	10.6	3.9	11.9

Source: Industry of Free China, Taiwan, Labor Yearbook, 1992, ILO. Statistical Monthly Bulletin, Bank of Japan, China Statistics Yearbook, PRC.
Note: 1) Average Rate of Increase from January to September.

Faster wage increases with only comparable increases in labor productivity increased the gap in unit labor costs between Korea and her competitors NIEs[21]. When the cost of labor in Korea is compared to other low wage countries like China and Vietnam, the gap is even

21. Unit labor costs are defined here the ratio of the wage index and the labor productivity index on a nation currency basis.

greater. The average rate of increase in the unit labor costs in Korea doubled between the 1986-88 period and the 1989-92 period, from 4.1 percent to 8.2 percent. Table 13 shows that even when Korea's unit labor costs were rising at an average of 4.1 percent, it was increasing much more quickly than in the other NIEs. In fact, unit labor costs in Hong Kong, Singapore, japan and China were decreasing during this period[22].

Table 12. Annual Increase in Labor Productivity

(Local Currency, %)

	Korea	Taiwan	Hong Kong	Singapore	Japan	China
1986	9.1	7.1	13.3	13.6	1.8	7.1
1987	7.6	7.9	15.1	3.7	5.8	18.7
1988	10.1	7.5	9.1	2.0	11.5	27.5
1989	7.0	10.1	6.2	3.8	6.2	22.5
1990	12.6	7.9	8.3	4.6	4.2	6.9
1991	12.9	10.9	11.7	3.5	2.3	11.3
1992	9.1	3.9	17.7	3.7	-5.2	16.8
Average Rate of Increase (%)						
1986-88	8.9	7.5	12.5	6.3	6.3	17.5
1989-92	10.4	8.2	10.9	3.9	1.8	14.2

Source: Statistics of respective countries, Labor Statistics yearbook, 1992, ILO. International Competitiveness of Korea Exports (July, 1993), KFTA.

Between 1989-92, Korean nominal wages continued to rise, but at an even more accelerated pace. In Taiwan, Hong Kong and Singapore, although the rates of increase in the cost of wages were higher during this latter period than in the former one, they were quite restrained by Korean standards. The rapid rise in Korea's cost of wages depressed

22. Ibid.

the price competitiveness of its export products, especially in relation to the export products of new competitors like China, Indonesia and Thailand.

Table 13. Annual Increase in Unit Labor Costs[1)]

(Manufacturing, %)

	Korea	Taiwan	Hong Kong	Singapore	Japan	China
1986	0.1	2.8	-4.5	-10.9	-0.3	8.1
1987	3.7	1.0	-2.4	-0.2	-3.9	-7.5
1988	8.7	3.9	5.0	8.3	-6.3	-6.1
1989	16.8	4.1	8.0	7.3	-0.6	-9.6
1990	6.8	5.3	5.5	7.4	1.0	5.7
1991	3.5	0.1	0.1	7.5	1.4	-1.8
1992	6.0	6.0	-6.8	3.7	6.3	-1.3
Average Rate of Increase (%)						
1986-88	4.1	2.6	-0.7	-1.2	-3.5	-2.1
1989-92	8.2	3.8	1.5	6.4	2.0	-2.4

Source: Statistics of respective countries, Labor Statistics yearbook, 1992, ILO.
Note: 1) Unit Labor Costs = Wages Index / Labor Productivity Index.

3.2.2.5 The Development of Technological Capability and The National Competitive Advantage

In many dynamic developing economies, competitive advantages are not passively inherited, but created through the combined processes of strategizing, investing and managing. Once created, the sources of competitive advantage must constantly be upgraded if a nation's upper edge is to be maintained. Thus, sustained investment is necessary if a nation is to keep and enhance its competitive advantage and is a crucial determinant of future prosperity.

Korea continued to maintain a relatively high investment ratio in the 1980s, about 30 percent of GNP. The level of long term fixed capital investment rose steadily between 1986-92, at an average annual rate of about 15.8 percent. Particularly in 1986 and 1987, and again in 1990, a high proportion of national income was allocated to investments in equipment and facilities.

In 1992, the level of investment went down by about 0.8 percent. This was due partly to the overall decrease in consumption and investment demands in 1992 during a sluggish growth year. However, a breakdown of the total investment shows that a significant restructuring and reallocation process was occurring in the Korean economy in response to the changing factor advantages in certain key industries. This accounted for a large part of the decline in the overall level of investment[23].

Heavy investments continued to be made in the petroleum, chemical and electronics industries, while significant cutbacks were made in labor intensive industries, resulting in decreased total investment.

The Korean economy is currently "sandwiched" between developing economies that have an edge in producing labor-intensive goods and advanced economies which have a cost advantage in producing goods which require state of the art technology and information. It is being squeezed out from the labor-intensive industry sectors, while having difficulties in overcoming the competitive leads that advanced economies have in the more technology-intensive sectors.

It is often claimed that just as entry into the textile and garment

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23. Ibid.

industry, the steel and machinery industry, the electronics industry, and the automobile industry fueled the growth of the Korean economy in the 1960s, 1970s and 1980s, respectively, Korea must jump into the high-technology industries in the 1990s in order to find its new energy source for continued economic growth. But given Korea's current industrial base and structure, its resource base, and the amount of time and capital required to become a competitive presence in most high-technology industries, there are realistic limitations to such a possibility.

3.2.2.6 Industrial Restructuring

During the period between the mid-1980s and 1990s, the Korean economy went through tremendous changes. These changes will continue into the future. The 1986-92 period began with a boom, fueled by rapid export growth. This was mainly due to the price competitiveness of Korea products against competing Japanese products, which was in turn caused by the rapid increase in the value of the yen against the dollar. Korean industries responded to increasing international demand by expanding capacity. In doing this, they invested in existing technologies rather than in new ones.

However, Japanese industries soon made the necessary adjustments and gained competitiveness again. On the other hand, Korean industries suffered from inflation, big wage hikes, and a belated appreciation of its currency due to the economic boom. Korea was forced to go through industrial restructuring.

The recession of 1991-93 and the slowdown in export performance was a critical stimulation for Korean firms. It led them to restructure their organizations and operations aggressively. Since mid-1993, many indicators have been showing that Korean firms have, in large part, overcome the difficulties of the early 1990s, although the restructuring effort needs to continue for many more years.

The most visible signs of industrial restructuring are coming from the large firms which have led Korea's export drive of the last three decades with the mass production of standardized, low cost consumer products from Korean bases. These firms realized that their operational environment is now different, and that many of their "proven" traditional strategies would no longer work.

As a first step, they intensified their foreign investment in China, South-East Asia and some Latin American countries to strengthen their labor-intensive, export-oriented manufacturing operations. Moreover, because rising wage levels made it impossible to produce certain manufacturing goods efficiently, they transferred these operations to small and medium-sized enterprises (SMEs). Second, large firms reorganized their operations to minimize the inefficiencies of a large organization. They decentralized, delegated authority, and created semi-independent smaller units to create greater flexibility, to shorten the response time to changing market circumstances, and to better support bold, new initiatives. Third, they increased research and development (R&D) investment for new products and new manufacturing processing techniques, including computer-aided manufacturing. They also reconsidered and selected the sectors they will concentrate in the future, based on the analysis of their comparative advantages[24].

3.2.2.7 Weak Competitiveness in Service and Agricultural Sectors

As far as manufacturing sectors are concerned, domestic markets were almost completely opened to international competition as of 1990. A few items are still protected against Japanese products, but they, too, will soon be opened up. A more serious problem is the extreme pressure Korea is under, particularly from the United States, to open up its domestic markets for services and agricultural products. While Korea's manufacturing sectors have been able to sharpen their international competitiveness through a quarter century of export drive, most service sectors have been allowed to enjoy protected life in the captive monopolized domestic markets. The service sectors have yet to be trained for the operation under competitive market principles, free from direct government intervention and control. Since the Korean government has maintained an extremely repressed financial regime based on credit rationing, banking and capital markets, in particular, constitute the most backward area in the Korean economy[25]. Table 14 shows that Korea's competitiveness in finance is far behind that of other NIEs.

On the other hand, most of the major agricultural sectors have been shielded from foreign competition under the dual price system. If trade in agricultural products is to be liberalized fully, almost all of Korea's agricultural sectors can be wiped out. As of 1989, the agricultural

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24. Ibid.
25. D. Salvatore, "Trade Policies in Korea", Greenwood Press, 1991.

sectors still accounted for nearly 10 percent of Koreas GNP and about 19 percent of total employment. Land per farmer amounted to only 0.67 hectare in Korea, which might be comparable to that in Japan (1.1 hectare) but not comparable to that in West Germany (9 hectares) or in the United States (117 hectares).

Table 14. International Ranking of National Competitiveness in 1996

	Taiwan	Japan	Singapore	Hong Kong	South Korea
Overall ranking	18	4	2	3	27
1. Government	6	21	1	2	33
2. Domestic economy	11	5	3	8	4
3. People	16	4	8	22	21
4. Science and technology	17	2	12	20	25
5. Management	18	2	4	14	28
6. Finance	21	2	3	7	40
7. Internationalization	26	14	1	4	43
8. Infrastructure	30	26	33	9	34

Source: International Institute for Management Development, "World Competitiveness" Lausanne, Switzerland, 1996.

The domestic price for rice is almost five times that of import price. In 1970, the agricultural sector absorbed about 50 percent of total employed persons. But its share declined to 32 percent in 1980 and to about 21 percent by 1987. The absolute number of persons employed in agriculture decreased from about 4.4 million persons in 1980 to about 3.4 million persons in 1987. If an identical trend continues in the future, there will be only about 0.4 million persons in the agricultural sector by the year 2008 and less than 0.3 million by 2010. Furthermore, as of 1988, more than 60 percent of farm household heads were over fifty years of age. Thus now the Korean agricultural sector is experiencing a fundamental structural change. By transformation into capital- and technology- intensive farming, quite a few agricultural sectors can become export sectors, while some of them may completely disappear through international competition. In the absence of systematic responses, there is the danger of chaotic destruction of Korea's service and agricultural sectors.

Unlike the manufacturing sector, the liberalization of service and agricultural sectors would require good preparation and systematic implementation over a long period of time. But it is not certain whether Korea will be allowed to have sufficient time for an orderly adjustment and whether the Korean government will be capable of enforcing a systematic implementation of structural adjustment even if it is given a reasonable grace period[26].

3.3 Comparison between Indian economy and Korean economy

As the above survey indicates, the structure of the Indian and Korean economy is different in many ways. (Table 15) India's per capita GNP reached about $ 300 in 1994 whereas Korea's reached $ 9,700 in the same year. Korea invested 54.6% of GNP in 1991 whereas India invested only 19.3% in 1994. 79.3% of the population in Korea is engaged in industrial and service sectors producing 90.3%

26. Ibid.

of GNP in 1988, while 66.1% of the population in India is engaged in agricultural sector producing only 30% of GNP in 1991.

Table 15. Structure of the Indian and Korean economy (percent)

	India	Korea
GNP/Capita[1)]	Rs 10,299	$ 9,700
Goods exports/GNP[2)]	8.9	25.6
Goods imports/GNP	10.4	29.0
Employment structure[3)]		
Agriculture	66.1	20.7
Industrial	12.7	34.6
Service	20.6	44.7
GNP structure[4)]		
Agriculture	30	9.7
Industrial	27	42.2
Service	43	48.1
Foreign trade balance[5)]		
1985-90	- 38,688	4,865.7
1990-92	- 23,428	- 4,254.9

Source: 1. Population Censuses, Statistical Outline of India, 1994-95.
2. Economic survey, 1995-96.
3. Ministry of External Affairs, Government of India, 1997
4. RBI Bulletins 1995-96
5. The Korea Exchange Bank, "The Korean Economy", Korea Exchange Bank, Seoul, 1991.
6. Joong-Ang Ilbo (Korea Daily Newspaper) 5 July 1997

Notes: 1) In 1994-95
2) India, in 1994-95 / Korea, in 1991-1992
3) India, in 1991 / Korea, in 1988
4) India, in 1991 / Korea, in 1988
5) India - crores / Korea - US$ million

These figures show that Korea has better competitiveness in global trade than India. And it is reflected in the differing perspectives of the two countries on the outcome of the Uruguay Round trade negotiations.

