

POLITICAL ECONOMY OF PROTECTIONISM
IN EC-KOREA TRADE

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Abstract

This thesis examines from an international political economy(IPE) perspective the determinants and the effectiveness of the EC's protective measures against Korean exports to the EC market. Both the determinants and the effectiveness of protective measures, in countries which adopt such restraints, have been very controversial issues in the academic world.

Through broad and industry-specific case analyses, I found that approaches regarding determinants of protectionism in the IPE literature are not fully applicable as determinants of EC protectionism against Korea and I extracted several determinants which are more relevant to the issue of EC-Korea trade protectionism.

These are primarily divided between economic and political determinants. The economic determinants include 1)a causal relationship between protectionism by the United States against Korea and protectionism by the EC against Korea, 2)Korea's neo-mercantilist policy approach and concentration of exports on a limited range of products, and 3)inter-industry trade structure between the EC and Korea, such as growing trade disputes in specific sectors. The political determinants, I found, are 1)political expediency of the EC's protectionism against Korea, which can be seen in examples of EC's policy implementation procedures, such as low rate of actual imposition of the EC's import restraints, and the use of anti-dumping investigations as a preliminary gambit in order to obtain concessions, and 2)a form of "Japan Complex" effective against Korean exports to the EC.

In addition to the above determinants, there are some specific determinants(or specific procedures and incidents) in connection with individual industries--the EC's inconsistent policy implementation and the clerical errors due to the growing workload of the EC Commission(textiles and clothing case), business

cycle(iron and steel case), the EC's retaliation against closed markets abroad, and the successful experience of Italy and France in restricting imports of Korean footwear through VERs (footwear case), and EC's built-in protectionism and failure in demand forecast, and the deep-rooted distrust of Korean CTV exporters by the EC(CTV case).

In order to analyse the effectiveness of protective measures, I began by examining approaches by David Yoffie and Patrick Messerlin. For the test of these approaches, I examined the effectiveness of EC's import restraints against Korean products by comparing how Korea's exports of those products changed, in terms of volume and value, following EC action. My findings are that the EC's protective measures were successful in all cases excepting one: the footwear products from Korea, the imports of which continued to increase during the 1987-1991 period despite EC restraints. I found that the major determinant of effectiveness of EC's VERs was Korea's international competitiveness in terms of revealed comparative advantage (RCA) ratio of the subjected products. Specifically, Korea's strong competitiveness(and some weakening of EC's competitiveness) in footwear contributed to the continued increase in shipments of Korea's footwear to the EC market. In contrast, EC's VERs against iron and steel products, in which the EC has maintained international competitive strength, were very effective in reversing growth of imports from Korea. Additionally, EC's impositions of AD duties proved to be very effective as a means of protecting EC industries against foreign threat; all Korean products subject to EC's AD measures showed a declining trend in exports to the EC market during the 1987-1991 period, regardless of any weakness or strength in international competitiveness of subjected products.

I concluded that the ineffectiveness of import restraints, suggested by David Yoffie for U.S.-NIEs trade, does not apply to EC-Korea trade. Patrick

Messerlin's approach, however, is applicable in the EC-Korea trade. I also found that arguments which only link job losses in the EC with foreign imports are flawed. EC companies face job losses not only as a direct result of Korean imports, but also from the inability of EC industry to restructure, and the remedial action taken by them to counter Korean competition--such as reorganization and rationalization of EC companies, offshore processing activities in cheap labour cost countries for major labour-intensive processes, and automation of production facilities.

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List of Abbreviations

A	
A	Applicable
AC	Advanced Countries
ACO	All Companies
ACP	Africa-Caribbean-Pacific Countries
AD	Anti-Dumping Duties
AGR	Average Growth Rate
AICs	Advanced Industrializing Countries
APC	Aparent Consumption
APEC	Asia-Pacific Economic Cooperation Council
ASEAN	Association of Southeast Asian Nations
ATE	Alternative Tariff Equivalent
B	
BIPS	Basic Import Price System in EC Steel Trade Mechanism
BRITE	Basic Research in Industrial Technologies in Europe
C	
CAS	Canvas Shoes
CCP	Common Commercial Policy
CDP	Compact Disk Player
CE	Consumer Electronics Industry
CEC	Confederation Europeenne de L'Industrie de la Chaussure
CEPG	Cambridge Economic Policy Group
CERP	Closer Economic Relations Pact
CET	Common External Tariffs
CHS	Chemical Shoes
CIRFS	International Rayon and Synthetic Fibres Committee
CLCSP	Cut-to-Length Carbon Steel Plate
COMECON	Council for Mutual Economic Assistance
COMPACT	Committee for the Preservation of American Color Television
CP	Chemical Products
CRCS	Cold-Rolled Carbon Steel Flat Plates
CRCSF	Corrosion Resistant Carbon Steel Products
CS	Consumer Surplus
CTV	Color Television Set
CVD	Countervailing Duties
D	
DAT	Digital Audio Tape
DC	Developing Countries
DD	Domestic Demand
DFD	Date of Final Decision
DI	Date of Initiation
DOC	Domestic Consumption
DP	Domestic Production
DRAMS	Dynamic Random Access Memories

DYA	David Yoffie's Approach
E	
E	Electronics Industry
EACEM	European Association of Consumer Electronics Manufacturers
EC	European Communities
ECC	European Commission
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EEA	European Economic Area
EEC	European Economic Community
EED	Electrical and Electronics Products
EECMA	European Electronics Component Manufacturers Association
EFTA	European Free Trade Association
EIAK	Electronics Industries Association of Korea
EK	Exports to Korea
EM	Employment
EP	Electronics Parts
EPB	Economic Planning Board of Korea
EPR	Effective Protection Rate
ESPRIT	European Strategic Program for Research and Development in Information Technology
EUR	Exports Under Restraints
EUREKA	European Research Coordination Agency
EUROFER	European Confederation of the Iron and Steel Industry
EWM	EC-Wide Measures
EX	Exports
F	
FDI	Foreign Direct Investments
G	
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GR	Government Revenue
GSP	Generalized Scheme of Preferences
GTCs	General Trading Companies
GWG	Global Welfare Gain
H	
HDTV	High Definition Television
HE	Heavy Electric Equipment
HRCS	Hot-Rolled Carbon Steel Flat Plates
HST	Hegemonic Stability Theory
I	
ICE	In-Car Entertainment
ICU	Industry Capacity Utilization
IE	Industrial Electronics
IEO	Import Exclusion Order
IISI	International Iron and Steel Institute
IM	Imports

Impl.	Implemented
IMR	Import Ratio
Init.	Initiated
IPE	International Political Economy
IR	Irrelevant
IRE	Import Restraints
J	
JESSI	Joint European Semiconductor Silicon Initiative
K	
KCFA	Korea Chemicals Fibres Association
KEC	Korea-EC Trade
KECM	Korea-EC Member Countries Trade
KFTA	Korea Foreign Trade Association
KFTI	Korea Federation of Textile Industries
KIET	Korea Institute for Industrial Economics and Trade
KISA	Korea Iron and Steel Association
KOTRA	Korea Trade Promotion Corporation
KUS	Korea-United States Trade
L	
LC	Large Companies
LCPH	Labour Cost Per Hour
LDCs	Less Developed Countries
LS	Leather Shoes
LSS	Leather Sports Shoes
LTA	Long Term Agreement
M	
M	Manufacturing
MFA	Multi-Fibre Arrangement
MFN	Most-Favored-Nation Treatment
MNCs	Multi-National Corporations
MRL	MFA Rent Loss
MSA	Multilateral Steel Agreement
MSM	EC Member States' Measures
MTE	Machinery and Transport Equipment
MWO	Microwave Oven
N	
NA	Not Applicable
NAFTA	North America Free Trade Agreement
NCC	National Consumers Council of the U.K.
NE	Net Exports
NI	Not Implemented
NICs	Newly Industrializing Countries
NIEs	Newly Industrializing Economies
NIRK	Number of Import Restraints Against Korea
NM	Not Meaningful
NMNC	Number of Multinational Corporations
NOCs	Number of Cases
NTB	Non-Tariff Barriers
NTD	Non-Tariff Duties

NTSC	National Television Standardization Committee
NTM	Non-Tariff Measures
NWG	National Welfare Gain
O	
OB	Other Barriers
OBM	Own Brand Manufacturing
OECD	Organization of Economic Cooperation and Development
OEM	Original Equipment Manufacturing
OMA	Orderly Marketing Agreement
OSL	Other Suppliers' Loss
OT	Others
P	
P	Production
PA	Partially Applicable
PAL	Phase Alternation Line
PI	Period for Investigation
PM	Provisional Measures
PMA	Patrick Messerlin's Approach
POP	Period of EC Presidency
POSCO	Pohang Iron and Steel Company of Korea
PR	Profit
PTF	Polyester Textured Filament
PU	Price Undertakings
Q	
QUANT	Quantity
RACE	Research in Advanced Communications Technology for Europe
R	
RCA	Revealed Comparative Advantage
R&D	Research and Development
R&TD	Research and Technical Development
RS	Rubber Shoes
S	
SECAM	Sequentiel Couleur a Memoire
SH	Share
SMC	Small and Medium Companies
SSR	Self-Sufficiency Rate
STA	Short-Term Agreement
T	
TAC	Total of All Commodities
TC	Textiles and Clothing
TD	Total Demand
TE	Total Exports
TEAC	Total Exports to Advanced Countries
TFY	Textured Filament Yarn
TM	Total Manufacturing
TNCs	Trans-National Corporations
TO	Total
TPM	Trigger Price Mechanism of the United States

TR	Type of Import Restraints
TS	Total Supply
U	
UI	Under Investigations
V	
VCR	Video Cassette Recorder
VER	Voluntary Export Restraint
VHS	Video Home System
VRA	Voluntary Restraint Arrangement
Y	
YI	Year of Import Restraints

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Introduction

1. Major Issues of World Trading Environment Around EC and Korea

1-1. Introduction

Louis Turner argued "trade politics has always been an arena in which the moles in one's opponents' eyes have always seemed mountainous, while one's own vision has been crystal clear."¹

His argument is well applicable to the current situation of the world's trading order. Each country is blaming the current problems of international trade upon faults and results of self-interest seeking by its trading partners, not recognizing its own problems. Most countries are involved in providing subsidies to at least some of their domestic industries and/or protecting them from foreign imports through invoking various industrial and trade policy instruments. Therefore, the principle of free trade--"no tariffs, licenses or quotas on imports or subsidies on exports; no collusive agreements between governments, collecting marketing agencies, monopolies, multinational or otherwise; and no barriers to international payments or transfer payments of funds"--² can not be found in its pure form anywhere in the world. In an ideal world, each country would accumulate wealth through specializing in products with natural absolute and comparative advantages.³ In reality, these comparative advantages of individual countries have been more than arbitrarily complemented through government involvement in industrialization and trade promotion. Every country has been engaged in manipulating trade through a wide variety of different industrial and trade policies,⁴ regarding "trade not as an exchange in which all nations can gain, but as a war won by running a trade surplus and lost by having a deficit."⁵ "In the West, countries that had formerly been highly dependent on international trade resorted to a variety of restrictions, including not only protective tariffs but also more drastic measures such as physical import

quotas, and import prohibitions, stimulating their own exports by granting export subsidies and other measures at the same time (trade under neo-mercantilism)."⁶ Furthermore, Lester Thurow has called "a carefully worked-out strategy of protection for U.S. industries against imports from Japan, Europe and many Third World countries such as a package of protectionist measures, from tariffs and quotas to administrative and legal barriers, and retaliation against closed foreign markets, arguing that it is wrong to rely on free trade and the law of comparative advantage (strategic or managed trade)."⁷ However, the protectionism harms both the protectionist country and the target country. "There is no doubt that protection in the developed countries has limited the scope for export expansion by the Newly Industrializing Countries (NICs). Furthermore, protectionism feeds protectionism and ends up in self-insulation and growing inefficiency."⁸

As a result, every country focuses unduly on bilateral trade balance figures, rather than overall trade balances. Therefore, they perceive the international trade as a zero-sum game (winners takes all, the losers take nothing), rather than a game in which everybody benefits, which was argued by classical economists such as Adam Smith and David Ricardo. These distortions of the classic free trade principle are linked to basic issues of the world trading environment. In the following, I want to introduce some of the fundamental problems providing the background to protectionism.

1-2. Incompatibility of Economic Policies of Developed, Developing and 'Threshold' Countries

One of the fundamental issues in the world trading environment is the incompatibility of the strong, authoritarian, government-led neo-mercantilist economic policies in developing countries, especially Newly Industrializing Economies (NIEs)-type threshold countries to which Korea belongs, with economic policies in developed countries.

In terms of efficiencies in implementing economic policy, NIEs-type developing countries are in a position to "provide everything: cheap capital, control of the workforce, protection from outside supplies, credits for both exports and imports, virtually free land and low cost inputs like electricity, and then hand the package over to a private entrepreneur."⁹ This makes the comparative advantage of natural endowment in individual countries fade into insignificance because NIEs-type developing countries artificially manipulate their price competitiveness in commodities through economic policies penetrated into the microlevel. Therefore, developed countries have a fundamental disadvantage,¹⁰ even though a part of these measures is also available to developed countries.

On the other hand, some developing countries have limitations in aggressive NIEs-type economic policy implementations because "the higher rates of growth in industry have not been followed by a radically changed structure of employment. In India, 70 per cent of labour force remain in agriculture, which is the backbone of the economy with 40 per cent of the net domestic product."¹¹ In terms of efficiencies in decision making, NIEs-type developing countries are often advantaged because "they are capable of pushing radical reforms with their autonomy vis-a-vis vested interests."¹² Therefore, they are in a position to concentrate on much more narrow spread of industrial sectors such as textiles, iron and steel, shipbuilding, automobiles and electronics. Furthermore, they have efficient decision making, use of resources and provision of support to those industries, providing an advantage over developed countries in terms of ability to focus on a limited range of sectors. For example, major decisions for economic policy implementations in developing countries are being made by a handful of government officials, rather than by a legislative body as in the case in developed countries. Decision making in most developing countries have

centralized and authoritarian characteristics, decision makers having no need to consider a wide range of interests from various groups. As a result, "government officials are not caught between the pressures of rival interest groups lobbying for favours and the civil service is relatively insulated from the legislature."¹³ Such efficient decision making in NIEs-type developing countries allow them to meet internal and external changes with flexibility. For example, they set annual export targets for commodities, and then provide institutional and financial support to exporters in accordance with their achievement of target. Frequent changes are made to the criteria for support, following changes in the international trading environment.

On the other hand, decision making in developed countries has a de-centralized and accommodating characteristic. Major decisions are made in a legislature, rather than at the executive level. Decision makers, having to consider a wider range of interests, are more open to lobbying by organized labour and industrial associations. Therefore, decision-making in developed countries is more time-consuming and less efficient, compared to that of developing countries. "The Western emphasis is on the rule of law and the use of non-discretionary controls to the maximum extent possible."¹⁴ However, some developing countries, such as India, maintain a democratic regime, rather than an NIEs-type authoritarian development regime. "They do very little in terms of reform measures going against vested elite interests. This reduces the capacity of such regimes for promoting economic development. This type of regime lacks the flexibility and innovation in the economy."¹⁵ They have no advantage, in terms of efficient decision making, over developed countries.

The degree of control over the labour movement, under strong authoritarian governments in NIEs-type developing countries, has been high. Such restriction allows developing countries to secure cheap and controlled

labor. "In contrast, strong labor movements in Western countries and their long-standing participation as part of ruling coalitions mean that the interest of workers must be taken into account in attempting industrial adjustment."¹⁶ As a result, developed countries have to put up with higher labor cost and social overheads.

Furthermore, men and women in NIEs-type developing countries are "subject to invidious racial discrimination. Therefore, women were particularly exploited and received much lower wages than men for similar work, and predominated in the older textile sector."¹⁷ Industrialization in NIEs-type developing countries is greatly indebted to the sacrifice of women workers, who put up with such low levels of wage and job security.

Regarding the degree of job security, "paternalistic system of employment such as wages paid according to seniority of workers and year-end bonuses for workers promoted a strong sense of worker identification with the company and a willingness to collaborate with the management. In contrast, workers in developed countries tended to see the introduction of new technologies as a source of threat to their job security."¹⁸ Also, 'democratic-regime' developing countries have difficulties in suppressing labor movement and exploiting low-wage workers because democracy brings civil and human rights and liberties.

In terms of cultural characteristics, developing countries have a greater impact on social developments, helped by their cultural background (e.g. Confucianism) and control over media. Such cultural characteristics are not found in developed countries. In 1991, the Korean government backed up a campaign to reduce imports by announcing more severe tax inspection of persons consuming luxury items, effecting particularly European exporters. These cultural characteristics help the governments of NIEs-type developing countries to

implement their economic policies with high efficiency and consistency.

As a result of those differences in economic, political, social and cultural backgrounds, there is a fundamental difference between developing and developed countries in terms of economic policies, and the ability to implement any relevant policy.

1-3. Graduation and the 'Threshold' Countries

The strong neo-mercantilist policy implementation in developing countries, with their special focus on a limited number of promising industrial sectors, created some labour-intensive industries able to maintain international competitiveness and threaten counterpart industries in developed countries. Based on these partial successes, developed countries claimed that NIEs-type threshold countries should accept increased obligations in the economic sphere. Louis Turner defines the concept of graduation as "a strand in thinking of developed countries that NIC exporters should start 'graduating' that is, that they should increasingly lose the preferential treatment available to them as LDCs, and should increasingly shoulder the burden of being just another set of actors in the world's trading arena with an emphasis more and more on the obligations of the NICs, rather than on their rights."¹⁹

However, NIEs are reluctant to accept these obligations, leading to growing trade conflicts between developed and threshold countries in connection with the concept of graduation. For example, the United States terminated, in 1988, its GSP status given to Korea, the reason given that Korea had moved from the status of a developing country to one of a developed country. There are, however, no generally recognized yardsticks to decide the point where a threshold country becomes developed. In the case of Korea, many sectors, such as finance and service sectors, are still under-developed in contrast to others, such as electronics, which are at the forefront of international competition.²⁰ This partial success makes

the establishment of a yardstick for deciding the point of graduation more difficult. Furthermore, it has caused overproduction in certain industries and the consequences for trade, i.e. rise of protectionism. In addition, the confusion of terms between graduation of specific industries, as opposed to the graduation of a country for which the terms is normally intended, in the international trading arena has been making trade disputes between developed and developing countries worse.

The first major conflicts in connection with the graduation issue is related to the inter-industry trade structure. The increasing sophistication of export items from developing countries to developed countries has produced growing competition between them in similar product range. Furthermore, developing countries have increasingly moved to the export of finished products, rather than parts or sub-assemblies, as the result of their industrialization strategy--production of final products through an assembly of parts and equipment imported from foreign countries, with a low level of labor costs at home. The graduation of specific industries in threshold countries has reversed the original intra-industry complementarity between developed and developing countries, for example the exports of parts and equipments by developing countries to the same industries in developed countries which manufacture finished products. The graduation of these industries in threshold countries resulted in an inter-industry trade structure, i.e. competition in the same finished products between developed and developing countries. Korea and the EC have been competing in the world market for exports of iron and steel products, electronics products and textiles and clothing. They are declining industries in the EC and growing industries in Korea. The fact that Korea's major exports to the EC coincide with EC's major export items to the world market suggests the reason for current trade disputes in those areas between the EC and

Korea. Also, it is ironical that Korea's graduation in some industries has been promoted through foreign direct investments(FDI) in Korea by developed countries such as Japan. Developed countries made FDI in Korea as a part of efforts to promote industrial structure adjustment by moving their labour-intensive industries to cheap labour countries.

Another major conflict in connection with the graduation issue is related to reciprocity. Developed countries have been arguing that NIEs are now fully developed economies to which the same trade rules can be applied as to other advanced industrial countries. However, the level of openness in trade between developed and NIEs differs greatly, because most tariffs of NIEs' manufactured goods are unbound in the GATT. Specifically, NIEs get an exceptional treatment from the GATT in relation to the most-favored-nation (MFN) tariffs. Therefore, they can maintain higher tariff levels for manufactured goods. However, developed countries have to observe the tariff reduction principle under the GATT. That leads to the perception that developed countries' markets are unfairly open to exports from NIEs, considering the difficulties advanced countries have in penetrating NIEs' markets, and that it is contrary to the reciprocity and the principle of trade based on mutual benefits. As a result, major advanced countries have used the principle of reciprocity as a weapon and an excuse for protectionism, imposing trade restrictive measures on products from those developing countries not offering reciprocal treatment. The EC-Korea trade is a classic example of the graduation issue.

1-4. Insufficiency of Regulatory Bodies for the World Trading System

Despite the growing conflicts between developed and developing countries, mainly originating from the incompatibility of economic policies and the graduation issue, let alone trade disputes among developed countries, the General Agreement on Tariffs and

Trade(GATT), the multilateral trading organization to manage the international trading system, has not been functioning well.²¹ The GATT, established under the leadership of the United States and its allies, has been losing its functional power following the relative weakness of the U.S.hegemony. Particularly, it showed its limitations by accommodating the self-interests of major trading partners, and institutional weakness in its inability to settle international trade disputes. Such limitations and institutional weakness could be seen in the long drawn out Uruguay Round negotiations.²² The world's major trading countries "think it would be wonderful for the Uruguay Round to be crowned by the liberalization of the trade policies of every country except their own. No wonder they find it so difficult to agree."²³

Robert Gilpin ironically describes this situation as "the existence of a liberal trade regime in a world composed largely of illiberal states."²⁴ As a result of the lack of functional power to accommodate the self-interest of every country involved, there were no results in the GATT multilateral talks for six and a half years since the Uruguay Round was initiated in September, 1986. (Note: during the period of writing this thesis, participants in the multilateral negotiations finally reached an agreement on Dec.15, 1993).²⁵

The relative decline of U.S.hegemony and its causal relationship with deadlock in multilateral trade talks contributed to the growing regionalism in the world trading arena. This regionalism was firstly caused by the GATT's allowance of such exceptional cases as common markets or free trade agreements, and then was expanded by the ill-functioning of the GATT. For example, the EC and the European Free Trade Association (EFTA) have agreed to set up the European Economic Area (EEA) in 1992. The United States, Canada and Mexico have concluded an agreement to set up the North American Free Trade Association (NAFTA) in 1992. The formation of NAFTA has been regarded as a response against "Fortress Europe,"

expected by the completion of the Single Market in the EC.²⁶ In addition, Asian and Pacific-basin countries have set up in 1989, at the suggestion of Australia, the Asia-Pacific Economic Cooperation Council(APEC), even though it is a consultative body dealing with issues such as harmonization of customs duties and exchange of information on marine pollution without functioning as a common market or free trade areas.²⁷ Australia and New Zealand have also been under a free trade agreement, named the Closer Economic Relations Pact (CERP),effective in 1990. Furthermore, "Mexico, Venezuela and Colombia have concluded a free trade agreement in December, 1993, effective in the first half of 1994, as a first step in Latin America's quest for economic integration and closer political cooperation."²⁸ In addition, Bolivia, Colombia, Ecuador, Peru and Venezuela, the Andean Group, plan to start a customs union in 1994 as a customs union among developing countries. Negotiations are also underway among negotiators from Argentina, Brazil, Paraguay and Uruguay to set up the South American Common Market (Mercusur) within 1994. Such growing regionalism has created concern among the world's trading countries about the utmost self-interest seeking by major economic blocs.

Furthermore, the early concentration of the GATT to lessen tariff barriers resulted in the proliferation of non-tariff barriers,the so-called 'neo-protectionism,'²⁹ in the 1970s and the 1980s, vis-a-vis old protectionism in the 1930s and its acceptance of many exceptional protective measures, such as safeguard measures due to international balance of trade problems and sectorial protectionism,which caused spillover effects of protectionism to other industries.³⁰ As a result, there is concurrent existence of multilateralism, bilateralism and unilateralism (or regionalism) in international trade since the 1970s. Namely, international trade has been managed multilaterally in textiles and clothing sectors under the Multi-Fibre Arrangement (MFA), bilaterally

under voluntary export restraints (VERs), later renamed as voluntary restraint agreements (VRAs), or orderly marketing agreements (OMAs), and unilaterally under unilateral impositions of quantitative restrictions or tariff rate increases. The drastic expansion of unilateral and bilateral measures represented the relatively weakening influence of the GATT.

Through the closely interrelated major issues of world trading environment around the EC and Korea, it can be found that one trading partner exaggerates the other's strength and also its own weakness. That could lead to direct confrontation rather than compromise. Therefore, Louis Turner's argument on the trade politics is very pertinent to the current situation of world trading environment.

2. Protectionism or Industrial Structure Adjustment?

2-1. Introduction

The result of the above mentioned problems have countries face with the choice of either countering those problems with protectionist measures or with a restructuring of their industries to make them more internationally competitive.³¹

The international political economy (IPE) literature³² is divided into those who argue that protectionism³³ is needed by developed countries against developing countries to protect themselves from the loss of jobs and the disappearance of declining industries, and others who argue that the challenge from developing countries should not be countered by protectionism but by industrial readjustment leading to higher technological levels of production. On the other hand, there are scholars who take skeptical views about one-way industrial structure adjustment, or, argue the ineffectiveness of protectionism. They do not necessarily support industrial structure adjustment or protectionism.

2-2. Protectionism or Industrial Structure Adjustment?

Wynne Godley, Francis Cripps and others of the Cambridge Economic Policy Group (CEPG) support protective measures to cope with foreign threats. They point out:³⁴

Import controls should form an integral part of any strategy and protection from foreign competition is essential to preserve jobs and facilitate industrial expansion. The increased demand for import substitutes which would follow from protection would then provide employment.

Some scholars completely support industrial structure adjustment by developed countries. For example, David Greenaway argues the active adjustment of declining industries in developed countries as follows:³⁵

Industries which can not compete, now or in the future, and especially those which can not compete with standardised manufactured imports from the developing world, should be permitted to run down, possibly with interim measures to alleviate the human problems associated with industrial degeneration. The resources thereby released could then be developed in areas of comparative advantage.

These arguments are backing industrial adjustments of developed countries to more highly skilled and technology intensive sectors, from labor-intensive and low-skilled sectors where advanced countries have been losing their comparative advantage.

Indirect support of industrial structure adjustment comes from those who consider protectionism as inefficient in itself, and job losses in developed countries having a causal relationship with imports, rather than imports themselves. They maintain that protective measures adopted by developed countries, against imports from developing countries, are not efficient measures to protect job losses because of the selectivity of import restraints and the causal relationship of import restrictive measures. For example, exporting countries which are not affected by a particular import restraint could exploit the opportunity of having competitors excluded and increase their exports into that market. Also, companies in importing countries could exert their efforts towards survival, against internal and external pressures, through promoting automation and industrial

restructuring, but likely affecting the job maintenance in those countries.

Louis Turner indirectly supports industrial structure adjustment, defending the position of the Newly Industrializing Countries (NICs). According to him,³⁶

the NICs may not be a particularly important force in destroying jobs in Advanced Industrializing Countries (AICs), but the emergence of these countries has coincided with the initial impact of micro-electronics on assembly technologies (which will mostly affect unskilled labour) and of the oil-price revolution, which has changed the underlying economies of whole industrial sectors (thus affecting skilled and unskilled labour alike). This triple impact of the NICs, micro-electronics and high oil prices may well have speeded the continuing process of job destruction in the advanced countries, and has certainly made job creation more of an uncertain process than it has been in the past."

Christopher Saunders also supports, indirectly, industrial adjustment by developed countries when arguing that "job losses are due to slow growth of demand and changes in its pattern and the continued rise in labour productivity not purely due to the net effect of trade with the NICs."³⁷

Indirect support of industrial structure adjustment also comes from those who compare economic costs to consumers and benefits to producers in countries which initiate such import restraints. Their conclusions are that the costs to consumers, caused by import restraints, such as the restriction of consumer choices and rises in consumer prices, are always higher than the benefits to producers such as increases in production and maintenance of job employment. Regarding the costs and benefits of such protective measures, Gary Hufbauer, Diane Berliner and Kimberly Elliott made case studies jointly for 31 sectors in the United States. Their conclusions are as follows:³⁸

Costs to consumers of special protection are huge. These costs represent a giant off-budget transfer from consumers on the one hand to producers and foreign suppliers on the other. Against these total costs, the production jobs 'saved' in the affected

industries, are, on the whole, rather modest. By far the largest jobs saved number is in textiles and apparel (640,000); followed by automobiles (55,000), fishery (27,000) and dairy (25,000). As a consequence, costs per production job saved are quite large, usually in the range of \$20,000 to \$100,000 per year, and often exceeding \$150,000. The fact that costs to consumers per production job saved are so high underpins the strategy for an alternative approach that would liberally compensate departing workers for moving to new industries or early retirement.

Therefore, it is clear most protective measures adopted by the United States are not efficient at increasing total benefits to producers and reducing total costs to consumers. This conclusion by American scholars is also supported by research done by British scholars. David Greenaway and Brian Hindley jointly analyzed effects of VER measures adopted by the United Kingdom against video cassette recorders (VCR) from Japan, motor cars from Japan, clothing from Hong Kong and other developing countries, and non-leather footwear from Taiwan and Korea. The results of the joint study are as follows:³⁹

The minimum costs of protection through VERs in the four industries in the United Kingdom was £378 million per annum. True cost was likely to be several times that amount. Protection did not buy jobs for the economy as a whole. It simply shifts them around between industries. Costs of protection per job are very high. A large sum of British money could be saved by abandoning the use of VERs. The VERs did not in fact assist the achievement of any defensible policy aim.

The same result was also drawn by the National Consumer Council of the United Kingdom (NCC). The NCC made an analysis about the costs to consumers in the United Kingdom and the EC, incurred by import restraints such as VERs in trade of cars signed with Japan, and AD measures against imports of consumer electronics products such as compact disk players (CDP). The NCC argues:⁴⁰

A deal between the EC and Japan will raise the average price of each Japanese car sold by £740 and cost EC consumers £23 billion over seven years. The EC AD measures on electronics goods, such as CDP, VCR and photocopiers, cost EC consumers and businesses some £1.3 billion a year and the U.K. consumers £270 million. On the other hand, jobs

may be saved in one industry through those protective measures, but at the expense of jobs elsewhere.

The conclusion can be drawn that the costs incurred by import restraints, to consumers, is far higher than benefits to producers. All analyses agree with this negative conclusion on protectionist measures, despite such analyses not being specifically concerned with costs and benefits incurred by consumers and producers in exporting countries subject to those measures. If the protective measures adopted by advanced countries are not efficient in saving jobs, the analysis of costs to exporting countries due to the stringent protective measures, could be an additional attraction to support their arguments for positive industrial structure adjustment rather than defensive protective measures.

On the other hand, Wolfgang Hager takes a skeptical view about the one-way industrial structure adjustment by developed countries, whilst not necessarily advocating protectionism. He regards industrial structure adjustment without considering the negative effects of neo-mercantilist policies in developing countries as meaningless. His main arguments are centered on criticism of the aggressive industrial policies of developing countries which artificially decide the comparative advantage between developed and developing countries. He also criticizes the misleading effect of industrial structure adjustment, to high-technology-intensive sector from labor-intensive sector, by developed countries as follows:⁴¹

Industrialized countries have to shed a few labor intensive industrial activities, moving up market in terms of both production technology and product. Implicit in this is the notion of "natural shelters"--dizzy heights of sophistication which brown people (other than Japanese) will not be able to reach. This is arrogant racism. Machine tools, aeroplanes and the most sophisticated consumer products are already being exported by the LDCs. One is to point out the stable composition of final consumer demand--the basket of things people actually buy, and for which the rest of industry provides the inputs. The world will need only a

limited amount of nuclear power stations, satellites, or ocean mining equipment, even in future; but it will need tennis rackets, bottle openers, carpets, and shoes.

Patrick Messerlin emphasises the negative impact of protectionism by the EC on exports from developing countries as a result of EC's AD measures. Also, he concerns with retaliatory actions expected by developing countries, caused by the negative impacts of EC's import restraints against them, such as their own initiations of AD actions against developed countries. However, he does not necessarily support industrial structure adjustment. According to him,⁴²

the costs for the foreign exporters are the net result of the losses in exported quantities and the gains in rents received in the remaining quantities to be exported: a rough estimate suggests a net loss of 17 per cent of the initial value of the exports for the LDCs, and 25 per cent for the NICs. Three years after the initiation of the AD investigation, the EC's anti-dumping measures reduced imported quantities from developing countries by 40 per cent.

David Yoffie focuses upon the ineffectiveness of protectionism, although not necessarily advocating industrial structure adjustment. He criticizes the strategy of NIEs in increasing their exports to the United States. Through the analysis of the effects of VERs and OMAs⁴³ on textiles, apparels, footwear, color television sets and automobiles imported from those East Asian countries--Korea, Taiwan, and Hong Kong, Yoffie concludes as follows:⁴⁴

To a large extent, exporters managed to mitigate the effects of the United States trade barriers by taking advantage of the accommodating nature of American protectionist policies. Hegemonic objective and bureaucratic politics constrained the United States bargaining and implementation during the most of the post-war period. As American hegemony declines and decision makers learn from their experiences in various sectors, the future remains an open question.

His main argument is that protective measures by the United States are ineffective in reversing the growing trends of exports of NIEs to the United States. He gives

as reason for this ineffectiveness the structural problems of decision making in the United States. "There are political and economic weakness in the structure of modern protectionism and politics of trade have paradoxically created opportunities for the 'weak' to beat the 'strong' at their own game."⁴⁵ Therefore, key points of his argument are that new NIEs will continuously emerge in the international trading community as long as the domestic political problems in the United States remain unchanged, and cheating and trans-shipment strategy of exporters is tolerated. It follows that protectionism will be useless in contributing to obstructing the growing exports from the new NIEs to the United States. However, he did not define his position between protectionism and industrial structure adjustment as a means of coping with pressures for developed countries through imports from developing countries.

In sum, there are not so many academics who strongly support protective measures, except for CEPG. Most scholars directly or indirectly support industrial structure adjustment, rather than protectionism.

3. Main Objectives of Thesis

3-1. First Objective--To Test Approaches to Evaluate Determinants of Protectionism Using the Case of EC-Korea Trade

Along with the arguments regarding the choice between protectionism and industrial structure adjustment, the IPE literature moved its attention to the determinants of protectionism. This literature emphasizes the supply side of protectionism (government behavior) such as hegemonic stability approach and business cycle approach, and with those specializing in the demand side of protectionism (private company behavior) such as export dependence approach, multinationalisation approach, exit-entry barrier approach, strategic trade approach and voting power and degree of collective action approach.

3-1-1. Supply-Side Approaches

3-1-1-1. Hegemonic Stability Approach

The first approach to explain the supply factor of protective measures, under the perspectives of IPE,⁴⁶ is closely related to the existence of hegemonic power.⁴⁷

According to Stephen Krasner,⁴⁸

there is causal relation in which the global distribution of economic power covaries with the degree of openness in the international trading system. A concentration of power in the international system will be accompanied by an open trading regime. Where power is diffuse, on the other hand, closure is expected. Thus, the presence of a hegemon--the highest concentration of power--encourages open trading relations, the absence of a hegemon encourages protection.

In connection with Krasner's hegemonic stability approach, there are many arguments to test the approach by academicians.⁴⁹ John Conybeare tested the approach using tariff levels of the United States in 1913-25 (rising U.S. hegemony) and 1952-62 and 1962-1971 (declining U.S. hegemony). According to him,⁵⁰

for all three periods, tariff averages move in the direction opposite to that predicted by the Krasner's approach. Therefore, one might save the hegemony theory by distinguishing between a regime's start-up costs, which may be high, and its maintenance costs, which may be low, though again the theory would have to be predictively specific.

To supplement such problems in the hegemonic stability approach, William Thompson and Lawrence Vescera also argue:⁵¹

Rising hegemons create political institutions and policies that reward specific groups. In periods of decline, these same groups retain their domestic clout and continue to press for the old policies linked to ascendancy. As a consequence, the structure of international trade is altered in crisis-catalyzed "fits and starts."

Therefore, there is a trend which is contradictory to the hegemonic stability approach.

The testing of the applicability of hegemonic stability approach was continued by Helen Milner. She points out:⁵²

The Krasner's approach was operated in an opposite way in the 1920s, a rising hegemon period for the

United States, and the 1970s, a declining hegemon period for the United States. The hegemonic stability approach by Krasner was not applicable in the 1920s and the 1970s in the United States because of three factors: Firstly, American hegemony has not declined enough to set off the expected protectionist response. Secondly, there was an international regime in trade like the GATT. Thirdly, despite the pressures for protection in the 1970s, a different policy structure existed which helped diffuse these pressures.

Arthur Stein also argues:⁵³

A hegemon can not alone bring about an open trading order and it can unilaterally reduce its own tariffs, but this does not create an international trading order of lower tariffs, and it can impose an open trading regime on weak countries, but this too does not create a global regime.

It is, therefore, very interesting to check whether the hegemonic stability approach is applicable in the EC's protectionism against Korea. For example, in the 1970s and the 1980s when U.S. hegemonic power had been declining, the United States tightened its import restraints against Korea, and the EC followed suit, according to the hegemonic stability approach.

3-1-1-2. Business Cycle Approach

The second approach to explain the supply factors of protectionism by national governments is related to business cycle perspectives. Timothy McKeown hypothesised that "periods of economic contraction such as depressions will shift the political balance over to the side of protection, while periods of expansion shift the balance in favor of free trade."⁵⁴

To test the business cycle approach by McKeown, Giulio Gallarotti set up a following model which "suggests that changing economic conditions will alter the distribution of tariff legislation through both supply and demand effects."⁵⁵

As to demand effects, an expanding economy will raise the relative voice of free traders, thus causing demands for low tariffs to expand and demand for high tariffs to contract. Conversely, economic contraction will raise the relative voice of protectionists, thus stimulating an opposite movement in demand for each commodity. Turning to

the supply side, movements in government supply curves are stimulated by changes in profits forgone and by changing legislation costs. Since an expanding economy raises the profits that government obtains from producing free-trade legislation, it follows that the production of protection becomes more expensive. More must be given up in terms of free-trade profits, which are now greater, in order to produce each additional unit of protection. Conversely, economic contraction causes the profits obtained from the production of free trade to decrease, thereby making it cheaper to produce protection.

However, Giulio Gallarotti also found an inconsistency of his model with the business cycle hypothesis. Namely, "exporting firms, regardless of economic expansion or contraction, prefer low or no domestic tariffs because their input costs will be reduced and because low domestic tariffs might serve to induce other nations to open their markets to foreign product."⁵⁶ The economic expansion and contraction in the EC might be closely linked to its inclination away from and toward protectionism against Korea if the business cycle approach is applicable in the EC-Korea trade.

3-1-2. Demand-Side Approaches

3-1-2-1. Economic-Side Approaches

Facing these dilemmas from hegemonic stability and business cycle approaches, literature in IPE changed its focus to the analysis of demand-side factors of protectionism, rather than supply-side factors of protectionism.

Firstly, in connection with the test of business cycle approach, Giulio Gallarotti finds exporting firms always prefer free trade, and import-competing firms, on the other hand, prefer protectionism (export dependence approach).

Secondly, Helen Milner focused her analysis on the degree of integration of companies into the international economy (multinationalization approach). She points out:⁵⁷

The more integrated a company was into the international economy, the less likely the company was to seek import restraints even when imports rose

significantly. Therefore, firms with well-developed multinational operations including integrated global production and trade flows and strong exports did not seek protection even when imports rose to high levels.

Thirdly, Helen Milner and David Yoffie emphasized the strategic trade demands of companies as major determinants of protectionism (strategic trade demands approach).⁵⁸ According to them,⁵⁹

similar to the trade position of agricultural exporter, who also do not have the option of investing abroad when faced with foreign protection, internationally oriented firms with large economies of scale or steep learning curves will resort to strategic trade demands in order to pry foreign markets open, due to the fact that the combination of these market imperfections and successful foreign government intervention should lead internationally oriented firms to view unconditional domestic free trade as the worst possible outcome.

Fourthly, Vinod Aggrawal, Robert Keohane and David Yoffie made an approach to find real determinants of protective measures with an emphasis put on exit and entry barriers and size of domestic industrial sectors (exit and entry barrier approach). "The entry barriers include the height of economic barriers restricting entry of foreign producers into an industry (high capital requirements, unavailable technology or high levels of differentiation). The exit barriers are the exit or adjustment strategies of the domestic firms (economic distress as indicated by profitability and employment trends and of the political resources available and the difficulty of exit)."⁶⁰ Their arguments are as follows:⁶¹

Firstly, if an industry faces low barriers to entry and exit, and also happens to be large, we would predict a pattern of institutionalized protection that would be unstable in the long run. As long as the costs of lobbying remain lower than the costs of exit, the demand for protection will remain high (Example: textiles and apparel).

Secondly, we expect protectionism to be temporary under the condition that the barriers to exit might be high and the barriers to entry low, and the industry small because new entrants will continue to penetrate domestic market (Example: color TV set, and footwear).

Thirdly, we expect sporadic protection in industries with high barriers to exit and high barriers to entry that do not adjust during the period of protection, because rising import penetration will lead to renewed industry distress and renewed protectionism (Example: steel and iron).

Fifthly, Stephen Marks and John McArthur added three economic factors to determine protective measures as follows:⁶²

- 1) Comparative advantage--the greater the inherent comparative advantage of an industry temporarily threatened by the imports, the greater is the likelihood that it will eventually regain its competitive position internationally. Therefore, industries with stronger comparative advantage demand less protection.*
- 2) Import penetration--the higher the share of imports in total consumption of the products of an industry, or the lower the industry trade balance, the more likely is it that import competition will be identified as the source of its difficulties and thus the more likely is it that the industry will seek protection.*
- 3) Labor adjustment cost--the greater are the adjustment costs anticipated for an industry confronted by dislocation, the more likely are policy makers to grant it protection from import competition.*

It is meaningful to test various economic-side factors to determine protectionism with the viewpoint that various protective measures are likely to be implemented for economic reasons. Furthermore, it can be assumed that major protective measures are adopted, based on other than purely economic reasons when the tests of economic-side determinants are not applicable as determinants of protectionism in the EC- Korea trade.

3-1-2-2. Political-Side Approaches

In connection with political factors⁶³ that determine protectionism in the level of actor behavior, Richard Caves considers two general political economy models. "The first is an 'adding-machine' model that assumes maximization of voter support to be the dominant policy motive. The second is an 'interest-group' model that stresses the costs and benefits of collective action by industry groups."⁶⁴ Stephen Marks and John McArthur also argue political potency as one of major factors to

determine protective measures. Namely, "larger industries should be more powerful politically, in terms of votes and dollars that can be mustered in support of their positions. More concentrated industries exert more effective pressure for protection."⁶⁵ Therefore, voter support and the degree of collective action are crucial factors in deciding protective measures in terms of political side.

For example, an industry group which has a large number of members certainly have a powerful ability to demand protection. However, "large numbers in a beneficiary group will reduce the group's capacity for collective action, due to the incentives for each actor to 'free-ride' on the efforts of others. A high level of diversification implies large numbers of actors in the exports sector and therefore a lower ability to collude for the purpose of influencing tariff policy."⁶⁶ Regarding the degree of concentration and its efficiency of demands for protective measures, Helen Milner argued "cases where the industry was divided reduced their capacity for effective political influence."⁶⁷ Her argument, however, is difficult to apply in Korea. Protective measures in Korea seems to be established as a result of the Korean government's initiative, rather than political influence of Korean industries. The Korean government has been preparing a wide range of tariff and non-tariff measures, based on its necessity of promoting industrialization and export promotion under the strong authoritarian government since 1962, as seen later in Chapter II.

Therefore, those industries which have large numbers of employees have power to demand protectionism due to their great voting strength. However, the diversification of export items could contribute to lessening the power to collude for the demand of protectionism.

3-2. Second Objective: To Test My Own Hypotheses Regarding Determinants of Protectionism Using the Case of EC-Korea Trade

The IPE literature has concentrated on behavior of countries which initiate import restraints, rather than

on those countries which were the target of these measures.⁶⁸ As a result, the behavior of countries subject to import restraints, as determinants of protectionism, has not been fully investigated so far. Also, the literature does not address some specific circumstances related to EC-Korea trade in connection with determinants of protectionism. When the determinants of EC's protectionism against Korea are examined, Korea's special relationship with Japan and the United States should not be overlooked. Korea's rapid economic development is closely linked with unique special political and economic cooperations with those two countries.

3-2-1. My First Hypothesis

My first hypothesis is that the EC's import restraints against Korea have been strongly influenced by its previous experience of industrial damage caused by Japanese exports to the EC market in the 1960s and the 1970s.⁶⁹ This hypothesis is based on the fact that Korea has been conducting very similar industrial and trade strategy as Japan. Brian Bridges argued this point as follows:⁷⁰

Actions by the EC against imports from Korea are strongly reminiscent of action taken against Japanese imports in the second half of the 1970s. Therefore, as if guilty by association, Korea is being sucked into EC-Japan trading disputes; for example, the Japanese 'threat' served as the precedent for the EC to impose a bilateral arrangement covering steel from Korea in 1979, despite the fact that it was still a minor exporter and its domestic demand in 1978-1979 actually took up all its production.

This 'guilt by association' is closely related to the issue of 'graduation' since there is the implied assumption that Korea has already graduated to the economic status of Japan, i.e. to that of a developed country and should therefore be dealt with in the same way.

3-2-2. My Second Hypothesis

My second hypothesis is that the EC's protective measures were determined by the United States' imposition of similar measures against products from Korea. The Korean government policy of import substitution and export-oriented industrial development strategy has been greatly influenced by the United States. The United States influenced Korea not only in security aspects but also in the government policy making direction. In addition, Korea's specific sectors-oriented development strategy was also a direct result of the U.S. policy change, as seen in Chapter II.

This connection between the United States and Korea contributed to the expansion of mutual trade relations. As a result, the United States has been maintaining its position as the largest importer of Korean commodities since 1970. However, the relative weakness of hegemonic power of the United States and growing competitiveness of Korea's exports made the United States adopt stringent import restraints on the one hand, and made Korea switch its export market to the EC on the other. That caused the EC to implement import restraints against Korea. Based on this trend, I hypothesize: the priority of the EC in imposing protective measures against imports of Korean products is to consider whether or not those products are under import restraints from the United States. If the products are subject to import restraints from the United States, it is possible that Korea will switch its market to the EC, jeopardizing the industry concerned there.

3-2-3. My Third Hypothesis

My third hypothesis is that the EC's protectionism is a function of divergent industrial and trade policies for several strategic industries in the EC and Korea, and their causal relationship with bilateral inter-industry trade structure. The EC-Korea trade disputes worsened as a result of Korea's strong neo-mercantilist policy approach and EC's incoherent industrial policy making at member states' level.

Korea began its industrialization through fostering several industries such as textiles and clothing, iron and steel and consumer electronics. On the other hand, the EC has been implementing various policies to protect these industries from foreign challenges, causing the inter-industry trade structure problems between the EC and Korea.

For example, textiles and clothing sectors were major foreign exchange earners for Korea in the 1960s. Thus, the share of those products in Korea's exports accounted for between 20 and 40 per cent of the total since 1970. On the other hand, the EC had been experiencing surplus capacity problems in those industries due to aggressive expansion of production facilities in the 1950s and the 1960s, and decreases in demands internally and externally in the process of two rounds of oil shocks. As a result, the EC had been forced to choose industrial structure adjustment in those industries or postpone the structural adjustment through the implementation of protective measures from foreign imports. The same situation occurred in iron and steel industry in the 1970s in both Korea and the EC. Furthermore, Korea has been implementing an aggressive industrial policy since the 1980s for the promotion of electronics as a strategic industry for Korea's economic development. However, the EC has also been fostering the electronics industry as the most crucial industrial sector to accomplish the EC's strong industrial revival in future.

My hypotheses can be called as a model of global deflection of protectionist impulses, i.e. between Japan, the United States and the EC markets. Korea's heavy dependence on Japanese industrial parts and equipment for industrialization and closeness of Japanese market for Korean exports resulted in Korea's concentration of exports to the United States. However, U.S. protectionism later against Korean products enabled Korean exporters switch their markets to the EC, causing EC's protectionism against Korean products. Furthermore,

Korea's export pattern in the EC was very similar to that of Japanese exporters. As a result, EC's protective measures against Korean exports were closely related to EC's Japan Complex and Korea's market switching strategy.

3-3. Third objective---To Test Approaches to Evaluate Effectiveness of Protectionism in Terms of Achievement or Failure of Aims of Protective Measures Using the Case of EC-Korea Trade

David Yoffie and Patrick Messerlin are the two major authors who proposed approaches to evaluate the achievement and failure of import restraints. The common problem in their approaches is that they only consider VERs and OMAs, or AD measures separately. Therefore, these approaches have limitations to be applicable in the EC-Korea trade as methods to evaluate effectiveness of protectionism. The approaches should be complemented with the general consideration of major types of protective measures--quota, VERs, OMAs, AD duties impositions, countervailing (CV) duties impositions and price undertakings. Also, the result of the two analyses is completely contradictory. Specifically, David Yoffie argues NIEs can increase their exports to the United States, despite protective measures against their products. However, Patrick Messerlin argues exports by NIEs to the EC drastically decreased due to protective measures against their products. Therefore, my third objective of this thesis is to test the approaches by David Yoffie and Patrick Messerlin to evaluate the effectiveness of EC's protectionism against Korea. For this purpose, I will analyze changes of Korea's export figures of commodities subject to EC's import restraints. If the result of the test coincides with Patrick Messerlin's approach, it will be certain that protectionism is harmful to both initiators and recipients of import restraints, considering the result of cost and benefit analyses in IPE literature (the costs to consumers in initiator countries of import restraints are always higher than the benefits to producers in these countries).⁷¹

4. Organization and Methodology of Thesis ⁷²

Overall, this thesis is organized into two parts--part one comprising Chapters 1 to 4 and part two comprising Chapters 5 to 8.

Part one primarily presents broad analysis of determinants and effectiveness of the EC's import restraints against Korea through analyzing EC-Korea trade relations in the 1970-1992 period, prior to more detailed case analyses in part two. As a result, the part one heavily relies on the literature covering the EC ⁷³ and Korea, in contrast to my case studies in the part two where many original approaches are covered.

Chapter 1 describes industrial and trade policies,⁷⁴ and problems in the policy decision making process in the EC in order to examine the origins of the determinants and the effectiveness of EC's protectionism against Korea. Also, this chapter examines the relationship between the EC and its member states' implementation of industrial and trade policies, and protectionism in the EC such as production capacity surplus problems and their impacts on the EC and EC member states' protective measures.

Chapter 2 deals with issues and problems of Korea's industrial and trade policies, and policy decision making process to look into the impact of Korea's behavior on EC's protectionism against Korea. Especially, there is an analysis of how Korea's neo-mercantilist policy approach contributed to the strength and weakness of several industries and international trade in Korea.

Chapter 3 is concerned with the connection between bilateral economic policy changes and the EC-Korea trade disputes, the EC-Korea trade structure development and the EC-Korea trade disputes, and finally comparison of protectionism in the EC and other advanced countries against Korea.

The main purpose of Chapter 4 is to test in a broad way 1) demand and supply-side approaches regarding determinants of protectionism, 2) my own hypotheses regarding determinants of protectionism in the EC-Korea

trade and 3) approaches to evaluate failure or achievements of aims of measures by advanced countries against developing countries such as David Yoffie and Patrick Messerlin's analyses. However, there is a problem in the test because I have to deal with the EC as a whole and with the actions of individual EC member states.

Part two is the empirical work on which my analyses in part one are based. It focuses upon specific industry-wide analyses of determinants and effectiveness of protectionism in the EC-Korea trade in the 1970-1992 period in four industries--textiles and clothing, iron and steel, footwear and consumer electronics.⁷⁵ The policy making direction and demands and supply of protective measures are different, following on the situation of various industries. Peter Dicken argued the difference and significance of industry-wide case studies as follows:⁷⁶

The involvement of national governments is not uniform across all industries. Some industries are regarded as being more important to governments than others. The precise form of government involvement may differ by sectors. For all these reasons, it is important to look at specific cases.

Therefore, micro analysis of individual industries is essential to find specific factors affecting determinants of protectionism and achievement, or failure, of aims of protective measures with regard to characteristics of those industries.⁷⁷ The reason I choose those four industries for case studies are as follows:

Firstly, those industries in the EC are faced with growing foreign competition, compelling the EC to choose between protectionism or industrial structure adjustment. Therefore, there are many factors in these industries which need analyses in terms of IPE. For example, government intervention is most essential in these industries for protecting job losses from competitive pressure. Also, those industries have a high degree of political power enough to influence a change of direction in policy making.

Secondly, these four industries in Korea played a pivotal role in the nation's economic development because they benefited from export promotion. This role was expedited by the government's aggressive policy for mobilization of capital, and tax and credit favor for trade and export expansion in those industries. Exports from these four industries represented 50.1 per cent of Korea's total exports in 1989. Furthermore, exports of the products to the EC accounted for 53 per cent of Korea's total merchandise exports to that market in the same year.

Thirdly, trade disputes between the EC and Korea are almost all concerning these four industrial sectors. Since 1975, the EC-initiated investigations concerning possible import restraints against Korean products totaled 29 cases. Of the 29 cases, 18 cases (62 per cent) were from textiles and clothing, footwear, consumer electronics products and iron and steel sectors.

Part 2 comprises four chapters (from 5 to 8), each of which begins with background information for case study (general trend of world trade, the EC's industry and Korea's industry), and case study of each industrial sector. The detailed contents of each case study follows a similar pattern--introduction, the situation in the EC, the situation in Korea, EC's decision and determinants and effectiveness of protectionism in the EC-Korea trade.

Notes and References

1. Turner, Louis, "An Overview," in *the Newly Industrializing Countries: Trade and Adjustment* edited by Turner, Louis and Neil McMullen (London, George Allen and Unwin (Publishers) Ltd., 1982), p.263. For example, "the United States attacked the latest EC tariff offer was still below the average level achieved by the other Quad partners. EC officials counterattacked, arguing that U.S. tariff proposals fell short of reduction commitments made by the Quad countries in Tokyo in July 1993." See Williams, Frances, "U.S. and EC Blame Each Other over Tariff Cuts," *Financial Times* (Oct. 22, 1993), p.6. For the U.K.'s attack on the U.S. protectionism, see Oppenheim, Philip, "Free Market Only Rhetoric in US," *Financial Times* (Jan. 25, 1994), p.20.

2. Wolfson, Murray, *A Textbook of Economics* (London, Methuen and Co. Ltd., 1978), p.386. Robert G. Gilpin maintains "the regime of free trade, like a bicycle, is dynamically unstable, and will fall down if it does not continue its forward momentum." See Gilpin, Robert, "The Changing Trade Regime," *The Political Economy of Japan Volume II: The Changing International Context* edited by Inoguchi, Takashi and Daniel I. Okimoto (Stanford, Stanford University Press, 1988), p.165.

3. According to Patricia Dillon, James Lehman and Thomas D. Willet, "comparative advantage is so fluid and so susceptible to manipulation. As a result, trade models derived from it are not relevant, and comparative advantage may be illusory--or at least the free trade prescription rendered invalid." See "Assessing the Usefulness of International Trade Theory for Policy Analysis," *International Trade Policies--Gains from Exchange between Economics and Political Science* edited by Odell, S. and Thomas D. Willet (Ann Arbor, The University of Michigan Press, 1990), pp.37-38.

4. Arthur Stein A. argues "the mercantilistic and protectionist elements of the liberal trading order of the 19th century were rooted in governments' felt responsibility for a nation's economic development. Governmental responsibilities have been transformed in the 20th century to include maintenance of economic growth, price stability, and full employment. Thus, governments impose much greater constraints on the workings of the international marketplace and are much less willing to adjust to changes in trade." See Stein, Arthur, "The Hegemon's Dilemma: Great Britain, the United States and the International Economic Order," *International Organization* (Vol.38, No.2, Spring 1984), p.381. Also, Giulio M. Gallarotti points out "imperfect competition in industrial markets and counteractive policy against an appreciating currency with more protectionism made exchange rates less effective in adjusting trade flows." See Gallarotti, Giulio M., "The Limits of International Organizations: Systematic Failure in the Management of International Relations," *International Organization* (Vol.45, No.2, Spring 1991), p.195.

5. Greenaway, David, *Protectionism Again---*? (Sussex, Gordon Pro-Print Co., Ltd., 1979), p.78.

6. Cameron, Rondo. *A Concise Economic History of the World--From Paleolithic Times to the Present (Second Edition)* (Oxford, Oxford University Press, 1993), p.352.

7. Sloman, John. *Economics* (London, Harvester Wheatsheaf, 1991), p.877.

8. Saunders, Christopher, *The Political Economy of New and Old Industrial Countries* (London, Butterworths, 1981), p.43 and p.79.

9. Hager, Wolfgang, "Protectionism and Autonomy: How to Preserve Free Trade in Europe," *International Affairs* (Summer 1982), p.422.

10. Developed countries have to be under inferior position, compared to the position of developing countries in terms of rising labour and non-wage cost. For example, "the Confederation of British Industry (CBI) says that high public spending and taxation within the EC have inhibited the EC's ability to respond effectively to competition from NIEs, asking to set a long-term goal of cutting public spending to less than 40 per cent of GDP." See Cassell, Michael, "CBI Attacks EC's Tide of Regulation," *Financial Times* (Oct.18, 1993), p.10.

11. Sorensen, Georg, *Democracy, Dictatorship and Development--Economic Development in Selected Regimes of the Third World* (London, MacMillan Press Ltd., 1991), p.56.

12. Sorensen, *op.cit.*, p.170.

13. Cumings, Bruce, "the Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles and Political Consequences," the *Political Economy of the New Asian Industrialism*, edited by Deyo, Frederic (Ithaca, Cornell University Press, 1987), p.58.

14. Cumings in Deyo, *op.cit.*, p.159

15. Sorensen, p.167. "India's ratio of debt to GNP was 29.2 per cent at the end of 1991, that was compared with an average of 37.4 per cent for least developed (i.e. poor) countries. The figure for neighboring Pakistan was 50 per cent. India is the world's fourth largest debtor (after Brazil, Mexico and Indonesia)." See Wagstyl, Stefan, "India's External Debt Rise to \$85bn," *Financial Times* (Nov.5, 1993), p.4.

16. Chan, Steve, *East Asian Dynamism--Growth, Order and Security in the Pacific Region* (Boulder, Westview Press, 1990), p.54. However, "strikes are so rare in the EC countries despite painful industrial restructuring, strong downward pressure on European wage rates and well-organized labour movement. The presence of 18 million unemployed in the EC is a part of the answer (employment first and pay second). Another part of the answer is to be found in the fragmentation of Europe's labour movements (collapse of the Soviet Union and decline of Communist-led union federalisms in Spain and France). The non-Communist union federations--Christian Democrats, Socialist or Social Democrat--are often linked to parties that see no virtue in public ownership for its own sake and in many cases recognize the need to introduce more flexibility into labour markets. Finally domestic and international competition has made industrial action in

the private sector increasing counter-productive." See Goodhard, David, "Wintry Whiff of Discontent," *Financial Times* (Nov.10,1993), p.21.

17.Cumings in Deyo, *op.cit.*,p.73.

18.Chan, *op.cit.*,p.54.

19.Turner in Turner and McMullen, *op.cit.*, p.142.

20.In 1992, "Samsung Electronics Company, part of the Samsung Business Group, overtook Toshiba of Japan as the world's largest manufacturer of D-Rams. Experts expect that in the long run, D-Ram makers could be reduced to five:NEC and Toshiba from Japan, Samsung and GoldStar from Korea and Texas Instruments of the United States." See Nakamoto,Michiyo, "Fujitsu and Hyundai in D-Ram Chip Venture," *Financial Times* (Oct.8,1993), p.6. Korea's semiconductor exports are also under a sharp increase trend. According to statistics compiled by Korea Semiconductor Industry Association, Korea's semiconductor exports to the EC in 1993 are expected to go up by 98.6 per cent to \$860 million from 1992's \$433 million, those to Japan by 111.9 per cent to \$443 million from \$209 million and those to the United States by 45.9 per cent to \$1,560 million from \$1,069 million. See *Hankuk Ilbo Europe Edition* (Sept.22, 1993),p.6. In contrast to this success in electronics industry, "the Korean aerospace industry now largely consists of simply assembling U.S.military aircraft under license and supplying components for foreign-built passenger jets." See Burton,John, "Korean Air Defiant Over Helicopters," *Financial Times* (Nov.23,1993), p.4.

21.There is another reason which contributed to the ill-functioning of the GATT. Namely, "since the post-World War II period, the normative impact of the domestic distortions approach was to downgrade the role of trade policy and to create a new-consensus in the economics profession that trade ought to be insulated from domestic policy pressures. However, when growth slowed and when sectoral adjustment pressures mounted and the new protectionism sprung up in spite of GATT and the teachings of the economics profession, it became apparent that the domestic distortions approach had never really been accepted by policy makers and non-economist contributors to the trade policy debate." See Stegemann, Klaus, "Policy Rivalry among Industrial States:What Can We Learn from Models of Strategic Trade Policy?" *International Organization* (Vol.43, No.1, Winter 1989),p.97. Lisa L.Martin argues "the ghost of collaboration dilemmas increasingly haunts the multilateral trading regime as a result of increasing use of centralized mechanisms for dispute resolution and of specific reciprocity." See Martin, Lisa,"Interests, Power and Multilateralism," *International Organization* (Vol.46, No.4,1992), p.775.

22. Every country has been asking for opening of other party's markets, without recognizing the closure of its own market. "U.S. and EC demand for greater opening of the markets for financial services of developing countries and Japan, particularly in new financial products; the U.S. demands for liberal access to the EC market for audio-visual services; demands for wider access to the U.S. market for maritime services; demands from both the U.S. and the Cairns group of agricultural exporters for access to the markets of the EC, Japan and the Republic of Korea; and developing country demands for lower textile tariffs, particularly in the U.S." See "End Game in the GATT," *Financial Times* Editorial (Sept. 29, 1993), p. 25. Trade experts in the EC "say President Clinton urged Europeans to open markets to east European products, while doing little to open U.S. markets." See Dunne, Nancy, "EU, U.S. Agree on Aluminium," *Financial Times* (Jan. 13, 1994), p. 5.

The *Financial Times* describes the deadlock of the UR negotiations in the following way. "The heavyweight pugilists--the U.S. in one corner, Europe in the other--hover at the edge of ring, withholding their serious punches until just before the final bell on Dec. 15, 1993, when President Bill Clinton's fast-track negotiating mandate from Congress expires." See *Financial Times* Editorial (Oct. 18, 1993), p. 17. However, Raymond S. Calamaro maintains a Europe-U.S. crisis in trade could be expected to do bargain. He considers more serious problem between them is from the Balkan crisis, which is deeper and harder to talk about. According to him, "Americans were tired of Europe holding U.S. coats while urging the United States to do the fighting. Americans do not want to be the bouncers or bodyguards for other wealthy nations that sit comfortably indoors." See Calamaro, Raymond, "Balkan Crisis Comes between Friends," *Financial Times* (Nov. 26, 1993), p. 17.

23. *Financial Times*, "Trading Interests," the Editorial of *Financial Times* (May 6, 1993), p. 17. For detailed analysis of the limits of international organization, see Gallarotti, Giulio M., "The Limits of International Organization: Systematic Failure in the Management of International Relations," *International Organization* (Vol. 45, No. 2, Spring 1991), pp. 183-220.

24. Gilpin, *op.cit.*, p. 146.

25. On Dec. 15, 1993, "delegations from 117 countries approved by consensus a world trade treaty aimed at opening international markets, the most ambitious trade liberalization package in history. Main contents in the package are tariffs on industrial goods cut by rich countries by more than a third, trade-distorting subsidies and import barriers in agriculture cut over six years, MFA quotas progressively dismantled over 10 years and tariffs reduced and rules covering circumvention of anti-dumping duties by relocating production." See

"GATT:The Deal is Done," *Financial Times* (Dec.16,1993), p.4.

Colin Narbrough criticises the final outcome of the Uruguay Round in terms of three points. "1)It falls well short of the ambitious target for trade liberalization set seven years ago--only tariff cuts on agriculture and industrial products, 2)corporate power has driven most of the lobbying for change, or not. The consumer voice has been considerably less heard, as too has the voice of the developing world, and 3)the GATT round will lead to further enrichment of the richer countries and leave the poorest to become poorer." See Narbrough, Colin, "Free Trade, Not Fine Detail is the Real Boost from GATT," *The Times* (Dec.15,1993), p.25.

26.The EC Commission(ECC) argues "the 1992 Europe will not be a 'Fortress Europe' but a 'Partnership Europe.' This is quoted in Emmerij, Louis J., "Europe 1992 and the Developing Countries'" *Journal of Common Market Studies* (Vol.29, No.2, December 1990), p.244. For future direction of EC integration, Geoffrey Garret argues "both the economic rules and the political institutions governing the internal market reflect the preferences of the most powerful countries in the EC:France and Germany. Therefore, it is reasonable to presume that efforts to bring about further integration of the EC--such as through economic and monetary union, political union and expansion--will similarly be affected by power politics." See Garret, Geoffrey, "International Cooperation and Institutional Choice: the European Community's Internal Market," *International Organization* (Vol.46, No.2, Spring 1992), p.560. Andrew Moravesik quotes three factors to facilitate the Single Market as 1)the convergence of national interests, 2) the pro-European idealism of heads of government, and 3) the decisive role of the large member states." See Moravesik, Andrew, "Negotiating the Single European Act:National Interests and Conventional Statecraft in the European Community," *International Organization* (Vol.45, No.1, Winter 1991), p.48.

27.On Nov.5,1993, *Financial Times* reported that "senior delegates from the 15 APEC member countries proposed an evolution in the role of APEC, until now largely an informal consultative forum, to the establishment of a permanent trade and investment committee, and fundamentally to the foundation of a true Asia-Pacific Economic Community." See "Pacific Forum May Extend Role," *Financial Times* (Nov.5,1993), p.5. However, "APEC's Asian member, especially Malaysia and Thailand, are suspicious of what they see as U.S.eagerness to turn APEC into a free trade zone, economically dominated by the United States." See Dawkins,William, "Boost for Pacific Forum," *Financial Times* (Nov.11,1993),p.6; and Nicoll,Alexander and George Graham, "Hands Across the Water," *Financial Times*(Nov.15,1993), p.19.

28. Fraser, Damian and David Pilling, "Mexico, Venezuela and Colombia Conclude Free Trade Pact," *Financial Times* (Dec.7, 1993), p.5.

29. The New Protectionism "entails expanded government, discretionary powers to influence trade patterns and the global location of economic activities." See Gilpin in Inoguchi and Okimoto, *op.cit.*, pp.147-148.

30. According to William R. Thompson and Lawrence Vescera, "protectionism is divided into defensive and offensive protectionism. Defensive protectionism has the intention of defending domestic industries from import competition. However, offensive protectionism has a different type or at least intensity of motivation, stemming from the zero-sum mercantilist perspective that competitors can be harmed or destroyed by restriction on trade and increased efforts at becoming self-sufficient (i.e., Napoleon's continental system and Nazi Germany's attempts at autarky." See Thompson, William and Lawrence Vescera, "Growth Waves, Systemic Openness, and Protectionism," *International Organization* (Vol.46, No.2, Spring 1992), p.515.

31. For knowing about interrelationships among technological innovation, competitiveness, economic growth and trade, see Thompson and Vescera, pp.493-532.

32. According to Richard Higgott, "international political economy, with its roots in political science, economics and economic history, tends more to stress societal and structural explanations." See Higgott, Richard, "Towards a Non-Hegemonic IPE: An Antipodean Perspective," *The New International Political Economy* edited by Murphy, Craig N. and Roger Tooze (Boulder, Lynne Rienner Publishers, 1991), P.104.

33. "Protectionism (trade restriction) is equivalent to a tax on consumption and a subsidy to production." See Dillon, Patricia, James Lehman and Thomas D. Willet in Odell and Willet, *op.cit.*, pp.39-43.

34. Greenaway, pp.13, 27 and 33. There is also an argument connecting terms-of-trade risk with trade protection. Namely, "in the presence of terms-of-trade risk and in the absence of complete domestic markets for insurance, government can improve welfare by employing tariffs. Therefore, the higher the level of terms-of-trade risk that a nation faces in international markets, the more likely it is to increase trade barriers. It also shows that the greater the social insurance programs mounted by a nation's government, the less likely that government is to block free trade." See Bates, Robert H., Philip Brock and Jill Tietenthaler, "Risk and Trade Regimes: Another Exploration," *International Organization* (Vol.45, No.1, Winter 1991), p.4.

35. Greenaway, David, *Protectionism Again.....?* (Sussex, Gordon Pro-Print Co. Ltd., 1979), p.39. In a standpoint of developing countries, "structural change within manufacturing can be defined as a shift away from light, relatively labour-intensive industrial activities, towards heavy, more capital intensive ones, and away from light consumer goods towards industrial intermediates, and durable both capital and consumer goods." See John Weiss, *Industry in Developing Countries--Theory, Policy and Evidence* (London, Croom Helm, 1988), p.9.
36. Turner in Turner and McMullen, *op.cit.*, p.268.
37. Saunders, *op.cit.*, p.132. For example, "U.S.employment grew by an average of 2.1 per cent a year over the period 1982-1990 while EC employment rose by just 0.9 per cent a year. Employment in the U.S.rose rapidly in the 1980s because U.S.workers were much more willing to accept service sector jobs at increasingly low wages. This fact reflects the employment in the U.S.and EC has been differently affected by internal and external factors, not purely due to trade with foreign NICs." See Balls, Edward,"Immigration Route to Labour Market Flexibility," *Financial Times* (Nov.8, 1993), p.6.
- 38.Hufbauer, Gary Clyde, Diane T.Berliner and Kimberly Ann Elliott, *Trade Protection in the United States:31 Case Studies* (Washington,DC, Institute for International Economics, 1986), pp.13 and 16.
- 39.Greenaway, David and Brian Hindley, *What Britain Pays for Voluntary Export Restraints* (London, Trade Policy Research Centre, 1985), p.xii.
- 40.Financial Times, "Trade Policies Ignore Consumers," *Financial Times*(May 6,1993), p.6.
41. Hager, *op.cit.*, pp.418-419.
- 42.Messerlin, Patrick, *Anti-Dumping Laws and Developing Countries* (Washington D.C., World Bank, 1988), p.28.
- 43."VERs and OMAs are quantitative restrictions on exports of a product, agreed bilaterally at government or industry level, between exporter and importer. The VERs are formal and OMAs informal." See Hitiris, T., *European Community Economics* (London, Harvester Wheatsheaf, 1988), p.204. For knowing detailed contents of VER and OMA, see Collyns, Charles & Steven Dunaway, "the Cost of Trade Restraints:the Case of Japanese Automobile Exports to the United States," *International Monetary Fund Staff Papers* (1987, March Vol.34,No.1), P 150; Jones, Kent, "Voluntary Export Restraint:Political Economy, History and the Role of the GATT," *Journal of World Trade* (Vol.23,No.3, 1989), p.125; and Presse, Heinz Gert, "Voluntary Export Restraints--An Effective Means against a Spread of Neo-Protectionism?" *Journal of World Trade* (Vol.25,No.2.April 1991),p.5.

44. Yoffie, *op.cit.*, pp.4 and 9.
45. Yoffie, David, *Power and Protectionism* (New York, Columbia University Press, 1983), p.9.
46. For basic knowledge about perspectives of international political economy, see Jones, R.J. Barry, "International Political Economy: Problems and Issues--Part I and II," *Review of International Studies* (Vol.7, No.4, October 1981)(Vol.8, No.1, January 1982); Strange, Susan, *Paths to International Political Economy* (London, George Allen and Unwin, 1984); Murphy, Graig N. and Roger, Tooze, *the New International Political Economy* (Colorado, Lynne Rienner Publishers, 1991); Gilpin, Robert, *Political Economy of International Relations* (Princeton, Princeton University Press, 1987); Keohane, Robert O., *After Hegemony--Cooperation and Discord in the World Political Economy* (Princeton University Press, 1984); and Biersteker, Thomas J., "Evolving Perspectives on International Political Economy: Twentieth-Century Contexts and Discontinuities," *International Political Science Review* (Vol.14, No.1, 1993), pp.7-33.
47. This means as a state that is much larger and relatively more developed than its trading partners. It should favor openness, therefore, as long as it continues to ascend or to maintain or improve its size and technological lead. The developers of hegemonic stability theory (HST) are Charles P. Kindleberger, Robert Gilpin, Robert Keohane, Joseph Nye and Stephen D. Krasner. The study of HST is obsessively Americo-centric. Stephen Krasner argues "some people in Luxembourg have good ideas, but who gives a damn? Luxembourg ain't hegemonic." See Higgot in Murphy and Tooze, *op.cit.*, p.99. On the other hand, Joanne Gowa indicates that "the most significant flaw in HST is its neglect of the essence of the domain to which it applies: the politics of interstate trade in an anarchic world. Namely, HST must include security as an argument in the utility functions it assigns to states opening their borders to trade." See Gowa, Joanne, "An Epitaph for Hegemonic Stability Theory?: Rational Hegemons, Excludable Goods and Small Groups," in Odell and Willet, p.56.
48. Gallarotti, Giulio M., "Toward a Business-Cycle Model of Tariffs," *International Organization* (Vol.39, No.1, Winter 1985), pp.156-157.
49. For knowing various approaches to test hegemonic stability theory, see Cohen, Benjamin J., "The Political Economy of International Trade," *International Organization* (Vol.44, No.2, Spring 1990), pp.279-281.
50. Conybeare, John A.C., "Tariff Protection in Developed and Developing Countries: a Cross-Sectional and Longitudinal Analysis," *International Organization* (Vol.37, No.3, Summer 1983), p.447.

51. Thompson and Vescera, *op.cit.*, p.497.
52. Milner, Helen, "Trading Places: Industries for Free Trade," in the *International Trade Policies--Gains From Exchange between Economic and Political Science* edited by Odell, S. and Thomas D.Willet (Ann Arbor, the University of Michigan Press, 1990), pp.148-149.
53. Stein, Arthur A., "the Hegemon's Dilemma: Great Britain, the United States and the International Economic Order," *International Organization* (Vol.38, No.2, Spring 1984), p.358.
54. Gallarotti, *op.cit.*, p.158.
55. Gallarotti, *op.cit.*, p.163.
56. Gallarotti, *op.cit.*, p.165.
57. Milner in Odell and Willet, *op.cit.*, p.155.
58. According to strategic trade demand theory, "each government takes into account some response by foreign firms or governments in calculating its best course of action. However, the prevalence of several conflicting motives for intervention in itself represents an obstacle to implementing strategic trade policies, because the government has to balance the different motives and would have to use more than one policy tool to achieve an optimal outcome. Strategic policy models have been originally developed by James Brander and Barbara Spencer (Brander-Spencer Profitability Model), and by Paul Krugman. However, these rent-capture models are criticized by the fact not considering rival's behavior and the probability of retaliation. In addition, critics of this model have pointed out that a policy designed to shift profits from foreign to domestic producers can increase national welfare only to the extent that the affected domestic producers are domestically owned. This condition is becoming more questionable every day as we witness the spread of multinational firms, international joint ventures and partnerships, particularly in industries that are typically targets for strategic intervention." For further details, see Stegemann, pp.73-100.
59. Milner, Helen V. and David B. Yoffie, "Between Free Trade and Protectionism: Strategic Trade Policy and a Theory of Corporate Trade Demands," *International Organization* (Vol.43, No.2, Spring 1989), p.246.
60. Aggrawal, Vinod K., Robert O. Keohane and David B. Yoffie, "the Dynamics of Negotiated Protectionism," *American Political Science Review* (Vol.81, No.2, June 1987), pp.347-348.
61. Aggrawal, Keohane and Yoffie, *op.cit.*, pp.350-351.

62.Marks, Stephen V. and John McArthur, "Empirical Analysis of the Determinants of Protection:A Survey and Some New Results," *International Trade Policies--Gains from Exchange between Economics and Political Science* (Ann Arbor, the University of Michigan Press, 1990), p.109.

63.According to Robert G.Gilpin, "the fundamental objective of protectionism and industrial policies of all types is to protect and stimulate those economic sectors that political leaders consider most relevant to domestic welfare and the nation's political ambitions." See Gilpin in Inoguchi and Okimoto, *op.cit.*, p.157.

64.Marks and McArthur in Odell and Willet, *op.cit.*, p.108.

65.Marks and McArthur in Odell and Willet, *op.cit.*, p.109.

66.Conybeare, *op.cit.*, p.453.

67.Marks and McArthur in Odell and Willet, *op.cit.*, p.109.

68.According to Richard Higgott, "none of the literature deals with the implications for smaller states of the foreign economic politics of major actors driven by the assumptions of what he would call "economic realism." See Higgot in Murphy and Tooze, *op.cit.*, p.110.

69.Marcel F.van Marion maintains one of origins of EC's Japan complex that "the EC Commission did not, in the 1970s, know the strong relationship between manufacturers and trade in Japan, which provided the possibility of allocating costs differently from in Europe." See Marion, Marcel F.van, *Liberal Trade and Japan--The Incompatibility Issue* (Heidelberg, Physica-Verlag, 1993), p.173.

70.Bridges, Brian, "Europe and Korea: An Awakening Relationship," *Journal of Northeast Asian Studies* (Spring 1985), p.48.

71."The International Organization of Consumers Unions, which represents 180 consumer organizations in 70 countries, urged UR negotiators to ignore the calls of protectionists and put the interests of consumers first because all consumers suffered as a result of protectionism." See Williams, France, "Calls for Early End to Trade Talks," *Financial Times* (Oct.27,1993),p.5.

72.According to Patricia Dillon, John S.Odell and Thomas D.Willet, research methods are divided into "1)formal or mathematical deduction, 2) statistical testing, 3) qualitative concepts and hypotheses, and 4)case study analysis, usually historical and inductive. While types 1

and 2 are more common in economics and types 3 and 4 more frequent in political science, these different methods are most usefully seen as complements rather than substitutes." See Odell and Willet, *op.cit.*, pp.280-281. In my thesis, I use qualitative concepts and hypotheses in Part I and case study in Part II.

73.Officially on Nov.8,1993, "the Council of Ministers of the European Community (EC) reconstituted itself as the Council of the European Union (EU), and the Commission of the EC as the European Commission under the Treaty on European Union signed at Maastricht in Feb., 1992. In legal terms, when its members discuss matters that fall within the parameters of the Treaty of Rome, such as trade, they are the EC. When they talk about new areas of cooperation under the Maastricht--foreign and security policy, justice and home affairs--they are the EU." See "Union Binds EC in All But Name" *Financial Times* (Nov.9,1993),p.2; and "Europe by Any Other Name" *Financial Times Editorial* (Nov.11, 1993), p.19. Because my thesis is concerning about bilateral trade issues, I will use the term, EC, in my thesis.

74.Robert Higgot defines "trade policy as a legitimate weapon in the search for national economic welfare in the international political economy similar to the role of defense policy in the pursuit of national security." Higgott is quoted in Murphy and Tooze, p.110. On the other hand, Robert G.Gilpin defines industrial policy as "practices of government supporting industrial development, encouragement of collusion among national and--in some cases--foreign firms, and governmental targeting of specific sectors or firms for financial or other support." See Gilpin in Inoguchi and Okimoto, *op.cit.*, p.163. Douglas Nelson maintains "a more significant argument for industrial policy is that certain sectors generate positive externalities that, because they can not be captured private economic actors without policy activism, will result in underinvestment." See Nelson in Murphy and Tooze, *op.cit.*, p.135.

75.According to A.D.Koekkoek, "the existing EC's national markets for textiles and clothing, and leather and footwear are already mostly large enough to achieve optimal size and minimal costs, and, thus, full integration of the Common Market will not add much to their competitiveness." See "Europe 1992 and the Developing Countries:An Overview," *Journal of Common Market Studies* (Vol.29,No.2,December 1990), pp.113-114.

76.Dicken, Peter, *Global Shift--the Internationalization of Economic Activity* (London, Paul Chapman Publishing Ltd., 1992), p.231.

77.Regarding the importance of industry-wide case analyses, Patricia Dillon, James Lehman and Thomas D.Willet argue "some trade policy issues have had a strong component of aggregate labor-capital conflict.

More often, however, trade policy pressures result from labour and capital in particular industries operating together with similar interests. As a result, trade analysis based on industry-specific adjustment costs is quite important." See Dillon, Lehman and Willet in Odell and Willet, *op.cit.*, p.46.

Part One: Broad Analysis of Determinants and Effectiveness of Protectionism in EC-Korea Trade

Chapter I. EC's Economic Policy and Its Impact on Determinants of Protectionism in EC-Korea Trade

A Brief Summary of Chapter I

The constitutional, institutional, financial and implementational frameworks determine the EC's decision making process. These frameworks are at the root of or at least contribute to some determinants of EC protectionism against Korea. They have given rise to the main criticisms voiced by Korea against EC protectionist measures towards Korea: 1) the coexistence of EC-wide and EC member states' protective measures against Korea, 2) the long time delays for final decision of EC's import restraints against Korea, and 3) the heavy dependence on price undertakings which injures credibility of EC's decision making process.

Meanwhile, problems of industrial policy by EC member states became major contributors to trade disputes between the EC and Korea when those problems were exposed through drastic imports from foreign countries, e.g. Korea. In the 1970s, trade disputes between the EC and Korea were expressed as a function of EC member states' industrial policies and production surplus problems and its collision with surge of imports from Korea under strong government support. However, those trade disputes in the 1980s occurred as a result of industrial policy implementation by the EC and Korea in specific industries such as electronics sector which had been concurrently implemented, in addition to factors in the 1970s mentioned above.

Trade disputes between the EC and Korea have worsened since the 1980s as a result of 1) trade policies by EC member states and a strong focus on national champions by specific EC member states such as Italy and France, 2) the political nature of EC trade policy as a result of difficulties in finding EC-wide industrial damages, and 3) the relative weakness of the EC Commission(ECC) in EC

trade policy implementation due to the fragmented interests of heterogeneous EC member states.

1. Introduction

This chapter examines issues in the EC's industrial and trade policies and their impact on determinants of protectionism in the EC-Korea trade. The industrial and trade policies, together called 'economic policy' in my thesis, are defined as "separate policy instruments to achieve the internal objectives of non-inflationary growth with full employment and at the same time an external balance of international payments."¹ For the internal objective of non-inflationary growth with full employment, national governments have been aggressively carrying out industrial policy through active involvement in industrialization and development of infant industries. Every country also has to depend on restriction of imports and promotion of exports for the balance of international payments through various trade policy instruments. As a consequence of active government involvement in policy making, "world trade is governed by the law of the policy gun, rather than the rule of the law."² In case of the EC, main problems in industrial and trade policies originated from the intergovernmental nature of the EC which has been explained by 'domestic policy approach'³ rather than EC-wide policy approach. According to Simon Bulmer,⁴

the national polity is the basic unit in the EC. Each national polity has a different set of social and economic conditions that shapes its national interests and policy content. In formal terms, the national government holds a key position at the junction of national politics and Community politics.

As a result, "divergent and occasionally mutually exclusive analyses and prescriptions regarding industrial problems often reflect a nationalistic bias and do not facilitate workable solutions to the problems."⁵

Furthermore, the lack of political will in most individual EC member states to strengthen EC institutions has impeded the power of the EC Commission (ECC), the

executive body of the EC. In the area of trade policy, the ECC is under very divergent pressures from different EC member states ranging from countries which are highly protectionist (e.g. France and Italy) to those which are more liberal (e.g. Germany and the Netherlands) even though the tendency towards or away from protectionism are different depending on individual industrial sectors. For example, "unless it satisfies the aspirations of the most protectionist among the EC member states, their governments continue to negotiate their own bilateral agreements."⁶ This protectionist stance, however, is vehemently opposed by the more liberal EC member states. The ECC has relied on a more convenient way to impose EC-wide import restraints as a result of difficulties in accommodating divergent interests of EC member states, based on intergovernmentalism, lowest-common denominator bargaining and protection of sovereignty. Namely, it imposed EC-wide import restraints against products for which an EC-wide consensus can be reached easily, such as those affecting very small-sized industrial sectors or strategically important sectors including consumer electronics products. When the EC-wide consensus is more difficult to achieve, the ECC left the authority to impose import restraints to each member state.

As a result of divergent interests among individual EC member states and difficulties in accommodating these different interests, industrial policy at the EC-wide level has also not been fully developed. For example, the implementation of separate industrial policies by individual EC member states, especially by France, Italy and the United Kingdom, in the 1950s and the 1960s, caused many problems for the EC such as production surplus and national champions. The existence of national champions resulted in continued assistance by governments of EC member states for the maintenance of ineffective production and consequently in strong protectionist measures against foreign challenges. Namely, EC member states have been implementing separate protective

measures against specific products from third party foreign countries, despite the implementation of EC-wide protective measures against the same products.

Thus, trade policy measures in the EC member states have been implemented as correctives for the negative results of industrial policy in the EC member states. However, trade policy by individual EC member states has been differently implemented by their political and cultural characteristics.

For example, France is politically very centralized, "which may be traced back to the *Code Napoleon* which aimed to cover every eventuality by a framework of rules."⁷ The French are also traditionally very nationalistic, favoring domestic to foreign products. The centralized political system enabled France to implement strong industrial policy such as national champions with clear objective of making large industrial companies to compete in international markets, but the correctives for the negative result of industrial policy were strong protectionism against foreign products, based on traditional nationalism.

The United Kingdom with a very centralized government "implemented industrial policy to put an emphasis on the creation of large national champions from around the mid-1960s."⁸ However, the degree of protectionism as correctives of industrial policy in Britain was less significant than in the case of France. For example, France has implemented 13 cases of import restraints against Korea, compared to five cases by the United Kingdom as of 1991, as seen in Chapter III. This result can be explained, among various reasons, by the cultural characteristic of the British who have not so serious preference for domestic products.

The case of Italy, however, is very exceptional. Italy is politically decentralized. Despite the lack of authority of the central government, Italy initiated the policy of national champions since 1962 through mergers and takeovers and the extension of public ownership."⁹ The

Italian also have a strong regional loyalty rather than a national attachment. The number of import restraints by Italy against Korea, however, was far less than France and the United Kingdom, with only three cases.

The share of these three countries in total import restraints by individual EC member states against Korea reached 84 per cent as of 1991, strongly supporting the causal links between the negative result of industrial policy, and trade policy as correctives of the negative result.

This chapter is a parallel of chapter II. Through analyses in chapters I and II, it can be demonstrated how industrial and trade policies, and decision making process in the EC and Korea act as determinants of protectionism in the EC-Korea trade.

2. Common Frameworks in the EC's Economic Policy and Decision Making Process

There are two frameworks which have caused problems in the EC's industrial and trade policies, and decision making process. These frameworks have a close relationship with current difficulties in the EC-wide economic policy implementation, and the existence of inefficient decision making at the EC level.

2-1. The Treaty of Rome--Constitutional Framework

The Treaty of Rome was formulated in the 1950s when the economic and political situation was very different from the contemporary situation. Only six countries--Belgium, Netherlands, Luxembourg, Italy, France and Germany--participated in the establishment of the EC at that time. Since the Treaty of Rome was concluded by six countries with roughly similar national economic levels, the Treaty proved insufficient to accommodate interests of poorer member states which joined later.

The Treaty of Rome, the legal basis for the establishment of the EC in 1957, did not include any instruments of industrial policy nor any legal framework for achieving a consensus on industrial policy. Volkmar Lauber explains this situation as follows:¹⁰

When the Treaty of Rome was prepared, industrial policy was not foremost in the minds of the Community's founders. The Treaty does not even provide a specific legal basis for industrial policy-making, unlike the Paris Treaty which set up the European Coal and Steel Community (ECSC) some eight years earlier; however, the latter treaty was more specific in every way.

The Rome Treaty does also not satisfactorily serve a common foreign trade policy. According to T.Hitiris,¹¹

EC member states still retain some measures of autonomy in external trade policy by operating, with the Community authorization under the Article 115 of Rome Treaty, their own lists of specific products subject to national import restrictions, even though they passed to the Community the power to enact foreign trade policy in the field of tariff and trade (Articles 11 and 113) and relation with international organizations (Article 229) and conclusions of association agreements (Article 238).

This constitutional framework of the EC has led to the coexistence of economic policy making at the level of the Community and at the level of individual member states. It is, therefore, very difficult to set up any coherent industrial strategy to accommodate interests of all member states at the same time. This resulted in a fragmented industrial policy at national government level, problems such as the weakening international competitiveness of EC industry and different standards among EC member states, and heavy dependence on EC-wide trade policy as a supplementary of problems caused by individual industrial policy making.

Industrial policies pursued by member states caused problems such as surplus capacities and national champions as I mentioned in Section 1. Even though the ECC has a mandate to determine export and import policies on a Community-wide basis, EC member states still maintain much discretion to implement trade policy at the national level. As a result, protective measures by individual EC member states have been drastically increasing so far.

2-2. Dominance of National Interests (Council of Ministers) Rather Than Community-Wide Interests (EC Commission) in Decision Making--Institutional Framework

The characteristic of the EC's decision making process can be explained by the nature of intergovernmentalism such as the lowest-common-denominator bargaining and protection of sovereignty as seen above. Furthermore, the Luxembourg Compromise of 1966 enabled individual EC member states to wield their veto power in the decision making of all important matters in the EC. As a result, "the meetings of the Council of Ministers began to look less like occasions for consensus building, the traditional image, and more like opportunities for exercising what had once been known as the liberum veto, stressing upon right of individual member states to veto common actions."¹²

The characteristic of EC's policy-making resulted in the conflict between ECC's supranational institutionalism and intergovernmentalism in the Council of Ministers, along with conflict between reactive policy making by the EC member states and the ECC's inventive policy making. Helen Wallace points out:¹³

The member states depend on reactive policy making of an incremental process along a continuum, in which the solving of problems depends on the gradual adjustment of existing policies in order marginally to alter the scope of policy instruments as problems change or become more acute. In the Community process, the scope for incremental change has been limited by the absence of precedent and of a corpus of existing policies. Therefore, the ECC has endeavored to engage in active-policy making by interpreting its role as that of the promoter of great leaps forward.

As a result of the difference in the direction of policy-making process, EC member states became more reluctant to transfer their policy decision rights to the Community because of the uncertainty and risks inherent in the principle of active policy making by the ECC.¹⁴ The dominance of decision making by the Council of Ministers in the 1970s resulted in difficulties in accommodating very different interests among member states whenever a special issue had to be decided. In connection with the

conflict between the two institutions, Willem Molle explains the basic problems of the Council of Ministers and the ECC as follows:¹⁵

The ECC has a heterogeneous composition. Its members are largely autonomous in their own fields and have not been chosen to execute a certain programme, but appointed by the Member States from different political parties. The Council of Ministers has limited power. The Council, having assumed a larger part of the task to coordinating Community policy, has many difficulties in fulfilling it on account of the 'segmentation' into 'professional' Councils of Ministers where sectoral interests prevail.

Even though "the ECC has continued to demonstrate its increased self-confidence of recent years, reflecting its gradually increasing role, and Delors has recognized the need to match further integration with institutional change and proposed a series of institutionalized reforms,"¹⁶ there are fundamental problems in the ECC effectively implementing EC-wide policy. This suggests the decision making problem can not be solved simply through improving function of the ECC.¹⁷ "The more the ECC articulated an independent position the more likely it was that it would be excluded. Also, the ECC's powers were unlikely to grow until the context of its work in relations between governments had significantly altered."¹⁸ The fundamental problem in EC's decision-making process is due to the reluctance in individual EC member states to delegate the power to the ECC.

As a result, the decision-making in the EC has been dominated by the Council of Ministers rather than the ECC.¹⁹ "The ECC had no legal powers except for those in the field of external economic policy. It had very few policy instruments at its disposal and extremely limited financial resources."²⁰

The problems caused by the two factors have a direct bearing on the EC's economic decision making process and, thus, also on the issue of protectionism.

3. EC's Economic policy Decision Making Process and EC-Korea Trade

The problems of the EC's industrial and trade policies are closely tied to the nature of the EC's decision making process. The economic policy-making process in the EC "constitutes a process through which a variety of agencies, groups and individuals, especially different Directorate-Generals(DGs) in the ECC, interact to perform specific tasks and to grapple with common problems."²¹ In the decision-making process, 23 DGs in the ECC are actively involved in the preparatory work of policy development.²² This accommodation procedure can be well illustrated with the EC's budget and the implementation of economic policies.

3-1. Financial (Budget) Framework

The conflicts of self-interest among EC member states has made it difficult to raise common budgets for the implementation of EC-wide policy instruments. The trend of each EC member state to defend their own self-interest and reluctance to expand the Community's budget resulted in difficulties to promote a Community-wide policy-making. A member state is willing to make a concession to other member states if it receives comparative concession from them.²³ Paul Taylor describes this trend of national interest seeking in budget matters of the EC as follows:²⁴

If you give me that, I will give you this. If you don't give me this, I won't give you that.

Another problem of the EC budget is the very unequal distribution of the revenue to various projects. In fact, about 67 per cent of the EC budget has been used for the implementation of projects in agriculture and fishery sectors in 1989. The proportion was decreased to 59 per cent in 1990. Such disproportionate concentration on the agriculture and fishery causes conflicts between member states, depending on their contribution to the EC budget and the relative magnitude of these two sectors in their own economies. In addition, the level of the EC member states' revenues contribution to the EC budget and relative benefits from the budget result in conflicts

because the revenues are decided according to the level of VAT, customs duties and GNP related income of EC member states.

Table I-1: Distribution of the EC's Budgets (%) (Total Budget in 1989=45,000 M ECU)

Expenditure	Portion	Revenue	Portion
Agriculture and Fishery	67(59)	Value Added Tax	60
Regional Policy	10(12)	Customs Duties	20
Social Policy	7(9)	GNP Related Income	9
Energy, Manufacturing Industry, Transport and Research	3(4.7)	Agro. Levies & Contributions	5
Development Aid	2		
Running Costs	5		

Sources: Molle, Willem (The Economics of European Integration), pp.74-75.

Scott, A.A. (European Studies), pp.79-95.

Note : Figures in Parentheses are those in 1990.

Table I-2: Distribution of Workforce in EC(1970)(%)

Countries	Primary	Manufacturing	Services
Greece	48	23	29
Portugal	33	36	31
Spain	30	37	33
Ireland	27	30	43
Italy	20	43	37
France	14	39	47
Denmark	11	39	50
Luxembourg	11	47	42
Germany	9	50	41
Netherlands	7	41	52
Belgium	5	45	50
United Kingdom	3	46	51

Source: Barthollomew, John & Frederick Warne (Atlas of Europe), p.51.

Therefore, EC member states such as the United Kingdom, the Netherlands and Germany, who are contributing a relatively high level of revenues to the EC's budget with relatively small primary sectors, are generally opposed to increases in the EC budget because of the small benefits given to them, and the oversized allocation of expenditure to agriculture and fisheries sector.²⁵ On the other hand, Greece, Portugal, Spain and Ireland will

strongly ask for increase in the EC's budget because of the relative advantage given to them.

3-2. Implementational Aspect

Because of the intergovernmental nature of EC policy, EC member states implement their own trade policies in accordance with the specific characteristic of their industries. Intergovernmentalism only further deepened the divisions among member states and exposed the limits of the ECC as the executive body to implement EC-wide policies. The power of the ECC has prevailed in such areas as steel and agriculture where institutional powers were granted. The budgetary aspect has aggravated the conflicts between rich and poor member states in the EC.²⁶ Insufficient resources in the EC-budget for EC-wide industrial and related policies, as compared with the level of expenses which are used by EC member states for this purpose, have become another obstacle for the implementation of EC-wide industrial policy. Furthermore, the relative high share of agricultural projects in the EC budget has caused lack of funds for other areas such as running costs. As a result, the number of ECC staff could not be expanded, despite its growing workload. For example, the employment in the ECC increased by 83.3 per cent from 6,000 staff to 11,000 staff in the 1973-86 period. However, the EC initiated 376 AD proceedings in the 1977-1986 period, up 14 times a total of only 26 AD proceedings in the 1970-1976 period.²⁷ In addition, the number of import restraints by the EC against Korea increased from only one case in the 1970s to fourteen cases in the 1980s. It is also interesting that only 30.3 per cent of total AD investigations by the EC (261 cases) in the 1980-1987 period was terminated with imposing possibly protective measures.²⁸ The higher portion of AD cases without any protective measures can be quoted as one example of shortage in manpower and financial resources for further intensive investigations. The ECC itself recognizes the problem of EC's AD services as follows:²⁹

The Community AD services are "critically understaffed" compared with those in the U.S., Canada or Australia. The number of professionals handling cases at the ECC dropped from 94 to 89 in 1992, making a total of some 130 including support staff. Officials estimate that the U.S. operates its AD policy with some 500 professionals.

4. EC's Industrial Policy and EC-Korea Trade

4-1. Difficulties in EC's Industrial Policy

Because the implementation of EC-wide industrial policy was not easy and EC member states vied with one another for promoting their own industries, there were inevitably national protective measures to prevent their industries from foreign competition. The national protective measures by the EC member states were based on non-tariff mechanism rather than tariff barriers. Loukas Tsoukalis and Antonio da Silva Ferreira explain the reason as follows:³⁰

Since member governments had been deprived of the instrument of tariff protection, they had to resort to other measures, which economists lump together under the name of non-tariff barriers, in order to protect their national industries.

The enlargement of the Community exacerbated this problem--the expansion of national protective measures by EC member states. The admission of Greece in 1981 and of Spain and Portugal in 1986 worsened the problem of EC's declining industries such as iron and steel and shipbuilding because these new member states were all specializing in labour-intensive sectors, aggravating the problems of production capacity surplus and strengthening protectionist pressure. Susan Strange argues "the emergence of serious problems of surplus capacity has accelerated protectionist trends in governmental policy in Europe."³¹

As a result, the EC member states moved to adopt protective measures, rather than implement positive industrial adjustment policies, against foreign competition from Japan in the 1960s and 1970s, and from the NIEs in the 1970s and the 1980s. Such a response was

inevitable, considering the difficulties in adopting active industrial adjustment policy in the EC.

Therefore, the difficulties of EC-wide industrial policy, caused by surplus capacity problems in individual EC member states, led to active government intervention at the level of each national government, followed by difficulties in industrial adjustment and fierce protectionism in the EC member states.

4-2. Chronological Analysis of EC's Industrial Policy

4-2-1. The 1950s--Period of No Outside Challenge and Expansion of Production Facilities

In the 1950s, trade increased more rapidly than production because world-wide demands for manufactured goods grew very sharply with the reconstruction boom after the Second World War. Therefore, the basic ideology under this favorable economic environment was non-interventionist and competition-based industrial policy.

"In the highly optimistic times of the 1950s, the Treaty of Rome entrusted the ECC to implement the rules of competition and to act only in the case of excessive intervention by the governments of the member states."³²

For example, the growing demands for steel in the 1950s, due to the demand for reconstruction and replacement following world-war II, greatly contributed to the expansion of the production capacity in the EC. World crude steel production in 1950 totaled 191.6 million tonnes, which dramatically expanded to 270 million tonnes in 1955 and 346.4 million tonnes in 1960.

In the midst of increase in demands for steel world-wide and aggressive production expansion in Western Europe, the EC had implemented a very aggressive EC-wide industrial policy in the steel sector through the formation of the European Coal and Steel Community (ECSC) for the purpose of curbing surplus production and setting minimum price levels in member states. The ECSC was "able to offer more concrete support for investment programmes in new production capacity, acting as an intermediary in the procurement of low-interest loans on the global

currency market, able to offer better terms to individual firms by virtue of its greater credit-worthiness as an institution."³³ However, the production surplus problem in steel could still not be solved despite the establishment of the ECSC.

In the EC-Korea trade, there were no trade disputes in the 1950s. This was due to 1) the world-wide growth of demand, 2) Korea's import-substitution strategy, rather than export-led policy, and 3) the minimal export share of Korea in the world's total exports in the 1950s which was less than 0.2 per cent, compared to 2.16 per cent in 1989, as seen in Chapter II.

4-2-2. The 1960s--Period of American Challenge and EC's Response through National Champions

The big challenge to EC industry in the 1960s was the active entry of U.S. MNCs into the EC market.³⁴ Faced with such an American challenge, the response by the EC member states was a policy concentration to expand the size of companies in the belief that "big size companies would be necessary to efficiently cope with huge MNCs, and with the internal competitive pressures, generated by the creation of the European Common Market."³⁵ Volkmar Lauber points out:³⁶

In the 1960s, it was widely thought (particularly in official circles) that greater size (oligopoly, essentially), was identical with greater efficiency, more rapid technological progress, and the like. In the mid-1960s, many member states passed legislation to facilitate mergers, take-overs and cooperation arrangements. But the member states promoted mergers only among 'national' firms (not necessarily--in fact, not usually--public sector firms).

However, the trend to make national champions through merging among national firms was contradictory to the principle of economic integration of Community markets. In addition, such national champions were not able to stand up to the competitive edge of U.S. MNCs. This national policy of fostering champions generated protective measures in the 1970s and 1980s at the level of each member state. However, the problematic nature of

such measures was not immediately evident because economic growth in the 1960s provided a shield. For example, the growth of GDP in Germany in 1961-70 period reached 4.5 per cent, that in France 5.6 per cent and that in Italy 5.7 per cent. Such growth rates were far higher than that in the United States with 3.8 per cent during the same period. Only the United Kingdom showed lower GDP growth than the United States with 2.8 per cent.

The EC-Korea trade relationship was still unaffected in the 1960s. One of the main reasons was that Korea's most important export markets in the 1960s were the United States and Japan, rather than the EC. Exports of commodities in the 1960-69 period to the United States totaled \$925 million and those to Japan reached \$558 million. However, exports to the EC were confined to \$128 million in the same period, representing 13.8 per cent of the export figure to the United States and 22.9 per cent to Japan. Also, Korea's share in the world's export figure still remained at very low level, 0.21 per cent in 1968 and 0.25 per cent in 1969.

4-2-3. The 1970s--Period of Japanese and NIEs Challenge and EC's Defensive Response

Compared to the 1950s and the 1960s, the 1970s saw very important changes in the world's trading environment.

Firstly, the U.S. hegemony in the world trading system began to decline. As a result, there was no hegemonic power which permitted itself to be sacrificed for the sake of world trade. The United States began to impose very stringent import restraints against Japan. That made Japan switch its exports from the United States to the EC market, resulting in many trade disputes between the EC and Japan.

Secondly, the oil shocks in 1973 and 1979 also greatly contributed to the worsening trade environment. Many advanced countries were prone to choose the adoption of protective measures rather than the implementation of industrial adjustment. "Following the oil-price shock of

1973, all West European countries introduced anti-cyclical measures to minimize the impact of the recession. The anti-cyclical or trade regulating measures were in many cases defensive in that they slowed adjustment."³⁷ Loukas Tsoukalis and Antonio da Silva Ferreira describe negative impact of those policies on the EC industries as follows:³⁸

Industrial policies have taken an almost purely defensive and protectionist form, while also being typical exercise in 'ad hoc-ery.' The practice of subsidizing inefficient firms for long periods is an uneconomical use of scarce resources which might be used in developing new dynamic sectors of the economy. The social cost of adjustment will be considerably reduced if industrial policy is combined with an active manpower and social policy. But if adjustment does not take place and resources are not diverted into more efficient use, the problem will remain unsolved and the country concerned will find that the cost of staying in the international division of labor will progressively increase.

The promotion of inefficient national champions through the provision of subsidies in the 1960s began to be exposed when a world-wide economic recession started in the 1970s. The production volume in the EC exceeded demand. Furthermore, imports from Japan began to increase in the EC market, followed by shipments from NIEs. Major EC member states such as France, the U.K. and Italy all implemented defensive protective measures (negative industrial adjustment) against imports from Japan and NIEs. Germany, on the other hand, reacted to the new challenges with defining global product strategies and investing substantially in R&D (positive industrial adjustment).³⁹

Because the majority of EC member states adopted very defensive industrial policies, the ECC had difficulties in implementing positive and forward-looking industrial policy in the 1970s. Therefore, "the lack of a consensus on the question of growth adjustment precluded any proposals for more active Community policies. Common EC policies have, therefore, tended to be defensive action in declining sectors."⁴⁰

Despite the world's business recession in the 1970s, Korea began to export manufactured goods in earnest in the 1970s under the government's strong neo-mercantilist policy support. As a result, trade disputes began to occur with the EC during this period. However, these trade disputes in the 1970s were disputes between individual EC member states and Korea, rather than between the EC and Korea. For example, import restraints against Korea adopted at the level of EC member states in the 1970s totaled 13 cases, of which France accounted for 8 cases and the United Kingdom for four cases, as seen in Chapter IV. The remaining one case was from Germany. Korea's major export items in the 1970s were textiles and clothing, and iron and steel products. The EC implemented defensive policies in these industries. Therefore, trade disputes between the EC and Korea in the 1970s were concentrated in these industries. For example, the only EC-wide import restraint adopted in this period was the MFA signed in 1975 between the EC and Korea to regulate imports of textiles and clothing from Korea.

4-2-4. The 1980s-Present--Period of Positive Adjustment to Strategic High-Tech Industries

In the 1970s, when most countries suffered from serious economic recession as a result of two rounds of oil shocks, the EC recorded better economic performance than the United States. However, the EC's industrial growth recorded the lowest, compared to Japan and the United States, with the start of the 1980s. Namely, in the 1981-90 period, the EC's average GDP growth rate remained at 2.3 per cent, lower than the United States (3.0 per cent) and Japan (4.1 per cent). Table I-3 shows the serious situation of industrial production in the EC. This serious slump in output growth expedited the movement of the EC to strengthen the political and economic integration among EC member states through the completion of the Single Market by 1992.⁴¹ John Palmer argues "the impulse towards unity is in part a reflection of the huge

scale of the economic problems now facing modern industrial societies like the EC."⁴²

Table I-3: Growth of Industrial Production (Index 1985=100)

Countries	81	82	83	84	85	86	80-85
W.Europe	98.5	96.9	98.0	101.0	103.8	106.5	0.8
Japan	102.3	100.9	110.1	120.0	121.5	--	4.5
USA	102.2	94.3	100.6	112.1	114.5	115.2	3.0

Source:Euromonitor (West European Economic Handbook,1987),p.12.

In the 1980s, there was a consensus among the EC member states to raise international competitiveness of EC industries through implementation of positive industrial adjustment. The EC also chose strategic industries for providing EC-wide assistance such as funding of R&D projects.⁴³ Volkman Lauber describes these movements as follows:⁴⁴

Firstly, the high point of intervention by the national governments of member states in favor of declining industries was passed during this time and the limits of such an approach became more and more apparent.

Secondly, the Council in 1982 adopted several Commission proposals that aimed at promoting investment in strategic areas--energy, biotechnology, and information technology.

Despite such a change in the direction of industrial policies, the trade disputes between EC member states and Korea did not change. This was an indication that the EC member states maintained very negative views about inflows of commodities from Japan and NIEs even though their concerns gradually moved to positive industrial structure adjustment. In connection with this matter, Joyce Tan and Jacques Pelkmans argue that "the competitive pressure from NIEs was so strong that the general resentment against protection could not easily be transposed to a more liberal attitude vis-a-vis the NIEs."⁴⁵

Korea designated consumer electronics industry as a strategic sector and provided extensive government support in the 1980s. Unfortunately, the EC also

implemented a program to revive the international competitiveness of its consumer electronics sector in the 1980s. Therefore, trade disputes in the 1980s between the EC and Korea mainly occurred in consumer electronics sector.

In sum, the EC did not implement any fully-fledged Community-wide industrial policy in the 1960s and the 1970s, except in the case of steel under the ECSC. Instead, separate industrial policy instruments were actively put into force by individual EC member states. Those policy direction caused surplus production problems in the 1970s and thereafter in the EC. The trade disputes between the EC member states and Korea in the 1970s mainly resulted from those problems in the EC. However, the consensus to foster strategic industries among EC member states contributed to worsening trade disputes in the electronics sector between the EC and Korea in the 1980s and thereafter. Again, industrial policy direction of the EC and EC member states had a close relation with their protectionism against Korea.

4-3. Problems of the EC's Industrial Policy and Its Relationship with EC-Korea Trade Disputes

The most serious problems in the EC industries were caused by negative industrial structure adjustment policy making in EC member states since the 1950s. These problems can be divided into production surplus and national champions. The first problem of EC industries was production surplus. In the 1950s, the EC member states were eagerly promoting expansion of production facilities with the support from each government to meet growing demands caused by world-wide economic expansion. The problems, caused by heavy expansion of production facilities, were not exposed in the 1950s because growing demands for the surplus production helped to avoid industrial adjustment or protective measures against external threat.

The second problem of EC industries was the existence of inefficient big-size national champions. In the 1960s,

the EC member states were eagerly implementing strategies to expand the size of companies through mergers and acquisition, and provision of financing from each government to cope with American challenge--namely entry of American MNCs into the EC market. This movement resulted in national champions in major EC member states such as Italy, France and the U.K. as seen above(Section 1), and provided burdens to protect these inefficient companies from foreign penetration. For example, Finisider of Italy produced 57 per cent of Italian steel production as of 1985, whilst British Steel's share in total steel production in the United Kingdom reached 83 per cent and Sacilor's share in French steel production totalled 57 per cent in the year.⁴⁶

These two problems were enhanced by foreign penetration of the EC market. Namely, Japanese and NIEs companies were extensively entering into the EC market and threatened the existence of EC industries. The response against this threat was to protect declining industries rather than to engage in positive industrial adjustment. Therefore, growing protectionism for declining industries was the third problem, caused by the EC member states' lack of industrial adjustment policy.

Since the 1980s, the EC began to experience low industrial growth, compared to the United States and Japan. This made finding a consensus among EC member states about industrial adjustment policies even more difficult. Since then, the EC has been implementing a policy of fostering strategic industries on a Community-wide basis to remain abreast with the United States and Japan. That led to the fourth problem of EC industrial policy. Namely, the EC expanded its defensive protectionism to electronics sector in the 1980s in addition to those against low knowledge-intensive industrial sectors.

5. EC's Trade Policy and Protectionism in EC-Korea Trade

5-1. Major Issues in EC's Trade Policy

The constitutional and institutional frameworks in the EC contributed to the EC having problems in terms of trade policy implementation.⁴⁷ Firstly, there is the tendency to implement trade policy to solve problems caused by production surplus in declining industries of EC member states. Such policies were the results of industrial policies implemented by each member state in the 1950s-70s. Victoria Price points out the deepening protectionism through complementarity of the industrial policy with trade policy as follows:⁴⁸

Industrial policy is not only a substitute for trade policy but also a complement. When used together with trade measures, industrial policies create virtually insuperable barriers to trade.

Secondly, there is the inequality in the implementation of the EC's trade policy against its major trading partners. The EC has been providing preferences to its trading partners, according to groups divided by region. That reflects specific relations of individual EC member states with their previous colonies, based on historic and political factors.⁴⁹ The most beneficial preferences under the preferences system, called 'pyramid of EC preferences,' has been given to EFTA (European Free Trade Association) countries, followed by Mediterranean countries, ACP (Africa-Caribbean-Pacific) countries, other developing countries, OECD and South Africa and state trading countries. Therefore, developing countries such as Korea have been facing a fundamental disadvantage compared to EFTA countries, Mediterranean countries and ACP countries in exporting products to the EC market.

These issues in EC's trade policy have been contributing to protectionism in the EC-Korea trade. For example, penetration of specific products from Korea into the EC market seems not to cause any problems in the majority of the EC-wide market. However, such entry could directly generate bilateral trade disputes because the imports could be a detrimental factor to a specific member state in the EC. That was due to the fact that trade policy has

been dominated by interests of specific member states rather than by EC-wide interest.

5-2. Analysis of EC's Trade Policy Instruments

The issues in the EC's trade policy can be found through examining EC's trade policy instruments. Common external tariffs (CET) are symbols of EC's unified trade policy making. However, the adoption of the EC-wide common tariffs made each member state in the EC seek non-tariff measures to protect its own industries from foreign threats because of the low level and insufficiency of CET to protect them. Furthermore, they exerted influence in implementing EC-wide AD and CV duties impositions, new Community trade instruments and rules of origins. The proliferation of non-tariff measures (NTM) in the EC had proved that the issues in the EC's trade policy were exposed through the implementation of various trade restrictive measures.

5-2-1. Pure Trade Policy Measures

5-2-1-1. Common External Tariffs (CET) and EC's Reciprocity Policy

The CET represents the principle of Common Market in the EC through harmonizing tariff rates in the EC in trading with foreign countries. "A common trade policy through CET is necessary for the EC because in its absence internal trade will be impeded and the purpose of a common market frustrated."⁵⁰ Jacques Pelkmans and Joyce Tan explain the level of CET as follows:⁵¹

EC tariffs are generally low and have few peaks. The highest peak for industrial products is 20 per cent (e.g. trucks and certain footwear). In 1988, total imports from MFN (Most-Favored-Nation treatment) sources were dutiable at 7.3 per cent (simple average) or 5.1 per cent (weighted average). The standard deviation for ad-valorem tariffs is only 4 per cent, indicating a moderate dispersion across the product range.

However, the EC's CET has been facing severe criticisms from academics. Among the criticisms are the limitation of application of CET to only manufactured products, rather than agricultural sector, and greater reductions

of duties on primary commodities and raw materials rather than that on finished products. Willem Molle argues:⁵²

The agricultural sector remains the most protected sector in the Community, and substantial tariffs and non-tariff barriers exist for most agricultural products. As far as tariffs are concerned, the EC has effectively worked towards free trade, as the Treaty of Rome had enjoined upon it. However, the scope of the reductions is severely restricted.

The average tariff rates for manufactured goods in the EC in 1985 was 6.7 per cent. However, the tariff rates in Korea in 1988 was far higher than the level of the EC, recording 16.9 per cent. The relatively low tariff level of the EC, compared to that of Korea, resulted in trade disputes between the EC and Korea, and made the EC ask for reciprocity in an effort to receive guarantees for lowering of tariff levels for some products exported to Korea, and for favorable conditions for business activities by EC companies in Korea.⁵³ Furthermore, the low level of CET contributed to the proliferation of NTMs due to the limitation of CET to protect specific industries in the EC.

5-2-1-2. Generalized Scheme of Preferences (GSP)

The EC has been implementing the GSP for developing countries to encourage exports of their products to the EC market. "The scheme offers a tariff preference: in general, goods coming under the GSP are imported into the EC tariff free, whereas non-GSP countries face the full CET."⁵⁴

However, the GSP of the EC is problematical from Korea's point of view. Firstly, the scope of commodities subject to GSP has been limited to semi-manufactured and manufactured goods. Items of greatest interest to Korea such as textiles, footwear and leather products were excluded from the GSP list.

Secondly, the GSP is a unilateral grant by the EC to Korea. In fact, the EC unilaterally decided in 1988 to withdraw the GSP status from Korea on the grounds that the Korean government did not grant the same treatment to the EC as it did to the United States which received

special and exclusive treatment when Korea introduced laws on intellectual property rights in 1987. However, the EC revived the GSP status to Korea from late 1991 due to the harmonious settlement of the controversial issue of intellectual property rights between the two parties. Therefore, the GSP benefit for Korea could be used as a strategy to draw out comparative reciprocity from Korea. If EC companies do not receive equal treatment in business in Korea from the Korean government in comparison with companies from other countries, the EC is easily in a position to withdraw the GSP grant immediately. Incidentally, the United States withdrew the GSP benefit from Korea in 1986. Even though the United States attributed the suspension of GSP treatment to Korea to the graduation of Korea's status to a developed from a developing country, it was clear underlying motive of the United States was in weakening Korea's price competitiveness through the measure to suspend the GSP benefit. It is, however, very ironical that the EC has revived its GSP treatment to Korea after achieving its goal to get the same treatment from Korea in intellectual property right given to the United States, despite no revival of the GSP treatment by the United States for Korea. Considering the fact that the GSP status is given only to developing countries, the different position between the EC and the United States in GSP treatment for Korea reflects the non-existence of yardstick to measure the graduation of a developed to a developing country.

5-2-1-3. Rules of Origin

The rules of origin are related to restrictions on investments in the EC. The EC has been regulating the establishment in the EC of simple screw-driver plants by foreign companies which are meant to circumvent AD duties. Usually, the EC origin rules require that 45 per cent of added value should be achieved in the EC-based plant for being recognized as EC product. This origin rule is not a serious problem in the EC-Korea trade because of low level of direct investments by Korea in

the EC. However, the origin rules could become very controversial in future as Korea increases its direct investments in the EC to tide over strengthened protectionism against exports from Korea to the EC market. Until 1989, a total of 10 cases of direct manufacturing investments have been made by Korean electronics companies in the EC, representing 71.4 per cent of Korea's manufacturing investments in the EC totaling 14 cases by the year. Major reasons for Korea's direct investments in the EC are to circumvent AD duties imposed by the EC. If Korea simply invests in the EC to circumvent impositions of AD duties, not adding sufficient local value in the EC, those investments are open to EC's restriction on investments, aggravating the EC-Korea trade disputes.

5-2-2. Protectionist Measures of the EC

As a result of misguided policies, the beginning of very competitive imports in limited sectors from countries like Korea, the closed character of the Korean market and the restrictive frameworks of the EC, the EC became a protectionist bloc. For example, individual EC member states implemented a total of 12 import restraints against Korea in the 1980s alone. At the same time, EC-wide import restraints against Korea also drastically increased to a total of 15 cases in the 1980-1992 period. Among the 15 cases, six cases concerned consumer electronics sector.

Table I-4: Products Under Investigations for EC-Wide Import Restraints Against Korea as of 1992

Items	Type of Import Restraints
Polyester Fibre	Anti-Dumping Duties
Semiconductor(DRAMs)	Anti-Dumping Duties
Steel Rod	Anti-Dumping Duties
Electronics Scale	Anti-Dumping Duties
Floppy Diskette	Anti-Dumping Duties
Color TV Sets(Large-Size)	Anti-Dumping Duties

Source: KFTA(Directory of Import Restraints by Advanced Countries against Korea), p.20.

In addition, 6 cases were pending for the imposition of import restraints against Korea, as seen in Table I-4. Four cases, among the six, are in the electronics sector. Therefore, 47.6 per cent of the total 21 cases under import restraints and investigations for further action was from the electronics sector. As a result, the change of direction in the EC's industrial policy to foster strategic industries contributed to the growing conflicts in the electronics sector between the EC and Korea in the 1980s.

The spreading of NTMs in the EC⁵⁵ was a result of the ineffectiveness of tariffs to protect EC industry from oil shocks, rising pressure from new competitors (especially some Asian NIEs) and the persistent current account imbalances with major trading partners. Victoria Price explains the motivation of increase in NTMs in the EC as follows:⁵⁶

Members of the European Community have surrendered their rights to use tariffs to a supranational body, namely the Commission of the Community, based in Brussels. Tariffs, therefore, can not be used freely to promote this or that industry and, as a result, governments are forced back onto non-tariff measures of various kinds, including outright subsidies.

5-2-2-1. Quotas

Quotas as policy instruments in the EC are implemented at two levels: quotas at the EC level and at the member states' level.⁵⁷

The EC has implemented a total of four EC-level quotas against imports from Korea. The four cases are quotas for textiles and clothing, iron and steel products, canned mushrooms and footwear. Except for canned mushrooms in which quotas were set by the EC unilaterally under the clause of GATT XIX safeguard and the EC Council Regulation(No.288/82), quotas of the remaining three items have been set under VERs signed between the EC and Korea. The EC is using many grey area measures such as VERs to prevent retaliation and compensation from and against its trading partners when safeguard measures under GATT XIX clause were officially implemented. In

trade disputes with Korea, the EC has been using such measures against cases in which 1)very small-size industries were involved,2)more rapid responses were needed or 3)there were difficulties in finding any injuries through formal AD investigations.

Chronologically, quotas for textiles and clothing, iron and steel products and canned mushrooms were implemented in the 1970s,⁵⁸ whereas footwear quotas were established in 1990. EC-wide quotas were not widely implemented in the 1980s when new protectionism had been proliferated because there were alternative protective measures by individual member states. However, the EC-wide quotas represented 25 per cent of the total number of EC-wide import restraints (16 cases) since the 1970s against Korea. Especially, the VERs, called "the cancer in the trading system,"⁵⁹ have very rapidly proliferated since late 1960s, due to such special attractiveness of recourse to quantitative measures as selectivity, bilateralness and invisibility.

Quotas at member state level are divided into three categories--"residual quotas(under the EC Regulation of 288/82), specific quotas for state trading countries and national quotas for Portugal and Spain applied for the transitional period of EC membership."⁶⁰ The existence of quotas at individual EC member states' level originated from the fact that the EC-wide Common Commercial Policy (CCP) has not been fully developed, and bilateral trade agreements still remain next to agreements concluded by the EC under the Treaty of Rome (Articles 113 and 114).⁶¹ In case of EC-Korea trade, the main category of quotas at member states' level are the residual quotas. EC member countries had implemented or has been implementing a total of 25 quota restrictions against imports from Korea since 1977, which was far higher than the number of EC-wide quota restrictions (four cases) and also 56 per cent higher than the total number of EC-wide NTMs. Among the 25 national-level quota restrictions, 12 cases were effective in the 1980s. Therefore, the heavy dependence

on member-state level quota restrictions against Korea in the 1980s was a major factor explaining the reason why there were no EC-wide quota restrictions in the 1980s. The EC-wide quotas have been established to complement the limitations of quotas on the level of EC member states.

5-2-2-2. Anti-Dumping (AD) Duties

AD duties have been playing a pivotal role as trade policy instruments of the EC. In case of the EC-Korea trade, the EC has been heavily dependent on impositions of AD duties. Among a total of 16 import restraint measures since the 1970s by the EC against Korea, 12 cases or 75 per cent were impositions of AD duties. The remaining four were VER and quota restrictions. Therefore, AD duties have been the most crucial trade policy instruments by the EC against Korea. Furthermore, the threat to impose AD duties by the EC itself was connected to the settlements of trade disputes between the EC and Korea. The settlements have been made with two types--one is with price undertakings and the other with VERs.⁶²

Firstly, the EC's threat of AD action and consideration of their self-interest among Korean exporters made the Korean companies conclude an agreement, called 'price undertakings,' with the EC under which they promised to raise export prices to the level which the EC wanted. Among the twelve AD duties impositions against Korea, four cases were resolved through price undertakings. These settlements met the mutual interests.

Secondly, the threat of imposing AD duties led also to the conclusion of VERs in cases of H-beam(rolled steel joint) and steel nails. The conclusion of VERs could make the EC remove the image as a trading bloc to heavily impose AD duties against Korea. On the other hand, Korean exporters also could wipe out the bad image in the world trading environment as a country which carried out many unfair trading activities.⁶³

However, the EC's AD measures raise some questions about the credibility of its implementations. For example, the EC's rate of imposing provisional measures in the total number of initiated cases against its trading partners is very low with only 37 per cent in the 1980-1987 period, as seen in Table I-5. This compares with 73 per cent of the United States. Therefore, foreign exporters involved in the remaining 63 per cent of initiated cases had to put up with damages caused by AD investigations.

Table I-5:AD Actions by EC and USA (1980-1987)

Country	Period	Init.(A)	PM(B)	Share(B/A)
EC	1980-82	61	15	24.6
	1982-84	59	28	47.5
	1984-86	57	17	29.8
	1986-87	17	12	70.6
	Total	194	72	37.0
USA	1980-82	66	20	30.3
	1982-84	65	61	93.8
	1984-86	124	80	64.5
	1986-87	41	55	134.1
	Total	296	216	73.0

Source:Hoekman, Bernard M. and Michael P.Leidy, "Dumping, Anti-Dumping and Emergency Protection," *Journal of World Trade* (October 1989), p.29.

Notes:Init.=Initiated. PM=Provisional Measures.

In actual cases between the EC and Korea, importers in the EC switched their import sources to other countries, which were not involved in AD measures, from Korean exporters involved in the investigations, despite that they were released without any suspicion of dumping activities later.

In addition, the EC began a total of 8 AD investigations against Korean products in the 1981-1988 period. The EC only imposed definitive AD duties against two cases among the 8 cases, representing 25 per cent of the total number of investigations. Such situation is the same in case of EC's AD investigations against Taiwanese products. The EC started a total of ten AD investigations against Taiwanese products in the same period. However, the actual impositions of definitive AD duties were confined

to only three cases, 30 per cent of the total investigations. Therefore, the actual rate of AD duties imposition remained at the level of 30 per cent.

Table I-6:EC's AD Measures Against Taiwanese Products

YI	Items	Results
1981	Louver Door	Price Undertaking
1982	Steel Nuts	No Injury
1984	Louver Door	No Injury
1984	Panel Door	No Injury
1986	Tube Fitting	No Injury
1988	Bicycle Tyre	Price Undertaking
1988	Oxalic Acid	Definitive AD Duties
1988	Polyester Fabric	Definitive AD Duties
1988	Polyester Yarn	Definitive AD Duties
1988	Glutamic Acid	Price Undertaking

Source:Korea Foreign Trade Association(Europe 1992, Vol.1 No.1, 1989), p.97.

Note :YI=Year of AD Investigations.

David Greenaway and Brian Hindley, regarding VERs signed between the EC and Japan for the restriction of Japanese exports of VCRs to the EC, criticise the credibility of EC's AD implementation policy as follows:⁶⁴

Had the Commission of the European Community been able to demonstrate that Japanese producers were dumping, it would have had been in a position legally to impose anti-dumping duties on VCR imports from Japan. The dumping argument put forward by the Commission is almost certainly a sham. There is no ground upon which to believe that a charge of dumping against the Japanese producers could have been sustained.

In connection with the EC's AD policy and its credibility in the EC-Korea consumer electronics trade, Joyce Tan and Jacques Pelkmans also soundly condemn the EC policy:⁶⁵

If dumping is so massive (the volumes in consumer electronics are large), why is it that the possible losses can not normally be cross-subsidized by other parts of big(Korean) firms? If the dumping margin would be high enough, it would pay independent traders to re-export the product back to Korea. Apparently, this does not happen. As tariffs are low, now, the reason can only be a lack of competition at the retail level of barriers in the import/wholesale trade.

There is also a long time span for final decision of EC's AD measures against Korea. The difficulties to reach a

consensus among EC member states as a result of the institutional framework in the decision making process also protracts the period from investigations to final decisions for import restraints. The initiation of investigations itself threatens Korean exporters because EC importers had a tendency to terminate future orders for fear of import prices being raised and internal consumer demands being decreased in the EC as a result of import restraints. Therefore, the time-delays made Korean exporters lose opportunities of sales in the EC market when they were filed under the suspicion of dumping activities in the EC.

Table I-7: Comparison of Investigation Period of EC's AD Cases Against Korea

Products	Type of IRE	DI	DFD	PI
Oxalic Acid	AD	May 22, 1987	July 18, 1988	422 Days
Polyester Yarn	AD	July 1, 1987	Dec. 13, 1988	530 Days
CDP	AD	July 6, 1987	Dec. 17, 1989	895 Days
Video Cassette Tape	AD	Oct. 14, 1987	Jun. 29, 1989	623 Days
Color TV	AD	Feb. 17, 1988	Apr. 27, 1990	862 Days
Glutamic Acid	PU	Jun. 6, 1988	Jun. 30, 1990	754 Days
Bicycle Tire Tube	PU	Apr. 14, 1977	Jan. 19, 1980	1161 Days
VCR	PU	Sept. 25, 1987	Feb. 28, 1989	521 Days
Album	PU	Dec. 15, 1988	May 22, 1990	523 Days
Audio Cassette Tape	AD	Jan. 14, 1989	May 14, 1991	850 Days
				Average 714.1 Days

Source: KFTA (Directory of Import Restraints by Advanced Countries Against Korea), pp. 103-140.

Notes: IRE=Import Restraints. DI=Date of Initiation.

DFD=Date of Final Decision.

PI=Period for Investigation.

The average period for final decision of AD impositions in the EC is 714.1 days, which is far longer than 280 to 415 days in the United States, 245 to 285 days in Canada and 295 days in Australia.⁶⁶ Therefore, the prolonged period for final decision could be one obstacle to developing harmonious trade relationships between the EC and Korea.

There is also sometimes a doubt concerning the ultimate purpose of the initiation of AD procedures by the EC against Korea, considering the EC's heavy dependence on price undertakings⁶⁷ in the procedure. In the 1975-1992 period, the EC filed a total of 25 cases of AD complaints. Of the total cases, 18 cases received final decisions by the end of 1991. The number of cases, such as price undertakings and cases terminated without any suspicion to injury, among the total of 18 cases, numbered 11 cases, representing 64.7 per cent of the total. On the other hand, the United States received complaints totalling 26 cases of AD and CV duties investigations against Korea in the 1978-91 period. The United States actually began investigations for 24 cases among which the definitive AD duties were imposed on 11 cases. Therefore, the portion of cases which were terminated without any AD duties impositions was 54.2 per cent. The credibility of AD duties implementation mechanism in the EC was, thus, far lower than that in the United States.⁶⁸

During the 1975-1992 period, the EC terminated a total of five AD cases against Korea without any suspicion to dumping activities. The period for final decision for the cases of no injury was almost the same as that for all cases with 652 days.

Table I-8: Analysis of EC's AD Cases against Korea without Any Suspicion

Products	Type of IRE	DI	DFD	PI
Al-Clad Cookware	AD	May 23, 1985	Mar. 18, 1986	299 Days
Microwave Oven	AD	Dec. 18, 1986	Dec. 12, 1988	725 Days
Polyester Film	AD	Jan. 12, 1988	Jun. 15, 1991	1249 Days
Tungsten Products	AD	Dec. 15, 1988	Mar. 30, 1990	470 Days
Poly. Staple Fibre	AD	Mar. 31, 1990	Aug. 31, 1991	518 Days
			Average	652.2 Days

Source: KFTA (Directory of Import Restraints by Advanced Countries against Korea), pp. 409-424.

Therefore, Korean exporters suffer a unfair treatment from the EC despite the fact that they did not carry out

any unfair trading activities in case of those five cases. In addition, the long-time delays for final decision aggravated the financial damages of Korean exporters, caused by the withdrawals of orders from EC importers. Also, Korean exporters could not escape from being branded as unfair traders in the world's trading circle.

Furthermore, the constitutional and institutional frameworks in the decision making process in the EC have forced Korea to confront very tough import restraints in several sensitive sectors due to the coexistence of EC-wide protective measures along with restraints by member states, as seen in Table I-9. Especially, France has been imposing various quota restrictions against Korea despite the existence of EC-wide import restraints.

Table I-9: Concurrent Import Restraints by EC and Member States Against Korea

Sectors	EC-Wide Measure	Member States' Measure
Textiles	Textiles(MFA) Polyester Yarn(AD)	France: Silk Products (Quota) Recycled Long Textile Fabric (Quota) Italy: Synthetic Long Textile Yarn (Quota) Recycled Long Textile Fabric (Quota)
Clothing	Clothing(MFA)	France: Silk Products (Quota)
Electronics Products	CDP(AD) VCR(AD) Video Cassette Tape(AD) Color TV(AD) Audio Cassette Tapes(AD) Car Stereo Radio(AD)	U.K.: Color TV & B&W TV Sets (Quota) Music Center & Kits(Quota) France: Radio(Quota) Color TV(Quota) Electric & Electronics Equipment(Quota)

Source: KFTA(Directory of Imports Restraints by Advanced Countries against Korea), pp.103-172.

5-2-2-3. Countervailing (CV) Duties

Compared to the impositions of AD duties, the EC rarely used the imposition of countervailing (CV) duties. There has been no CV duty impositions in the history of EC-Korea trade. The United States has imposed only one case of CV duties against Korea so far. According to the Financial Times, "level of subsidies in the United States in 1991 was 0.5 per cent of GDP, compared to 1 per cent of GDP in Japan and 3 per cent in the EC."⁶⁹ Therefore, the relatively heavy dependence on subsidies in the EC could be a factor to restrain complaints of CV duty impositions against Korea, despite the fact that the Korean government strongly assisted domestic industries through various industrial policy instruments. Rather than the CV duty imposition, the EC adopted the principle of comparative reciprocity to open Korean market, i.e. the comparison of the degree of market openness in Korea to the United States with that to the EC.

5-2-2-4. New Community Trade Instruments

The EC has adopted in 1984 "the so-called 'New Community Trade Instruments,' intended as an immediate answer to unfair trading practices under the Community Regulation (No.3641). While GATT procedures tend to take much time, during which considerable and sometimes irreparable damage can be done, the EC can now retaliate faster: the ECC initiates actions through the new trade instruments upon which the Council has to agree within 30 days."⁷⁰ However, this instrument has rarely been implemented so far in EC-Korea trade. One reason is that the EC did not need to invoke the new measures because the EC efficiently responded against foreign penetration into the EC market through joint use of policy instruments at the EC-level and at the level of member states. The second one is the "lack of a consensus within the EC Council of Ministers to implement the instrument."⁷¹

In sum, a relatively lower CET level in the EC motivated the EC to implement the principle of comparative reciprocity as a yardstick for the measure of market openness in markets of its trading partners. The absence

of tariff policy instruments at the level of EC member states promoted individual EC member states to impose member state level quotas, in addition to EC-wide AD duties impositions and quotas. As a result, problems caused by industrial policies of individual EC member states were addressed by trade policy instruments on the level of EC member states as well as on the level of the whole Community.

5-3. Correlation between the Policy of Industrial Champions and Protectionist Tendencies in Member States of the EC

The results of EC policies have a direct influence on the EC-Korea trade relations. Especially, there are some differences according to the seriousness of the surplus production capacity in connection with protective measures by individual EC member states against Korea. Individual EC member states with a strong focus on national champions have not only initiated the greatest number of protectionist measures against Korea, but have also been instrumental in moving EC trade policy towards a more protectionist stance against Korea. For example, France and Italy are model cases for the promotion of national champions through nationalization of private industries and disbursement of large amount of national subsidies. The two EC member states represented 64 per cent (16 cases) of the total number of import restraints (25 cases) against Korea so far. Therefore, Korea's exports have been heavily dependent on Germany and the United Kingdom in EC member states, rather than France and Italy. For example, Korea's exports to five EC member states--the United Kingdom, Germany, Denmark, Belgium and the Netherlands--represented 71.2 per cent of the nation's total exports to the EC market, as seen in Table I-10.

Korea's exports to the EC rely particularly on the German market which took in 1991 32.8 per cent of Korea's total shipments to the EC. On the other hand, Korea's exports to France and Italy only represented 20.2 per cent of Korea's total exports to the EC. This has to be seen in

correlation with their share in the total number of import restraints by EC member states against Korea accounting for 64 per cent.

Table I-10: Korea's Exports to EC Member States(1991)

Countries	Exports(\$M)	Share(%) (A)	IRK (Number)	Share(%) (B)	Ratio(B/A)
U.K.	1,767	18.2	5	20%	1.09
Germany	3,192	32.8	1	4	0.12
France	1,127	11.6	13	52	4.48
Bel/Net	1,664	17.1	1	4	0.23
Italy	837	8.6	3	12	1.39
Denmark	304	3.1	1	4	1.29
Total	9,728	100.0	25	100	

Source: KFTA(Major Statistics of Korean Economy, 1992), pp.202-205.

Note: IRK=Import Restraints against Korea.

The EC's protectionism against Korea has been shaped by the EC's own problems in industrial and trade policies and unique characteristic of decision making process. However, Korea's far different policy in economic, political, social, cultural and moral aspects can not be disregarded in explaining determinants of protectionism in the EC-Korea trade. In the following chapter, therefore, I will analyse Korea's economic policy, decision making process, and impact of the policy and decision making process on determinants of protectionism in the EC-Korea trade.

Notes and References

1. Gilpin, Robert, *The Political Economy of International Relations* (Princeton, Princeton University Press, 1987), p.139.
2. Financial Times, "Say 'No' to Managed Trade," *Editorial of Financial Times* (June 7, 1993), p.13.
3. According to Andrew Moravesik, "EC politics is the continuation of domestic policies by other means: even when societal interests are transnational, the principal form of their political expression remains national. Thus, bargaining in the EC tends to converge toward the lowest common denominator of large state interests. For example, Germany and Britain were agreed on the need for liberalization, with weak support from France, while

Germany and France were agreed on the need for procedural reform, with weak support from Britain. Britain also became increasingly isolated as Mitterrand and Kohl repeated the threat of a two-tier Europe that would leave Britain without a say in the details of the new agreement." See Moravesik, Andrew, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organization* (Vol.45, No.1, Winter 1991), p.25 and pp.34-36. In addition, the French Prime Minister Edouard Balladur said "we have to build Europe with Britain and Germany but France has to make it clear that Europe moves forward faster with Germany." See Lambert, Sarah, "Joyless Dawn for European Union," *Independent* (Oct.29, 1993), p.11.

4. Bulmer, Simon, "Domestic Politics and European Community Policy-Making," *Journal of Common Market Studies* (June, 1988), p.354. A.A.Scott maintains "a feature of EC decision-making is that all of the countries could claim that they had gained something, reflecting the fact that membership of the Community is a voluntary thing that is entered into because everyone benefits. If this was not the case then the Community would cease to exist." See Scott, A.A., *European Studies* (London, Pitman Publishing, 1992), p.214.

5. Volkmar, Lauber, "The Political Economy of Industrial Policy in Western Europe," *The Economics and Politics of Industrial Policy* edited by Shull, Steven A. and Jeffrey E. Cohen (London, Westview Press, 1986), p.354. Even in the case of abolition of EC passport controls, "members of the Schengen Accord--named after the Luxembourg village where it was signed--have set and missed four further deadlines." See Hill, Andrew, "Abolition of EU Passport Controls Delayed Again," *Financial Times* (Jan.26, 1994), p.1.

6. Greenaway, David and Brian Hindley, *What Britain Pays for Voluntary Export Restraints?* (London, Trevor-Hobbs Limited, 1985), pp.29-30.

7. Scott, *op.cit.*, p.159.

8. For the comparison of industrial policy between France and the United Kingdom, see "Industrial Policy," by Daniels, Philip in *Power and Policy in Liberal Democracies* (Cambridge, Cambridge University Press, 1992) edited by Harrop, Martin, pp.123-149.

9. For industrial policy in Italy, see "Italy," by Sassoon, Donald, *Government and Economies in the Postwar World--Economic Policies and Comparative Performance, 1945-85* edited by Graham, Andrew and Anthony Seldon (London, Routledge, 1990), pp.104-123.

10. Lauber in Shull and Cohen, p.29. However, "agriculture and transport are two policy areas specially

mentioned in the Treaty of Rome. This means the 12 governments are legally obliged to have an EC-wide policy in these areas." See Scott, *op.cit.*, p.205.

11. Hitiris, T., *European Community Economics* (London, Harvester Wheatsheaf, 1991), p.208.

12. Taylor, Paul, "Intergovernmentalism in the European Communities in the 1970s: Patterns and Perspectives," *International Organization* (Vol.36, No.4, Autumn 1982), p.760.

13. Wallace, Helen, "Negotiation, Conflict and Compromise: The Elusive Pursuit of Common Policies," *the European Community* edited jointly by Wallace, Helen, William Wallace and Carole Webb (Chichester, John Wiley and Sons, 1989), p.46.

14. Regarding the limits of power by supranational institutions, Andrew Moravesik argues "policy makers safeguard their countries against the future erosion of sovereignty by demanding the unanimous consent of regime members to sovereignty-related reforms. They also avoid granting open-ended authority to central institutions that might infringe on their sovereignty, preferring instead to work through intergovernmental institutions such as the Council of Ministers, rather than the Commission and Parliament." See Moravesik, Andrew, *op.cit.*, pp.26-27. For example, "the EC legal system is not based on a solid institutional foundation. The sanctioning powers of the European Court are limited, and its decisions are supposed to be binding on national governments, but it can not enforce such decisions directly." See Garret, Geoffrey, "International Cooperation and Institutional Choice; the European Community's Internal Market," *International Organization* (Vol.46, No.2, Spring 1992), p.556.

15. Molle, Willem, *The Economics of European Integration--Theory, Practice and Policy* (Aldershot, Dartmouth, 1990), p.72.

16. Deborah Newton-Cook Coopers and Lybrand Europe (European Community Office), *the European Community: 1989 Review and 1990 Prospects* (Brussels, Cooper and Lybrand Europe, February 1990), pp.8-9. "Mr. Jacques Delors has been praised as the architect of the Single Market, but condemned as the engineer of a self-destructing timetable for European Monetary Union." See Barber, Lionel, "Delors Bloodies but Unbowed," *Financial Times* (Oct.29, 1993), p.3.

17. As of Oct.5, 1993, there is "ideas for streamlining the Commission to just 10 members, and similarly reducing the size of the European Court, floated in Paris and Bonn. Another key element is the further weighting of votes in the EC Council of Ministers between large and the smaller ones. The enlarged Community will reduce the ability of

the Big Three to prevent decisions they do not like." See Peel, Quentin, "Call to Speed Wider EC Talks," *Financial Times* (Oct.5,1993), p.3. Andrew Moravesik also emphasizes the incapability of supra-national institutions in EC's decision making. For example, EC's decision making process has been implemented by "accepting the lowest common denominator, backed by the threat of exclusion, rather than by supranational variables--European institutional momentum, transnational business interest group activity and international political leadership by Cockfield or Delor." See Moravesik, *op.cit.*, p.47.

18.Taylor, *op.cit.*, pp.761-762.

19.According to Andrew Moravesik, qualified majority voting in the EC had been limited in practice by the "Luxembourg Compromise," in which France unilaterally asserted the right to veto a proposal in the Council of Ministers by declaring that a vital or very important interest was at stake. The SEA expands the use of qualified majority voting in the Council of Ministers, although only on matters pertaining to the internal market. However, under the SEA Article 100(4), governments must inform the Commission to exercise veto right, which then determines whether a particular measure constitutes an arbitrary form of discrimination or a disguised restriction on commerce, rather than a legitimate form of derogation. This clause shifts the locus of conflict over the veto from ratification by the Council to implementation by each nation, and the final arbiters have changed to the Court and, to a lesser extent, the Commission--not the member states as under the Luxembourg Compromise now ultimately exempting a state from an EC decision." See Moravesik, *op.cit.*, p.20 and pp.43-44. In addition, "senior members of the EC Commission are political appointees of limited tenure (four years), and hence their governments may choose not to reappoint them if they do not act in their governments' interests. Furthermore, there is an implicit legitimacy constraint on the Commission. The Commission is pursuing a strategy of only slowly pushing forward the bounds of its authority because Commissioners are fearful that if they act too radically, the EC members might significantly curtail their power." See Garret, *op.cit.*, p.552. The position of individual EC member states in giving much power to EC Commission is very different. In connection with setting EC-wide targets by EC Commission programme for halting rising unemployment and promoting growth, "Britain, Germany and the Netherlands all voiced strong objections to these targets, pointing out that EC Commission had no legal instruments to fulfill them and that the levers of macroeconomic power still rested with member states. However, France, Italy and Spain were much less hostile." See Barber, Lionel, "Belgium to Push EU Growth Plan," *Financial Times* (Nov.26,1993), p.4.

20.Tsoukalis, Loukas and Antonio da Silva Ferreira, "Management of Industrial Surplus Capacity in the

European Community," *International Organization* (Vol.34, No.3, Summer 1980), p.374.

21. Wallace in Wallace, Wallace and Webb, p.45. Meanwhile, Geoffrey Garrett describes EC's decision making process as "iterated bargaining, resembling a 'divide the dollar' game between the Commission and France and Germany, in which the side that has the greater interest in achieving a compromise more quickly would have less influence on the outcome." See Garrett, *op.cit.*, p.552.

22. Helen Wallace criticizes DG's role in the EC Commission as "1) the allocation of responsibilities to DGs often does not correspond to the way in which member governments handle issues, 2) each DG has been jealous of its competence and often reluctant to cooperate with other DGs, even where there was an overlap of responsibilities, and 3) there are manifest discrepancies in the size of each DG and the political weight of individual Commissioners." See Wallace in Wallace, Wallace and Webb, *op.cit.*, p.59.

23. "No government gives anything away without something in return, so hard bargaining is common." See Scott, *op.cit.*, p.211.

24. Taylor, *op.cit.*, p.760. Lisa L. Martin indicates "multinational decision making will create problems for an organization attempting to determine members' budget contributions or to respond quickly to some exogenous crisis." See Martin, Lisa, "Interests, Power and Multilateralism," *International Organization* (Vol.46, No.4, Autumn 1992), p.772.

25. "With its small, efficient agricultural sector concentrated in areas not generously subsidized by the CAP, Britain gained little from the agricultural programs that comprise 70 per cent of the EC budget. At the same time, Britain was by far the largest per capital net contributor to the budget." See Moravesik, *op.cit.*, p.32. "Germany's net payments to the EC in 1992--ECU96 billion--were three times those of the next highest donor, Britain." See *Financial Times Editorial*, "A Less Easy Partnership," Oct.21, 1993, p.23. Germany's disproportionate share of the EC budget is due to its relative benefit caused by its budget contribution. For example, "much of its budget contribution went to France in the form of subsidies to its relatively efficient agricultural sector, in exchange for market liberalization for industrial goods, in which Germany enjoyed a comparative advantage." See Moravesik, *op.cit.*, p.55. Germany's own net contribution to the EC budget increased sharply by "127 per cent to DM23.413 billion in 1993 from DM10.313 billion in 1987, and is forecast to reach DM25 billion in 1995." See Peel, Quentin, "Britain Unites German Parties," *Financial Times* (Jan.25, 1994), p.2.

26. There are many examples explaining disputes between poor (small) and rich (large) member states in the EC. On Sept. 29, 1993, France and Germany prepared a draft proposal to strengthen the position of big powers in the EC. Among major proposals are "1) a voting system in the Council of Ministers requiring both a majority of member states and a majority taking into account their populations--condition that would strengthen unified Germany, and 2) a maximum 10 member European Commission to be selected by the Commission President from nominees by member states, and approved by both the European Parliament and the Council of Ministers." See "France and Germany Prepare for Big Powers," *Financial Times* (Sept. 29, 1993), p. 3. However, Portugal and Spain argue "the Community can't function in the same way with 16, including Finland, Norway, Austria and Sweden, as it did with 12, and this is not a convenient time for great institutional changes. On the other hand, Britain has argued that the rotation of the presidency of the EC should be changed to ensure that the troika of present, previous, and succeeding presidents should not be dominated by a series of small countries or by countries from the same geographical area." See "Warning Against Early EC Reform," *Financial Times* (Oct. 26, 1993), p. 2.

27. Data from Van Bael and Bellis law firm in Brussels.

28. Messerlin, Patrick, *Anti-Dumping Laws and Developing Countries* (Washington D.C., World Bank, 1988 July), p. 33.

29. Hill, Andrew, "Brittan Wants Larger Anti-Dumping Unit," *Financial Times* (Nov. 4, 1993), p. 5.

30. Tsoukalis and Ferreira, *op.cit.*, p. 373.

31. Tsoukalis and Ferreira, *op.cit.*, p. 355. Ad Koekkoek, Arie Kuyvenhoven and Willem Molle also argue "the recent accession of the three Southern European countries to the EC will add to protectionist interests and pressures within the EC, especially in sectors relevant to developing countries." See "Europe 1992 and Developing Countries: An Overview," *Journal of Common Market Studies* (Vol. 29, No. 2, December 1990), p. 127.

32. Hitiris, *op.cit.*, p. 296.

33. Hudson, Ray and David Sadler, *The International Steel Industry--Restructuring, State Policies and Localities* (London, Routledge, 1989), p. 30.

34. "American corporations, eager to maintain access to a relatively closed yet growing market, began to make massive investments in Western Europe largely as a response to the formation of the European Common Market and the subsequent erection of a Common External Tariff." See Gilpin, *op.cit.*, p. 233.

35. Creasey, Pauline, *Structural Adjustment in Europe--Public Policies and the Creation of European Industries*(London, Pinter Publishers, 1987), p.3. However, "European maze of regulations and protectionist policies imposed excessive costs on newcomers and confined them to small domestic markets. The fact that government programmes and procurement practices were thought to favour large, well-established firms only exaggerated this bias." See Ballance, Robert, "European Economic Restructuring--Retrospect and Prospect," *European Industrial Restructuring in the 1990s*, edited by Cool,Karel, Damien J.Neven and Ingo Walter (London, MacMillan, 1992), p.25.

36.Lauber in Shull and Cohen, *op.cit.*, p.30.

37.Woolcock, Stephen, "Adjustment in Western Europe," in *the Newly Industrializing Countries:Trade and Adjustment* edited by Turner, Louis and Neil McMullen (London, George Allen and Unwin (Publishers) Ltd., 1982), p.223.

38.Tsoukalis and Ferreira, *op.cit.*, p.376.

39."Positive and forward looking industrial policy is to assist the process of structural change either by promoting new industries and high technology or by helping old ones to restructure. Negative industrial policies is to slow down, or even prevent the process of structural change or, more bluntly, to keep declining sectors alive through artificial respiration." See Price, Victoria Curzon, *Industrial Policies in the European Community* (London, Trade Policy Research Center--The MacMillan Press Ltd., 1981), p.18.

40. Turner, Louis, "Western Europe and the NICs," in *the Newly Industrializing Countries: Trade and Adjustment* edited by Turner, Louis and Neil McMullen (London, George Allen and Unwin (Publishers) Ltd., 1982), p.225.

41.Major reasons for the Single European Market are "significant improvement in aggregate economic performance accruing from reduced transaction costs and the logic of comparative advantage and economies of scale, in addition to a necessity to develop internal market as a device for creating new and ingenious forms of protection (the "Fortress Europe" so feared by Japanese and American firms). Especially, there is a clear phenomenon that an interest of a specific country has been dominating the process of adopting proposals of the Single Market. For example, of the directives that passed, those which have significantly decreased the autonomy of national governments--and hence were likely to generate the most opposition in the Council of Ministers--have tended to accord with the preferences of the most powerful member states, especially Germany. Also, it has been assumed that France, Germany and the Benelux countries would support all Commission proposals as long as they were marginally closer to the preferences

of these countries that was the status quo." See Garret, *op.cit.*, pp.539 and 552. Followings are lists of major EC political parties against the EC integration.

EC Countries	Opposition Parties	Opposition Areas
Britain	Labour Party	Economic Liberalization
Germany	Greens	
France	Communist Party	
	Radical Socialist	
Britain	Thatcherite Wing of Conservative Party	Dilution of National Sovereignty
France	The Gaullists	
	The Party of Jean-Marie Le Pen	
Germany	Republicans	

As a result of divisions in opinions on EC integration, "the SEA had to navigate a narrow passage between the Scylla of Far Left opposition to economic liberalization and the Charybdis of Conservative opposition to institutional reform." See Moravesik, *op.cit.*, p.52.