3.3.1 India's perspective on the new round based on her competitiveness

India's share in global exports plummeted from 1.80% in 1950 through 0.43% in 1980 to 0.40% in 1984[27]. Of course India's total turnover (i.e., the value of imports plus the value of exports) has gone up by as much as over 140 times over 1950-51 in 1994-1995. In the fifties, the annual average value of trade was very low at over Rs 1400 crores. In the following two decades of the sixties and the seventies the growth accelerated with the annual average at over Rs 2,450 crores, and over Rs 8,260 crores respectively. In the eighties the annual average value of trade reached a big figure of over Rs 33,000 crores. In the nineties (1990-95), the annual average comes to Rs. 120,040 crores. Both imports and exports have caused the total value to increase, although not in equal measure. Imports have contributed a much larger value than exports. (Table 16)

The rise of value of trade, however large, cannot be considered big enough for India as it has taken place over a very small base, and it has happened over a period of more than four decades. As a result, in 1992 it was only 17 percent of India's GNP (Gross National Product). As against this, it was 36 percent in China and about 54 percent in South Korea in 1992. Moreover a significant part of the rise in the value of Indian trade was mainly in monetary terms, because of the large rise in the prices during this period. If it is adjusted for the rise

27. Mahesh Nanavaty, "Reorienting the export policy - I", Financial Express, 16 April 1986.

in prices, the actual rise in volume/real trade will turn out to be much less.

Table 16. India's Foreign Trade

(Rs crores)

Year	Imports	Exports	Total Value of Trade	Balance of Trade (Surplus and Deficit)
1950-51	608	606	1,214	- 2
1960-61	1,122	642	1,764	- 480
1970-71	1,634	1,535	3,169	- 99
1980-81	12,549	6,711	19,260	- 5,838
1983-84	15,831	9,771	25,602	- 6,060
1984-85	17,134	11,744	28,878	- 5,390
1985-86	19,658	10,895	30,553	- 8,763
1986-87	20,201	12,452	32,653	- 7,749
1987-88	22,399	15,741	38,140	- 6,658
1988-89	28,235	20,232	48,467	- 8,003
1989-90	35,416	27,681	63,097	- 7,735
1990-91	43,198	32,553	75,751	- 10,645
1991-92	47,851	44,040	91,892	- 3,810
1992-93	63,375	53,688	117,063	- 9,687
1993-94	73,101	69,751	142,852	- 335
1994-95	89,971	82,674	172,645	- 7,297

Source: Government of India, Economic Surveys

Another unhealthy trend has been large trade deficits. These have been occurring continuously since 1950. Except for two years (1972-73 and 1976-77) when there were small surpluses (Rs 104 crores and Rs 68 crores respectively), deficits marked each year of the entire period. In fact, the amount of deficits accelerated sharply. In the first decade of the fifties, the deficits on an annual average basis were just about Rs 200 crores. These more than doubled to over Rs 500 crores annually in the sixties. The deficits further increased to over Rs 700 crores annually in the seventies. In the eighties, there was a massive increase with annual deficits rising to over Rs 6,700 crores. These were over Rs 6,355 crores annually in the nineties (1990-95).

Table 17. World Competitiveness: Domestic Economy

(Ranking as of April 19, 1998)

	Rankings				
Country	1998	1997	1996	1995	1994
USA	1	1	1	1	1
Singapore	2	3	3	3	6
Malaysia	3	2	7	4	4
Chile	4	10	9	11	16
China	5	14	2	2	3
Ireland	6	5	16	17	19
Norway	7	8	13	16	21
Taiwan	8	17	11	10	10
Indonesia	9	11	25	22	20
Iceland	10	7	17	25	-
Luxembourg	11	4	6	-	-
Canada	12	21	26	27	32
Netherlands	13	16	22	23	25
Denmark	14	18	15	15	14
Japan	15	6	5	6	2
Thailand	16	12	12	9	8
Hong Kong	17	9	8	5	5
India	18	24	32	32	30
U.K.	19	19	21	24	22
Finland	20	23	38	39	38
Germany	21	26	19	12	12
Mexico	22	41	41	37	33
Philippines	23	20	29	30	31
Argentina	24	37	30	29	39
Australia	25	22	18	18	18
Sweden	26	31	37	35	34
Israel	27	15	14	14	-
Switzerland	28	32	20	19	13
Italy	29	30	28	28	23
New Zealand	30	34	10	13	15
Spain	31	33	33	31	29
Belgium	32	28	27	26	27
Greece	33	38	39	38	37
S. Korea	34	13	4	7	9

Source: International Institute for Management Development, "World Competitiveness" Lausanne, Switzerland, 1998.

As a percentage of GNP, deficits rise from a mere 0.5 in 1950-51 to a 3.4 in 1960-61, 4.7 in 1980-81, about 2.2 percent in 1990-91, and somewhat less, about 1 percent in 1994-95. These deficits have occurred because export earnings have been falling short of India's needs for imports.

Given its weak competitiveness in global trade, India resisted the new round from the beginning. Throughout the negotiations, India took a leading role among the developing countries, to block the unlimited intrusion of the developed countries into their markets. India knew that unlimited imports from developed countries would increase its trade deficits tremendously, severely affecting its balance of payment. After the new round was over, India found that it had too much to lose and too little to gain.

However India's world competitiveness in domestic economy sector is rapidly growing from 32nd in 1995 and 1996 to 24th in 1997 and 18th in 1998 whereas Korea's competitiveness dropped down sharply from 4th in 1996 to 13th in 1997 and 34th in 1998. It shows that in the near future, India will have better performance in global trade whereas South Korea faces difficulties at present. (Table 17)

3.3.2 Korea's perspective on the new round based on her competitiveness

Korea, since it grew rapidly through export-oriented policy and acquired better competitiveness than India, was active in supporting the launch of the new round. South Korea recorded the third highest rate of economic growth in the world during the 10 year period from 1985-1995. As a result, it was classified as one of the "high-income nations" by the World Bank in 1995. According to a report entitled "World Bank Atlas 1997", South Korea's real per capita gross national product(GNP) grew by an annual average of 7.6% each year since 1985 until 1995, the third highest rate following Thailand(8.4%) and China(8.0%)[28].

As far as manufacturing sector is concerned, the domestic market was almost completely opened to international competition as of 1990. And under the vigorous Market Opening and Globalization Policies of the government, 99.9% of manufactured goods were allowed to be imported into Korea in 1996[29]. In 1996, Korea's economy was the twelfth largest in the world, according to the World Bank. In the same year, Korea ranked second in the world in shipbuilding, third in semiconductor manufacturing, fifth in steel production, and fifth in automotive manufacturing. Over the last two decades, Korea has achieved an average annual growth rate of nine percent.

After 1989, Korea began to aim at the markets of developing countries due to its weak price competitiveness compared to its new competitors like China and ASEAN in the markets of advanced countries. Korea could gain competitive advantage in the markets of developing economies especially in China and ASEAN, satisfying the demand of their newly developing economies with its products sold at lower price than U.S. or Japanese products. Korea believed that the new round would open the developing countries' markets wider. So it

28. World Bank, "World Bank Atlas 1997", 1997.
29. Trade Show Business, 1996.

was enthusiastic in participating in the new round.

But later when Korea realized that the new round would open even its rice import market and service sector market which had been highly protected by the government, its enthusiasm cooled down. It feared that its agricultural structure would collapse totally, and so would its many service sectors such as bankings and insurances. It did not want the new round to fail. But in case it could not get better treatment for its agricultural sector, it was prepared to do without the round.

No country can have superiority in competitiveness in all sectors. However, in general South Korea's competitiveness is much higher and in wider sectors than that of India. So Korea's overall perspective on the new round was more positive than that of India. However in agricultural sector and labor service sector, Korea's competitiveness is weaker than that of India. Thus, the Korean and Indian's perspectives on the new round differed from sector to sector, according to their respective competitiveness in particular sectors. This point will be examined in chapter 4.

CHAPTER IV

Differing Perspectives on the Outcome of Uruguay Round in the Area of TRIPS, TRIMs, Services and Agriculture: India and South Korea

The Uruguay Round trade negotiations were the most far-reaching negotiations ever undertaken under GATT. For the first time, it brought agriculture under the discipline of GATT. It established separate rules and regimes in the new areas of TRIPS, TRIMs and Services. In this chapter differing perspectives of India and Korea on the outcome of Uruguay Round in these new areas will be brought out.

4.1 Trade-Related Aspects of Intellectual Property Rights (TRIPS)

Until the early 1980s, protection of intellectual property rights was never considered as an aspect of a trade regime. Nations, both developed and developing, recognized that both as a reward and as an incentive for innovation it was necessary to make payments for intellectual property rights, particularly patents. But the public interest took precedence over the interest of the patent holder. There was greater emphasis on using patents as a means for seeking transfer and indigenous development of technology and as a tool for industrialization than on rewarding the patent holder. The public interest also warranted steady and adequate supplies of patented products at reasonable prices. For these reasons, several nations enacted patent legislations which sought to strike a balance between the public interest and the interest of the patent holder. This included provision for compulsory licensing for the working of the patent i.e. local manufacture of the patented product, and for the grant of process patent only in sensitive sectors of the economy.

Several developing countries, including India, did not adhere to the Paris Convention for the Protection of Industrial Property (1967), because they thought that it would come in the way of their industrialization policy.

However, from the beginning of the 1980s, the major developed countries, particularly the United States, seized the initiative and went about systematically reversing the direction of change from greater flexibility in national patent systems to take care of varying needs and levels of development, towards a tightening up of such systems.

One of the motives of the United States was to prevent the newly industrializing countries from catching up the US lead in technology by what US regarded as the widespread piracy and counterfeiting of the innovations of US companies. The USA regarded the very open technological and scientific system prevailing at that time as inimical to its interest in this area. This perception and the pressure of the industrial lobbies led the United States to play an active and leading role in the establishment of a tighter and more protective intellectual property rights system. The monopoly position to be granted by a higher level of protection of IPRs was seen as an instrument to neutralise in part the relative decline in US competitiveness and to prevent further catching up based on an approach of imitative industrialization[1].

Besides, the increasing concern over IPR came together with growing investments by the transnational corporations and other private sector enterprises in the North on research and development. Such investments were made in recognition of the fact that science-based technologies have now become a major factor for gaining competitive advantage. This calls for larger and more risky investments. Hence the desire to ensure quasi-rent through a more stringent regime of intellectual property rights.

With increasing globalization, there developed a growing tension between governments of developing countries and transnational corporations as the former wanted to impose obligations on the corporations to work a patent and the latter wanted to eliminate such requirements and other conditions on the exercise of IPRs. In this battle the governments of developed countries openly sided with their transnational corporations and mounted a campaign to safeguard their interest. The Agreement on TRIPS was the culmination of this effort.

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1. M. Dubey, ibid, pp20-46.

4.1.1 India's perspectives on TRIPS

4.1.1.1 Resistance against the move to bring TRIPS

India, along with other developing countries, first tried to prevent IPRs from being brought on the agenda of the Uruguay Round Negotiations. At the GATT Ministerial Meeting in Geneva in 1982 the developing countries successfully resisted the move to bring TRIPS in GATT discussion. Their interpretation of the text on IPRs agreed in Punta del Este was that it called for a discussion on the clarification of the existing GATT rules and provisions dealing with intellectual property rights and with the measures to restrict trade in counterfeit goods. They regarded any discussion of norms and standards of IPRs as beyond the competence of GATT. They adhered to this position until the mid-term review of the Uruguay Round Negotiations in Montreal in December 1988[2].

4.1.1.2 Extreme pressure from developed countries

However, under extreme pressure from developed countries, including the threat of unilateral trade sanctions under the Special 301 section of the US Trade Act, they resiled from their position at the resumed mid-term review meeting in Geneva in April, 1989 and agreed, for the first time, to discuss norms and standards of IPRs.

After that, developing countries took a negotiating position which was aimed at safeguarding their interest to the maximum extent possible, particularly with regard to the scope, extent and duration of

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2. Ibid.

patent protection. But the negotiations on TRIPS turned out to be asymmetrical and non-transparent. No opportunity was provided to the developing countries for serious bargaining with developed counties and for a trade-off between the losses to be suffered by them on account of accepting a higher level of IPR protection and gains in terms of compensatory provisions in the area of TRIPS or other areas of Uruguay Round Negotiations. The finally arbitrated text in the Dunkel Draft came as a big surprise to developing countries.

4.1.1.3 TRIPS universalizes higher levels of IPR protection

The TRIPS Agreement basically universalizes the levels of IPR protection now prevalent in the developed countries. Protection will be available for 20 years for patents and 50 years for copyrights. And the protection of IPRs provided in the Agreement will be enforced through the common Dispute Settlement Mechanism of WTO, which provides for retaliation and cross-retaliation.