42. Palmer, John, *Trading Places* (London, RADIUS, 1988), p.12.

43. "The EC Commission proposed fourth EC Research and Technological Development Framework Programme (1994-1998) totaling ECU13.1 billion, of which ECU3.9 billion (35.7 per cent) is for supporting information and communications technologies and ECU 1.8 billion (16.5 per cent) for industrial technologies." See Hill, Andrew, "R&D in a Tussle over EC Funding--Member States Have a Contradictory Approach Towards the Next Five-Year Spending Plan," *Financial Times* (Oct.26, 1993), p.16. In addition, "a target of 3 per cent of GNP is to be spent on research and development, according to the latest draft of the white paper on competitiveness, growth and employment. See Barber, Lionel and David Gardner, "Delors Jobs Optimism," *Financial Times* (Oct.27, 1993), p.2.

44. Lauber in Shull and Cohen, *op.cit.*, pp.37-40.

45. Tan, Joyce and Jacques Pelkmans, "Bilateral Trade Relations between Korea and the EC," in *the Economic Cooperation between EC and Korea: Problems and Prospects* edited by Min, Chung Ki (Seoul, Korea Institute for International Economic Policy, 1991), p.98.

46. Molle, *op.cit.*, p.287.

47. "EC's trade policy aim is to obtain the most advantageous conditions for trade. This means, for example, providing exporters with the best possible conditions of access to foreign markets, ensuring that needed imports are available on secure and advantageous terms, and protecting strategies or otherwise favoured

industries which are vulnerable to import conditions." See Hine, R.C., *The Political Economy of European Trade--An Introduction to the Trade Policies of the EEC* (Sussex, Wheatsheaf Book Ltd., 1985), p.46.

48.Price, Victoria Curzon, *Industrial Policies in the European Community* (London, The MacMillan Press Ltd., 1981), p.37.

49."If the EC system of preferential trading arrangements is to be maintained, it seems reasonable to assume that trade diversion and suppression will be more relevant for advanced LDCs, and less so far the least developed." See Koekoek, Kuyvenhoven and Molle, *op.cit.*, pp.123-124. Israel also expressed a dissatisfaction about EC's preference to its trading partners. Namely, "Israel is calling for equal terms in textile trade to those enjoyed currently by east European and Maghreb states. An Israelic official said sometimes it seems to us that Europe wants to give birth without having any pains." See Ozanne, Julian, "Israel Seeks a Better Deal from EC--Improved Terms Wanted for Farm and High-Tech Products," *Financial Times* (Oct.29, 1993), p.8.

50.McAleese, D., "External Trade Policy," in *the Economics of the European Community* edited by El-Agraa, A.M. (Herfordshire, Philip Allan, 1990), p.422.

51.Pelkmans and Tan in Min, *op.cit.*, pp. 67 and 69.

52.Molle, Willem, *The Economics of European Integration*(Aldershot, Dartmouth, 1990), p.443.

53.The EC's official request, however, has been made, based on comparative reciprocity asking for the same treatment by Korea to the EC companies as that to the U.S.companies.

54. Molle, *op.cit.*, p.455.

55.Meeting technical standards in the EC is another problem for developing countries to export their products to the EC market."This leads to wonder where the legitimacy of standards end and protectionism sets in. Imposing the standards valid for a developed country on a Third World country amounts, in fact, to protectionism." See Emmerij, Louis J., "Europe 1992 and the Developing Countries:Conclusions," *Journal of Common Market Studies* (Vol.29, No.2, December 1990), pp.249-250.

56.Price, *op.cit.*, p.21.

57."A quota had the added attraction that it fixes import volumes regardless of the vagaries of exchange rates. The rising number of quota agreements have had in this way a damage limitation purpose." See Tussie, Diana,"Trading in Fear? U.S.Hegemony and the Open World Economy in Perspective" *New International Political Economy* edited

by Murphy, Craig N. and Roger Tooze (Boulder, Lynne Rienner Publishers, 1991), pp. 89-90.

58. Strictly speaking, EC's import restraint against Korean canned mushroom initiated on May 26 in 1975 when EC put Korean canned mushroom on the list of items which need import permission from the EC. The establishment of annual quota restriction by the EC has been effective since February in 1980. In case of iron and steel products, the EC began to strengthen import surveillance mechanism against imports of Korean products on Sept. 13, 1979. The official implementation of VER against Korean iron and steel products was also started in October, 1980.

59. Preusse, Heinz Gert, "Voluntary Export Restraints--An Effective Means Against a Spread of Neo-Protectionism?" *Journal of World Trade* (Vol. 25, No. 2, April 1991), p. 5.

60. Pelkmans and Tan in Min, *op.cit.*, pp. 72-73.

61. According to Articles 113 and 114, when an agreement with third countries need to be negotiated, the ECC shall conduct these negotiations and the Council of Ministers shall conclude the agreement.

62. For the AD policy implementation, the EC first considered the possibility of substitution between AD, Art. 19 safeguards and VERs. If there were no settlements of trade disputes, the EC carried out to impose AD duties. For knowing interrelationships among AD duties, safeguards and VERs, see Hoekman, Bernard M. and Michael P. Leidy, "Dumping, Anti-Dumping and Emergency Protection," *Journal of World Trade* (Oct. 1989), pp. 27-44.

63. For knowing about major benefits of informal agreements, see Lipson, Charles, "Why are Some International Agreements Informal," *International Organization* (Vol. 45, No. 4, Autumn 1991), pp. 514-521. He quotes rationales for informal agreements as speed and obscurity, and uncertainty and renegotiation.

64. Greenaway and Hindley, p. 52. Financial Times criticises EC's AD policy that "Brussels' AD procedures are so obscure, arbitrary and elastic that they can be used to find that almost any third country exporter is guilty of unfair price competition and punished accordingly." See Financial Times Editorial, "Dumping," *Financial Times* (Feb. 10, 1994), p. 21. However, there is a different view. According to Marcel F. van Marion, "any comparison between the costs of American or European firms and those of Japanese firms--as has been made by MITI--is useless because Japanese purchasing prices are not incurred in the ordinary course of trade according to the Western definition." See Marion, Marcel F. van, *Liberal Trade and Japan--The Incompatibility Issue* (Heidelberg, Physica-Verlag, 1993), p. 125. David Dodwell argues "lawyers are the principal beneficiaries of the

expensive anti-dumping suits that have proliferated in the United States and the EC, and spread to developing countries in recent years." See Dodwell, David, "Struggle on Dumping Rules Nears Climax," *Financial Times* (Dec.9,1993), p.6.

65.Tan and Pelkmans in Min, *op.cit.*, p.110.

66.As of November 4,1993, the EC Commissioners approved plans to introduce a nine-month deadline for the imposition of provisional anti-dumping duties, give consumers a greater say in cases, and separate dumping and injury investigations, along with measures to change procedures for voting on anti-dumping decisions." See Hill,Andrew, "EC Prods Tokyo Over Competition," *Financial Times* (Nov.5,1993), p.8.

67.The price undertakings can be assumed as an alternative method to evade the difficulties in finding any causal links between dumping margins and injury. Therefore, these measures are certainly considered to be included in cases terminated without any suspicion of dumping activities.

68.Peter Sutherland, director-general of the GATT, criticized "the EC and U.S.have to recognize that purely domestically enforced AD rules without any oversight or objective control is a slippery slope to unilateralism and the law of the jungle." See Jackson, Tony, "Chaos if Uruguay Rould Fails," *Financial Times*(Nov.16, 1993), p.8.

69.*Financial Times*, "Clinton Aide Mulls Options for Activism," Nov.26, 1992, p.5.

70.Molle, *op.cit.*, p.446.

71.Buchan, David, "EC To Push Japan Over Tariff Cuts," *Financial Times* (May 18,1993), p.2.

Chapter II. Korea's Economic Policy and Its Impact on Determinants of Protectionism in EC-Korea Trade

A Brief Summary of Chapter II

Problems of Korea's industrial policy contributed to the worsening trade disputes in trade with the EC. The *Chaebol*-dominant industrial structure made the EC feel the industrial damages, caused by Korean exports, more seriously. Also, Korea's industrial policy, fostering several specific industries, resulted in such fact that the nation's exports were concentrated on several items and finished products, rather than a wide variety of items and parts, creating inter-industry trade structure in trade with the EC. On the other hand, the heavy dependence on Japanese capital and technology for the industrial development also provoked a conception in the EC that Korea has been giving industrial damages to the EC industries because Korea has similarities in export pattern and strategy with Japan and Korea's exports were made with a time lag following Japanese exporters.

In addition, Korea built its ground for industrial development through very aggressive trade policy incentives for Korean exporters--financial supports such as credit favors and tax exemption, systematic support such as management of foreign exchange, and institutional supports such as establishment of industrial zones, export promotion organizations (KOTRA and KFTA) and GTCs, and other non-quantifiable supports such as set-up of annual export target and holding of the Monthly Export Promotion Meeting. Along with the support of the government, Korean exporters were safe from foreign challenges because of tariff protection for manufactured goods from foreign countries, protection for service industries and various government initiatives to reduce consumption of foreign products. These various government measures were enough to make Korea be branded as a neo-mercantilist policy-oriented country, and to provoke many trade disputes between the EC and Korea in a viewpoint

that the EC is relatively open, compared to the Korean market, for exports of Korean products.

Meanwhile, the executive-dominant decision making caused much corruption in government officials and raised financial burden of Korean companies, resulting in an increase in the cut-throat competition between Korean exporters in order to expand export value, leading to dumping activities. Also, the flexibility in decision-making--such as changes in requirements for GTC and changes in level of export records for credit and tax favors--also resulted in destructive competition among Korean exporters in foreign countries. The pragmatism and particularism of the decision making process also contributed Korea being branded as strong on industrial policy implementation. Emphasis of government supports to big-sized companies widened a gap between large business conglomerates producing finished products and small companies manufacturing parts. Therefore, Korea's export pattern was standardized as finished products-centered trade. Issues and problems of Korea's decision making process directly contributed to the EC-Korea trade disputes through two causal chain relationships. One is executive dominance and flexibility in decision making and frequent changes in the level of export records for tax and credit benefits. These caused cut-throat competition among Korean exporters, dumping activities and EC-Korea trade disputes. Another is pragmatism and particularism in decision making and intensive support to big-sized firms producing finished products. These caused relative sluggishness in production of parts by small-and medium-sized firms, exports centered on finished products, inter-industry trade structure and increases in EC-Korea trade disputes.

1. Introduction

This chapter examines the issues and problems of Korea's industrial and trade policies, as well as the impact of Korea's decision making process for the implementation of those policies. Korea's industrial and trade policies are

different from those of the EC. The EC's industrial and trade policies aim at postponing industrial structure adjustment and protecting declining industries from foreign threats. However, Korea's industrial and trade policies have been concentrating on fostering specific industries such as textiles and clothing, iron and steel products and consumer electronics products while at the same time protecting them from foreign competition. Since the same industries have attracted particular attention in the EC as shown above, it is not surprising that trade disputes center on these products.

2. Issues and Problems of Korea's Industrial Policy and EC-Korea Trade

2-1. Issues in Korea's Industrial Policy

Korean industrial policy does not only have different goals from the EC's industrial policy, but also operates against a different economic, political, social and cultural background. It is therefore not surprising that these different circumstances are an important factor in explaining the disputes in the EC-Korea trade relationship on the Korean side. As a result, it is necessary to provide a short overview over Korea's industrial policy in the postwar period and link it to the specific trade disputes between the EC and Korea.

Korea's industrial policy changed from import substitution and the development of light manufacturing products in the 1953-1961 period, to export-led industrial development of labour intensive products in the 1962-1971, to export-led industrial development policy of labor-intensive products plus import substitution policy of heavy and chemical products in 1972-1981 and to structural adjustment period in 1982-present.¹ Major issues of Korea's industrial policy occurred in accordance with the changes in direction of industrial policy implementation.

"From the end of the Korean War to the early 1960s, the government emphasized reconstruction. The major purpose of industrial strategy was aiming at import substitution

in light manufacturing industries."² At this period, there were no official economic development plans and major interest of leadership was concentrated on political matters, not economic development. Also, the influence of Korea in international trade was minimal during this period. Therefore, issues in Korea's industrial policy, which could cause EC's protectionism against Korea, is not to be found in this period.

However, the possibilities of trade disputes between the EC and Korea began to emerge with the adoption of an export-led industrial development policy by the Korean government, following a military coup in 1961. Also, this period represents a milestone to set up the official five-year economic development planning since 1962.

For this export-led development policy, the Korean government provided tax and credit benefits to a handful of big-sized companies, initiated government-led export promotion projects and suppressed labor movement, which enabled Korea to maintain international price competitiveness in the world market.

Furthermore, "beginning in the late 1960s and accelerating after 1973, the Korean government adopted again an import substitution strategy for the development of heavy industry, including steel and non-ferrous metals, chemicals and petrochemicals, machinery, automobiles, and shipbuilding."³ However, the premature implementation of policies for heavy and chemical industries promotion created serious problems in Korea.⁴ For example "Korea's manufacturing structure has some deformed factors where the proportion of middle industries which connect very labor intensive sectors to such heavy industries appears to be relatively small."⁵ As a result, Korea had to heavily depend on imports of foreign-made intermediate products.

In the 1980s, Korea's industrial policy direction moved to the promotion of high-technology industries such as the electronics sector. Such policy change was generated by crises in labour-intensive industries in Korea due to

the weakening price competitiveness of Korean products. However, the policy direction also made Korea heavily depend on foreign technology and parts for the manufacture of finished products. Furthermore, Korea came under pressure to liberalize its economy due to the principle of reciprocity demanded by major trading partners such as the United States.

The issues in Korea's industrial policy can be summed up as 1) strong export-led development policy implementation through provision of intensive tax and credit benefits to several big conglomerates, 2) centralized and authoritarian decision making for the economic development through export promotion, and 3) suppression of labor movement to maintain cheaper wage level, 4) an artificial manipulation of international price competitiveness through low environmental standards (ecological dumping), and 5) heavy dependence on imports of foreign intermediate products for the premature achievement of heavy and chemical industry development projects. The strong export-led development policy raised Korea's dependence on the United States with its largest share in exports to the United States market. The authoritarian decision making, suppression of labor movement and neglect of environmental issues caused strong alert and negative repercussion from major trading partners in advanced countries. The premature achievement of heavy and chemical industry development projects also raised its dependence on Japan through its heavy dependence on imports of intermediate products from the neighboring country. Therefore, the issues raised in Korea's industrial policy are closely related to the background of EC's protective measures against Korea.

2-2. Chronological Analysis of Korea's Industrial Policy

2-2-1. Before 1961--Period of Reconstruction through Import Substitution

This period encompasses the period between 1948, when the Korean government was officially established after liberation from Japan, and 1961 when Park's military coup

occurred. During the reconstruction period after the Korean War, the Korean government limited imports to help import substitution industries. Along with high tariff barriers, the government employed restrictive measures on a wide scale. According to Edward Mason,⁶

the industrial development that took place during the period of Rhee (the first President of Korea for the 1948-1960 period) government was mainly concentrated on non-durable consumer goods. For the years, 1960-1961, food, beverage, tobacco, textiles, clothing and footwear accounted for nearly 70 per cent of total manufacturing output.

However, the share of manufacturing in total GNP by industrial origin remained at only 13.8 per cent in the period. On the other hand, the share of primary sector reached at 39.9 per cent and service sector at 41.0 per cent in the period. Therefore, the contribution of the manufacturing sector in the national economy in the period was meaningless.

In the year of 1960, Korea's major exporting markets among present EC member states were the United Kingdom (the nation's fourth largest market with \$1.9 million), Belgium (fifth largest with \$1.7 million) and Germany (sixth largest with \$0.6 million). The combined total import figure of the three EC member states was \$4.2 million, accounting for 13.2 per cent of total Korea's exports in the year. In contrast to the export trend, Korea imported far higher amount of commodities from EC member states, reflecting the Korean government's import substitution policy which increased demands for major equipment for the implementation of the policy. Germany was the third largest exporter to the Korean market with \$41 million in 1960, Italy fourth largest with \$11 million and the United Kingdom the sixth largest with \$9 million. Their total exports amounting to \$67 million accounted for 20.3 per cent of Korea's import total of \$329 million in the year. That was 15 times higher than \$4.2 million imported by the United Kingdom, Germany and Belgium for the year.⁷ Therefore, the pre-1961 period can be called a trade surplus period in favor of the EC

member states. Also, Korea's import substitution policy--heavily depending on exports of primary goods and import substitution of light industrial products--did not provoke any trade disputes between the EC and Korea. For example, Korea's 10 largest export items in 1961 were all from primary goods--iron ore, tungsten, raw silk, anthracite, cuttlefish, livefish, graphite, plywood, rice and pig wool.⁸ Also, the world-wide growth of demand and economic boom in the 1950s contributed to peaceful trade relations between the EC and Korea.

2-2-2.1962-1971---Takeoff Period through Export-Led Development

Throughout this period, the Korean government pursued two rounds of five-year economic development plans(1962-66 and 1967-71).Kyoung-Hwie Mihn points out:⁹

The industrial policy of the first plan was for import substitution of non-durable consumer goods and industrial raw materials and intermediate goods with prime objectives put on the construction of basic industries and the provision of social overhead capital.

Even though the first plan was evaluated as a rough-and-ready measure because it was prepared in a hurry by the military government, it had significance in various fields. According to Leroy Jones and Il SaKong,¹⁰

firstly, the first plan showed the people that the government was seriously committed to the nation's development. Secondly, rather inexperienced political leaders and government officials began to appreciate the complexity of the planning process and gained useful experience for the future. Thirdly, the overachievement of growth targets during the later period also started building self-confidence on the part of both the people and economic policy-makers.

In the 1961-66 period, the nation's growth rate of industrial sector averaged 15.42 per cent, as compared to the growth rate of the primary sector which remained at 5.4 per cent.

On the other hand "the government's industrial development objective in the second five-year development period was to lay the ground for self-reliant industries

in the sectors of iron and steel, machinery, electronics and automobiles, along with petrochemical which was a priority industry also in the first plan."¹¹ At this time, the Pohang Iron and Steel Company (POSCO) and the petrochemical complexes at Ulsan were constructed.

"The most important instrument for implementing the government industry-specific objectives were 'policy loans.' In a country with the supply of domestic saving falling perennially far short of the demand, the possibility to get access to bank lending was in itself a privilege because the borrowing cost in the non-institutional private market was penally higher than the commercial bank rate."¹² "The subsidized loans constituted about half of total bank loans over the 1970s and carried nominal interest rates of around 10-15 per cent. If inflation will be considered, real interest rates were close to or less than zero."¹³

For the support of specific industries in concrete ways, the government adopted legislative measures in the latter half of 1960s. These legislations were aimed at machinery and shipbuilding (both March in 1967), electronics (January in 1969), iron and steel, and petrochemical (both January in 1970), and non-ferrous metals(1971).¹⁴ These laws account to a considerable extent to the fact that electronics products, ships, steel products, petroleum products, and general machinery were included in the top ten export items in 1970s-1990s. This strong government involvement is referred to as neo-mercantilist policy in the IPE literature.

In 1970, Germany, France and the United Kingdom were among the top ten import markets for Korea with an import value of \$67 million (third largest), \$52 million (fifth), and \$33 million (ninth), respectively, totaling \$152 million. In contrast, Korea only exported \$27 million worth of commodities to Germany (fourth largest export market), \$14 million to the Netherlands (sixth) and \$13 million to the United Kingdom(seventh), totaling \$54 million.¹⁵ Major export items of Korea in 1970 were

textiles, wigs, electronics products, footwear, iron and steel products and metallic products. Compared to export items in 1960, the ten largest export items were mainly from manufactured products.

In the 1960s, industrial policy in the EC was very limited. Since Korea's share in the world's exports was no more than 0.21 per cent in the 1960s, there was no clash between the EC's industrial policy and Korea's export-led neo-mercantilist policy approach. However, "Korea had completed or was underway the construction of the basic industries such as steel, fertilizer, cement, oil refining, and electricity and the social infrastructure such as highways, harbors, and irrigation facilities by 1971. Thus, Korea had transformed its industrial structure from an agriculture intensive industry to a manufacturing-centered economy."¹⁶ These efforts laid, however, the foundation for future trade disputes.

2-2-3. 1972-1981--Industrial Deepening Period

The ten-year period from 1972 comprises the nation's third and fourth five-year economic development plans. In the third five-year plan period (1972-1976), "a great effort was done to prepare domestic savings to finance the heavy and chemical industries drive, but the amount of domestic savings fell far short of investment requirements. Thus, foreign borrowings expanded enormously, and management of foreign borrowing and debt emerged as a major policy issue."¹⁷

Major policy directions included in the fourth five-year plan period (1977-1981) were to reach self-sufficiency in investment capital, to achieve a balance of payments equilibrium, and to promote industrial restructuring and international competitiveness.

During this period, the Korean government continued to provide tax and credit benefits to specific industries, along with the aggressive introduction of foreign capital for the development of those industries.¹⁸ Therefore, six strategic industries--steel, non-ferrous metals, shipbuilding, machinery, electronics and chemicals--

received very strong discriminatory favors from the government.

Along with these aggressive government preferences, the targeted industries were receiving strong protection as infant industries with high import tariffs and various import restrictions. "Thus, in 1978, the effective rate of protection, including tariffs as well as tariff equivalents for NTBs, but no domestic subsidies, for them was 72.8 per cent, whereas that of light industry was merely 7.8 per cent. The effective rate of protection for transportation machinery, electrical machinery, and chemical processing products exceeded 100 per cent."¹⁹

The strong government support for specific industries and the complete protection of the domestic market in these industries against foreign imports raised the international competitiveness of Korean products dramatically. Especially, electronics products, ships, steel products, general machinery and chemicals have become the top ten export items of Korea since the mid-1970s. As a result, Korea began to enjoy a trade surplus with the EC since 1973. Korea had been recording a trade deficit with the EC until 1972.

In its trade with Korea, the EC accumulated a trade surplus of \$517 million in the 1960-1969 period. However it reversed to a trade deficit of \$1,805 million in the 1970-1979 period and the figure further widened to \$11,321 million in the 1980-1989 period.²⁰

2-2-4. 1982-Present--Industrial Structure Adjustment Period

This period includes the fifth (1982-1986) and sixth (1987-1991) five-year economic development plans. During this period, the world-wide trading environment had become detrimental to Korean economy.

Firstly, Korea's industrialization strategy, depending upon exports of cheap-labor products, began to lose its competitive strength due to the emergence of cheaper labor countries and growing protectionism in advanced countries against Korean products. Chung-H. Lee argues:²¹

Industrialized countries began to lose their comparative advantage in many of their traditional manufacturing industries and grew more protectionist. Furthermore, developing countries such as China and Southeast Asian countries, implemented their rapid industrialization, specializing in the production of low-skilled, labor-intensive items. Korea, sandwiched between them, needed to change its industrial structure.

Secondly, Korea's industrial policy with an emphasis on specific industries began to lose its advantage because of economic inefficiencies from the artificial allocation of resources to those industries and the small portion of intermediate industries between large-and small-sized industries. Kyoung-Hwie Mihn points out:²²

The Korean economy has grown so much in size and complexity that the industrial policy of the past, based largely on preferential support of selected industries and partly on the protection of the home market from foreign competition, resulted in both resource-allocational inefficiencies and imbalance among industrial subsectors and between large and small firms.

As a result, Korea's dependency on foreign imports of intermediate products caused an instability in the national economy.

Thirdly, Korea's authoritarian regime has been gradually changing to a more democratized society. This change was accompanied by a strengthening of the labour movement in Korea. Labour cost increased rapidly in the midst of such social change. Namely, Korea's labour cost in manufacturing rose to 594,000 won (₩457) per month in 1989 and to 746,000 won (₩574) in 1990 from the only 259,000 won (₩199) in 1982.²³ Therefore, Korea's industrial policy of suppression of labour movement and labour costs became no longer sustainable. In the midst of such external and internal challenges, the government rapidly reduced its intervention and encouraged private-sector initiatives through a series of tariff reduction programmes, a reduction of subsidies and quotas, and an opening of service and financial markets in order to strengthen free market forces in the Korean economy. Also, "extensive import liberalization measures were

adopted to reduce the average tariff rate to 13 per cent by 1989. The average tariff rate was forecast to fall further, to about 8 per cent by 1993."²⁴ However, the liberalization measures were not so helpful in reducing the growing trade disputes between the EC and Korea. For example, the number of EC's import restraints against Korean exports totaled 13 cases in the 1990-1992 period, as compared with 14 cases in the 10-year period in the 1980s, as seen later in Chapter III.

During this period, Korea's major export items have been textiles and clothing, electronics products, iron and steel products, general machinery, motor vehicle, ships, chemicals and footwear. The EC became the third largest export market for Korea, after the United States and Japan. Korea has been maintaining a continuous trade surplus with the EC since 1973. In the period of 1960-1990, Korea exported a total of \$62,748 million worth of commodities, while imports remained at \$49,684 million, leaving \$13,064 million in trade surplus on an accumulated basis in favor of Korea. The trade surplus figure compared with \$57,935 million trade deficit which Korea suffered in the same period in trade with Japan.²⁵ Even though the total trade volume between the EC and Korea was relatively low, compared to the U.S.-Korea, and Japan-Korea trade figure, trade disputes with the EC recorded the highest level since the 1980s.

2-3. Problems Arising From Korea's Industrial Policy

The Korean government's industrial policy caused many problems in the internal and external sphere.

2-3-1. Internal Problems

Firstly, the Korean government's industrial policy to support several large conglomerates distorted industrial structure--the small portion of intermediate industrial sectors. The necessity to protect the large companies caused very heavy protective measures against foreign imports. According to Edward Mason,²⁶

cheap bank loans were mostly concentrated in a few big companies called Chaebol (Korea's several big conglomerates equivalent to Japan's Zaibatsu). Hyper

inflation, shortage of supply, high import tariffs and import restrictions, protected Chaebol's monopoly prices and the domestic tax structure were all favorable for Chaebol.

Secondly, the premature promotion of heavy and chemical industries created a chronic shortage of development funds and a dependence on foreign capital. Namely, "Korea virtually jumped directly from the early industrial development stage (such as foods and textiles) to more advanced stages (such as machinery, metal products, and printing and publishing) as a result of the government-driven expansion of advanced industrial sectors in the 1970s."²⁷ For the premature implementation of heavy and chemical industries, Korea heavily depended upon financial resources from abroad because domestic savings were far short of the level needed.²⁸ It made Korean economy very unstable, vulnerable to changes in the international environment.

Thirdly, "as heavy and chemical industries grew in the 1970s, the gap between large and small firms expanded and emerged as a new economic and political issue."²⁹ Also, it contributed to make Korea's industrial structure less flexible because of the sluggishness of business activities by small-and medium-sized firms.

2-3-2. External Problems

The three internal problems contributed to 1)a heavy trade deficit with Japan, 2) a heavy dependence of the nation's exports on several items, and 3)a heavy dependence of the nation's exports on *Chaebols*.

Firstly, Korea heavily relied upon Japan for its heavy and chemical industry promotion project as it was achieved with equipment and technology from Japan.³⁰ This became one of the major reasons for Korea's perennial trade deficit with Japan. Also, Korea followed in the steps of Japan's industrial development with a time lag, which accounted for the accusation that Korea was a "Second Japan."

Secondly, as a result of promoting and fostering several strategic industries, the destiny of Korea's foreign trade performance heavily depended on shipments of

several items such as electronics products, iron and steel products, ships, general machinery, etc. This makes Korea very vulnerable towards the whims of the international markets in these product ranges.

Thirdly, the *Chaebols*³¹ account for the lion's share of the nation's exports. Therefore, their export performance dominates the nation's economy. For example, the export share of large-sized companies in the nation's total exports reached 80 per cent in 1983 of which that of General Trading Companies (GTCs) accounted for 50.5 per cent. This circumstance makes Korea liable to trade restrictions by foreign countries because these big-sized Korean companies are considered to cause conspicuous industrial damages to them. In the EC market, Taiwan in which small-and medium-sized companies are preponderant, is well known to have successfully avoided trade restraints from the EC. That is certainly one of the advantages of Taiwanese companies in competition with their Korean counterparts in the EC market. In addition, Taiwan's export items to the EC market are mostly parts, rather than finished products. This is in contrast to Korean firms which usually provide finished products to the EC market, rather than parts in trade with the EC member states.

In sum, the trade trend between the EC and Korea is evaluated by the EC authorities as a result of Korea's strong government involvement and protectionism in specific industries. Reflecting this perception, Korea-EC trade conflicts began to rise since 1972 and intensified in the 1980s. As we have seen in Chapter I, the problems of EC's industrial policy began to be exposed in the 1970s with world-wide business recession as a momentum. However, the problems of Korea's industrial policy began to be exposed in the 1980s with new protectionism (proliferation of NTBs worldwide) and emergence of new cheap labor cost countries externally, and democratization and strong labour movement internally as a momentum.

3. Issues and Problems of Korea's Trade Policy

The analysis of issues and problems of Korea's trade policy is needed for examining the impacts of Korea's trade policy on the EC's protective measures against Korea. In case of Korea, the issues and problems in trade policy were caused by neo-mercantilist industrial policy implementation.

3-1. Issues in Korea's Trade Policy

According to Kyung-Hwae Mihn, "as a legitimate branch of industrial policies, trade and exchange rate policies in Korea are sector-specific industrial policies."³² Therefore, Korea's industrial policy is closely interconnected with trade policy and it is not easy to distinguish trade policy from industrial policy. However, Korea's trade policy can be divided into policy instruments for the protection of specific industries from foreign competition (disincentives for foreign exporters) and those for the fostering of those industries (incentives for Korean exporters).

Firstly, the protection of industries from foreign imports was implemented through high tariff barriers. Korea is flexibly using the tariff barriers because it's tariffs are not bound by GATT. In addition, the Korean government is using protective measures for the financial and service markets, and does not provide appropriate protection of intellectual property rights for foreigners.

Secondly, the Korean government has been providing support to Korean exporters for the promotion of the nation's exports. As a result of all these measures, Korea's major trading partners consider Korea a country which is distorting international comparative advantages artificially through the provision of aggressive policy support measures to Korean exporters. Therefore, the issues in Korea's trade policy implementation have given rise to trade disputes between Korea and its trading partners, especially the EC. In the following, I will provide further details of these Korea's measures.

3-2. Analysis of Korea's Trade Policy Instruments

3-2-1. Disincentives for Foreign Exporters

3-2-1-1. Tariff Protection

If the Common External Tariff (CET) is a symbol of the EC's trade policy, the counterpart in Korea's trade policy is the high barrier of tariff protection. For example, average tariff rates for manufactured goods in Korea in 1988 was 16.9 per cent, which is far higher than 6.7 per cent in the EC in 1985, as seen in Chapter 1.³³ Also, the Korean government is using various domestic tax systems to exclude foreign imports. In the EC-Korea trade, the Korea's high tariff rates are serious problems. "In spirit, the Korea's discriminatory taxation compared to domestic quasi-substitutes (liquor tax, education tax) leads to dramatic price discrepancies which drive these EC products to the edge of the market, and drastically reduce actual as compared to potential sales."³⁴ Especially, Korea's domestic tax rate for acquisition of passenger cars, mostly foreign-made ones with prices higher than 70 million won (£54,000) is 15 per cent, as compared to that levied on those with prices less than 70 million won confined to 2 per cent. Therefore, foreign products have been confronting two tax barriers in Korea, firstly high import tariff rates, and secondly unequal treatment in levying domestic tariffs, compared to Korean products.

3-2-1-2. Protection of Access to Korean Commodity, Financial and Service Markets by Foreigners

In addition to high tariff protection barriers, complicated import regulations in Korea have been big obstacles to foreign exporters. For example, items for imports are divided into four categories--automatic approval items, import surveillance items, import diversification items and import restricted items. There are also much discretions in the Korean government authorities to classify the items for imports in accordance with the categories. In case of import restricted items, "details of restricted items are seldom

made public and constantly change. In general terms, certificates for restricted items are more easily available for machinery and industrial supplies whilst certificates for consumer goods are much more difficult to obtain."³⁵

Korea is also restricting access of foreign companies to Korea's financial and service markets. This protection causes the EC to argue for the principle of comparative reciprocity to restrict Korean companies from getting an access to financial and service markets in the EC if the EC companies are not receiving the same treatments in Korea as the U.S. companies. Since 1987, the EC has consistently been raising complaints about the complexities of import regulations and the discretionary case-by-case applications of import restriction rules, along with askings to open Korea's financial and insurance markets in the Korea-EC High Consultations, the high-ranking government-level talks between the EC and Korea. "The opening-up of the insurance and securities markets, in such a way that EC business can enjoy effective market access and the same competitive opportunities, governs EC's policy in this respect. However, Korean markets are still heavily restricted and closed."³⁶

3-2-1-3. Other Disincentives for Foreign Exporters

Because Korea is an authoritarian country and has an executive-dominant decision-making procedure, it is easy to do nation-wide moral persuasion campaign to avoid 'excessive' expenditure on luxurious items. The EC officially raised a complaint about the Korean government's campaign in May, 1991 in the Korea-EC High Consultations.

Another foreign complaint concerns Korea's inadequate protection for pharmaceuticals, trademarks or design and copyright for books, recordings and computer softwares. As mentioned in the previous chapter, this prompted the EC to terminate its provision of GSP treatment to Korean exporters in January, 1988. However, the issue was

resolved in Korea-EC Working-Level Meeting in September, 1991 because Korea promised to provide adequate protection of intellectual property rights, same as that given to the United States. In this case, the EC also applied the comparative reciprocity principle with the termination of the GSP treatment as means to receive protection of intellectual property rights.

3-2-2. Incentives for Korean Exporters

3-2-2-1. Credit Allocation

"Korea began to provide concessional credit to exporters in the 1950s, enhancing the degree of concession and the ease of access to the credit after the transition to an export-oriented strategy in the mid-1960s. Through the 1970s, automatic access to short-term export financing was available to exporters at 6 to 12 percentage points below the commercial bank loan rate."³⁷ Especially, "because the officially set real interest rates were kept close to zero or even negative, businessmen tended to borrow as much as they could from banks--often in excess of the amount needed to finance future investments."³⁸ Such excess borrowing resulted in chronic inflationary pressure on the Korean economy and started speculation on real estates by several big business groups. "Korean banks have still been forced to give low-interest--barely profitable--policy loans to industries selected by the government."³⁹ Therefore, the access to preferential loans, along with cheap labour, became a foundation for the international price competitiveness of Korean exporters. Because the Korean government controlled all banking institutions, the heavy dependence of private businesses on bank loans also meant direct government control over business.

3-2-2-2. Tax Incentives

Among the government tax incentives for exporters were tariff exemptions on imports of intermediate goods and capital equipment to be used in production for exports, rebate of indirect taxes such as commodity taxes and business taxes on intermediate inputs and export sales,

and income tax reductions (50 per cent) on profits from exports.

The U.S. Congress study states about the contribution of Korea's tax incentives to switching import substitutions to export-led growth strategy and deepening industrial structure as follows:⁴⁰

A crucial component of the transition to export-led growth in the mid-1960s was that all imports used as inputs into exports would be exempt from quantitative import restrictions. Raw material imports used for exports were also exempt from tariffs. Capital goods used for export production were exempt from tariffs until the early 1970s.

However, the Korean government is gradually changing its tax-incentive policy to put an emphasis on "the allocation of resources in line with the growing reliance on market forces because the actual benefits of tax incentives have drastically decreased in recent years due to the lower tax rate and the stabilization of interest rates."⁴¹

3-2-2-3.Foreign Exchange

"Historically, the Korean government has controlled foreign exchange in Korea. Earners of foreign exchange have been required to transfer it to one of several designated agencies, which in turn transfer it to the Bank of Korea. Private companies or citizens may retain only a small amount. The government formulates an annual Foreign Exchange Demand and Supply Plan."⁴² Due to such control of foreign exchange, the Korean government was in a position to counteract various problems in trading environment very flexibly--when exports are decreasing, making the exchange rate undervalued to a more feasible level. Thus, "the maintenance of the effective exchange-rate system could be one of factors which Korean exporters can maintain the international price competitiveness throughout the period of rapid expansion and high GNP growth."⁴³

However, due to the aggravating trade deficits with Korea, Korea's major trading partners, especially the United States, strongly asked Korea to liberalize the

exchange rate, criticizing the Korean government's intervention in the exchange rate mechanism. Therefore, Korea's exchange rate system, reflecting the pressure from advanced countries, has been changed since March 1990 to market average exchange rate system under which supply and demand of specific currencies set the daily exchange rate, reducing the room of government intervention in exchange rate mechanism. Furthermore, "the Korean government is committed to introducing a free-floating foreign exchange rate system in 1997 by preparing the establishment of a sophisticated foreign exchange market."⁴⁴

3-2-2-4. Other Policy Incentives for Korean Exporters

The Korean government provided various administrative and supportive measures for Korean exporters under the principle of laying the foundation of the nation through international trade (Korean word, *Suchul Ibukuk*). They can be summed in the following five points.

Firstly, "the government developed export industrial zones in Seoul, Masan (near Pusan) and Kumi (near Taegu) in the 1960s and continued the programme into the 1970s."⁴⁵ The industrial estates were provided to Korean exporters at greatly discounted prices. In view of the importance of the location factor in manufacturing, this must have been a considerable support for Korean industry. In 1969, the Regional Industrial Development Law was enacted under which at least one regional industrial estate in every provincial capital was to be established. Along with the low purchase price for the site, utility charges such as electricity, water, transportation, communications and other services in the industrial zones were discounted at a very favorable rate to support the exporters' production activities. They also received special tariff exemptions.

Secondly, the government set up various export support organizations to provide practical assistance for Korean exporters. Among them are the Korea Trade Promotion Corporation (KOTRA) and the Korea Foreign Trade

Association (KFTA) which are responsible for assisting Korean exporters to develop overseas markets and for recommending various administrative measures to the government to solve problems being confronted by Korean exporters. In addition, the Export-Import Bank of Korea was set up to provide financial assistance for Korean exporters.

Thirdly, "to complement the work of the KOTRA and the KFTA, the government launched a scheme to build up Korean GTCs along the lines of their Japanese counterparts. Beginning in the early 1970s, those trading companies that met the stringent performance and size criteria for GTCs received special privileges in terms of access to credit, retention of foreign exchange, and other assistance."⁴⁶ Usually, each *Chaebol* has one GTC which acts as export window for all subsidiary companies in one conglomerate. As a result, benefits to GTCs meant benefits to the *Chaebols*. The export share of the GTCs in the nation's total exports in 1976 accounted for 13.6 per cent, which peaked in 1983 with 50.5 per cent and reached at 42.5 per cent in 1991.

Fourthly, the Monthly Export Promotion Meeting began to be held from December in 1962 to not only encourage exchange of information but also serve as a potent indicator of the government overriding interest in seeing exports grow. "From 1965 on, upwards of 100 senior political leaders, bureaucrats, and business people met each month to discuss export drive. The meetings were chaired by the President himself as a symbol of the government's commitment to exporting."⁴⁷

Fifthly, "the Ministry of Trade & Industry began setting annual export targets classified by commodity, region, and country of destination. This had an effect of announcing specific markets as profitable and implicitly promising non-quantifiable government support in pursuit of those targets."⁴⁸ In addition, "prizes were provided once a year on Export Day. The prizes conveyed not just prestige, but also economic rewards, such as easier bank

credit for non-export projects. In 1980, Export Day was renamed Trade Day, and prizes awarded for good performance in both exporting and importing."⁴⁹

In sum, Korea built its ground for industrial development through very aggressive trade policy incentives for Korean exporters--financial supports such as credit and tax exemption, systematic support such as management of foreign exchange, and institutional supports such as establishment of industrial zones, export promotion organizations (KOTRA and KFTA) and GTCs, and other non-quantifiable supports such as set-up of annual export target and holding of the Monthly Export Promotion Meeting. Thanks to the government's efforts, Korean exporters were also safe from foreign threats because of 1)tariff protection for manufactured goods from foreign countries, 2)protection for service industries and 3)various government initiatives to reduce consumption of foreign products. These various government measures were enough to make Korea to be branded as a neo-mercantilist, protective country, and to provoke many trade disputes between the EC and Korea in a viewpoint that the EC is relatively open, compared to the Korean market, for exports of Korean products to the EC market.

3-3. Problems of Korea's Trade Policy

These trade policies have generated problems which are typically for upward moving countries like Korea and beset the country's trade relationship with its major trading partners. Bruce Cumings points out the problems of export-led development model adopted by countries like Korea in the way of upward mobility in the world system. According to him,⁵⁰

firstly, less developed countries(LDCs) need to break into the system of economic exchange at a point other than comparative advantage in labor, that is, in marketing, better technology, or better organization. Yet, multinationals provide most of the markets and use 'steady-state' or obsolescent technologies(the limitations in development of better technology). Secondly, limited factor endowments and the small domestic markets that characterized such

offshore production inhibit second-stage industrialization and cause early problems of surplus capacity(problems of surplus capacity). Thirdly, rising competition from poor states means that there is a critical but a short and slim lead over competing LDCs(weakening international price competitiveness). Finally, core-country protectionism will arise to the extent that declining sectors have representation in the polity(strengthening protectionism in advanced countries).

3-3-1. One-Side Trade Policy Favors to Large-Sized Companies and Weakness in International Competitiveness

A policy of favorable credit allocation made a big difference between companies who can get access to the preferential measures and companies who are in difficulties to get such preference. According to Byung Nak Song,⁵¹

access to government-controlled bank credit increasingly involved corruption and favouritism. Businessmen who became wealthy under these circumstances were widely suspected of corrupt dealings. Because the measure of success for firms was their export capability, firms tended to increase production and export capacity as much as possible. This forced expansion of output and exports resulted in a high debt-equity ratio, as well as distortions in the firms' internal decision making.

The development of large corporations has made Korea particularly strong in the development of large-scale and capital-intensive production. However, it also contributed to the weakness in flexibility in adjusting to external and internal changes. Korea's main problem in exports is now the weakness of technological competitiveness because it is very difficult to develop products with high value added without expanding the technological base reached by small-and medium-sized firms. Furthermore, Korean companies did not pay much attention to the development of new products. As a result, the technological gap between the advanced countries and Korea has been widening. Korean products have also been losing their international price competitiveness, caused by hikes in labour costs in a process of strong labour movements in Korea. That allowed

Korea to be chased by new cheap labour cost countries in exports of labour intensive products. For example, Korea recorded the lowest export growth in 1992 with 6.6 per cent, compared to those of its major competitors such as Hong Kong (21.2 per cent), China (18.2 per cent), Japan (8.0 per cent), Singapore (7.7 per cent) and Taiwan (7.0 per cent).

3-3-2. Excessive Investment in Production Capacities and High Dependence on Exports

Export-led growth strategy, resulting in the forced expansion of investment and output by businesses, caused the inflationary financing of investment. The excessive demand for investment created by this type of policy provided one of the links between the forced export growth strategy and high inflation which persisted until 1982. Also, the excessive expansion of investment and output caused the surplus of production capacities. Because of the small domestic market, the efficient operation of surplus production capacities was totally dependent upon success of export activities. Byung Nak Song points out this structural and perennial problem in Korea's economy, which is prevalent so far, as follows:⁵²

- 1) *It is widely believed that high inflation harmed social justice by redistributing wealth from creditors to debtors.*
- 2) *The high inflation rate often outstripped the government-set bank interest rates, resulting in negative interest rates.*
- 3) *Although that capital flight out of Korea has not been a serious problem, many Koreans have diverted savings from financial institutions to real estate.*
- 4) *High inflation contributed to the expansion of the unorganized credit market or 'kerb market', which in turn came to have a major role in mobilizing and allocating investment funds.*
- 5) *This high inflation and its negative impact also contributed to expanding the dependence on foreign debt because domestic savings can not meet higher demand for financial resources for investments.*

3-3-3. Export-First Policy and Cut-Throat Competition among Korean Exporters in World Market

The export first policy resulted Korean exporters in concentrating immediate records of exports because all

kinds of favors from the government such as tax and credit benefits are given in accordance with the export record. Therefore, they were negligent in developing high-quality products on a long term basis, concentrating on exports of several items for which Korean companies have traditional comparative advantage. Also, Korean firms did not make much efforts to develop new markets for exports because of higher costs for new market developments, only doing cut-throat competition themselves in existing markets for raising export records of their own companies.

3-3-4. Concentration on Several Export Items and Competitive Weakness in Changes in International Trading Environment

Due to the neglect of the development of new export items and overseas markets, Korea's export markets and items have stayed limited in scope. This made Korean exporters vulnerable towards changes in international markets.

Major export items in 1991 were electrical and electronics products amounting to \$20,157 million (28.0 per cent of the nation's total exports of \$71,870 million in that year), textiles with \$15,478 million (21.5 per cent), footwear with \$3,836 million (5.3 per cent), iron and steel products with \$4,509 million (6.3 per cent), ships with \$4,124 million (5.7 per cent) and transportation equipment including automobiles with \$3,057 million (4.3 per cent). The share of the six items in the nation's exports totaled 71.2 per cent. In case of any newly-implemented restrictive measures from foreign countries against the export of these products, the foundation of Korea's export-oriented economy will be severely undermined.

Korea's major exports are also concentrating on the United States with exports of \$18,559 million in 1991 (25.8 per cent of the year's export total of \$71,870 million), Japan with \$12,356 million (17.2 per cent of the total) and the EC with \$9,728 million (13.5 per cent of the total). The market share of the three regions in

the nation's total exports accounted for 56.6 per cent. Therefore, Korea's export growth or decline, furthermore the destiny of the nation's economy, wholly rely upon the relations with the United States, Japan and the EC.

3-3-5. Concentration of Exports on Finished Products and Inter-Industry Trade Structure

Korea's export pattern so far put special stress on exports of finished products rather than parts as a result of sluggish business activities by small-and medium-sized companies. As a result, Korea has been maintaining inter-industry trading pattern rather than intra-industry trading pattern, easily being a target for import restraints by foreign countries. Also, export shares of several big-sized companies called GTCs show an annual average of 42.97 per cent in the 1983-1991 period. The highest share of GTCs in Korea's total exports was 50.5 per cent in 1983, and the lowest share was 38.0 per cent in 1987.

4. Issues and Problems of Korea's Economic Policy Decision Making Process

4-1. Issues in Korea's Economic Policy Decision Making Process

Issues in Korea's economic policy decision making process can be divided into four aspects in accordance with the peculiar characteristic of these decision making procedure which is very different from those in advanced countries such as the EC. Those four factors are 1) executive dominance, 2) speed and flexibility, 3) pragmatism, particularism, centralization and openness and 4) policy implementation measures.

4-1-1. Executive Dominance

Major economic decisions in Korea have been dominated by the executive rather than legislative which is general feature of Korean politics. Regarding this particular feature of Korean decision making process, Byung Nak Song explains that "the most important characteristic of the decision making machinery involved in formulating and implementing economic plans and policies in Korea is that

it is headed by the President and as such is a nation-wide apparatus."⁵³ Also, Edward Mason argues "the emasculation of the legislature in all significant matters of policy is well known to the most causal observer of the Korean scene."⁵⁴

In the executive-dominant decision making process, the role of the Economic Planning Board (EPB) has been crucial. The EPB, established in 1961, after the model of Japanese Economic Planning Agency, has been "responsible for economic planning, central budgeting, foreign capital management and statistics, and have the authority to coordinate policies and programs of all the economic ministries."⁵⁵ The decision making process by Executive with a small number of government officials⁵⁶ was described by Byung Nak Song as follows:⁵⁷

The hierarchical order in the policy making process is from the President to the Deputy Prime Minister, who heads the Economic Planning Board, and then to the head of the concerned ministry--whether the Minister of Trade and Industry, the Minister of Energy and Resources or the Minister of Agriculture and Fisheries. Particularly, notable in the Korea's decision making process is the role played by the President's Economic Secretary. Although this post is only of vice ministerial rank, the Economic Secretary's influence on economic policy and the staffing of various economic ministries often has been equal to or greater than the influence of the Deputy Prime Minister, especially in the 1960s and 1970s.

4-1-2. Speed and Flexibility

The highly centralized decision making process and the limitation of participants in the decision making to a very small number of government officials facilitated the speed and flexibility in policy formulation. "The government officials have been generally able to avoid the penalties of fragmented interests and disjointed decision making process. That is in sharp contrast with most advanced countries including the EC where various executive departments are often at odds with one another, not to mention of the institutionalized tension between the executive and the legislative branch, and decision

making process tends to be politicized and susceptible to the influence of particular vested interests."⁵⁸

The speed and flexibility in decision making process has been very effective especially in trade policy formulation. The government set various non-pecuniary incentive measures to promote exports such as export target setting, designation of GTCs and holding of Monthly Export Promotion Meeting. That means the Korean government responded changes in world-wide trading environments controlling those export promotion incentives with speed and flexibility.

4-1-3. Pragmatism, Particularism, Centralization and Openness

Leroy Jones argues crucial characteristic of Korea's decision making with following four factors:⁵⁹

Pragmatism--Korea's decision making has willingness to experiment with available tool for achieving a desired end. This is to be contrasted with an ideological approach that attempts to apply some received formulation focusing on means rather than ends.

Particularism--It refers to the practice of making policy decisions with a low level of generality, permitting the government to apply a certain policy to a limited number of clients in a specific situation.

Centralization--Virtually all economic decisions of any importance are made in Seoul, by the President.

Openness--This openness is a somewhat surprisingly characteristic in an authoritarian regime and, even in Korea, can hardly be said to extend to the political arena. Nonetheless, within the strictly limited realm of economic affairs, this is virtually unlimited freedom of expression and dissent.

However, the final decision process itself is usually closed.

Pragmatism can be found in the basic philosophy behind Korea's industrial and trade policies, which assumed that the higher, the faster, and the more the economy grows, the better. Export first policy makes Korean companies do all kinds of efforts to increase their export records, expecting various incentives from the government when they successfully achieved export targets set by the government for them.

Particularism can be found in several '*Chaebols*' and GTCs. Under the principle of pragmatism, the government gave extensive administrative and financial supports to a limited range of big-sized business conglomerates.

Centralization is the characteristic of the President-led decision making process which promotes the speed and flexibility in the government decision making.

Openness is closely related to the export first policy under which the government eagerly accommodated complaints from the private business as far as trade expansion is concerned.

4-1-4. Policy Implementational Measures

Along with the provisions of various tax and credit favors for export promotion, the Korean government whipped to facilitate the implementation of decisions in industrial and trade policies.

Firstly, "systematic and detailed investigations by the Office of Tax Administration were used to discipline firms which did not cooperate with the government economic policies."⁶⁰

Secondly, the government used the suppression of bank credit or recall of loans to implement its industrial and trade policies. Korean firms aggressively expanded their production capacity to increase overseas sales as much as possible. The cost for the expansion of production facilities largely was assigned with bank loans at very low interest rates. Therefore, the threat of suspending the bank loans became an intimidatory measure for them enough to feel a danger for the survival in their businesses.

Thirdly, "the government has used the disconnection of infrastructure services such as electricity, water, roads and telephones to punish firms that do not comply with the government economic policies."⁶¹

Various incentives under industrial and trade policies did much toward industrialization and export promotion in Korea. However, these disincentives also contributed to

have the government implement its policy goals with speed, efficiency and flexibility.

4-2. Problems of Korea's Decision Making Process

4-2-1. Executive Dominance Decision Making and EC-Korea Trade Disputes

In connection with the executive dominance, personal contacts with government officials are a traditional means of influence in East Asia, and Korea is no exception. Also, the range of discretionary decisions in working-level administrative fields are very wide, raising the possibility of corruptions of government officials. The wide range of discretionary decisions can be additional burdens to Korean firms as cost of production. The additional cost eventually has become a burden to consumers, forcing in extreme cases Korean firms to sell their products at domestic market with prices far higher than those to be sold at international markets. Therefore, Korean companies have been frequently involved in AD investigations by advanced countries, even though such factor can not be an excuse for dumping by Korean exporters.

Korea can be easily targets of criticism from advanced countries as a country where the government strongly involves all kinds of economic decisions with an executive dominance. Especially, establishment of state-run trade support organizations, such as KOTRA and Export-Import Bank of Korea, can be used as a good excuse for attacking Korea's market operating mechanism as the government-oriented statist organization.

4-2-2. Speed and Flexibility and EC-Korea Trade Disputes

The speed and flexibility in decision making has also many defects. Leroy Jones and Il SaKong point out:⁶²

In Korea, journalists regularly deplore the hastiness of such measures as the 1971 Law on Restraining Real Estate Investment, which is claimed to have resulted from a twenty-four hour study and the 1973 Law on Price Stability, which is said to have taken a comparatively leisurely three days of preparation. Businessmen often complain about the sudden shifts in policy direction and (at a

decidedly lower lever of importance) academics are regularly frustrated when their critiques of policy became outdated before reaching print.

Also, "the overexpansion of heavy industries and of shipbuilding in the late 1970s were examples of failures resulting from the government excessive direction, along with the rough-and-ready decision."⁶³

The frequent changes in flexibility in the requirement of GTCs, such as the reduction in numbers of GTCs and increase in requirement of export record to be eligible as GTCs, caused the cutthroat competition among Korean GTCs in overseas markets themselves. They dumped their products only for raising export records and for being remained as GTCs as means of receiving enormous benefits from the government. Eventually, the speed and flexibility in the decision making process resulted in international trade disputes with foreign countries.

4-2-3. Pragmatism and Particularism and EC-Korea Trade Disputes

The pragmatism also caused the preferential incentives leaned to the large-sized export firms. As a result, small-and medium-sized companies have not secured any status as parts suppliers for large companies which is ideal for the strength of the nation's economic structure. This resulted in Korea's industrial structure, concentration on exports of finished products, rather than parts.

The particularism, applied by "rule of man rather than rule of law, gave great scope for official discretion"⁶⁴ This particularism made major trading partners of Korea be under the impression that the Korean government actively involves in manipulating industrial and trade structures to the direction which is best suited to Korean exporters.

In sum, the executive-dominant decision making caused much corruption in government officials and raised financial burdens of Korean companies. That burdens became a reason to do cut-throat competition among Korean exporters in foreign markets to expand export value,

leading to dumping activities. Also, the flexibility in decision making--such as changes in requirements for GTCs and changes in level of export records for credit and tax benefits--also resulted in destructive competition among Korean exporters in foreign countries. The pragmatism and particularism of decision making process also contributed Korea to be branded as strong neo-mercantilist policy implementing country. Emphasis of government supports to big-sized companies widened a gap between large business conglomerates producing finished products and small companies manufacturing parts. Therefore, Korea's export pattern was standardized as finished products-centered trade.

Issues and problems of Korea's decision making process directly contributed to the EC-Korea trade disputes through two causal chain relationships. One is executive dominance and flexibility in decision making, and frequent changes in the level of export records for tax and credit favors from the government. These caused cutthroat competition among Korean exporters, dumping activities in foreign markets and EC-Korea trade disputes. Korean companies actually dumped in the EC market. As I mentioned in Chapter II, EC's AD investigations against Korean products which led to definitive AD duty impositions numbered 7 cases in a total of 18 AD investigations in the 1975-1992 period. However, it is noteworthy that dumping is normally considered to be an abuse as an open market. The other is pragmatism and particularism in decision making and intensive support to big-sized companies producing finished products. That caused relative sluggishness in production of parts by small-and medium-sized companies, exports centered on finished products, inter-industry trade structure and increases in the EC-Korea trade disputes.

However, such direction of decision making is emasculated because Korea is now standing at crossroads in which policy directions should be adopted to accommodate political and economic liberalizations requested at home

and abroad. As a result, Korea's decision making mechanism has been confronting many challenges internally and externally even though it greatly contributed to the promotion of export on the one hand and the fierce trade disputes with foreign countries on the other.

In addition to problems in economic policy and decision making process in the EC and Korea, there are many factors contributing to determinants of protectionism in the EC-Korea trade as a result of these problems. These factors include clashes of divergent industrial and trade policies, establishment of bilateral inter-industry trade structure and development of bilateral trade disputes in specific industrial sectors. They are acting as major determinants of protectionism in the EC-Korea trade and are caused by problems in economic policy and unique characteristic of economic policy decision making process. In addition, it is necessary to make a comparative analysis of protective measures by EC member states and advanced countries against Korea for the purpose of evaluating the effectiveness of the EC's protective measures against Korea. In the following, I will delve into this in more detail.

Notes and References

1. In connection with the definition of industrialization, John Weiss points out "industrialization is normally interpreted as a process whereby the share of industry in general, and of manufacturing in particular, in total economic activity is increased. Hughes suggests that an industrialized economy is one where the share of manufacturing in commodity production is above 65 per cent. On the other hand, Sutcliffe suggests three criteria for gauging industrialization--1) a minimum of 25 per cent of GDP originality in the industrial sector, 2) at least 60 per cent of industrial output in the form of manufactures, and 3) at least 10 per cent of the total population employed in the industrial sector." See Weiss, John, *Industry in Developing Countries--Theory, Policy and Evidence* (London, Croom Helm, 1988), pp. 4 and 20. For knowing about the linkage between historical phases of industrialization, properties of technological systems and institutional forms of governance, see Kitschelt, Herbert, "Industrial Governance Structures, Innovation Strategies, and the Case of Japan: Sectoral or

Cross-National Comparative Analysis?" *International Organization* (Vol.45, No.4,1991), pp.471-475.

2. Congress of the United States, *Competing Economies-- America, Europe, and the Pacific Rim* (Washington,D.C.,U.S.Government Printing Office), p.307.

3. Congress of the United States, *op.cit.*, p 307.

4. For detailed analysis about the negative effect of Korea's premature participation in heavy industries, see Chan, Steve, *East Asian Dynamism* (Boulder, Westview Press, 1990), p.43.

5. Song, Byung-Nak, *the Rise of the Korean Economy* (Oxford, Oxford University Press, 1990), pp.107-108.

6. Mason, Edward S., *the Economic & Social Modernization of the Republic of Korea* (Cambridge, Harvard University Press), p.100.

7. Korea Foreign Trade Association(1), *Major Trade Indicator Index* (Seoul, KFTA, 1989), pp. 20-22.

8. Korea Foreign Trade Association(2), *Major Trade Trend Index 1990* (Seoul, KFTA, 1990), p.49.

9. Mihn, Kyoung-Hwie, *Industrial Policy for Industrialization of Korea* (Seoul, Korea Institute for Economics & Technology, 1988), p.7.

10. Jones, Leroy & Il SaKong, *Government, Business and Entrepreneurship in Economic Development: the Korean Case* (Cambridge, Harvard University Press, 1980), pp.49-50.

11. Mihn, *op.cit.*, pp. 7-8.

12. Mihn, *op.cit.*, p.8.

13. Congress of the United States, *op.cit.*, p.311. Such policy loans have been criticized recently. Namely, "credit allocations become increasingly inefficient and this has created distortions in the industrial structure. Money has been poured into favoured industries that are no longer competitive. The government's credit policy also promoted the economic dominance of the nation's large conglomerates, or *Chaebol*, while hindering the growth of small-and medium-sized businesses." See Burton, John, "Freedom Moves Higher up the Agenda," *Financial Times* (Nov.11, 1993), p.31.

14. Japan already adopted similar strategy under which "special industry promotion laws have been passed for petrochemicals (1955), machinery (1956) and electronics (1957)." See Marion, Marcel F.van, *Liberal Trade and Japan--The Incompatibility Issue* (Heidelberg, Physica-Verlag, 1993), p.118. As a result, Korea followed

Japanese route of industrial development with 10-15 years time gap.

15. Korea Foreign Trade Association(1), *op.cit.*, pp.20-22.

16. Mihn, *op.cit.*, p. 19.

17. Song, *op.cit.*, p.137.

18.Regarding problems in development of strategic industries, Klaus Stegemann argues "much of the nonformal discussion of strategic trade policy, and of the technology race in particular, has emphasized external benefits of generation knowledge, that spreads beyond firms but not beyond national boundaries, as the reason for protecting or promoting certain strategic sectors. However, any type of intervention becomes welfare-reducing if one assumes that the home firm's conjectures are consistent in the sense that its beliefs about the foreign firm's response to its own actions are borne out exactly by the foreign firm's actual response." See Stegemann, Klaus, "Policy Rivalry among Industrial States:What can We learn from Models of Strategic Trade Policy," *International Organization* (Vol.43, No.1, Winter 1989), p.88.

19. Lee, Chung-H., *the Economic Development of Japan and Korea* (New York, Praeger, 1990), p.58.

20. Korea Foreign Trade Association(3), *Korea and the World--Key Statistics* (Seoul, KFTA, 1990),p.45.

21. Lee, *op.cit.*, p.59.

22. Mihn, *op.cit.*, pp.32-33.

23.According to a report by the German Economic Institute, Korea's labour cost per hour in manufacturing is the highest in the world except Japan and Western advanced countries, with 9.47 mark (4,600 won) in 1992. If the level of German labour cost (40 mark per hour) assumes as 100, the index of Korea was 22.6, which was far higher than Portugal (21.3), Mexico (10.4), Hungary (8.8), Czech Republic (5.3) and Poland (4.9). This is translated from "Korea's Labour Cost, World Highest Except for Advanced Countries," *Hankuk Ilbo* (Korean version)(Nov.3, 1993), p.2.

24. Congress of the United States, *op.cit.*, p. 308.

25. Korea Foreign Trade Association(3), *op.cit.*,pp.44-45.

26. Mason, *op.cit.*, p.288.

27. Song, *op.cit.*, p.108.

28. Due to the perennial inflation, most people were reluctant to make savings in official financial institutions.

29. Song, *op.cit.*, p.110.

30. As of 1993, "Korea imports 35 per cent of its machinery and 40 per cent of its electronics components from Japan. The rise of the yen, the won's 18 per cent fall against the yen in 1993, is providing an opportunity to increase Korea's exports to Japan. However, as Korea's exports increase, the more industrial parts it needs to import from Japan. The reason for the persistent gap is that during Korea's rush to industrialize in the 1960s and the 1970s, it neglected to develop an adequate network of subcontractors to supply components to the country's big conglomerates." See Burton, John, "S.Korea Finds Two Sides to High Yen," *Financial Times* (Oct.1, 1993), p.7.

31. "Korean government officials have long argued that the *Chaebols* have diversified into too many unrelated industries, which is harming their efficiency and global competitiveness. Korea's leading *Chaebols*, on average, operate in nine different industries, while Japanese business groups normally concentrate on one to three industries." See Burton, John, "Seoul Tries to Break up Big Business Group," *Financial Times* (Oct.29,1993),p.4. See also Burton, John, "South Korean Groups Target Core Businesses," *Financial Times* (Jan.19,1994), p.3.

32. Mihn, pp.10-11. "The World Bank classified Korea as a group of countries with strongly outward oriented trade regime in the 1963-1984 period, along with Austria, Belgium, Denmark, the Netherlands, Norway, Sweden and Switzerland." See Bates, Robert H., Philip Brock and Jill Tiefentheler, "Risk and Trade Regimes: Another Explorations," *International Organization* (Vol.45, No.1, 1991), pp.6-7.

33. The average tariff rates for manufactured goods in the United States was 6.1 per cent in 1985, that in Japan 4.8 per cent and that in Canada 7.3 per cent. See Pelkmans, Jacques and Joyce Tan, "Trade Protection in the EC and Korea," in *the Economic Cooperation between the EC and Korea: Problems and Prospects* edited by Min, Chung Ki (Seoul, Korea Institute for International Economic Policy, 1991), p.89.

34. Tan, Joyce and Jacques Pelkmans, "Bilateral Trade Relations between Korea and the EC," in *the Economic Cooperation between the EC and Korea: Problems and Prospects* edited by Min, Chung Ki (Seoul, Korea Institute for International Economic Policy, 1991), P.117.

35. British Embassy in Korea, *Commercial Practices Concerning Importers* (Commercial Department, British Embassy in Seoul, March 1990), pp.13-14.

36. Tan and Pelkmans in Mihn, p. 119. On October 28, 1993. however, "South Korea agreed to open its government procurement market to international competition during intensive negotiations in Geneva aimed at completing the Uruguay Round of talks on world trade liberalization. This includes the sensitive construction sector." See Dodwell, David, "South Korea to Open Its Procurement Market," *Financial Times* (Oct. 29, 1993), p. 8.

37. Congress of the United States, *op.cit.*, pp. 309-310.

38. Song, *op.cit.*, p. 95.

39. Burton, John, "South Korea's Banks Face a Thorough Clean-Up," *Financial Times* (April 22, 1993), p. 32.

40. Congress of the United States, *op.cit.*, p. 309.

41. Lee, *op.cit.*, p. 63.

42. Congress of the United States, *op.cit.*, p. 309.

43. Song, *op.cit.*, p. 98.

44. *Financial Times*, "Committed to Relaxing the Rules of the Game," Nov. 11, 1993, p. 34.

45. Song, *op.cit.*, p. 97.

46. Congress of the United States, *op.cit.*, p. 310.

47. Congress of the United States, *op.cit.*, p. 310.

48. Jones and SaKong, *op.cit.*, p. 97.

49. Congress of the United States, *op.cit.*, p. 310.

50. Cumings, Bruce, "the Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles and Political Consequences," in *Political Economy of the New Asian Industrialism* edited by Deyo, Frederic C. (Ithaca, Cornell University Press), p. 78.

51. Song, *op.cit.*, pp. 89-91.

52. Song, *op.cit.*, pp. 72-73.

53. Song, *op.cit.*, p. 139.

54. Mason, *op.cit.*, pp. 257-260.

55. Lee, *op.cit.*, p. 65.

56. However, the executive-dominant decision could result in difficulties in connection with the expansion of the national economy. For example, "Japan's Ministry of International Trade and Industry (MITI), which virtually

established Japan's economic success with its strong guiding hand, has lost the control it once had over industries as corporate Japan has become increasingly international and powerful." See Terazono, Emico, "Feeling the Pinch--the Death-Knell is Sounding for Many of Japan's Subcontractors," *Financial Times* (Nov.23,1993), p.12.

57. Song, *op.cit.*, p.141.

58. Chan, Steve, *East Asian Dynamism* (Boulder, Westview Press), p.50.

59. Jones and SaKong, *op.cit.*, pp.65-66.

60. Song, *op.cit.*, p.144.

61. Song, *op.cit.*, p.144.

62. Jones and SaKong, *op.cit.*, pp.60-61.

63. Song, *op.cit.*, p.146.

64. Mason, *op.cit.*, p.262.

Chapter III. Divergent Economic Policies and Trade Structures between the EC and Korea and Their Impact on Determinants and Effectiveness of Protectionism in EC-Korea Trade

A Brief Summary of Chapter III

The Changes in Divergent Economic Policies between the EC and Korea and Bilateral Trade Disputes

The EC-Korea trade disputes have a direct functional relationship with 1) the EC's measures to provide against the period after the completion of the Single Market and its attendant protective measures by the EC in EC's problem industries, 2) EC's intensive programme to revive the competitiveness of consumer electronics in the EC, and its collision with Korea's aggressive industrial policy and export promotion in those products to the EC market, 3) Korea's neo-mercantilist policy to support a limited range of industrial sectors and concentration of exports of several products to the EC market, and 4) difficulties of market access for EC products to Korea, caused by high tariff and non-tariff barriers (NTB) in Korea. In addition, the EC's protective measures have an indirect functional relationship with 1) EC's perception that Korea is providing unequal treatment to the EC, compared to that of the United States, and its attendant comparative reciprocity principle application by the EC against Korea, and 2) Korea's trading pattern and strategy similar with those of Japan in the EC market and its attendant protective measures by the EC against Korea.

The Changes in Trade Structure between the EC and Korea and Bilateral Trade Disputes

The three factors---1) the specialization of trade in a limited range of items in bilateral trade, 2) the characteristic of inter-industry trade structure, and 3) the weakening competitiveness of EC's products, which maintained traditionally strong competitiveness against Korea, were all symptoms that there was inevitably an increase in trade disputes between the EC and Korea. However, the trade balance moved in favor of the EC in

1991 and 1992. The reversal in bilateral trade balance in the period was due to 1) Korea's weakening international price competitiveness in labour-intensive products, 2) EC's tight import restraints against Korea's major export items and 3) the difficulties in developing alternative export items by Korea to the EC market after import restraints by the EC against Korea's major export items, and 4) sharp appreciation of Korean won against major EC currencies such as German mark, French franc and British pound.

Trade Balance between the EC and Korea and Bilateral Trade Disputes

The trade disputes between the EC and Korea were not a function of trade surplus or deficit. Instead, Korea's concentration on exports of several items and overlap of these export items with products in EC's declining industries contributed to the worsening bilateral trade disputes. Namely, bilateral trade disputes were caused by changes in Korea's major export items in the 1970-1992 period to the EC and changes in EC's problem industries in the same period. That explains the reason for many trade disputes between the EC and Korea, despite the insignificance of Korea's total export volume to the EC market.

1. Introduction

I already mentioned the issues and problems of divergent economic policies between the EC and Korea in Chapters I and II. In this chapter, however, I will chronologically analyse clashes between the economic policies of the EC and Korea and the impact of these clashes on the bilateral trade structure in the 1970-1992 period. Then, I will look into the impact of the trade structure on developments of bilateral trade disputes as determinants of protectionism in the EC-Korea trade. My final concern in this chapter is to look closely at the impact of their trade structure on the effectiveness of protectionism in the EC-Korea trade through comparative analysis of effectiveness of protective measures by advanced

countries against Korea. Through the analyses of this chapter, it can be found 1) why clashes between the economic policies of the EC and Korea is inevitable, 2) why an inter-industry trade structure between the EC and Korea has been established, 3) why the EC-Korea trade disputes are concentrated on a limited number of several industrial sectors and 4) how the policy clashes and trade structure influence the effectiveness of protectionism in the EC-Korea trade.

2. The Changes in Divergent Economic Policies of the EC and Korea and Bilateral Trade

2-1. The 1970s

The EC faced in the 1970s declining industrial sectors after a period of seeking to expand them in connection with growing world-wide demands in the 1950s and after a period of building up European champions to cope with the American challenge in the 1960s. These problems began to emerge due to world-wide economic recession after two rounds of oil shocks in 1973 and 1979, as I mentioned in Chapter I. The EC adopted three different, often contradictory policies for the management of their declining and maturing industries. According to Jose De La Torre and Michel Bacchetta,¹

first and foremost has been the EC's commitment to a policy of encouraging competition among companies from member countries. Secondly, the EC provided protection from external competitive forces to a number of industries, temporarily reversing its liberal trade position, yet consistent to the extent possible with the maintenance of internal competition. Thirdly, the European landscape is littered with attempts to coordinate industrial development policies, whether applied to growth or declining sectors, investment incentives and disincentives, regional development, etc.

However, different interests of EC member states in industrial sectors and differences in industrial policy as a whole, along with their disbelief in EC institutions hindered the formation of an EC-wide industrial policy. Therefore, the different interests of member states and the different characteristic of specific industries prompted the EC to adopt trade policy instruments to

protect threatened industries--textiles, footwear, household electrical appliances, etc. Unfortunately, industries in which EC has been confronting industrial structure adjustment problems have been promising growing industries for the Korean side. Those industries benefited from the extensive support of the Korean government. As I mentioned in Chapter II, the Korean government set the 1962-1971 period as the take-off period for non-durable consumer goods and industrial raw materials and laid the ground for providing assistance to self-reliant industries such as iron and steel, machinery, electronics and automobiles. Also, continuous assistance was given to traditional foreign exchange earner of Korean industry, such as textiles and clothing which was the largest export item of Korea in the 1970-1987 period. In this period, various kinds of administrative and financial support measures were provided by the Korean government to expand export performance and to carry out successively import substitution policy to key industries. As a result, "Korea has developed strong international competitiveness in the capital intensive shipbuilding industry, a target of industrial policy in the late 1970s. Korea also showed strength in a range of consumer electronics products that are technology-intensive, excelling in the more standardized(simple assembly) segments. Yet, Korea has also increased competitiveness in toys, and sporting goods, a low technology light-manufacturing sector that is typically labour-intensive."²

Table III-1: Korea's Exports and Imports to and from the EC in the 1970s(\$1M)

Year	70	71	72	73	74	75	76	77	78	79
Exports	65	75	149	345	512	754	1151	1397	1851	2337
Imports	208	253	262	294	336	538	674	803	1374	2094
Balance	-143	-178	-113	+51	+176	+216	+477	+594	+477	+243

Source: Korea Foreign Trade Association (Major Statistics of Korean Economy 1992), p.202.

Originally, Korea had been recording trade deficit with the EC until 1972, as seen in Table III-1. However, the situation changed in 1973 due to the aggressive industrial policy in Korea. The composition of the EC exports according to the trade balance shows clearly the strength and weakness of the EC's industry. In 1978, "EC's export items which are showing trade surplus with Korea were general machinery, industrial machinery, machine tools, transportation equipment and motors whose percentage in surplus figure with Korea represented more than 75 per cent. In addition to machinery, organic chemicals and dyes also included in the list of items showing trade surplus. Therefore, the EC only showed competitive strength in machinery and chemicals against Korean products in the 1970s."³

On the other hand, "EC recorded trade deficit in 14 sectors among a total of 24 sectors of which six areas were from raw material processing industries, along with five from final consumer products. Only telecommunications machinery and office machinery registered trade deficits with Korea among total machinery and chemical items. In the EC's total trade deficits recorded in 1978 with Korea, about 55 per cent were in clothing (\$640 million) and textiles fabrics (\$160 million)."⁴ Therefore, a major reason responsible for the EC's trade deficits in the 1970s was the great success of Korea's textiles exports to the EC market.

On the other hand, Korea's import substitution policy for key industrial sectors contributed to raising the dependence on foreign-made general machinery and transportation equipment. For example, Korea's largest import item in 1970 was general machinery with 29.7 per cent of total imports (\$1,984 million) and the third largest item transportation equipment. Also, "general machinery was the second largest import item in 1975, following petroleum which became the largest item for imports due to the price hike as a result of first oil shock. Transportation equipment again ranked as the

fourth largest. Even though the EC recorded trade surplus in these sectors with Korea, its trade deficits in textiles and clothing outstripped those figure."⁵ That is likely due to Korea's heavy dependence upon imports of machinery to Japan and the United States and Korea's aggressive fostering policy for the industry, along with the lack in marketing activities by EC companies in increasing sales to Korean market. For example, the EC's exports of general machinery to the United States totaled \$1,029 million, those to EFTA countries \$2,581 million, and those to Eastern Europe \$2,539 million in 1978, as compared with those to Japan confined to \$182 million and those to Korea \$185 million. Therefore, the EC showed remarkable weakness in exports to Japanese and Korean markets.

The textiles and clothing industries played a decisive role in the bilateral trade balance between the EC and Korea. My first case study is therefore on the textiles and clothing industries (Chapter V). In addition, iron and steel products and footwear industries in the EC suffered from surplus capacity and weakened international competitiveness. On the other hand, these industries benefited strongly from the Korean government's active support. Thus, the two sectors are also included in individual case studies in Chapters VI and VII, respectively.

2-2. The 1980s

In the early 1980s, the EC realized the limit of its economic policy to protect declining industries and resistance to industrial structure adjustment pressures. The EC's industrial output had been far behind that of the United States and Japan. As a result, there was a sense of growing crisis among EC member states, caused by the possibility that the EC could further decline economically. Thus, as I mentioned in Chapter I, there was a consensus among EC member states about the necessity to raise international competitiveness of EC industries through coherent EC-wide industrial policy. Under the

consensus, the EC began to tackle industrial adjustment and targeted several sectors such as energy, biotechnology and information technology as strategic industries for promotion on the Community-wide basis. Loukas Tsoukalis and Robert Strauss point out:⁶

The 1980s was the period for the EC concentrating on positive adjustment whose emphasis was put on industrial policies, exchange rates and macroeconomic coordination. The economic crisis and the gradual weakening of the post-war world economic order have surely also contributed to this change of priorities.

As a consequence, the EC began to limit assistance to the Community's declining industries and instead to strengthen support for high-tech industries. That caused the greatest number of trade disputes in consumer electronics between the EC and Korea later in the 1980s. For Korea, the 1980s was the period when advanced countries strengthened trade restraints against imports from developing countries such as Korea to protect themselves against industrial damages caused by cheap imports. On the other hand, least developed economies such as China and the ASEAN countries threatened Korea with their superior price competitiveness. Therefore, Korea had to face growing competition at the same time from newly emerging exporters and import restraints from developed countries.

Along with these trends, major advanced countries, especially the United States, strongly demanded the opening of the Korean market for foreign imports, along with pressure to appreciate the Korean won (Korean currency) against U.S. dollar. In accordance with this request, the Korean government adopted a policy of liberalizing the domestic market for foreign products, along with increasing the role of private initiative rather than government intervention policy. For example, "Korea's import liberalization ratio increased from 68.6 per cent in 1980 to 97.3 per cent in 1991, and that for agricultural products will be up to 92.1 per cent within 1994 from 84.7 per cent in 1991."⁷

In addition, the Korean government began to provide strong support to companies in high-tech industries as a response to these dual challenges from advanced countries and least developing countries.

The Korean government's support to high-tech industries and aggressive export activities in these product ranges by Korean companies enabled Korea to maintain its trade surplus with the EC in the 1980s. Korea's trade surplus between 1980 and 1985 was characterized by ups and downs.

Table:III-2:Korea's Exports and Imports to and from the EC in the 1980s(\$1M)

Year	80	81	82	83	84	85	86	87	88	89
Exports	2543	2686	2826	3037	3216	2555	4308	6597	8132	7394
Imports	1584	1925	1732	2152	2713	2317	3215	4613	6042	6492
Balance	+959	+761	+1094	+885	+772	+238	+1090	+1984	+2090	+902

Source:Korea Foreign Trade Association (Major Statistics of Korean Economy 1992), p.202.

However, in the period of 1986-1988, the trade surplus figure showed a trend of continuous increase, as seen in Table III-2. In this three-year period, the EC initiated a total of 15 cases of AD investigations against imports of Korean products, which accounted for 93.5 per cent of 16 cases initiated in the 1980s. When the trade surplus of Korea was reduced to \$902 million in 1989 from the 1988's \$2,090 million, there were no AD proceedings by the EC. The trade surplus in 1990 was further reduced to \$434 million in 1990 and finally reversed to a deficit in 1991 of \$180 million, as seen later. However, the EC's AD investigations still recorded four cases in 1990 and two cases in 1991. Therefore, the trade surplus or deficit was not closely related to the EC's protectionism against Korea. Instead, several factors are responsible for these trade disputes between the EC and Korea. These factors include 1) Korea's concentration of exports to a limited range of products and Korea's policy to stimulate exports of these products, 2) difficulties of market access for EC products--consumer goods like cars and agricultural products, caused by Korea's high tariff and non-tariff

barriers, and more favorable treatment given to the United States by the Korean government in the purchase of telecommunications equipment and government biddings.

Comparing the 1970s with the 1980s, EC's trade deficit with Korea expanded to \$3,140 million from merely \$460 million, which reflects the EC's weakening international competitiveness of commodities against Korean products. For example, Korea concentrated on exports of industrial and consumer electronics products in the 1980s under the intensive government support for export promotion. That enabled Korea's industrial and consumer electronics products to show strong international competitiveness in the EC market. In 1990, Korea's exports of electronics products accounted for 35.2 per cent of its total exports to the EC, amounting to \$8,876 million.

The 1980s was the period when both the EC and Korea concentrated on fostering high-tech industries, respectively. However, Korea was in a position to expand its exports to the EC market, thanks to the brisk export performance in electronics products. That was the result of Korea specializing in simple labour-intensive assembly process of electronics products, rather than the development of technology and parts for the manufacture of finished products. Therefore, the electronics sector, especially consumer electronics sector, emerged as an area where trade disputes between the EC and Korea occurred very frequently. The consumer electronics sector and color TV set industry is to be analyzed in details in Chapter VIII.

2-3. The Period of 1990-1992

Since the middle part of the 1980s, the EC has been implementing aggressive projects to strengthen and tighten its integration among member states for the completion of the Single Market. These projects aim at raising the EC's international competitiveness in technology and commodity manufacturing through improving cooperation among member states and expanding intra-EC trade. However, there are many difficulties in carrying

out these goals. For example, some areas such as fiscal harmonization, the finalization of the Common Market for certain service areas, transportation and approximation of technical standards are still pending settlements. Also, there have been many internal squabbles about further political integration and other economic issues. These difficulties in completing the single market accounts partly for the fact that the EC still does not change its tight policy instruments to restrict imports from Korea in the 1990s even though it has been recording a trade surplus with Korea.

On the other hand, Korea has been adopting market opening strategy in accordance with requests and complaints from major advanced countries including the EC. Major measures included in the strategy are expansion of the range of imports liberalization, financial market liberalization, and protection of intellectual property rights. Also, the Korean government encourages investments by Korean companies in the EC member states to provide against growing protectionism from the EC. At the same time, Korea is facing many difficulties, after the remarkable growth in the 1980s, and problems in promoting further industrialization and trade expansion, due to the limitation of its cheap-labour dependent development policy and worsening international trade environment.

At this point, the EC-Korea trade disputes also have been influenced by Korea-U.S. and Korea-Japan relations. Namely, EC's main complaint against Korea is Korea's discrimination against the EC, compared to the treatment given to the United States. The EC is complaining that Korea is giving special treatment to the United States in trade and economic matters. The drastic increases in exports of Korean products into the EC market also reminds the EC of the industrial injury caused by Japanese firms in the 1970s and the 1980s. This encourages the perception that Korea is seeking the same entry strategy into the EC market as Japanese firms.

On the other hand, Korea complains about the EC's allowance of residual national quantitative restrictions to individual member states, complicated import regulations by individual EC member states such as French administrative procedure of asking all imported cars to be transported into a specific place for customs clearance, and AD legislation and proceedings in the EC. In its trade with the EC, Korea recorded in 1991 a deficit of \$180 million for the first time since 1972 when trade deficit was recorded for Korea, as seen in Table III-3.

Table III-3: Korea's Exports and Imports to and from the EC in the 1990-1992 Period(\$1M)

Year	1990	1991	1992
Exports	8844	9728	9233
Imports	8410	9908	9908
Balance	+434	-180	-675

Source: Korea Foreign Trade Association (Major Statistics of Korean Economy 1992), p.202.

The trade deficit further widened to \$675 million in 1992. The reasons why Korea recorded trade deficit with the EC can be found partially through a structural analysis of export and import commodities in the bilateral trade in Tables III-4 and III-5.

The average growth of Korea's exports to EC remained at 9.995 per cent in the three-year period, compared to a sharp growth of imports from the EC to 17.8 per cent in the same period. Korea's major export items to the EC, electrical and electronics products and textiles and clothing, increased moderately in the three-year period. Exports of electrical and electronics products increased by 6.8 per cent, which is lower than the three-year average, due to EC's concentration of import restraints on such items as VCR, color TV, CDP, MWO, car stereo radio and semiconductor (DRAM). Shipments of textiles and clothing also showed only a slight increase influenced by restrictive measures of the EC under the multi-fibre arrangement (MFA) and additional AD duty imposition

against Korea's polyester yarns, and import restraints against these products by EC member states, in addition to the MFA.

Table:III-4:Korea's Exports to the EC by Major Commodities (\$1M, %)

Order	Items	Year			Change
		1989	1990	1991	
1	Electrical & Electronics Products	2568	3160	3374	+6.8
2	Textiles & Clothing	1887	1903	2086	+9.6
3	Machinery & Transport Equipment	589	1116	1400	+25.4
4	Daily Necessities	983	1227	1257	+2.5
5	Steel & Metallic Products	574	482	544	+12.9
6	Plastic,Rubber & Leather Products	359	395	410	+3.7
7	Chemical Products	136	247	293	+18.6
8	Primary Products	181	219	212	-3.3
9	Sundries	82	90	113	+25.6
10	Non-Metallic Minerals	35	33.4	32.6	-2.3
Total		7394	8844	9728	+9.995

Source:Korea Foreign Trade Association(Korea and the World--Key Statistics 1991), p.45.

Table III-5:Korea's Imports from the EC by Major Commodities(\$1M, %)

Order	Items	1989	Year 1990	1991	Change
1	Machniery & Transport. Equipment	2566	3782	4471	+18.2
2	Chemical Products	1870	2056	2278	+10.8
3	Steel & Metallic Products	539	521	928	+78.1
4	Electrical & Electronics Products	613	930	906	-2.6
5	Agriculture & Fisheries	382	438	562	+28.4
6	Textiles & Clothing	274	368	383	+4.3
7	Others	167	218	259	+18.5
8	Minerals	83	96	104	+8.3
Total		6492	8410	9908	+17.8

Source:Korea Foreign Trade Association (Korea and the World--Key Statistics 1991), p.45.

On the other hand, the EC's shipments of machinery and transportation equipment and chemical products, having been traditionally competitive against foreign products,

showed an increasing trend in the three-year period. Also, EC's exports of steel and metallic products and agricultural and fisheries sharply increased, recording growth rates of 78.1 per cent and 28.4 per cent, respectively. The comparison of trade performance in four categories--electrical and electronics products, textiles and clothing, machinery and transport equipment, and chemical products--between EC and Korea can be found in Table III-6.

Table III-6: EC's Trade Performance in Major Commodities with Korea (\$1M)

Items	EC's Exports (Korea's Imports)			EC's Imports (Korea's Exports)			Balance		
	1989	1990	1991	1989	1990	1991	1989	1990	1991
EEP	613	930	906	2568	3160	3374	-1995	-2230	-2468
TC	274	368	383	1887	1903	2086	-1613	-1535	-1703
MTE	2566	3782	4471	589	1116	1400	+1977	+2666	+3071
CP	1870	2056	2278	136	247	293	+1734	+1809	+1985
Total(B)	5323	7136	8038	5180	6426	7153	+143	+710	+885
TAC(A)	6492	8410	9908	7394	8844	9728	-902	-434	+180
B/A	82%	85%	81%	70%	73%	74%			

Source: Korea Foreign Trade Association (Major Statistics of Korean Economy 1992), pp.217-252.

Note: EEP=Electrical and Electronics Products.

TC=Textiles and Clothing.

MTE=Machinery and Transport Equipment.

CP=Chemical Products. TAC=Total of All Commodities.

The EC's trade surplus with Korea in machinery and transport equipment, and chemical products is far higher than its trade deficit in electrical and electronics products, and textiles and clothing. Especially, the EC's trade surplus of these four categories--\$885 million in 1991, helped the EC record an overall trade surplus of \$180 million with Korea in the year. Therefore, the EC's aim--to protect its suffering sectors such as textiles and clothing and consumer electronics from cheap Korean imports, and to request a wider opening of Korean market for the EC's strong industrial sectors such as machinery

and chemicals--seem to be successful at the beginning of the 1990s.

Through the analysis of economic policy changes in the EC and Korea in the 1990s, as well as trade structure changes engendered by those policy changes, it can be concluded that the trade balance is less important factor as a determinant of protectionism in the bilateral trade relationship. On the contrary, as seen in Summary of this chapter, the EC's protectionism in the 1990-1992 period has a direct functional relationship with 1) the EC's measure to provide for the period after the completion of the single market and its attendant protective measures by the EC for EC's problem industries, 2) EC's intensive programme to revive the competitiveness of consumer electronics products in the EC and its collision with Korea's active industrial policy and export promotion in those products to the EC market, 3) Korea's neo-mercantilist policy to support a limited range of industrial sectors such as consumer electronics and concentration of exports of several products to the EC market, and 4) the continued difficulty of market access for EC products to Korea, caused by high tariff and non-tariff barriers in Korea. In addition, the EC's protective measures in the period has an indirect functional relationship with 1) EC's perception that Korea is providing unequal treatment to the EC, compared to the treatment of the United States and its attendant comparative reciprocity principle application by the EC against Korea, and 2) Korea's trading pattern and strategy similar with that of Japan in the EC market and its attendant protective measures by the EC against Korea.

3. EC-Korea Trade Structure and Mutual Competitiveness of Commodities

The EC is a very important market for Korea to the extent that Korea's trade performance in the EC market influences the nation's overall trade situation. However, the Korean market is not worthy of serious considerations

for the EC. Despite this difference in significance, EC-Korea trade disputes have been increasing. Therefore, it is necessary to examine the relationship between the trade structure and mutual competitiveness⁸ of commodities on the one hand and the trade disputes between the EC and Korea on the other hand. For the purpose, I will firstly examine in this section the difference in importance of mutual markets between the EC and Korea, and then analyse the competitiveness of commodities in the EC and Korea and its relationship with bilateral trade disputes.

3-1. The Degree of Significance of Mutual Markets between EC and Korea

To compare the degree of significance of mutual markets between the EC and Korea, I chose the trade statistics in 1987 with several reasons. Firstly, the EC began to implement various measures to promote intra-EC trade since the adoption of the white paper in 1985 for the completion of the single market. Therefore, the year of 1987 could be a period to check the achievement of these measures in intra-EC trade. Secondly, the EC recorded the highest growth rate of exports (43.4 per cent) to the Korean market in 1987 in the history of bilateral trade. Thirdly, Korea's GNP recorded the highest growth of 13.0 per cent in 1987 in the period of the 1980s. Because Korea's economic growth totally depends on export performance, it can be interpreted that Korea's export-led development policy reached its highest stage in 1987. Therefore, it is possible to look into the contribution of Korea's economic policy to the EC-Korea trade by comparing bilateral trade relations in 1987.

In 1987, the EC imported a total of \$950 billion worth of commodities from the world of which 58.2 per cent (\$553 billion) were transacted as intra-EC trade and 41.8 per cent (\$397 billion) were traded as extra-EC trade, as seen in Table III-7.

Among the import volume dealt through extra-trade, 24.4 per cent (\$232 billion) were imported from developed

countries and only 13.3 per cent (\$126 billion) were imported from developing countries. Korea's exports in the year to the EC market amounted to \$6.597 billion, which is only 0.07 per cent of EC's total imports, and 1.7 per cent of EC's total imports through extra-EC trade and 5.2 per cent of EC's total imports from developing countries. That has not changed in the case of the EC's total exports in 1987. EC exported a total of \$951 billion worth of commodities to the world among which exports to Korea remained at \$4.613 billion, only 0.49 per cent of the total figure. In a word, trade with Korea is insignificant in a position of the EC.

Table III-7: EC Trade By Area in 1987(\$1B, %)

Area	Imports Share		Exports Share	
World	950	100.0	951	100.0
Intra-EC (EC12)	553	58.2	559	58.8
Extra-EC	397	41.8	392	41.2
Developed Countries	232	24.4	241	25.3
of Which				
EFTA	94	9.9	104	10.9
USA	66	6.9	83	8.7
Japan	42	4.4	16	1.7
Other	30	3.2	38	4.0
Developing Countries	126	13.3	117	12.3
State-Trading Areas	34	3.6	29	3.0
of Which				
China	6	0.6	6	0.6
Unspecified	5	0.5	5	0.5

Source: El-Agraa(Economics of the European Community), p.425.

In contrast to the EC, Korea's exports to the EC of \$6.597 billion, represented 13.9 per cent of the nation's total exports in the year (\$47.281 billion). Korea's imports from the EC in the year also accounted for 11.2 per cent of total imports (\$41.020 billion). The EC market is very important for the nation's economic growth which has been heavily dependent upon trade performance.

3-2. The Comparison of Competitiveness of Commodities in EC and Korea and Its Relationship with Bilateral Trade Disputes

Unfortunately, there are no analyses which evaluate directly the competitiveness of the EC and Korea. Therefore, the bilateral competitiveness has to be compared through an indirect analysis of competitiveness. Rolf Langhammer and Ulrich Hiemenz evaluate the competitiveness of EC industries using the characteristic of export competitiveness at the industry level in comparison with those of Japan. The detailed analysis, which will be very useful to determine the characteristic of EC-Korea trade structure, is as follows:⁹

Cluster one=EC's largest loss in competition with Japan=office machines+radios+motor cycles. Japanese suppliers outstripped the rest of the industrialized countries' suppliers and the highest losses were born by the EC.

Cluster two=EC's second largest loss in competition with Japan=tractors+TV receivers+passenger cars+lorries +cameras. Protectionist tendencies against Japan were most pronounced in the EC. European protectionism focused on preserving old industries, but not prevent successful market penetration by the most competitive suppliers.

Cluster three=EC's third largest loss in competition with Japan=steam boilers+engines+machine tools+metal working machinery+pumps+compressors+household eletrical equipment+watches. Japanese suppliers gained in all markets and EC incurred losses. With respect to the competitive position, European suppliers were not able to keep abreast of Japanese competitors in their own market.

Cluster four=EC's fourth largest loss in competition with Japan=combustion engines+textiles and leather machinery+telecommunications equipment+trailers +ships+ films+optical and medical instruments. Japan gained moderately on all markets. The losers were suppliers from EC countries except Germany, and, even more so, from the United States.

Cluster five=the only EC's gains in competition with Japan=power generating machinery+aircrafts. In this cluster, Japanese suppliers do not dominate. The only export stronghold of the EC as a whole concerns the two industries in the cluster five.

Therefore, the EC has only maintained its competitiveness in cluster five, except for Germany's competitiveness in

cluster four. Therefore, the trend of EC's weakening competitiveness in major industrial areas is noticeable. The international competitiveness of Korean industry has been analyzed by the Office of Technology Assessment of the Congress of the United States as follows:¹⁰

Cluster one=Korea's Strongest International Competitiveness=ships and boats+toys+games+sporting goods+radios.

Korea has extremely high revealed comparative advantage (RCA). That means Korea is extremely competitive relative to other exports in those industries.

Cluster two=Korea's relative advantage in international competitiveness=sound recorders+VCRs+household electric appliances+TV.

Korea has high RCA. That means Korea is advantaged relative to other exports.

Cluster three=Korea's low but relative disadvantage in international competitiveness=office machinery(SITC Code:75)+passenger cars+refined petroleum products+computers.

Korea has low but rising RCA. That means Korea is disadvantaged to other exports but can promote those sectors. Those sectors are capital intensive areas targeted by the Korean government in the last 15 years.

Cluster four=Korea's extreme competitiveness but falling RCA ratios=travel goods+footwears+woven synthetic fabric+televisions+rubber tires and tubes+various textiles+iron and steel bars+ iron and steel tubes and pipes+iron and steel plates and sheets.

Korea is extremely competitive or relatively advantaged to other exports, but has falling RCA ratios. The change out of light labor-intensive manufactures is apparent in this cluster in which competitiveness was strong in the past, but is falling now. Especially decline in the competitiveness of steel and textiles and apparel segments are noteworthy. The source of this decline includes rising labor costs, technological changes, and improvements in productivity that have moved production back to the advanced industrial states.

Cluster five=Korea's lowest international competitiveness=electrical machinery+parts and accessories of office machines+office machines(SITC Code:751)+switchgear+circuits and parts+power generating machinery.

Korea has low RCAs. That means Korea is disadvantaged relative to other exports. Korea is primarily importers rather than exporters.

Comparing these two analyses, it can be concluded the EC has absolute international competitiveness in items such

as power generating machinery where Korea absolutely depends on imports. Therefore, EC's largest export items to Korea are mainly machinery items. However, Korea's competitiveness in office machinery(SITC Code:75) is gradually improving in contrast to a trend of weakening competitiveness in its traditional export items such as textiles and iron and steel products. On the other hand, the EC's international competitiveness in these products is declining very sharply. From these phenomena, it can be forecast that the EC-Korea trade disputes are to shift from the current labour-intensive sectors to sophisticated technology-intensive sectors in future. In addition, major industries in the EC, except for several machinery items and aircrafts, have been losing their international competitiveness. Korea has been also witnessing a decline of its international competitiveness in most products, except for ships, toys, sporting goods and radios. Therefore, the EC and Korea are both troubled by declining competitiveness of most commodities where they traditionally enjoyed an advantage. These problems are contributing to worsening trade disputes. The analysis of structural change in bilateral trade bears this out. Chung Soo Kim made such an analysis through the comparison of the trade between the EC and Korea, in 1978 and 1987, respectively, and found that there are some clear trends.

Firstly, "the EC has traditionally been concentrating on exports of chemical products and specializing in imports of finished consumer products in trade with Korea."¹¹ The sectors where EC industry has been showing the strongest competitive edge against Korea were cosmetics in inorganic chemicals, dyes, organic chemicals and plastic products. Also, industrial machinery and machine tools were products where Korea is less competitive than the EC. On the other hand, "the EC has been showing very weak competitiveness against Korea in footwear, clothing and travel goods where the EC has been specializing extremely in imports from Korea."¹²

Secondly, the EC has been strongly specializing in exports of capital-intensive products, and imports of labour-intensive products to and from Korea. In connection with the level of technology, the EC has been importing products with low-level technology and exporting medium-level technology products from and to Korea.

Thirdly, Korea's competitiveness against the EC has been gradually improving. For example, telecommunications equipment and office machines are sectors where Korea has been recovering its competitive strength against the EC. However, Korea still depends on exports of several items to the EC market, despite Korea's economic development. Namely, Korea's major export items--electrical and electronics products, and textiles and clothing, still accounted in the 1970-1992 period for more than 60 per cent of total exports to the EC. This means that since the end of the 1970s, Korea's exports to the EC have expanded only in several export items.

Fourthly, the bilateral trade pattern between the EC and Korea has inter-industry type characteristic rather than intra-industry type¹³ as an industrial structure between advanced and developing countries. There is therefore likely to be an increase in trade disputes now and in future.¹⁴ Chung Soo Kim explains:¹⁵

Bilateral trade between the EC and Korea has a characteristic of inter-industry type rather than intra-industry type. EC's trade with Japan also has the characteristic of inter-industry type. However, EC's trade with the EFTA countries has the characteristic of intra-industry type. As a result of the characteristic of bilateral trade structure, the EC has many trade disputes with Japan and Korea. However, there are almost none in trade disputes with the EFTA.

Finally, it is meaningful to examine the inter-relationship between the structure of EC-Korea trade and bilateral trade disputes through analyzing the trade performance in the whole year of 1991 when Korea recorded trade deficit with the EC for the first time since 1972. In that year, Korea recorded a decrease of shipments to

the EC market in a total of 16 items which include household electronics products (VCR, color TV, CDP under EC's current AD duty impositions), rubber products (bicycle tyre tubes under the EC's price-undertaking restraints), steel products (EC's VER applied in the 1980-1990 period), textile yarn (polyester yarn under EC's AD duty imposition), stationery (photo albums under EC's price-undertaking restraints), textile raw materials (import restraints under MFA), and inorganic chemicals (oxalic acid under EC's AD duty imposition and glutamic acid under EC's price-undertaking restraints).

On the other hand, the EC recorded a decrease of shipments to the Korean market in a total of 9 items which include precision machinery and transportation machinery, and industrial electronics (items in which the EC has traditionally strong competitiveness against Korean products) and textile products (items in which the EC has traditionally weak competitiveness against Korean products). The relative strength of the EC in trade with Korea, in terms of numbers of export items whose exports were declined, contributed to the EC's trade surplus in bilateral trade in 1991 for the first time since 1972.

In sum, 1) the specialization of trade in a limited range of items in bilateral trade, 2) the characteristic of inter-industry trade structure, and 3) the weakening competitiveness of the EC's products, which maintained traditionally strong competitiveness against Korea, led to the inevitable increase of trade disputes between the EC and Korea. However, the trade balance moved in favor of the EC in 1991 and 1992. The reversal in bilateral trade balance in the period was due to EC's tight import restraints against Korea's major export items such as textiles and clothing and consumer electronics products. However, Korea's concentration of exports to specific products played a negative role in Korea's exports to the EC market because Korea has no alternative export items when exports of these products faced difficulties due to EC's import restraints. In addition, Korea's weakening

international price competitiveness in labour intensive products as a result of frequent labour disputes contributed to the decrease in exports of Korea's major commodities. Furthermore, sharp appreciation of Korean won against major EC currencies decreased the profitability of Korean exports, discouraging the exporters' drive to the EC market. For example, the value of won appreciated in the 1987-1989 period by 23.7 per cent against the German mark, 24.5 per cent against the French franc and 34.6 per cent against the British pound.

4. EC-Korea Trade Disputes

4-1. The 1970s--Period of Trade Disputes in Textiles

In the 1970s, the EC's AD proceedings and VER measures were concentrated on textiles, rubber, agro-fisheries and chemical sectors. In this period, the EC had implemented an EC-wide industrial policy for the protection of iron and steel products under the ECSC Treaty. Even though AD investigations against Korea's canned mushrooms, bicycle tire tubes and iron and steel products were initiated in the late 1970s, actual import restraints against those products were implemented in 1980.

Table III-8: EC's Import Restraints against Korea in the 1970s

YI	Items	TR
1975	Textiles and Clothing	MFA
Total	1 Case	

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), p.20.

Note : YI=Year of Import Restraints.
TR=Type of Restraints.

The restrictions on exports of textiles and clothing from developing countries to advanced countries were made multilaterally under the application of the MFA. In addition, EC member states aggressively began to impose import restraints against cheap textiles and clothing from least-developed and developing countries such as

Korea through the application of residual quota restrictions.

At the same time, Korea had been specializing in exports of labour-intensive products which were under tight import restraints of the United States. The trade policy of the United States in the 1970s was repeating the stringent protectionism of the 1920s due to severe economic recession. The United States began to restrict imports of Korea's cotton products from 1965 under the Long-Term Agreement(LTA). As a result, Korea was forced to switch its exports to other developed countries and, therefore, shipments to the EC market had begun to increase rapidly. Spurred by the sharp increase in shipments of cotton goods from Korea, the EC also began to impose import restrictions on those products from Korea from 1971 under the LTA. Originally, the EC had been delaying the application of the LTA, despite the U.S.request to join the LTA. However, the rapid increase in foreign imports, switched from the United States, forced the EC to join the LTA. Therefore, the import restraints by the EC against Korea's textiles and clothing in the 1970s was a reflection of EC's policy to exercise caution against imports switched from the United States.

4-2. The 1980s--Period of Trade Disputes in Steel and Consumer Electronics

The clear difference in trade disputes between the EC and Korea in the 1980s, compared to those in the 1970s, was that in addition to textiles and clothing new items such as iron and steel products and consumer electronics products were added to fuel the trade conflict. Korea was still devoted to exports of labour-intensive products with the full support from the Korean government.

In the 1980s, the number of trade disputes between the EC and Korea increased to 14 cases from the only one case in the 1970s, as seen in Table III-9. The range of products under bilateral trade disputes was widely spread from labour-intensive products(bicycle tyres, polyester yarn

and tungsten products), to chemical products (oxalic acid) and simple assembly products (microwave oven and VCRs). Major factors contributing to the expansion of trade disputes between the EC and Korea in the 1980s can be summed in several points.

Table III-9:EC's Trade Complaints and Actual Import Restraints Against Korea in the 1980s

YI	Items	TR
1980	Canned Mushroom	Quota
1980	Iron and Steel Products	Quota(VER)
1980	Bicycle Tyre and Tubes	PU
1985	Cookware	AD(NI)
1986	Microwave Oven	AD(NI)
1987	H-Beam	AD(NI)
1987	Polyester Film	AD(NI)
1988	Oxalic Acid	AD
1988	Steel Nails	AD(NI)
1988	Polyester Yarn	AD
1988	Tungsten Products	AD(NI)
1989	CDP	AD
1989	VCR	PU
1989	Video Cassette Tape	AD
<hr/>		
Total	14 Cases	2:Price Undertakings 4:Anti-Dumping Duties 2:Quota 6:Not Implemented

Source:Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), p.20 and (Trade Information,Oct.15,1993),pp.68-70.

Note :YI=Year of Import Restraints.TR=Type of Restraints.PU=Price Undertakings.NI=Not Implemented. For cases not implemented, the year of implementation should be that of initiation of investigation.

Latest Developments:

CDP:EC suspended its AD investigation without any measure on Aug.24,1993.

Bicycle Tyre and Tube:EC suspended its AD measure under its AD Law's Sunset Clause (five years) on Jun.1,1993.

Oxalic Acid:EC suspended its AD measure under its Sunset Clause on July 17,1993.

VCR:EC suspended PU measure on March 1, 1994

Firstly, EC's industrial strength in household electrical appliance,agricultural machinery and printing machinery was rapidly declining in the 1980s, even though competitiveness in consumer electronics products has begun to recover since the late 1980s. The weakening

international competitiveness of the EC provoked a sense of growing crisis in the Community market, directly leading to growing pressure from interest groups asking for more stringent protection for ailing Community industries.

Secondly, Korea's splendid export performance to the EC market seriously worried EC industrialists. Korea's exports to the EC, remaining at \$128 million in the 1960-1969 period, increased to \$8,685 million in the 1970-1979 period (about 67 times higher than the value in the previous decade) and to \$45,059 million in the 1980-1989 period (an increase of about 351 times from the 1960-1969 period). Furthermore, Korea's shipments to the EC market were concentrated on specific products such as textiles and household electrical appliance in which EC industries were under severe industrial adjustment pressures.

Thirdly, the southern enlargement of EC---admission of Greece, Spain and Portugal in the EC--also contributed to a tightening of protectionism against Korea because the trade structure of the new EC member states was very similar to that of Korea. Therefore, exporters of those three countries and Korean exporters were in direct confrontation in the EC market for sales of their products. In this situation, the EC was forced to restrict exports from Korea to increase intra-EC trade among developed and developing EC member states in the EC.

Therefore, 1) EC's weakening international competitiveness in major export items, 2) a drastic increase in shipments of several labour-intensive products from Korea to the EC and EC's problems in those industries, and 3) an admission of poor member states in the EC and the necessities in the EC to increase the intra-EC trade between those member states and rich member states, became major factors to worsen trade disputes in the 1980s, compared to those in the 1970s.

4-3. The Period of 1990-1992--Drastic Expansion of Disputes Under an Unstable Trade Environment

In the 1990-1992 period, the EC-Korea trade disputes continued to be in labour intensive and simple assembly products. Korea still concentrated on exports of several items due to its limits in developing new export items and poor level of R&D. The EC was also under the same situation that it had to face industrial adjustment problems in its declining industries. Therefore, bilateral trade disputes in the 1990s further worsened.

Table III-10:EC's Trade Complaints and Actual Import Restraints Against Korea in the 1990-1992 Period

YI	Items	TR
1990	Glutamic Acid	PU
1990	Footwear	VER
1990	Photo Album	PU
1990	Audio Cassette Tape	AD
1990	Color TV Sets(Small Screen)	AD
1990	Pocket Lighters	AD
1990	Car Stereo Radio	AD
1990	Synthetic Fibres of Polyester	AD(NI)
1991	DRAMS	AD(UI)
1991	Stainless Steel Rod	AD(UI)
1992	Floppy Diskette	AD(UI)
1992	Electronics Scale	AD(UI)
1992	Color TV Sets(Large-Screen)	AD(UI)
Total 13 Cases		2:Price Undertakings 9:Anti-Dumping Duties 1:VER 1:Not Implemented

Source:Korea Foreign Trade Association(Directory of Import Restraints by Advanced Countries against Korea), p.20 and (Trade Information,Oct.15,1993), pp.68-70.

Note:PU=Price Undertakings.NI=Not Implemented.

UI=Under Investigations.TR=Type of Import Restraints
Latest Developments:

Electronics Scale:EC imposed definitive AD duties on Oct.18, 1993. DRAMS:EC imposed definitive AD duties on March 17, 1993.

Synthetic Fibres of Polyester:EC imposed provisional AD duties on July 16,1992 and extended the application period to Nov.12,1993.

Car Stereo Radio:EC imposed definitive AD duties on Aug.4,1992.

Namely, as seen in Table III-10, the trade disputes raised by the EC in the 1990s already marked 13 cases in the 1990-1992 period, which is 92.9 per cent of 14 cases recorded for the 10-year period in the 1980s.However, the

trade balance began to be reversed in the favor of the EC since the start of the 1990s as mentioned above. In 1990, Korea's exports to the EC only increased by 19.6 per cent to \$8,844 million from the previous year's \$7,394 million. However, the EC exported \$8,410 million worth of commodities to Korea in the year, up 29.5 per cent from 1989's \$6,492 million. Korea's export performance in 1991 had been further sluggish with shipments to EC market up only 9.99 per cent to \$9,728 million from 1990's level. Furthermore, Korea's exports in 1992 reduced by 5.1 per cent to \$9,233 million from the previous year's export figure. Korea recorded decreases in exports to the EC market, compared to the previous year's exports, in 1985, 1989 and 1992, respectively. On the other hand, exports by the EC to Korea showed a sharp increase of 25 per cent to \$12,387 million in 1992 over the previous year's \$9,908 million.

Even though the EC had recorded trade surplus with Korea, its import restraints against Korea were drastically increased on the contrary.

From the analysis of trade disputes in the 1990s, some conclusions can be drawn. Firstly, trade disputes between the EC and Korea were due to qualitative issues rather than quantitative issues. That was reflected by the EC's action to expand its import restraints against Korea, despite its trade surplus with Korea since 1991. It is clear that the major reason of trade disputes between the EC and Korea was the concentration of exports from Korea to very limited industrial sectors which needed continuous protection from foreign competition in the eyes of the EC.

Secondly, there are fears among Community business circle; especially from industries which have been receiving protection through residual import restraints at the level of EC member states, that the completion of Single Market will act as a momentum to remove various kinds of relief measures adopted as exceptional cases by individual member states.¹⁶ Therefore, the rush of trade

complaints against Korea by EC business in the 1990s, despite its favorable trade situation with Korea, is likely to have resulted from a concern to secure continued relief measures for ailing industries after the completion of Single Market.

5. Comparison of Protectionism at the Level of EC Member States and the Level of EC

Due to different industrial policy implementation among the EC member states, different industrial and trade structures were established. Therefore, trade disputes between individual EC member states and Korea were different in accordance with the differences in industrial and trade structures. The degree of protectionism of EC member states was different also, depending on their sensitiveness to specific industries threatened by foreign imports. Also, an objective comparison of protective measures by advanced countries against Korea is necessary to do detailed industry-specific case studies later, and to know how the clashes of industrial and trade policies and trade structure development between the EC and Korea influence the effectiveness of protectionism in the EC-Korea trade through comparison of the effectiveness of protectionism in trade between Korea and other developed countries.

5-1. Comparison of Protectionism in EC Member States Against Korea

As I mentioned in Chapter I, the EC's import restraints have been implemented at the EC-wide and individual member state levels, respectively.¹⁷ The evaluation of protectionism of EC member states can be made easily by analyzing the number of trade restraints implemented on an individual member state basis against Korean products. However, it is very difficult to evaluate the degree of protectionism of each member state which was revealed in an EC-wide decision. A way to check the degree indirectly is to analyze the number of import restraints adopted in the period when each EC member state had the chairmanship in the Council of Ministers. The Council meeting is

chaired by the member state holding the presidency which rotates every six months round member states, in alphabetical order (usually Belgium-Denmark-Deutschland(Germany)-Greece(Greek, *Ellas*)-Espania(Spain)-France- Ireland- Italy- Luxembourg- the Netherlands-Portugal-United Kingdom. The number of import restraints against Korean products, adopted when each member state had the presidency in the Council of Ministers, is as Table III-11.

Table III-11:EC's Import Restraints against Korea and Its Relationship with the Presidency of Council of Ministers

Country	POP	NTR	POP	NIR	Total
Belgium	Jan-Jun(1982)	0	Jan-Jun(1987)	0	0
Denmark	Jul-Dec(1982)	0	Jul-Dec(1987)	0	0
Germany	Jan-Jun(1983)	0	Jan-Jun(1988)	0	0
Greece	Jul-Dec(1983)	0	Jul-Dec(1988)	2	2
Spain			Jan-Jun(1989)	2	2
France	Jan-Jun(1984)	0	Jul-Dec(1989)	1	1
Ireland	Jul-Dec(1984)	0	Jan-Jun(1990)	3	3
Italy	Jan-Jun(1985)	0	Jul-Dec(1990)	1	1
Luxembourg	Jul-Dec(1985)	0	Jan-Jun(1991)	1	1
Netherlands	Jan-Jun(1986)	0	Jul-Dec(1991)	1	1
Portugal			Jan-Jun(1992)	0	0
U.K.	Jul-Dec(1986)	0	Jul-Dec(1992)	0	0
Total					11

Source:Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), pp.103-140. Note: POP:Period of Presidency. NIR:Number of Import Restraints against Korea.

On the other hand, import restraints implemented on an individual EC member state basis against Korean products are as Table III-12. When the EC-member states' import restraints have been added to their contribution to the EC-wide import restraints, the Table III-13 is made. France implemented the greatest number of import restraints against Korean products in the EC-Korea trade with a 36.8 per cent share of total import restraints against Korean products,¹⁸ followed by the United Kingdom with 13.2 per cent share, Ireland with 10.5 per cent share, Italy with 9.5 per cent share and Spain, Luxembourg, the Netherlands and Greece with 5.3 per cent share, respectively. Belgium, Denmark and Germany are EC

member states with which Korea has not experienced serious trade disputes in the history of the EC-Korea trade.

Table III-12: Import Restraints by Individual EC Member States as of 1991

Country	Items	TR	Period of Impl.
Germany(1)	Metallic Tableware	Quota	1978-
U.K.(5)	Metallic Tableware	Quota	1978-
	Color and B&W TV Sets	Quota	1978-
	Stoneware	Quota	1977-90
	Music Center and Kits	Quota	1983-86
	Footwear	Quota	1978-90
France(13)	Footwear	Quota	1988-90
	Radio	Quota	1977-
	Color TV Sets	Quota	1977-
	Toys & Parts	Quota	1977-90
	Umbrellas	Quota	1977-90
	Sundries	Quota	1977-90
	Clocks	Suspension of issuance of I/L When Oversupplied	1983-90
	Elec. & Electronics Equipment	Quota	1977-
	Textile Fabric	Quota	1982-92
	Stoneware	Quota	1983-86
	Quartz Watch	Quota	1984-87
	Tiles	Quota	1977-86
	Silk Products	Quota	1977-
Ireland(1)	Footwear	Quota	1982-90
Benelux(1)	Metallic Tableware	Quota	1986-
Denmark(1)	Metallic Tableware	Quota	1984-88
Italy (3)	Footwear	Quota	1988-90
	Textile Yarn	Quota	1982-92
	Textile Fabric	Quota	1988-92
Total	25 Cases	24: Quotas 1: I/L Suspension	

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), pp.143-172.

Note : TR: Type of Restraints. Impl.=Implemented.
Import restraints under anti-circumvention clause (Article 115 of Rome Treaty) was excluded. The figures in parentheses are the number of import restraints.

Table III-13: Degree of Protectionism by EC Member States as of 1991

Country	EWM(A)	MSM(B)	Total(C)	Ratio(A+B)/38
Belgium	0	1	1	2.6%
Denmark	0	1	1	2.6
Germany	0	1	1	2.6
Greece	2	0	2	5.3
Spain	2	0	2	5.3
France	1	13	14	36.8
Ireland	3	1	4	10.5
Italy	1	3	4	9.5
Luxembourg	1	1	2	5.3
Netherlands	1	1	2	5.3
Portugal	0	0	0	0
U.K.	0	5	5	13.2
Total	11	27	38	100 %

Source: Author's Own Table Making.

Note : EWM: EC-Wide Measures. MSM: Member States' Measures. In case of restraints implemented by Benelux countries, one case of implementation added to each country.

Through the result of the analysis, it can be found that failed industrial structure adjustment implementation by the United Kingdom, France and Italy caused them to adopt defensive trade policies against Korea. On the other hand, Germany did not implement serious import restraints against Korea due to its positive industrial adjustment policy. Therefore, the success or failure of industrial structure adjustment policy implementation became a factor to determine whether a specific member state in the EC favoured protectionism against Korea or not.

5-2. Comparison of Effectiveness of Protective Measures by EC and Other Advanced Countries against Korea

This section evaluates how the clashes of industrial and trade policies and changes in trade structure between the EC and Korea influence the effectiveness of the EC's protectionism against Korea by comparing the effectiveness of these protective measures with those of other developed countries against Korea.

5-2-1. Comparison of Shares of Exports under Import Restraints in Total Exports

Before such evaluation, it is useful to see Korea's exports under import restraints from advanced countries.

Table III-14: Korea's Exports under Import Restraints from Advanced Countries (\$1M, %)

Years	EUR(A)	TEAC(B)	TE	Ratio(B/A)
1987	10,372	36,437	47,280	28.5
1988	10,070	53,188	60,696	18.9
1989	9,944	52,684	62,377	18.9
1990	8,394	53,382	64,982	15.7
1991	8,153	54,014	71,870	15.1
1992	6,325	42,510	76,632	14.9

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), p.63.

Note : EUR=Export Under Restraints.

TEAC=Total Exports to Advanced Countries.

TE=Total Exports.

NIR =Number of Import Restraints.

The ratio of Korea's total exports to advanced countries under import restraints are decreasing from 28.5 per cent in 1987 to 14.9 per cent in 1992. Such an export trend can be interpreted in three ways. Firstly, import restraints by advanced countries are very effective to reduce imports of Korean commodities, which are invoking trade disputes, because exports of commodities under import restraints are annually decreasing since 1987 from \$10,372 million to \$6,325 million. Secondly, advanced countries have been reducing their import restraints against Korea. That is proved by the reduction in share of exports, which are subject to import restraints, in total exports. Thirdly, Korean exporters were eagerly endeavouring to develop alternative overseas markets where there were no import restraints against Korean products, and to diversify export items which are not subject to import restraints. That was proved by such fact that Korea's total exports continuously increased despite world-wide trade restrictions intensified. Considering these contradictory interpretations, it is not so easy to evaluate the degree of protectionism by advanced countries against Korea through the comparison of shares of exports, which are subject to import restraints, in total exports.

Such dilemma can be found when the share of products under import restraints by advanced countries in total exports of Korea is compared through individual analysis of those shares of products under import restraints by the United States, the EC, Japan, Australia and Canada against Korea in Tables III-15 to 19. Among the five countries, the EC imposed import restraints equivalent to 26.2 per cent of Korea's total exports to the EC market in the 1989-92 period, as seen in Table III-15.

Table III-15: Korea's Exports under Import Restraints from the EC(\$1M, %)

Years	TE(A)	EUR(B)	B/A
1989	7,394	1,646	22.3
1990	8,844	2,504	28.2
1991	9,728	2,728	28.0
1992	9,233	2,347	25.4
Total	35,199	9,255	26.2

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), pp.63 and 68.

On the other hand, Korea's share of exports under Japanese import restraints in total exports to Japan has remained at 8.98 per cent in the 1989-92 period, as seen in Table III-16.

Table III-16: Korea's Exports under Import Restraints from Japan(\$1M, %)

Years	TE(A)	EUR(B)	B/A
1989	13,457	1,396	10.4
1990	12,638	1,078	8.5
1991	12,356	1,166	9.4
1992	11,599	856	7.4
Total	50,050	4,496	8.98

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), pp.63 and 70-71.

However, it is misleading to compare the number of import restraints against Korea by the EC and Japan. First of all, Japan imports a relatively high volume from Korea, compared to that by the EC. As I mentioned in Chapter II,

Korea heavily depends on Japanese direct investments for industrial development.

Table III-17: Korea's Exports under Import Restraints from the United States(\$1M, %)

Years	TE(A)	EUR(B)	B/A
1989	20,639	4,072	19.7
1990	19,360	3,994	20.6
1991	18,559	3,597	19.4
1992	18,090	2,895	16.0
Total	76,648	14,558	18.99

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), pp.63 and 67.

Table III-18: Korea's Exports under Import Restraints from Canada (\$1M, %)

Years	TE(A)	EUR(B)	B/A
1989	1,882	451	23.9
1990	1,731	399	23.1
1991	1,673	325	19.4
1992	1,608	280	17.4
Total	6,894	1,455	21.1

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), pp.63 and 67-68.

Table III-19: Korea's Exports under Import Restraints from Australia(\$1M, %)

Years	TE(A)	EUR(B)	B/A
1989	1,005	107	10.6
1990	956	108	11.3
1991	990	88	8.9
1992	1,094	82	7.5
Total	4,045	385	9.5

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), pp.63 and 71.

As a result, exports by Japanese companies in Korea to their home country can not be undervaluated in total exports by Korea. This difference in total import volume between Japan and other developed countries could distort

the real evaluation of the degree of protectionism against Korea. In addition, Japan has a higher access to the Korean market due to the need of Korean industry to import plant equipment for the operation of Japanese-invested companies in Korea. Therefore, the method to compare the share of Korea's exports under import restraints by a specific country to its total exports have a clear limitation as a means to see objective results.

5-2-2. Comparison of Number of Import Restraints by Advanced Countries Against Korea

Another way to check the degree of protectionism is the comparison of the number of import restraints.

Table III-20: Import Restraints Adopted by Each Advanced Country (Number of Cases)

Country\Year	1989	1990	1991	1992	Total
USA	11	14	15	15	55
EC(Community-Level)	8	12	14	15	49
EC(Member-Level)	13	12	12	7	44
Canada	17	10	8	7	42
Australia	11	11	14	15	51
Japan	10	10	10	8	38
Total	70	69	73	70	282

Source: Korea Foreign Trade Association(Directory of Import Restraints by Advanced Countries against Korea), pp.63-75.

Note: All cases are calculated on an accumulative basis (cases of continuation plus new cases).

In terms of the number of import restraints, the EC has imposed the greatest number of import restraints against Korea numbering a total of 93 cases in EC-wide and member states' measures together in the 1989-1992 period. However, the number of import restraints has to be considered with changes in export volume of Korea which were under import restraints as a way of evaluating more logically.

In case of trade with the United States, the number of import restraints increased from 11 cases in 1989 to 15 cases in 1992. The export volume under import restraints has decreased from \$4,072 million to \$2,895 million. It

is clear that import restraints by the United States has been effective to reverse the growing trend of exports from Korea.

The case of trade with Australia is similar to the U.S. case. Namely, Korea's exports under Australian import restraints has decreased from \$107 million in 1989 to \$82 million in 1992 when the number of import restraints increased to 15 cases from 11 cases.

A little different situation can be found in the case of trade with Canada. Korea's exports under Canada's import restraints has been reduced to \$280 million in 1992 from 1989's \$451 million when the number of trade restraints was reduced from 1989's 17 cases to 7 cases in 1992. It is, however, difficult to argue the trade restrictive measures adopted by Canada has been very effective to reduce competition from Korean products. It is natural that trade volume under import restraints should be reduced with the decrease in the number of trade restraints because the coverage of items under import restraints is scaled down.

Such situation in Canada-Korea trade can be also found in Japan-Korea trade. The number of import restraints was reduced to 8 cases from 10 cases in the 1989-1992 period. The export volume of Korea under Japanese import restraints dramatically reduced from \$1,396 million in 1989 to \$856 million in 1992.

The number of EC-wide import restraints against Korean products increased from 8 cases in 1989 to 15 cases in 1992. However, Korea's exports under EC's import restraints also drastically increased by 42.6 per cent from \$1,646 million in 1989 to \$2,347 million in 1992. Such result is natural because the coverage of items under import restraints was expanded.

Therefore, the macro-comparison of the degree of protectionism by advanced countries against Korea, except for the case by the United States and Australia, is very hard one. The analysis, depending on the comparison of shares of exports under import restraints in total

exports of Korea, or comparison of the number of import restraints by advanced countries against Korea, could be a premature work to distort the real evaluation of protectionism by these countries against Korea. Thus, one of the reasonable methods to evaluate the effectiveness of import restraints is to make a commodity-by-commodity analysis, which are subject to import restraints, using changes of value in exports of those products.

5-2-3. General Trend of EC's Protective Measures Due to Policy and Trade Structure Changes between EC and Korea

Despite such problems in comparison of protectionism by advanced countries against Korea, the EC is likely to be imposing the greatest number of import restraints against Korean products, compared to other advanced countries. Namely, Korean products which are being exported under EC's import restraints were recording the highest figure (22.3 per cent in 1989, 28.2 per cent in 1990, 28.0 per cent in 1991 and 25.4 per cent in 1992), compared to these figures recorded between Korea and other advanced countries, as seen in Table III-21. Also, the share of import restraints by the EC and the EC member states in total number of import restraints by advanced countries against Korea accounted for 32.98 per cent with 93 cases in a total of 282 cases in the 1989-92 period.

Table III-21: The Share of Korea's Exports under Import Restraints by Advanced Countries against Korea(%)

	1989	1990	1991	1992
USA	19.7	20.6	19.4	16.0
CAN	23.9	23.1	19.4	17.4
JAP	10.4	8.5	9.4	7.4
AUS	10.6	11.3	8.9	7.5
EC	22.3	28.2	28.0	25.4

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), p.63.

Therefore, the policy and trade structure changes between the EC and Korea especially gave a serious impact on the EC-Korea trade disputes, compared to Korea-United States,

Korea-Japan, Korea-Australia and Korea-Canada trade disputes.

In sum, the negative or positive industrial structure adjustment policy implementation in time of favorable economic conditions became a factor to determine whether a specific member state in the EC was moving toward or away from protectionism against Korea in time of difficult economic conditions. As a result, France and Italy (negative industrial structure adjustment) and Germany (positive industrial structure adjustment) took a different line toward trade relations with Korea. The EC and the EC member states had also implemented the greatest number of import restraints against Korea among major advanced countries in terms of the share of Korea's exports, which were subject to import restraints, and the number of import restraints against Korea.

As a result of the changes in divergent economic policies between the EC and Korea, its impact on bilateral trade structure and its causal relationship with determinants of protectionism in the EC-Korea trade, determinants and effectiveness of protectionism in the EC-Korea trade can not fully be explained with current approaches in the IPE literature. In the following chapter, therefore, I will broadly test various approaches in the IPE literature concerning determinants of protectionism in relation to the EC-Korea trade, as well as test of my hypotheses regarding determinants of protectionism in the EC-Korea trade. I will also broadly evaluate the effectiveness of EC's protective measures against Korea through David Yoffie and Patrick Messerlin's approaches.

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7. Pelkmans, Jacques and Joyce Tan, "Trade Protection in the EC and Korea," *the Economic Cooperation between EC and Korea: Problems and Prospects* edited by Min, Chung Ki(Seoul, Korea Institute for International Economic Policy, 1991), p.91.
8. According to Prabhu Guptara, "the word 'competitiveness' itself understood and used in two broad categories: the first views competitiveness as a question of relative efficiency as reflected in productivity and productivity growth; the second views competitiveness as reflecting relative international trade performance." See "Competitiveness Edginess," *FT Review of Business Books, Financial Times* (Sept.28,1993), p.8. In my thesis, the competitiveness mainly means the second definition.
9. Langhammer, Rolf J. & Ulrich Hiemenz, "Declining Competitiveness of EC Suppliers in ASEAN Markets: Singular Case or Symptom?" *Journal of Common Market Studies*(Vol.XXIV, No.2, Dec.1985), pp.114-118.
10. Congress of the United States, *op.cit.*, p 208.
11. Kim, *op.cit.*, p 208.
12. Kim, *op.cit.*, pp. 210-211.
13. Robert Gilpin, however, argues "intra-industry trade based on differing tastes, economies of scale and related factors characterized trade among advanced countries." See "The Implications of the Changing Trade Regime for U.S.-Japanese Relations," *the Political Economy of Japan Volume 2: The Changing International Context*(Stanford, Stanford University Press, 1988), p.164.
14. See Section 4 of this Chapter for detailed chronological analysis of EC-Korea trade disputes.
15. Kim, *op.cit.*, pp. 208-209.
16. The residual support for protectionism after the completion of the Single Market is different in accordance with the current situation of individual EC member states. According to the third UPS survey, based

on nearly 1,500 interviews by Harris among EC business leaders between Sept.6 and Oct.8,1993, "only 20 per cent of respondents in France agreed not to implement any residual protective measures after the Single Market, compared to 40 per cent in Spain, 42 per cent in Italy, 60 per cent in the Netherlands and each of 71 per cent in Germany and the United Kingdom, respectively." See "Europe's Future:The View from the Boardroom," *Financial Times* (Nov.9,1993), p.4.

17.Regarding the nature of protectionism in the EC, Louis Emmerij argues "the EC tradition of discrimination is deeply rooted, as the Community itself is a preferential trading arrangement. There is no other actor in the international trading system which had deviated so widely from the principles of free trade as has the Community. The fears of a 'Fortress Europe' do not, therefore, come out of the blue, but are based on real-life experience." See "Europe 1992 and the Developing Countries:Conclusions," *Journal of Common Market Studies* (Vol.29, No.2, December 1990), p.250.

18.There are many analyses on the fundamental reason of France's protectionism. Geoffrey Garret argues "French primary concern was to protect the interventionist industrial policies that had long been central elements of France's overall economic strategy." See Garret, Geoffrey, "International Cooperation and Institutional Choice:The European Community's Internal Market," *International Organization* (Vol.46, No.2, Spring 1992), pp.542-545.On the other hand, Andrew Moravesik maintains French trade policy moved toward "principle of autarky--import protection, capital controls and repudiation of the EMS--to protect expansionist domestic policies under the coalition government between radical-wing socialists and communist party. Its policy in internal related issues has been changed since March 21, 1983 by implementing conservative economic policies in their belief that France must work within Europe to achieve its economic goals. However, the protective external trade policy has not been changed so far." See Moravesik, Andrew, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organization* (Vol.45, No.1, Winter 1991), pp.29-31.

Chapter IV. Broad Test of IPE Approaches to Evaluate Determinants and Effectiveness of Protectionism in EC-Korea Trade

A Brief Summary of Chapter IV

IPE Approaches to Evaluate Determinants of Protectionism and EC-Korea Trade

For the EC-Korea trade case, there are no approaches in the literature which fully explain the determinants of protectionism by the EC against Korea. The outcome of the application of the major approaches to explain the determinants of protectionism can be summarized as follows:

Test Results of Some Approaches Regarding Determinants of Protectionism

Approaches	KUS	KEC	KECM
Hegemonic Stability	A	NA(IR)	A
Business Cycle	A	NA	NA
Export Dependence	NA	NA	NA
Multinationalization	NA(NM)	NA(NM)	NA(NM)
Strategic Trade Demands	A	NA	NA
Exit-Entry Barriers	PA	PA	NA
Footwear Case	A	-	NA
Color TV Case	NA	-	NA
Iron & Steel Case	A	A	-
Voter Support & Collective Action	-	NA	NA

Source: Author's Own Table Making.

Notes: KUS=Korea-U.S.Trade. KEC=Korea-EC Trade.

KECM=Korea-EC Member States Trade.

A=Applicable. NA=Not Applicable.

PA=Partially Applicable. IR=Irrelevant.

NM=Not Meaningful.

My Hypotheses Regarding Determinants of EC's Protectionism Against Korea

A latent form of "Japan Complex" had developed among EC policy-makers, caused by the experience of previous industrial damage to EC industry by Japan, affecting the decisions made regarding protective measures against Korean imports. The EC's erroneous comparison of Korea with Japan resulted in the expectation by the EC that as a 'developed country' Korea should also take over the obligation going with such a status. The EC also

considered whether imports of specific products had been under import restraints from the United States or not in the process of implementing protective measures against Korea. In addition, the EC's protective measures against Korea had a strong causal relationship with Korea's neo-mercantilist policy approach. The target industries of EC's import restraints had been changed from textiles and clothing, iron and steel products and consumer electronics since the 1970s, depending on the change in direction of Korea's target industries for strong policy supports.

Approaches to Evaluate Effectiveness of Protectionism in Terms of Success or Failure of Aims of Protective Measures

David Yoffie's approach seems to be inapplicable to the EC-Korea trade. His approach needs to be supplemented by two factors. Firstly, the economic disadvantage and political attractiveness of VERs and OMAs to countries which implement those measures have to be considered. Secondly, AD duty impositions must be added in his analysis of effectiveness of import restraints by the United States against NIEs. In the EC-Korea trade, Patrick Messerlin's approach is applicable because only seven items among a total of 16 items, which are subject to EC's import restraints, showed an increasing trend of exports in the 1987-1991 period, despite the import restraints.

Test Results of Approaches to Evaluate Effectiveness of Protectionism in Terms of Success or Failure of Aims of Protective Measures Using the EC-Korea Trade Case

	DYA	PMA

Korea-US Trade		
1) Textiles	NA	A
2) Iron and Steel	NA	A
3) Color Television Sets	NA	A
4) Album	NA	A
5) Pipe Fitting	NA	A
6) Brass Sheet and Strip	NA	A
7) Color Braun Tube	NA	A
8) Small Business Telephone System	NA	A
9) Stainless Steel Cookingware	NA	A
10) Nitro Cellulose	NA	A

11)Acrylic Sweater	NA	A
12)Polyester Film	NA	A

Korea-EC Trade		
1) Textiles	A	NA
2) Iron and Steel Products	NA	A
3) Footwear	A	NA
4) Canned Mushroom	NA	A
5) Oxalic Acid	NA	A
6) Polyester Yarn	NA	A
7) Compact Disk Player	A	NA
8) Video Tape	A	NA
9) Color Television Sets	NA	A
10)Glutamic Acid	A	NA
11)Bicycle Tyre Tubes	A	NA
12)Video Tape Recorder	NA	A
13)Album	NA	A
14)Gas Lighter	NA	A
15)Audio Tape	A	NA
16)Car Stereo Radio	NA	A

Source:Author's Own Table Making.

Notes :A=Applicable.NA=Not Applicable.

DYA=David Yoffie's Approach.

PMA=Patrick Messerlin's Approach.

1. Introduction

In this chapter, I am chiefly concerned with examining the approaches in the IPE literature to evaluate determinants and effectiveness of protectionism with the results of analysis in Chapters I, II and III. In the first section, various approaches regarding determinants of protectionism are tested using data such as past and present import restraints against Korea by the United States and the EC. In the second section, I will test three hypotheses as determinants of EC's protectionism against Korea with the help of various examples of the EC's protective measures against Korea. In the third section, I will test the approaches to evaluate effectiveness of protective measures in terms of failure or success in the EC-Korea trade. Such approaches will be tested through examining changes in Korea's export value or export volume to the EC market under the EC's import restraints against Korea. My conclusion in this chapter is that approaches regarding determinants of protectionism in IPE literature are not fully applicable as determinants of EC's protectionism against Korea. Rather than the current IPE approaches, my hypotheses are

more effective in explaining determinants of EC's protective measures against Korea. In connection with the effectiveness of protectionism, I conclude that the EC's protective measures are harmful to the industries, both in the EC and in Korea, as mentioned in Introduction in this thesis, but at the same time EC's import restraints are very effective in reducing the growing imports from Korea to the EC market. This outcome is contrary to what should have been expected by using David Yoffie's approach, but verifies Patrick Messerlin's approach.

2. IPB Approaches Regarding Determinants of Protectionism and EC-Korea Trade

2-1. Supply-Side Approaches of Protectionism

2-1-1. Hegemonic Stability Approach

According to hegemonic stability approach, the existence of hegemonic power¹ contributes to the maintenance of free trade mechanism in the hegemon state and in the rest of the world. However, international trading order reverses to fierce protectionism during hegemonic decline or non-existence of hegemonic power. For the test of hegemonic stability approach, it is very important to consider the time period in the EC-Korea trade. Before 1969, Korea's trade with the EC was very minimal. As I mentioned in Chapter III (Section 4-2), Korea's exports to the EC remained at \$128 million in the 1960-1969 period with imports also confined to \$645 million in the same period. The 10-year export figure of Korea to the EC market only represented 1.47 per cent of the exports recorded in the 1970-1979 period (\$8,685 million) and 1.44 per cent of exports in the year of 1990 alone (\$8,876 million). Therefore, the hegemonic stability approach for the period before 1969 is meaningless and I have limited the period to be considered from the 1970s onwards.

In connection with the hegemonic decline of the United States, Edmund Dell maintains the importance of the date, August 15, 1971 as follows:²

At that date, President Nixon imposed an import surcharge and made the dollar inconvertible. He also demanded, as the price for returning the United States to full participation in the international economic system, that the other OECD countries should take steps which would bring about a major improvement in the American balance of payments.

Arthur Stein also argues "the decline of American economic hegemony became fully manifest in 1971 when the United States transformed the postwar economic order by simultaneously instituting an import surcharge and refusing to exchange gold for dollars, and these measures knocked out the monetary and commercial underpinnings of postwar international economic relationships."³

According to Helen Milner, "American hegemony, especially in trade and production, had declined substantially by the 1970s, leaving the international distribution of power in the 1970s more similar to that of the interwar period than to that of the immediate post-World War II period."⁴

Furthermore, William Thompson and Lawrence Vescera argue "unchanged American leadership prevailed up to about the early 1970s and a new period of leadership transition may be underway in the 1980s and the 1990s."⁵

Therefore, it is clear that the hegemonic power of the United States began to decline during the early 1970s.⁶

Table IV-1: Korea's Exports to USA in the 1970s (\$1M, %)

Years	Total Exports(A)	Exports to USA(B)	Share(B/A)
1970	835	395	47.3
1973	3225	1021	31.7
1974	4460	1492	33.5
1975	5081	1536	30.2
1976	7715	2492	32.3
1977	10046	3118	31.0
1978	12711	4058	31.9
1979	15055	4373	29.0

Source: Korea Foreign Trade Association (Major Statistics of Korean Economy), pp.192 and 210.

In terms of export value, Korea's exports to the United States in the 1970s had been on a continuously increasing trend from \$395 million in 1970 to \$4,373 million in

1979. However, Korea's share in the U.S. market was drastically reduced to 29 per cent in 1979 from 1970's 47.3 per cent. That is one of major indications that the United States strengthened its import restraints against Korea in the 1970s, compared to those measures before 1970.

Table IV-2: U.S. Import Restraints against Korea (1970-79)

Order	Products	Type of IRE	Year of Impl.
1	Textiles and clothing	MFA	1975--
2.	Non-Rubber Footwear	OMA	1977-1981
3.	Bicycle Tyres & Tubes	AD	1978-1987
4.	Kitchenware of Iron & Steel	Increases of Duties	1979-1984

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries Against Korea), p.18.

Notes : IRE=Import Restraints. Impl.=Implementation.
MFA=Multi-Fibre Arrangement.

This indication is further supported when the U.S. import restraints are examined in terms of numbers of protective measures. During the hegemonic decline of the United States in the 1970s, major protective measures adopted by the United States against Korea was MFA signed in 1975, to regulate imports of textiles and clothing from Korea into the U.S. market. The United States also imposed OMA on imports of non-rubber footwear from Korea in 1977-1981 period. These two restrictive measures by the United States had been adopted after the restrictions against Japanese textiles and clothing and Taiwanese non-rubber exporters. Korean companies had been rapidly increasing their shipments to the U.S. market through exploitation of opportunities arising from Japanese and Taiwanese difficulties in exporting their products to the United States due to quota or OMA measures against their products. Other import restraints by the United States in the 1970s were against Korean bicycle tires and tubes and kitchenware of iron and steel. Import restraints by the United States against Korea in the 1960s, however, was on cotton fabrics only. Therefore, the hegemonic decline in

the United States contributed to increasing the number of import restraints against Korea.

During the 1970s, world-wide trade environment deteriorated in the course of the oil shocks in 1973 and 1979, and also following fragmentation of economic power in the world. David Greenaway explains this fragmentation phenomenon of economic power to the United States, Japan and the EC as follows:⁷

The United States no longer possessed overwhelming economic authority, since there was not a new center of economic power in Western Europe. The more 'collective' voice of Europe also meant that the bargaining process had been simplified. 'Equilibrium' was soon to be disturbed by the emergence of Japan as a trading power.

In connection with the worsening position of the United States as the major hegemonic power, import restrictive measures adopted by the United States against Korea rose to 17 cases in the 1980-91 period, as seen in Table IV-3.

Table IV-3: U.S. Import Restraints against Korea in the 1980s-Present

Order	Products	Type of IRE	Year of Impl.
1.	Canned Mushrooms	Increase of Duties	1980-1983
2.	Special Steels	Global Quota	1984--
3.	Color TV Sets	AD	1984--
4.	Caulking Gun	General Exclusion Order	1984--
5.	Carbon & Alloy Steel	Bilateral Quota	1984-1992
6.	Album	AD	1985--
7.	Offshore Platform Jackets and Files	AD/CVD	1985-1987
8.	Malleable Cast Iron Pipe Fittings	AD	1985--
9.	Brass Sheet & Strip	AD	1986--
10.	Color Braun Tube	AD	1987--
11.	Stainless Steel Cookingware	AD	1986--
12.	Nitro Cellulose	AD	1989--
13.	Acrylic Sweater	AD	1989--
14.	Plastic Bag	General Exclusion Order	1987--
15.	Erasable Programmable ROM	General Exclusion Order	1987--
16.	Small Business Telephone System	AD	1989--
17.	Polyester Film	AD	1991--

Source: KFTA (Directory of Import Restraints by Advanced Countries Against Korea), pp.18-19.

Even though the United States strengthened its import restraints against Korea in the 1980s, Korea's export performance to the United States maintained a continuously increasing trend until 1988, as seen in Table IV-4.

Table IV-4: Korea's Exports to USA in the 1980s-1990s(\$1M, %)

Years	Total Exports(A)	Exports to USA(B)	Share(B/A)
1980	17504	4606	26.3
1981	21253	5660	26.6
1982	21853	6118	27.9
1983	24445	8127	33.2
1984	29244	10478	35.8
1985	30283	10754	35.5
1986	34714	13879	39.9
1987	47280	18310	38.7
1988	60696	21404	35.3
1989	62377	20638	32.9
1990	65015	19359	29.8
1991	71870	18559	25.8

Source:KFTA(Major Statistics of Korean Economy), pp.192 and 210.

However, this reversed to a decreasing trend from 1989. Korea's exports to the United States declined to \$20,638 million in 1989, to \$19,359 million in 1990 and to \$18,559 million in 1991, from \$21,404 million in 1988. Also, the share of exports to the United States in Korea's total exports was down to 25.8 per cent in 1991. The share was the lowest one since the 1970s in the history of the U.S.-Korea trade.

Faced with import restraints from the United States, Korean companies tried to diversify their export items to commodities which were not subject to protectionist import measures.

For example, Korea's exports of chemicals, non-ferrous metals and general machinery increased sharply in 1989 over the previous year. However, this export diversification strategy began to see limitations from the late 1980s due to the expansion of numbers of items subject to the U.S.import restraints at that time, and

Korea's weakening international price competitiveness of major export items to the United States.

Amid the hegemonic decline in the United States and its stringent import restraints against Korea, Korea recorded the highest market share of exports in the EC in 1979 with 16.3 per cent in the 1978-1989 period. Since then, the share declined in the 1980s, recording 11.9 per cent in 1989. These trends were almost the same in the U.S.-Korea trade, as seen above.

However, Korea's exports to the United States are inversely proportional to those to the EC.

Table IV-5: Korea's Exports to the EC in 1978-1991 (\$1M, %)

Years	Total Exports(A)	Exports to EC(B)	Share(B/A)
1978	12711	1936	15.2
1979	15055	2460	16.3
1980	17504	2710	15.5
1981	21253	2782	13.0
1982	21853	2914	13.3
1983	24445	3092	12.6
1984	29244	3307	11.3
1985	30283	3256	10.7
1986	34714	4326	12.5
1987	47280	6618	13.9
1988	60696	8160	13.4
1989	62377	7414	11.9
1990	65015	8875	13.7
1991	71870	9728	13.5

Source: KFTA (Major Statistics of Korean Economy), pp.192 and 202.

For example, the share of exports to the United States in Korea's total exports increased from 26.6 per cent in 1981, to 27.9 per cent in 1982, to 33.2 per cent in 1983, to 35.8 per cent in 1984 and to 35.5 per cent in 1985. On the other hand, the figures to the EC declined from 15.5 per cent in 1980 to 13.3 per cent in 1982, to 12.6 per cent in 1983, to 11.3 per cent in 1984 and to 10.7 per cent in 1985. However, the share to the United States declined to 29.8 per cent in 1990 and to 25.8 per cent in 1991 from 1989's 32.9 per cent in contrast to the increase in the figures to the EC to 13.7 per cent in 1990 and 13.5 per cent in 1991 from 1989's 11.9 per cent.

Despite the tightening import restraints by the United States against Korea, the EC did not implement the same degree of protectionism against Korea in the 1970s. Even though the United States had imposed a total of four import restrictive measures against Korea in the 1970s, the EC only applied one import restraint on textiles and clothing under the MFA in the same period.

Table IV-6:EC's Import Restraints against Korea in the 1970s-Present

Order	Products	Type of IRE	Year of Impl.
1.	Textiles and Clothing	MFA	1975--
2.	Canned Mushroom	Bilateral Quota	1980--
3.	Iron and Steel	VER	1980-1990
4.	Bicycle Tire Tube	AD	1980--
5.	Oxalic Acid	AD	1988--
6.	Polyester Yarn	AD	1988--
7.	Compact Dick Player	AD	1989--
8.	Video Tape Recorder	AD	1989--
9.	Video Cassette Tape	AD	1989--
10.	Color Television Set	AD	1990--
11.	Glutamic Acid	AD	1990--
12.	Album	AD	1990--
13.	Audio Cassette Tape	AD	1991--
14.	Non-Rubber Shoes	VER	1990--
15.	Gas Lighter	AD	1991--
16.	Car Stereo Radio	AD	1991--

Source: KFTA(Directory of Import Restraints by Advanced Countries Against Korea), p.20.

However, it is difficult to consider this phenomenon related to hegemonic decline; it may simply have been an accidental result. In addition, the EC-Korea trade was unimportant to the EC at least in the 1970s, compared to the U.S.-Korea trade. Korea's share in EC's total imports in 1975 was only 0.23 per cent (\$0.753 billion/\$322.8 billion), compared to that in the U.S. total imports marking 1.45 per cent (\$1.536 billion/\$105.9 billion). In 1980, however, Korea's share in EC's total imports rose by 52 per cent to 0.35 per cent from 1975's 0.23 per cent, far higher than the growth of 23 per cent in Korea's share in U.S. total imports from 1.45 per cent to 1.79 per cent, reflecting market switching activities by Korean exporters to the EC from the United States. Furthermore, it can not be disregarded that the EC did

not impose many protectionist measures against Korea due to the will of individual EC member states which do not give that power to the ECC. In addition, EC member states were in a position to impose individual import restraints(residual quota measures) under the EC Regulation(No.288/82) against Korea. Therefore, a strict application of the hegemonic stability approach would indicate that it is inapplicable in the EC-Korea trade in the 1970s, but this conclusion is really irrelevant because of the following circumstances which this particular theory does not consider.

From the 1980s to present, import restraints by the United States were very widely distributed, one case in 1980, one case in 1981, three cases in 1984, three cases in 1985, two cases in 1986, three cases in 1987, three cases in 1989 and one case in 1991, totaling 17 cases. Contrary to this trend of U.S.import restraints,the EC has implemented the majority of its import restraints since 1988. Namely, the EC implemented only three cases of protective measures against Korean products in 1980. Then a total of 12 cases of import restraints were imposed against Korean products, mainly consumer electronics, since 1988. There were no import restraints by the EC in the 1981-1987 period. The United States adopted a total of 12 import restraints against Korea, 57 per cent of its total import restraints(21 cases) against Korea since the 1970s, in the 1981-1987 period.

For the sake of completeness, the hegemonic stability approach has also to be applied to trade between individual EC member states and Korea. Since 1970, EC member states adopted a total of 25 residual quota restraints against Korea, as seen in Table III-12 in Chapter III. The number of import restraints by EC member states against Korea since 1970 is 19 per cent higher than the number of import restraints by the United States in the same period. Therefore, the U.S.hegemonic decline and American protectionist measures made individual EC member states feel free to impose protectionist measures

against Korea as well because this provided them the political incentive to do the same import restraints. Therefore, the hegemonic stability approach seems to be applicable in the EC member states-Korea trade. However, it is difficult to conclude whether the hegemonic stability approach is applicable or not in the EC-Korea trade. For the strict application, the degree of importance of EC-Korea trade, compared to the U.S.-Korea trade and specific characteristic of trade policy decision mechanism between the ECC and individual EC member states have to be considered.

2-1-2. Business Cycle Approach

According to Giulio Gallarotti, "prosperous periods, historically, have been accompanied by free trade, and periods of depression by closure."⁸

Table IV-7: Comparison of GDP Growth Rate among Major Advanced Countries(%)

Years	EC	USA	Japan
1961-70	4.8	3.8	10.5
1971-80	2.9	2.7	4.6
1981	0.2	2.3	3.9
1982	0.8	-2.6	2.8
1983	1.6	3.9	3.2
1984	2.3	7.2	5.0
1985	2.5	3.8	4.7
1986	2.6	3.0	2.4
1987	2.8	3.6	4.3
1988	3.8	4.4	5.8
1989	3.4	2.9	4.8
1990	3.1	2.1	4.2
1981-90	2.3	3.0	4.1
1991	0.7	N.A.	N.A.

Source : Somers, Frans (European Economies--A Comparative Study), p.255. Financial Times (Closing ERM Fault Lines, FT Editorial, June 4, 1993), p.19; and Financial Times (EU Jobless Total Heads for 18M, Nov.11, 1993), p.2.

One of major indicators to check the period of prosperity and depression is likely to be the growth rate of the gross domestic product (GDP). The EC enjoyed 4.8 per cent growth of GDP in 1961-1970, which is far higher than the United States' growth rate of 3.8 per cent in the same

period, but far lower than Japan's growth rate of 10.5 per cent, as seen in Table IV-7. However, the favorable growth in the EC reversed to a very poor performance in the 1970s-1980s. According to Louis Turner, "there was no year between 1974 and 1990 when annual growth topped the average seen in the 1960s and early 1970s."⁹

In the 1970s, the United States recorded the lowest GDP growth rate, compared to those in the EC and Japan. The United States implemented a total of four import restraints against Korea in the period, as compared with only one case adopted by the EC. Therefore, the business cycle approach seems to be applicable in the U.S.-Korea trade. However, the EC, which recorded the lowest GDP growth rate in the 1980s, implemented 15 cases of restrictive measures in the 1980-1991 period, compared to 17 cases by the United States. Among the 15 cases, 12 cases (80 per cent of the total) were adopted in the 1988-1991 period, as mentioned above, when the average GDP growth recorded 2.75 per cent, higher than the 1981-1990 average of 2.3 per cent. From 1988, the EC's GDP growth rate showed an increasing trend. However, the implementation of EC's import restraints against Korea rapidly increased since 1988, which is in a sharp contrast to the business cycle approach. Therefore, the business cycle approach seems to be inapplicable in the EC-Korea trade.

For the sake of completeness, the business cycle approach has also to be applied to trade between individual EC member states and Korea. According to Table IV-8, Denmark recorded very low growth of GDP in the 1961-90 period as compared with other EC member states. However, it only implement one import restraint against Korea in the period. On the other hand, France, even though it recorded the second highest GDP growth after Italy in the 1961-90 period, adopted the largest number of import restraints (13 cases) against Korea.

If the business cycle approach is applicable, the order of countries which implemented the most stringent import

restraints against Korea would be the United Kingdom, Denmark, Germany, the Netherlands, Belgium, France, and Italy. However, in reality, the order of countries is far different--France, U.K., Italy and Germany/Belgium/the Netherlands/Luxembourg. Especially, France and Italy imposed tight import restraints against Korea, contrary to their high GDP growth in the 1961-1990 period. Therefore, the business cycle approach seems to be inapplicable both to trade between the EC and Korea, and individual EC member states and Korea as major determinants of protective measures by the EC against Korea.