The TRIPS Agreement opts for copyright protection of software and data base. In addition, patents will be available in the area of computer development and information technology. Patent protection in these areas would impede both the independent development of functional equivalents and reverse engineering, while enhancing the market power of large firms which, through cross-licensing agreements, might erect barriers to entry that smaller firms will find difficult to overcome[3]).

3. Ibid.

4.1.1.4 TRIPS, against the Patent Act of India

The TRIPS Agreement goes against the Patent Act of India (1970) in practically all important respects.

1) The Indian Act excludes nuclear energy, methods of agriculture and horticulture and bio-technological processes and products from patentability. The TRIPS Agreement makes all these methods and products patentable.

2) Under the Indian Act, only process patents can be granted to food, medicines, drugs and chemical products. The TRIPS Agreement provides for granting product patents also in all these areas.

3) The duration of patent according to the Indian Act is 5 to 7 years for products for which only process patent is granted and 14 years for those for which product patent is also granted. Under the TRIPS Agreement, it will have to be 20 years in all cases.

4) In the Indian Patent Act, there are reasonable and effective provisions for the compulsory licensing of patent, called "licences of right" and there is a provision even for the revocation of patents in public interest. In granting "licences of right", all that the Controller of Patent has to do is to satisfy himself that "the reasonable requirements of the public with respect to the patented invention have not been satisfied or that the patented invention is not available to the public at a reasonable price". The Controller can also, on application by the Government, give on a patent an endorsement of "licences of right". As regards food, medicines, drugs and chemicals, the process

patent granted for them shall be deemed to be endorsed with the words "licences of right", which can be worked on the expiration of three years from the date of sealing of the patent. Finally, the Controller has the authority to make the grant of compulsory licensing effective at any time without waiting for three years to expire. Under the TRIPS Agreement, there is no specific provision for compulsory licensing or licences of right or revocation of patents[4].

For implementing the TRIPS Agreement, a total revamping of the Indian Patent Act will be required.

4.1.1.5 TRIPS will impede the development of technology in developing countries

The TRIPS Agreement will have the effect of impeding the development, adaptation and absorption of technology in and transfer of technology to developing countries. The Agreement prohibits the present practice in many developing countries, and the erstwhile practice in several developed countries, of granting process patent only in such areas as pharmaceutical, chemicals, food-processing, etc. This will adversely affect the policies of technological self-reliance. It will prevent the development of processes appropriate to the domestic environment, socio-economic conditions and the resources endowment of developing countries. It will result in the dismantling and reversal of policies in certain sectors to develop, through domestic R&D effort, the nation's capacity to adapt, absorb and develop technology. More

4. Ibid.

specifically, it will prevent the so-called 'reverse engineering' which several of the present highly developed countries have resorted to in order to reach the present level of sophistication of their industrial and technological structures. It will be a strong disincentive to local R&D effort because a large part of the present process of making incremental innovations on technologies acquired from abroad will be declared illegal and hence will have to be dismantled.

According to Article 46 of the Agreement, goods produced in units operating on the basis of a system of process patent only and the resources and implements used for producing such goods may be ordered to be destroyed or dismantled. This will adversely affect the sizeable export of pharmaceutical products that Indian companies have built up recently by successfully exploring alternative technological routes to producing the same products, made possible by the process patent only regime. Indian scientists have demonstrated a genius for finding superior formulations and Indian formulations are the cheapest in the world. India will be required to close down some 10,000 units in the pharmaceutical sector, throwing out of employment thousands of scientists and technicians and adversely affecting an export business of approximately $ 550 million per annum. Foreign entrepreneurs would displace local firms, particularly in areas of very advanced technology. National development will suffer and there will be a sharp increase in the profits and royalties remitted aborad.

4.1.1.6 Increase of the prices of life-saving drugs

There is also no doubt that in some developing countries where drug prices have been dramatically brought down through the invention of local formulations based on a policy of process patent only in the pharmaceutical and chemical sector, the introduction of product patent in this sector, along with the other provisions of the TRIPS text, will lead to a substantial increase in the prices of life-saving drugs most of which are covered by patents.

In a country like India with massive poverty, it is extremely important to make drugs available to the people at low prices. India has eminently succeeded in doing so by its system of process patents only in the drug and pharmaceutical sector. The introduction of product patent in this sector will deal a severe blow to public health services.

With regard to some 30 life-saving drugs for which patent holders were mostly US and UK firms, US prices in 1991 were 2.63 times to 71.29 times higher than those prevailing in India and the UK prices were 2.45 times to 47.88 times higher[5](See Table 1). There is no doubt that because of the very fact of the prevalence of monopoly, there will be substantial price increases for these drugs in India.

The Government of India will find itself helpless in getting the drugs manufactured in the country because of the provision in the TRIPS Agreement that 'importation' is as good as 'production'. And even if the drugs are manufactured in the country, the prices will be

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5. The prices are for 1991. Source: US Prices--Annual Pharmacists Reference. / UK Prices--U.K. MIMS.

higher than under the present conditions of free competition, because of the monopolistic position enjoyed by the patent holder.

Table 1. International Comparison of Selected Drugs Prices

Drug	India	Pakistan	Times costlier*	USA	Times costlier*	UK	Times costlier*
Anti-Bacterials							
Ofloxacin	73.03	151.26	2.07	192.39	2.63	178.77	2.45
Norfloxacin	33.61	161.94	4.82	613.77	18.26	290.88	8.65
Tobramycin	16.43	150.08	9.13	387.50	23.58	86.66	5.27
Anti-Inflammatory							
Diclofenac	5.67	72.00	12.70	234.74	41.40	110.29	19.45
Anti-Ulcerants							
Ranitidine	29.03	336.00	11.57	729.93	25.14	553.88	19.08
Cardiovasculars							
Atenolol	7.86	111.78	14.22	223.85	28.48	118.78	15.11
Diltiazem	19.29	96.00	4.98	161/84	8.39	90.90	4.71
Anti-Viral/Fungal							
Ketaconazole	43.00	286.40	6.66	660.36	15.36	287.85	6.69
Anti-Histamine							
Aztemizole	6.00	156.00	26.00	427.74	71.29	115.14	19.19
Anti-Anxiolytics							
Buspirone	4.05	115.73	28.58	147.62	36.45	193.92	47.88
Anti-Cancer							
Mitoxantrone	446.25	N.A.	-	14876.65	33.34	9116.06	20.43
Vincristine	28.80	416.98	14.48	1047.26	36.36	624.79	21.69
Anti-Depressant							
Pluoxetine	29.00	798.40	27.53	507.60	17.50	647.21	22.32

Notes:
1. Prices are for 1991 and in rupees
2. *=Costlier over the Indian prices
3. Prices are for the same dosage & pack

Sources:
USA Prices - Annual Pharmacists Reference
UK Prices - UK Monthly Index for Medical Specialities (MIMS) December 1991
Pakistan Prices - Quarterly Index for Medical Pharmaceutical (QIMP)

4.1.1.7 Patenting of plant varieties

The relevant provisions of the TRIPS Agreement on the patenting of plant varieties are given below

* "Members may also exclude from patentability:

  Plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof. The provisions of this subparagraph shall be reviewed four years after the date of entry into force of the WTO Agreement." (Article 27(3))

These provisions on the protection of plant varieties will inflict incalculable harm on the agriculture of developing countries like India. Once farmers decide to use a protected variety, they would no longer be able to make seeds out of their produce of this variety, available to other farmers on a commercial basis. Other farmers will have to go to the firm which can supply the protected variety.

Apart from increasing the costs of seeds, this might cause a disruption in the agricultural system because of the prevailing practice among farmers in most of the developing countries, of obtaining a large proportion of their seeds requirement from other farmers. In

India, the proportion is as high as 70 to 80.

It can be argued that farmers will use the protected variety only if they think that it is profitable for them and that, in any event, they are free to use any of the hundreds and thousands of varieties which are locally available and for which no patents have been taken. The fact is that farmers are not the free agent that they are presumed to be. They are vulnerable to the advertisement and sales propaganda of the multinational seed companies. Moreover, if they want to produce for exports then they would be obliged to use the seeds of varieties that are globally traded, internationally standardized, and quoted in the global market. Besides, there is the over-all strength of the multinationals - their advertisements, their resources, their hold over the market, their capacity to manipulate prices - which will come into play and which will make it possible for their varieties to be adopted on a very large scale all over the world.

Biotechnology has revolutionary potentials for bringing about economic transformations. Because of their rich bio-diversity resources developing countries have the best chance of catching up with developed country through the bio-technological route. But the TRIPS agreement, by allowing patenting of plant variety and micro-organisms and mutations involving non-biological processes, will prevent the diffusion of advances in the field of bio-technology. India will be hindered by patent to develop an indigenous biotechnology industry using its own germ plasms[6].

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6. M. Dubey, ibid.

4.1.2 Korea's perspectives on TRIPS

Korea has not seen the higher level of protection of intellectual property rights as inimical to its interest. This is mainly because by the time the Uruguay Round of Trade Negotiations was launched, Korea had already made considerable progress in revamping and updating its intellectual property rights system and putting in place the necessary institutional machinery. During the negotiations, Korea continued to revise its intellectual property related laws and enacted several new legislations in this area. Korea, therefore, was fully prepared for coping with a regime of higher level protection of IPRs. In fact, it saw both a vested interest and challenge in it.

4.1.2.1 A Brief history of the Korean Intellectual Property Rights System

Modern industrial property administration was first introduced in Korea in 1946 when the Ministry of Trade, Industry, and Energy established the Patent Bureau to deal with all matters involving patents, utility models, industrial designs and trademarks. In 1977, the Bureau became independent and was renamed the Office of Patent Administration, headed by a Commissioner of vice ministerial rank. In 1988, the office adopted the current name "Korean Industrial Property Office" (KIPO) to better reflect the Office's overall functions. Since the enforcement of the Patent Law in 1961, the Trademark Law in 1949, and the Design Law in 1961, KIPO has made concerted efforts to upgrade Korea's IPR system and has made many adjustments to successfully cope with the changing international trends and standards in the IPR field[7].

Following Korea's joining of WIPO in 1979, Korea became a party to the Paris Convention for the Protection of Industrial Property in 1980 and abided by the principle of giving equal treatment to nationals and foreign nationals alike. In 1984, Korea acceded to the Patent Cooperation Treaty (PCT), and in 1988, KIPO became a party to the Budapest Treaty.

The Republic of Korea have joined the following International Treaties for the protection of Intellectual Property: (i) The Convention Establishing the World Intellectual Property Organization (1967) (ii The Paris Convention for the Protection of Industrial Property (1980) (iii) The Patent Cooperation Treaty (PCT) (1984) (iv) The Budapest Treaty on the International Recognition of the Deposit Microorganism for the Purpose of Patent Procedure (1988)

The Korean Government is planning to join the following treaties in 1998; (i) The Strasbourg Agreement Concerning the International Patent Classification (ii) The Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of Registration of marks. (iii) The Trademark Treaty[8].

At present the annual number of Patent and Utility Model applications totals some 138,543, Trademarks 87,065, Industrial Designs

7. Korea Industrial Property Office, "A Brief History of the Korean Intellectual Property Rights System", KIPO Internet Home page, 1998.
8. Ibid.

28,493 (1997). In addition, the number of applications for inventions especially in high technology fields has gradually been increasing.

4.1.2.2 The TRIPS agreement and Korea's response

The Korean economy has been developed mainly on the basis of an imitative industrialization. So the TRIPS agreement could have seriously affected the country's economy. But during the new round negotiations, Korea continued to revise the intellectual property rights related laws and even brought about new legislation in this area. Especially spurred by the Korea - U.S bilateral trade negotiations which began in the wake of the application of Super 301 in July 1986, Korea revised the Copyright Law in July 1987[9]. In the same year, the Computer Program Protection Act was passed, providing sui generis protection for computer software. In 1991, a statutory basis was provided for the protection of trade secrets, by an amendment to the Unfair Competition Prevention Act. For the protection of semiconductor chip layout designs, the Korean Government passed the Semiconductor Chip Layout Design Act in 1992, which became effective in September 1993. Databases and certain neighboring rights of copyrighted works have been afforded protection by amendments to the Copyright Act in 1993 and 1995. After the new round, in 1995, a special law, to become effective at the end of 1997, was passed to provide protection for new plant varieties[10]. As a result, the current system of Korean

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9. Daewoo Economic Research Institute, "The Uruguay Round and Korea Economy", The Korea Economic Daily, Seoul, 1994.
10. Korea Industrial Property Office, ibid.

intellectual property rights has nearly reached international standard.