Table IV-8: Comparison of GDP Growth Rate in Major EC Member States(%)

Years	GER	U.K.	FRA	ITA	BEL	NET	DEN
1961-70	4.5	2.8	5.6	5.7	4.9	5.1	4.5
1971-80	2.7	2.0	3.3	3.1	3.2	2.9	2.2
1981	0.2	-1.1	1.2	1.1	-1.5	-0.7	-0.9
1982	-0.6	1.2	2.5	0.2	1.5	-1.4	3.0
1983	1.5	3.8	0.7	1.1	0.2	1.4	2.5
1984	2.8	1.8	1.3	3.2	2.3	3.2	4.4
1985	2.0	3.6	1.7	2.9	0.9	2.6	4.2
1986	2.3	3.1	2.1	2.9	1.9	2.1	3.3
1987	1.9	3.8	2.2	3.1	2.0	1.3	-1.0
1988	3.7	4.2	3.4	3.9	4.0	2.8	-0.4
1989	3.8	2.2	3.3	3.5	4.2	3.8	1.6
1990	3.5	2.1	3.2	3.0	3.3	3.0	2.0
1981-90	2.1	2.4	2.1	2.5	1.9	1.8	1.9
1961-90	3.1	2.4	3.7	3.8	3.3	3.3	2.9

Source: Somers, Frans (European Economies--A Comparative Study), p.255.

2-2. Demand-Side Approaches of Protectionism

2-2-1. Export Dependence Approach

The supply-side approaches on determinants of protectionism have been tested by many scholars and supplemented with the demand-side approaches,¹⁰ as I mentioned in Introduction in this thesis. One of those demand-side approaches is export dependence approach. According to the export dependence approach, the high

degree of dependence on exports could weaken protectionist inclinations for fear of retaliation by countries who are major export market for initiators of protective measures. The export dependence approach is divided into two perspectives. One is concerned with international economic interdependence and the other with diversification of export items. Namely, the higher the international economic dependence is, the lower the demands for protective measures is (international economic interdependence perspective). Also, the higher the degree of diversification of export items is, the weaker the power to demand for protective measures is (diversification of export items perspective).

2-2-1-1. International Economic Interdependence Perspective

In connection with international economic interdependence and protectionism, Helen Milner argues "the increased international economic interdependence of the post-World War II period has been a major reason why protectionism did not spread widely in the 1970s and early 1980s."¹¹

Table IV-9: Exports of Major Countries and Their GDP(1988)(\$1B)

Countries	TE(A)	EK(B)	GDP(C)	A/C(%)	B/C(%)	NIRK
USA	321.60	12.757	4817.8	6.7	0.26	21
JAP	264.86	15.929	2843.4	9.3	0.56	14
CAN	116.84	1.197	484.6	24.1	0.25	21
EC	429.00	6.042	4762.6	9.0	0.13	16

Source: Orr, Bill (the Global Economy in the 90s), pp.43 and 129.

Note : TE=Total Exports. EK=Exports to Korea.

NIRK=Number of Import Restraints against Korea.

Intra-EC trade was excluded in exports of the EC.

If the international economic interdependence perspective is applicable, the number of import restraints by the EC against Korea would have to be lower in accordance with the degree of dependence of exports to the Korean market, considering the ratio of exports to GDP. Among the major trading partners with Korea, the EC recorded the lowest

GDP dependence on exports to Korea with 0.13. However, the EC's import restraints against Korea numbered only 16 cases in the 1970-1991 period.

On the other hand, the United States and Canada implemented very stringent import restraints against Korea, with 21 cases of import restraints, despite their relatively higher GDP dependence on exports to Korea, compared to EC's dependence on exports to Korea. Only Japan implemented the lowest import restraints against Korea, reflecting its high GDP dependence on exports to Korea. Therefore, the international economic interdependence perspective is hard to apply in the EC-Korea trade as determinants of protectionism.

In case of EC member states, Spain, Greece and Portugal showed very low dependence of exports to Korea on GDP. Therefore, according to the international economic interdependence perspective, high degree of import restraints have to be implemented by them against Korea. However, these countries did not adopt any import restraints against Korea. France implemented the highest degree of protective measures against Korea with a total of 13 cases, despite its relatively high dependence of exports to Korea on GDP.

Table IV-10: Exports of EC Member States and GDP (1988) (\$1B)

Countries	TE(A)	EK(B)	GDP(C)	A/C(%)	B/C(%)	NIRK
BEL/LUX	23.295	0.361	156.6	14.8	0.23	1
Ireland	4.839	0.065	32.5	14.8	0.002	0
Italy	54.682	0.637	828.9	6.6	0.07	3
Germany	147.055	2.081	1201.8	12.2	0.17	1
Spain	13.842	0.149	340.1	4.06	0.04	0
U.K.	75.091	0.914	822.8	9.1	0.12	4
Neth.	29.400	0.510	228.3	12.8	0.22	0
France	62.015	1.134	949.9	6.5	0.11	14
Greece	1.895	0.018	52.5	3.6	0.03	0
Denmark	13.804	0.138	107.5	12.8	0.12	1
Portugal	3.085	0.035	41.7	7.3	0.08	0

Source: Orr, Bill (The Global Economy in the 90s). p.43; and KFTA (Major Statistics of Korean Economy), pp.202-205.

Note: Intra-EC trade was excluded in total exports.

Therefore, the international economic interdependence perspective is also difficult to apply as determinants of protectionism by EC member states against Korea.

2-2-1-2. Diversification of Export Items Perspective

John Conybeare maintains "a high level of diversification of export items implies large numbers of actors in the export sector and therefore, a lower ability to collude for the period of influencing tariff policy."¹² Therefore, the high diversification of export items to specific countries could also weaken the power to demand protective measures. The test of this approach is only done in case of EC member states-Korea trade because it is not so easy to count the number of export items to Korea in the level of the EC.

Table IV-11: Number of Export Items of EC Member States to Korea(1989)

Countries	Number of Export Items	NIRK
Germany	36	1
France	35	14
U.K.	36	4
Italy	34	3
Belgium	34	1(Benelux)
Netherlands	36	0
Greece	30	0
Portugal	27	0
Spain	34	0
Ireland	32	0
Denmark	35	1
Luxembourg	21	0

Source: KFTA(EDPS Department Computer Printout).

Note : Items based on Ministry of Trade & Industry Classification.

Considering the number of export items by EC member states to Korea and the number of import restraints against Korea, the result is completely different with the diversification of export items perspective. In the case of France, it has been implementing the largest number of import restraints against Korea even though its export items have been highly diversified. Belgium, Luxembourg, the Netherlands, Greece, Portugal, Spain and Ireland have not adopted any import restraints against Korea or implemented only one case of restrictive

measure, despite their low diversification of export items. Thus, the degree of diversification of export items is not related with weakness or strength of demands for protectionism in trade between EC member states and Korea. The export dependence perspective, therefore, seems to be inapplicable in EC member states-Korea trade as determinants of protectionism.

2-2-2. Multinationalization Approach

In connection with the degree of multinationalization and protectionism, Helen Milner and David Yoffie argue "multinational firms and export-dependent corporations tended to prefer lower trade barriers."¹³ If this approach is applicable to the EC-Korea trade, it is clear that countries which own a large number of multinational corporations (MNCs) have to be less protection-oriented than other countries with a small number of MNCs.

Table IV-12: Number of Multinationals by Country of Origin(1976)

Countries of Origin	NMNC	Share(%)	NIRK	Share(%)
USA	1582	28	21	24.7
Japan	132	2	14	16.5
EC	2982	54	15	17.6
Switzerland	372	7	0	0
Sweden	210	4	2	2.4
Canada	154	3	21	24.7
Australia	134	2	14	16.5
Totals	5566	100	85	100.0

Source: Robinson, John (Multinationals & Political Control), p.24.

Note : NMNC=Number of Multinational Corporations.

However, it is difficult to find a relationship between high degree of multinationalization and low degree of protectionism in terms of total number of MNCs and their countries of origin. The EC implemented stringent import restraints against Korea, despite its highest share in the number of MNCs in the world, as seen in Table IV-12. The United States also imposed very tight import restraints against Korea in contrary to its high degree of multinationalization. However, the multinationalization approach is applicable in trade

between Korea-Japan, Korea-Canada and Korea-Australia. In accordance with the low degree of multinationalization in Japan, Canada and Australia, those three countries imposed very stringent import restraints against Korea. On the other hand, Switzerland and Sweden had implemented very low degree of import restraints against Korea despite the low level of multinationalization of their companies. However, it is hard to argue that Switzerland and Sweden have low level of multinationalization of their companies, considering the small number of population and high number of multinational companies. Therefore, I would conclude that the multinationalization approach is not meaningful because of the above shortcomings.

In case of trade between EC member states and Korea, the multinationalization approach is also not applicable. Namely, the United Kingdom implemented the second largest numbers of import restraints against Korea among the EC member states, despite its highest degree of multinationalization of companies, as seen in Table IV-13.

Table IV-13: MNCs of EC Member States(1976)

Country of Origin	NMNC	Share(%)	NIRK	Share(%)
Germany	803	27	1	4
U.K.	1130	38	4	16
Netherlands	238	8	1(Bel&Lux)	4
France	398	13	14	56
Italy	112	4	3	12
Denmark	95	3	1	4
Belgium	161	5	0	0
Luxembourg	26	0.9	0	0
Ireland	19	0.6	1	4

Source: Robinson, John(Multinationals & Political Control), p.24.

France also imposed the largest number of import restrictive measures against Korea, even though it has higher degree of multinationalization of companies. On the other hand, Denmark, Belgium, Luxembourg and Ireland had implemented only one import restraint or had not

implemented any import restraints, despite the fact that they owned companies not highly multinationalized.

2-2-3. Strategic Trade Demands Approach

The strategic trade demands approach is that domestic companies demand that their governments close the home market to specific countries which impose trade barriers against them. Therefore, the degree of country A's openness for country B's exporters is strategically decided in accordance with the degree of market access to country B by country A's businessmen. This approach is frequently applicable in trade between the United States and Korea.¹⁴ For example, "the AT & T, a U.S. business telephone systems exporter, asked in March 25, 1993 the American government to threaten Korea with a closure of the U.S. market unless the Korean government does not allow it to participate in an international bidding for the purchase of business telephone system to be awarded by the Korea Telecommunications Company in May, 1993."¹⁵ The U.S. request was finally accepted by the Korean government on July 24, 1993 when the AT & T was included as the only foreign supplier to participate in the Korea's bidding for the purchase of business telephone system from 1994.

In addition, several U.S. industrial associations asked in February in 1993 the U.S. government to designate Korea as a Priority Foreign Country (PFC) under the U.S. Trade Law (Article 301-Protection of Intellectual Property Right) for the implementation of protective measures because Korea does not provide adequate protection of their intellectual property rights. The associations include International Intellectual Property Alliance, Pharmaceutical Manufacturers Association, U.S. Trademark Association and Conemills Corporation.¹⁶

However, Korean market openness seems to be not so important a factor as a determinant to the openness of the EC market. Rather than the openness of Korean market, the EC mainly concerns itself with equal treatment with the United States given by Korea. For example, the EC

abolished its GSP treatment to Korea on Jan.1, 1988 for the reason that the Korean government did not provide the same treatment as given to the United States in the intellectual property right, as I mentioned in Chapter I. Also, the EC has been repeatedly requesting a lowering of Korea's import tariff rates of whiskey on the ground that Korea unfavorably set the import tariff rates of whiskey, which is a major export item of the United Kingdom, when compared to the import tariff rates of brandy, in the Korea-U.S. negotiations. Therefore, the EC has been asking either for a reduction in Korea's import tariffs or a provision of the fairer treatment, based on comparative reciprocity¹⁷ between Korea's treatment to the United States and that to the EC, rather than strategic trade demands by the EC companies. There are some complicated feelings in the EC that the EC is neglected in major procedures of decisions of Korea's tariff levels between Korea and the United States. The strategic trade demands approach, therefore, is not applicable in the EC-Korea trade as a determinant of EC's protectionism against Korea.

2-2-4. Exit and Entry Barriers Approach

According to exit and entry barriers approach, textiles and clothing receive institutionalized protection because of low barriers to entry,¹⁸ large size of domestic industry and easy exit barrier. Also, footwear and television sets receive temporary protection because of low barriers to entry, small size of domestic industry and high exit barrier. Steel and automobiles receive sporadic protection because of high barriers to entry, large size of domestic industry and high exit barrier. This approach is drawn out from analyzing VERs and OMAS implemented by the United States against Japan, Korea, Taiwan and the EC.

In case of textiles and clothing, the MFA has been applicable both to EC-Korea and U.S.-Korea trade. Therefore, it is meaningless to test the approach separately.

In case of footwear, the United States implemented OMA in the 1977-81 period against Korean footwear. Since then, the United States investigated imports of Korean footwear three times--in 1982 under U.S.Trade Law(201 Article),in 1984 under U.S.Trade Law (301 Article) and in 1989 under U.S.Customs Law of 1930. However, there were no official import restraints by the United States against Korean footwear since 1981.Therefore, the exit and entry barrier approach is applicable in footwear trade between the United States and Korea because the U.S.import restraints against Korea were temporary in the 1977-81 period only. However, the EC has been implementing import restraints against Korean footwear since July, 1990. Also, France and Italy had imposed import restraints against Korean footwear for the 1988-1990 period. In addition, the United Kingdom implemented import restraints against Korean footwear for the 1978-90 period, along with Ireland for the 1982-1990 period. Therefore, the EC's import restraints against Korea in footwear is difficult to define as either temporary or institutionalized. However, import restraints by EC member states were institutionalized, rather than temporary,because EC member states were involved in protection of footwear imports from Korea in the 1978-90 period.

In case of television sets, the United States has been imposing AD restrictions against Korea from 1983 to the present. The restraints have been institutionalized, rather than temporary. Therefore, the exit-entry barrier approach is not applicable in the U.S.-Korea color TV set case. Korean television sets, however,have been under the EC's import restraints since April 1990. Prior to this, France was, and still is implementing import restraints against Korean-made color TV sets since 1977. Therefore, it is also hard to argue whether the exit-entry barrier approach is applicable in the EC-Korea color TV case or not because the import restraints have only been initiated since 1990. However, the approach is not applicable in EC member states-Korea color TV set case

because the import restraints against Korea were institutionalized.

In case of iron and steel products, the United States had imposed VER measure on Korean products for the 1984-1992 period. The EC also implemented the same measure for the 1980-1990 period. However, the United States has been investigating Korean steel pipes and tubes and stainless steel pipes and tubes since 1991 for the imposition of AD duties. The EC also followed suit to start AD investigation against imports of Korean steel rods. However, there were no import restraints by EC member states against Korean iron and steel products. Therefore, the demands for protection in iron and steel products are sporadic, but almost institutionalized both in the United States and the EC.

The exit-entry barrier approach is applicable in trade of footwear and iron and steel products between the United States and Korea, and iron and steel products between the EC and Korea. It is very hard to argue whether the approach is applicable or not in footwear and color TV trade cases between the EC and Korea. However, the approach is not applicable in trade of color TV sets between the United States and Korea. On the other hand, the approach is certainly not applicable to individual EC member states and Korea CTV trade cases. Thus, the exit-entry barrier approach is only partly applicable in the EC-Korea trade.

2-2-5. Voter Support and Degree of Collective Action Approach

In connection with political power and demands for protectionism,¹⁹ Vinod Aggarwal, Robert Keohane and David Yoffie argue "large industries with high levels of resources in votes, campaign funds, political organization and so on will be able to pay more for protection than less well-endowed industries."²⁰ If such argument is applicable to the EC-Korea trade, initiation of investigations to impose protective measures against products from Korea, which are closely linked to

interests of politically powerful industrial organizations in the EC, has high possibilities for the adoption of definitive import restrictive measures.

Table IV-14: EC Employment in Manufacturing by Branch (1950-90) (million persons)

Order	Goods	1950	1960	1970	1980	1990
1.	Textiles, Clothing, Footwear	8.0	7.5	6.4	4.7	3.8
2.	Transport Equipment	3.0	4.0	4.8	4.6	3.8
3.	Food, Beverages, Tobacco	3.5	4.0	3.9	3.6	3.3
4.	Non-Electrical Machinery	2.4	3.5	4.0	3.7	3.1
5.	Chemicals, Rubber	1.8	2.5	3.0	3.1	2.8
6.	Electrical Machinery	1.5	2.6	3.2	3.1	2.7
7.	Metal Products	2.3	2.9	3.2	3.0	2.5
8.	Paper, Printing	1.5	2.0	2.3	2.2	1.9
9.	Wood, Furniture	2.3	2.2	2.1	2.0	1.7
10.	Others	1.1	1.5	1.8	1.8	1.6
11.	Non-Metallic Mineral Products	1.4	1.7	1.8	1.6	1.4
12.	Basic Metals	1.6	2.1	2.1	1.8	1.3
Totals		30.4	36.5	38.6	35.2	29.9

Source: Molle, Willem (The Economics of European Integration), p.280.

Since 1975, the ECC accepted almost all complaints from the European Association of Consumer Electronics Manufacturers (EACEM) to impose import restraints against Korean consumer electronics. In this case, the voter support and degree of collective action approach seems to be applicable in the EC-Korea trade, considering the strong political power of the EACEM. However, the ECC made decisions not to impose any import restraints against such Korean products as tungsten products, steel nails, microwave ovens, H-beam, Al-clad cookwares, polyester film and polyester staple fibre. Major reasons to reject demands for import restraints are that those products were free from suspicion of industrial injury to EC industries.

Considering those cases of rejection for protective measures by the EC and the magnitude of EC's major industries, there is no actual linkage to support the approach. Even though polyester staple fibre is included in the largest manufacturing sector of the EC industry--textiles, clothing and footwear, it was not included in

the items which had received protective measures. Microwave oven and polyester film also were not included in protective measures even though chemicals and electrical machinery industries have large numbers of employees. On the other hand, oxalic acid and album, despite their minor political power as very small industries in the EC, received protective measures from the ECC against imports from Korean-made products. In case of oxalic acid, the EC even accepted a complaint by a company, Destilados Agricolas Vimbodi, SA (DAVSA), for the AD investigation. That is an exceptional case because most complaints by EC industries had been lodged by politically powerful industrial organizations or unions, rather than a company or an individual. In case of individual EC member states-Korea trade, textiles and clothing, and electrical and electronics products, which have large numbers of employees, represent 36 per cent (9 cases) of total import restraints by individual EC member states against Korea as of 1991 (25 cases). That is almost similar to the case of small and politically weak industries such as stoneware, tiles, sundries, and toys and parts, which account for 32 per cent (8 cases) of the total import restraints. Therefore, purely political determinants are not closely linked with EC and EC member states' protectionism against Korea.

In sum, only hegemonic stability approach seems to be applicable to EC-Korea trade, but only in the case of trade between individual EC member states and Korea. However, all other approaches are irrelevant, not meaningful, or difficult to apply in the EC-Korea trade. In addition, the exit-entry barrier approach is only partly applicable to the U.S.-Korea and the EC-Korea trade. Therefore, there are no approaches which completely satisfy the search for determinants of protectionism in the EC-Korea trade.

3. My Own Hypotheses and EC-Korea Trade

3-1. EC's Protectionism against Korea and Its Relationship with EC's Past Industrial Damages from Japanese Challenge

My first hypothesis is closely related to the non-existence of any yardstick to measure the graduation of a developing state from the status of a developing to that of a developed country. The graduation issue is compounded by Korea's partial graduation in specific industries such as electronics. In addition, I want to consider the close causal relationship between the EC's experience with Japan and the EC's experience with Korea: This double experience created in the EC a mirror image of Japan, as mentioned in the Introduction of my thesis. This made the EC treat Korea as a developed country and ask for acceptance of the obligations of a developed country in the international trading arena (i.e. opening of Korea's market). Therefore, the EC's import restraints against Korea have been greatly motivated by the alleged industrial damage to EC industries, caused by Japanese exporters in the period of the 1950s to 1970s. This close connection between the perceived industrial damage of the EC from Japan, and import restraints by the EC against Korea originated from two factors.

The mirror image which confounds Korea with Japan in the perception of the EC can be traced in the last analysis to the similar economic development strategy of both countries. In addition, the similar development strategy was reinforced by Korea's heavy dependence on imports of machinery, equipment and parts, and technology from Japan, facilitated by political circumstances and geographic contiguity. In connection with the momentum driving Korea towards a similar development strategy with Japan, Bruce Cumings points out:²¹

Korea was able to obtain needed financing and technology for heavy and chemical industries from the Japanese, in part because the new programs for the development of those industries provided the structure necessary to receive declining Japanese heavy industry. This simultaneously increased Korean autonomy in the world at large while deepening dependency on Japan.

Regarding this type of dependence, Kaname Akamatsu elaborated his famous 'flying geese' model of industrial development in follower countries as follows:²²

Time series curves for imports, import-substitution for the domestic market, and subsequent exports of given products tend to form a pattern like wild geese flying in ranks. The cycle in given industries--textiles, steel, automobiles, light electronics--of origin, rise, apogee, and decline has not simply been marked, but often mastered in Japan. Korea has historically been receptacles for declining Japanese industries.

This high dependence on Japanese technology for heavy and chemical industries gave rise to two serious problems for Korea. Firstly, Korea has been showing undue dependence on imports from the Japanese market. The share of imports from Japan in the nation's total imports rose from 21.3 per cent in 1960 to a hefty of 40.8 per cent in 1970. Since then, that share always maintained more than the level of 20 per cent (25.9 per cent in 1991). Therefore, Korea's trade deficit in 1991 with Japan reached \$8,764 million, representing 90.8 per cent of the nation's total trade deficit of \$9,654 million recorded in the year. Secondly, Korea was recognized as the so-called "second Japan" because its export and development patterns always followed geese model. For example, Korea had been heavily dependent upon capital and equipment from Japan for industrialization since the early 1960s, as I mentioned in Chapter II. That made Korea a recipient of Japan's declining industries and mirror Japan's industrial development, but with a time gap.

The mirror image is also reinforced by the similarity of trade pattern between the EC-Korea and the EC-Japan. In trade with Japan, the EC has been suffering trade deficits since the 1970s. For example, EC's exports to Japan in 1987 reached \$16 billion as compared with imports from Japan totaling \$42 billion, leaving \$26 billion trade deficit in disfavor of the EC. Japan's exports to the EC market concentrated on very sensible items to the EC such as consumer electronics and motor cars. The relative damage to the EC due to concentration

of Japanese exports to several sensitive items was very serious in addition to the chronic trade deficit problem with Japan. "The persistent deficit in EC-Japan trade can be solved by expanding EC's exports to Japan, by increasing direct investments by Japanese businesses in the EC or by implementing import restraints on Japanese products entering the EC."²³ Therefore, the EC initially strengthened its import restraints against Japanese imports into the EC market, especially against consumer electronics goods from Japan. The Japanese response was an increase in direct investments in the EC. However, the EC's response against increases in direct investments from Japan was made through strengthening applications of rules of origins. "It includes increased use of AD actions against so-called 'screw-driver' assembly plants in Europe and much more rigid interpretation of local content requirements."²⁴

These factors in the EC-Japan trade relations are also found in the EC-Korea trade relations. Firstly, Korea enjoyed trade surplus with the EC by 1990 even though this situation reversed to a trade surplus in favor of the EC in 1991, as I mentioned in Chapter III. Secondly, Korea's exports to the EC also concentrated on several industrial products with which the EC had many industrial structure adjustment problems. In the 1970s, Korea's main export items to the EC were textiles and clothing, and iron and steel products. Major export products by Korea were diversified to footwear and consumer electronics products in the 1980s, in addition to those export items in the 1970s.

As discussed above, these circumstance led to EC's protectionist measures against Korea. Thus, the EC's import restraints against Korea was a function of Korea's heavy dependence on Japan as a model for industrialization, and EC's similar experience of trade with Korea to that of Japan.

The mirror image led to EC protectionism against Korea which is similar to that against Japan, as shown

towards. In case of VCRs, the ECC began to regulate imports of VCRs from Japan, under VERs, effective February in 1983. Major reason for restriction of imports from Japan was the sharp rise in shipments of VCRs from Japan, from 2,854,903 units in 1981 to 4,946,405 units in 1982. Following the restrictions, other VCR exporters took the opportunity to increase their shipments to the EC market. Specifically, Korean exporters shipped \$317,916,000 worth of VCRs to the EC market in 1987. The EC industry invariably acted against import threats by filing an AD complaint, which they did in 1987 against Korean products, four years after VER against Japanese VCRs. As a result, Korea's exports to the EC market reduced by 69 per cent to the only \$96,148,000 in 1991 from \$120,187,000 in 1990.

In case of iron and steel products, Japan agreed to limit their steel exports to the EC under the VER signed late 1975. In this case, the EC also had implemented VER measure against Korea's steel exports to the EC market since 1980 with a five-year time lag. Japanese steel exports in 1975 reached 34.4 million tonnes, which was 7.6 times higher than Korea's steel exports remained at 4.5 million tonnes in 1980. Therefore, it was difficult to compare the degree of industrial damage caused by Japanese exporters in 1975 with that by Korean exporters in 1980 in terms of export volume to the EC market. Regarding this ironic issue, Louis Turner maintains "as the 1970s progressed, some of the NICs began to be sucked into such trade disputes where the prime trading problem was seen to be Japan's export success."²⁵

Furthermore, Korean-made DRAMs (dynamic random access memories) were filed for complaint by European Electronics Component Manufacturer Association (EECMA) in 1991, on the grounds that Korean exporters were dumping in the EC market. However, the main reason behind the complaint was the Japanese role in the process of AD investigation against Japanese exporters in the 1987-1990

period, when Japanese producers argued that Korean companies were also dumping in the EC market--this argument designed to involve Korean firms in the EC's AD restraints. This was clearly considered in the subsequent AD investigation process by the ECC. In the Notice of Initiation of an Anti-Dumping Proceeding Concerning Imports of Certain Type of Electronic Micro-Circuits Known as DRAMs Originating in the Republic of Korea, EC Commission maintains:²⁶

It is furthermore alleged that the positive effects on the EC market achieved by the adoption of the anti-dumping measures concerning imports of DRAMs from Japan are significantly impaired by dumped imports from Korea.

Therefore, it is clear that EC's explanation for the imposition of import restrictions against Korea is "that Korean exports threaten market shares previously held by European companies rather than reducing Japanese shares."²⁷ That is the fundamental reason why the EC has usually investigated Korean exports together with Japanese firms in cases which are originally caused by Japanese exporters. For example, Korea had been involved in EC's investigations for import restraints together with Japanese exporters in cases of CDP, VCR, audio cassette tape, car stereo radio, DRAMs and microwave ovens. However, Japan was excluded from the list of countries for import restraint investigations by the EC in case of color TV sets on the ground that Japan contributed to the expansion of intra-EC production.

The EC protectionism against Japan and Korea also has a close relationship with its perception that the EC market is relatively open for Japanese and Korean products, compared to the U.S. market for those products.

For example, EC's AD measures against Japanese products account for 8.5 per cent of its total AD measures in the 1980-1987 period, which is far lower than 10.8 per cent implemented for Japanese products by the United States. In case of EC-Korea trade, the EC also implemented 2.3

per cent of AD measures to imports from Korea, which is also far lower than 5.4 per cent by the United States.

Table IV-15: Breakdown of EC's AD Duty Impositions(%)

Countries	80	81	82	83	84	85	86	87	Total
JAP	4.0	2.2	5.5	9.3	9.5	5.7	4.2	29.4	8.5
USA	32.0	12.8	12.7	2.3	2.4			2.9	7.9
China	4.0	4.3	7.3	4.7	4.8	2.9	8.3		4.6
NIES	28.0	8.5	23.6	25.6	33.3	45.7	41.7	52.9	30.5
(Korea)		2.1				2.9	4.2	11.8	2.3

Sources: Messerlin, Patrick (Anti-Dumping Laws and Developing Countries), p.31.

Note: Share = Number of AD Measures against Specific Country / Total Number of AD Measures.

Table IV-16: Breakdown of U.S. AD Duties Impositions(%)

Countries	80	81	82	83	84	85	86	87	Total
JAP	6.5	21.4	4.9	12.8	7.1	7.8	12.9	47.1	10.8
EC	76.1	21.4	67.2	27.7	5.7	12.5	21.4	17.6	31.4
China	2.2		4.9	8.5		9.4	1.4		3.9
NIES		28.6	13.1	34.0	40.0	50.0	37.1	23.5	30.3
(Korea)		7.1	3.3	12.8	4.3	7.8	5.7		5.4

Source: Messerlin, Patrick (Anti-Dumping Laws and Developing Countries), p.31.

3-2. EC's Protectionism against Korea and Its Relationship with U.S. Protectionism against Korea

My second hypothesis is that EC's protective measures against Korea were closely connected with any protective action by the United States against Korea. If the measures against specific products have been implemented by the United States, the EC had not hesitated to impose the protective measures against the same products from Korea. Such EC's action was adopted for fear of transfer of shipments to the EC from the United States by Korean exporters when they had been faced with difficulties in selling their products in the United States due to import restraints against them. The switch of Korea's exports from the United States to the EC can be found in the trend of Korea's shipments to these two markets. Namely, the share of the United States in total exports of Korean-made products had declined to 25.8 per cent in 1991 from 47.3 per cent in 1970 and 35.5 per cent in

1985, as I mentioned in Chapter III. On the other hand, the share of the EC in total exports of commodities by Korea had risen to 13.5 per cent in 1991 from merely 7.8 per cent in 1970 and 10.7 per cent in 1985. This trend was a result that Korea has been switching its export market to the EC since its exports to the United States had been subject to import restraints. Actually, Korea's exports to the United States declined to \$20,638 million in 1989, to \$19,359 million in 1990 and to \$18,559 million in 1991 from \$21,404 million in 1988. In contrast to this trend, Korea's exports to the EC increased to \$8,875 million in 1990 and to \$9,728 million in 1991 from \$7,414 million in 1989, as already seen in Chapter III. Korea's strategy to switch its exports to the EC was inevitable because Japan was relatively closed to Korean products and had very complicated distributional channels, which made Korean firms difficult to penetrate. Also, Asian or South American markets did not have high demands for imports of Korean products.

This close connection between import restraints by the United States against Korea and those by the EC against Korea has been caused by two factors. The first factor is the reversal of trade surplus from the favor of the United States to the favor of the EC in the U.S.-EC trade. This factor contributed to the expansion of protectionism in the United States against the EC directly and Korea indirectly, and further exerted an influence on the EC's import restraints against Korea. In trade with the United States, the EC's figure of trade surplus has been widening. "For a long period up to 1984, the EC had a deficit on its trade balance with the United States. Since then the deficit has turned into a huge surplus. The scale of the change has been remarkable. In 1987, the surplus reached \$17 billion compared with a \$27 billion deficit in 1981, a total swing of \$44 billion."²⁸ As a result of the trade balance reversed between the EC and the United States, bilateral trade disputes are also worsening recently. The share of AD duty impositions by

the EC against the United States among the total number of AD duty impositions remained only 7.9 per cent in the 1980-1987 period, as seen in Table IV-15. However, the share by the United States against the EC reached 31.4 per cent, about four times higher than those by the EC against the United States, as seen in Table IV-16. Therefore, the trade balance could be the yardstick to measure the degree of protective measures in the EC-United States trade.

The second factor is the tightening of import restraints by the United States against Korea. From 1982, Korea's trade with the United States reversed to be in favor of Korea, with Korea's exports of \$6,118 million and imports of \$5,956 million to and from the United States. Korea's trade surplus with the United States peaked with \$9,553 million in 1987. Since the huge trade surplus had been recorded in favor of Korea, the United States has been putting a pressure on Korea to liberalize its domestic market and to adjust the exchange rate on market-based mechanism. At the same time, import restraints by the United States began to increase dramatically. As a result of such market opening pressure and import restraints adopted by the United States, growth rate of Korea's exports to the United States, recording 29.1 per cent in 1986 and 31.9 per cent in 1987, declined to 16.9 per cent in 1988 and to minus 3.6 per cent in 1989 and to minus 6.2 per cent in 1990, respectively. Finally, Korea recorded a trade deficit of \$335 million in 1991 with exports of \$18,559 million and imports of \$18,894 million. The sluggishness in exports to the United States due to tight import restraints by the United States created a strategy by Korean exporters to develop alternative markets such as the EC. The EC has been maintaining similar demand patterns and tastes for manufactured goods with those in the United States. Also, the EC has much room to consume Korean products, rather than Asian and South American markets, as mentioned above. Therefore, Korea tried to diversify its export

markets to the EC member states rather than other markets. That became one of major reasons that similar trade disputes between Korea and the United States could also be found in the EC-Korea trade.

Such trend can be found in actual trade cases of textiles and clothing, and album between the U.S.-Korea and the EC-Korea. In the 1960s and the 1970s, many NIEs such as Korea joined in exports of textiles to the U.S. market. At last, Korean textiles were included in import restraints by the United States since 1965 under the Long-Term Agreement(LTA). However, the EC had not implemented the measure against Korea until 1971. As a result of a vacuum in import restraints by the EC, exports from Korea to the EC market began to increase. Spurred by this fact, the EC had imposed import restraints since 1971 under the LTA. Since 1975, the United States and the EC have been implementing import restraints at the same time against Korean textiles and clothing under the Multi-Fibre Arrangement(MFA). The motivation of import restraints by the EC against Korean textiles and clothing was caused by rush of imports from Korea switched to the EC market, following the LTA signed between the United States and Korea. The textiles and clothing case will be analyzed in details in Chapter V.

The album is another representative case. The United States began its investigation against Korean album makers in 1985, based on an AD complaint by the U.S. industry. The final decision to impose AD duties was made in April, 1989. Since the beginning of AD investigation, Korea's exports of albums to the United States faced difficulties. To overcome this problem, Korean album exporters made efforts to penetrate into alternative markets, mainly the EC market. As a result of the efforts, Korea's exports of albums to the EC rapidly increased from 1988, as seen in Table IV-18. Spurred by the drastic transfer of Korea's exports from the United States to the EC market, the EC album industry also filed an AD complaint against Korean albums in 1988 to ask for

redressive actions to the ECC. Since then, Korea's exports of albums to the EC market began to decline.

3-3. EC's Protectionism against Korea and Its Relationship with Korea's Strong Neo-Mercantilist Policy Approach

As seen in Chapters I, II and III, my third hypothesis is closely related to Korea's strong neo-mercantilist approach of industrial and trade policies, and surplus capacity problems of specific industries in the EC member states. If Korea's exports of specific products with strong government supports are concentrated in the EC and those products happen to be coincided with EC's problem industries, the EC enforced strict import restraints against those products from Korea.

For example, the Korean government initiated a series of five-year economic development plans from 1962 under which it strongly backed up export-led economic development policy. For the policy implementation, textiles and clothing industries were chosen as major foreign exchange earners. In the year of 1970, the textiles and clothing topped the list of Korea's major export commodities with \$341.1 million, representing 40.8 per cent of the nation's total exports in the year. The textiles and clothing enjoyed the position of Korea's highest export items by 1987.

In case of the EC, the 1970s was the period when problems caused by the expansion of production facilities in EC member states since the second world war became evident following world-wide demand contraction after two rounds of oil shocks. Therefore, the EC was in a difficult situation to dispose of production surplus internally and externally. Under the situation, imports from Korea could be an obstacle to carry out such goal. Thus, the EC began to impose restraints against Korean textiles and clothing as seen above. In addition, the EC initiated AD investigations against Korean acrylic fibre in 1972, against acrylic yarn in 1973, against acrylic socks in 1974 and against synthetic fibre socks in 1974.

Such trend can be also found in iron and steel case. The Korean government had been carrying out its plan to foster heavy industry and chemical sector since 1973. Under the plan, such industries as iron and steel, chemicals and petrochemicals, machinery, automobiles and shipbuilding received intensive administrative supports from the government. As a result, iron and steel products ranked the third in the list of Korea's major export commodities since 1975. Especially, the share of iron and steel products in Korea's total exports in 1982 peaked with 9.8 per cent, totaling \$2,317 million.

Unfortunately, the iron and steel industry in the EC had been also under surplus capacity problems in the 1970s, due to world-wide economic recession. As a result, the EC experienced the same problems as those in textiles and clothing industries. Thus, the EC began to restrict imports of Korean iron and steel products from 1980 under VRA signed with Korea, which was terminated in April 1990. Before the initiation of VRA, the EC already began AD investigations against Korean steel plate and coils in 1978.

Followed by textiles and clothing, and iron and steel products, Korea's emphasis of policy direction to support specific industries has been put on to high technology industries such as consumer electronics since the early 1980s. Thanks to the aggressive government support to the electronics industry, electronics products topped the list of Korea's major export commodities from 1988. In 1988 alone, exports of those products represented 27 per cent of the total exports in the year with \$16,255 million.

On the other hand, the EC also put an emphasis of its industrial policy on the promotion of consumer electronics in the 1980s and thereafter. For the fostering of the EC's consumer electronics industry, the EC began to promote intra-EC trade in electronics products and regulate imports of foreign products. Therefore, trade disputes between the EC and Korea in the

1980s and thereafter were concentrated on consumer electronics such as microwave ovens, compact disk players, video cassette tapes, audio cassette tapes, video cassette recorders, car stereo radios, DRAMs, floppy diskettes and color TVs, as seen in Chapter VIII later.

4. Approaches to Analyze Effectiveness of Protectionism in Terms of Achievement or Failure of Aims of Protective Measures in the EC-Korea Trade

Two approaches in this type of analysis--David Yoffie and Patrick Messerlin's--are contradictory to each other. As seen in Introduction, David Yoffie argues U.S. import restraints against developing countries are useless to reduce the growing imports from these countries to the U.S. market.²⁹ However, his argument on deflection to other industrial sectors and the problem of new country entrants is fully understood and differentiated from an argument that is simply bilateral, i.e. that protectionist measures do not work for a country deploying them against any particular target country.

Table IV-17: U.S. Import Restraints against Korea

Items	TIR	Korea's Exports(\$1000)	
		1987	1991
Textiles	MFA	2,943,832	2,532,205
Iron and Steel	VRA	735,224	694,250
Color TV	AD	263,941	148,321
Album	AD	1,049	693
Pipe Fitting	AD	13,696	904
Brass Sheet and Strip	AD	1,475	0
Color Braun Tube	AD	8,615	7,980
Small Business Telephone Sys.	AD	16,187	3,932
Stainless Steel Cookware	AD	66,142	65,387
Nitro Cellulose	AD	359	0
Acrylic Sweater	AD	314,952	109,300
Polyester Film	AD	36,350	34,396
Plastic Bag	IEO	5,551	0
EPROM Chip	IEO	4,474	0
Totals		4,411,847	3,597,368

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries Against Korea), pp. 39-80.

Note: TIR=Type of Import Restraints.

IEO=Import Exclusion Order.

In contrast to this argument, Patrick Messerlin regards protective measures by the EC are very effective to reverse the growing imports from developing countries to the EC. Therefore, it is interesting to test these completely contradictory approaches using the case of the EC-Korea trade.

In the U.S.-Korea trade, Korea's exports of products, which have been under the U.S. import restraints, have declined altogether from \$4,412 million to \$3,597 million in the 1987-1991 period, as seen in Table IV-17. As a result of the U.S. import restraints against Korea, Korean exporters switched their export markets to the EC member states, as seen in Table IV-18, for products which were under import restraints.

Table IV-18: Comparison of Korea's Exports to USA and EC Markets

Items	YI	Korea's Exports(\$1000)				
		1987	1988	1989	1990	1991
Album						
to USA	1989	261	403	1049	911	693
to EC	1990		26007	17860	15525	12204
CTV						
to USA	1984	263941	218617	177242	139587	148321
to EC	1990		103883	25355	16989	15554
EPROM						
to USA	1988		4474	0	0	0
to EC	1992			354480	375148	605709

Source: Korea Foreign Trade Association(Directory of Import Restraints by Advanced Countries Against Korea). pp.40, 104 and 105.

Note: YI=Year of Import Restraints.

This fact supports the conclusion that U.S. import restraints against Korea were effective. Therefore, the Patrick Messerlin's approach is applicable and the David Yoffie's approach is not applicable in the U.S.-Korea trade.

In the EC-Korea trade, Korea's exports of products, which have been subject to the EC's import restraints, to the EC market also declined as a result of the EC's import restraints. Compared to Korea's exports of products under

the EC's import restraints to the EC market in 1987, the export figure in 1991 increased to \$2,966 million from \$2,908 million, as seen in Table IV-19.

Table IV-19: EC's Import Restraints against Korea

Items	TIR	Korea's Exports(\$1000)	
		1987	1991
Textiles	MFA	1,426,493	1,562,442
Canned Mushroom	Quota	130	37
Oxalic Acid	AD	284	76
Polyester Yarn	AD	2,538(1988)	223
Compact Disk Player	AD	17,681	37,580
Video Tape	AD	77,435	133,900
Color TV	AD	118,429	15,554
Glutamic Acid	AD	3,289	9,651
Bicycle Tyre Tube	AD	16,462	17,775
VCR	AD	317,916	96,148
Album	AD	26,007	12,204
Footwear	VER	554,324	784,120
Gas Lighter	AD	5,107	487
Audio Tape	AD	49,564	58,309
Car Stereo Radio	AD	227,557(1988)	210,956
Iron & Steel	VER	64,795	26,879(1989)
Total		2,908,011	2,966,341

Source: KFTA(Directory of Import Restraints by Advanced Countries Against Korea), pp.103-140.

However, those exports of products except for items under VERs decreased by 42.8 per cent from \$862 million to \$493 million. Exports of products under VERs such as textiles, iron and steel products and footwear increased by 16 per cent to \$2,373 million from \$2,046 million.

In terms of number of items for exports, Korea's exports to the EC in 1991 showed increases in seven items among a total of 16 items which have been subject to EC's import restraints. However, only three items--textiles, glutamic acid and footwear--showed increases in exports in 1991 as compared to export figure in the previous year.

Furthermore, Korea's exports to the EC of textiles in 1991 were 2 per cent lower than export figure of \$1,593.04 million peaked in 1988, and these exports declined to \$1,330.057 million in 1992 and to \$1,010.191 million in the Jan.-Nov. period of 1993. The rapid

rises of exports of glutamic acid was a result of extraordinary expansion of consumption in the EC in 1991. Exports of glutamic acid had been sluggish in 1989 and 1990, reducing to \$2.23 million and \$2.28 million from 1988's \$6.17 million. Furthermore, exports of the products have been under a declining trend since 1993, confined to \$5.585 million in the first 11 months of the year.

Therefore, the only item which showed a continuous increase in shipments, despite EC's import restraints, was footwear even though footwear exports to the EC temporarily declined by 18 per cent in 1989 from the previous year's figure. Such good export performance in footwear was a result of its strong international competitiveness, marking 9.3 in terms of revealed comparative advantage (RCA) ratio (country A's total exports of commodity B divided by country A's total exports of all manufactured goods in a specific year), compared to 1.8-2.4 of iron and steel products, and 2.1-2.9 of textiles. Again, the Patrick Messerlin's approach is also applicable in the EC-Korea trade. However, the David Yoffie's approach is inapplicable in the EC-Korea trade. I found several reasons why the David Yoffie's approach is uniformly not applicable in the U.S.-Korea and the EC-Korea trade.

Firstly, the VERs and OMAs which David Yoffie uses as basic analysis tools for examining import restraints by the United States have some problems as effective policy instruments to reduce foreign imports,³⁰ as seen in EC-Korea footwear case. According to many analyses about the economic effects of VER and OMA, exporting countries could get a benefit not from its wise strategy to take advantage of importing countries' accommodating nature of protective policy, as argued by David Yoffie, but from pure economic result of the policy. Clemens Boonekamp points out:³¹

A VER can be attractive to the exporting country. It offers rents which, at least in the short run, are windfall gains to the extent that demand in the rest

of the world is elastic so that terms of trade losses are minimal or zero. Exporting countries may benefit from VER since they collect rents resulting from the higher prices.

Heinz Preusse also maintains the advantage to exporters of the VER or OMA as follows:³²

When applying ordinary quotas, the ensuing revenue income remains in the country: either with the state, when quotas are auctioned or with the importing parties to whom they are allocated. In the case of VERs, these rents are shifted to the foreign exporters and a real transfer abroad occurs. The country's loss of welfare increases when foreign exporters are given the chance of enforcing a monopolistic pricing policy due to the implementation of a VER.

In addition, the VERs or OMAs could cause the problems of exploitation by other exporters, which are not subject to these measures, through opportunities to increase their exports. Namely, advanced countries are usually imposing VERs against products from developing countries which display a relatively low knowledge intensity. Because entry barriers to these industries are very low, other exporters are easily able to initiate exports of the products by exploiting opportunities in which major competitors are under VER measures from importing countries. In this case, these VER measures are useless to prevent growing penetration of imports into the markets of advanced countries.

Secondly, the VERs and OMAs have some attractiveness in allowing policy-makers' choice in terms of political effects. According to Heinz Preusse, from the perspective of IPE, the VER has following merits to importing countries:³³

Firstly, VERs are not subject to GATT. Therefore, they can be implemented bilaterally and selectively (effect of discrimination).

Secondly, VERs can be directly negotiated between governments and covertly implemented, i.e. secrecy and non-transparency are seen as an advantage (effect of non-transparency).

Thirdly, the danger of retaliatory measures is slight, since free-trade interest are weakened and foreign producers receive compensation in form of rent incomes (effect of international redistribution).

Fourthly, as a rule the measures have a time-limit and must then be renegotiated. This had led to the conclusion that they are short-term while tariffs are regarded rather as long-term instruments (effect of flexibility).

First of all, the VERs or OMAs are very attractive for the United States or the EC to maintain their images in the world trade arena as trading partners observing free trade principle. For example, the reason to choose VER or OMA as protective measures was because American decision makers faced the dilemma that tariffs or quotas would hardly have been appropriate for a government promoting free trade in the world. The American answer to the dilemma was to revert to a VER and OMA. Based on such attractiveness of VERs, the United States and the EC have been expanding VERs against imports from foreign countries. According to a recent statistics, "these two areas together have been responsible for almost 70 per cent (US\$96.5 billion) of NTMs on the basis of their import values in 1986. Also, the share of imports subject to VERs in the total imports subject to NTMs in the EC expanded to 20.8 per cent in 1988 from 13.7 per cent in 1986. Furthermore, the share in the United States rose to 65.1 per cent from 57.9 per cent during the same period."³⁴ As a result, major advanced countries have been imposing VERs or OMAs, based on their political attractiveness, despite the economic costs of those measures. These two factors are fundamentally different to David Yoffie's approach which highlights the ineffectiveness of VERs or OMAs in a standpoint of exporter's cheating or upgrading strategy.

Thirdly, the proportion of VERs and OMAs only represent a minor part in total cases of import restraints adopted by advanced countries. According to Table IV-20, the number of VERs in the total of protective measures adopted by six major countries in the 1980-1986 period remained at 120 cases, representing 15.1 per cent of the 794 cases in the period. On the other hand, impositions of AD duties accounted for the lion's share of 68.1 per cent in the same period.

Such phenomenon can be also found in protective measures by the United States and the EC. The share of VERs represented only 17.3 per cent of the total of 278 protective measures adopted by the United States. The impositions of AD duties accounted for the largest share with 46.4 per cent. The EC's impositions of AD duties also represented 63.2 per cent of the total cases. However, the share of VERs was confined to 30 per cent. Therefore, it is certain that the real effect of NTMs imposed by advanced countries against imports from developing countries have to be evaluated through considering the impositions of AD duties, VERs and OMAS altogether. The evaluation of the effectiveness of import restraints through exclusive use of VERs and OMAS is certain to result in biased conclusion. Therefore, his approach is not useful to evaluate real effect of import restraints against developing countries.

Table IV-20: Protective Actions under Alternative Instruments (1980-1986)(number of cases, %)

Countries	AD		CVD		Safeguard	VER	Total
	Init.	Impl.	Init.	Impl.	Impl.	Impl.	Impl.
Australia	416	138	20	7	4	1	150
Canada	230	152	11	4	4	7	167
Chile	-	-	140	-	-	-	-
EC	280	122	7	3	10	58	193
Japan	1	-	1	-	-	6	6
USA	350	129	281	96	5	48	278
Total	1277	541	460	110	23	120	794
Share	68.1		13.9		2.9	15.1	100.0

Source: Hoekman, Bernard M. & Michael P. Leidy, "Dumping, Anti-Dumping & Emergency Protection," *Journal of World Trade* (October 1989), p.28.

Note : Impl: Implemented. Init: Initiated.

Through the broad analysis of determinants and effectiveness of protectionism in the EC-Korea trade in Part One, I found three facts. Firstly, current studies in the IPE literature can not fully provide the whole range of determinants for protectionism in the EC-Korea trade. Secondly, my three hypotheses, regarding 1) the

fear of a repetition of the Japanese trade and development model, 2) Korea's switching strategy of exports from the United States to the EC, and 3) Korea's strong neo-mercantilist policy approach and surplus capacity problems in the EC, as determinants of protectionism, are peculiarly applicable in the EC-Korea trade. Thirdly, the EC's protective measures against Korea have been very effective in reversing the growing trends of Korea's exports to the EC market, supporting Patrick Messerlin's approach. However, these three facts must necessarily be supplemented with more detailed analysis on individual industries in the EC and Korea. Therefore, I will do industry-specific analyses of determinants and effectiveness of protectionism in the EC-Korea trade in Part Two.

Notes and References

1. According to Arthur Stein, "neo-mercantilists argue that the hegemon undercut its relative position (or bore higher costs than did others). Liberals, on the other hand, point out that freer trade improves efficiency and global welfare, and hence probably increases the hegemon's absolute wealth." See Stein, Arthur, "The Hegemon's Dilemma: Great Britain, the United States and the International Economic Order," *International Organization* (Vol. 38, No. 2, Spring 1984), p. 383. "Hegemon would act on the same logic that motivates a domestic monopolist to set prices below their short-run maximizing levels, sacrificing short-run gains in order to earn higher long-run returns: the incumbent firm thereby attempts to deter entry into its markets." See Odell, S. and Thomas D. Willet, "An Epitaph for Hegemonic Stability Theory? Rational Hegemons, Excludable Goods and Small Groups," *International Trade Policies--Gains from Exchange between Economics and Political Science* edited by Odell, S. and Thomas D. Willet (Ann Arbor, the University of Michigan Press, 1990), p. 60.

2. Dell, Edmund, *the Politics of Economic Interdependence* (London, MacMillan Press, 1987), p. 70. Lisa Martin argues "a declining hegemon may no longer find it worthwhile unilaterally to provide any public goods, thus changing the cooperation problem from one of suasion to one of collaboration." See Martin, Lisa, "Interests, Power and Multilateralism," *International Organization* (Vol. 46, No. 4, Autumn 1992), p. 790.

3. Stein, *op.cit.*, pp.381-382. In connection with the U.S.hegemonic decline, Richard Higgott defines "the 1980s have been something of an interregnum in which an old order is passing away, but in which a new one has yet to be defined, and the 1990s will be an era in which the structural power of the United States--in both practice and theory--will remain central but not hegemonic, and seek games of skill involving more players in more complex games than in the days when tests of will were much more one-sided." See "Toward a Non-Hegemonic IPE: An Antipodean Perspective," *New International Political Economy* edited by Murphy, Craig N. and Roger Tooze (Boulder, Lynne Rienner Publishers, 1991), p.127.

4. Milner, Helen, "Trading Places: Industries for Free Trade," in Odell and Willet, p.145.

5. Thompson, William R. & Lawrence Vescera, "Growth Waves, Systemic Openness and Protectionism," *International Organization* (Vol.46, No.2, Spring 1992), pp.502-503.

6. "The relative decline in American economic power did not mean it had a lessened ability to impose openness (something it had never done). Rather, the increased relative strength of others might lead to an American unwillingness to continue carrying so large a burden." See Stein, *op.cit.*, p.382.

7. Greenaway, David, *Protectionism Again.....?* (Sussex, Gordon Pro-Print Co., Ltd., 1979), p.63.

8. Gallarotti, Giulio M., "Toward a Business-Cycle Model of Tariffs," *International Organization* (Vol.39, No.1, Winter 1985), p.157.

9. Turner, Louis, *Western Europe and the NICs* (London, George Allen and Unwin(Publishers) Ltd., 1982), p.137.

10. According to Arthur Stein regarding the degree of demands for protectionist measures, "the more a nation imports, the more some domestic producers suffer, especially during periods of recession. On the other hand, the more a nation exports, the more domestic producers are liable to be hurt by other's retaliation against protectionist policies. Thus, protectionism is viable only as long as others do not retaliate." See Stein, *op.cit.*, p.385. However, there is a different approach. According to Michael Webb, "when trade flows are low, few industries in either deficit or surplus countries would be hurt, so the likelihood of protectionist response to deficits is higher. But when trade flows are moderate or high, numerous domestic industries in both surplus and deficit countries are likely to oppose an intensification of trade restrictions by deficit countries." See "Government Interests and International Coordination of Macroeconomic Adjustment

Policies," *International Organization* (Vol.45, No.3, Summer 1991), P.316.

11. Milner in Odell and Willet, *op.cit.*, p.150.

12. Conybeare, John A.C., "Tariff Protection in Developed and Developing Countries: a Cross-Sectional and Longitudinal Analysis," *International Organization* (Vol.37, No.3, Summer 1983), p.441.

13. Milner, Helen V. and David B. Yoffie, "Between Free Trade and Protectionism: Strategic Trade Policy and a Theory of Corporate Trade Demands," *International Organization* (Vol.43, No.2, Spring 1989), p.239.

14. According to Robert Gilpin, "a major motive behind U.S. emphasis on reciprocity is to prevent foreign economies from appropriating U.S. technologies and the monopoly rents generated by innovation, without which there would be little available capital or incentive to invest in scientific research and technological development." See Gilpin in Inoguchi and Okimoto, *op.cit.*, p.160. Klaus Stegemann argues "strategic trade policy is fraught with too many problems to be tried in practice; or if it is tried, strategic trade policy is unlikely to enhance a nation's welfare." See Stegemann, Klaus, "Policy Rivalry among Industrial States: What Can We Learn from Models of Strategic Trade Policy?" *International Organization* (Vol.43, No.1, Winter 1989), p.96.

15. The Segye Times (Korean newspaper), "New Trade Disputes in U.S.-Korea Trade: The Issue of Participation by AT&T in Korea's Telephone Exchange Market," *Segye Times* (March 25, 1993), p.21.

16. Korea Foreign Trade Association (Korean edition), "U.S. Industries Asking for Designation of Korean Firms as PFC," *Trade Information* (Vol.10, No.3, Feb.27, 1993), pp.40-43.

17. According to Richard Higgott, "the adoption of unilateral approaches to specific reciprocity by a major actor is invariably of less damage to it than to smaller third parties that might be involved in relationships with that actor or the target state of the major actor's initiatives." See Higgott in Murphy and Tooze, *op.cit.*, p.111. On the other hand, "U.S. demand for market openness is likely to be caused by its selfish interest seeking based on its relative power. For example, the U.S. is pressing Japan to make firm commitments to boost imports of U.S. goods by attempting to set a separate target for U.S. and non-U.S. products for the purpose of putting pressure on Japanese companies to purchase U.S. products rather than those of other non-Japanese makers, including European companies." See Nakamoto, Michiyo, "U.S. Demands Could Hurt Rival Exporters," *Financial Times* (Oct.27, 1993), p.5. In addition, "U.S. officials demanded

an exemption in financial services from the obligation to offer most-favoured-nation status to all-comers. The U.S. plans to restrict full MFN access to its financial service markets to a small group of industrial countries that have similarly liberal banking and securities regimes. Such U.S. plan was interpreted as a strong-arm-tactics to press other countries such as Japan and South Korea to open their markets to trade in financial services." See Dodwell, David, "U.S. Services Push May Backfire," *Financial Times* (Nov.18,1993), p.4. Lisa Martin evaluates "the increasing reliance on retaliatory bilateral threats and negotiation of bilateral free trade agreements signals a significant change in U.S. tactics to pursue the goal of free trade." See Martin, Lisa, "Interests, Power and Multilateralism," *International Organization* (Vol.46, No.4, Autumn 1992), pp.787-788.

18. "If it is true that major industries in tradable goods production are characterized by barriers to entry (economies of scale or learning curves, for example), then entry into the industry by new firms may be unprofitable despite the existence of rents." See Dillon, Patricia, James Lehman and Thomas D. Willet, "Assessing the Usefulness of International Trade Theory for Policy Analysis," *International Trade Policies--Gains from Exchange between Economics and Political Science* (Ann Arbor, the University of Michigan Press, 1990), p.41. Jeffrey Frieden argues "the more specific the asset is to its current use, the more incentive the owner of the asset will have to lobby for supportive government policies. Agents in a sector to which exit and entry are costless have little or no incentive to spend time, energy and money to get government support." See Frieden, Michael, "Invested Interests: the Politics of National Economic Policies in a World of Global Finance," *International Organization* (Vol.45, No.4, Autumn 1991), p.443.

19. Patricia Dillon, John Odell and Thomas Willet argue "rent seeking by powerful industries or industries facing hard times but lacking political clout is necessary and neither is sufficient alone to produce protection. It may be their combination that is powerful." This is quoted in "Future Directions in the Political Economy of Trade Policies," in Odell and Willet, p.279. Michael Web connects the protective measures with domestic political pressures. Namely, "the kinds of monetary and fiscal policies required to eliminate external imbalances often conflict with the domestic political pressures that cause governments to avoid or postpone internal adjustment and adopt international policy coordination." Web is quoted in "International Economic Structures, Government Interests, and International Coordination of Macroeconomic Adjustment Policies," *International Organization* (Vol.45, No.3, Summer 1991), p.314.

20. Aggarwal, Vinod K., Robert O. Keohane and David B. Yoffie, "the Dynamics of Negotiated Protectionism,"

American Political Science Review (Vol.81, No.2, June 1987), p.348.

21. Cumings, Bruce, "the Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles and Political Consequences," *the Political Economy of the New Asian Industrialism*, edited by Deyo, Frederic (Ithaca, Cornell University Press, 1987), p.76. Regarding the general factors to contribute to Japan's economic success, Herbert Kitschelt maintains that "Japan's state is tied into relational networks enmeshing politics in multiple formal and informal linkages across the business-government frontier, along with relations among private businesses involving controlled competition--a combination of fierce market competition for customers on the one hand, and cooperative and reciprocal relations among networks of banks, manufacturers, and their suppliers on the other." See Kitschelt, Herbert, "Industrial Governance Structures, Innovation Strategies, and the Case of Japan: Sectoral or Cross-National Comparative Analysis?" *International Organization* (Vol.45, No.4, Autumn 1991), pp.480-481.

22. Cumings in Deyo, *op.cit.*, pp.45-46.

23. El-Agraa, A.M., *Economics of the European Community* (Herdfordshire, Philip Allan, 1991), p.431.

24. Rowley, Anthony, "Japanese and South Korean Firms Lay Siege to 'Fortress Europe'--onto the Drawbridge," *Far Eastern Economic Review* (May 19, 1989), p.68.

25. Turner, *op.cit.*, p.138.

26. EC Commission, *Official Journal of the European Communities* (No.91C 57/9, March 6, 1991).

27. Neuss, Beate, "the European Community and South Korea: Opportunities and Risks of a Developing Relationship" in *the Korea and World Affairs* (Vol.14, No.1, Spring 1990), p.105.

28. El-Agraa, *op.cit.*, p.429.

29. DeAnne Julius and Richard Brown point out the effectiveness of this protective measures with different viewpoints. In connection with the effort to maintain manufacturing jobs in industrialized countries through various interventions, they argue "it would be 'costly and ultimately fruitless' for industrial country members of OECD to try to stop the faster falls in manufacturing jobs through subsidies or protection, and the current shift away from manufacturing towards service sector employment within OECD countries and the migration of manufacturing jobs to low cost developing countries are desirable and natural." See Norman, Peter, "Manufacturing

Jobs to Fall Sharply in Western Nations," *Financial Times* (Nov.15,1993), p.2.

30."VERs and OMAs create lucrative economic rents to be shared by privileged foreign exporters and protected domestic industries, they have greatly intensified the politics of international trade and the issue of who benefits from these practices. The major losers have been the consumers in importing countries." See Gilpin in Inoguchi and Okimoto, *op.cit.*, p.150. Patricia Dillon, James Lehman and Thomas Willet also argue "for a given level of trade restrictions, a tariff will impose lower inefficiency costs on the economy than quotas and VERs. However, the trend has been toward greater use of the latter relative to the former." See Dillon, Lehman and Willet in Odell and Willet, *op.cit.*, p.45. "Japan claimed in 1960 that VERs appeared to be a perfectly functioning system that is more fitting to the GATT doctrine than import quota. The reason is clear:the major share of the rent due to barriers remains in Japan and goes to its business community. For example, the innovators are reduced in relative size, newcomers are blocked, mutual competition is reduced and rents are earned on foreign markets and small Japanese firms are excluded from competition." See Marion, Marcel F.van, *Liberal Trade and Japan--The Incompatibility Issue*(Heidelberg, Physica-Verlag,1993), pp.56 and 263.

31.Boonekamp, Clemens F.J., "Voluntary Export Restraints," the *International Economics and International Economic Theory* edited by King, Philip (Singapore, McGraw-Hill Publishing Company, 1990),pp. 25-26. However, Marcel Marion maintains the unique structure of Japanese import system makes Japan not damaged from VER. For example, "the Japanese government could offer voluntary restraint of its textile exports, as the large trading groups had a commanding grip on the country's trade in textiles." See Marion, *op.cit.*, p.63.

32. Preusse, Heinz Gert, "Voluntary Export Restraints--An Effective Means against a Spread of Neo-Protectionism?" *Journal of World Trade* (Vol.25, No.2, April 1991), pp.6-7.

33. Preusse, *op.cit.*, pp.8-9.

34. Preusse, p.10. "NTBs such as AD actions appear to have become the protectionist's weapon of first resort not only in advanced countries but also in developing countries. Developing countries, which until 1985 had never initiated AD actions, have initiated around 40 AD actions a year for the past three years. Significantly, the United States was the target of 20 AD actions in the year to June 1993--overtaking Japan(the target of just 13 actions), which is so often seen by the United States as a leading 'dumper.'" See Dodwell,David, "Negotiators down in the Dumps over U.S.Draft--Washington Set to Take on

the World in Clash over AD Proposals," *Financial Times* (Nov.25,1993), p.6.

Followings are AD actions initiated in July/June period since 1983/1984.

	AUS	CAN	EC	USA	Other AC	DC	Total
83/84	70	26	33	46	1	0	176
84/85	63	35	34	61	0	0	193
85/86	54	27	23	63	2	3	172
86/87	40	24	17	41	5	4	131
87/88	20	20	30	31	9	13	123
88/89	19	14	29	25	12	14	113
89/90	23	15	15	24	5	14	96
90/91	46	12	15	52	9	41	175
91/92	76	16	23	62	21	39	237
92/93	61	36	33	78	8	38	254

Source: Dodwell, p.6

Note: AC=Advanced Countries. DC=Developing Countries.

Part Two: Specific Industry-Wide Analyses of Determinants
and Effectiveness of Protectionism in EC-Korea Trade

Chapter V. EC/Korea Textiles & Clothing Industries and the
Bilateral Trade Dispute on Polyester Yarn

A Brief Summary of Chapter V

EC's Textiles and Clothing Industries

The EC's textiles industry has been regaining its competitiveness due to the successful modernization of production facilities. Its productivity has also been recovering as a result of the modernization measures. However, the modernization resulted in job losses in the Community. In the clothing industry whose production process is mostly labour-intensive, the EC has been dependent on overseas subcontracting production. As a result, trade balance in the clothing industry is inevitably recording a deficit figure and creation of job employment in the EC is becoming very difficult. The low consumption of textiles and clothing is resulting in a decline in demands for textiles for clothing production, inevitably leading to surplus production in textiles sector and tight import restraints against foreign-made textiles.

Korea's Textiles and Clothing Industries

Korea's international competitiveness, based on low labour cost, can not be maintained indefinitely in textiles and clothing industries, because advanced countries, such as the EC, have been aggressively promoting plant modernization projects to overcome their competitive weakness by productivity improvement. Also, other low labour-cost countries such as China, Pakistan, India and ASEAN countries are actively marketing their products overseas. In the clothing sector, Korea has been squeezed between more advanced and lesser developed countries. Korea is not in a position to overcome its weakening position regarding price competitiveness in low-quality clothing market against new, low labour-cost countries, and also can not easily penetrate high-quality clothing market due to the technical problems.

Furthermore, in the process of democratization, the productivity of clothing industry has been very low following frequent labour disputes and absolute shortage in skilled manpower caused by concentration of labour forces in service industry. In addition, artificial suppression of labour costs is no longer acceptable under the more democratic regime. Also, under the democratic regime, job losses will be much more difficult for the government to deal with, compared to those under the previous authoritarian regime.

Determinants of Protectionism in Textiles and Clothing Trade

--Previous Cases of Import Restraints by the United States

The EC's decision to impose AD duties against Korean polyester yarn was based on the previous case of import restraint by the United States. Specifically, the EC rationalized its decision by arguing that the United States has on several occasions adopted AD measures cumulating with existing MFA restriction. Furthermore, the diversion of Korean exports from the United States to the EC are closely linked to the encouragement of protectionism by the United States. Thus, it is clear that stringent import restraints adopted by major trading countries have a ripple effect, expanding those measures to other countries, adversely affecting trading environment world-wide. The EC's decision was contradictory to its official position not to introduce further quantitative restrictions under GATT or measures having an effect equivalent to quantitative restrictions.

--Political Expediency of Protectionism

The EC expanded its import restraints against Korea in the 1980s, despite the EC's shortage of manpower in charge of AD investigations caused by tight budget problems. The expansion was mainly due to political expediency of protectionism, and relative weakness of Korea in the international political arena. The initial heavy dependence on protectionism led ultimately to the

computer error in calculating the provisional AD duties for polyester yarn, increasing AD duties for two Korean companies. After the computer mistake, the EC showed no initial intention to correct a Commission Regulation in order to change the AD duties imposed: an expression of the bureaucratic environment in the EC. The ECC's workload has been steadily increasing under the difficulties of no additional employment due to the tight budget problems, very likely the major factor causing the mistake of EC's AD duties calculation.

--Concentration of Korea's Exports to Specific EC Member States and Growth of Exports in a Very Short Period

Korea's exports of polyester yarns to the EC were concentrated on Spain and Italy, shipping 84.5 per cent of total polyester yarn exports to the EC to the two EC member states in 1986. Korea recorded a dramatic increase in shipments of polyester yarns to the EC in a very short period, probably the result of the cut-throat competition among Korean exporters to the EC market because the provision of Korean government credit and administrative support to private companies depends on their export records under the nation's export-led development policy.

Effectiveness of Protectionism in Textiles and Clothing Trade

--David Yoffie's Approach

David Yoffie's approach seems to be inapplicable in trade between the United States-Korea, and Canada-Korea textile sectors because Korea could divert its exports from the North American market to the EC. Korea's exports of textiles and clothing to the EC, however, has been showing a declining trend since the exports peaked in 1988. The approach was also not applicable in AD case for polyester yarns by the EC.

--Patrick Messerlin's Approach

His approach is totally applicable in the EC-Korea textiles and clothing trade. The EC successfully achieved its goal of reversing growing trends of imports from Korea through adoption of VERs under MFA and AD measures.

--Import Penetration and Its Impacts on Job Losses

The argument about the import penetration and its effects on job losses is very controversial. Productivity and job employment has an inverse relationship. If the EC tries to improve productivity, it inevitably sees job losses. Therefore, it is very difficult to separate out the effect of import penetration on job losses, from the effects of the EC's continued modernization of production facilities in textiles, and those of offshore processing in clothing. The EC's modernization of textiles and clothing industries is ahead of Korea. However, the job losses have a close causal relationship with pressures to increase productivity because of foreign imports. Therefore, inter-relationship between the job losses and foreign imports can not be disregarded.

1. Background Information for Case Study in Textiles and Clothing Industries

1-1. General Trend of World's Trade in Textiles and Clothing Industries

Textiles include textile materials, textile yarn (woolen yarn, cotton yarn, yarn of man-made fibres), and textile fabrics (silk fabrics, cotton fabrics, woven fabrics of man-made fibres). On the other hand, clothing is divided into knitted or crocheted clothes, and textile fabrics clothes. Textiles and clothing industries have a crucial importance to the development of a developing country, e.g. Japan in the 1950s. As a result, fierce trade conflicts have occurred in these sectors in connection with development stages of each country and they exemplify the graduation issue referred to earlier. David Greenaway describes that "textiles and clothing sectors are located on the first rung of the ladder for industrialization and in consequence, developed countries have faced competition from developing countries in the industry."¹ The active participation in the world trade of textiles and clothing by developing countries can be found in the trend of international trade. Namely, international trade by intra-developing countries, and

exports from developing countries to developed countries in textiles accounted for 25.5 per cent of the world's trade figure in 1989, and in the case of clothings for 43.5 per cent.

Table V-1:Major Flows in World Trade in Textiles (1989)

Transaction	Values(\$1B)	Share
Intra-developed countries	44.3	46
Intra-developing economies	14.5	15
Exports of developing economies to developed countries	10.4	10.5
Exports of developed countries to developing economies	9.6	10
World	96.7	100

Source:GATT(International Trade 90-91, Volume II),p 60.

Table V-2:Major Flows in World Trade in Clothing (1989)

Transaction	Values(\$1B)	Share
Exports of developing economies to developed countries	39.7	41
Intra-developed countries	34.3	35
Exports of developed countries to developing economies	3.3	3.5
Intra-developing economies	2.5	2.5
World	97.3	100

Source:GATT(International Trade 90-91,Volume II),p 64.

The more active participation of developing countries in clothing trade, rather than textiles, is due to maintenance of their international price competitiveness against developed countries because "garment-making (cutting and sewing of fabrics or cloth) and hosiery and knitwear are essentially labour-intensive areas, thus giving developing countries an edge over industries in developing countries."²

Developing countries aggressively shipped their products, with their price competitiveness, because there were no other ways to dispose their surplus production figure. According to the ECC,³

textile output in developing countries represented only 90 per cent of their needs in 1965. However, the share increased to 115 per cent in 1985. During

the 1970s, Third World textile exports to industrialized countries doubled overall and quadrupled in the clothing sector. In the NIEs, like Korea and Hong Kong--where the manufacture of run-of-the mill dress can cost nearly 40 per cent less than in Europe, the textiles industry is producing two and a half times as much fibre as the domestic markets can absorb.

Such active participation in international trade by developing countries inevitably caused trade disputes between developed and developing countries.⁴

As a result of the specific characteristic of textiles and clothing industries, "the post-war history of international trade in the sectors has been characterized by increasing quantitative controls on trade by the major importing countries."⁵ In 1961, a short term arrangement regarding international trade in cotton textiles (STA) was concluded under the auspices of the GATT. Kent Jones points out:⁶

The STA represented the first major instances of the abandonment of GATT principles--trade liberalization and non-discrimination--in a dispute over trade in manufactured goods. In a declining sector of the established industrial countries, protectionist sentiment was strong enough to override the disciplines of GATT rules and focus trade restrictions against individual countries that had gained comparative advantage in the protected goods.

In 1962, the STA was "replaced by the long term arrangement regarding international trade in cotton textiles (LTA), lasting until 1973 and in turn, was replaced by the arrangement regarding international trade in textiles, better known as the Multi-Fibre Arrangement (MFA), which is still in force."⁷ The MFA is the only measure to restrict the international trade of textiles and clothing under the recognition of the GATT even though it overtly violates the GATT's principle of non-discrimination, trade liberalization and most-favored-nation (MFN) treatment. Furthermore, it regulates imports of the products from developing to developed countries, not restricting those from developed to developed countries. Therefore, "the fact that the Textiles

Committee is located within the GATT building is as if a brothel were operated inside a cathedral."⁸

1-2.EC's Textiles and Clothing Industries

In the EC,⁹ "textiles and clothing are still at the forefront of European industry. They employ 2.5 million people in the EC, more than 10 per cent of the industrial workforce."¹⁰ Furthermore, individual EC member states have been dominating the world's textiles and clothing exports. Namely, five EC member states--Germany, Italy, Belgium, Luxembourg and France--topped the list of the world's ten largest textile exporters in 1989. In addition, Italy, Germany, France, Portugal and the United Kingdom also included in the world's ten largest exporters of clothings in the same year.¹¹ Despite the significance of these industries to the EC and the strong position of individual EC member states in exports, the EC has faced many problems. The first was the sharp inflow of foreign products to the EC market. "The tonnage of textiles exported by the EC rose by 24 per cent between 1977 and 1984, but imports rose by 38 per cent. It is estimated that during the last 20 years, the share of the EC market held by imports has grown from 20 per cent to 45 per cent."¹²

The second problem followed as a direct consequence of the first: pressure from imports forced EC companies to equip themselves with more efficient production facilities, which, though the measure contributed to the growth of productivity, reduced the number of jobs in the industry. According to the ECC's analysis, "a 1 per cent increase in productivity results in the loss of 10,000 jobs a year in the textile sector and 15,000 jobs lost in the clothing industry. Thus, over five years, increased productivity of 3 per cent a year at a constant production level will lead to an overall loss of some 375,000 jobs."¹³

High productivity in the EC entails slow job creation. "The high rate of unemployment in the EC may be due to the relocating of European jobs to low-cost countries

elsewhere."¹⁴ Namely, EC's production in textiles increased by 56.3 per cent to 93,900 million ECU in 1990 from 60,062 million ECU in 1980. That is a sharp contrast to the employment trend rather reduced to 1,500,000 in 1990 which is 449,000 less than the 1980's level of 1,949,000. The situation is similar in case of clothings. EC's production in clothings in 1990 amounted to 38,100 million ECU, which is 72.8 per cent higher than 1980's level of 22,044 million ECU. However, the employment was reduced to 733,200,000 from 878,728,000. Furthermore, the EC member states have difficulties to pursue a policy of labour market deregulation, like the United States, due to continental Europe's social democratic aspirations."¹⁵ For example, "France has been implementing a programme for textile employment through reducing social security charges on a sliding scale for firms that agree on investment to maintain or better still create jobs."¹⁶ As a result, it is hard to draw out a pure effect of foreign imports on job employment in textiles and clothing industries in the EC.

Table V-3: Production, Employment and Consumption in EC's Textiles and Clothing Industries (1M ECU, thousand persons)

Year	Clothing			Textiles		
	P	EM	C	P	EM	C
1980	22,044	878,728	24,562	60,062	1,949	61,305
1981	21,754	807,298	24,253	62,049	1,845	62,229
1982	23,539	761,735	26,314	66,548	1,761	66,866
1983	26,290	772,252	28,941	71,304	1,724	71,686
1984	28,290	759,326	31,492	78,158	1,696	77,992
1985	30,830	747,253	33,741	82,490	1,633	82,125
1986	34,156	843,166	36,993	83,862	1,605	83,390
1987	35,854	833,004	40,253	84,982	1,571	85,492
1988	36,128	779,029	41,441	89,630	1,552	90,419
1989	37,761	752,979	43,486	93,467	1,528	93,716
1990	38,100	733,200	N/A	93,900	1,500	N/A

Source: ECC (Panorama of EC Industries), pp.16-7 and 16-12.
 Note: P=Production. EM=Employment. C=Consumption.

The third problem for the EC is that the dependence on imports in consumption of textiles and clothing has been rapidly growing. This has become a threat to EC manufacturers sharing the common problem of how to

dispose of their production surplus. For example, EC's dependence rate on imports of textiles in total consumption rose to 17.4 per cent (16,286 M.ECU/93,716 M.ECU) in 1989 from 14.7 per cent (9,021 M.ECU/61,305 M.ECU) in 1980. The dependence rate on imports is far higher in clothing than in textiles. The share of imports in EC's clothing consumption went up to 27.4 per cent (11,936 M.ECU/43,486 M.ECU) in 1989 from 18.7 per cent (4,590 M.ECU/24,562 M.ECU) in 1980. The production surplus problem has been further worsening as a consequence of EC's low level of consumption.¹⁷ That can be made clear by comparison with other advanced countries.