4.2 Trade-Related Investment Measures (TRIMs)

4.2.1 Before the TRIMs agreement

4.2.1.1 Foreign investment subjects to national sovereignty

In the post-Second World War period, as a large number of erstwhile colonies emerged as sovereign national entities, there was a trend towards assertion of national sovereignty and curbing of the activities of foreign investors which were regarded as a threat to national sovereignty. Treatment of foreign investment was an important issue discussed at the Havana Conference in 1948. The negotiations that led up to the Havana Charter demonstrated that governments were not prepared to subject their investment policies to international rules and regulations. There was in fact much greater emphasis on controlling the restrictive business practices of both national and foreign enterprises.

In the 1950s and early 1960s, the General Assembly of the United Nations in successive sessions adopted resolutions on permanent sovereignty over natural resources, which recognized the inalienable rights of all States freely to dispose of their natural wealth and resources according to their national interests. This trend towards the subordination of the activities of foreign enterprises to the national interests and sovereignty of the host countries culminated in the adoption of the Charter of Economic Rights and Duties of States in

1974, in the draft Code of Conduct on the Transfer of Technology negotiated in UNCTAD, and the draft Code of Conduct for Transnational Corporations negotiated in the United Nations. The Charter of Economic Rights and Duties of States provides that each state has the right to regulate and exercise authority over foreign investment within its national jurisdiction in accordance with its laws and regulations and in conformity with its national objectives and priorities, so that no state shall be compelled to grant preferential treatment to foreign investment. The issues covered by the draft Code of Conduct for Transnational Corporations were respect for national sovereignty, observance of national laws, adherence to the socio-economic objectives of host countries, appropriation of foreign assets and compensation, and regulation of the restrictive business practices of foreign enterprises[11]

4.2.1.2 Reversed process

Having reached its peak in the 1970s, the process was once again reversed after the early 1980s when an increasing number of developing economies became vulnerable to foreign influence because of the development and debt crises, and adopted a development strategy in the form of IMF / World Bank imposed structural adjustment programmes with its principal stress, among others, on the inflow of foreign direct investment.

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11. M. Dubey, ibid.

4.2.2 The Negotiations on TRIMs in the Uruguay Round

4.2.2.1 Developed countries' intention

Taking advantage of this changed situation, the United States and other major developed countries introduced this subject in the Uruguay Round with a view to:

(a) reversing the past trend of emphasis on permanent sovereignty over natural resources and right to nationalization and expropriation;

(b) reducing what they regarded as unreasonable barriers to the establishment of foreign enterprises in developing countries, and

(c) establishing a regime for a privileged treatment of such enterprises.

While striving for the above broader objectives, the United States set the following specific goals in the negotiations on TRIMs in the Uruguay Round:

(a) Reduce or eliminate trade-distorting barriers to foreign direct investment;

(b) Extend the MFN and national treatment principles to foreign investment;

(c) Identify certain trade-related investment measures through the process of notification, etc,;

(e) Subject TRIMs to the dispute settlement procedures of GATT/WTO;

(f) Create a body which will oversee the implementation of provisions on TRIMs; and

(g) Keep this subject under continuing review with a view ultimately to establish a full-fledged regime for the treatment of foreign investment.

4.2.2.2 Developing countries' response

India and other developing countries, on the other hand, wanted to continue to have freedom to devise and apply investment measures that would oblige foreign investors to observe their national priorities; to make foreign investment supportive of transfer of technology and industrialization; and to control anti-competitive and trade-restrictive business practices of foreign investors. Measures imposing requirements of export performance, use of local skill and raw material, and of trade-balancing, were designed to counteract the restrictive business practices of foreign investors.

With the above objective in view, during most part of the negotiations on TRIMs, developing countries including India took the position that their national policies on investment, industrialization and treatment of foreign investment could not be allowed to be questioned on the ground that they were trade related. The focus of discussion should be- in their opinion - the examination of direct significant negative effects on trade of investment measures, and not the discussion of investment measures per se, which were not covered by GATT. They further argued that restrictions on remittances and requirements for technology transfer, exports, local content, etc. related to issues of foreign capital treatment and were within the scope of broader development and industrial policy, and hence not under the competence of GATT.

Developed countries, on the other hand, argued that effects could not be separated from the cause i.e. the TRIMs themselves, and, therefore, they called for the elimination TRIMs themselves, rather than for the minimization and avoidance of their adverse effects on trade.

4.2.2.3 The TRIMs Agreement

It is quite clear from the Agreement that the United Stated and other major developed countries achieved almost everything they wanted from the negotiations - identification of trade-restrictive TRIMs and their prohibition, possibility of the identification and prohibition of additional TRIMs, expanding the boundary of the GATT provisions on national treatment and elimination of quantitative restrictions to cover investment measures, introducing greater transparency in TRIMs, establishment of a permanent machinery to monitor implementation, subjecting TRIMs to the WTO dispute settlement procedure, and a review of the whole question of the treatment of foreign investment after five years. Developing countries succeeded in only preventing for the time being the establishment of a full-fledged regime on the treatment of foreign investment[12].

There is no provision in the Agreement to deal with the restrictive business practices of foreign investors. In order to make the Agreement

12. Ibid.

balanced from the point of view of developing countries, provisions for elimination of TRIMs should have been accompanied by international rules for controlling restrictive business practices. There is very little evidence to show that developing countries made even an effort in this direction.

4.2.2.4 Broader purpose of the TRIMs Agreement

There is considerable force in the argument that investment measures have broader macro-economic and strategic objectives. They are not adopted with only the trade purpose in view. In fact, they serve such broader purposes as exercise of sovereignty over natural resources, creating employment, etc. The provisions of the TRIMs Agreement, when applied to developing countries, will most likely have the effect of undermining any plan or strategy of self-reliant growth, based on the technology, capital goods and raw materials available locally. It can also prove to be a drain on the limited foreign exchange reserves of developing countries, adversely affecting their balance-of-payments position and their capacity to repay their debts. The Agreement on the whole seriously restricts policy autonomy in an area that has traditionally been viewed as being primarily of domestic concern.

4.2.3 Korea's perspective on the TRIMs Agreement

4.2.3.1 Korea's international investment

Korea's perspective on the TRIMs Agreement was mainly influenced by the importance of foreign direct investment in Korea and overseas investment by Koreans themselves. Since the 1980s both foreign direct investment in Korea as well as overseas investment by Koreans have been increasing. Korean private firms have been expanding their investment in the U.S., the EC, and in the developing countries of Asia. Economic cooperation with China and former socialist countries such as Russia and those in Eastern Europe at both the public and private level has also sharply increased.

4.2.3.2 Introduction of Foreign Loans

Before the early 1980s, foreign capital came to Korea mainly in the form of loans rather than foreign investment. As shown in Table 2, the amount of loans taken by Korea steadily grew to a point where it was maintained until the mid-1980s.

Table 2 Shifts in Loans and Foreign Investment Growth

(Unit: million dollars, %)

Years	Total	Loan			Foreigner's Investment
		sub-total	Public	Private	
1983	2,568(100)	2,467(96.1)	1,493	974	101(3.9)
1984	2,454(100)	2,283(93.0)	1,424	859	171(7.0)
1985	2,224(100)	1,988(89.4)	1,024	964	236(10.6)
1986	2,976(100)	2,499(84.0)	880	1,619	477(16.0)
1987	3,293(100)	2,667(81.0)	1,109	1,558	626(19.0)
1988	2,773(100)	1,879(67.8)	891	988	894(32.4)
1989	2,147(100)	1,335(62.2)	475	860	812(37.8)
1990	1,343(100)	448(33.4)	418	30	895(66.6)
1991	1,603(100)	429(26.9)	429	-	1,174(73.2)
1992	1,439(100)	636(44.0)	486	150	803(56.0)

Source: Ministry of Finance, Fiscal & Financial Statistics, 1993.

This trend started to undergo a charge during the latter half of the 1980s when the government shifted its foreign capital policy by controlling the introduction of non-essential foreign capital. Public loans were allowed within a minimum range only when the terms, such as duration and interest rates, were more favorable than those of commercial loans. At the same time, foreign investment became more and more important until its investment surpassed in 1990 the amount of loans as a source of foreign capital for Korea.

4.2.3.3 Korea's Foreign Investment and the TRIMs Agreement

Foreign investment in Korea began in 1962 and has posted constant growth. Until 1988, foreign investment had continued to flow into the Korean economy in ever increasing amounts, largely because of the government's drive to liberalize foreign investment. The deregulation of foreign investment reflected the government's intention to actively induce foreign investment which did not require repayment, thus, alleviating Korea's debt burden as the country had been incurring large trade deficits to pay back principal and interest.

The amount of investment made by foreigners during the Fifth Five-Year Economic Development Plan (1982-1986) totalled $1.90 billion in 565 projects. This was a remarkable increase of about 2.5 times in terms of both number of cases and amount in comparison to the Fourth Five-Year Economic Development Plan period.

However, as shown in table 3, after having picked in 1988, the amount of investment has declined or stagnated each year with the exception of 1991. This can be attributed to a general deterioration of the investment climate after 1988. Specifically, Korea lost its labor cost advantage as wage increases outpaced labor productivity growth. Although there was a relative decline in the number of labor disputes, these disputes tended to be protracted affairs, making foreign investors uneasy. Notwithstanding the problems that plague the manufacturing sector, such as sluggish exports, steep wage increases, and high financial costs, which have prevented Korea from becoming an ideal destination for foreign investors, the country still has strengths which make it attractive compared to the Southeast Asian nations[13].

Foreign investment in Korea generally brings more benefits than losses in terms of economic effect. Erosion of domestic firms' market shares and increased foreign dependence, once feared as serious possible side effects, have not proven to be the cause for concern in Korea. This is the result of: the government's policy to *selectively* allow foreign investment, the low level of investment, and investment by multinational corporations being relatively insignificant.

Table 3. Foreign Investment by Year

Years	1962-71	1972-81	1982-86	1987	1988	1989	1990	1991	1992
Case	399	1,118	579	372	353	349	305	305	296
Amount	266	1,600	1,767	1,063	1,283	1,090	802	1,395	894

Source: Ministry of Finance, Fiscal & Financial Statistics, 1993.

13. Kim, J.H., "A New Korean_American Partnership in Science and Technology: Toward a Korean-American Science & Technology Alliance in Opening a New Chapter in World Peace Going Beyond the Cold War," Speech delivered at National Press Club, Washington, D.C., January 13, 1993.

So far, Korea has regulated against opening the high value-added industrial sector. As for Korea's financial, transportation, and communications markets, the major areas are still only partially open. (Table 4) However after the TRIMs Agreement, Korea has to give up its economic policy to selectively allow foreign investment.

Table 4. Capital Liberalization

(Unit: %)

Year	1984.7	1985.9	1989.6	1991.1	1991.12	1993.6
Rate of Liberalization	60.9	76.3	79.0	79.4	81.7	83.0
Manufacturing	80.0	92.5	97.5	97.7	97.8	97.8
Services	33.8	60.8	60.8	61.8	66.9	69.9

Source: Ministry of Finance, Fiscal & Financial Statistics, 1993.

4.2.3.4 Korea's Overseas Investment and the TRIMs Agreement

Korea first ventured into overseas investment in 1968, but for quite some time its efforts in this area did not become especially significant. Since 1986, economic realities have changed dramatically, impelling Korean firms to advance into overseas markets in order to maintain international competitiveness. Large trade surpluses were recorded, the *won* appreciated, wages and land prices spiralled ever upward, and trade conflicts occurred with the advanced countries. This led to the ushering in of an era of rapid growth in overseas investment[14].

As of July, 1993, Korea's total direct investment in foreign

14. Hong, S. I, "Korea's Investment in Foreign Countries," World Economy, 1992.

countries amounted to $4.9 billion in 2,417 projects. Most of the firms which have advanced into foreign countries, are focusing on short-term profits by using cheap labour in the host country rather than developing value-added products as a means of diversifying business lines.

New government measures for boosting overseas investment are as follows:

(1) Local companies are now permitted to engage in overseas investments in seventeen additional business lines, including textiles, retail, and in wholesale activities and in the development of commercial projects, by the removal of thirteen items from the list of thirty foreign investment-restricted items.

(2) The ceiling for assisted loans extended by the Export-Import Bank of Korea to domestic business concerns for the expansion of overseas investment has been doubled to 200 billion *won.*

(3) Restrictions on real estate purchases in foreign countries have been eased. Investment institutions, including insurance companies, are permitted to purchase real estate in foreign countries as an element of asset management.