Table V-4: World's Textiles and Clothing Demand Forecast (1,000 tons)

Countries	1986	1995	2000	Average Growth Rate	
				1986-2000	1995-2000
AC	20,988 (67.0)	25,496 (58.4)	27,989 (56.9)	2.1	1.9
Of Which					
U.S.A.	5,937	7,139	7,795	2.0	1.8
EC	5,075	5,927	6,323	1.6	1.3
Japan	2,246	2,878	3,350	2.9	3.1
W.Europe	5,695	6,971	7,663	2.1	1.9
DC	12,788 (33.0)	18,091 (41.6)	21,166 (43.1)	3.4	3.2
World	38,776 (100.0)	43,537 (100.0)	49,155 (100.0)	2.7	2.5

Source: Korea Institute for Industrial Economics and Trade (Monthly Industrial Survey, Feb. 1992), p. 79.

Note : AC=Advanced Countries. DC=Developing Countries.
The figures in parentheses are shares in world's total demand.

Among countries in the world, EC's demands for textiles and clothing are forecast to be the lowest with only 1.6 per cent increase in the 1986-2000 period and 1.3 per cent in the 1995-2000 period, which is far lower than the world's average of 2.7 and 2.5 per cent in the same period, respectively.

A fourth problem has been caused by a complicated result of the previous three problems. Namely, the EC strengthened import restraints against foreign exporters as a way to cope with the challenges in the midst of declines in demands and increases in foreign imports. EC manufacturers have been eager to raise price competitiveness through the modernization of production facilities. As a result, the EC's production continuously expanded, contrary to the declines of production in other advanced countries such as the United States and Japan.

Table V-5: EC's Textiles Production at Current Prices (1M ECU, 1985=100)

year\country	EC	USA	Japan
1980	60,062(73.0)	28,687(48.0)	24,698(55.0)
1981	62,049(75.0)	37,648(63.0)	32,680(73.0)
1982	66,548(81.0)	40,756(68.0)	32,688(73.0)
1983	71,304(86.0)	50,480(84.0)	37,331(83.0)
1984	78,158(95.0)	59,840(99.0)	42,819(95.0)
1985	82,490(100.0)	60,150(100.0)	44,950(100.0)
1986	83,862(102.0)	48,607(81.0)	43,321(96.0)
1987	84,982(103.0)	45,660(76.0)	41,619(93.0)
1988	89,630(109.0)	45,896(76.0)	45,626(102.0)
1989	93,467(113.0)	N/A	N/A

Source: ECC(Panorama of EC Industries), p. 16-19.

As seen in Table V-5, production of textiles at current prices in the EC increased annually from the value of 60,062 million ECU in 1980 to 93,467 million ECU in 1989. The textiles production in the United States peaked in 1985 with 60,150 million ECU, which declined to 48,607 million ECU in 1986 and 45,896 million ECU in 1988. The situation is the same in Japan with the largest production in 1985 with 44,950 million ECU, which declined again to 41,619 million in 1987. However, the production activity in Japan recovered with an increase of 9.6 per cent to 45,626 million ECU in 1988.

In the case of clothing, as seen in Table V-6, the EC's production also continuously increased for ten years from 1980, except for 1981 when the production figure decreased slightly from 1980's 22,044 million ECU to 21,754 million ECU. EC's clothing production showed a

72.8 per cent increase to 38,100 million ECU in 1989 over the 1980's 22,044 million ECU. The increase in production of clothing was a result of "specialization and product differentiation strategies, coupled with flexibility and the use of outward processing, rather than productivity improvement in this sector which is highly differentiated and subject to frequent innovation. Such strategies made the European clothing industry able to maintain a high degree of international competitiveness."¹⁸ However, the adoption of offshore production strategies by EC clothing firms, especially German and British, resulted in job losses in the EC's clothing industry.¹⁹ Namely, "there is an increasing trend for the Community manufacturers to relocate some production of certain products or even all production of part of their range to low wage countries. This started earlier and has become more extensive in EC member states where distribution is more centralized and wages higher."²⁰ However, the ECC evaluates the trend affirmatively as follows:²¹

The negative trend steadily recorded in the past few years does not necessarily mean a weakening of the sector. It partly reflects EC companies' growing use of subcontracting in countries outside.

The production of clothing in the United States, however, remained at a level less than that in 1981 with 29,679 million ECU in 1989.

Table V-6: Clothing Production in the EC and the United States at Current Prices (1M ECU, 1985=100)

Year\Country	EC	USA
1980	22,044(64.5)	24,827(46.0)
1981	21,754(63.7)	33,756(62.5)
1982	23,539(68.9)	41,410(76.7)
1983	26,290(76.9)	46,445(86.0)
1984	30,830(90.3)	53,241(98.6)
1985	34,156(100.0)	53,998(100.0)
1986	35,584(104.9)	42,590(78.9)
1987	36,128(105.8)	25,947(48.1)
1988	37,761(110.6)	25,836(47.9)
1989	38,100(111.5)	29,679(55.0)

Source: ECC (Panorama of EC Industries, 1991-1992), p.16-14.

These four problems have contributed to job losses in the EC's textiles and clothing industries. In addition, the outward processing strategy by EC clothing companies resulted in sharp inflows of clothing manufactured by subsidiaries of EC companies in cheap labour cost countries, and in sharp declines in employment in the EC countries.²² I suggest that this caused the EC trade balance to show a deficit in clothing sector as the Table V-8 shows. At the same time, thanks to the various strategies for strengthening international competitiveness and raising productivity in EC's textiles and clothing sectors, the EC's trade surplus in textiles dramatically increased in the 1980-90 period, along with an enormous decrease in trade deficit in clothing.

Table V-7: EC's Textiles Trade (\$1M)

Year	Exports	Imports	Balance
1980	25458	23722	+1736
1990	53432	37346	+16086
Growth Rate	109.9%	57.4%	826.6%

Source: GATT (International Trade 1991-1992, Volume II), pp.62-63.

Table V-8: EC's Clothing Trade (\$1M)

Year	Exports	Imports	Balance
1980	15439	20429	-4990
1990	37890	38390	-500
Growth Rate	+145.4%	+87.9%	-89.98%

Source: GATT (International Trade 1990-1991, Volume II), pp.67-68.

Therefore, the EC's problems regarding textiles--mainly job losses according to allegations of injury from the EC industry--is caused by both the penetration of low-cost imports into a Community market, and also by an increase in productivity in EC firms through automation of production facilities and outward processing activities. The EC's efforts towards competitiveness by modernization, and overseas subcontracting, did not prevent job losses. Namely, "earlier studies of the components of employment change in the United Kingdom and

West Germany during the 1970s reached broadly similar conclusions: that the biggest source of employment loss in the textiles and clothing industries was productivity growth."²³ Such productivity growth, however, was only achieved because of the pressure of foreign producers. Therefore, foreign imports and productivity growth have a causal relationship with job losses.

1-3. Korea's Textiles and Clothing Industries

According to Yung Bong Kim,²⁴

textile production has been one of Korea's most important industrial activities. Korea's modern industrial history began with the establishment of textile plants in the 1910s. The textile industry since then has led most of the other manufacturing industries in contribution to GNP, employment absorption, capital accumulation, and foreign exchange earnings. In 1975, the industry accounted for 13.4 per cent of Korean manufacturing industry value added, and 23.8 per cent of employment.

Korea's textiles and clothing industries have been showing some clear characteristic. Firstly, it is evident that Korea has surplus production capacity, comparing domestic production and demand.

Table V-9: Korea's Textiles and Clothing Supply and Demand (\$1B Won, %)

	1989	1990	1991	1992	Growth
Supply (A)	19398	21407	22560	24491	26.3
Of Which					
Production (B)	17088	18865	19620	20895	22.3
Imports (C)	2310	2542	2940	3596	55.7
Demand	19398	21407	22560	24491	26.3
Of Which					
Domestic					
Consumption (D)	9070	10866	11273	11466	26.4
Exports (E)	10328	10541	11287	13025	26.1
Supply					
Surplus (A-D)	10328	10541	11287	13025	26.1
Import					
Dependency					
(C/D)	25.5	23.4	26.1	31.4	23.1
Export Share					
(E/B)	60.4	55.9	57.5	62.3	3.1

Source: Korea Institute for Economics and Technology (Monthly Industrial Survey, Feb. 1992), p. 85.

Korea's textiles and clothing production surplus(B minus D in Table V-9) in 1989 remained at 8,018 billion won. However, the surplus went up to 9,429 billion won in 1992.

Secondly, the growth rate of exports has been less than that of imports. Korea's imports increased by 55.7 per cent during the 1989-1992 period which is far higher than the export growth rate of 26.1 per cent in the period. Consequently, the nation's import dependency ratio rose by 23.1 per cent from 1989's 25.5 per cent to 31.4 per cent in 1991. However, the nation's export share in total production of textiles and clothing remained at an increase of 3.1 per cent over the four-year period. That is one indication that Korea is still highly dependent upon imports of textiles raw materials such as raw cotton which are not available locally, along with imports of high-quality textiles from advanced countries such as the EC and the United States, following several rounds of import liberalization measures. Brian Bridges points out:²⁵

EC exports to South Korea are likely to be affected by the pace of the liberalization of the Korean market and by the competitiveness of European products in de-restricted sectors, as well as by the extent to which the two traditional suppliers, Japan and the United States, perceive and are allowed to exploit the opportunities.

Table V-10: Korea's Textiles and Clothing Trade with the EC(\$1,000)

	Exports			Imports		
	1990	1991	Growth	1990	1991	Growth
Textiles	500,453	485,603	-2.97	238,607	254,863	+6.8
Clothing	1,452,241	1,655,660	+14	363,664	409,267	+12.5

Source: Korea Foreign Trade Association(Major Statistics of Korean Economy 1992), pp.217-252.

Note: Trade figures before 1990 are not available. The author has no intention to emphasize the bilateral trade situation since 1990 with a bias because Korea has been continuously maintaining trade surplus in textiles and clothing trade with the EC.

Recent trends in textiles trade between the EC and Korea is that Korea's imports from the EC are showing a sharply increasing trend, along with a decrease in shipments of textiles to the EC market, as seen in Table V-10. However, shipments of clothing from Korea to the EC market are still on the increasing trend, reflecting the characteristic of clothing industry as labor-intensive one, and the relative strength of price competitiveness of Korean products.

However, textiles and clothing are now no longer Korea's prime export items. These items were ranked the first in the list of 10 largest export commodities in 1970 in Korea with 40.8 per cent share in total export value and with 36.2 per cent share in 1975. However, the share had been gradually reduced to 28.6 per cent in 1980, 23.1 per cent in 1985 and 24.8 per cent in 1987. Finally, the textiles and clothing dropped down to the second largest items, following electrical and electronics products since 1988, as seen already in Chapters II and III.

Yung Bong Kim, in connection with the relative weakness of export growth of textiles and clothing, argues:²⁶

So far, Korea's textiles industry, as a whole, continues to be labor-intensive despite many changes in its product composition. Accordingly, the average elasticity of output for capital input appears to be smaller than for labor input. Also, the relative importance of the textiles industry in the Korean economy has been declining. In addition, conditions do not look too favorable for the future and the expansion of the industry is expected to slow.

Consequently, Korea's textiles and clothing industries are facing following problems.

Firstly, in the textiles sector, Korea's international competitiveness, based on low labour cost, can not be maintained indefinitely because advanced countries such as the EC have been aggressively promoting plant modernization projects to overcome the competitive disadvantage in labour costs through productivity improvement. Also, other low-cost countries such as China, Pakistan, India and ASEAN countries are actively marketing their products overseas. For example, labour

cost in textiles and clothing industries in 1987 in Korea was £225 per month, which was far higher than £43.7 in India, £23.3 in Indonesia and £56.7 in the Philippines.²⁷ Furthermore, Korea has been squeezed between more advanced and lesser developed countries in the clothing sector: Korea is not in a position to overcome its weakening price competitiveness in low-quality clothing against that of new, low-cost countries and also can not easily penetrate high-quality clothing market due to technical problems.²⁸

Secondly, the problem of Korea's clothing industry is mainly due to its low investment in R & D activities. Korea's R & D investment ratio in total turnover has been merely held at 0.96 per cent which compares to 1.23 per cent in Japan, 4 per cent in the United States and 5 per cent in Germany and Italy.

Thirdly, in the process of democratization, the productivity of clothing industry has been very low following frequent labour disputes and absolute shortage in skilled manpower caused by concentration of labour in service industry. Furthermore, artificial suppression of labour costs is no longer acceptable under the more democratic regime, as I mentioned in Chapter II.

Korea's production of textiles and clothing is still in the stage of labour-intensive production. If Korea wants to regain its international competitiveness against cheap labour cost countries, it must inevitably proceed to the modernization of production facilities. However, under the present democratic regime, job losses will be much more difficult for the government to deal with than under the previous authoritarian regime.

When the problems of EC and Korea's textiles and clothing industries are compared, EC is certainly in a superior position as a result of its successful production facilities modernization and automation in textiles sector, and international competitive edge of EC clothing firms in high quality items.

2. Case Study of Polyester Yarn

2-1. Introduction

In the EC-Korea trade, textiles and clothing are very important because these sectors accounted for more than 20 per cent of Korea's exports to the EC market in the 1980-1990 period and represented the conflicts between developed and developing economies seen from a standpoint of structural adjustment issues. In addition, the modernization of industrial equipment, with its consequential loss of jobs, prevents the successful achievement of the EC's concurrent aims of improvements in production and employment. Therefore, EC-Korea trade disputes are expected to be more frequent if the argument--that job losses in the EC are a direct result of drastic inroads by foreign producers from rapidly industrializing countries such as Korea--is believed to be plausible in the EC.

Korea concluded LTA with the EC in 1971, and MFA in 1975 under which Korea restricts its exports of textiles from natural fibre to man-made fibres (synthetic fibre such as nylon, polyesters and acrylics) and clothing within the limit of quotas agreed with the EC.

The first trade dispute between the EC and Korea occurred in the area of textiles. In 1972, the EC announced that it decided to initiate its AD investigation against Korean acrylic fibres, which was followed by another AD investigation against Korean acrylic stockings. These AD investigations, however, were suspended as a result of LTA and MFA applications in EC-Korea textiles and clothing trade.

On the other hand, the EC initiated AD proceedings against several textiles and clothing items from Korea without regard to the EC-Korea textiles agreement, concluded within the framework of MFA. These Korean products included in the EC's AD investigations are polyester yarn (imposition of definitive AD duties on Dec.16,1988), polyester staple fibres (AD investigation terminated without any suspicion to industrial damage), and synthetic fibres of polyester (imposition of

provisional AD duties on July 16,1993). The polyester yarn is the only case that the EC has been imposing definitive AD duties, even though the product is included in the category of textiles and clothing which are quantitatively regulated under the Korea-EC textiles agreement within MFA. Therefore, it is relevant to choose polyester yarn as a representative case to analyze determinants and effectiveness of protectionism in the EC-Korea trade.

2-2. The Situation in the EC

According to Jose De La Torre and Michel Bacchetta,²⁹

the essence of the EC's policy on textiles and clothing has been based on two main tenets: protection and the maintenance of internal competition. The European Parliament also warned that the Community textiles industry can remain competitive and an efficient employer only if urgent steps are taken to restrict the detrimental effects of imports from low-cost countries.

Despite such policy direction toward protectionism in the EC, there had been no actual adoption of import restraints other than MFA by the EC against Korea until 1987 at the EC level because MFA restriction has been effective since 1975.

Under the situation, Korea's exports of polyester yarn {(polyester POY (NIMEXE 51.01.32) plus polyester textured filament (NIMEXE 51.01.29, 51.01.30)}, which had shown an average shipments of merely 19 tons a year by 1985, rapidly increased to 2,283 tons in 1986.

Table V-11: Korea's Exports of Polyester Yarn to the EC (1 ton)

Years\Items	PTF	Polyester POY	Total	Change
1983	27	0	27	--
1984	12	0	12	-55.6%
1985	17	0	17	+41.7%
1986	1991	292	2283	+134 Times
Total	2047	292	2339	--

Source: EUROSTAT(National Statistics).Korea Foreign Trade Association(Case Study of Polyester Yarn), p.28.

Note:PTF=Polyester Textured Filament.

The sharp increase in shipments from Korea happened to coincide with EC's industrial reorganization and restructuring through automation and modernization of production facilities, contributing to accelerating the decline in employment.

Surprised by the dramatic increase in shipments of Korean polyester yarn in a very short period, the International Rayon and Synthetic Fibres Committee (CIRFS), acting on behalf of EC's complainant (ten polyester yarn manufacturers in the EC), officially filed a complaint with the ECC against Korean exporters of polyester yarn. In the complaint, the CIRFS strongly argued "the market penetration of dumped imports of POY and textured yarn from Korea, Mexico, Taiwan and Turkey was increased from 2.1 per cent in 1983 to 10.4 per cent in 1986."³⁰

Concerning prices by the Community producers, the CIRFS also argued "falling prices--particularly since first and second quarters of 1986--were essentially due to the increasing pressure of dumped imports from the countries concerned by this complaint including Korea, but the decreases go well beyond the fall in raw material cost which resulted from decreasing oil prices."³¹

Other major reasons, given by the CIRFS, decisively contributing to the filing of the AD complaint, were sluggishness in production, increase in imports, decrease in production capacity utilization, decrease in sales by EC producers and decline of market share by the EC producers.

Table V-12: Production of Polyester Yarn in the EC (1000 tons)

Year	Tons	Change
1982	192	
1983	196	+2%
1984	202	+3%
1985	211	+4%
1986	201	-5%

Source: Korea Foreign Trade Association (Case Study of Polyester Yarn), p.38.

Firstly, EC's production of polyester yarn decreased by 4.7 per cent from 211,000 tons in 1985 to 201,000 tons in 1986. However, that was an increase of 4.7 per cent from 1982's 192,000 tons.

Secondly, extra-EC imports of polyester yarn increased by 73 per cent to 38,500 tons in 1986 from 1985's 22,253 tons.

Table V-13: Extra-EC Imports of Polyester yarn(1 ton)

Year	Tons	Change
1984	18,287	
1985	22,253	+21.7
1986	38,500	+73.0

Source: Korea Foreign Trade Association (Case Study of Polyester Yarn), p.37.

Thirdly, EC's capacity utilization rate declined by 2.4 per cent to 82 per cent in 1986 from 84 per cent in 1985. However, the utilization rate in 1986 was far higher than 66 per cent recorded in 1982, as seen in Table V-14.

Table V-14: Capacity Utilization in the Production of All Polyester Yarns (POY + Flat) in the EC(%)

Year	Utilization Rate	Change
1982	66	
1983	78	+18
1984	84	+7.7
1985	84	0
1986	82	-2.4

Source: Korea Foreign Trade Association (Case Study of Polyester Yarn), p.34.

Note: In POY production and in texturising, the rate has certainly decreased by at least 10 per cent between fourth quarter in 1985 and fourth quarter in 1986.

Table V-15: Sales of Textured Yarn in the EC (1000 tons)

Year	Sales Volume	Change(%)
1982	153	
1983	160	+4.6
1984	159	-0.6
1985	172	+8.2
1986	165	-4.0

Source: Korea Foreign Trade Association (Case Study of Polyester Yarn), p.35.

Fourthly, sales of textured yarn in the EC reduced by 4.0 per cent to 165,000 tons in 1986 from 1985's 172,000 tons. However, the figure was 7.8 per cent higher than 1982's 153,000 tons, as seen in Table V-15.

Table V-16: Market Share by Community Producers(%)

Year	Market Share	Change
1982	88.9	
1983	90.7	+2.0
1984	90.0	-0.8
1985	92.6	+2.9
1986	87.5	-5.5

Source: Korea Foreign Trade Association (Case Study of Polyester Yarn), p.35.

Note: The figure in 1986 is that as of third quarter of the year. The market share in fourth quarter of 1986 was estimated to be dropped to the level below 80 per cent.

Fifthly, market share of EC producers declined by 5.5 per cent from 1985's 92.6 per cent to 87.5 per cent by the third quarter of 1986, as seen in Table V-16.

Sixthly, market share of imports from four countries involved in AD complaints rose to 12.275 per cent in 1986 from only 3.1 per cent in 1985. Especially, the market share by Korea in the EC rapidly rose to 1.9 per cent in 1986 from the previous year's negligible level.

Table V-17: Market Share of Major Exporting Countries in the EC(POY + Textured Yarn)(%)

Countries	1985	1986
Korea	Negligible	1.90
Turkey	0.7	3.94
Mexico	2.0	2.655
Taiwan	0.4	3.78
Total	3.1	12.275

Source: Korea Foreign Trade Association (Case Study of Polyester Yarn), p.36.

After receiving the AD complaint, the ECC decided to initiate AD investigation and announced its decision in the Official Journal of the European Communities on July 1, 1987. In the announcement, the ECC argues:³²

The imports of the dumped products originating in Korea, Mexico, Taiwan and Turkey primarily affected the Italian, Belgian and the United Kingdom markets,

where their aggregate market shares increased respectively from 1.8 per cent, 7.8 per cent, and 4 per cent in 1983 to 17.5 per cent, 20 per cent and 11.0 per cent in 1986, alleging that injury has been caused by massive dumped imports of the products concerned over a relatively short period of time.

2-3. The Situation in Korea

Korea's argument was centered on the problems of concurrent application of MFA and AD measures by the EC and Korea's low market share in the EC market.

Korea's basic position against EC's AD complaint was that Korea had not injured EC industry and the complaint by the EC was in contradiction to international trading norms. Korea's argument was that import restraints in addition to MFA is incompatible under the GATT norm and Korea's market share is negligible in the EC market, not causing any industrial damages to the EC industry.

Under the position, the Korea Chemical Fibres Association(KCFA),representing Korean polyester yarn industry,submitted its opinion about the polyester yarn case as follows:³³

--The products under investigation are covered by the Arrangement Regarding International Trade in Textiles (as extended by the GATT Textiles Committee in July 31 1986) which provides that no trade protective action may be taken unless the remedies available under the MFA have been exhausted without success.

--The MFA has been implemented by Korea-EC Textiles Fabric Agreement signed in 1971, Korea-EC Textiles Agreement in 1975 and by the Community through Council Regulation (EEC) No.4136/86 of December 22, 1986 on Common Rules for Imports of Certain Textiles Products Originating in Third Countries {OJL 387/42(1986)}. Pursuant to this regulation, the Community has negotiated a bilateral agreement with Korea. Both Council Regulation (EEC) No.4136/86 and the bilateral agreement between the Community and Korea provide that the Community shall refrain, in respect of the products covered by the Agreement, from introducing quantitative restrictions under Article XIX of the GATT or Article 3 of the MFA, or from applying measures having equivalent effect.

--The Community and the Community's trading partners have acknowledged on previous occasions that anti-dumping measures are inappropriate in situations where imports of a certain product are covered by some forms of quantitative restriction.

--The market share of Korean imports has traditionally been small; no polyester yarn has been exported to the Community in recent months and present high domestic demand for polyester yarn coupled to supply difficulties because of the recent strikes and floodings in Korea preclude injury in the near future.

The EC had experiences of filing AD complaints in 1972 and 1974 against Korean acrylic fibres and acrylic stockings, as seen above. Those products were not covered in the LTA signed in 1971. However, the EC shortly terminated the AD complaints against acrylic fibres and stockings when the MFA, which includes most textiles and clothing, was signed with Korea in 1975. With regard to the compatibility of AD duties imposed on a product, which is subject to quota restriction, the Australian Customs Service (ACS), which is the government organization in charge of dumping investigation in Australia, was on neutral ground, saying that "a complaint of injurious dumping in respect of goods imported under quota restrictions would not be automatically rejected but would be considered on its merits, and it would seem difficult for the industry to demonstrate that the impact of the price suppression or depression constituted material injury where the volume of imports is limited by a quota arrangement."³⁴

However, there were some factors accelerating movement toward protectionism in the EC. The first one is that Korea's exports of polyester yarns were concentrated on two EC member states--Spain and Italy, shipping 86.9 per cent of polyester yarns in total exports to the EC market to the two countries in 1986 and 87.9 per cent in the first quarter of 1987, as seen in Table V-18. Italy and Spain usually showed very strong pro-protectionist policy against Korea for textiles and clothing sectors compared to other EC member states. R.Hine explains external policies of each EC member state against imports of foreign textiles as follows:³⁵

Views within the EC on textiles policy vary considerably between countries with the U.K., France and Italy advocating a restrictive approach, and

Germany, the Netherlands and Denmark favouring a more liberal regime. The former have argued successfully that to cut protection, at a time of recession would add to the pool of unemployment, increase imports, destabilize the home industry and undermine its attempt to modernise.

In trade with Korea, Italy has been implementing import restraints against Korean synthetic long textile yarns and recycled long textile fabrics as recently as 1992, that represents 66.7 per cent of its import restraints against Korea numbering three cases. Spain³⁶ also has been implementing 5 import restraints (two cases for textiles) against Korea under the 115 Clause of Rome Treaty.³⁷

Table V-18: Korea's Exports of Polyester Yarn to the EC, and Spain and Italy(1 ton)

	1986			1987(Jan-March)		
	TFY	Poly.POY	Total	TFY	Poly.POY	Total
Total(A)	1991	407	2283	1853	318	2171
Spain & Italy(B)	1719	372	1985	1602	306	1908
B/A	86.3%	91.4%	86.9%	86.5%	96.2%	87.9%

Source: Korea Foreign Trade Association (Case Study of Polyester Yarn), p.121.

Note:TFY=Textured Filament Yarn.

The second factor is that EC companies involved in this case were those from Germany, Italy, Ireland, Spain and France (four German, three Spanish, one Irish, one Italian and one French firms). They are influential members in the decision making of the Council of Ministers under the principle of qualified majority mechanism.³⁸ For example, they can exercise their influence over the decision of AD duties imposition at their own in conjunction with one or two small EC member states.

The third one is that Korea recorded a dramatic increase in shipments of polyester yarn to the EC in a very short period. Korea's exports showed an increase of 134 times to 2,283 tons in 1986 from the 1985's minimal level of shipments remained at 17 tons, as seen in Table V-11. That was the major reason EC producers felt threatened in

the Community market. That increase in exports by Korea in a very limited period could well be a result of the cut-throat competition among Korean exporters to the EC market; As mentioned in Chapter II, Korean exporters were eager to raise their export records because the government's credit and administrative supports were provided in accordance with their export performance.

2-4. EC's Decision

Despite Korea's strong resistance, the EC decided to impose provisional AD duties on imports of polyester yarn originating in Korea, along with those from Mexico, Taiwan and Turkey.

Table V-19:EC's Provisional AD Duty Imposition against Korean Polyester Yarn(%)

Companies	Provisional AD Duties
Kohap Ltd.	8.1
Kolon Industries Inc.	5.7
Sam Yang Co.	18.7
Tong Yang Polyester Co.	23.7

Source:Korea Foreign Trade Association (Case Study of Polyester Yarn), pp.171-180.

In terms of share in extra-EC imports in 1986(19,726 tonnes), Korea has the lowest figure of 11.6 per cent (2,283 tons), compared to Mexico's 25.05 per cent (4,941 tons), Taiwan's 32.1 per cent (6,335 tons) and Turkey's 31.3 per cent (6,167 tons). Provisional AD duties on Korean companies, announced on June 14,1988, were as seen in Table V-19.³⁹

In the provisional AD duties imposition announcement, the EC Council of Ministers points out:⁴⁰

Neither Community law nor international rules--notably the MFA--prohibit the imposition of anti-dumping duties, customs duties or any other measures affecting imports subject to quantitative restrictions, provided it is established that injury has been caused despite the restrictions. Also, substantial undercutting has occurred with regard to imports into Spain and Italy--up to 35 per cent in Italy and 41 per cent in Spain--in the case of Korea, meaning the quantitative restrictions introduced for these countries have therefore not

protected them from unfair price competition nor prevented injury.

The EC's decision, however, was contradictory to its official position about import restraints against foreign textiles and clothing: the EC promised "not to introduce further quantitative restrictions under the GATT or the MFA, or measures having an effect equivalent to quantitative restrictions"⁴¹ when it concluded agreements with approximately 40 foreign suppliers to control the imports from low-cost countries.

The EC rationalized its decision by quoting other major trading partners' previous actions. Specifically, the EC argued that "the United States has several occasions adopted AD measures cumulating with existing MFA restriction."⁴² Thus, it is clear that previous examples of stringent import restraints adopted by major trading countries have a 'ripple effect' on others, progressively worsening the trading environment worldwide.

However, the real problem of the EC's decision lies elsewhere. The EC had made a major error in the process of calculating the provisional AD duties as a result of a computer mistake: AD duties for Korea's Samyang and Tong Yang had been raised to 18.7 per cent and 23.7 per cent, instead of the correct 3.4 per cent and 6.6 per cent, respectively. After finding the EC's mistake, Van Bael & Bellis, a Brussels-based law firm working for Korean companies, sent a letter to ask for the amendment of the AD duties on Aug. 31 1988. However, the ECC sent a reply to the firm as follows:⁴³

It appears that it is not possible for legal reasons to correct a Commission Regulation in order to change the amount of anti-dumping duties imposed as requested by yourselves on behalf of two Korean companies. Therefore, account will be taken of your request before reaching final conclusions in this proceeding.

The ECC's position was based on the fact that it was very hard to recognize its error officially and the mistake, if it is admitted, could be a damaging factor to the credibility of its AD investigation procedure! As soon as

it received the ECC's letter, Van Bael & Bellis again strongly protested as follows:⁴⁴

Needless to say the two Korean companies concerned have suffered and continue to suffer irreparable damage as a result of these mistakes, and as of the date of publication of these high duties, orders for these two companies from European importers have dried up because it is indeed normal to expect that importers who have a choice between several sources of supply will not take the risk of buying from companies with such high provisional anti-dumping duties.

The law firm finally notified that "if the errors affecting Tong Yang and Samyang are not corrected without further delay, we will have no choice but to bring before the Court of Justice an action for damages coupled with an action for interim relief."⁴⁵

Finally, the ECC recognized that certain calculation errors have a significant effect on the provisional calculation of certain dumping margins and duties with regard to some Korean companies and announced its Regulation {(EEC) No.2871/88 of 15 September 1988}, amending Regulation {(EEC) No. 1695/88} which imposed a provisional AD duty on imports of polyester yarn originating in Mexico, South Korea, Taiwan and Turkey.

Even though the definitive AD duties for Sam Yang and Tong Yang reduced to 3.4 per cent and 4.1 per cent from 18.7 per cent and 23.7 per cent respectively (the definitive AD duties for Kohap and Kolon were the same as provisional AD duties), the two Korean companies incurred enormous damages due to the erroneous calculations. In case of Tong Yang, "since the imposition of the erroneous AD duty, it has received no more than one order for polyester yarn from a customer in the Community. It should be noted furthermore that this single order was placed on 10 August 1988, on the basis of the assurance given by Tong Yang that the AD duty would be corrected before the shipment was made and that, therefore, the rate of 23.7 per cent would not apply to this shipment."⁴⁶ Especially, Tong Yang lost many existing customers due to the erroneous calculations of

provisional AD duties. The followings are three examples of such cases:⁴⁷

--The agent of a Spanish customer informed Tong Yang that the imposition of an anti-dumping duty resulting in the total cost of imports into Spain (customs duty + anti-dumping duty) being raised to 32.7 per cent created a situation of 'force majeure' and that this customer could not, under such conditions, afford to buy the merchandise ordered from Tong Yang.

--An Italian customer wrote that the high anti-dumping duty and the 'precarious market conditions' made the price offered by Tong Yang unacceptable for him.

--The agent of French customers requested Tong Yang not to ship the balance portion of an order made by these customers.

The mistake by the ECC resulted from its chronic problems of tight budget and its unclear distribution, reflected in the manpower issues in the ECC, as I mentioned in Chapter I. Especially relevant, the number of employees working for AD duties-related department in the ECC was only 70 (two employees per AD case, compared to six employees per AD case in the United States).⁴⁸

In the period of 1970-1979, EC's AD investigations against Korean products numbered only 6 cases (average case per year is 0.6). However, the number increased to 16 cases in the period of 1980-1989, and has already reached 9 cases in the three years 1990-1992.

It follows that the workload of the ECC has been growing as a result of a lower number of employees that is necessary, due to the tight budget problems, this almost certainly the cause of the mistake in EC's AD duties calculation.

In sum, the actions of the United States--in imposing import restraints in addition to quantitative restrictions under the MFA--became a major factor in the EC's adoption of similar protective measures against Korea. However, the budget problem and its causal relationship with the computer mistake challenges the credibility of EC's trade policy implementation method.

3. Determinants and Effectiveness of Protectionism in Textiles and Clothing Trade

3-1. Determinants of Protectionism in Textiles and Clothing Trade

The EC's decision to impose AD measures in addition to MFA restriction had not been made for purely economic consideration. Firstly, whether or not EC member states have trade surplus does not greatly influence the determinants of protective measures against Korean textiles and clothing. In general trade with Korea, the United Kingdom, the Netherlands, Spain, Portugal, Belgium, Greece and Denmark have been recording trade deficits. Only, Italy, Germany, and France have been enjoying trade surplus with Korea. France and Italy, however, have been implementing very tight import restraints against Korea even though they have general trade surplus with Korea. On the other hand, the Netherlands, Belgium and Denmark have not implemented stringent import restraints against Korea despite their trade deficits with Korea. In textiles trade, only Belgium, Germany and Italy have been recording trade surplus with Korea. Despite its surplus, Italy has also been implementing very tough import restraints against Korea.

The common point of EC member states favoring protective measures against Korea in textiles and clothing sectors is that their situation is one of chronic general trade deficit with foreign countries, rather than that specifically with Korea. Germany, the Netherlands, Belgium, Ireland and Denmark all enjoy trade surplus. On the other hand, France, Italy, Spain, Portugal, the United Kingdom and Greece all suffer trade deficits.⁴⁹ Meanwhile, the polyester yarn case was also due to the fact that dumped imports from Korea were concentrated on Italy and Spain. The portion exported to Italy and Spain accounted for 87.5 per cent of total Korea's polyester yarn exports to the EC market in the 1986-1987(March) period. These two countries have favored protective measures against Korea in textiles sector as seen in section 2-3 in this chapter. Therefore, the individual EC

member states' influence on EC decision making process gives some indications of the real determinants of protectionism in EC textiles and clothing industries. In addition, R.Hine argues increased imports from developing countries have probably been only a relatively minor source of textiles job losses in the EC, adding as follows:⁵⁰

Indeed, EC imports from other developed countries (especially the United States) which were not subject to quantity controls grew much faster than imports from most developing countries during the 1970s. Much of the benefits from EC trade restrictions under the MFA may have accrued to manufacturers in other developed countries and not to the EC interests which were supposed to be protected.

Even though imports from developed countries to the EC market have been growing, through the exploitation of opportunities arising from import restraints against 'developing' countries, the EC implemented protective measures only against 'developing' countries. That reflects the weakness of 'developing' countries in the international political arena.

Secondly, the U.S.AD measure against textiles and clothing, in addition to MFA measure, encouraged the EC to impose AD measure against Korean polyester yarn, as seen in Section 2-4. Furthermore, the possibility that Korea could switch its exports of textiles and clothing to the EC market, due to import restraints by the United States, spurred the EC's subsequent action. For example, the conclusion of LTA between the United States-Korea, and the EC-Korea occurred at different times. The United States and Korea concluded the LTA in 1965. Six years later, the EC and Korea concluded the same agreement in 1971.

Thirdly, the dramatic increase in shipments of polyester yarn in a very short period, the concentration of exports on the two protectionist markets--Spain and Italy, and intense competition among Korean exporters in the EC market functioned as major factors in the EC-Korea trade disputes.

However, the EC's AD measure against Korean polyester yarn can be criticized on its unclear definition of the 'majority of EC industry's interest' regarding injury. Korea's market share of polyester POY and polyester textured filament remained at 0.51 per cent in the EC's total consumption in the three quarters of 1986. Furthermore, the share was negligible in 1985. Major markets for Korea in the EC were only Spain and Italy, each recording overall trade deficits with foreign countries. According to KCFA, about "81.7 per cent of polyester POY and polyester textured filament went to the two countries in 1986, which rose to 87.89 per cent in the first quarter of 1987."⁵¹ In addition, it is a very doubtful argument that EC industry, which is enjoying 87.5 per cent market share in the EC market along with 82 per cent of plant capacity utilization in this industry, has been under threat by imports from Korea, whose market share rose to only 1.9 per cent in 1986 from a negligible figure in 1985. This raises some question on how the injury to the EC industries in terms of plant utilization, and majority of the EC industry, can be defined. Therefore, it is not too much to admit that the AD duties imposition was unavoidable even though Korea provided very reasonable, comprehensive response against EC's AD investigations.

The credibility of EC's AD policy was already evaluated in Chapter 1(section 5-2-2-2). In addition to my view, there are many criticisms about the credibility. Michael Davenport argues "EC's regulations are drawn up in such a way as to bias any dumping investigation, which is used covertly as industrial policy, and any subsequent review, in favour of a positive result, and the investigating rules are set up generally to produce the desired outcome, then either a definitive duty is imposed, or negotiations with the exporting firm are opened to elicit the appropriate response in the form of a price undertaking or a VRA or both."⁵²

In connection with the high discretion in the AD decision procedure in developed countries in textiles trade, K.Koekkoek & L.Mennes point out:⁵³

At present, it is not necessary for the industrialized countries' producers to prove that textiles imports from developing countries are injurious to their industry for imposing restrictive measures.

Therefore, initiations of AD investigations by advanced countries are usually followed by imposition of VERs, price undertakings or definitive AD measures. However, there are some views supporting AD measures. For example, David Dodwell quotes a view from a businessman in the EC that "in a global economy full of distortions, AD measures are the only recourse industry has."⁵⁴

3-2. Effectiveness of Protectionism in Textiles and Clothing Trade

As I mentioned in Introduction, my major concern in this section is to evaluate the effectiveness of EC's protectionism against Korea by analyzing changes of Korea's export volume and value of commodities subject to EC's import restraints. At the same time, I want to test two completely contradictory analyses by David Yoffie and Patrick Messerlin.

In the IPE literature, there are many studies about the effectiveness of import restraints adopted by advanced countries against imports of textiles and clothing on the economy of importing countries.⁵⁵ Especially, many studies are done on the effectiveness of protective measures by the EC against foreign textiles and clothing. Some scholars argue the EC has not been successful in preventing job losses through restrictions against imports from foreign countries, pointing out job losses in the EC are mainly due to technological change, not due to only inroads of foreign products to the EC market.⁵⁶ R.Hine maintains:⁵⁷

In the textiles and clothing industries, more than a million jobs were lost between 1971 and 1981; similarly, during the 1960s and 1970s more than 10 million farmers and farm workers left the land as

employment in agriculture fell from 19 millions in 1960 to 9 millions in 1980. Most of the job losses in the older industries are attributable to technical change, reinforced by a slackening of demand during the recession, rather than to inroads made by foreign suppliers; indeed, in the case of agriculture, the degree of self-sufficiency has risen.

There are also studies that analyse cost and benefit of NTMs in textiles and clothing sectors regarding EC member states.⁵⁸ Their conclusions are that costs to the consumers are far higher than benefits to the producers. As a result, they maintain that in case of NTM abolition, the position is reversed. According to K.Koekkoek & L.Mennes,⁵⁹

depending on the assumption regarding the tariff equivalent of 0.15, 0.10 and 0.05 per cent, global welfare effects for the EC of abolishing the MFA is \$88 million to \$374 million gains in case of textiles and \$172 million to \$618 million gains in case of clothing. The export gains for the MFA countries consist of additional exports to the EC due to an increase in import demand (demand effect), plus additional exports to the EC because of substitution for EC imports from other suppliers, minus the rent losses. These gains amount to 1-2.5 billion U.S. dollars for textiles and 1-2.7 billion U.S.dollars for clothing, depending on the assumption regarding the tariff equivalent.

Table V-20: Welfare Effects for the EC of Abolishing the MFA (\$1M)

ATE	Textiles			Clothing		
	0.15	0.10	0.05	0.15	0.10	0.05
CS	1,594	1,081	549	1,473	983	490
GR	33	27	17	183	138	78
NWG	1,627	1,108	566	1,656	1,121	568
MRL	-401	-279	-146	-665	-464	-243
OSL	-852	-613	-332	-373	-275	-153
GWG	374	216	88	618	382	172

Source: Koekkoek, K.A. & L.B.M.Mennes (Liberalizing the Multi-Fibre Arrangement), p.162.

Note: ATE=Alternative Tariff Equivalent. CS=Consumer Surplus. GR =Government Revenue. NWG=National Welfare Gain. MRL=MFA Rent Loss. OSL=Other Suppliers' Loss. GWG=Global Welfare Gain.

Vincent Cable and Martin Weale also analyse costs and benefits of MFA on British economy. According to them,⁶⁰

protection of the textile industry through VERs produced a drop in the level of real personal disposable income of about two-thirds of 1 per cent. To set alongside this drop is the gain in employment of 125,000 by 1990 which can be attributed almost entirely to the protected industries. Consumer prices rise by 1 per cent in 1985 (1.5 per cent by 1990) and this derives from the increased cost of imports which incorporates the economic rent from protection. Protection reduces the economic welfare--personal disposable income--of British people, but it benefits certain groups within the country, such as workers in the protected industries.

In case of EC-Korea trade, it is not quite so easy to evaluate the effect of EC's VER and AD measures against Korean products in terms of costs and benefits of protectionism. One way is to check whether or not the EC is successful in achieving its goal of reducing growing trends of imports from Korea through analysing the change of export value by Korean companies to the EC market. The EC concluded LTA with Korea in 1971 and MFA in 1975, the latter is still in force. Therefore, I will compare changes in Korea's exports after 1986 to compare the effectiveness of MFA against Korean textiles and clothing, and that of AD measure against polyester yarn whose AD investigation initiated in 1987. Following table shows Korea's exports of textiles and clothing under import restraints by major advanced countries since 1986.

Table V-21: Korea's Exports of Textiles and Clothing to Major Advanced Countries (\$1000)

Countries	1986	1987	1988	1989	1990	1991
U.S.A.	N/A	N/A	N/A	3135329	2811022	2532205
Canada	N/A	N/A	N/A	424436	383190	321951
EC	1039791	1426393	1593041	1391872	1401361	1562442

Source: Korea Foreign Trade Association (Trade Information, No.9, Vol.7, 1992), pp.67-68.

Note: N/A=Not Available.

Korea's textile exports to the United States and Canada show a marked decreasing trend, which is contrary to David Yoffie's approach that developing countries face no difficulties in increasing their exports to advanced countries despite some import restraints by those advanced countries. Therefore, David Yoffie's approach

may be inapplicable in this case because Korea could divert its exports from the North American market (which became increasingly protectionist) to the EC. Patrick Messerlin's approach is rather more applicable in the United States-Korea, Canada-Korea textiles and clothing trade.

In the case of EC-Korea trade, Korea's exports to the EC market increased by 11.5 per cent to \$1,562,442,000 in 1991 from \$1,401,361,000 in 1990. However, the export level of 1991 is 2 per cent lower than that of the peak in 1988. Korea's textiles and clothing exports dwindled following the intensive AD investigations initiated by the ECC in 1987 and 1988, numbering eight and six cases, respectively, together amounting to fourteen of the total 16 cases initiated in the 1980s by the EC. Major textiles items included in the AD investigation were polyester yarn, polyester staple fibre and synthetic polyester fibre.

In case of polyester yarn, the decline of Korea's exports to the EC market was clearly dramatic.

Table V-22: Exports of Korea's Polyester Yarn to the EC (\$1,000)

Year	1988	1989	1990	1991	1992	1993	1988-1992
Exports	2,537	2,973	918	223	26	0	-2,511
Change		+17.2	-69%	-75%	-88%		-98.98(%)

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), p.113.

Note : The export figure in 1993 is for the period from January to November in the year.

Korea's exports in 1988, when the EC imposed provisional and definitive AD duties against Korean polyester yarn, showed a good performance. The export trend was unchanged in 1989. That is in contrast to general expectation that the AD investigation itself would reduce shipments immediately. However, the impact of EC's AD duty measures began to emerge from 1990, in which Korea's exports were down by 69 per cent from 1989's level to only \$918,000. The decline of exports was more evident in 1992 with

shipments remained at \$26,000, down 88 per cent from the previous year. The 1992's export figure represented a decrease of 98.98 per cent over the 1988's export level. Furthermore, Korea's exports of polyester yarn in 1993 (Jan-Nov) declined to zero. In addition, supply difficulties caused by strikes in Korea, included in KCFA's position paper, are likely to have something to do with the success of the EC's AD measures because labour disputes in Korea drastically increased since former President Roh's Declaration of Democratization on June 29, 1987. Therefore, David Yoffie's approach is limitedly applicable to EC-Korea trade in case of MFA products. However, the applicability of David Yoffie's approach in the EC-Korea MFA case is doubtful when inflation and price increase are considered. Korea's exports to EC in 1991 are lower than the 1988's level peaked, showing that Korea's exports to the EC have problems in terms of international price competitiveness. In case of AD complaints, which represented lion's share of EC's import restraints against Korean products, Korea's exports to the EC have been facing very serious difficulties. Therefore, Patrick Messerlin's approach is applicable in the EC-Korea trade in case of MFA and AD measures. In a word, EC's protective measures in textiles and clothing have been causing increased costs both to EC consumers and Korean exporters, casting doubt against the success of aims of these protective measures.

Notes and References

1. Greenaway, David & Brian Hindley, *What Britain Pays for VER?* (London, Trade Policy Research Centre, 1985), p. 103.
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3. Commission of the European Communities(2), "The European Community and the Textile Industry," *European File* (Brussels, EC Commission, December 1985), p.5.

4. For detailed knowledge about the history of trade restrictions in textiles and clothing, see Koekkoek, K.A. and L.B.M.Mennes, "Liberalizing the Multifibre Arrangement--Some Aspects for the Netherlands, the EC and the LDCs," *Journal of World Trade* (Vol.20, No.2, March/April 1986), pp.142-145; Cable, Vincent & Martin Weale, "Economic Costs of Sectoral Protection in Britain," *the World Economy* (Vol.8), pp.424-425; Greenaway, David and Brian Hindley, *What Britain Pays for Voluntary Export Restraints* (London, Trade Policy Research Center, 1985), pp.103-112; and Turner, Louis and Neil McMullen, *the Newly Industrializing Countries: Trade and Adjustment* (Herts, George Allen and Unwin (Publishers) Ltd., 1982), pp.148-150.
5. Torre, Jose De La & Michel Bacchetta, "The Uncommon Market: European Policies towards the Clothing Industry in the 1970s," *Journal of Common Market Studies* (Vol. XIX, No.2, Dec.1980), p.97.
6. Jones, Kent, "Voluntary Export Restraints: Political Economy, History and the Role of the GATT," *Journal of World Trade*, Vol.23, No.3, 1989, p.135.
7. Greenaway and Hindley, *op.cit.*, p 104.
8. Dicken, Peter, *Global Shift--The Internationalization of Economic Activity* (London, Paul Chapman Publishing Ltd., 1992), p.256.
9. For historical adjustment process and protectionism for textiles and clothing industries in EC member states such as the United Kingdom, Germany, Italy and France, see Geoffrey Shepherd, "Textiles," *Europe's Industries* edited by Shepherd, Geoffrey, Francois Duchene and Christopher Saunders (London, Frances Pinter (Publishers), 1983), pp.26-51.
10. Commission of the European Communities(2), p.3. "Italian firms dominate among the EC's producers of textiles and clothing, based on a flexible industrial restructuring strategy. In the 1960s and early 1970s, Italian small-scale and artisan firms were replaced by methods of mass production. High rates of inflation, volatile exchange rates, a weak financial structure, and compensation from developing countries prompted a second wave of restructuring which reversed the previous trend. The latest round of restructuring was followed by an internationalization of the industry." See Ballarín, Robert, "European Economic Restructuring: Retrospects and Prospect," *European Industrial Restructuring in the 1990s* edited by Cool, Karel, Damien J. Neven and Ingo Walter (London, MacMillan, 1992), p.38.
11. See *International Trade Vol.II*, 1989-1990 (Geneva, GATT, 1990).

12.Commission of the European Communities(2), p.5.

13.Commission of the European Communities(1), pp.1-2.Victoria Price argues "governments can protect industry from foreign competition, but not from technological change, which can often prove definitely more disruptive of established interests." See Price, Victoria, *Industrial Policies in the European Community* (London, The MacMillan Press Ltd., 1981), p.24.

14.Davidson, Ian, "Community in Trouble," *Financial Times* (June 7, 1993), p.32.

15.Balls, Edward, "European Commission Looks for More Jobs," *Financial Times* (June 7, 1993), p.4.Michael Web argues "left-wing governments may put a higher priority on maintaining full employment, while conservative governments may put greater emphasis on keeping interest rates high to prevent inflation or maintain the value of capital. As a result, a number of different types of policy could be used to reconcile national macroeconomic objectives with international constraints imposed by the resulting payments imbalance or exchange rate movements." See Web, Michael, "International Economic Structures, Government Interests and International Coordination of Macroeconomic Adjustment Policies," *International Organization*(Vol.45, No.3, Summer 1991), pp.313-314.

16.Geoffrey in Geoffrey, Duchene and Saunders, *op.cit.*, p.39.

17.The average per-capita consumption of the 12 member states (580 ECU) is lower than that of the United States (640 ECU) and Japan (670 ECU).

18.Commission of the European Communities(3), *Panorama of EC Industries 1991-1992--Current Situation for 180 Sectors of Manufacturing and Service Industries in the European Community* (Brussels, EC Commission, 1991), pp.16-11 and 16-15.

19.For knowing detailed strategy of EC textiles and clothing industries, see *Global Shift--The Internationalization of Economic Activity* (London, Paul Chapman Publishing Ltd.,1992), pp.258-261.

20.Commission of the European Communities(4), "Report on the Textiles and Clothing Industries," *Com(88) 653 Final* (Brussels, EC Commission, Nov.21 1988), p.3.

21.Commission of the European Communities (3), *op.cit.*, p.16-12.

22."In the 1970-1986 period, the EC reported a net loss of 7.9 million jobs in manufacturing." See Ballance, *op.cit.*, p.27.

23.Dicken, *op.cit.*, p.264.

24.Kim, Yung Bong, "The Growth and Structural Change of Textile Industry," *Macroeconomic and Industrial Development in Korea* edited by Park, Chong Kee (Seoul, Korea Development Institute, 1980), p.185.

25.Bridges, Brian. "Europe and Korea:An Awakening Relationship," *Journal of Northeast Asian Studies*(Spring 1985), p.54.

26.Kim in Park, *op.cit.*, p 273.

27.See International Labour Organization, *Yearbook of Labour Statistics* (Geneva, International Labour Office, 1992). The labour cost in this book is calculated based on local currencies. Therefore, I calculated the labour cost in terms of British pounds. The comparison of labour cost in major countries in manufactured goods is as follows:

Labour cost comparisons (spring 1988, average cost per operator hour, U.S.Dollars)

Countries	LCPH	Countries	LCPH
U.S.A.	9.42	Morocco	1.10
Canada	10.78	Tunisia	2.69
Japan	14.93	Brazil	0.64-1.19
Belgium	15.07	China	0.27
France	10.88	Colombia	1.69
Germany	14.67	H.K.	2.19
Greece	4.47	India	0.77
Italy	13.81	Indonesia	0.22
Portugal	2.19	Korea	2.29
Spain	5.69	Mexico	1.84
U.K.	8.43	Pakistan	0.40
Sweden	14.20	Peru	1.64
Egypt	0.41	Philippines	0.64
Thailand	0.66	Turkey	1.01

Source:Davenport, Michael W.S.(The External Policy of the Community and Its Effect upon the Manufactured Exports of the Developing Countries), p.189.

Note:LCPH=Labor Cost Per Hour.

28.Bello, Walden and Stephanie Rosenfeld argue "by the late 1970s and 1980s, the drying up of labour reserves from the countryside and militant labour organizing created strong upward pressures on wages that raised labour costs in the NICs significantly above those in other third world countries that were moving fast to adopt export-oriented growth policies(structural squeeze).See Bello, Walden and Stephanie Rosenfeld, *Dragons in Distress--Asia's Miracle Economies in Crisis*(London, Penguin Books Ltd., 1990), p.14.

29.Torre and Bacchetta, *op.cit.*, pp. 96 and 104.

30.AD Complaints by International Rayon and Synthetic Fibres Committee submitted on December 9, 1986.

31. See Note 29.

32. Commission of the European Communities(5), "Notice of Initiation of an Anti-Dumping Proceeding Concerning Imports of Polyester Yarn Originated in Mexico, South Korea, Taiwan and Turkey," *Official Journal of the EC* (87/C173/05).

33. Submission of the Korean Chemicals Fibres Association on the Question of Injury.

34. Letter from Australian Customs Service to Van Bael & Bellis (October 7, 1987).

35. Hine, R.C., *The Political Economy of European Trade: An Introduction to the Trade Policies of the EEC* (Harvester Press, 1985), p.112.

36. In Spain, "three traditional industries--iron and steel, shipbuilding and textiles--are all effectively government-run. It is likely that these industries are facing fierce import competition as a result of inefficient management and low productivity." See Scott, A.A., *European Studies* (London, Pitman Publishing, 1993), pp.168-169. This could be a factor to enable Spain to strengthen its import restraints against Korean textiles.

37. Under the article 115 of Rome Treaty, EC member states are in a position to request the ECC to suspend free circulation of quota-restricted foreign goods which were already imported through other EC member states in case that tariff-free circulation of these products in the EC are likely to give industrial damages to their domestic industries. "Article 115 is mainly applied in the case of textiles and clothing, and a number of other sensitive products (cars, steel, etc.) partly supplied by developing countries." See Koekkoek, Ad, Arie Kuyvenhoven and Willem Molle, "Europe 1992 and the Developing Countries," *Journal of Common Market Studies* (Vol.29, No.2, December 1990), p.117.

38. The Council can reach agreement by weighted majority decision making method. For this, "54 votes are necessary out of a total of 76 votes, the latter being apportioned thus: 10 to the United Kingdom, France, Germany, and Italy, 8 to Spain, 5 to Belgium, the Netherlands, Greece and Portugal, 3 to Denmark and Ireland, and 2 to Luxembourg." See Budd, Stanley A., *the EEC--A Guide to the Maze* (London, Kogan Page, 1985), p.53. "The increased bureaucratic specialization in the EC may have encouraged a steady increase in majority voting, with 10 decisions based on qualified majority voting in 1966-74 period, 35 in 1974-79 period and more than ninety in 1979-84 period." See Moravesik, Andrew, "Negotiating the Single European Act: National Interests and Conventional

Statecraft in the European Community," *International Organization* (Vol.45, No.1, Winter 1991), p.51.

39.Commission of the European Communities (6),Council Regulation (EEC) No.3905/88 of December 12,1988. "The EC's AD duties imposed on Korean polyester yarn is due to expire December in 1993 under the five-year Sunset Clause of EC Anti-Dumping Law. However, CIRFS of the EC requested on Sept.23,1993 the ECC to continue the application of AD duties against Korean polyester yarn." See "EC Requests Review of AD Measure against Korean Polyester Yarn," *KFTA Trade Information* (Oct.15,1993), p.24.

40.Commission of the European Communities (6).

41.Commission of the European Communities(7), "Textiles and Clothings--General Guidelines for an Industrial Policy," *EC Commission Background Report ISEC/B3/79* (Brussels, EC Commission, Jan.17, 1979), p.3.

42.Commission of the European Communities(8), Note Verbale (Directorate-General, External Relations)(the date of publication unknown).

43.EC Commission Letter to Van Bael & Bellis (the date of publication unknown).

44.Letter of Van Bael & Bellis to Commission of the European Communities (August 22, 1988).

45.See Note 43.

46.Letter of Van Bael & Bellis to Commission of the European Communities (September 7, 1988).

47.See Note 45.

48.Ministry of Trade and Industry in Korea, *The Method and Future Task for Trade Cooperation with the EC* (Seoul, MTI, 1990),p.11.

49.Michael Webb points out "deficit countries typically have a stronger interest in international coordination to spread the burden of adjustment to others, matched with a lesser ability to bargain for changes in foreign government policies." See Webb, Michael, "International Economic Structures, Government Interests and International Coordination of Macroeconomic Adjustment Policies," *International Organization* (Vol.45, No.3, Summer 1991), p.315.

50.Hine, *op.cit.*, p. 111.

51.Submission of the Korea Chemical Fibres Association on the Question of Injury.

52.Davenport, Michael W.S., "The External Policy of the Community and Its Effects upon the Manufactured Exports of the Developing Countries," *Journal of Common Market Studies* (Vol.29, No.2, Dec.1990), pp.195-196.

53.Koekkoek and Mennes, *op.cit.*, pp.142-167.

54.Dodwell, David, "Protectionist Wolf in Sheep's Clothing," *Financial Times* (Oct.15, 1992).

55.For detailed quantification of non-tariff measures, see Laird, Sam & Alexander Yeats, *Quantitative Methods for Trade Barrier Analysis* (New York, New York University Press, 1990).

56.See Greenaway, David, *International Trade Policy--from Tariffs to the Protectionism* (London, MacMillan, 1983); and Greenaway, D. & Christopher Milner, *Protection Again---?--Causes and Consequences of a Retreat from Freer Trade to Economic Nationalism* (Sussex, Gordon Pro-Print Co., 1979). For example, Robert Ballance points out, as a major reason of import growth, that "increased import penetration may result from growth of domestic demand. In this case, import-competing firms would not be under pressure to contract or to release resources." See Ballance, Robert, "European Economic Restructuring:Retrospects and Prospect," *European Industrial Restructuring in the 1990s* edited by Cool,Karel, Damien J.Neven and Ingo Walter (London, MacMillan, 1992), p.45.

57.Hine, *op.cit.*, p.260

58.For additional exports through import protection to be profitable for domestic producer, "export prices must exceed marginal cost, and the expansion of export must result in a higher absolute profit from foreign sales. In this case, a country's welfare gain due to additional profits on exports and lower costs of output sold domestically exceeds the loss of consumers' surplus caused by protection of the home market." See Stegemann,Klaus, "Policy Rivalry among Industrial States: What Can We Learn from Models of Strategic Trade Policy," *International Organization* (Vol.43, No.1, Winter 1989), p.87.

59.Koekkoek and Mennes,p.161-164. On the other hand, "Michael Davenport presents results of an exercise in which EC member states' quotas under the MFA are abolished, holding Community's quotas constant. The consequent volume growth of imports of textiles and clothing is estimated at 3-5 per cent (up to \$0.6 billion), depending on the assumption regarding import growth in formerly constrained national markets (10 and 25 per cent, respectively)." See Koekkoek, AD, Arie Kuyvenhoven and Willem Molle, "Europe 1992 and the Developing Countries:An Overview," *Journal of Common Market Studies* (Vol.29, No.2, December 1990), p.121.

60.Cable, Vincent & Martin Weale, "Economic Costs of Sectoral Protection in Britain," *the World Economy* (Vol.16,1983), p.432.

Chapter VI. EC/Korea Iron and Steel Industry and the Bilateral Trade Disputes on Iron and Steel Products

A Brief Summary of Chapter VI

EC's Iron and Steel Industry

The EC is the only exporter of iron and steel products, among major developed countries, recording positive net export figures presently and forecast to have positive net exports in future. Such favorable trade performance already existed in the EC's textiles sector where the EC has been recording trade surplus since 1980. The 1980s was characterized in the EC by a steady process of rationalization and reduction of production capacity, which began at the end of the 1970s and caused major cutbacks in employment. This restructuring process made sizable productivity gains in the EC possible, and allowed most EC firms to return to profitability. The EC's coherent industrial policy in the iron and steel industry greatly contributed to implementing restructuring process through reduction of production facilities and rationalization. However, that resulted in employment loss in the EC industry. Major problem of EC's iron and steel industry is a vicious circle of foreign threats, especially unfair trade practice from eastern European countries, provision of subsidies, production cuts, and job losses. Therefore, the EC's iron and steel industry also confronts foreign threats and its causal links with job losses, as seen in textiles and clothing industries in chapter 5.

Korea's Iron and Steel Industry

Korea fostered its iron and steel industry as a strategic sector under its heavy and chemical industry promotion plan in the 1970s. Major measures include subsidies, suppressed labour costs, shutting out of imports, etc. As a result, the nation's exports of iron and steel products, at \$582 million in 1985, dramatically expanded to \$4,508 million in 1991. Korea's crude steel production capacity also increased by 13.04 per cent to 26 million tonnes in 1991 from 23 million tonnes in 1990. Korea's

share in world crude steel production increased from 0.1 per cent in 1970 to 1.2 per cent in 1980 and to 2.3 per cent in 1987. However, Korea's iron and steel industry is still facing several problems. Firstly, Korea's steel products are losing international competitiveness, reflected in falling RCA ratios of those products. Secondly, in the process of advanced countries recovering their international competitiveness, the forecast of frequent use of AD or CV duty mechanism by them is expected to be a detrimental factor in Korea's efforts to increase shipments to these markets. Especially important, Korea's price competitiveness is forecast to be weak, as basic import price rather than domestic market price of exporters is applicable to the EC-Korea trade as a method to calculate dumping margin in AD investigation by the EC. The basic import price, based on production costs of world's efficient producers, is far higher than Korea's market price. Thirdly, Korea has to rely totally upon imports of steel-making raw materials, resulting in export performance absolutely influenced by foreign suppliers of raw materials.

Determinants of Protectionism in Iron and Steel Trade

--A Causal Relationship with Import Restraints by the United States

U.S. import restraints against EC steel exports to the United States have encouraged the EC to take strict measures against imports of the products from Korea. Furthermore, the type of import restraints by the EC against iron and steel products from Korea was copied from that of the United States. Namely, the EC's basic import price mechanism, applied to decide whether or not dumping margins exist, was introduced in imitation of Trigger Price Mechanism (TPM) by the United States. The TPM, implemented for the 1978-1982 period, induced voluntary restraint from exporters by establishing a system of dumping reference prices, sales below which would lead to an investigation by the U.S. government with the threat of further sanctions to follow.

--Industrial Damages from Japanese Exports

The EC implemented VER in 1980 against iron and steel products from Korea despite the fact that Korea's ability to export declined in 1978 and 1979 as its indigeneous demand took all the steel it could produce. Therefore, Korea was sucked into trade disputes where the prime problem was seen to be Japan's export success.

--Relationships of VERs with Threats to Impose AD Duties

The EC's basic import price mechanism also established 'fair value' reference prices below which an investigation would be implemented. Because the basic import prices were higher than Korea's domestic market price, as seen above, Korean companies could not avoid being subject to AD duty impositions if they refused to accept VER with the EC. There were two precedents which fully explain EC's practices in trade with Korea. Firstly, the EC threatened to impose AD duties against Korean steel plate in 1978, and finally suspended the AD investigation, after receiving a promise from Korea to conclude VER agreement with the EC. Secondly, the EC threatened to initiate AD investigation against Korean H-beam. This threat was also withdrawn after obtaining a promise from Korea to conclude the agreement that H-beam is exported under EC member-state quota restriction, in addition to the EC-Korea steel agreement,

Effectiveness of Protectionism in Iron and Steel Trade

--David Yoffie's Approach

David Yoffie's approach seems to be inapplicable in the EC-Korea iron and steel trade case because Korea could divert its exports from the United States and the EC to Iran, Thailand and Taiwan where there are no import restraints against Korea. Korea's exports of iron and steel products to the EC dramatically reduced to \$26,879,000 in 1989 from \$64,795,000 in 1987. Also, the strategic importance of iron and steel sector in the EC has tended to negate potential conflicts of interests among EC member states in this sector and resulted in coherent industrial policy. Therefore, the EC iron and

steel industry was relatively protected from domestic decision making problems originating from the complexity of national interests of EC member states, compared to other EC industries. Korea's exports of H-beam to the EC market was so affected by the EC's threat of initiating AD investigation that exports of H-beam to the EC reduced from 23,033 metric tonnes in 1987 to zero in 1989.

--Patrick Messerlin's Approach

His approach is totally applicable in EC-Korea iron and steel trade. The EC successfully achieved its goal of reversing growing trends of imports from Korea by implementing VRS and AD measures.

--Other Factors to Determine Effectiveness of Protectionism

The effectiveness of import restraints was decided by the international competitiveness of Korean products, which were under import restraints by the EC, rather than the effectiveness of measure itself. As the import restraints by the EC were imposed on Korean iron and steel products having a weakening international competitiveness, the EC successfully protected its industry from import penetration by Korea.

1. Background Information for Case Study in Iron and Steel Industry

1-1. General Trend of World Trade in Iron and Steel Industry

The iron and steel industry¹ seems to be very unusual and unrepresentative case for trade frictions between the EC and Korea, considering a small number of trade disputes compared to other industries, especially textiles and clothing, and consumer electronics. However, this industry is a representative sector in which the Korean government provided all kinds of support measures to promote this sector as a forefront runner of the national economy. The EC also implemented a coherent EC-wide industrial policy for iron and steel industry under which enormous amount of subsidies is provided to EC steel plants, that is far different to other EC industries.

Therefore, this case is very important to examine the interrelationships between policy supports, production and trade trends and trade disputes between the EC and Korea, despite the low number of trade conflicts.

The iron and steel industry has been a strategically important sector in the general development of manufacturing industries of developed countries. Therefore, the protection of the industry, and resistance to industrial restructuring, has been very strong.² In addition, there have been strong lobbying activities by industrial associations, such as the International Steel Cartel founded in 1926, its successor, the European Confederation of the Iron and Steel Industry (EUROFER), and the International Iron and Steel Institute(IISI), for the protection of iron and steel industry from external competition. Robert Ballance and Stuart Sinclair describe the characteristic of iron and steel industry and the resistance to industrial structure adjustment in developed countries as follows:³

Starting around 1870, the steel industry in advanced countries enjoyed a full century of growth and expansion, spurred by the construction of vast shipping fleets, railway systems and machines. By virtue of its long-standing prominence, the industry's history abounds with examples of interest groups reactions to deep-seated structure forces and efforts to alleviate adjustment pressures.

Table VI-1:Major Flows in World Trade in Iron and Steel in 1989(\$1B, %)

	Value	Share
Intra-Developed Countries	57.7	53
Exports of Developed Countries to Developing Countries	18.5	17
Exports of Developing Countries to Developed Countries	8.2	7.5
Intra-Developing Economies	5.3	5
World	108.6	100

Source:GATT(International Trade 90-91,Volume II),p.47.

The majority of world trade in iron and steel industry has been on an intra-developed countries basis, accounting for 53 per cent of total value. Exports from developed to developing countries also accounted for 17 per cent of total trade figure in the world. Exports of developing economies to developed countries, however, remained at 7.5 per cent of the total figure. Following this world-wide trend in iron and steel trade, it is forecast that trade disputes in this sector could mainly occur between North-to-North trade, in addition to North-to-South trade.

The world trading order in iron and steel sector, was maintained within the mechanism centered on VERs, signed between the United States and foreign suppliers to the U.S. market, until March 31, 1992. However, the international order was drawn into uncertainty following the United States' suspension of all VERs concluded with foreign steel exporting countries, announcing its intention to invoke AD and CV duty investigations against unfair trading practices by foreign exporters after April 1, 1992.⁴ Major reasoning behind the suspension of the VERs was the improvement in trading environment for U.S. steel industry, strengthening its international competitiveness.⁵ For example, Bellweather Efficiency⁶ of the United States is only 5.3 hours, compared to 5.4 hours of Japan, 5.6 hours of the United Kingdom and Germany, 6.4 hours of Korea, 7.2 hours of Taiwan and 8.9 hours of Brazil. Especially important, exports of iron and steel products by the United States, which had formerly been less than 2 per cent of total iron and steel production, had grown to about 8 per cent (6.3 million tonnes) of total production in 1991 with imports reduced to 15.741 million tonnes in 1991 from 1990's 17.162 million tonnes.

In the production of iron and steel products in the 1950-1970 period, there are two clear phenomena. One was the rising share in total production of Japanese and NIEs steelmakers and the other was the declining share of EC

and the United States. These phenomena indicated the subsequent trade disputes in protection of old industries, despite lion's share of trade being between developed countries.

Table VI-2: World's Crude Steel Production and Demand in 1990 (1 million tonnes, %)

Countries	Production	Share	Demand	Share	Production Surplus
Advanced Countries	381	49.5	374	48.2	+7
of Which					
USA	89	11.6	100	12.9	-11
EC	136	17.7	123	15.9	+13
Japan	110	14.3	99	12.8	+11
Developing Countries	117	15.2	134	17.3	-17
of Which					
Korea	23	2.98	22	2.84	+1
Brazil	21	2.73	12	1.55	+9
Socialist Countries	272	35.3	267	34.4	+5
of Which					
USSR & E. Europe	204	26.5	192	24.7	+12
China	67	8.7	71	9.1	-4
World Total	770	100.0	775	100.0	-5

Source: Korea Institute for Industrial Economics and Technology (Long-Term Demand Prospects for Major Steel Products), p.29.

The ECC explains the phenomena in the world's steel production as follows:⁷

Between 1946 and 1974, world crude steel production multiplied 6-fold, increasing from 112 million to 709 million tonnes. The most dramatic expansion occurred in Japan: between 1950 and 1970 Japan's share of world production rose from 2.5 per cent to 16 per cent, while its exports grew 32-fold. Between 1960 and 1975 alone, Japanese production capacity expanded 7-fold in comparison with a doubling in the EC and no growth at all in the United States. Between 1970 and 1981, Japan's share of world production remained more or less stable around 15 per cent, while that of the Community declined to 18 per cent from 23 per cent and the United States to 16 per cent from 21 per cent. On the other hand, the share of Eastern bloc countries grew to 29 per cent

from 26 per cent and that of developing nations and NICs to 23 per cent from the only 14 per cent. Especially, the latter countries enjoy lower wage bills, more modern plant, sometimes better access to raw materials and can sell their products more easily on an almost stagnant world market where increasing competition is forcing prices down.

When world demand and production is compared, the United States and China have production level less than their demands, and the EC, Japan and Korea have excessive production figures, greater than their demands--the EC having the highest production surplus with 13 million tons. The EC, therefore, has the same problems as Korea in finding overseas markets for its production surplus.

The international trade outlook for iron and steel industry is not so bright. Major iron and steel trading countries such as the United States and the EC are moving to provoke AD or CV duty impositions, switching from emergency import restrictions based on GATT XIX which were followed by VERs, in case their industries recovered competitiveness and showed productivity improvements sufficient to meet international competition. In the case of AD or CV duty investigations, it takes at least one year to complete such procedures and impose pertinent duties against foreign products. It follows that the EC's and the United States movement towards suspension of their bilateral VER agreements with foreign suppliers means that their iron and steel industry was restructured successfully, and that their international productivity was greatly improved.

In addition, there is a sharp confrontation between the EC and the United States concerning public aid and subsidies for the iron and steel industry. The EC is strongly against the imposition of CV duties on products receiving public aid and subsidies, because large amounts of subsidies are provided to the EC industry.⁸ However, the United States argues that subsidy-receiving products have to be subject to CV duties to protect the U.S. steel industry from negative effect of imported products manufactured at lower cost following aid and subsidies from their governments.⁹

1-2. EC's Iron and Steel Industry

In the EC, "the steel industry occupied a strategic position in the economic development. Until the Second World War, the EC member states produced 40-50 per cent of world steel and accounted for about 80 per cent of world trade."¹⁰ The EC has been showing outstanding performance in international trade and is forecast to show the best trade activities in the near future.¹¹

Table VI-3: World Steel Trade Forecast (1 million tonnes)

Countries	1980	1985	1989	1995	2000
USA Exports	3.8	0.9	4.2	5.6	7.2
Imports	13.8	21.6	15.7	15.2	12.3
Net Exports	-10.0	-20.7	-11.5	-9.6	-5.1
JAP Exports	29.7	31.5	19.9	15.3	11.3
Imports	1.2	2.9	7.3	11.0	14.1
Net Exports	+28.5	+28.6	+12.6	+4.3	-2.8
EC Exports	33.0	39.1	25.0	20.0	16.1
Imports	12.6	10.2	5.8	8.8	11.4
Net Exports	+20.4	+28.9	+19.2	+11.2	+4.7
Developing Countries					
Exports	11.1	23.1	36.4	60.0	52.9
Imports	43.8	41.6	52.4	48.7	50.2
Net Exports	-32.7	-18.5	-16.0	+11.3	+2.7
World					
Exports	99.6	129.1	118.0	133.0	147.0
Imports	100.1	125.3	115.0	133.0	147.0
Net Exports	-0.5	+3.8	+3.0	+0	+0

Source: Korea Institute for Industrial Economics and Trade (Long-Term Demand Prospects for Major Steel Products), p.63.

Note: Values in 1995 and 2000 are forecasted figures.

The EC is the only exporter of iron and steel, among major advanced countries, maintaining positive net export figure at present and expected to still have positive net exports by 2000. In terms of ferrous metals, the EC's production since 1980 increased annually from 68,209 million ECU in 1980 to 96,344 million ECU in 1989. However, employment in the sector was reduced from 1,094,000 in 1980 to the only 646,000 in 1989.

Table VI-4: Production and Employment in Terms of Ferrous Metals (1M.ECU, 1000 persons)

Year	Production	Employment
1980	68,209	1,094
1981	70,727	1,009
1982	72,948	941
1983	73,012	910
1984	84,155	844
1985	89,716	796
1986	79,190	745
1987	74,903	693
1988	87,099	657
1989	96,344	646

Source: EC Commission (Panorama of EC Industries 1991-1992), p.3-2.

The ECC points out this contradictory phenomenon as follows:¹²

The 1980s were characterized by a steady process of rationalization and reduction of capacity, which began at the end of the 1970s and caused major cutbacks in employment. This restructuring made sizable productivity gains possible, and allowed most EC firms to return to profitability.

Therefore, EC's productivity in iron and steel sector was successfully recovered by the restructuring process, even though it resulted in employment loss.

Table VI-5: Trade Performance of Major Iron and Steel Producers in 1990 (\$1B)

Countries	Exports	Imports	Trade Balance
Germany	15.1	12.0	+3.1
Bel/Lux	9.5	3.9	+5.6
France	9.0	7.8	+1.2
Italy	5.9	6.9	-1.0
United Kingdom	5.4	4.8	+0.6
Netherlands	3.2	4.1	-0.9
Spain	2.7	2.6	+0.1
USA	3.5	10.7	-7.2
Japan	12.5	4.6	+7.9
Korea	3.6	3.4	+0.2

Source: GATT (International Trade 90-91, Vol.II), p.48.

In EC's production of ferrous metals, six member states account for 87.4 per cent of the total. They are Germany (31.2 per cent of the total), Italy (18.8 per cent),

U.K.(15.5 per cent), France (14.2 per cent) and Belgium-Luxembourg(7.7 per cent). These six countries represent EC's iron and steel industry with only Italy recording a trade deficit in this sector.¹³ Their combined trade balance is \$9.5 billion surplus, which is \$1.6 billion higher than Japan's at \$7.9 billion, \$16.7 billion higher than the United States' \$7.2 billion trade deficit, and \$9.3 billion higher than the \$0.2 billion trade surplus recorded in Korea, as seen in Table VI-5.

Therefore, it is forecast that trade disputes in ferrous metal sector will occur between developed countries--EC, Japan and the United States--rather than disputes between developed countries' declining and developing countries' rising industries. The impressive production and trade performance by the EC in iron and steel industry is also recognized by the statistics of the ECC in Table VI-6.