(4) The number of foreign countries which have investment guarantee pacts with the Korean government will be increased from the present forty to sixty, and the number of those with double taxation avoidance agreements from forty-six to fifty-one.

Now Korea is eager to utilize the benefit of the TRIMs Agreement for its economic growth seeking more opportunity in the global market, especially in the developing countries. In the "New Economy Globalization Strategy" announced on November 8, 1993, the Korean government showed its determination to assist domestic firms in expanding into foreign countries. The objective is to offer favorable conditions for borderless economic activities. Thus Korea's perspective on TRIMs is that of a country which have a interest in investing abroad. Korea is, therefore, quite happy with TRIMs and would, in fact, like to see the foreign investment market further opened up.

4.3 Trade In Services

In the 1982 GATT Ministerial Meeting, the United States had argued that one of the objectives of the Meeting should be to establish a work programme on services in GATT so as to prepare a technical basis for multilateral negotiations in this area.

The developing countries like India were completely against the idea of bringing trade in services under the discipline of GATT, mainly because they thought that given the incipient stage of the development of their service industry, it would not be in their interest to open up this industry to foreign competition, mainly from the transnational corporations of the developed countries which dominate trade in services. They also recognized that international trade in services was significantly different form trade in goods because whereas the latter involved trans-border transactions, the former, in addition, could call for the exercise of the right of establishment which would have implications for the development strategy, resources mobilization, industrial policy, social objective and even for the cultural identity and the security of the country. Besides, the opening up of the market for services in GATT, could lead to the establishment of a link between concessions in trade in goods and those in services[15].

When, at Punta del Este, the developing countries found that it would no longer be possible to prevent the inclusion of services in the Uruguay Round, they tried to safeguard their interest as well as possible. Among others, the developing countries succeeded in establishing a distinctly separate negotiating process for services from that for goods, to be conducted in an ad hoc juridical framework outside GATT. The negotiations on services were to be launched not by the Contracting Parties of GATT but by Ministers meeting on the occasion of the Ministerial Meeting of the Contracting Parties of GATT in Punta del Este. However towards the last stage of the negotiations, it did not become possible to maintain this distinction.

The General Agreement on Trade in Services (GATS) basically provides a multilateral framework of principles and rules which should govern trade in services under conditions of transparency and progressive liberalization. It spells out certain general obligations such as extension of MFN principle, maintenance of transparency, and also a commitment for liberalization in general terms. Specific commitments

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15. M. Dubey, ibid.

for liberalization related to sectors or sub-sectors of services have been left to be negotiated subsequently.

Article XII of GATS provides for restrictions to safeguard the balance-of-payments position on the lines of Article XVIII: B of GATT. But unlike Article XVIII: B of GATT, Article XII of GATS is available to all members and not only to the developing country members. Besides, there is no provision in GATS corresponding to Article XVIII: A and C of GATT, which permits application of restrictions for the protection of infant industries. As a matter of fact, paragraph 3 of Article XII of GATS specifically prohibits the maintenance of restrictions "for the purpose of protecting a particular service sector". It is ironical that restrictions on protectionist grounds should be available in the field of goods (as Article XVIII: A and XVIII: C are still valid), but should be specifically prohibited in the field of services where the developing countries have made only a beginning and where developed countries have long enjoyed protection.

Because of the domination of transnational corporations in the realm of services, curbing their restrictive business practices becomes very important in the context of the liberalization of trade in services. This problem is recognized in Article IX of GATS but there is no provision in the GATS text in terms of a specific commitment to deal with this problem. The only provision is that "each Member shall, at the request of any other Member, enter into consultations with a view to eliminating" restrictive business practices and that "the Member addressed shall accord full and sympathetic consideration to such a request..."

This provision is not only totally inane, but could also be interpreted by transnational enterprises as a clear indication that there is no intention on the part of governments to deal with their anti-competitive practices within a multilateral framework. So far as dealing with them through national legislations is concerned, trend is towards obliging developing countries through structural adjustment programmes to eliminate whatever regulations exist for dealing with such practices, rather than legislate fresh regulations to control such practices.

4.3.1 India's perspective on GATS

4.3.1.1 Labor services

By far the most important demand of India and other developing countries during the negotiations was for the free movement of labour to seek employment in foreign markets. This is the only service sector in which the developing countries have decisive competitive advantage. But they have drawn a near complete blank in their effort to make some progress in this sector.

The Annex of GATS on "Movement of Natural Persons Supplying Services Under the Agreement", at one stroke eliminates the possibility of negotiation on labour services except for a very limited category--an infinitesimal proportion of the labour services the developing countries dispose of. These relate to only highly skilled natural persons who move for temporary stay for the purpose of supplying services. Now all factors of production except labour can move freely across national borders. The movement of the labour service depends on the discretionary power of national governments, whereas the movement of other factors of production is governed by some international regime or the other. The developing countries are the real sufferers in this process.

4.3.1.1.1 India tried to establish a link with the negotiations on financial services

Some developing countries, particularly India, Egypt, Philippines and Pakistan, tried to establish a link between the negotiations on financial services and those on the movement of natural persons. At the Marrakesh Ministerial Meeting, they got a decision taken that the negotiation of the liberalization of the entry of natural persons for the purpose of supplying services will continue for six months beyond the conclusion of the Uruguay Round, with a view to achieving higher levels of commitments. This extension was for the same duration as that for the negotiations on financial services. This fact and the position taken by developing countries that any improvement that they would make in their offers on financial services would depend upon improvements in the offers of developed countries in the negotiations on the movement of natural persons, established a link between the two negotiations. However, the developed countries rejected any notion of a linkage. The improvements that a few of these countries (only Canada and Australia) were reported to have made on an informal basis just before the end of the originally scheduled deadline, were meagre and highly conditional. No improvements were reported to have been made by any major developed country[16].

4.3.1.1.2 Final offers of the developed countries

In the final offers made on 28 July, 1995, some modest improvements were made by developed countries. The European Union States have guaranteed to varying degrees, opportunities for foreign professionals without a commercial presence to come on temporary assignments in several professional and business sectors. The additional commitments by Switzerland and Norway were similar but more limited in nature, while Canada added a number of professions to its commitments on the entry and temporary stay of foreign contract-based professionals. Australia introduced more flexibility in its earlier offer on business visitors.

Some of conditions laid down by different countries of the EU are:

(a) The temporary stay should not exceed 90 days in a year.

(b) The service supplier should have one year's (in the case of Germany 2 years') experience of having supplied the service.

(c) The natural person should have the necessary qualifications and experience as specified by each member country of the EU (mostly a post-graduate degree and a minimum of three years experience; for Austria, the candidate must take an examination before a professional body).

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16. Ibid.

(d) Standards of economic need test that different member countries have laid down for computer specialists, are the most stringent - in some countries. a post-graduate degree and 10 years experience are demanded.

4.3.1.1.3 Harmonization of standards in the accountancy sector

Another aspect of labour services which is supposed to be negotiated and on which the negotiations were supposed to conclude before the end of 1996, is the examination of the discipline necessary to ensure that measures relating to qualification, requirements and procedures, and technical standards and licensing requirements in the field of professional services do not constitute unnecessary barriers to trade. For this purpose, a Working Group on Professional Services was set up at the Marrakesh and it was asked, as a matter of priority, to elaborate multilateral disciplines in the accountancy sector. It is not clear as to why should India have agreed to take up the harmonization of standards in the accountancy sector on a priority basis, when its ability to supply services and competitive advantage would appear to lie in other sectors like managers, medical personnel, teachers, computer specialists etc.

4.3.2 Korea's perspective on GATS

4.3.2.1 The effect of the negotiations on Korean service sector

Kim Kwang-young, a Party for Peace and Democracy Policy researcher, expressed concern about the serious damage to be inflicted upon the domestic banking and finance industry as a result of the opening of the service market through the new round of negotiations.

Pointing out that the service sector accounts for 56.9 percent of the nation's GDP, far exceeding the manufacturing industry's 32.3 percent and agro industry's 10.8 percent, Kim said that the liberalization of the service sector would cause damage far more serious in nature than that rendered by the opening of commodity markets[17].

4.3.2.2 Korean financial market liberalization

Korea had undertaken financial sector liberalisation even before the launching of the Uruguay Round of Trade Negotiations. The Fifth Five-Year Plan (1982-86) marked a movement away from the interventionist strategy. Commercial banks were denationalized, but the state retained the right to appoint boards of directors and senior officers. There was, however, an easing of direct government control of banks and nonbank financial institutions[18].

The Sixth Five-Year Plan (1987-91) reinforced the trend toward financial sector liberalization. The deregulation of banks and nonbank financial institutions, together with the growth in stock and bond markets, led to a withering of the curb market, which now accounts for less than 10 percent of domestic credit. Financial liberalization

17. The Korea Herald, "Experts warn Uruguay Round trade talks can wreck farming, banking", The Korea Herald (Korean daily newspaper), August 31, 1990.
18. Nam, Sang-Woo, "Korea's Financial Reform since the Early 1980s", KDI Working Paper No. 9207. Seoul, March 1992.

received a further boost in 1993 with the introduction of multiyear financial plans, the most recent of which was promulgated in 1995 and runs through 1999.

Despite this progress the financial system remained relatively repressed. The government maintained considerable involvement in the banking system. It continued to issue detailed regulations regarding corporate financial decisions, including restrictions on overseas investments, restrictions on equity finance, and restrictions on overseas finance.

Restrictions on the issuance of Won-denominated bonds in the domestic bond market were lifted in 1996. Beginning January 1, 1997, the government liberalized various kinds of insurance including nonlife, casuality, surety and life insurance, credit sale financing and mutual financing sectors. The Korean government was set to liberalize security investment trust business, securities dealing business, and investment advisory business on December 1, 1998[19].

Even though Korean financial service sector has many problems, they could have been corrected step by step if Korea were not forced to open its financial market immediately. But this is exactly what it was required to do during and after the Uruguay Round. GATS itself did not present much problem for Korea. For, the liberalisation provision of GATS gave the negotiating countries all the flexibility they needed in making offers for concessions. However, it was in the

19. The Ministry of Finance and Economy, "Liberalization of Korean financial market", the Ministry of Finance and Economy internet home page, 1998.

actual negotiations on the financial services liberalisation within the framework of the Uruguay Round and outside it, that Korea was put under considerable pressure.

4.3.2.3 U.S.s' pressure on Korean financial market

In the negotiations for service sector liberalisation which commenced even before the Uruguay Round and was concluded later, U.S. tried to pry open the South Korean financial market to foreigners. U.S. and other advanced countries were demanding a negative list system, with liberalization in all sectors except those on the list. Their demands also included an unrestricted right to establish financial institutions in a foreign country and to transfer services across borders. These conditions threatened the Korean domestic financial market which was not yet strong enough to compete against foreign countries, which had superior resources and techniques. Stock prices would have suffered heavier swings because of the link to the international market, and unless the financial industry was developed to the level of advanced nations, entry of foreign investors was likely to overpower the Korean market[20].

Financial service sector talks, because of U.S. reluctance to open its own market to countries that did not reciprocate, managed to reach only a "conditional" agreement that involved countries sealing the negotiation at the current stage and submitting revised country lists

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20. The Korea Herald, "Uruguay Round threatens financial sector here: report", The Korea Herald, September 27, 1990

four months after the WTO entered into force.

Korea, accepting the provisional settlement, made it clear that it would differentiate among its trade partners if others decided to do so in the financial service sector by leaving room to "derogate" from the GATT's first principle of treating all trade partners equally.

Besides these, Korea added only two new concessions to its original offer list. The two were skipping "economic need test" in licensing the establishment of foreign bank branches in Korea and granting foreign financial service firms permission to develop new financial products. Though the Ministry of Finance officials claimed that both concessions were relatively minor changes to its existing liberalization program, many feared that the Korean financial industry would not be the same as before once it opened its market wider than it was in 1995.

Yielding to U.S. pressure, Korea had already included in its initial offer list six points of its existing market opening program, including expanded ceilings on foreigners' stock investments and on spot foreign exchange transactions[21].

4.3.2.4 Financial crisis in South Korea after liberalization

Korea opened its financial service sector after the Uruguay Round negotiations despite its great vulnerability and now the Koreans are facing a national crisis. At the start of 1997, the problem of sour

21. Choi, S. J, "Financial services earn reprieve from Uruguay Round wave of reform pressure", The Korea Herald, December 17, 1993.

loans loomed large when a number of second rank chaebols faced bankruptcy due to a financial crisis materializing from overexpansion of their operations in the face of an economic slowdown in 1996 and weakened demand. The situation led numerous large and small businesses to become insolvent, having an unavoidable impact on the amount of bad debt of banks.

In January 1997 Hanbo Steel Industry Co. Ltd. of the Hanbo group of companies (the 14th largest chaebol in South Korea) became insolvent, having accumulated US$ 5,800 million of debt. Its leading creditors were Korea First Bank, Sohing Bank and Korea Exchange Bank. In March 1997 The Sammi group of companies, the 26th largest in South Korea, was declared bankrupt, with debts totalling US$ 2,200 million, US$ 1,600 million of which was owed to commercial banks. Korea First Bank was the top creditor. By April 1997 The Jinro group of companies, ranked 19th, faced a shortage of liquidity. It announced that it might sell or merge a part of its business empire to obtain funds to pay its debts of US$ 3,600 million. Leading creditors were Commercial Bank of Korea, First Bank and Seoul Bank. In April 1997, the 6th largest chaebol, the Ssangyong Motor group, faced a liquidity problem and announced sales of its assets to obtain funds to pay for its debts of as much as US$ 4,200 million. In May 1997, Dainong, a big textiles company (the 34th largest chaebol of the country) joined, having accumulated a debt of US$ 1,570 million. In June 1997, Kia Group, the 8th largest chaebol of the country, nearly bankrupted with accumulated debt of US$ 10,700 million[22].

By and large, the bad debt problem of South Korean financial institutions has resulted from the government's intervention to get financial institutions, particularly commercial banks, to extend credits in line with the government's policy in support of certain industries. Given the close relationship among the government, banks and chaebol, the last mentioned, namely chaebol, have expanded their operations over rapidly. The easy credits granted to them have caused them to become highly leveraged. The demise of some chaebol since the beginning of 1997 has worsened the bad debt problem facing local commercial banks in South Korea.

In future, it is expected that South Korean financial institutions will experience more difficulties following the country's admission into the OECD. The entry into this exclusive grouping of developed countries imposes a number of conditions, one of which requires that the new member undertake financial liberalization. Thus, South Korea will, among other things, have to allow more foreign financial institutions to set up branches on its soil. As South Korean banks have been used to a closed market environment under government guidance and protection, it will be difficult for them to cope with full scale competition. This will be particularly the case in view of the fact that the banks are plagued by a mountain of bad debts.

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22. Watsaya Limthammahisorn, "Financial Crisis in Japan, South Korea and Thailand: A Comparison", Bangkok Bank Public Company Limited, 1997.

4.4 Agriculture

In the Final Act, agriculture was, for the first time, brought under WTO discipline. Until then, the developed countries had gone on protecting their agriculture through what came to be known as the 'timeless waiver' that they obtained for their agriculture soon after GATT came into being. In fact, the great progress in agriculture in the United States and the European Community has been largely due to the massive state interventions in favour of the domestic agricultural producers.

Major developed countries started thinking about liberalizing agricultural trade only after they had, through protection, achieved self-sufficiency in the production of some of the important agricultural products, developed exportable surpluses in these products, and the share of agriculture in GNP had touched a very low level where agriculture was looked upon mainly in trade terms, and after the burden of providing support to farmers had became increasingly intolerable. The conditions prevailing in developing countries, barring a few exceptions, was just the opposite. Hence, they were hardly in a position to liberalize their agricultural trade and globalize their agricultural economy; even though they had varying degrees of interest in the liberalisation of agricultural trade in developed countries.

4.4.1 The Agreement on Agriculture

The Agreement on Agriculture does not go as far towards liberalizing agricultural trade as the United States and other like-minded countries would have liked. This was mainly because of the resistance put up by the European Community. The commitments undertaken are:

(a) To reduce domestic support, measured in terms of AMS (Aggregate Measurement of Supports), by 20 percent;

(b) To reduce barriers to trade(comprising tariff and tariffed non-tariff barriers by 36 percent. Besides all agricultural tariff lines will have to be bound;

(c) To reduce export subsidies by 36 percent of budget outlays and 24 percent in quantity;

(d) Those countries which decided to convert their non-tariff barriers into equivalent tariffs, are required to maintain the current level of market access and to grant minimum access through tariff quotas representing four percent of domestic consumption in the base year in the first year of the implementation period, going up to 8 percent by end of the period. For an agricultural commodity that is a designated staple food in a developing country, the minimum access opportunity would have to be 1 percent of consumption in the first year, going up to 2 percent at the beginning of the fifth year, and further to 4 percent at the beginning of the tenth year.

A number of special dispensations have been made for the developing countries. These include:

(a) Their commitments to liberalize will be only two-thirds of those undertaken by developed countries;

(b) For them, the implementation period will be 10 years instead of 7 years for developed countries;

(c) They will not be required to reduce domestic support as long as it does not exceed 10 percent of the total value of production for basic agricultural products, as against the threshold percentage of 5 percent for developed countries.

(d) A number of items have been excluded for them from the list of domestic support measures, as well as export subsidies, which are subject to reduction. As regards domestic support measures, apart from general exceptions for all countries in such areas as stockholding costs, disaster relief, assistance under regional and environmental programmes, the developing countries may, in addition, claim exemptions for subsidies linked to development programmes such as general investment subsidies, input subsidies for low-income producers, etc. As regards export subsidies, the developing countries can get exemption for subsidies on marketing costs, on internal transport, etc.

(e) Least developed among developing countries are exempt from all the commitments under export subsidy, domestic support measures and tariff cuts.

Given the subsistence nature of agriculture in most of the developing countries and their inability to subsidize agriculture on any sizeable scale, these countries will not, for the time being, be required to assume many of the liberalization obligations provided for in the Agreement. As a matter of fact, enough margin will be left for them to go on subsidizing their agriculture for some time to come.

But the fact remains that they have, in principle, agreed to bring their agriculture under a multilateral discipline--something which the developed countries did not do for a good 50 years after GATT came into force. More specifically, they have undertaken commitment to reduce their domestic support by 13.3 percent, and their export subsidies by 24 percent of budget outlays. Developing countries which decide to convert their non-tariff barriers into equivalent tariffs will have to provide minimum access through tariff quotas equivalent to 1 percent of the domestic consumption during the first year, rising up to 4 percent by the end of the ten-year implementation period for them.

The implication of the decision on the part of developing countries to globalize their agriculture are indeed far-reaching. This step can affect their plans of food security, agricultural self-sufficiency, agricultural exports and prices, crop pattern and even consumption pattern. These changes may not come about in the very near future, but there is no doubt that the move is towards an agricultural regime in developing countries which will be vastly different from what it is today.

4.4.2 India's perspective on the Agreement on Agriculture

4.4.2.1 Subsidies

Since the domestic support level in India at present is much below the ceiling of 10 percent, India will not be required for the time being to undertake any commitment for the reduction of domestic support. However, India's subsidies in some sectors, like oilseeds and sugar, may well exceed 10 percent. Besides, if India wants to compete in the world market, India may have to increase its subsidies substantially, which may soon cross the limit of 10 percent. In that event, India will also have to accept commitment for reduction of domestic support[23]).

4.4.2.2 Unreliable balance-of-payments safeguards

The Agreement on Agriculture provides that so long as developing countries are authorized to apply balance-of-payments restrictions under Articles XVIII: B of GATT, they will not be required to convert these restrictions into tariffs and undertake the resultant reduction commitment. In that situation, they will also not be required to undertake any minimum access commitment. But this safeguard is not fully reliable.

India may not be able to escape for too long the commitment for providing minimum access. Once India's balance-of-payment protection is removed -- and this may come very soon because of India's vastly improved reserve position -- India will be required to convert the existing non-tariff restrictions into equivalent tariff values and also

23. M. Dubey, ibid.

simultaneously accept the minimum access commitment. India will then have to import agricultural products, including foodgrains, even if India does not need to do so. This will impair India's balance-of-payment position and prevent India from attaining agricultural self-sufficiency which is a very crucial element of national security.

4.4.2.3 Increase in food prices

The agriculture trade liberalization will result in an increase in food prices which will adversely affect the food importing developing countries. According to the World Food Programme, virtually all least developed countries are food deficit countries, while a majority of low-income countries are recipients of food aid. An UNCTAD/WIDER study (1990) has projected that complete liberalization of agricultural products would lead to price increases of 43 percent for rice, 20 percent for wheat, 15 percent for maize and 12 percent for sorghum. In contrast, a 20 percent reduction in producer support measures will lead over the implementation period, to prices increases of 18 percent, 8 percent, 5 percent and 20 percent respectively[24)].

For developing countries as a whole, the FAO has projected that their food import bill in 2000 will be nearly $ 25 billion higher than in 1988. About $ 3.6 billion of this increase (approximately 15 percent) would be due to the Uruguay Round[25)].

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24. UNCTAD/UNDP/WIDER (1990)
25. James Greenfield & Panos Konandress, "The Uruguay Round Agreement on Agriculture: Food security Implications for Developing Countries", F.A.O., Rome, 1995.

4.4.2.4 Competitiveness

4.4.2.4.1 Positive points

Although the share of agriculture has been declining over time, agriculture still remains the most important sector of the Indian economy. Agriculture contributes 33 % of the gross domestic product and provides direct employment to about 64% of the workforce.

India has a great variety of climatic and soil conditions. This results in diverse agro-climatic zones and makes it possible to grow a wide variety of agricultural products. For example, India ranks second only to Brazil in the production of fruits and second only to China in the production of vegetables. India also happens to be the second largest rice producer and the fifth largest wheat producer in the world. The green revolution has witnessed an increase in foodgrains production over the preceding 15-20 years at an average annual rate of 2.5 percent[26]. From being a net importer of foodgrains, India has become self-sufficient in foodgrains and is today an occasional exporter of foodgrains. For agriculture as a whole, India also enjoys the advantage that agriculture is relatively less import intensive and relatively more labor intensive.

Indian agricultural exports now account for around 18% of the export basket and the agricultural export basket has also become fairly diversified over the years. Included in agricultural exports are coffee, tea and mate, oil cakes, tobacco, cashew kernels, spices, sugar and

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26. B. Debroy, ibid.

molasses, raw cotton, rice, fish and fish preparations, meat and meat products, fruits, vegetables and pulses and processed foods.

If competitiveness is defined solely in price terms, India is extremely competitive in cereals like rice, and moderately competitive in products like maize and sorghum. In fruits, India is extremely competitive in products like bananas, grapes, sapotas and lychees, moderately in products like apples. In vegetables, India is extremely competitive in onions and tomatoes and moderately competitive in potatoes. In processed fruits like mango pulp and apple juice, India is relatively uncompetitive. But India is extremely competitive in processed vegetables like mushrooms and moderately competitive in products like tomato paste[27].

4.4.2.4.2 Negative points

So far as agricultural products of export interest to India are concerned, the competitive position of Argentina, Australia and New Zealand will improve in the export of wheat, and that of Thailand and Burma in the export of rice. These countries are lower cost producers of wheat and rice than India is. Thus even after the implementation of the liberalisation provision of the Agreement on Agriculture, they will continue to retain their competitive advantage over India, unless India brings about a structural change in its agricultural production and emerge as a low cost producer of wheat and rice.

Indian agriculture continues to be stifled by export controls and

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27. Ibid.

regulations like export quotas and minimum export prices. There are levies and taxes. Industries like rice milling are reserved for the small-scale sector. There are all sorts of restrictions on interstate movements and futures trading is generally not permitted. Excise and customs duties on capital goods and packaging also tend to be on the high side. However, the main problem is the infra-structural constraints--inadequate transport and refrigeration facilities, application of standards and quality control etc. So long as these constraints are not removed, the Uruguay Round agreement on agriculture will merely represent an elusive potential that India is not in a position to tap.

4.4.3 Korea's perspective on the Agreement on Agriculture

4.4.3.1 The opening of Korea's agricultural market under the Uruguay Round

It has been estimated in an OECD-World Bank study that agricultural liberalization will raise the world prices of many foodstuffs including wheat, maize, barley, beef, and dairy products by between 4 and 7 percent[28]. This may benefit food-exporting countries, but about 100 net food-importing countries will be faced with higher food bills. These nations are likely to be among the Round's biggest losers. In this context, Korea ranks among these biggest losers as its foodgrain self-sufficiency has been steadily maintained at a mere 33 percent with total imports of agricultural and fishery products amounting to about

28. Martin Khor, "The South at the End of the Uruguay Round," Third World Resurgence, Issue No 45, Penang, Malaysia, January, 1994, pp. 35-38.

78 billion U.S. dollars in 1993.