Table VI-6: Iron and Steel Production and Trade (1 million tonnes)

Year	EC	USA	JAP	World Total
1980				
Production	127.7(17.8)	104.0(14.5)	111.4(15.5)	718.6
Exports	22.2	3.2	22.6	140.0
Imports	9.0	9.7	1.0	140.0
Trade Balance	+13.2	-6.5	+21.6	+0
1988				
Production	137.1(17.2)	92.7(11.6)	105.7(13.3)	797.0
Exports	21.0	1.6	17.7	114.3
Imports	9.7	15.3	6.4	116.4
Trade Balance	+11.3	-13.7	+11.3	-2.1
1989				
Production	139.0(17.8)	88.0(11.2)	108.0(13.8)	783.0
Exports	14.0	4.0	20.0	N/A
Imports	8.0	4.0	7.0	N/A
Trade Balance	+6	0	+13	N/A

Source: EC Commission (Panorama of EC Industries 1991-1992), p.3-7.

Note : Production is based upon crude steel. Exports and imports are also based upon finished products. The figures in parentheses are shares in world's total production.

The EC is the only iron and steel producing bloc to record a continuous growth of production from 127.7 million tonnes in 1980 to 137.1 million tonnes in 1988 and to 139 million tonnes in 1989. The EC is also the only region whose share in world total production of iron and steel remained at the same level between 1980-1989 with 17.8 per cent.

The EC's successful restructuring and modernization of steel and iron industry became a major reason for the favorable production and trade performance, several factors contributing to this success. Firstly, the EC provided systematic support to the iron and steel industry under the ECSC Treaty (Paris Treaty) to expire in 2002.¹⁴ "Steel is the only industrial sector in which the Commission and the Community in general have developed a coherent policy and this policy has been in operation for some years."¹⁵

Secondly, there was a consensus among major steel producers in the EC to "ask strongly for external protection and internal stabilization measures. Germany, which was arguing that the problems in steel industry was cyclical and not structural, and opposing to state control either at the national or the Community level, also went along with the Commission for unilateral measures in iron and steel industry."¹⁶

Thirdly, "the modernization and restructuring was reflected in a number of mergers and acquisitions. Therefore, more than half of EC crude steel production in 1989 was produced by only six steel companies."¹⁷

Fourthly, EC's high GNP growth shown in the 1980s, peaking in 1988 with 3.8 per cent compared to the only 0.5 per cent in 1982, greatly contributed to the growth of EC steel industry. Particularly, the boom in the EC steel industry in 1988 and 1989 was mainly fostered by the strong growth of steel consuming industries such as mechanical engineering, motor vehicles and construction. According to the Korea Iron and Steel Association (KISA),¹⁸

the EC recorded a steady growth of crude steel production since 1987 with growth rate in 1989 reaching at 1.5 per cent. Also, surplus capacity in the EC was successfully reduced since 1980 with capacity reduction as of 1989 totaling 42 million tonnes (capacity utilization rate of 85 per cent). Many iron and steel producers in the EC recorded a good business record. In case of Ilva, an Italian steel company with crude steel production share in total EC production recording 8.1 per cent, achieved \$100 million net profit in iron and steel business. Also, Unisor-Sacilor (a French company with crude steel production share of 16.4 per cent) and British Steel Corporation (10.2 per cent share) recognized as the most efficient steel production companies in the world in terms of production cost.

Fifthly, "the ECSC budget is adopted each year in accordance with the procedures laid down in the Paris Treaty, and is distinct from the general Community budget. Therefore, the Commission has no budget constraint to retrain redundant workers, interest relief grants toward modernization, research and so on."¹⁹

Despite the successful modernisation in iron and steel industry, the EC has been worrying about the prospects of EC's iron and steel industry due to following reasons:²⁰

Firstly, there has been a reduction in the tonnage consumed which has affected all industrial countries. This is due to recession-related production cuts carried out in a number of steel-based industries and to a decrease in the quantity of steel required to produce a given product. Secondly, there has been a substantial increase in production levels in newly industrializing countries, resulting not only in their breaking into Community markets but also in a reduction in EC producers' share of the international market, where large quantities are often dumped at prices that bear no relation to production costs.

This anxiety in the EC, made worse by the concern over exports to other markets such as the United States, has caused the EC to take strict measures against imports of iron and steel products from NIEs including Korea.

1-3. Korea's Iron and Steel Industry

"Korea's iron and steel industry employs over 65,000 people and accounted for 1.6 per cent of the national economy in 1987 which was a significant improvement from its 0.3 per cent share in 1970. Korea's annual crude

steel production capacity is 26 million tonnes as of 1991."²¹ Therefore, Korea ranked eighth largest crude steel producer in the world in 1989, seventh largest in 1990 and sixth largest in 1991. As a result, Korea's share in world crude steel production increased from 0.1 per cent in 1970 (0.5954 M tonnes/595.4 M tonnes) to 1.2 per cent in 1980 (8.558 M tonnes/715.6 M tonnes) and to 3 per cent in 1990 (23.125 M tonnes/769.99 M tonnes). The nation's crude steel production capacity is forecast to increase to 32.8 million tonnes in 1993 and 33.8 million tonnes in 1996.²²

Such a strong development of Korea's iron and steel industry is indebted to two factors--one political and the other economic. Politically, the U.S. plan of reducing the level of U.S. troops in South Korea by one-third made the policy-makers in Korea realize the necessity of fostering its own defense industry base in iron and steel industry. Economically, Korea felt the necessity to diversify its export items, centered on primary and light industrial products, into heavy industrial and chemical items to tide over fierce import restriction from foreign countries. Under the political and economic pressure, the Korean government carried out an ambitious economic structural diversification plan to change an agriculture-based economy to that of industries such as steel, automobile and machinery through a series of five-year economic development plans. As a result, Korea's industrial structure changed as seen in Table VI-7.

Table VI-7: Korea's Industrial Structure(%)

Year	Agriculture Fishery & Forestry	Mining & Manufacturing	Social Overhead Capital & Others
1970	26.0	22.4	51.6
1980	14.6	31.0	54.4
1987	11.4	31.5	57.1

Source: Korea Iron and Steel Association (The Iron and Steel Industry in Korea), p.2.

The nation's industrial structure diversification plan contributed to enormous growth of iron and steel industry. Especially, the Korean government provided the iron and steel sector with various supports such as subsidies, suppressed labour costs, shutting out of imports, etc., considering its strategic importance to other major industries such as defense, shipbuilding and automobile industries.

As a result, the nation's exports of iron and steel products of only \$582 million in 1985, were increased to \$2,457 million in 1986, \$2,921 million in 1987, \$3,846 million in 1988, \$4,298 million in 1989, \$4,237 million in 1990 and \$4,508 million in 1991! However, Korea's self-sufficiency rate (production/domestic consumption+exports) has remained stable, at 83.4 per cent in 1991 and 87.9 per cent in 1992, as seen in Table VI-8, still depending upon imports of iron and steel products equivalent to 12.1 per cent of total consumption in 1992.

Table VI-8: Korea's Iron and Steel Production & Trade (1000 tonnes, %)

	P	IM	DOC	EX	SSR
1991	28,025	5,564	26,253	7,336	83.4
1992	32,800	4,400	29,900	7,400	87.9

Source: Korea Institute for Industrial Economics and Technology (Monthly Industrial Survey, Feb. 1992), p. 68.

Notes: P=Production. IM=Imports. DOC=Domestic Consumption. EX=Exports. SSR=Self-Sufficiency Rate.

Korea's steel production future is forecast to be bright because major domestic steel-consuming industries such as shipbuilding and auto manufacturing have been playing a pivotal role in promoting the country's rapid economic development. The RCA ratios²³ of Korea's ships and boats and passenger cars are showing rising trend. That means those industries have international competitiveness relative to other exports and maintain high levels of consumption for domestically-made iron and steel products, even though such consumption could be encouraged by shutting out of imports.

However, this bright prospect has been overshadowed by several difficulties currently facing Korea's steel industry. First of all, Korea's steel products are losing international competitiveness, reflected in falling RCA ratios of those products. Especially, newly emerging developing countries with cheap labour costs have been strong competitors against Korea which is struggling with labour disputes during the period of transition from authoritarian to democratic regimes. For example, Korea's labour cost per month in iron and steel industry in 1987 was £433.6, which was far higher than India's £88.09, Indonesia's £45.09 and the Philippines' £101.3.²⁴

Secondly, Korea has been wholly dependent on imports of raw materials for manufacture of its iron and steel products. Therefore, Korea's export performance is absolutely influenced by foreign suppliers of raw materials.²⁵ Korea's production and exports are likely to face a very unstable situation if there were some supply problems in the world's raw materials market for iron and steel products.

Table VI-9: Korea's Demand and Supply of Iron and Steel Products(1980-1990)(1,000 metric tons)

Year	Demand			Supply			Changes in Inventory
	DD	EX	TO	DP	IM	TO	
1980	5115	3581	8696	7852	1999	9851	1155
1981	6781	4410	11191	10115	2008	12123	932
1982	6492	5275	11767	10858	1195	12053	286
1983	7801	5366	13167	12089	2023	14112	945
1984	9408	5473	14881	13427	2801	16228	1347
1985	10020	5239	15259	13931	2547	16478	1219
1986	10434	5597	16531	15308	2525	17833	1301
1987	13642	5743	19385	17507	2873	20380	995
1988	14519	6262	20781	18887	2730	21617	836
1989	16946	6448	23394	21756	3407	25163	1769
1990	20087	6792	26879	24535	4421	28956	2077

Source: Korea Foreign Trade Association(Korea and the World, 1991), p.20.

Notes : DD=Domestic Demand. EX=Exports. TO=Total.

DP=Domestic Production. IM=Imports.

Thirdly, Korea's export performance has been always behind the production capacity expansion. Korea's exports of

iron and steel products increased by 89.9 per cent for the 10-year period from 1980's 3,581,000 metric tonnes to 1990's 6,792,000 metric tonnes, as seen in Table VI-9. However, the production capacity rose by a hefty 212.5 per cent to 24,535,000 metric tonnes in 1990 from the only 7,852,000 metric tonnes in 1980. Thus, Korea has been suffering a chronic surplus capacity and a continuous accumulation in inventory level of the products. That could lead to increases in dumped exports by Korean companies to dispose of surplus production, and so cause trade disputes with importing countries.

Fourthly, frequent uses of AD or CV duty imposition mechanisms by major steel importing countries are expected to be a detrimental factor affecting Korea's desire to increase shipments of iron and steel products to those markets. Such a trend is more likely in advanced countries working towards recovering their international competitiveness. Korea's major iron and steel export markets are Japan and the United States, rather than the EC. Therefore, the U.S. action to impose AD duties against Korean iron and steel products could be a decisive factor contributing to sluggishness of Korea's exports of iron and steel products.

In sum, Korea has to export low-and medium-priced iron and steel products. However, it has been losing its international price competitiveness and facing strong import restraints by major importers. Korea has to import high value iron and steel products and raw materials for finished iron and steel products. The total dependence on imports of steel raw materials makes Korea's steel production very unstable, affected by the supply situation of those raw materials.

Through my brief analysis of iron and steel sector, it can be found that the EC and Korea have several problems in common. Firstly, Korea has had difficulties in penetrating into the EC and the U.S.markets following the suspension of Voluntary Restraint Arrangement(VRA) and threats by the EC and the United States to initiate

investigations for the impositions of AD and CV duties. However, this situation is the same as faced by the EC, which is having problems exporting iron and steel products to its largest export market--the United States--after the suspension of EC-US steel agreement. For example, the United States initiated in 1992 a total of 38 cases of AD and CV investigations against iron and steel products from the EC, which represented 40 per cent of total investigations by the United States (94 cases). Secondly, Korea and the EC are under similar pressure to develop alternative markets for their iron and steel products to compensate loss of exports to the United States (for the EC) and to the EC and the United States (for Korea). The EC's major export markets--USSR and Eastern European countries--are in danger of economic collapse and their demands for the EC steel are forecast to decline. Korea also has a necessity to diversify its export markets from Japan and the United States to other markets under the uncertainty in the world trading environment of iron and steel products.

2. Case Study of Iron and Steel Products

2-1. Introduction

Trade disputes in iron and steel industry between the EC and Korea began during the 1970s. The 1970s was a period of great contrast for the EC and Korea, as seen in Part One. In case of the EC, the 1970s was the manifest crisis period for steel industry. According to the ECC,²⁶

the EC saw a drop in crude steel output in the period, which fell by 20 per cent between 1974 and 1981 (from 156 million tonnes to 125 million tonnes). Also, there was a slump in prices, which fell by 50 per cent between 1974 and 1977, before being stabilized by Community measures. There was a sharp cutback in the number of jobs in the steel industry from 792,000 to 549,000 between 1974 and 1981 (-31 per cent). There were considerable financial losses. Problems of industrial productivity have been coupled with those created by overcapacity.

The sluggishness in iron and steel sector was further aggravated by low growth in the main customer sectors such as metal products industry, mechanical engineering,

electrical machinery, transport equipment and construction. Also, the emergence of new producing countries such as Brazil, Mexico, China and Korea became a very critical issue in the Community, considering the importance of iron and steel industry to the EC representing a share of 3.9 per cent of total manufacturing production in the EC in terms of ferrous metals.

In Korea, the 1970s was the period when heavy industry and chemical industry development plan had begun in earnest. Under the plan, the Korean government promoted import substitution in selected major industries such as iron and steel by means of tax concessions and the allocation of preferential credits. Also, market diversification plan to increase overseas markets beyond the United States and Japan was extensively carried out through the Korea Trade Promotion Corporation (KOTRA), established for the purpose in 1964, as mentioned in Chapter II. As a result of the plan, iron and steel products, which were not included in the list of the nation's top ten export items in 1961, ranked ninth in 1970, third in 1975 and also third in 1989, even though their position dropped to sixth in 1990. Spurred by the export market diversification plan, Korea's exports of iron and steel products to the EC amounted to \$574 million in 1989, representing 7.8 per cent of the nation's total exports of \$7,394 million in the year to the EC market (fifth largest export item). The market share of iron and steel products in Korea's total exports to the EC in 1989 was 50 per cent higher than previous year's share of 5.2 per cent. The relative sluggishness in EC's iron and steel industry, and Korea's aggressive marketing strategy for iron and steel products became the source of bilateral trade disputes between the EC and Korea.

2-2. The Situation in the EC

The ECC describes the EC's industrial policy in iron and steel products as follows:²⁷

The Community's steel policy is a coherent set of measures, some aimed at restoring financial viability to steel companies, others at helping the industry to adapt to meet new market requirements by 1985. Conversions of steel regions to other industries and retraining of workers must also be assured.

The EC has been maintaining a coherent industrial policy in iron and steel industry. On production, "the Commission imposed compulsory restrictions on production and deliveries of some products like heavy plates and sections in 1980 in the context of a manifest crisis and this quota system has been prolonged for a year and extended to include wire rods, thus covering about 80 per cent of Community steel production."²⁸

On external trade,"the ECC also established an import monitoring system in 1977. Since January 1,1978, the ECC has published at regular intervals import reference prices(or basic import prices), calculated on the production costs of firms in the most efficient exporting countries. This system is used to trigger Community's AD measures when steel is imported at below the reference prices(basic import prices). In trade with Korea, the EC applied the reference price system since December 30,1978."²⁹ Under the system, the EC started AD investigations against imports of Korean steel plates in 1977. To maintain traditional steel trade flows, the EC has also entered into co-operation agreements with its trading partners. Since 1978, these arrangements have been renewed each year with the major steel exporting countries.

The ECC was still anxious that "a number of European steel plants are old and ill equipped to face competition from new steel producers in countries such as South Korea and Spain."³⁰ Under the serious concerns for the EC steel industry, the ECC had been seeking fundamental measures to solve the problems in iron and steel industry. Major measures were conclusions of VERs with major steel suppliers to the EC market.

Since the signing of VER with Korea in 1980, the EC's iron and steel industry was dramatically changed. The

successful modernization of the industry since the 1970s led to large capacity cuts and important productivity gains, and allowed European companies to take advantage of the favorable economic climate in the late 1980s, returning to profitability. Even though exports of iron and steel products were declined by 54 per cent to 6 million tonnes from 13 million tonnes in the 1980-1990 period, apparent consumption and production rose by 27.9 per cent and 17.2 per cent in the same period, respectively. On the other hand, employment declined by 36 per cent in the period, indicating EC's productivity had improved measurably in the period. Therefore, the EC's industrial policy in iron and steel industry contributed to the growth of productivity and decline in employment. Furthermore, import reference price system and VERs in iron and steel products were also conducive to the successful implementation of industrial policy through the management of foreign threats.

Even though the EC's iron and steel industry has been under productivity improvement and coherent industrial policy, it still needs more production cut and has to face business recession and foreign threats. First of all, the major problem in the EC is a vicious circle of foreign threats, especially unfair trade practices from eastern European countries, provision of subsidies, production cuts and job losses. In this process, some EC member states are tempted to "renationalize their steel sectors through subsidies. In addition, some problems can be found in EC-wide industrial policy in this sector. For example, Spain has still not received EC approval for controversial plans to subsidize new steel-making capacity, in exchange for cuts elsewhere."³¹ Therefore, the EC's iron and steel industry also confronts foreign threats and its causal links with job losses, as seen in textiles and clothing sectors in Chapter V.

In trade with Korea, EC's exports of iron and steel products to Korea remained at \$289.631 million in 1990, representing only 7 per cent of \$4,090 million imported

by Korea. The EC's share in Korea's iron and steel market was thus far lower than Japan's 37.0 per cent and the United States' 20.3 per cent. It was almost the same as Brazil's market share in Korea's total imports of iron and steel products. Therefore, the EC is now in a position to raise its market share in the Korean market as a strategy to overcome its difficulties in facing tight import restriction from the United States and declines of demands from the USSR and Eastern Europe.

2-3. The Situation in Korea

A major characteristic of Korea's steel industry was the wide fluctuation of production. In years when new plants were completed, the supply of crude steel surpassed the domestic demand. As a result, Korean steel producers had the burden of production surplus.

In 1974 and 1976, Korea's iron and steel exports markedly increased as a result of completion of the first plant of Pohang Iron and Steel Company (POSCO) in 1973 and its second plant in 1976. Also, the subsequent completion of POSCO's third and fourth plants contributed to expanding the nation's exports for the 1979-1981 period. Further, another steel company, Kwangyang Integrated Iron and Steel Company(subsidiary of the POSCO), completed its first and second plants in 1987 and 1988, raising Korea's steel exports for the 1988-1989 period. However, the nation's exports of iron and steel products recorded declines in 1978, 1985 and in 1990 when no new plants were set up, despite huge export growth from \$620 million in 1977 to \$4,508 million in 1991.

The fluctuation of the nation's steel production capacity, and growth and decline in exports, resulted in trade disputes with foreign countries, especially with the EC, despite the fact that Korea's self-sufficiency rate remained at 83.4 per cent in 1991 and international competitiveness of iron and steel products, in terms of RCA ratios, has been weakening continuously. For example, Korea was not in a position to fully exploit the quota

limit set under Korea-EC VER measure, as seen in Table VI-10.

Table VI-10: Korea's EC Quota Utilization Rate (%)

Years	1985	1986	1987	1988	1989
Utilization Rate	23.4	55.7	55.8	50.5	6.7

Source: Korea Iron and Steel Association (Korea-EC Steel Consultations Working Paper, March 7, 1990), p.11.

The Korea Institute for Industrial Economics and Trade (KIET) explains "this low utilization rate was a result of drastic shipments from low-cost countries such as China, Mexico and Brazil, and decline of international market price of iron and steel products."³²

Table VI-11: Intra- and Extra-Area Trade of the EC in Iron and Steel (1990) (\$1B, %)

EC's Exports			EC's Imports		
	Value	Share		Value	Share
Intra-EC Trade	33.8	65	Intra-EC Trade	33.9	74.5
Germany	8.1	15.5	Germany	8.6	19
France	6.7	13	France	5.8	12.5
Italy	4.3	8.5	Italy	3.6	8
Netherlands	3.5	5.5	Netherlands	2.6	5.5
Bel/Lux	3.5	6.5	Bel/Lux	7.7	17
U.K.	3.2	6	U.K.	3.1	7
Spain	2.0	4	Spain	1.7	3.5
Extra-EC Trade	18.3	35	Extra-EC Trade	11.6	25.5
USA	3.1	6	Sweden	2.2	5
Switzerland	1.6	3	Austria	1.7	3.5
Sweden	1.2	2.5	Switzerland	0.7	1.5
Austria	1.1	2	Finland	0.6	1.5
USSR	1.0	2	Norway	0.6	1.5
Iran	0.7	1.5	Brazil	0.5	1
Norway	0.6	1	Yugoslavia	0.5	1
Korea	0.286	0.6	Korea	0.145	0.3

Source: GATT (International Trade 1990-1991, Volume II), p.49.

In addition, Korea's effect on share in EC's iron and steel market is really negligible. Korea's share in EC's

total imports remained at 0.3 per cent, with EC's exports to Korea confined merely to 0.6 per cent, as seen in Table VI-11. EC's iron and steel trade is wholly dominated by intra-EC destinations which reflect the successful implementation of the Community-wide industrial policy in iron and steel sector within the guidelines of ECSC. The intra-EC trade in iron and steel sector (69.75 per cent) was far higher than the average figure of intra-EC trade in total, confined to less than 60 per cent.

Table VI-12: Bilateral Trade in Iron and Steel between the EC and Korea (\$M)

Years	Korea's Exports	Korea's Imports	Balance
1988	447	527	-80
1989	119	342	-223
1990	145	286	-141
1991	133	588	-455

Source: Korea Ministry of Trade Industry (Korea-EC Trade Expansion Committee Meeting Paper, March 15, 1990), pp. 58-59.

Note: The figures include exports and imports of iron and steel products which are under and not under Korea-EC steel agreement.

Especially, bilateral trade in iron and steel sector between the EC and Korea has been in favour of the EC, as seen in Table VI-12. This trade gap in favor of the EC has been widening continuously, reflecting a worsening in international competitiveness of Korea's iron and steel products. The EC's share in Korea's iron and steel exports is very minimal, in 1990 for example, at only 7 per cent, higher than Iran's 4.9 per cent, Thailand's 3.6 per cent and Taiwan's 3.4 per cent, but far lower than Japan's 37.0 per cent and the United States' 20.3 per cent, as seen in Section 2-2. This fact--Korea's export share in the 12-nation EC market is only slightly higher than that in Iran, Thailand or Taiwan--means that Korea's export potential to the EC market is still wide open, as well as implying that EC's import restraints was so stringent that it was very difficult for Korea to penetrate the EC market.

Even though Korea has been recording trade deficit with the EC in iron and steel sector, it can not be disregarded that Korea's exports has been expanded in specific period, following its expansion of production facilities. In addition, the development of Korea's iron and steel industry has been implemented with aggressive government support as one of strategic industries. These could cause big threats and precautions to the EC industries which are under the situation of disposing of surplus production, and the danger of job losses caused by cheap foreign imports.

2-4. EC's Decision

In connection with trade disputes in iron and steel industry with Korea, the EC implemented import monitoring system with the application firstly of reference prices (basic import prices:BIP) and secondly VERs.

The EC began AD investigation against Korean steel plate in 1977. However, it terminated the investigation on Jan.24, 1978 on the grounds that it was not necessary to introduce additional import restrictive measures as the VERs were effective against exports of Korean iron and steel products to the EC market. Just before the announcement of the AD investigation suspension, the EC and Korea had already started bilateral negotiations on iron and steel trade on January 18,1978. The EC's intention to begin AD investigation and later adopt VERs had been disclosed by following document:³³

All steel imports coming in at unreasonably low prices will be subject to an anti-dumping duty that will bring prices up to a reasonable minimum. The anti-dumping system will be enforced in the first instance for three months from 1 January 1978. During that period, the Commission hopes to negotiate voluntary limitations of imports with the non-EEC suppliers. The aim is that in this way traditional trade patterns will be as little disturbed as possible. Commission negotiations along these lines have already been successful in relation to a number of third country steel exporters.

Considering the above document, the following is found as background reasoning for the EC's decision to suspend AD

investigation into Korean steel plates and instead implement VERs.

Firstly, the AD investigation had been initiated as the preliminary stage for VERs with major suppliers. Namely, the threat of AD duty imposition was necessary to induce the next VERs to the direction which was most beneficial to the EC.

Secondly, the AD investigation would take time before a final decision was made, which was likely to be contradictory to the interests of the Community producers. Therefore, conclusion of VERs was more effective, and efficient, in reducing uncertainty of external factors.

Thirdly, the EC had already received favorable response from the Korean government regarding participation in bilateral talks to limit its shipments of iron and steel products to the EC market. The VER satisfies both sides. The EC could eliminate the poor image of being a protectionist region of the world, with Korea also in a position to be seen not to hold to unfair trading practices.

The next decision by the EC was the conclusion of VERs with Korea. After several years of negotiation, the EC and Korea concluded an agreement in 1980 under which Korea promised to export iron and steel products within the limit of 218,000 tonnes a year to the EC market. The annual quota amount was gradually increased to 224,000 tonnes, then 236,000 tonnes and finally 243,000 tonnes.

However, there were still problems in bilateral trade of iron and steel products even though they were subject to VERs between the EC and Korea. Specifically, the EUROFER, an association of EC national organizations, whose members represented approximately 90 per cent of total steel production in the EC member states, filed an AD complaint in 1987 against H-beam(certain broad flanged section, CN 7216.3300, NIMEXE 73.11-12), exported by Korea's POSCO and Union Steel Manufacturing Company. The major reason given of AD complaint was that they had been

exporting H-beam below basic import price agreed between the EC and Korea.

In the AD investigation, for the calculation of dumping margins, the ECC compared the BIP of the EC with Korea's export price, rather than the list price(LP) of similar products, offered by Thyssen of Germany, British Steel and Usinor-Sacilor of France. Before the date of AD complaint, Korean H-beam makers were quite, or fairly safe from AD complaints from the EC because they had been allowed to export H-beam to the EC market with price flexibility around the LP rather than the BIP applicable to other suppliers with no bilateral agreements concluded with the EC. However, Korean H-beam could not indefinitely avoid AD complaints if the EC would apply BIP rather than LP with some price flexibilities in investigation into Korean H-beam, due to the high level of BIP over Korea's domestic market price. The Korean government sought to draw out another agreement with the EC to get concessions in H-beam export to the EC market. Finally, the EC and Korea agreed to set an additional quota system at individual EC member state level, rather than at EC level, for H-beam shipped from Korea to the EC market, as seen in Table VI-13. Thus, the EC decided on Feb.11, 1988 that it would not continue AD investigation on Korean H-beam.

Table VI-13: Individual EC Member States' Import Quotas of H-Beam from Korea(1 tonne)

Years	1988	1989
Total Quota	13,000	20,000
of which		
Germany	5,000	6,000
U.K.	3,000	4,500
Others	5,000	9,500

Source: Korea Iron and Steel Association(Korea-EC Steel Consultations Working Paper, March 7,1990), p.5.

There were several intentions behind the announcement of AD investigations by the ECC against H-beam from Korea.

Firstly, the AD investigation was a gesture by the EC to draw more concessions from the Korean side. Because the

ECC applied BIP mechanism, rather than LP mechanism with some price flexibilities, the EC was in a position to easily find dumping margins. As a result, the threat of AD investigation against Korean H-beam could more easily make Korean exporters agree with alternatives suggested by the EC. The Korea Iron and Steel Association (KISA) argued that all cases could be subject to AD duties by the EC if the EC initiates the AD investigation through comparison between BIP and export price.³⁴

Secondly, the EC regarded the VERS against Korean H-beam at the EC level was not sufficient to protect the Community H-beam industry, resulting in the intention to set individual EC member state quota system to prevent concentration of shipment to specific member states.

Thirdly, the ECC fully exploited the real effect of AD investigation which would cause big costs to exporters. It was ironic that the ECC criticized AD measures by other countries because of these costs to exporters and implemented these measures itself. According to the ECC,³⁵

it is little wonder that the Community steel industry regards with trepidation President Carter's promise to U.S. steel producers 'aggressively' to enforce anti-dumping laws. Even if, in the end, dumping is unproven, exporters can be faced with heavy costs during the investigation by the U.S. authorities. The protectionism implicit in the move can have serious repercussions on world trade. It is contrary to the principles of GATT and both the Community and Japan have expressed their concern.

Literally, Korean exporters, even though dumping were unproven in the end, still faced heavy costs during the investigation by the EC authorities, with exports of H-beam totally suspended.

After the applications of the import monitoring system in the 1970s and the VERS in the 1980s, the EC finally decided to remove the VERS against Korea, such decision based upon brighter prospects for EC steel industry. The ECC forecast its steel industry by 1995 as follows:³⁶

As far as the mid-term prospects for the development of EC steel industry are concerned, it can be said that they are much more favorable than they were some years ago. The reason for this positive assessment is especially the expected overall economic growth for the EC of more than 3 per cent annually for the period 1988 to 1994. Thus, EC's steel production will rise by 5 per cent to 1995 from the 1988's level.

And so, the EC decided to exclude Korea from the list of countries subject to VERs concerning steel imports, the decision taken by the EC member states meeting within the Council on 5 March 1990. Following excellent production in iron and steel in the EC, the EC suspended VERs signed with Korea. Followings are reasons why the EC suspended its VER:³⁷

Firstly, there was a continued increase of crude steel production thanks to the corresponding growth of steel demands in the Community since 1987. In case of 1989, the growth rate of crude steel production reached 1.5 per cent as compared with that in 1988.

Secondly, the EC successfully reduced its steel production capacity by 42 million tonnes since 1980, contributing to raising its plant utilization rate to the level of 85 per cent.

Thirdly, there was a success in management of the Community steel makers. In case of Ilvas, its net profit amounted to \$100 million.

Fourthly, there was an improved productivity of the Community steel makers. In case of British Steel Corporation and Usinor, they have been chosen as companies whose production cost is the cheapest one in the world.

Jean-Francois Bellis, a Brussels-based lawyer working for Korea Foreign Trade Association (KFTA), explains the effect of suspension of VERs against Korea in a report to the KFTA as follows:³⁸

The effect of this exclusion is that steel imports from Korea will be treated on the same basis as imports from all other countries which are not subject to the VERs. Quantitative restrictions will accordingly not be applied to imports of steel from Korea. It should, however, be noted that since, from now on, the normal system is applicable to imports of steel from Korea, these imports are exposed to anti-dumping or anti-subsidy proceedings. While the VERs was in force with regard to Korea, these trade protective measures were not used.

His explanation is supported by the present situation regarding protectionism in the world trade of iron and steel products. Namely, the United States, since the suspension of its bilateral agreements with Korea on March 31, 1992, began to use its AD investigation mechanism in a total of 91 cases of foreign-made iron and steel products, as seen in Table VI-14. The EC member states represented 44 per cent (40 cases) in the total number of AD and CV duty investigations by the United States(91 cases). Furthermore, France, Germany and Korea are countries, filed by AD and CV duty investigations by the United States, in hot-rolled carbon steel plates, cold-rolled carbon steel flat plates, corrosion resistant carbon steel products and cut-to-length carbon steel plate all at the same time.

Table VI-14:U.S.AD and CV Duties Complaints for Foreign Iron and Steel Products(number of cases)

Countries\Items	HRCS	CRCS	CRCS	CRCS	CLCSP
Belgium	2(1AD,1CV)	2(1AD,1CV)			2(1AD,1CV)
France	2(")	2(")	2(1AD,1CV)		2(")
Germany	2(")	2(")	2(")		2(")
Italy	2(")	2(")			2(")
Neth.	1(1AD)	1(1AD)			2(")
Spain		2(1AD,1CV)			2(")
U.K.		2(")			2(")
Korea	2(1AD,1CV)	2(1AD,1CV)	2(1AD,1CV)		2(1AD,1CV)
Japan	1(1AD)	1(1AD)	1(1AD)		1(1AD)
Others	9(2AD,7CV)	10(6AD,4CV)	10(5AD,5CV)		10(7AD,3CV)
Totals	21(9AD,12CV)	26(15AD,11CV)	17(9AD,8CV)		27(16AD,11CV)

Source:Korea Foreign Trade Association(Trade Information, July 15,1992), p.19.

Notes :HRCS=Hot-Rolled Carbon Steel Flat Plates.

CRCS=Cold-Rolled Carbon Steel Flat Plates.

CRCS=Corrosion Resistant Carbon Steel Products.

CLCSP=Cut-To-Length Carbon Steel Plate.

The EC also followed the previous case of the United States: the EC filed an AD complaint against Korean stainless steel rod in October, 1991. It was the first time since 1980 that the EC officially initiated its AD investigation against Korean iron and steel products.

Again, a previous case of import restraint by the United States strongly influenced the EC to initiate AD investigation against Korea.

Along with the bright prospects for EC's iron and steel industry, the EC's decision to suspend VER with Korea was also based on following factors. First of all, Korea had been losing its international competitiveness in the iron and steel sector. Therefore, imports from Korea had not been a big threat to the EC industry. Korea's low quota utilization rate to the EC market, as seen in Table VI-10, fully reflects the weakness of international competitiveness of Korean products in the EC market.

Secondly, the EC has still been applying VERs with Eastern European countries and Brazil. These countries were the sixth and seventh largest exporters of iron and steel products to the EC market, holding 1 per cent market share in 1990. Korea's market share remained at 0.3 per cent. Therefore, EC was fully in a position to protect the Community industry from inflows of Korea's iron and steel products with AD duty imposition mechanism, without need for any quantitative restrictions, which were against the GATT principle.

Thirdly, the AD duty imposition mechanism--comparison between export price and basic import price in the EC rather than ordinary comparison between export price and domestic price in the exporting country--provided a very safe apparatus to easily implement AD mechanism, if the EC iron and steel industry was faced with foreign threats.³⁹

Considering the fact that the United States has been heavily using the AD duty imposition mechanism after the suspension of VERs with major steel producing countries, it is expected that more cases in iron and steel sector will be dealt with by the EC's AD mechanism as a way to solve trade disputes between the EC and Korea.

3. Determinants and Effectiveness of Protectionism in Iron and Steel Trade

3-1. Determinants of Protectionism in Iron and Steel Trade

The determinants of EC's protective measures against Korea changed in accordance with chronological changes in trading environment of iron and steel products and consuming industries of those products.⁴⁰

Firstly, business cycle became a major determinant for the kind of protectionism, i.e. VERs to AD, because iron and steel industry had been influenced by business performance of its consumers, such as shipbuilding and automobile industry. This means at least partial applicability of some of IPE approaches regarding determinants of protectionism. In the 1970-1980 period, when the EC's GDP growth was down to 2.9 per cent from the previous decade's 4.8 per cent, the EC used AD investigation and VERs together to prevent growing imports of foreign products. In this period, the EC initiated AD investigation against Korean steel plate in 1977 and VERs in 1980 against Korea's iron and steel products. Even though the EC did not impose AD duties against Korea's iron and steel products in the 1970-1980 period, the EC had still depended AD investigation along with VERs to protect EC industry from threats caused by imports from Korea. However, EC's GDP growth rate showed favorable symptom with 3.8 per cent in 1988, 3.4 per cent in 1989 and 3.1 per cent in 1990. That contributed to the EC suspending VERs, and only depending on AD measure. Secondly, wide-ranging expansion of Korea's crude steel production and its causal relationship with temporary increases in Korea's exports to the EC market in a very short period also became one of major determinants of protectionism. In 1977, the year following POSCO's second plant completion, Korea's steel plate was filed by the EC industry. They argued that steel plate from Korea had been selling in the EC market below the EC's reference price. In addition, the EC asked to have negotiations with the Korean government for the discussion of VERs applied to Korea's iron and steel products to the EC market. In 1987, the year Kwangyang's first plant was

completed, the EUROFER filed an AD complaint against Korean H-beam. Thus, the EC's AD complaint has a close relationship with Korea's expansion of crude steel production capacity.

Thirdly, U.S. import restraints against EC steel exports have encouraged the EC to take strict measures against imports of the products from Korea.⁴¹ Namely, the United States imposed VRA on EC products for the 1969-1974 period, Trigger Price Mechanism(TPM) for the 1978(March)-1982 period, and quantitative restrictions under the U.S.-EC Steel Agreement in 1982.⁴² Furthermore, the individual EC member states represented 44 per cent in the total number of AD and CV duties investigations by the United States in 1992, as seen in Section 2-4. As a result, the United States triggered the EC's fears, enabling the EC to seriously concern of inflows of iron and steel products from Japan and NIEs. Therefore, the EC showed an initiative in implementing import restraints against Korea and the United States followed suit.⁴³ That was contrary to textiles and clothing case. Namely, the EC started VER measure against Korea in 1980 and the United States began to implement the same measure against Korea in 1984. The EC suspended the VER against Korea in 1990 and the United States also suspended the measure against Korea in 1992.

However, there is not likely to be trade diversion from the EC to the United States, triggered by the EC protectionism, comparable to that from the United States to the EC, triggered by the U.S.protectionism, as seen in textiles and clothing case. Korea's iron and steel exports to the EC, peaked with \$447 million in 1988, continuously reduced to \$145 million in 1990, and \$133 million in 1991. The trend was also found in Korea-U.S.trade case. Korea's steel exports to the United States, peaked with \$761 million in 1990, reduced to \$698 million in 1991. Furthermore, Korea has been recording a continuous trade deficit of \$114 million in 1989, \$50 million in 1990 and \$261 million in 1991, in trade with

the United States. However, Korea's total iron and steel exports increased from \$4,298 million in 1989 to \$4,508 million in 1991, as seen in Section 1-3. That was due to Korea's market diversification strategy to Iran, Thailand and Taiwan where there were no import restraints against Korea. Therefore, the protectionism in the United States and the EC triggered a trade diversion from these countries to new markets.

Meanwhile, the EC's BIP system was introduced in imitation of TPM of the United States. The TPM, implemented for the 1978-1982 period, induced 'voluntary' restraint from exporters by establishing a system of dumping reference prices based on Japanese production costs, sales below which would lead to an investigation by the United States government with the threat of further sanctions follows.⁴⁴ The EC, however, also showed an initiative to implement the BIP system three months prior to TPM, effective in March, 1978. Ray Hudson and David Sadler describe the similarity between the U.S.TPM and the EC's BIP system as follows:⁴⁵

By the end of 1977, a Basic Price System was introduced on imports. Similar to the TPM, it established 'fair value' reference prices below which an investigation would be implemented. However, unlike the U.S. scheme though, the EC proposals included an offer to withdraw the import pricing system if exporters were willing to negotiate voluntary agreements based on a given tonnage. By the end of 1978, a large number of these deals had been concluded.

Actually, the EC suspended its AD investigation against Korean steel plate on Jan 24, 1978, because Korea agreed to conclude VER with the EC. Therefore, the AD investigation under BIP system used as a threat to conclude VER.

Fourthly, EC's VER against Korea's iron and steel products has been caused by its perception of Korea as 'a second Japan.' When the EC concluded VERs with 13 steel exporting countries including Japan and Korea in 1980, Korea's production of crude steel (8.6 million tonnes) was only 7.7 per cent of Japan's crude steel production

(111.4 million tonnes). Korea's steel exports in the year, also, remained at 4.5 million tonnes, only 13.2 per cent of Japan's exports(34.1 million tonnes).⁴⁶ Again, Korea was involved in trade disputes with the EC in connection with Japan's splendid export performance.⁴⁷ Louis Turner points out:⁴⁸

The EC insisted on concluding bilateral agreements on iron and steel products with South Korea and Brazil, even though these were minor exporters compared with the others and despite the fact that its ability to export declined in 1978 and 1979 as their indigenous demand took all the steel they could produce.

In sum, the EC's policy implementation moved towards protectionism following business recession in iron and steel consuming industries and dramatic expansion of exports by Korea, and moved away from protectionism after improvement of productivity, business growth in consuming industries(partial applicability of IPE approaches regarding determinants of protectionism) and relative weakness of international competitiveness of Korea's iron and steel products. In addition to these determinants, the mechanism for import restraints was introduced by the EC in imitation of that of the United States, in response to protective measures by the United States, and perception of Korea as a second Japan.

3-2. Effectiveness of Protectionism in Iron and Steel Trade

In connection with the effectiveness of VERs to protect iron and steel industry against foreign imports, there are several studies to evaluate costs and benefits of VER measures from the position of the EC and the United States. However, very few studies exist concerning countries subject to import restraints by the EC and the United States, as I mentioned in Introduction. Gary Hufbauer estimates costs and benefits of VERs for iron and steel industry to U.S.producers and consumers as follows:⁴⁹

VRAs decreased carbon steel imports by 4.5 million tons on average over 1969-74; that the induced

increase in domestic production over this period was 2.25 million tons; the VRA premiums secured by foreign producers were \$330 million in 1974; and that the welfare costs of the restrictions in 1974 were \$380 million. In case of carbon steel, ball-bearings and specialty steels, special protectionism for these three products cost U.S. consumers about \$2.5 billion annually.

Despite high costs to U.S. consumers, U.S. producers enjoyed great benefits--reduction of imports and increase in domestic production. That contributed to improving their productivity and strengthen their international competitiveness.

Another study about the subject has done by the Organization of Economic Cooperation and Development (OECD) on the U.S. restrictions on steel. According to the OECD study,⁵⁰

the trigger price mechanism under the VRA (1978-1982) increased domestic steel output by some 2 to 3 million metric tonnes, while the previous VERs (1969-1974) increased the output by 3.2 million tonnes. These estimates suggest that capacity utilization in the U.S. steel industry rose from 74 per cent to about 77 per cent as a result of 1979 trigger prices. This increase preserved between 8,800 and 12,400 jobs (about 2 to 3 per cent of industry employment) that would otherwise have been lost. Each job preserved in the carbon and alloy steel sector through protectionism may have cost final consumers as much as one quarter of a million dollars.

This study also indicates U.S. producers received benefits in production through transferring a loss to foreign exporters and domestic consumers, even though consumers have to put up with higher costs due to these import restraints.

There are no specialized studies about costs and benefits of EC steel restrictions under the VRA and other import restrictive measures. However, the ECC officially disclosed benefits of AD measures and VERs to protect the Community steel industry as follows:⁵¹

The anti-dumping restrictions have continued against imports from countries selling in Europe at prices lower than the production costs of their most efficient factories, while arrangements have been made with exporting countries such as Japan, South

Africa and East European countries, to limit their exports (VRA). As a result, European steel imports which amounted to 12.4 million tonnes in 1976 fell to about 11 million tonnes in 1978, while exports rose by nearly 9 million tonnes to total 30 million tonnes thus saving 55,000 jobs in the European steel industry.

Therefore, the ECC officially recognized the benefits of VRAs to EC producers--increase in exports, decrease in imports and protection from job losses.

The success or failure of aims of EC's VERs against Korea can be measured through an analysis of changes in Korea's export value and volume under the restrictive measures. The nation's total exports of iron and steel products to the world, which were subject to import restraints by the EC, have shown a continuously increasing trend, in sharp contrast to declining exports to the EC market, as seen in Table VI-15. Numerically, exports of iron and steel products grew by 64.5 per cent in the 1986-1989 period. However, Korea's exports to the EC market declined by 49.9 per cent in the same period, remaining at \$26,879,000. That only represented 1.1 per cent of the nation's total exports of iron and steel products which were under import restraints by foreign countries. The share of exports to the EC market in 1987 peaked with 3.6 per cent.

Table VI-15: Korea's Exports of Iron and Steel Products under VRA to the EC(\$1,000)

Years	1986	1987	1988	1989
Total Exports(A)	1,532,995	1,806,645	2,058,686	2,521,379
Exports To EC(B)	53,632	64,795	28,346	26,879
B/A	3.5	3.6	1.4	1.1

Source: Korea Foreign Trade Association(Directory of Import Restraints by Advanced Countries against Korea), p.423.

Note: The figures include exports and imports of iron and steel products which are under Korea-EC steel agreement.

In terms of quantities exported, the nation's exports of iron and steel products to the EC market were further seriously affected by VERs. Korea's exports to the EC in

1987 totalled 94,806 metric tonnes, which reduced rapidly to 85,892 metric tonnes in 1988 and to 12,071 metric tonnes in 1989, as seen in Table VI-16. The general increasing trend in exports of iron and steel products in terms of value was due to Korean companies' efforts at export market diversification to Iran, Taiwan and Thailand where there were no import restraints against Korea, as seen above, rather than the failure of aims of protective measures by the United States and the EC to reduce imports of these products from Korea.

Regarding H-beam filed for an AD complaint by the EUROFER in 1987, the negative effects to Korean exporters were far more serious, compared to the degree of decline in exports of iron and steel products to the EC market.

Table VI-16: Korea's H-Beam Exports to the EC(1 metric tonne)

Years	1987	1988	1989
Total Exports of Iron & Steel Products to EC(A)	94,806	85,892	12,071
H-Beam Exports to EC(B)	23,033	3,162	0
Share(B/A)	24.3%	3.7%	0

Source: Korea Iron and Steel Association(Korea-EC Steel Consultations Working Paper, March 7 1990),p.8.

Korea's H-beam exports, amounting to 23,033 metric tonnes in 1987, reduced to 3,162 metric tonnes in 1988 and finally to zero in 1989! The major reason for this dramatic reduction was the change in restrictive measures from VRA at the EC level to quota restrictions at each member state level. Also, the threat of initiating AD investigations contributed to reducing orders from EC importers anxious that import prices could be raised after the AD duty imposition. Therefore, David Yoffie's approach seems to be inapplicable in the EC-Korea iron and steel trade, with Patrick Messerlin's approach applicable to this case.

However, the most important factor which decided the effectiveness of EC's protective measures against Korean iron and steel products was the international competitiveness of those products. If the Korean industry had maintained its international competitiveness, and if the EC had begun to impose VRA against these Korean products, then the EC was likely to fail to prevent growing imports of iron and steel products from Korea. That would follow from the tactics of Korean companies to counter such import restraints, such as using 'upgrading strategy.'

Notes and References

1. "Iron and steel products include sheets and plate of iron and steel, pipes of iron and steel, structures of iron and steel and wireropes. The three major technical innovations of post-war period in this industry is 1) the basic oxygen steel process, 2) the electric arc steel furnace and 3) continuous casting which cuts out intermediate steps in processing, reduces waste and generally brings down costs, particularly of energy." See Messerlin, Patrick and Christopher Saunders, "Steel: Too Much Investment Too Late," *Europe's Industries--Public and Private Strategies for Change* edited by Shepherd, Geoffrey, Francois Duchene and Christopher Saunders (London, Frances Pinter (Publishers), 1983), pp.55-56. This industry is also easily affected by business recession. For example, "Nippon Steel, the world's largest steel maker, asked its 37,000 staff to take two extra days holiday per month on reduced pay, faced with declining demand from most of its main markets, plus a recession at home." See Dawkins, William, "Nippon Steel Asks Staff to Take Pay Cut," *Financial Times* (Oct.13, 1993), p.5.

2. The government intervention in steel industry is very strong. For example, "the U.K. Labour government's nationalization of the industry in 1949, followed by Conservative denationalization in 1953 and then by a second Labour nationalization of most of the industry in 1967 are a part of the story." See Messerlin and Saunders in Shepherd, Duchene and Saunders, *op.cit.*, p.75.

3. Ballance, Robert H. and Stuart W. Sinclair, *Collapse and Survival--Industry Strategies in a Changing World* (London, George Allen & Unwin, 1983), p.104.

4. The EC already suspended VERA signed with Korea on March 5, 1990, but it still maintains VERs with former COMECON countries and Brazil. On Sept.28, 1993, "a delegation of

the U.S. steel using manufacturers stated their opposition to a steel import monitoring programme requested by the big steel companies--LTV, USX and Bethlehem Steel--on the grounds that steel demand and prices were firm, imports stable and capacity utilization high. However, U.S. steel companies refused to give up the protection they could glean from the U.S. AD regime under U.S. trade laws." See Dunne, Nancy, "Steel Producers in Sight of Pact--U.S. Industry Group Optimistic about Multilateral Agreement," *Financial Times* (Oct. 6, 1993), p. 8.

5. For example, "U.S. Steel, the U.S. largest steel producer, reported net income of \$36 million, or 44 cents a share, in the third quarter of 1993, compared with a loss of \$28 million, or 48 cents a share, a year ago, thanks to price rises in 1993 and stronger demand for their products. Raw steel production rose by 8 per cent to 2.8 million tonnes in the 1993's third quarter, and its plant operation rose to 95 per cent of capacity, compared with 88 per cent a year before." See Waters, Richard, "Price Rises Help Reinforce Recovery at U.S. Steel," *Financial Times* (Oct. 27, 1993), p. 25.

6. Unit working hour necessary for production of 1 tonne of iron and steel. For knowing big improvement in the U.S. steel industry's business and competitiveness, see Waters, Richard, "Return to Profits Predicted for Steel," *Financial Times* (Jan. 24, 1994), p. 15; and "Bethlehem Steel Shows Continuing Recovery," *Financial Times* (Jan. 27, 1994), p. 34.

7. The Commission of the European Communities(1), "The European Steel Policy," *European File* (Brussels, EC Commission, 16/82, October 1982), pp. 1-2. In the year of 1984, "Japan, EC and other industrialized economies had recorded production surplus of 32, 25 and 8 million tonnes, respectively. However, NIES had a production shortage of 35 million tonnes when they produced 70 million tonnes, as compared with their total consumption of 105 million tonnes." See Hudson, Ray and David Sadler, *the International Steel Industry--Restructuring, State Policies and Localities* (London, Routledge, 1989), p. 19.

8. "On Dec. 17, 1993, the ECC decided to provide total aid of ECU 6.791 billion (£5.17 billion) for subsidized steel companies in Germany, Italy, Spain and Portugal, in condition that they cut their production capacity of more than 5 million tonnes." See Hill, Andrew, "Steelmakers under Brussels Microscope," *Financial Times* (Dec. 20, 1993), p. 2.

Company	Country	Aid (M ECU)	Reduction (1000 Tons)
Sidenor	Spain	515	439
CSI	Spain	2,817	2,300
Freital	Germany	140	160
Ekostahl	Germany	428	462
ILVA	Italy	2,585	2,000

Siderurgica			
Nacional	Portugal	306	140

9. There is a study that "American workers are no better or worse off if displaced by subsidized imports than if displaced by imports actually produced at low cost, displaced by competition at home, displaced by new and better products, or displaced by changes in the tastes of consumers." See Dillon, Patricia, James Lehman and Thomas D. Willet, "Assessing the Usefulness of International Trade Theory for Policy Analysis," *International Trade Policies--Gains from Exchange between Economics and Political Science* (Ann Arbor, the University of Michigan Press, 1990), p.43. "Negotiations from 36 leading steel producers meeting in Geneva last week failed to make progress in negotiating a Multilateral Steel Agreement (MSA). Major reasons of failure was due to sharp contrast in positions between the United States and the EC. The United States insisted that allowable subsidies, such as those for environmental improvement, plant closure and R&D, should be attainable under domestic anti-subsidy laws, and refused to deny that its steel industry has the right to petition the government for action. On the other hand, the EC and others, still smarting from the U.S. AD and CV measures by the United States, want strong MSA provisions to prevent further harassment and immediate agreement to lift duties." See Williams, Frances, "Sparks Fly in Steel Clash," *Financial Times* (Nov.23,1993), p.6.

10. Tsoukalis, Loukas and Antonio da Silva Ferreira, "Management of Industrial Surplus Capacity in the EC," *International Organization* (Vol.34, No.3, Summer 1980), p.358.

11. For detailed forecast of EC's iron and steel industry by the ECC, see Korea Institute for Industrial Economics and Trade, *Long-Term Demand Forecast of Major Steel Products* (Seoul, KIET, December 1991), p.63.

12. The Commission of the European Communities(2), *Panorama of EC Industries 1991-1992--Current Situation for 180 Sectors of Manufacturing and Service Industries in the European Communities* (Brussels, EC Commission, 1991), p.3-1.

13. To briefly review the government policy and current situation of steel industry in major EC member states--Germany, France, Italy, Belgium-Luxembourg, and the U.K., see Messerlin in Shepherd, Duchene and Saunders, pp.63-78. "The Italian steel industry has throughout been developed without the basis of domestic coal and iron ore resources upon which the other major European industries were originally established. That can be one of major reasons Italy has registered trade deficit in this sector." See Messerlin in Shepherd, Duchene and Saunders, *op.cit.*, pp.69 and 79.

14. Major measures under the ECSC Treaty to promote steel industry in the EC were "the regulation of prices, and the coordination of investments, international trade policy and competition policy. A wider range of powers than for any sector except agriculture had been given to the High Authority of the ECSC and to the ECC, which were merged in 1967. In addition, the ECC established minimum prices for some products for which the markets were particularly depressed and 'guidance policies' for all steel products under the 'Davignon Plan' of 1977. The Commission then turned in 1978 to the introduction of voluntary production quota negotiated with the firms but not fully binding. In 1980, the ECC imposed compulsory production quotas (accompanied by inspectors and fines) under the 'manifest crisis' clause of the Treaty of Paris (Article 58)." See Messerlin in Shepherd, Duchene and Saunders, *op.cit.*, pp.59-60. However, "the compelling necessities of immediate emergencies have diverted attention away from long-term strategies and towards short-term and cartel-like management of market crises." See Messerlin and Saunders in Shepherd, Duchene and Saunders, *op.cit.*, p.78.

15. Tsoukalis, Loukas and Robert Strauss, "Crisis and Adjustment in European Steel: Beyond Laissez-Faire," *Journal of Common Market Studies* (Vol.23, No.3, March 1985), p.208.

16. Tsoukalis and Ferreira, *op.cit.*, p.360. Ray Hudson and David Sadler point out that "so great was the problem on steel case, and so delicate were the negotiations arising from the pressures on most major European steel producers and their governments, that even the German delegation (the most obdurate opponents of further state interference) agreed to support the declaration. On the other hand, the very real threat of ending production quotas was to give the Commission a powerful bargaining counter in negotiations with member state governments." See Hudson and Sadler, *op.cit.*, pp.33 and 37. However, there are serious disputes between ECC major steel producers in Germany, Italy and Spain. For example, "Italian, Spanish and German governments are reluctant to agree production and subsidy cuts at state-owned steel mills. As a result, private steel makers, which have already undergone substantial painful restructuring, such as British Steel or Usinor-Sacilor in France, will not make further capacity cuts unless they are reassured that state aid to their publicly-owned competitors is under strict control." See Hill, Andrew, "Steel Industry Plans Reach New Impasse," *Financial Times* (Nov.11,1993), p.2. In addition, "British Steel on Nov.15,1993 criticized progress on solving overcapacity and subsidies had been slow, particularly regarding state-owned companies in Italy, Spain and Germany." See Bolger, Andrew, "Profitable British Steel Warns on Overcapacity," *Financial Times* (Nov.16,1993), p.23. See also Rodger, Ian, Ariane Genillard and Robert Graham, "Brussels Steel Plan Faces

Collapse," *Financial Times*(Feb.2,1994),p.20;and Peel,Quentin and Lionel Barber, "Germany's Private Steelmakers Revolt," *Financial Times* (Feb.3, 1994), p.2.

17.The Commission of the European Communities(2),p.3-2.For example, "Vallourer, a French steel tubing company, Dalmine, a subsidiary of Ilva, the Italian steel producer, and Mannesmann of Germany won approval on Jan.26, 1994 to merge as a company called DMV. Together with Swedish engineering group, Sandvik, DMV will have nearly 69 per cent of the EC market." See Hill,Andrew, "Steel Merger Given Brussel's Approval," *Financial Times* (Jan.27, 1994), p.24.

18.Korea Iron and Steel Association, *Korea-EC Steel Consultations Working Paper(Korean Version)*(Seoul, KISA, February 1992), p.3.

19.The Commission of the European Communities(3), "Steel," *EC Commission Background Report (ISEC/B27/79)*(London, EC Commission, June 29,1979), p.2.

20.The Commission of the European Communities(2),p.3-8. Robert Ballance maintains "even concerted political pressure has not managed to eliminate excess capacity in EC's iron and steel industry because of 1)mixture of public and private ownership, 2)wide differences in efficiency and 3) generous subsidies." See Ballance, Robert, "European Economic Restructuring:Retrospect and Prospect," *European Industrial Restructuring in the 1990s* edited by Cool,Karel, Damien J.Neven and Ingo Walter (London, MacMillan, 1992),p.37.

21.Korea Iron and Steel Association, *A Policy Report on Iron and Steel Industry in Korea*(Seoul, KISA, 1988), p.3.

22.Cho, Heon Joo, "Korea Entered into Advanced Steel Producing Country," *Dong-A Ilbo*(Korean Daily Newspaper)(Seoul, Dong-A Ilbosa, Oct.2,1992), p.6; and Korea Iron and Steel Association, *Steel Statistical Yearbook* (Seoul, KISA, 1992), pp.32-33..

23.RCA index shows each country's share of world exports in a given product relative to that country's share of world exports of all manufactured products, making the denominator constant in all calculations.

24.See International Labour Organization, *Yearbook of Labour Statistics* (Geneva, International Labour Office, 1992).

25.Ray Hudson and David Sadler also indicate that "Korea has no reserves of iron ore, making it more akin to Japan in its complete dependence upon imported raw materials." See Hudson and Sadler, *op.cit.*, p.27.

26.The Commission of the European Communities(1), *op.cit.*, p.2.

- 27.The Commission of the European Communities(1), *op.cit.*, p.4.
- 28.The Commission of the European Communities(1), *op.cit.*, p.5.
- 29.The Commission of the European Communities(4), "The European Steel Policy," *European File* (Brussels, EC Commission, 2/85, January 1985), p.8.
- 30.The Commission of the European Communities(5), "Steel," *EC Commission Background Report ISEC/B28/79*(London, EC Commission, July 2,1979), p.1.
- 31.Hill, Andrew, "Brussels Calls for Broader Cuts in EC Steel Industry," *Financial Times* (Feb.18, 1993), p.1. Robert Ballance maintains "widespread stateownership or control, particularly in Western Europe, has further limited the extent of internationalization and made the steel industry's adjustment to its new circumstances a painful one." See Ballance, Robert, *International Industry and Business--Structural Change, Industrial Policy and Industry Strategies* (London, Allen and Unwin, 1987), pp.106-107.
- 32.Korea Institute for Industrial Economics and Trade, "Steel Industry," *Monthly Industrial Survey* (Korean Version)(Vol.10, No.2, February 1992), p.64
- 33.The Commission of the European Communities(6), "Steel Crisis Measures Extended," *EC Commission Background Report ISEC/B1/78*(London, EC Commission, Jan.16, 1978), pp.1-2.
- 34.Korea Iron and Steel Association, *op.cit.*, p.14.
- 35.The Commission of the European Communities, "Trouble over Steel," *EC Commission Background Report ISEC/B63/77*(London, EC Commission, Oct.31,1977), p.1.
- 36.The Commission of the European Communities(2), *op.cit.*, pp.3-11.
- 37.Korea Iron and Steel Association, *op.cit.*, p.3.
- 38.Bellis, Jeon-Francois, *A Report to the Korea Foreign Trade Association*(Brussels, Van Vael and Bellis, June 1,1990).
- 39.The investigation for AD actions for iron and steel products has been implemented under the Commission Decision No.2424/88.
- 40.Patrick Messerlin and Christopher Saunders argue that "the defensive approaches in EC's iron and steel industry are shared by the governments which have become the owners, or at least the major creditors, of the

financially weakened steel industries, and reinforced both by the social problems of a geographically concentrated industry and by the concept of the strategic role of the steel industry in a national economy." See Messerlin and Saunders in Shepherd, Duchene and Saunders, *op.cit.*, p.79.

41.K.Jones also argues "once protective policy instruments were put in place in the United States, exports which previously had been destined for the United States were switched to other markets, thereby generating a similar crisis elsewhere--part of a 'protectionist spiral' in steel trade." See Hudson and Sadler, *op.cit.*, p.48.

42.For brief history of EC-U.S.steel trade disputes, see Crandall,Robert W., "The EC-US Steel Trade Crisis," *Europe, America and the World Economy* edited by Tsoukalis,Loukas(Oxford, Basil Blackwell Ltd., 1984), pp.18-25.

43.According to Ray Hudson and David Sadler, "the EC announced in 1985 new limits on imports into the Community, further continuing the protectionist cycle, causing four U.S.companies to argue that the EC's fresh move would divert other countries' exports to the United States and making them press for fresh import controls with countries such as Japan, Taiwan, Brazil and Korea." They describe this phenomenon as a causal linkage of "a fresh import surge generating government trade restriction, retaliatory measures and export displacement, and more stringent controls." See Hudson and Sadler, *op.cit.*, pp.50-51.

44.According to Marcel Marion, "many steel supplies in Japan are in-group supplies and their price levels are hidden. Dumping of over 30 per cent by Japanese steel cartels has been found in 1977. Instead of anti-dumping duties, the anti-competitive TPM had been imposed. This TPM was welcomed by Japanese industry because it was based on Japanese CIF prices and effectively prevented the NICs from exploiting their cost advantages." See Marion, Marcel F.van,*Liberal Trade and Japan* (Heidelberg, Physica-Verlag, 1993), pp.121 and 150.

45.Hudson and Sadler, *op.cit.*, p.50.

46.Hudson and Sadler, *op.cit.*, pp.23 and 27.

47."In 1985, Japan was the western world's largest steel producer, exceeded only by the USSR, and its largest steel company, Nippon Steel, dwarfed all other producers with an output of 28.6 million tonnes. Five of the world's top eighteen steel companies were Japanese. There should be no doubt that the success of the Japanese steel industry was based upon exports. Korea's development path of steel industry is partly modelled on Japan, some two or three decades on. In 1960, the Japanese steel industry

exported 14 per cent of its output; by 1985 exports accounted for 34 per cent of its production." See Hudson and Sadler, *op.cit.*, pp.20 and 28-29.

48.Turner, Louis, "Western Europe and the NICs," *the Newly Industrializing Countries:Trade and Adjustment* edited by Turner, Louis(London, George Allen and Unwin Publishers Ltd., 1982), pp.138-139.

49.Laird, Sam and Alexander Yeats (ed), *Quantitative Methods for Trade Barrier Analysis* (New York, New York University Press, 1990), pp.205-207.

50.Laird and Yeats, *op.cit.*, pp.208-209.

51.The Commission of the European Communities(5), *op.cit.*, p.2.

VII. EC/Korea Footwear Industry and the Bilateral Trade Dispute on Footwear

A Brief Summary of Chapter VII

EC's Footwear Industry

Footwear industry is a substantially labour intensive sector. As a result, advanced countries, such as the United States and Japan have been losing international competitiveness. The EC, however, has continued specializing in footwear production due to the recent entry of Portugal and Spain into the EC and the very unique characteristic of the Italian footwear industry, the world largest footwear producer. Therefore, the EC has at the same time the task to protect EC's low-and medium-priced footwear sector of Portugal and Spain, and to secure the market access for Italian high-priced footwear. The EC footwear industry, however, has confronted many structural and policy problems. The majority of employees in the footwear industry are women and industrial sites are not located in industrialized regions. Therefore, efforts towards industrial adjustments in the industry are meeting strong resistance. In addition, the EC's external policy in the footwear sector lost its consistency. The EC imposed VERs on imports to the Community, but also needed to argue the access to foreign markets as the EC industry has a high export specialization trend. The EC footwear industry has been heavily dependent on foreign raw materials for its production of leather shoes, the lion's share of EC's footwear exports. This means that any problems caused by leather raw material supplies from abroad can influence the EC's export performance in the footwear industry.

Korea's Footwear Industry

Korea's footwear industry is also export-oriented and labour-intensive sector, but located in highly urbanized areas. As a result, Korea has faced several problems from the perspective of IPE. Korea has been losing its international price competitiveness, whilst import demands from advanced countries have changed towards

medium-and low-priced items, made by newly-emerging developing countries, rather than for medium-and high-priced items, made by Korea. That forced Korea to switch its export markets from the United States to the EC. Korean footwear companies have been heavily dependent upon exports of their products to three advanced countries--the United States, the EC and Japan. Newly-emerging industrializing countries--Indonesia, Thailand and China--are actively entering into these advanced countries with exports of footwear, and as a result, Korea's market share in exports of footwear to these countries is being drastically reduced. Korean footwear makers, even though they have their own brand names, are very heavily dependent on world's big three importers--Nike, Reebok and Adidas--for exports of their own brand footwear under the contract of Original Equipment Manufacturing (OEM), amounting to 95 per cent of Korea's footwear exports under the OEM contract. Korea's footwear exports are totally influenced by the three big importers.

Determinants of Protectionism in Footwear Trade

--General Determinants

The EC's decision to implement VER against Korean footwear had been made under the perception by the EC that its market is relatively open to foreign imports, in contrast to the apparent difficulties faced by EC companies in penetrating markets of other countries. The perception caused the EC's retaliation against closed markets abroad.

--Specific Determinants

The VER introduced by the U.K. was motivated by the OMA of the United States, and implemented for the 1977-1981 period. The import restraints by France and Italy had been implemented during the process of investigations by the United States for import restraints against Korea. Under the U.S. tight investigation regime, Korean companies switched their export markets to the EC to preempt possible import restraints by the United States. The

result was the increase in exports of Korean footwear to Italy and France after 1985. It follows that the U.S. investigations caused Italy and France to implement VERs against footwear imports from Korea, for the period of Mar.1,1988-Jun.30,1990(Italy) and July 1,1988-June 30,1990 (France), and subsequently EC-wide VER, since July 1, 1990 as of December 1993. The import restraints by the EC had also been strengthened following similar action by other countries, in fear of additional transfer of exports by Korean footwear companies to the EC. The successful experiences by Italy and France to restrict imports of Korean footwear through VERs enabled the EC to adopt the EC-wide VER later, rather than other types of import restraints such as AD measure.

Effectiveness of Protectionism in Footwear Trade

--David Yoffie's Approach

David Yoffie's approach seems to be applicable to the EC-Korea because Korea's exports of footwear to the EC increased, despite the EC-wide VER against Korean footwear. However, it is likely to be inapplicable to certain individual EC member states-Korea footwear trade case. As a result of French and Italian VERs against Korean footwear, Korea's exports to France decreased by 26.6 per cent to \$86.297 million in 1989 from \$117.648 million in 1988, and those to Italy declined by 7.6 per cent from \$79.954 million to \$73.878 million. In EC-Korea footwear trade, Korea's exports sharply increased, up 10.5 per cent from \$723.796 million in 1990 to 1991's \$799.975 million. However, it is noteworthy that Korea's footwear exports to the United States have been showing a declining trend since 1988--reduced to \$1,985.040 million in 1991 from \$2,329.050 million in 1988. This approach, therefore, is not applicable in the United States-Korea footwear case. Obviously, Korean companies' market switching strategy, from the United States to the EC, contributed to increasing exports to the EC market.

--Patrick Messerlin's Approach

His approach seems to be inapplicable in the EC-Korea, but applicable to EC member states-Korea footwear trade case. The EC did not achieve its goal of reversing growing imports of Korean footwear by implementing the VERs.

--Other Factors to Decide Failure or Success of Protectionism in Footwear Trade

The most important factor influencing the success or failure of VERs in EC-Korea footwear trade is whether exports subject to such restrictive measures have international competitiveness. If foreign exporters maintain the competitive edge, they can choose to switch their export markets or adopt upgrading strategy as circumstances dictate. If they choose market switching strategy, their exports to former export markets would be declined. However, their exports could be continuously increased in case that they choose upgrading strategy. David Yoffie's approach, therefore, could be either applicable or inapplicable, depending on types of strategies by exporters. Patrick Messerlin's approach, however, seems to be applicable when any protective measures by advanced countries could be a decisive factor against growing market penetration by products with weak international competitiveness from specific countries.

1. Background Information for Case Study in Footwear Industry

1-1. General Trend of World Trade in Footwear Industry

One of the major characteristics of the footwear industry is that the proportion of labour costs is far higher than the average in other manufacturing industries, and has become a determining factor of international price competitiveness. Developing countries have therefore naturally since the 1970s a strong competitive advantage over advanced countries. As David Greenaway puts it,¹

the most important single factor affecting the footwear market has been the shift in comparative advantage away from the major developed market economies (with the exception of Italy and Spain) towards newly industrializing and developing countries like Hong Kong, South Korea, Taiwan and

the Philippines and planned economies like Czechoslovakia, Poland and Romania. Production of standardized footwear (especially footwear made of fabric, plastic or rubber) requires relatively little technological 'know-how' and tends to be labour intensive.

However, this competitive advantage enjoyed by developing countries is now being transferred to the newly-emerging developing countries, such as Thailand, Indonesia and China because of increasinsg labour costs in Taiwan, Hong Kong and Korea, and also following import restraints against them by advanced countries. The newly-emerging developing countries are already showing a superior competitiveness in low-priced, low-quality footwear products, compared with Korea and Taiwan.

Table VII-1: World Production of Footwear(1989)(1 million pairs,%)

Countries	Production	Share
China	2,054	21.8
EC	1,066	11.7
Russia	1,054	11.2
Taiwan	671	7.1
Brazil	600	6.4
Korea	550	5.8
Total	9,435	100.0

Source: EC Commission(Panorama of EC Industries 1991-1992), p.16-26.

In 1989, a total of 9,435 million pairs of footwear were produced in the world, of which China and Russia represented a combined figure of 33 per cent with the production of 2,054 million pairs and 1,054 million pairs, respectively. However, the picture looks far different if world-wide production is considered in terms of export value rather than production figure. Three countries--Italy, Korea and Taiwan have absolutely been dominating world's footwear market in terms of export value as seen in Table VII-2. The combined share of these three countries rose sharply to 57.3 per cent in 1990 from 42.0 per cent in 1970. Especially, Korea's share in world exports dramatically increased to 17.7 per cent in 1990 from only 1.0 per cent in 1970. This phenomenon

suggests that several countries are dominating the international trade of high-priced footwear products even though their production figure is less than those of China and Russia.

Table VII-2: World's Footwear Exports Trend (\$1M, %)

	1970		1980		1986		1990	
	EX	SH	EX	SH	EX	SH	EX	SH
Italy	666	39.3	3,591	34.2	4,803	40.1	6,579	28.0
Taiwan	28	1.7	1,408	13.4	3,038	19.0	2,510	11.6
Korea	17	1.0	871	8.3	2,059	13.0	4,164	17.7
Sub-Total	711	42.0	5,870	55.9	9,905	72.1	13,253	57.3
World's Total	1,693	100.0	10,498	100.0	15,982	100.0	21,600	100.0

Source: Korea Institute for Industrial Economics and Technology (External and Internal Changes in Footwear Industry and Its Impact on Korean Industry, 1988), p.15.
United Nations (1990 International Trade Statistics Yearbook, Vol. II), p.216.

Note : EX=Exports. SH=Share.

For example, "Italy has been exporting high-quality leather shoes with price higher than \$16 per pair. On the other hand, Korea has been specializing in leather sporting shoes with price ranging \$5-16 per pair and Taiwan in plastics shoes with prices approximating \$5 per pair."² As a result, these three countries are marketing their products in the world without severe competition to each other because of their specialization in differing ranges of product. It will take some time for China and other newly-emerging developing countries to meet the technological level of Italy, Taiwan and Korea because of the difference in the level of production skills for high-quality products.

Meanwhile, the major importers of footwear, the United States and EC member states--Germany, France and the United Kingdom, represented 63.2 per cent of the world total imports in terms of value in 1970, with this figure rising to 67.5 per cent in 1986, even though it was down to 62 per cent in 1990.

Table VII-3:World's Footwear Imports Trend(\$M, %)

	1970		1980		1986		1990	
	IM	SH	IM	SH	IM	SH	IM	SH
USA	629	38.2	2,826	25.5	6,857	40.1	9,570	33.7
Germany	245	14.9	2,134	19.3	2,303	13.5	4,008	14.1
France	69	4.2	898	8.1	1,298	7.6	2,058	7.2
U.K.	97	5.9	937	8.5	1,077	6.3	1,982	7.0
Others	605	36.8	4,271	38.6	5,556	32.5	10,786	38.0
Total	1,645	100.0	11,066	100.0	17,091	100.0	28,404	100.0

Source:Korea Institute for Industrial Economics and Technology(External and Internal Changes in Footwear Industry and Its Impact on Korean Industry, 1988), p.17.

United Nations(1990 International Trade Statistics Yearbook Vol.II), p.216.

Note :IM=Imports. SH=Share.

However, the world import structure has been changing since 1985, following the devaluation of U.S.dollars and the strengthening of European currencies. As a result, the share of the United States in world's total footwear imports went down by 11.8 per cent in the 1970-1990 period, compared with a sharp rise of 13.2 per cent in share of imports by the three EC member states in the same period. The appreciation of the Japanese yen also contributed to increased shipments of footwear to the Japanese market.

Table VII-4:Advanced Countries' Footwear Import Forecast (1 million pairs, %)

	Imports Trend				AGR	
	1988	1990	1992	1995	1988-1990	1990-1995
USA	1,089	1,120	1,147	1,189	1.4	1.2
EC	506	518	529	542	1.3	0.9
Japan	143	167	182	193	8.0	3.0
Total	1,738	1,805	1,858	1,924	1.9	1.2

Source:Korea Ministry of Trade and Industry(International Competitiveness of Major Industries in Korea and Future Tasks to Raise the Competitiveness, September 1990), p.394.

Note :In case of the EC, intra-EC trade was excluded.

AGR=Average Growth Rate

As seen in Table VII-4, imports into the Japanese market showed the highest performance compared to other markets

during the 1988-1990 period with 8 per cent growth rate. In addition, the Japanese market is forecast to be the most promising import market for footwear in the 1990-1995 period with 3.0 per cent annual growth rate expected.³

A clear phenomenon emerges when import figure of footwear and world demand for footwear are compared, as seen in Table VII-5. The EC is the bloc having the largest demand for footwear. However, its actual import figure is less than half the figure of imports into the United States. This means the demand for footwear in the EC member states has been met by supply from other EC member states rather than from external shipments of non-EC member states. In 1990, external supply of footwear to the EC market only represented 38.4 per cent (518 million pairs/1,350 million pairs) of total EC demand for the year. This is closely related with the high sales ratio of Italian footwear manufacturers in the EC market, representing 70-80 per cent of their total export figure.

Table VII-5: World Footwear Demand (100 million pairs, %)

	Demand			Demand Forecast		AGR	
	80	85	90	1995	2000	1980-90	1990-2000
World	72.0	76.1	80.3	85.0	91.0	1.1	1.2
USA	12.8	13.1	13.3	13.5	13.8	0.4	0.3
EC	13.0	13.2	13.5	13.7	13.9	0.4	0.3

Source: Korea Ministry of Trade and Industry (International Competitiveness of Major Industries in Korea and Future Tasks to Raise the Competitiveness), p.393.

Note: AGR = Average Growth Rate

1-2. EC's Footwear Industry

The EC produced 1,066 million pairs of footwear in 1989, ranking second in the list of world footwear producers, as seen above. Also, "the EC footwear market represented a sales volume of 1,356 million pairs of shoes in 1989, thus making the Community the world's third largest consumer after China (with a demand level of 1,700 million pairs of shoes) and the United States (1,359 million pairs)."⁴ There is a clear phenomenon, regarding production and employment in the EC footwear industry;

each decreased at the same time, as seen in Table VII-6, indicating that the industry is a labour intensive sector where technological innovation can not significantly contribute to boosting productivity.

Table VII-6: Production and Employment in EC Footwear Industry(1 million pairs, 1,000 persons)

Year	Production	Employment
1980	935	346.5
1981	927	342.7
1982	975	328.1
1983	935	311.4
1984	1193	378.3
1985	988	371.2
1986	1192	371.0
1987	1137	366.1
1988	1077	348.4
1989	1066	333.0
1990	1061	342.0

Source: EC Commission(Panorama of EC Industries, 1991-1992), p.16-26.

There are, however, several exceptions in 1982, 1984 and 1986 as a result of new admission of footwear producing countries, such as Greece in 1981, and Portugal and Spain in 1986, into the EC.