The Korean agriculture can be said to be characterised as subsistence-oriented family farming. First, exacerbating the current agricultural problem is the fact that only 21 percent of Korea's total land is arable and much of this is in the form of small plots--less than one acre--scattered in mountainous areas of the country[29].

Second, the Korean agriculture continues to have a poor production base and infrastructure, particularly inadequate irrigation, drainage, land consolidation, rural road networks, etc. 26 percent of the paddy land is still rain-fed, while 43 percent (577,000ha) of the road network in the countryside is seriously underdeveloped.

Third, average farm size in Korea is still only 1.29 ha. In 1993, about 60 percent of farm households had less than 1.0 ha of land, 30 percent between 1 and 2 ha and 10 percent more than 2 ha. Although the average size of Japanese farms in 1991 was 1.4 ha and that in Taiwan was 1.2 ha, the corresponding figures for developed countries such as the United Kingdom and the United States are 70 ha and 180 ha respectively. Small farm structures have been major constraints to capital accumulation and the expansion of farm investment in the past in Korea.

Fourth, rice is the major crop in agricultural production. About 85 percent of small family farms are engaged in rice production and 64 percent of arable land is allocated to rice production. In addition, 44

29. Lee Sangmu, "Korean Agricultural Policy: Past, Present and Future", Journal of Rural Development, Vol. 16, No. 2, Seoul, Winter, 1993.

percent of Korean farm income is derived from rice, and around 50 percent of a Korean's daily calorie intake consists of rice.

The fifth problem is the situation of farm economy. The majority of Korean farmers are unable to cover their increasing debts with farming income alone. Between 1980 and 1993, farm debt increased at an average rate of 30.2 % per annum.

Sixth, wide gaps in opportunities to enhance income and receive a high quality education have triggered a massive migration from rural areas into urban centers, resulting in traffic congestion, housing shortages and other social ills in urban areas. As a consequence, rural areas have been suffering from a serious shortage of farm labor resulting form a decrease of more than 85% in the number of young farmers (under age 30) over the past 15 years.

Finally, rapid economic growth has been inevitably accompanied by indesirable side effects of skyrocketing land prices and rapid migration of farmers to urban areas. As a result, it is much harder for farmers to reduce production costs and to attain economies of scale by expanding farm size.

4.4.3.2 A brief history of agricultural market liberalization in Korea

As early as in 1978, Korea began to take steps for market opening in the entire economy, including agriculture. Since that year, when Korea achieved, for the first time since 1945, a surplus balance of payments, the domestic market has been opened at an accelerating speed reflecting external pressures, mainly from the U.S[30].

During the period of the Uruguay Round talks, Korea was under enormous pressure form the international community, led mainly by U.S., to open the entire agricultural market at once, as Korea experienced a surplus in balance of payments which lasted for 4 years form 1986-89. As a result, Korea was forced to graduate from GATT category under Article 18-B in October 1989, thereby pledging to open the entire market, apart from the so-called BOP commodities,[31] by 1997. The BOP commodities included fifteen strategic farm products such as rice, barley, soybean, citrus, beef, pork, chicken, dairy products, etc. This commitment has since plagued the Korean agricultural sector, and the commitment remained in place despite the chronic deficit in balance of payments which Korea has experienced since 1990.

The total value of agricultural, forestry , and fishery imports in 1993 was US$7.8 billion, which was almost 17 times as much as the value of imports in 1970. As seen in Table 5, the agricultural import liberalization ratio had already reached 92.3 percent by 1994 from 50 percent in 1978. The rapid increase in agricultural imports since the mid-1980s can be largely attributed to the launching of

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30. Sung-Hoon Kim, "Agricultural Market Opening and Economic Security", Chung-Ang University, 1994.

31. Article 18-B, namely the balance of payment clause, allow member-country to practice import restrictions to safeguard its foreign deficit in trade. When Korea agreed to graduate form the BOP Article category of GATT on October 23, 1989, it pledged to eliminate her remaining restrictions or otherwise bring them into conformity with GATT provisions by July, 1, 1997.

internationalization and open-door policies following a series of trade frictions.

Table 5. Present Status of Agricultural and Fishery Import Liberalization

(As of December 1993; HS 10 Units)

Total	Farm Products	Livestock	Forestry	Fishery
Total No. of Commodities	1,867	913	314	354
No. of Liberalized Items	1,679	858	256	285
Import Liberalization(%)*	89.9	94.0	81.5	80.5
Residual Restricted Items	331	113	6	85

Source: Agricultural Co-Op Yearbook, 1994.

Note: * In 1994 an additional 46 commodities were liberalized, so that the ratio for the year reached 92.3 percent. From 1995 the remaining products would thus be subject to the country schedules of Korea submitted under the Agreement on Agriculture of the UR/WTO.

To cope with trade frictions with major trading partners and to meet the internationalization trend of the national economy, the Korean government has since 1984 continuously taken appropriate steps to open its agricultural market under the National Import Liberalization Schedule. In addition to the market-opening measures for 1984-88, the Korean government announced a three-year (1989-1991) market-opening schedule to liberalize imports of 243 farm, livestock, forestry and fishery products, in order to avoid possible designation of Korea by the U.S. as a "Priority Foreign Country" of Super 301, being suspected of exercising unfair trade practices. According to its GATT obligation, Korea implemented the first three-year market liberalization program of 137 agricultural and fishery products during the period of 1992-1994.

Liberalization has not only resulted in a deterioration of the already vulnerable agricultural production base and the rural economy, but also to an acceleration of the rural-urban exodus, thus imposing enormous social costs for solving problem of overpopulation in urban areas. The collapse of the agricultural production base is also considered to have led to the disruption of the environment and to destruction of national tradition and culture.

With the start of the civilian government in 1993, a new five year plan for farm policies was drawn up to solve the problems plaguing agriculture and fisheries and to heighten the country's competitiveness in international markets. The government established a set of comprehensive measures. The steps included enforcement of the 'place of origin' system from April 1992 and assessment of up to 100 percent adjustment tariffs on the 21 items whose importation was expected to have a serious impact on the rural economy.

4.4.3.3 Schedules and conditions of agricultural market liberalization under Uruguay Round

With the exception of rice, Korea has to surrender to all the provisions of the Agreement on Agriculture. According to the Agreement, Korea will have to eliminate non-tariff barriers and open markets for all agricultural commodities, with the exception of rice. Tariffs and newly established tariff-equivalents will have to be reduced by 24 percent on an average over the next ten years.

In the case of rice, the most important commodity in Korea, a grace period of ten years is allowed before tariffication. However, minimum market access for rice imports will apply. Access is to be gradually increased from one percent at the base period domestic consumption beginning in 1995, to two percent by 2000, and four percent by 2004. Postponement of tariffication for rice has been agreed to on the condition that domestic supply control will have to be applied and export subsidies will not be resorted to[32]. These conditions are subject to re-negotiation in the 9th year.

Internal subsidy reductions are, on an aggregate basis, to be 13.3 percent over ten years. The commodities subject to this subsidy reduction are rice, barley, corn, soybean, and vegetables. Subsidies on grapes, silkworm and milk are less than 10 percent of total production value and thus excluded from the subsidy reduction clause, under the provision applied to developing countries. Korea did not use export subsidies during the base period and so has no reduction commitment, but is not allowed to institute such policies in the future[33].

The economic impact of the agreement of minimum market access for imported rice is expected to be negligible for the domestic rice market. However, the emotional and psychological impact on rice farmers is expected to be significant[34].

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32. Rice has the lowest traded ratio among cereal grains, since less than 5 percent of world rice production is currently traded in contrast to nearly 30 percent for wheat and corn.
33. Tim Josling, et. al., "The Uruguay Round Agreement on Agriculture: An Appraisal", Commissioned Paper No. 9. The International Agricultural Trade Research Consortium, UC at Davis, July 1994, pp. 76-79 edited by Hyunok Lee.
34. Lee Kyung-hae, president of the Korean National Future Farmer's and Fisherman's Association stabbed himself at the headquarters of an international

The greatest access concern for Korea is the opening of the market for livestock products. In particular, in the case of beef, the first tariff quota quantity will increase sharply until 2001, after which the market will open completely. Once the tariff rate quota is completely removed, the Korean livestock industry is not likely to be able to compete with foreign producers.

In conclusion, the overall outcome of the Uruguay Round agreement is regarded as unfavourable for Korea, chiefly because of the heavy dependency for food supply on international markets, mainly the U.S.[35)]

4.4.3.4 Impact of market opening on Korean agriculture and economic security

According to a study by the Korea Rural Economic Institute,[36)] the impact of agricultural market opening on the Korean economy under the new WTO agriculture regime, would be enormous. First, the results of micro-economic analysis show that among 15 major agricultural

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trade forum November 5th, 1990. After his apparent suicide attempt, his association issued a strong statement: "We will sternly cope with any attempt to control the world by taking food as mortgage," it said, urging all the Korean people to "rise to protect our agriculture." (The Korean Herald, November 7, 1990)

35. Prices of imports for all types would increase from US$252 to $452 per ton and the prices of high--and low--quality indica would also increase by US$80 and $56, respectively, japonica is traditionally preferred in north Asian countries and region such as Korea, Japan and the northern provinces of PRC, whereas indica is generally preferred in South Asian countries and other continents.

36. KREL, "Analysis of Impact of Marketing Opening on Korean Agriculture", Seoul, December, 1993.

commodities, the average self-sufficiency rate in production of 10, excluding 5 for which Korea already depends too much on foreign importation, would drop to a level of 41% by the year 2001. The biggest decrease in self-sufficiency would be found in beef, chicken and spice crops, as shown in Table 9

Table 9. Projection of self-sufficiency rates of production by commodity after agricultural import liberalization, 1995-2001

(Unit: %)

Commodity	1992*	1995	1996	1997	1998	1999	2000	2001
Rice	97.5	96.2	96.8	97.5	97.2	96.8	96.3	95.9
Barley	83.3	81.1	79.8	78.4	76.9	75.4	73.8	72.1
Malt Wheat	52.5	62.3	57.4	53.2	49.7	46.4	43.8	41.6
Corn	1.50	1.50	1.6	1.5	1.4	1.3	1.3	1.2
Soybean	12.2	9.0	7.4	6.4	5.5	4.6	3.7	2.9
Potato	99.2	83.4	81.0	78.6	76.2	73.9	71.7	69.5
Sweet Potato	95.1	49.5	47.5	45.7	44.3	42.8	41.5	4.5
Beef	43.9	47.3	43.7	36.8	31.8	29.6	26.3	24.3
Pork	102.8	97.3	96.6	96	91.6	92.1	92.6	93.1
Chicken	100.0	96.7	95.8	95	100	100	99.3	98.7
Apple	100.6	99.0	97.0	95	92	90.0	88.0	86
Citrus	100.2	98.0	98.0	91	95	84	86.0	74
Red pepper	100.0	97.4	97.0	97	96.5	96.6	96.0	96
Garlic	107.8	98.3	98.3	98.1	98.1	98	98.0	97.9
Round onion	102.9	98.2	98.2	98.1	98	98	97.9	97.9
Sesame	47.7	34.7	34.7	26.7	22.7	19	15.3	11.6

Source: KREI, "Analysis of Impact of Market Opening on Korean Agriculture", Seoul, December, 1993.
Note: * Base year.

If production costs stabilize around current levels, the loss in farm producers' surplus would amount to a total of 7.8 trillion *won* (US 97.5 billion dollars), starting from 700 billion *won* in 1995 to 1.5 trillion *won* in 2001. The greatest loss would occur in production of beef, pork, citrus, barley, rice and garlic in that order of magnitude.

The proportion of agriculture and fisheries in total GNP would drop from 7.6% in 1992 to 2.8% in 2001. (see Table 10) Without the Uruguay Round impact, the ratio would have been be 4.6% by 2001. The total farm population would decrease from 5.6 million in 1992 to 2.4 million with the influence of the Uruguay Round and 3.4 million without the Uruguay Round in 2001. Thus, from a total of 13.1 %, the farming population would decline to 5.1% with the Uruguay Round, and 7.1% without it during the same period. The influx of foreign agricultural produce into Korean markets should enlarge the agricultural and fishery trade deficits from 4.3 billion US dollars to 13 billion dollars in 2001, which would otherwise record 11 billion dollars. The annual average growth rate of the agricultural and fisheries sector would see an increase of 1.4% and 0.2%, respectively, with and without the Uruguay Round enforcements. The farm price in real terms could have maintained the average annual increase of 8.7% in 1992 to 4.6% in 2001. However, the reality might be a much smaller increase of 1.5% by 2001.

The implementation of the Agreement on Agriculture, will more than likely represent the end to food policies that promote national food security and create conditions for global competition in a race to the bottom in food prices and quality. Korea's trade deficit could become worse, as it is forced to accept increased food imports at the same time that Korea's traditional crops must compete with cheaper, dumped and subsidized commodities on the world market.

Table 10. Projection of aggregate agricultural and fishery indices following import liberalization, 1995-2001

	1992	1995	2001	
			base-line	with UR
% of Agri. & Fisheries to GNP	7.6	5.5	4.6	2.8
No. of Agri. & Fisheries Work force	3,025	2,688	2,243	1,948
(1,000 prs.)	(16.0)	(13.1)	(9.4)	(7.9)
(% to total)				
No. of Farm Family Members	5,707	4,787	3,367	2,423
(1,000 prs)	(13.1)	(10.7)	(7.1)	(5.1)
(% to total)				
Deficit in Agri. % Fisheries Trade				
(US$100 million)	42.6	64.3	109.8	130.3
Growth rate of Agri. & Fisheries (%)	1.2	-0.9	1.4	0.2
growth rate of Agriculture (%)	1.5	-1.1	1.6	0.1
Farm Prices Received (%)	8.7	-5.2	4.6	-1.5

Source: Same as Table 9

4.4.3.5 Coping with agricultural market liberalization

In April 1989, the "Comprehensive Master--Plan for Rural Development" was drawn up by the Ministry of Agriculture, Forestry and Fisheries (MAFF). It aimed at improving the agricultural structure, and enhancing rural living standards. In 1993, on the basis of this plan, MAFF issued the "New Agricultural Policy" which commenced in the fiscal year of 1993. The plan focused on improving agricultural productivity, enhancing competitiveness through the development of a market-oriented price system, and facilitating modernization and mechanization from the production site to the distribution network. This policy also stressed the revitalization of rural communities and diversification of farm household income.

The underlying basis for the policy is the belief that there is no alternative other than attempting structural reform to solve current agricultural problems. Special emphasis has been placed on policies relaxing regulation of the use of farmland, lifting farm size limits and encouraging alternative uses for farmland. The goal is to expand the scale of farm operations, sustain agricultural production, and transfer land to young farmers.

The most important element for the maintenance of Korean agriculture is to keep young farmers in the sector. The MAFF launched a program to support active young farmers willing to be involved in agriculture, and established practical training programs for studying advanced farming techniques at home or abroad. Low-interest loans have also been provided to them. Development and management of agricultural land and water resources are essential. Land development and water resource management programs require large investments, and take a long time. More than 9 trillion won will be spent in this area over the next ten years under "the Structural Improvement Plan."

Research and development of technology are other important elements for agricultural reform. The Rural Development Administration, a government agency under the MAFF, directs research activities. Some of these activities are joint programs with private enterprises. Areas of research include improving productivity, developing new varieties, establishing off-season production techniques, and diversifying harvest seasons. Comprehensive rural development projects aim to improve poor rural living standards. Country-level rural development programs include the building of modern houses, provision of off-farm employment, and other improvements to rural infrastructure and services.

On the other hand, faced with strong pressures to liberalize agricultural imports, Korean agriculture has been urged to achieve structural adjustment to compete in an internationally open market. The basic factor limiting agricultural productivity--small farm size--will not improve substantially in the near future in spite of the restructuring plan, since land itself is so limited. Hence, an effective land rental market is expected to be developed while stable employment opportunities will be increased in non-agricultural sectors. With the development of a commuting system in the future, urban workers as well as farmers will be able to reside in rural areas to a greater extent. To meet these demands, rural housing, education, and public services will be policy priorities in the future.

CHAPTER V

Conclusion

The developed countries took the initiative to launch the Uruguay Round for their unlimited intrusion into the world market, particularly into the markets of the large size countries like India and newly industrializing developing countries like South Korea.

The developing countries, mainly led by India, went on resisting the move to launch the new round for several years. But their resistance could not succeed due to their economic vulnerability. Exploiting this vulnerability, the developed countries broke the unity of the developing countries and forced them to join the Uruguay Round of Trade Negotiations.

When the new round was launched, most of the developing countries were just busy to minimize their loss and gain their short-term interest. Thus, they failed to forge a common unified position. Taking advantage of developing countries' frail unity, the developed countries succeeded in bringing agriculture, TRIPS, TRIMs and Services sectors under the discipline of GATT. It became more difficult for the developing countries to protect their sovereign economic space against a massive intrusion of the developed countries.

While other developing countries were seeking the interest of their own countries, India, perceiving the disastrous outcome of the new round, led a group of 10 developing countries to defend the interest of developing countries as a whole. But as the pressure from the United States was mounted, India was forced to give up its stance as a spearheaded-nation for the developing countries.

Korea, being a relatively small resource-scarce country with a high dependence on foreign trade, needed a free multilateral trading system. Thus Korea actively participated in the new round at the beginning with the hope to avoid unilateral and bilateral liberalization pressures from major trading countries like U.S. and also to preempt the trend toward protectionism. But when Korea realized the critical outcome of the negotiations, especially in the agricultural area, it joined with Japan and EC for safeguarding its interest in agriculture at the Brussels' ministerial meeting held in December, 1990. Since then, Korea tried to defend her own interest.

Even though India and Korea approached the new round with different attitude at the beginning of the negotiations, they came to have a similar attitude at the end by pursuing their own interest. However, their interested sectors during the negotiations were not the same. hence, there is a considerable gap in their overall perspectives on the outcome of the new round. These differing perspectives of the two countries are derived mainly from the different structures and competitiveness of their economies.

India still has an agriculture-dominated economy. India is also much less dependent on trade than Korea. In 1992, the value of India's trade was only 17 percent of its GNP whereas Korea reached 54 percent in the same year. However, during most of the period after independence, India has suffered from massive annual trade deficits, rising to over Rs 6,700 crores in the eighties. Due to its weak competitiveness in global trade, India strongly resisted the new round which, it thought would further increase its trade deficits, thus severely undermining its balance of payment. Thus, India's overall perspective on the outcome of the new round was more negative than that of Korea.

Korea, since it grew rapidly through export-oriented policy, was active in supporting the launch of the new round. As far as manufacturing sector is concerned, Korea's domestic market was almost completely opened to international competition as of 1990. After continuous growth in manufacturing sector, Korea could rank second in the world in shipbuilding, third in semiconductor manufacturing, fifth in steel production, and fifth in automotive manufacturing in 1996. With its very strong competitiveness, Korea eagerly wanted the world market to be opened for its manufacturing goods. Especially Korea wanted the markets of developing countries to be opened because there it enjoyed higher technology competitiveness compared to other developing countries and higher price competitiveness compared to developed countries. Though Korea's overall perspective on the new round was more positive than that of India, in the agricultural sector and labor service sector, India had a much more affirmative attitude than Korea.

The Uruguay Round of trade negotiations brought agriculture under the discipline of GATT. It established separate rules and regimes in the new areas of TRIPS, TRIMs and Services. The developing countries like India and South Korea had more to lose and less to gain in these areas than the developed countries. However, in each area the perspectives of India and Korea were different.

As far as Intellectual Property Rights are concerned, India tried hard to prevent them from being brought on the agenda of the Uruguay Round Negotiations. In a country like India with massive poverty, it is extremely important to make drugs available to the people at low prices. But the introduction of product patent in this sector will deal a severe blow to public health services. Because of its rich bio-diversity resources India has the best chance of catching up with developed country through the bio-technological route. But the TRIPS agreement, by allowing patenting of plant variety and micro-organisms and mutations involving non-biological processes, will prevent the diffusion of advances in the field of bio-technology. In this case India's strong competitiveness will be chocked by the TRIPS agreement.

Korean economy has been developed mainly on the basis of an imitative industrialization. So the TRIPS agreement could have seriously affected country's economy also. But Korea covered up its weak competitiveness in the area of TRIPS by revamping and updating its intellectual property rights system and putting in place the necessary institutional machinery. During the negotiations, Korea continued to revise its intellectual property related laws and enacted several new legislations in this area. Korea, therefore, was fully prepared for coping with a regime of higher level protection of IPRs. In fact, through the TRIPS agreement, Korea can secure its higher competitiveness in the area against other developing countries. So Korea's overall perspective on the TRIPS Agreement.

As far as Trade-Related Investment Measures are concerned, India wanted to make foreign investment supportive of transfer of technology and industrialization and control anti-competitive and trade-restrictive business practices of foreign investors. So India took the position that its national policies on investment, industrialization and treatment of foreign investment could not be allowed to be questioned on the ground that they were trade related. India saw that the TRIMs agreement would prove to be a drain on its limited foreign exchange reserves, adversely affecting its balance-of-payments position and its capacity to repay its debts.

On the contrary, Korea attaches an important source to foreign direct investment in its economy and to overseas investment by Koreans themselves. Foreign investment in Korea generally brings more benefits than losses in terms of economic effect. It was because, till recently Korea had put restrictions on the opening of the high value-added industrial sector. However after the TRIMs agreement, Korea has to give up its economic policy to selectively allow foreign investment. Having relatively weak competitiveness against developed countries in the financial, transportation, and communications markets, Korea saw the agreement detrimental to its economic growth in these areas. However, Korea is happy with the TRIMs agreement in terms of utilising its benefit in the markets of developing countries through its overseas investment.

Regarding Services sector, India was completely against the idea of bringing trade in services under the discipline of GATT. Since India's competitiveness in this area is very feeble, it feared that the GATS would open up its industry to foreign competition, mainly from the transnational corporations of the developed countries which dominated trade in services.

However having decisive competitive advantage in the labour service sector, India strongly demanded the free movement of labour to seek employment in foreign markets. But India could draw only a near complete blank in its effort to make some progress in this sector. Even though India is in a relatively disadvantageous position in the realm of services in general, it enjoys competitive advantage in some service sectors like managers, medical personnel, teachers, computer specialists etc.

From the beginning of the negotiations, Korea had much concern about the serious damage to be inflicted upon the domestic banking and finance industry as a result of the opening of the service market through the new round of negotiations. The Korean domestic financial market was not yet strong enough to compete against foreign countries, which had superior resources and techniques. When Korea opened its financial service sector after the Uruguay Round negotiations despite its great vulnerability, it had to face a national crisis. It is feared that Korea will face more difficulties as the service sectors is opened wider. However Korea is trying to cover up its loss in the financial sector by expanding its communications markets in developing countries.

Agriculture still remains the most important sector of the Indian economy. Moreover after the green revolution, India acquired high competitiveness in the agricultural sector. India ranks second in the world in the production of fruits and vegetables. India is the second largest rice producer and the fifth largest wheat producer in the world. If India brings about a structural change in its agricultural production and emerge as a low cost producer of wheat and rice, it will emerge as one of the most competitive countries in the world export market of agricultural products.

As far as the agreement on agriculture is concerned, Korea is one of the biggest losers of the new round as its foodgrain self-sufficiency has been steadily maintained at a mere 33 percent. With the exception of rice, Korea has to yield to all the provisions of the Agreement on Agriculture. Once the tariff quota is completely removed, the Korean livestock industry is not likely to be able to compete with foreign producers. The overall outcome of the Uruguay Round in agricultural sector is regarded as extremely unfavourable for Korea, chiefly because of its heavy dependence for food supply on international markets. Korea's trade deficit can become worse, as it is forced to accept increased food imports. This adverse situation has driven Korea to carry out rapid reforms in the agricultural sector. The Korean government already began its "the Structural Improvement Plan" with the budget of more than 9 trillion won for ten years beginning from the year 1993.

In conclusion, the Uruguay Round has adverse implications for both India and South Korea. But this differed from sector to sector. Now the future loss or gain of the two countries from the outcome of the Uruguay Round of Trade Negotiations will depend on how far they are able to improve their competitive position in the world market in different sectors.

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(8) Korea statistical information system
http://nsohp.nso.go.kr/

(9) One World
http://www.oneworld.org/
(10) Overseas Development Institute
http://www.oneworld.org/odi/index.html
(11) Perkins Coie: A guide to the Uruguay Round Agreement Act
http://www.perkinscoie.com/resource/anti/uruguay/CONTENTS.HTM#List of Abbreviations
(12) Small Business Exchange: Business Planning & Resources Search Results
http://www.aexp.com/smallbusiness/cgi-bin/AT-sbs_resourcessearch.cgi
(13) The Bank of Korea
http://www.bok.or.kr/kb/index_e.html
(14) The Economist
http://www.economist.com/
(15) The Korea Development Bank
http://203.233.10.2/~kdb1/
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