Table VII-7: Consumption and Production of Individual EC Member States in 1989(1000 pairs)

Countries	Consumption	Production	Difference
Bel/Lux	47300	3810	-43490
Denmark	22500	4485	-18015
Germany	299000	68697	-230303
Greece	27000	12856	-14144
Spain	88300	181263	+92963
France	321200	168061	-153139
Ireland	16400	2000	-14400
Italy	174000	401868	+227868
Netherlands	55000	7267	-47733
Portugal	33600	96010	+62410
United Kingdom	267000	114889	-152111
Total	1356000	1066196	-289804

Source: EC Commission(Panorama of EC Industries 1991-1992), pp.16-26 and 16-27.

There is also a close relationship between consumption, production level, and external trade policy of each EC

member state, as seen in Table VII-7. There is a shortage in production to meet total demand of the EC. Only three EC member states--Italy, Spain and Portugal--are showing a production surplus when compared with each member state's consumption level. Therefore, these three member states appear to concentrate on sales of production surplus to the EC market, raising pressure for restrictions on imports of footwear from non-EC member states into the Community market. They represent 63.7 percent of total footwear production in the EC in 1989. Even though "the volume of shoes manufactured has decreased in most individual EC member states in the 1986-1990 period(-19.2 per cent in Italy, -5.15 per cent in Spain, -17.3 per cent in France, -10.4 per cent in the U.K., -25.1 per cent in Germany and -11 per cent in total EC member states), only Portugal doubled the level of production in 1989. However, since 1986, the turnover at current prices, estimated by the CEC (Confederation Europeenne de L'Industrie de la Chaussure), has increased in Italy, Spain, the U.K. and Portugal, and has decreased in Germany and France, only."⁵ That means majority of EC member states succeeded in developing high-quality footwear for export and domestic consumption.

Table VII-8: Number of Enterprises in Footwear Sector

Countries\Years	1986	1987	1988	1989
Bel/Lux	70	66	66	60
Denmark	18	27	23	21
Germany	249	230	273	252
Greece	2320	2080	2080	2080
Spain	1456	1466	1418	2520
France	397	372	339	320
Ireland	22	22	22	12
Italy	9531	9423	9094	8827
Netherlands	115	105	106	106
Portugal	N/A	1000	1000	1015
United Kingdom	750	766	766	788
Total	14924	15658	15000	16000

Source: EC Commission (Panorama of EC Industries 1991-1992), p.16-28.

In terms of the number of enterprises in the footwear sector in 1989, Italian firms account for 55.2 per cent (8,827 firms) of a total of 16,000 firms, Spanish firms for 15.8 per cent (2,520 firms) and Portuguese firms 6.3 per cent (1,015 firms), as seen in Table VII-8. Therefore, the combined figure of footwear companies in these three EC member states represent 77.3 per cent of the total EC footwear companies. The total number of footwear companies in the EC rose by 7.2 per cent to 16,000 in 1989 from 14,924 in 1986, as seen in Table VII-8.

Table VII-9: EC Footwear Trade in Terms of Trade Volume (1 million pairs)

Years	Exports (Extra-EC)	Imports (Extra-EC)	Balance	Trade (Intra-EC)
1980	155.2	307.7	-152.5	343
1981	177.4	321.6	-144.2	387
1982	180.7	315.9	-135.2	333
1983	188.1	357.7	-169.6	322
1984	203.7	384.0	-180.3	342
1985	225.9	379.9	-154	365
1986	274.3	349.8	-75.5	460
1987	243.0	482.8	-239.8	474
1988	231.3	514.6	-283.3	456
1989	242.6	507.0	-264.4	470

Source: EC Commission (Panorama of EC Industries 1991-1992), p.16-28.

The major factor contributing to the increase in the number of footwear companies was the increase in intra-EC trade which grew from 343 million pairs in 1980 to 470 million pairs in 1989, as seen in Table VII-9. The intra-EC trade expansion then contributed to the structural adjustment in the footwear industry which moved from high-wage to low-wage EC member states. Namely, the number of companies in the footwear industry decreased in the 1986-1989 period in Belgium/Luxembourg, Denmark, Germany, France, Italy and the Netherlands, whilst the number in Spain and Portugal increased. The EC's extra-EC trade balance in terms of trade volume has worsened in the 1980s. Despite this trade deficit of the EC in quantitative terms, it enjoys a trade surplus when measured in value terms. The EC's main exporting member

state is Italy whose share in world's total footwear exports in terms of export value accounted for 40.1 per cent in 1986 and 28.0 per cent in 1990, as seen in Table VII-2. Furthermore, Italy has been specializing in exports of high-priced footwear with price level higher than \$16 per pair. On the other hand, "the main exporters to the EC are China, Taiwan and Hong Kong. Within Europe, the most important suppliers to the EC market are Yugoslavia and Austria."⁶ All except Austria are exporters specializing in low-and medium-priced footwear. Therefore, the trade balance in terms of trade value in EC footwear industry has been recording a surplus continuously in the 1986-1990 period, as seen in Table VII-10. It is very difficult to find official trade statistics compiled by the ECC, calculated in terms of trade value. It would appear that the EC deliberately emphasises the serious situation of footwear industry in terms of trade volume, rather than the favorable aspects of trade balance in terms of trade value.

Table VII-10:EC's Footwear Trade in Terms of Trade Value(\$1,000)

Years	1986	1987	1988	1989	1990
Exports	8225665	9328969	9239175	9751781	12109589
Imports	6498658	8279012	8692533	8779664	11188781
Balance	+1727007	+1049957	+546642	+972117	+920808

Source:United Nations(1990 International Trade Statistics Yearbook, Vol II), p.216.

The EC's good performance in footwear trade can also be demonstrated by comparing export market share of the EC with those of other countries in terms of trade value. The EC's market share in the world's footwear exports is higher than that of any other country, as seen in Table VII-11. If the export volume only is considered, China and USSR dominate the world footwear market. However, the EC has a share of over 50 per cent in the world's footwear market in terms of export value, thanks to its greater dependence on exports of high-priced items.

Table VII-11: Comparison of World's Export Market Share in Footwear in Terms of Trade Value(%)

Year	Korea	USA	JAP	EC	Taiwan	Others
1975	4.85	0.94	1.02	56.76	7.90	28.53
1980	9.33	1.50	0.67	57.08	15.50	15.92
1985	13.59	1.13	0.51	47.19	20.76	16.82
1987	16.28	1.42	0.22	55.10	21.69	5.29
1988	21.00	NA	NA	52.40	NA	NA
1989	18.30	NA	NA	51.40	NA	NA
1990	17.70	NA	NA	51.60	NA	NA

Source: Korea Ministry of Trade and Industry (International Competitiveness of Major Industries in Korea and Future Tasks to Raise the Competitiveness), p.300.

United Nations (1990 International Trade Statistics Yearbook, Vol. II), p.216.

As shown in Table VII-12, EC's trade specialization index⁷ is 0.06 in 1987, compared with minus 0.94 of the United States and minus 0.91 of Japan. This fact means EC member states, especially Italy, France and Spain, are still specializing in exports of footwear, in contrast to the fact that most other advanced countries such as the United States and Japan are dependent upon imports of foreign-made footwear.

Table VII-12: Comparison of Trade Specialization Index

Year	Korea	USA	JAP	EC	Taiwan
1975	0.99	-0.94	-0.35	0.09	1.00
1980	0.99	-0.91	-0.63	0.00	1.00
1985	0.98	-0.96	-0.74	0.07	0.99
1987	0.98	-0.94	-0.91	0.06	0.99

Source: Korea Ministry of Trade and Industry (International Competitiveness of Major Industries in Korea and Future Tasks to Raise the Competitiveness), p.300.

The EC's specialization in footwear exports is due to its unique industrial structure, especially that in Italy, the largest footwear producer in the EC. According to the ECC,⁸

in Italy, the footwear sector hosts many small business and this is proved by the fact that 64.1 per cent of Italian firms, involved in the manufacturing of shoes, employed less than 9 people in 1989. This has occurred since 1986 in spite of a reduction of 8.6 per cent in the number of Italian enterprises, mainly small businesses.

Therefore, the unique industrial structure in the EC footwear industry, centering on Italian firms, contributed to forcing the EC to remain a footwear exporter.⁹

In addition, the EC's enlargement process to countries with comparative advantage in footwear production such as Portugal and Spain increased the pressure to raise EC's barriers against imports from developing countries because their economies are "competitive, rather than complementary, to the economies of the core NIEs."¹⁰

However, the EC footwear industry has several problems due to its unique characteristics.

Firstly, the majority of employees in the footwear industry are women, and production sites are not located in industrialized regions. "The specific socio-cultural role of women, in particular their family and domestic responsibilities, also makes them relatively immobile geographically."¹¹ As a result, there are not so many alternatives to find jobs in case of unemployment. The effort to make industrial structure adjustment in this industry seems to be met by strong resistance, due to the difficulties of finding alternative jobs.

Secondly, the EC footwear industry has been heavily dependent upon production of leather shoes. According to Table VII-13, leather accounts for 64 per cent of production materials for footwear in the EC in 1987, up 8.5 per cent from 1980's share of 59 per cent.

Table VII-13: Comparative European Production Trends by Materials (%)

Materials	80	81	82	83	84	85	86	87
Leather	59	60	60	63	63	63	64	64
Synthetics	18	19	20	18	19	19	19	19
Textile	8	7	6	7	5	4	3	4
Rubber	1	1	2	2	1	1	1	1
Others	N/A	N/A	N/A	1	1	N/A	N/A	N/A
Slippers	14	13	12	10	12	12	13	12
Total	100	100	100	100	100	100	100	100

Source: EC Commission (Panorama of EC Industries 1991-1992), p.16-27.

Furthermore, the EC has been singularly relying on exports of leather footwear. In 1990, the share of leather footwear in EC's total footwear exports reached 88.3 per cent, as seen in Table VII-14. However, the Community has only a 80 per cent self-sufficiency rate in raw materials for leather shoes production. Therefore, problems of foreign supplies of leather raw materials into the EC market can influence the EC's export performance of footwear.

Table VII-14: EC's Share of Leather Footwear in Total Footwear Exports (\$1,000, %)

Years	1986	1987	1988	1989	1990
Total Footwear Exports(A)	8225665	9328969	9239175	9751781	12109589
Leather Footwear Exports(B)	7250382	8291900	8132470	8580670	10696041
Share(B/A)	88.1	88.9	88.0	87.99	88.3

Source: United Nations (International Trade Statistics Yearbook, 1990, Vol. II), pp. 216 and 766.

Thirdly, the EC's external policy in the footwear sector is contradictory, implementing on the one hand protective measures for its own footwear industry against foreign imports, and demanding on the other hand the opening of foreign markets for EC footwear exports. The EC explains the necessity to provide protective measures for EC footwear industry as follows:¹²

Up to the early 1970s, footwear was a growth industry in the European Community. Since then its share, both in the internal and export markets has declined, with subsequent company closures and loss of jobs. Partly the decline is due to cheap imports from developing and other countries, notably Hong Kong, Taiwan, South Korea and, more recently, China.

Based on this perspective, the EC sees a need to prevent imports of low-and medium-priced footwear from Korea, Taiwan and China, and is pressured by Spanish and Portuguese footwear companies to impose import restraints. However, "the EC industry still complains that market

access for EC footwear exports to the main importing countries such as Canada, Australia, New Zealand and Japan is hindered by high tariff or non-tariff barriers and views the opening of these markets as a major element in the GATT negotiations."¹³

1-3. Korea's Footwear Industry

For Korea, footwear was not included in its principal export commodities by 1970. However, in 1980, footwear emerged as the fifth largest export item following apparel, textile yarn and fabrics, iron and steel and foodstuff. The huge increase in Korea's footwear exports can be explained as an indication that the country has been exploiting its growing industrial and technological sophistication to keep its footwear industry internationally competitive.

Korea's footwear industry is a labour-intensive industry sector, along with the textiles and clothing industries. Its annual export figure amounts to \$4,000 million with an employment reaching 130,000 persons.

Table VII-15: Korea's Footwear Production and Exports (1 million pairs, %)

	1980	1988	1990	AGR(1988-90)
Total Production				
(A)	298.2	572.3	511.8	-5.75
Domestic Supply	95.3	121.6	126.0	1.8
(B)				
Exports(C)	202.9	450.7	385.8	-8.1
C/A	68.0	78.8	75.4	--

Source: Korea Footwear Industries Association (Basic Plan for Footwear Industry Rationalization, Nov. 1992), p.5.

Note: AGR = Average Growth Rate.

The industry is marked by strengths and weaknesses. The strong points include "1) high foreign exchange earning industry, 2) labour-intensive industry, 3) industry located in highly urbanized area and 4) industry with high self-sufficiency rate of raw materials."¹⁴ The weak points are 1) weakening international price competitiveness due to relatively high proportion of

labour costs and low level of automation in production facilities, 2) change in import demands from advanced countries in favour of medium and low-priced items made by newly-emerging exporters, 3) heavy dependence of exports to three markets--United States, EC and Japan, and 4) the lowering trend of operation rate of footwear plants.

Regarding the strengths, firstly, Korea exported a total of 75.4 per cent of its footwear production in 1990, as seen in Table VII-15, which is a far higher percentage than that of other industries.

Even though the number of footwear companies in Korea represents only 2.1 per cent of total manufacturing companies in 1991, exports of footwear accounted for 5.3 per cent of the nation's total exports in the year (\$3,835 million/\$71,870 million), as seen in Table VII-16. In addition, employees in the footwear industry account for 5.9 per cent of total employees in the nation's manufacturing industry.

Table VII-16: Korea's Footwear Industry (1000 persons, \$100M)

	Number of Companies	Number of Employees	Exports
All Manufacturing Industries(A)	68,028	3,054	718.7
Footwear Industry(B)	1,420	153	38.4
B/A	2.1	5.9	5.3

Source: Korea Footwear Industries Association (Measure to Raise Competitiveness of Korea's Footwear Industry, Sept. 1, 1992), p. 3.

As a result, the footwear industry is one of the most important sectors in Korea's manufacturing industries with a high export performance. In terms of export value, Korea's share in the world's total exports of footwear reached 17.7 per cent in 1990, ranking second after Italy on the list of world's footwear exporters, as seen in Section 1-1.

Table VII-17: Comparison of Raw Materials and Labor Costs in 1990 (%)

	All Manufacturing Industries	Textile Industry	Footwear Industry		
			ACO	LC	SMC
Raw Material Cost	70.3	55.9	58.1	58.2	57.7
Labor Cost	9.9	24.4	31.5	31.4	31.7

Source: Korea Footwear Industries Association (Basic Plan for Footwear Industry Rationalization, Nov. 1992), p. 7.

Note : ACO = All Companies. LC = Large-Sized Companies.

SMC = Small-and Medium-Sized Companies.

Secondly, Korea's footwear industry is the sector with the highest share of labour costs among all manufacturing sectors. The share of labour cost in footwear industry is 3.2 times higher than that of other industries, as seen in Table VII-17. This was a most beneficial factor whilst Korea's labour cost was very low. The highest share of labour costs, however, became a negative factor when the high labour costs decreased the international competitiveness of Korea's footwear industry.

The sharp rise in labour costs happened when the political regime could no longer artificially keep labour costs down as a consequence of democratization since 1987.¹⁵ Korea's monthly labour costs per worker in footwear in 1987 was £229.8, far higher than India's £51.59, Indonesia's £23.3 and the Philippines' £39.72.¹⁶

Table VII-18: Location of Korea's Footwear Plants with Population (number of plants, %)

Number of Plants	Population			
	Less Than 100,000	110,000- 500,000	510,000- 1 Million	Higher Than 1 Million
292	8	23	9	252
100%	2.7%	7.9%	3.1%	86.3%

Source: Korea Footwear Industries Association (Basic Plan for Footwear Industry Rationalization), p. 7.

Thirdly, "Korea's footwear plants are generally located in highly urbanized areas. Specifically, 86.3 per cent of

footwear plants in Korea are in cities whose population is over 1 million, as seen in Table VII-18. Especially noteworthy, 190 footwear plants (65 per cent of the total number of footwear plants in Korea) are located in the South Kyongsang Province-Pusan City area and their share in the nation's total footwear exports accounted for 88.4 per cent in 1990!"¹⁷ As a result, Korean footwear workers are in an advantageous position when trying to find alternative jobs in urbanized areas as a result of job loss in the wake of industrial structure adjustment in reaction to the weakening international competitiveness.

Fourthly, "Korea's footwear industry has been attaining 99 per cent of self-sufficiency rate in main raw materials (leather, textile fabrics, synthetic rubber, etc.), which is far higher than that of other industries."¹⁸ As a result, Korean footwear makers are in the position of being able to produce shoes without serious impact from international raw material price fluctuation for footwear.

Table VII-19: Production Trend of Footwear in Korea (1 million pairs, %)

Years	Quantity Change	Share of Footwear Items					
		RS	CAS	LSS	LS	CHS	OT
1987	552.2 (+18.2%)	2.9	23.6	32.1	9.1	18.5	13.8
1988	572.3 (+3.6)	2.2	21.9	35.1	9.6	16.1	15.1
1989	522.6 (-8.7)	2.4	20.3	35.9	9.8	17.9	13.7
1990	511.8 (-2.1)	1.8	18.5	41.2	9.7	16.0	12.8
1991 (1-9)	344.8 (-15.6%)	2.6	19.8	39.8	9.3	16.1	13.0

Source: Korea Footwear Industries Association (Basic Plan for Footwear Industry Rationalization), p.16.

Note : Annual Growth Rate in 1988-1990 = -5.7.

RS=Rubber Shoes. CAS=Canvas Shoes. LS=Leather Shoes.
LSS=Leather Sports Shoes. CHS=Chemical Shoes.
OT=Others.

The weaknesses of Korea's footwear industry is reflected in the downward trend of production and trade volume. Korea's footwear production declined continuously from 1988 due to the sluggishness of exports. Production peaked in 1988 with 572.3 million pairs, but declined to 522.6 million pairs in 1989 and to 511.8 million pairs in 1990, as seen in Table VII-19.

The footwear production in the first nine months of 1991 remained at 344.8 million pairs, a decrease of 15.6 per cent compared to the same period of 1990. Only leather sport shoes recorded an increase in their share of total footwear production in the 1987-1990 period. Other shoes--rubber, canvas and chemical--show a declining trend in their shares of total footwear production. Production of footwear in terms of value also declined by 10 per cent to 3,503 billion won (\$4.4 billion) in 1991 from 3,898 billion won (\$4.9 billion) in 1990.

In the field of footwear exports, Korea showed an annual growth of 19.5 per cent during the 1986-1990 period from \$2,109 million to \$4,307 million. However, Korea's footwear exports showed a second decline in 1991, following first ever annual decline in 1989 with \$3,587 million, down 5.6 per cent from 1988's \$3,801 million. Exports of footwear in 1991 amounted to \$3,836 million, a decrease of 10.9 per cent from 1990's \$4,307 million. The sluggish export performance further worsened in 1992 with a decrease of 16.7 per cent recorded in the first six months of the year.

On the other hand, Korea's imports of footwear showed an annual growth rate of 144 per cent in the 1988-1990 period from 700,000 pairs to 4,200,000 pairs as seen in Table VII-20. However, the level of imports is still less than 1 per cent of Korea's total supply of footwear in the year, totaling 516 million pairs. In contrast, Korea's footwear exports amounted to 385.8 million pairs in 1990, representing 74.8 per cent of its total demand for footwear.

Table VII-20:Footwear Supply and Demand in Korea (1 million pairs, %)

	1985		1988		1990		AGR	
	QUANT	SH	QUANT	SH	QUANT	SH	(85-88)	(88-90)
TS	379.1	100	573.0	100	516.0	100	14.8	-5.4
P	378.7	99.9	572.3	99.9	511.8	99.2	14.7	-5.7
IM	0.4	0.1	0.7	0.1	4.2	0.8	20.5	144
TD	379.1	100	573.0	100	516.0	100	14.8	-54
EX	272.8	72	450.7	78.7	385.8	74.8	18.2	-8.1
DOC	106.3	28	122.3	21.3	130.2	25.2	4.8	3.2

Source:Korea Footwear Industries Association(Basic Plan for Footwear Industry Rationalization), p.15.

Note :QUANT=Quantity. AGR=Average Growth Rate. SH=Share.TS=Total Supply. P=Production. TD=Total Demand. EX=Exports. IM=Imports. DOC=Domestic Consumption.

This sluggishness of production and exports of footwear is caused by several factors.¹⁹ Firstly, Korea has been losing its international price competitiveness as seen above. In addition, the share of labour charge in total production cost for Korea is 31-32 per cent, which is also far higher than China's 8-10 per cent, Indonesia's 10-12 per cent and Thailand's 15-18 per cent.The high share of labour costs in total production has been caused by the minimal level of automation in footwear industry. Only 2,357 machines for footwear manufacturing, of a total of 102,325, had been automated as of 1992. Furthermore, production facilities in Korea's footwear sector are obsolete. For example, 43.7 per cent of production facilities for footwear industry in Korea as of 1991 had been installed eight years ago. Therefore, Korea is losing its competitive edge in quality and price compared to new exporters who are equipped with brand-new industrial facilities.

As a result, Korea's market share in exports of footwear to advanced countries has been drastically reduced, caused by the active entry into the world market of newly-emerging industrializing countries. Such brisk penetration has been made possible by the upgrading of technical know-how and expansion of production facilities in these countries, promoted by investments and technical transfer from Korea and Taiwan.

Table VII-21: Comparison of Market Share of Leather Sports Shoes in United States in Terms of Volume(%)

Countries	1986	1987	1988	1990	1992(1-5)
Korea	65.9	69.2	68.8	60.3	30.8
China	0.2	0.4	1.6	9.1	28.4
Indonesia	NA	NA	0.9	6.5	20.0
Thailand	NA	NA	4.3	8.3	9.5

Source: Korea Footwear Industries Association(Measure to Raise Competitiveness of Korea's Footwear Industry), p.7.

Considering leather sports shoes, Korea's market share in the United States, the largest export market for Korean footwear, rapidly decreased from 1988's 68.8 per cent to 60.3 per cent in 1990 and 30.8 per cent in the first five months of 1992. By contrast, market share for Chinese footwear in the United States in the same period rose to 9.1 per cent and 28.4 per cent in the same periods from the only 1.6 per cent, that for Indonesian footwear to 6.5 per cent and 20.0 per cent from 0.9 per cent, and that for Thailand footwear to 8.3 per cent and 9.5 per cent from 4.3 per cent.

Secondly, import demand by advanced countries is changing in favour of low-and medium-priced items made by newly-emerging developing countries rather than medium-and high-priced items made by Korea, caused mainly by the business recession in those advanced countries. The following Table VII-22 shows how U.S. demands for leather sports shoes are changing in accordance with price ranges of footwear products.

Table VII-22: U.S. Import Share of Leather Sports Shoes in Connection with Price Range(%)

	1990	1991	1992(1-5)
Less than \$12	38.0	41.2	46.2
\$12.01-\$16.00	32.5	32.0	31.6
Higher Than \$16.01	29.5	26.9	22.2

Source: Korea Footwear Industries Association(Measure to Raise Competitiveness of Korea's Footwear Industry), p.7.

Thirdly, Korean footwear companies have heavily been depending on exports to three destinations--the EC, the United States and Japan, where 83.6 per cent of Korean

footwear exports went to them in 1991, as seen in Table VII-23. Although this situation is almost the same for other Korean manufacturing industries as in the case of footwear production, the degree of dependence on these three markets is extreme. Korea's dependence rate on these markets in terms of all industries remained at 62.9 per cent in 1990. The success or failure of Korean footwear exports is absolutely dependent upon changes in demands from these three countries. The share of the EC in Korea's footwear exports markedly increased from merely 10.7 per cent of total footwear exports in 1986 to 16.8 per cent in 1990, and to 20.8 per cent in 1991.

Table VII-23: Korea's Footwear Exports by Region (\$1M)

Years	Total	USA	EC	JAP	Others
1986	2109(100)	1502(71.2)	225(10.7)	132(6.3)	250(11.8)
1987	2824(100)	1815(61.3)	377(14.5)	271(10.5)	361(13.7)
1988	3801(100)	2329(64.2)	551(13.1)	398(10.3)	523(12.4)
1989	3587(100)	2304(53.5)	470(11.2)	368(21.0)	445(14.3)
1990	4307(100)	2592(60.2)	724(16.8)	410(9.5)	581(13.5)
1991	3836(100)	1985(51.7)	799(20.8)	424(11.1)	628(16.4)

AGR					
1986-88	34.2	24.5	56.5	73.6	44.6
1988-90	9.6	5.5	14.6	1.5	5.4

Source: Korea Footwear Industries Association (Basic Plan for Footwear Industry Rationalization), p.19.

Note: AGR = Average Growth Rate.

Fourthly, the operation rate of Korea's footwear plants has been declining every year by 8 per cent since 1989. Especially, the operation rate was reduced to 72 per cent in 1991, which is far lower than 85 per cent, the optimal operation rate in the footwear industry. The decline of the operation rate is due to a reduction of export orders and fierce competition among Korean footwear exporters themselves.

However, there are even more serious problems for Korea's footwear industry. Korean footwear makers, even though they have their own brand names, rely heavily on brand names of the world's big three importers--Nike, Reebok and Adidas--for exports under contract of original equipment manufacturing(OEM). Specifically, 95 per cent

of Korea's footwear exports have been delivered under OEM contracts, and as a result, Korea's footwear exports are totally influenced by these three importers. If they reduce orders, Korea's footwear exports decrease proportionally, apparently regardless of marketing activities by Korean footwear companies themselves or trade policies of major advanced countries.

Despite such problems for Korea's footwear industry, Korean footwear companies have been evaluating their international competitiveness with positive confidence. According to a survey conducted in the period of March 10-May 25 in 1990 by the International Trade and Business Institute of 75 footwear companies in Korea, about 80 per cent of respondents mentioned that "their international competitiveness has been worsening in case of low-priced footwear against newly-emerging competitors such as Indonesia, China and Thailand, but Korea is still showing international competitive edge in medium-and high-priced items in the world market."²⁰ They forecast it will not be difficult to maintain Korea's international competitiveness if Korea succeeds in developing high-quality footwear items. According to them, Korea's footwear exports to the United States are expected to decline due to increase in shipments of low-priced items from newly-emerging countries and the decline in demands for high-priced items in the market. On the other hand, Korea's exports to Japan and EC member states, where demands for high-priced footwear are going up, are expected to increase. The development is expected to result in more fierce trade disputes between the EC and Korea in footwear industry.

2. Case Study of Footwear

"Footwear, like made-up clothing, can be manufactured by comparatively simple techniques of production. It is therefore an activity in which many developing countries have developed a capability to export over the last decade or so."²¹ This attraction of simple manufacturing techniques has made the footwear industry one of the

industrial sectors which have given rise to many trade disputes between the EC member states and Korea.

Before examining EC-wide protective measures against Korean footwear later, I will briefly look at protective measures by individual EC member states against Korean footwear. The first EC member state to impose import restraints against Korean footwear was the United Kingdom.²² The U.K. started in August 1977 to impose protective measures against imports from Taiwan with the approval from the ECC to set a formal quota on imports of non-leather footwear. The import restraints against Taiwan, however, gave opportunities to other footwear exporters to increase their shipments to the United Kingdom. David Greenaway explains:²³

The imposition of controls on Taiwan was followed by a dramatic increase in imports of leather and non-leather footwear into the United Kingdom from Korea and Italy. Thus, a by-product of the VER agreed with Taiwan was a VER on Korean footwear.

The U.K. implemented VER measure against Korea in 1979, two years after the United States had begun to implement the OMA measure against Korea's non-rubber shoes, effective from June 28, 1977, for the 1977-1981 period.²⁴ The OMA by the United States against Korean footwear, however, could have been a fundamental factor which led the U.K. to adopt VER against imports from Korea as a consequence of Korea's switched exports from the United States to the U.K.

The second EC member state to restrict footwear imports from Korea was Italy which began to implement VER against Korean footwear for the period of March 1, 1988-June 30, 1990. As the world's largest producer of footwear, Italy has several problems which were forcing it to enforce import restraints. As Riccardo Gallo explains,²⁵

structurally, an industrial structure of Italy grew up resembling that of a developing country rather than that of the United States and Germany. For example, small-and medium-sized firms account for the great bulk of Italian industrial production. Politically, management of major companies in Italy has a strong political orientation--particularly

towards the Christian Democrats and Socialist Parties. The former has been present in government for last 45 years without interruption and has required management to pursue both technical and political goals.

These two points in structural and political terms contributed to having Italian firms heavily depend on protective measures by the government, with particular prominence in the Italian footwear industry.

France was the third EC member state to initiate VER against Korean footwear. The French measure was implemented for the period of July 1,1988-June 30,1990.

The import restraints by France and Italy were implemented during the process of investigations by the United States leading to the implementation of import restraints against Korea. The U.S.footwear industry filed a complaint against Korean non-rubber footwear in 1982. In addition, the Footwear Industries Association of the United States requested in 1984 its government to regulate imports of Korean non-rubber footwear. Finally, the International Trade Commission (ITC) of the United States initiated an investigation in 1989 against Korean non-rubber footwear to establish safeguard measure under the Article 201 of the U.S.Trade Act(1974). In this situation, Korean companies switched their export markets from the United States to the EC to evade possible restrictive measures by the United States. The result was an increase in exports of Korean footwear to the EC market. The U.S.investigations to restrict imports from Korea influenced the measures taken by France and Italy to implement quota restrictions against Korean footwear for March 1,1988-June 30,1990(Italy) and for July 1,1988-June 30,1990(France) and subsequently EC-wide VER since July 1,1990 as of December 1993. As seen in Table VII-23, Korea's footwear exports to the United States increased by 32.2 per cent from 1986's \$1,502 million to 1991's \$1,985 million, compared with exports to the EC up by 255 per cent from \$225 million to \$799 million in the same period.

The EC initiated on Aug.17, 1988 an EC-wide investigation against footwear from Korea and Taiwan into the EC market under the GATT XIX Safeguard clause, apart from import restraints by France and Italy against Korea. The investigation was a response from complaints by other EC member states such as Greece, Spain, the U.K., Germany, Denmark and Benelux countries to extend the import restrictions against Korean and Taiwanese footwear on an EC-wide basis rather than only to Italy and France. The ECC pointed out the reasons to initiate investigations as follows:²⁶

Firstly, the EC's footwear production in 1987 was dropped by 5 per cent to 1,136 million pairs in 1987 from 1986's 1,194 million pairs. On the other hand, extra-EC imports of footwear grew by 35 per cent to 466 million pairs in 1987 from 346 million pairs in 1986. Such a sharp rise in imports was due to an increase in shipments from China, Korea and Taiwan. Imports from these three countries to the EC market totaled 397 million pairs in 1987, up 45 per cent from 1986's 273 million pairs.

Secondly, EC member states such as Greece, the U.K., Benelux countries, Germany and Denmark asked to impose restrictive measures against Korean and Taiwanese footwear. Also, other EC member states did not object to the establishment of import restrictions on a Community-wide basis.

However, Korea refuted these arguments as is explained in the following Korean submission to the ECC:²⁷

Firstly, it was inconsistent with GATT regulation to initiate investigation under GATT XIX clause if the EC initiates the investigation only against footwear from Korea and Taiwan, except for China and Brazil. Under the GATT XIX clause, the investigation should be initiated against products from all countries without any differentiation. Especially, it was unfair to exclude China and Brazil from the list of investigation because China was the largest exporter to the EC market and Brazil recorded a substantial growth in exports to the EC market.

Secondly, Korea's exports of leather footwear to the EC market, which the EC had insisted as products in direct competition with EC products, only account for 27 per cent of total footwear exports to the EC. About 63 per cent of footwear exported to the EC were plastic footwear, textile footwear, rubber footwear, slippers and other kinds of footwear rather than leather footwear.

Despite the sharp contrast between the EC and Korea, both finally concluded an agreement on Feb.23,1990 under which "Korea decided to restrict its shipments of footwear to the EC market to 26 million pairs (July-December in 1990), 55.12 million pairs in 1991 and 58.42 million pairs in 1992."²⁸

The EC's subsequent decision to regulate footwear imports from Korea with the VERs caused much criticisms in terms of its selectivity in application of the GATT safeguard clause: at the stage of the initiation of the safeguard investigation, the EC had included only Korea and Taiwan in the list of exporters to the EC market. Korea's previous argument that--under the safeguard clause of the GATT, the country to impose import restrictions should apply this measure against all countries without any discrimination and compensate any damages caused by the safeguard measure--was disregarded. As a result, the EC's investigation violates the GATT clause. In addition, EC's initiation of safeguard investigation can be interpreted as a preliminary step towards inducing VERs, considering absence of causal links between imports and industrial injuries. Regarding this issue, the BEUC (Bureau Europeen des Unions de Consommateurs), which is the Brussels-based umbrella group for consumer organizations in EC member states, criticised the ECC's decision as follows:²⁹

The increase in footwear imports from South Korea and Taiwan which occurs in 1986 and 1987 poses no tangible or long-term threat to EC footwear production. Indeed, the Commission has failed to prove any link between rising imports from these countries and declining production within the EC.

There are some causal relationships between EC-wide protective measures against Korean footwear and EC's basic position. The EC's footwear industry regards its position as very fragile, enough to induce appropriate government policy for protection. This EC footwear industry's position has been further strengthened by a strong sense of not being treated as an important sector for policy implementation at EC and national level. This

comes, for example, in the following statement out which relates to the European Parliament:³⁰

In the phase of development in which industry within the Community finds itself today, it is logical for interests to be centered on electronics, motor manufacture, and generally high-technology areas. On the other hand, we should recognize that in the European Parliament we have relatively few opportunities to discuss the problems of the traditional sectors such as footwear industry, which however, are extremely important to Mediterranean countries like Greece.

In this situation, the EC industry's request for protectionism was spurred by the industry's unique characteristic, i.e. a domestic oriented production system; The EC footwear industry has been wholly dependent upon domestic production of footwear rather than production by plants overseas. Helen Milner argues:³¹

For firms lacking ties to the international economy, mounting import competition produced rising demands for extensive protection. The American (non-rubber) footwear producers were largely domestic in their operations in the 1970s. Beginning in the 1960s when shoe imports began flooding the U.S. market, the industry association, backed by almost all of the producers, launched a campaign to obtain tariff protection. After the early 1970s, the association and the firms pursued this goal with increasing intensity.

In the case of Italy, its dependence on intra-EC trade represents 70-80 per cent of exports. Furthermore, the average rate of intra-EC trade of EC footwear industry accounts for about 60 per cent, as seen in Table VII-24.

Table VII-24:EC's Intra-EC Trade Figure in Footwear Industry(%)

Years	80	81	82	83	84	85	86	87	88	89
Share of Intra-EC Trade	62.4	57.8	57.9	56.5	54.7	53.0	57.3	60.5	61.5	58.4

Source:EC Commission(Panorama of EC Industries 1991-1992), p.16-28.

As a result, EC footwear industry is very sensitive to penetration by foreign footwear into the EC market.

Other factors influencing the EC's pro-protectionism in the case of the footwear industry include the EC's dissatisfaction about the world trading environment for footwear industry. This can be illustrated by the following comments of a member of the European Parliament (MEP):³²

The survival of the footwear industry in Europe is being threatened by major distortions in international trade. European markets are open to imports from cheap-labour or state-subsidized industries at the same time as the markets of the exporting countries are closed to European footwear manufacturers.

Table VII-25: Non-Tariff Duties and Measures for Leather Footwear in Foreign Countries

Countries	NTD	OB
Brazil	170%	Licenses plus 100% Guarantee
USA	2.5-15%	Tariff Classification System and OMA with Taiwan and South Korea
South Korea	80%	Ban on Imports
Taiwan	91%	Increase in Dutiable Value
Japan	27%	Secret Quotas
Canada	25%	Quotas plus Increase in Dutiable Value
Australia	46.5%	Quotas
New Zealand	36.5%	Quotas
South Africa	30%	Quotas

Source: EC Commission (EC Commission Background Report ISEC/B5/82), p.2.

Note: NTD=Non-Tariff Duties. OB=Other Barriers

The EC has a perception that many third countries including Japan, Australia, Canada and the United States implement tight market protection policies against EC footwear, contrary to the degree of openness of the EC

market for footwear from these countries. For example, "the EC customs duty is 8 per cent for leather shoes; on the other hand many third countries are setting up a growing array of tariff and non-tariff barriers,"³³ as seen in Table VII-25. This relatively low tariff barrier in the EC has resulted in strong requests by EC footwear industry to implement NTBs against foreign footwear imports.

The EC is also aware that penetration by footwear from cheap labour-cost countries into the EC market is due to import restraints implemented by Japan, Australia, Canada and the United States against footwear imports from such cheap labour-cost countries because they were forced to switch their export markets to the EC from these countries. In connection with this matter, the ECC argues as follows:³⁴

The major suppliers (85 per cent) into the EC footwear market are Hong Kong, Taiwan, South Korea and China whose normal outlets have been blocked by protective measures or VERS by former customers such as the United States, Canada, New Zealand, Australia, South Africa and Japan.

Through the review of EC's basic position in footwear industry, it can be inferred that trade disputes between the EC and Korea are by-products of the protective measures by other developed countries and the EC's fear that this leads to even more exports to the EC.

3. Determinants and Effectiveness of Protectionism in Footwear Trade

3-1. Determinants of Protectionism in Footwear Trade

There are three determinants of the EC's protectionism against Korean footwear. First of all, the EC's decision to implement VERS against Korean footwear had been made because the EC perceives its market as relatively open to foreign imports, compared with the degree of openness of foreign markets to EC footwear. This perception caused the EC's retaliation against closed markets abroad. This can be found in trade of leather footwear between the EC and Korea. According to the Korea Foreign Trade Association,³⁵

the EC footwear industry is in competitive disadvantage in textile footwear, rubber footwear and plastics footwear. Therefore, exports and production of non-leather footwear has played minor part in the EC's production and exports of footwear. The situation is different for leather footwear. The EC footwear industry has continuously developed great expertise in the production of leather footwear. However, Korea's production has also been shifted to higher valued footwear in recent years, especially leather footwear.

Under this situation, Korea's exports of leather footwear to the EC market have been dramatically increasing, in contrast to the relative sluggishness in EC's exports of leather sports footwear and leather shoes to the Korean market, as seen in Table VII-26. Korea's exports of leather footwear to the EC market increased by 714 per cent from 2.9 million pairs in 1985 to 23.6 million pairs in 1988!

Table VII-26: Korea's Footwear Exports to the EC(1 million pairs)

Items	1985	1988	Growth
Leather Footwear	2.9	23.6	714%
Plastics Footwear	0.9	3.6	300
Textile Footwear	22.2	34.6	55.9
Rubber Footwear	0.7	0.9	28.6
Slippers	9.5	23.3	145
Other Footwear	0.9	1.5	66.7
Total	37.1	87.5	136

Source: Korea Foreign Trade Association (Report on EC and Korea's Footwear and Consumer Electronics Industries), p.57.

EC's exports of its products to Korea, however, declined by 11.8 per cent to 77,549 pairs in 1990 from 1989's 87,959 pairs, in sharp contrast to EC's good performance in leather footwear exports on a world-wide basis showing 10.4 per cent increase during the same period, as seen in Table VII-27. As a result, the EC perceives the Korean market as closed compared with the degree of openness of the EC market; Korea's demands for EC footwear have not increased despite a rapid economic development in Korea because domestic demand increase was met by Korean

producers.³⁶ "Although the Korean government has lessened trade barriers by reducing export subsidies, eliminating quotas and reducing import tariffs from 20 per cent in the mid-1980s to 13 per cent in 1990, it has not been enough to increase EC's footwear exports to Korea."³⁷

For example, Korean footwear manufacturers could be merged easily because the Korean government encourages the mergers without imposing transfer income tax and special added value tax. They are also receiving financial support totaling 200 billion won (\$2.5 million) in the 1992-1994 period for the replacement of obsolete facilities.

Table VII-27: EC's Leather Footwear Exports to Korea (pairs)

NIMEXE	Items	1989	1990	Growth
64031900	Leather Sports Footwear (Women and Men)	31489	24884	-21%
64035995	Leather Footwear(Men)	15536	16855	8.5
64035999	Leather Footwear(Women)	19632	35810	82.4
64039995	Leather Footwear with Outer Soles of Non-Leather	21302	0	0
Total EC Leather Footwear Exports to Korea		87959	77549	-11.8
Total EC Leather Footwear Exports to the World		328400000	362500000	10.4

Source: Korea Foreign Trade Association (Report on EC and Korea's Footwear and Consumer Electronics Industries), p.61.

The vertical integrations between finished footwear manufacturers and footwear parts suppliers have been established under the government support. In addition, the Korea Footwear Industries Association(KFIA) supervises export activities by Korean footwear exporters to prevent cutthroat competition among them through the establishment of Footwear Trade Order Committee. Finally, Korean footwear companies have set up Korean Footwear Research Institute to jointly develop new technology for the production of high-quality footwear. All these are

contributing to preventing drastic inflows of foreign footwear into Korea.

The second major determinant of the EC's protective measures against Korean footwear is the protective measures introduced by the United States against Korean non-rubber footwear in the 1977-1981 period, along with continuous investigations by the United States against Korean footwear in 1982, 1984 and 1989, as seen in Section 2.

Table VII-28: Comparison of Import Restraints by Major Advanced Countries against Korean Footwear

Countries	Items	TR	YI
Canada	Water Proof Rubber Shoes	AD	Feb.26,1979- as of 1993
Australia	All Footwear	Customs Tariff	Jan.1,1982- as of 1993
Japan	Leather Shoes	Customs Tariff	April 1,1986- as of 1993
EC	All Footwear	VER	July 1, 1990- as of 1993

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), pp.18-26. Note: TR=Type of Restraints. YI=Year of Import Restraints.

This factor was enhanced by the difficulties of Korean exporters to switch exports to footwear markets other than the EC market following tight import restraints in Canada, Australia and Japan, as seen in Table VII-28. Namely, Korean exporters diverted their exports to the EC because of import restrictions in other industrialized countries, especially the United States. For example, Korea's footwear exports to the United States declined by 23.4 per cent to \$1,985 million in 1991 from \$2,592 million in 1990, those to Canada went down by 12.5 per cent to \$105 million from \$120 million, and those to Australia declined by 6.5 per cent to \$43 million from \$46 million. However, footwear exports to the EC rose by 10.4 per cent in the same period from \$724 million to \$799 million. It is, however, noteworthy that footwear

exports by Korea to Japan grew by 3.7 per cent in the period to \$424 million from \$409 million, despite Japanese tight import restraints against Korean footwear-implementation of import quota system in the 1970-1986(March) period, and customs quota system as of December in 1993 since April in 1986. Since the decline of footwear industry in the early 1970s in Japan, Japan's demand for labor-intensive consumer goods such as footwear rapidly increased. In addition, the appreciation of yen contributed to enabling Korean footwear exporters to tide over Japanese import restraints with upgrading strategy. The United States abolished the import restraints against Korean footwear in 1981. However, the United States continued investigations against Korean footwear in the 1980s, based on complaints from the U.S. footwear industry. Australia imports footwear under the customs tariff system which allowed limited imports of footwear from Korea, providing preferential import duties against Korean footwear. However, Korean companies had faced difficulties in exporting footwear beyond those limited quantities because of a disadvantage in price competitiveness caused by the normal application of import duties. Canada has been imposing AD duties on Korea's water-proof rubber shoes only, whilst the EC has been implementing very stringent import restraints against Korea. Namely, all kinds of Korean footwear exports to the EC market were under the VERs mutually agreed in 1990.

The third determinant of EC's protective measures was a huge increase in shipments of Korean footwear to a specific member state in the EC. By 1986, Italy was the largest consumer of Korean footwear among EC member states. Italy's share of Korea's exports to the EC market, however, began to decline since 1986 in terms of volume and value. Specifically, its ranking for imports of Korean footwear in the EC's four largest consuming member states went down to the third place in 1987, to

fourth place in 1988-1990, and then third place in 1991, as seen in Table VII-29.

Table VII-29: Korea's Exports of Footwear to Individual EC Member States in Terms of Market Share(%)

Years	Rankings	Member States	Share in terms of export value	Share in terms of export volume
1985	1.	Italy	26.4	26.6
	2.	U.K.	22.4	24.2
	3.	France	17.4	19.1
	4.	Germany	13.5	11.2
1986	1.	Italy	23.7	26.0
	2.	France	20.3	22.5
	3.	U.K.	17.7	19.4
	4.	Germany	16.2	11.6
1987	1.	France	25.3	26.8
	2.	Germany	17.7	12.9
	3.	Italy	16.4	19.2
	4.	U.K.	16.2	17.7
1988	1.	France	21.4	23.4
	2.	Germany	19.4	14.5
	3.	U.K.	15.2	16.6
	4.	Italy	14.5	16.8
1989	1.	Germany	23.3	18.4
	2.	France	18.4	21.1
	3.	U.K.	17.1	15.8
	4.	Italy	15.7	17.5
1990	1.	U.K.	30.9	27.2
	2.	Germany	18.9	15.6
	3.	France	15.6	17.5
	4.	Italy	12.5	15.2
1991	1.	U.K.	24.9	21.7
	2.	Germany	17.9	16.3
	3.	Italy	17.6	22.5
	4.	France	14.4	14.5

Source: Korea Footwear Industries Association (Footwear Exports Statistics), p.1.

On the other hand, the position was also down to second in 1987 and 1988, third in 1989, and fourth in 1990 in terms of export volume. However, Korea's exports to Italy in terms of export volume again rapidly rose in 1991, indicating that EC-wide VER since 1990 helped Korea's exports to specific EC member state due to possible

concentration of Korea's footwear exports to a specific EC member state within the EC-wide VER quota. Italy officially asked the EC to impose VER measure against Korean footwear imports on July 20, 1987, and began to regulate them since March 1, 1988.

Following Italy, France became the largest consumer for Korean footwear in 1987 and 1988 in terms of export value and volume. Surprised by the rapid rise in shipments of footwear from Korea to its market, France also requested the EC to impose VER on Korean footwear on October 13, 1987 and got an approval from the EC to apply the VER against Korean footwear imported into the French market for the period between July 1, 1988-June 30, 1990. Again, the French position in the list of importers for Korean footwear slipped to second in 1989, from the largest consumer in 1988, then third in 1990 and fourth in 1991 in terms of export value. In terms of export volume, the French position was also down to second in 1990 and fourth in 1991. This successful experiences of VERs, implemented by Italy and France against Korean footwear enabled the EC to adopt the EC-wide VER later, rather than other protective measures such as AD action.

In contrast to other exported products such as textiles and clothing, iron and steel products, and consumer electronics, Japan has not played any role in EC's protectionism against Korean footwear. That was due to Japan's very different position in footwear trade, compared with that of other industries mentioned above. Japan has been recording a trade deficit in footwear trade, specializing in imports of footwear, rather than exports which can be found as general trend in most industrial sectors in Japan, as seen in Table VII-30.

The early industrial structure adjustment by Japan to other industries other than footwear became the major reason that Korea should not be regarded as a "second Japan." The EC has had no experience of any industrial damage from Japan's footwear industry, not, therefore, providing any causal relationship between EC's experience

of industrial injury from Japanese exports and its protective measures against Korean footwear.

Table VII-30:Footwear Trade in Japan (\$1,000, %)

Years	1986	1987	1988	1989	1990
Exports	44,290 (0.32)	37,842 (0.24)	36,954 (0.21)	41,736 (0.22)	52,089 (0.22)
Imports	49,036 (2.87)	784,196 (3.89)	1,107,715 (4.90)	1,116,480 (4.78)	1,283,128 (4.52)
Balance	-446,046	-746,354	-1,070,761	-1,074,744	-1,231,039

Source:United Nations(International Trade Statistics Yearbook, 1990, Vol.II), p.216.

Note :Figures in parentheses are Japanese share in world's total trade figure.

3-2. Effectiveness of Protectionism in Footwear Trade

There are no studies about the impact of the EC's import restraints against Korean footwear exports to the EC market. However, there are several analyses of the effectiveness (cost and benefit comparison and import value change in a position of importers) of import restraints by other developed countries against footwear imports from developing countries, including Korea.

In connection with U.S.import restrictions against developing countries, Gary Huibauer, Diane Berliner and Kimberly Elliott analysed the effect of OMAS for non-rubber footwear from Korea and Taiwan to the U.S. market, effective between Jun.28,1977-Jun.30,1981. According to them,³⁸

cost of restraints to U.S.consumers for the year of 1981 alone reached \$700 million. However, gains from restraints to U.S.producers remained at \$250 million for the year, having \$450 million deficit in the U.S.economy for the year alone. Therefore, costs of restraints to U.S.consumers per job saved were \$55,000 in 1981 with gains from restraints to U.S.producers per job for the year were confined to \$2,000.

During the period of restraints, the export volume of footwear from Korea and Taiwan was reduced by 27.8 per cent from 225.2 million pairs in 1977 to 162.5 million pairs in 1981, as seen in Table VII-31. However, the

export value went up by 62 per cent from \$576 million to \$934 million. By comparing export volume and export value, it is clear that Korean and Taiwanese exporters used an up-grading strategy to the U.S. market to offset the restraints of the export volume under the OMA.

Table VII-31:Footwear Imports Affected from Taiwan and Korea in USA(million pairs, \$M)

Year		Volume	Value
Before Restraints	1975	119.3	210
	1976	199.6	444
During Restraints	1977	225.2	576
	1978	147.8	558
	1979	149.3	630
	1980	181.0	883
	1981	162.5	934
After Restraints	1982	273.8	1398
	1983	362.3	1780
	1984	425.4	2131

Sources:Hufbauer,Gary Clyde, Diane T.Berliner and Kimberly Ann Elliott(Trade Protection in the United States--31 Case Studies), p.206.

Table VII-32:Output of Footwear Industry in USA(million pairs, \$M)

Years		Volume	Value
Before Restraints	1975	413.1	3,145
	1976	422.5	3,520
During Restraints	1977	430.9	3,464
	1978	412.9	3,799
	1979	402.6	4,269
	1980	387.9	4,620
	1981	372.0	4,834
After Restraints	1982	342.4	4,186
	1983	344.3	4,758
	1984	298.5	4,053

Source:Gary Clyde Hufbauer, Diane T.Berliner and Kimberly Ann Elliott(Trade Protection in the United States--31 Case Studies),p.211.

This conclusion can be reached through analysing consumption and market share of imports. Even though consumption of non-rubber footwear in the United States declined by 6.9 per cent to 739.2 million pairs in 1981

from 1977's 793.6 million pairs, the value of footwear consumption rose by 41.7 per cent to \$7,123 million from \$5,026 million for the same period.

Despite the OMA regulation, the non-rubber footwear production in the United States declined by 13.7 per cent from 430.9 million pairs in 1977 to 372 million pairs in 1981, as seen in Table VII-32. However, in terms of production value, the U.S. production of non-rubber footwear rose by 39.5 per cent to \$4,834 million from \$3,464 million. That means the U.S. producers of non-rubber shoes must also have been concentrating on developing high-quality footwear to meet consumer's tastes, importing low-and medium-priced footwear from foreign countries.

However, the most important thing is that after OMA restraints, the production of non-rubber shoes has been declining, compared with that in the periods before and during restraints in terms of production volume and value. The same situation is also found in employment, industry profits and industry capacity utilization, as seen in Table VII-33.

Table VII-33: Employment, Profits and Capacity Utilization in U.S. Non-Rubber Footwear Industry (\$M, %)

Years		EM	PR	ICU
Before Restraints	1975	136,000	181	69.1
	1976	144,000	235	75.9
During Restraints	1977	137,000	123	76.0
	1978	138,000	150	75.2
	1979	130,000	198	75.5
	1980	124,600	323	80.0
	1981	127,700	423	80.5
After Restraints	1982	121,800	390	73.9
	1983	117,300	499	72.1
	1984	108,200	310	63.0

Source: Hufbauer, Gary Clyde, Diane T. Berliner and Kimberly Ann Elliott (Trade Protection in the United States--31 Case Studies), pp. 212-214.

Notes: EM=Employment. PR=Profits. ICU=Industry Capacity Utilization. In case of employment, it is average number of employees in the year.

Therefore, OMAs between the United States and Korea and Taiwan can be evaluated, in terms of export value, as useless in preventing imports of non-rubber footwear from these two countries, because Korean and Taiwanese exporters adopted the upgrading strategy to offset the loss of export volume. Therefore, David Yoffie's approach seems to be applicable for this case. However, the most important point is that production and employment in U.S. non-rubber footwear industry has been declining during the period of OMA restraint. The problem lies in the basic weakness of international competitiveness of the U.S. non-rubber footwear industry. Any trade restrictions against foreign countries, which have a stronger international competitiveness than the United States, are bound to be useless in protecting production and job employment in the United States. In contrast, import restraints against foreign products which have a fragile international competitive strength will be decisive factor to reverse growing imports from them.

Table VII-34: Estimated Cost of Non-Leather Footwear Protection in the U.K. (1982) (£M)

	Cost and Revenue	Value
a	Dead-Weight Loss to Consumers	1.4
b	Production Efficiency Loss	2.5
c	i) Transfer to Taiwanese and South Korean Suppliers	7.5
	ii) Transfer to EC, EFTA and Mediterranean Suppliers	22.4
	iii) Transfer to Other Suppliers	9.8
d	Tariff Revenue	24.1
e	Increase in Profits to Domestic Producers	49.9
f	Total Loss to U.K. Consumers	117.5
g	Total Loss to U.K. Economy	43.5 (117.5 - 24.1 - 49.9)

Source: David Greenaway, and Brian Hindley (What Britain Pays for VER?), p.140.

There are some studies regarding the analyses of import restraints by the United Kingdom. David Greenaway and Brian Hindley analysed the effectiveness of VERs concluded between the United Kingdom and Taiwan and Korea in the late 1970s. Their calculation of estimated costs of non-leather footwear protection in the United Kingdom from tariffs and VER combined in 1982 is as seen in Table VII-34.³⁹

The total loss to the U.K.consumers through the application of VER in trade with Taiwan and Korea for non-leather footwear was £117.5 million. However, total revenue originated from the import restraints was only £74 million(d+e). Therefore, the U.K.economy has a net loss of £43.5 million(f-d-e) through the VER. The VERs applied to Taiwanese and Korean exporters resulted in raising unit export prices of non-leather footwear for U.K.consumers.⁴⁰ As a result, costs to the U.K.consumers or the VER were far greater than benefits to the U.K.producers. In addition, other costs such as expenses for lobbying import protective measures were not included in the total costs of VER protection. If such values are calculated, total costs are even higher.⁴¹

The most important point is that beneficiaries for the U.K.VER measures were third countries, such as EC member states other than the U.K., EFTA and Mediterranean countries. As the U.K. had been implementing import restraints against footwear from Taiwan and Korea, Italy took the opportunity to increase its shipments of footwear to the U.K.market because no comparable restraints could be taken by the United Kingdom against Italy, a member state of the EC.

Thirdly, Wendy Takacs and L. Alan also compare the costs to U.K.consumers, caused by VERs against foreign footwear imports from Korea and Taiwan in 1979, with the benefits to the economy from protecting the U.K.footwear industry-the jobs which might be saved by preventing some foreign competition. According to them,⁴²

in 1979 (when all the present restrictions were in place), the quotas prevented the displacement of, at most, 1,064 workers. Even the most pessimistic calculation of rate of re-employment indicated adjustment costs of less than £10 million (£10,000 per job saved), compared with total costs to society of the restrictions of £57 million--£53,500 per job saved (all at 1979 prices). Average earnings were about £4,500 for a male footwear industry worker in 1979, so the total cost of a saved job was nearly 12 times annual wages every year that the protection continued. The adjustment costs avoided by the protection are far smaller than the costs of protection.

However, I evaluate the success or failure of aims of EC's protective measures against Korean footwear through changes in exports from Korea to the EC market. France began to impose VER against Korean footwear, effective on July 1, 1988 and, by June 30, 1990 when the EC-wide VER had been implemented. Korea's exports of footwear to the French market changed as Table VII-35 shows:

Table VII-35: Korea's Exports of Footwear to France (\$1000, %)

Years	Total Exports To the World(A)	Exports to France(B)	B/A
1985	1,571,221	23,528	1.5
1986	2,109,301	45,630	2.2
1987	2,824,201	95,363	3.4
1988	3,800,659	117,648	3.1
1989	3,587,462	86,297	2.4
1990	4,307,057	112,987	2.6
1991	3,835,944	115,490	3.0

Source: Korea Footwear Industries Association (Footwear Exports Statistics), p.1.

Compared to exports in 1987, Korea's footwear exports in 1988 to France increased by 23.4 per cent to \$117.648 million from \$95.363 million. Despite this, the share of footwear exports to the French market declined to 3.1 per cent from 3.4 per cent; the export performance of footwear to France was sluggish compared with that to other markets. Furthermore, footwear exports to France in 1989 decreased by 26.6 per cent to \$86.297 million from the previous year's figure, whilst the share of French market in total footwear exports by Korea declined to 2.4 per cent in 1989 from 1988's 3.1 per cent. Therefore, the

VER applied by France to footwear imports from Korea was found, through the comparison of imports before and after import restraints, to be effective in slowing the growth of imports. Therefore, David Yoffie's approach seems to be inapplicable in France-Korea footwear VER case. In addition, it is very interesting to note that Korea's exports to the French market since 1990, the year when EC-wide VER became effective on Korean footwear, has been on an increasing trend with share of exports to France also rising. Therefore, it is certain that the EC-wide VER against Korean footwear provided an opportunity for Korean exporters to increase their exports to the French market because Korea possibly concentrated on exports to France within the limit of EC-wide VER quota.

Italy started to restrict imports of Korean footwear, effective during the period March 1, 1988-June 30, 1990, under VER signed with Korea. Korea's exports of footwear to the Italian market changed as Table VII-36 shows:

Table VII-36: Korea's Exports of Footwear to Italy (\$1000, %)

Year	Total Exports To the World(A)	Exports to Italy(B)	B/A
1985	1,571,221	35,853	2.3
1986	2,109,301	53,294	2.5
1987	2,824,201	61,877	2.2
1988	3,800,659	79,954	2.1
1989	3,587,462	73,878	2.059
1990	4,307,057	90,195	2.1
1991	3,835,944	140,818	3.7

Source: Korea Footwear Industries Association (Footwear Exports Statistics), p.1.

Korea's exports of footwear to Italy in 1988 grew by 29.2 per cent to \$79.954 million from \$61.877 million in 1987. However, the generally increasing trend was reversed in 1989, with exports declining by 7.6 per cent to \$73.878 million. Furthermore, the share of footwear exports to Italy as a proportion of Korea's total exports declined from 1987's 2.2 per cent to 2.1 per cent in 1988, 2.059 per cent in 1989 and 2.1 per cent in 1990. Even though Korea's footwear exports to Italy temporarily increased

in 1988, the increasing trend was reversed in 1989. However, Korea's exports of footwear to Italy again became an increasing trend from 1990, the first year when the VER, previously concluded at individual EC member states' level, was changed to that of EC-wide. The VER applied to Korea's footwear exports to Italy was also found, through the comparison of imports before and after import restraints, to be effective in slowing the increasing trend of shipments of footwear from Korea. Therefore, David Yoffie's approach also seems to be inapplicable in case of Korea's footwear exports to Italy.

However, the decline of exports to Italy and France in 1989, compared with the previous year, can not be regarded as specifically resulting from VERs, applicable only to the two EC member states. It was caused, rather, by self-restrictions of exports to EC generally by Korean exporters following EC member states' complaints of drastic increases in imports from Korea since 1989. At the same time, Korean companies easily diversified their markets for footwear to other EC member states than France and Italy, as a consequence of VERs by the two countries. This was possible due to strong international competitiveness of Korean footwear.

Table VII-37: Korea's Exports of Footwear to the EC (\$1000, million pairs)

Years	Total Exports To the World(A)	Exports to EC		B/A
		Value(B)	Volume(C)	
1985	1,571,221	135,576	37.27	8.6
1986	2,109,301	224,500	54.86	10.6
1987	2,824,201	377,435	78.90	13.4
1988	3,800,659	550,756	84.74	14.5
1989	3,587,462	470,213	66.47	13.1
1990	4,307,057	723,796	74.91	16.8
1991	3,835,944	799,975	71.47	20.9

Source: Korea Footwear Industries Association (Footwear Exports Statistics), p.1.

In the case of the EC, it began to regulate imports of footwear from Korea on a Community-wide basis, effective from July 1, 1990 to date (as of Dec.1993). Korea's

exports of footwear to the EC market changed as Table VII-37 shows. Korea's footwear exports to the EC in terms of value have been continuously increasing since 1985, with the exception of 1989 when the figure recorded a temporary decline of 14.6 per cent compared with that of 1988. The year of 1989 was the worst for Korea's footwear exports to the EC market as VERs signed with France and Italy became effective and other EC member states had also requested to impose import restraints against Korean footwear from August that year.

However, Korean footwear exports have increased since the EC-wide VER in EC-Korea footwear trade was implemented. Korea's exports of footwear in 1990 increased by 53.9 per cent to \$723.796 million from 1989's \$470.213 million, and in 1991 grew by 10.5 per cent to \$799.975 million from the 1990's export figure. Korea's footwear exports to the EC market represented 20.9 per cent of its total footwear exports in 1991, the highest share recorded so far in the history of EC-Korea footwear trade. Thus, David Yoffie's approach seems to be applicable in the EC-Korea footwear trade. Korea definitely used upgrading strategy to overcome the restriction of export volume to the EC market under the EC-Korea VER. Specifically, Korea's export volume of footwear to the EC market in 1991 declined by 4.6 per cent to 71.476 million pairs from 74.914 million pairs in 1990, despite the increase in export value in the same period.

In contrast to the surge in shipments to the EC market, Korea's footwear exports to the United States have been declining since 1988--reduced to \$1,985.040 million in 1991 from \$2,329.050 million in 1988. The Korean companies' subsequent market switching strategy, from the United States to the EC, also contributed to increasing exports to the EC. Therefore, the most important factor which decided the effectiveness of EC's protective measures against Korean footwear was the international competitiveness of those products. Korean footwear's strong international competitiveness enabled Korean

exporters to adopt market switching or product upgrading strategies at will.

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Chapter VIII. EC/Korea Consumer Electronics Industry and the Bilateral Trade Dispute on Color Television

A Brief Summary of Chapter VIII

EC's Consumer Electronics Industry

The EC consumer electronics industry has successfully carried out its structural adjustment of transferring cheap-labour intensive assembly process to offshore plants, minimizing labour dependency through intensive automation of production facilities and participating in comprehensive R&D activities for the development of new high value-added items under the Community-wide support. However, the EC consumer electronics industry still has intrinsic problems with consumer electronics companies heavily dependent upon imports of Japanese-made electronics parts and equipment. The characteristic distribution in the EC--the reduction of direct influence by producers and the growth of volume purchasers who now exert considerable influence--could cause some weakness in EC's CTV industry in case of the penetration of cheaper foreign products. The industry has been experiencing job losses as a result of automated production and strategies of rationalization and reorganization, rather than the effects of imports.

As a result of its specific transmission/reception method, the EC CTV market was protected against foreign imports, unlikely the United States, until 1981. The EC originally imposed restraints against CTV with large-size screen, mainly Japanese CTV, and did not fully concern inflows of small-screen CTVs, as most demand and production in the EC had been centralized to CTVs with large screen. However, the EC market was gradually penetrated by East Asian countries, due to the steady change in demand towards small-size screen CTV, which increased from 13.3 per cent of total EC demand in 1980 to 38.1 per cent in 1989. Spurred by the rapid rise in imports from East Asian countries, the ECC imposed AD measures against CTV from these countries.

Korea's Consumer Electronics Industry

Korean consumer electronics industry was developed rapidly, in production and exports, by maintaining massive assembly of low-and medium-quality products helped by foreign technology. However, the Korean industry has several problems in promoting upstream strategy for the development of high value-added items. First of all, Korea depends heavily upon imports of electronics components for the manufacture of finished products. Korea is also heavily reliant on technology licensing agreements with foreign technology-owned companies for the production of current electronics products, and for the development of new products. Korean companies changed their overseas marketing strategy from Original Equipment Manufacturing(OEM) to Own Brand Manufacturing(OBM). The change in marketing method brought into effect two factors damaging to Korean companies: Firstly, original technology developers endeavour to protect their technology from foreign companies in an effort to stay predominant in world-wide marketing of electronics products, and secondly, Korean companies face protective measures from advanced countries since using their own brand names. Korean electronics industry is losing its price competitiveness against products manufactured in other low labour cost countries such as Malaysia, Thailand and Indonesia, with major Trans-National Corporations(TNCs), such as Philips, having moved their assembly process to plants in such low labour-cost countries. Therefore, Korean companies are attacked on all sides--price disadvantage against new producing countries and import protective measures from advanced countries.

Determinants of Protectionism in CTV Trade

--General Determinants

The EC's decision to implement AD measure against Korean CTV had been made following its previous experience of industrial damage caused by Japanese exports to the EC market. Therefore, Korea's exports of CTV to the EC market became a target of EC's import restraints at a

time when the EC were acutely aware of industrial injury from Japanese imports.

--Specific Determinants

Firstly, the problems of EC's CTV industry, such as built-in protection of transmission/reception method and failure in demand forecast centering on large-screen CTV, contributed as a determinant of protectionism in EC-Korea trade.

Secondly, the political expediency of EC's trade policy mechanism, favoring protectionism rather than industrial structure adjustment, contributed the EC to moving toward protectionism. This is reflected in the fact that the ECC disregarded the proposal of the Electronics Industries Association of Korea(EIAK) which fully accepts the request from the European Association of Consumer Electronics Manufacturers(EACEM) to restrict export volume to the EC market voluntarily.

Thirdly, the great political power of EACEM acted as a determinant of EC's protectionism: most complaints by the EACEM against Korean consumer electronics products were accepted by the ECC for implementation of import restraints.

Fourthly, the experiences of EC member states by import restraints against Korean CTV seems to influence on EC's decision disregarding the agreement between EIAK and EACEM, along with EC's prepossessed idea that Korean exporters are untrustworthy in observing promise of quantitative restrictions under VER. Despite British VER and French residual quota restriction against Korean CTV, Korea's CTV exports to the two EC member states sharply increased, making the EC adopt AD measure rather than VER.

Fifthly, the dramatic increases in shipments of Korean CTV in a very short period, along with the large production capacity and transshipment and switching strategy of Korean exporters, acted as one of other major determinants of EC's protective measures against Korea.

Effectiveness of Protectionism in CTV Trade

--David Yoffie's Approach

David Yoffie's approach seems to be inapplicable in the case of CTV sector. The EC's AD measure had been very effective in restricting market penetration by Korean CTV producers into the EC. The EC's CTV industry has been experiencing job losses due to unique characteristic of the industry. Even though the EC's measure to prevent imports from Korea was very successful, import penetration of the EC market from other sources has been under a continuous increasing trend, indicating that other exporters have been exploiting opportunities arising from not having to compete with Korean manufacturers in the EC market. Therefore, approaches considering only general economic or political factors without regard to any specific characteristic of the industry are premature in drawing a conclusion when evaluating the effectiveness of protectionism.

--Patrick Messerlin's Approach

His approach is applicable in the EC-Korea CTV case. Korea's small-screen CTV exports to the EC peaked in 1987 with \$118 million, reduced to \$103 million in 1988, to \$25 million in 1989, to \$16 million in 1990 and finally to \$15 million in 1991. In addition, Korea's market share of the EC's total imports reduced from 46.7 per cent in 1985 to 12.5 per cent in 1990. Therefore, the EC's AD measure was very effective in reversing the growing imports of CTV from Korea to the EC market.

1. Background Information for Case Study in Consumer Electronics Industry

1-1. General Trend of World Trade in Consumer Electronics Industry

The electronics industry "provides three broad categories of products and services; components, which are the basis of any electronics equipment or system; computers, consisting of hardware, peripherals, software, and office and industrial automation applications; and consumer electronics."¹ In the electronics industry, consumer electronics include video equipment(colour and monochrome

television receivers, video recorders and reproducers), audio equipment (portable/personal audio equipment, packaged audio system, and audio components/separates in car audio) and recorded and unrecorded media for sound and video recording. The development stages of consumer electronics can be summarized as follows:²

In the early stages of consumer electronics, the industry came up with a radically new product every other decade which consequently generated an enormous amount of sales. These innovations were successively the gramophone (1920s), the radio (1930s) and after the second world war, the black-and-white television (1950s), the color television (1960s) followed by hi-fi equipment (1970s). Most recently, in the 1980s, the novelty was the video recorder and related equipment, along with CD-player and digital audio tape (DAT). Many industrialists also believe that high definition television (HDTV) will become the next great innovation in the 1990s.

Since the Second World War, the consumer electronics industry emerged as one of the most dynamic growth sector among major manufacturing industries. Robert Ballance attributes the development in consumer electronics to "the rapid expansion of post-war demand (notably for radios and television sets) which was due to the rise in real incomes, and successful waves of technological advances which enabled producers to avoid the limitation of market saturation by reducing prices and by introducing new products or improved models."³

The world-wide production in consumer electronics peaked in 1988 with \$72.2 billion worth of output. However, the production figure began to decline in 1990, to \$71.99 billion, down 0.29 per cent from the 1988 figure and to \$71.56 billion in 1991, down 0.89 per cent from the 1988's figure. The decline in production value was caused by the world-wide trend of production costs being continuously reduced, a characteristic of consumer electronics production.

Firstly, "a vast proportion of world demand for consumer electronics was confined to advanced Western countries."⁴ In 1988, 50.7 per cent of world's total demand (\$68.1 billion) was from the United States and the EC. All other

countries, excepting the EC, Japan and the United States, only represented 22.3 per cent of the world demand. The limitation in demands for consumer electronics caused keen price competition among producers and exporters of these products, contributing to lowering the prices.

Secondly, there was continuous expansion of the number of consumer electronics producing countries. "For several decades, there were only three countries in the world to produce and export consumer electronics products--the United States, Japan and the EC. However, a second group of countries called NIEs became increasingly important in this sector."⁵ For example, South Korea represented 11.1 per cent of world's total production of consumer electronics in 1988. Also, two Korean firms--Samsung and Goldstar--ranked ninth and tenth, respectively, in the world's 16 largest consumer electronics producing companies as of 1989. The active NIE's involvement was expedited by such facts as "unit costs of circuitry and components fell substantially, making the labour costs of assembly even more significant, and TNCs advance into low-wage countries for the production process of assembly."⁶ Before the offshore production by TNCs in NIEs' markets, the NIEs were not in a position to participate in consumer electronics market in earnest due to high costs of entry--such as R&D. In addition to NIEs, a third group of countries produce mainly for their internal market: China, the USSR, and, to a lesser extent, Brazil.

As a result of the change in structure of the world consumer electronics production, the U.S. consumer electronics industry has almost disappeared. Only one company, Zenith, was included in the list of the world's 16 largest consumer electronics companies in 1989. In contrast, there were four EC companies, two Korean firms, and nine Japanese firms in the same list.

The world production share of U.S. consumer electronics producers, therefore, remained at 7.9 per cent in 1988, which was even lower than 11.1 per cent share of South

Korea and represented merely 16.8 per cent (\$5.4B/\$32.2B) of Japanese production, as seen in Table VIII-1.

Table VIII-1: Consumer Electronics Basic Figures(1988)
(\$B, ex-factory, %)

	Production	Imports	Exports	Balance	Market	IMR
EC	10.7 (15.7)	9.3	1.2	-8.1	18.8	49.5%
Japan	32.2 (47.2)	0.7	16.8	+16.1	16.1	4.3
U.S.A.	5.4 (7.9)	11.2	0.9	-10.3	15.7	71.3
Korea	7.6 (11.1)	0.5	5.2	+4.7	3	16.6
Rest of World	11.1 (16.3)	-	-	-	12.2	
Total	68.2 (100)	-	-	-	68.1	

Source: EC Commission(Improving the Functions of Consumer Electronics Market), p.5.

Note :IMR=Import Ratio. The figures in parentheses are shares in world's production.

There were net imports of consumer electronics products by the EC and the United States, whereas there were negligible imports from Japan and Korea. Therefore, Japan is the principal consumer electronics producer and the EC and the United States principal consumers, under the trend of the U.S. production declining sharply.⁷

Table VIII-2: Major Consumer Electronics Companies in the World

Rankings	Companies	Countries
1.	Matsushita	Japan
2.	Sony	Japan
3.	Philips	Netherlands
4.	Toshiba	Japan
5.	Hitachi	Japan
6.	Thomson	France
7.	JVC	Japan
8.	Mitsubishi	Japan
9.	Samsung	Korea
10.	Goldstar	Korea
11.	Sharp	Japan
12.	Pioneer	Japan
13.	Sanyo	Japan
14.	Grundig	Subsidiary of Thomson
15.	Nokia	Finland
16.	Zenith	U.S.A.

Source: EC Commission(Improving the Functioning of Consumer Electronics Market), p.7.

Thirdly, there was a Japanese dominance of consumer electronics production. Japan accounted for 47.2 per cent of the world's production in 1988 along with 23.6 per cent share in world total demand. Japan has a \$16.1 billion production capacity surplus. These Japanese companies contributed to the decline in price of consumer electronics by the adoption of various strategies. The ECC attributes the price reduction in consumer electronics world-wide to the Japanese production strategy as follows:⁸

Japanese attention was focused on economic reconstruction and the need to develop value-added export-oriented manufacturing industry in order to pay for imports of raw materials with which the country is scarcely endowed. The result was the major strategic thread of the electronics industry: cost-effective high-volume production of reliable components and final products based initially on low labour cost but evolving rapidly to highly automated methods. Such strategy rejects the option of limited production for high price sales with high margins, and chooses instead to manufacture in such volume as to bring the price down to a level acceptable to a wide market and so gain greater profits albeit on small margins.

Fourthly, there has been a continued reduction of production costs due to intensified R&D activities. For example, "today television sets require only one-third the number of components used in 1970 while over 70 per cent of chassis assembly is automated. As a result, production time has been reduced to one-tenth of its former levels."⁹

In the process of change in world's consumer electronics market structure, there are two clear phenomena. One is the aggressive industrial policy implementation by the world's major consumer electronics producing countries, to strengthen their international competitiveness and the other is the expansion of cooperative relations between the world's major consumer electronics producing companies to survive growing competition in the industry. Firstly, "consumer electronics in Japan were given the 'usual treatment' reserved for targeted growth sectors. Developing countries also adopted very active industrial

policies for the consumer electronics sector as part of their export-led industrialization strategy. France had adopted a long-term strategy explicitly for consumer electronics, mainly by encouraging Thomson as the major television manufacturer and by implementing protective measures."¹⁰ In addition, the United States and the EC adopted a defensive strategy to protect their consumer electronics industry by implementing OMAS or AD measures. Secondly, "strategic partnerships and cooperative alliances became vital in view of the rising technological complexity and the scale of economies in the development and production of new products. Confronted with large capital requirements and shortened product-life cycles, firms may share benefits of these alliances."¹¹ Such a trend was inevitable because the future competitiveness of consumer electronics industry depends on the timing of introduction of new products satisfying new consumer demands. In addition, "competing companies can try to ensure that their particular format becomes the industry standard by forming strategic alliances with each other."¹²

In sum, consumer electronics is an industrial sector where active industrial and trade policies by developed and developing countries collide with each other. Furthermore, companies in developed countries have offshore processing of labour-intensive products, and form strategic alliances to overcome challenges from NIEs' companies. In addition, governments of developed countries have been implementing various measures to protect their consumer electronics from foreign imports. In this situation, active neo-mercantilist industrial policies for consumer electronics by NIEs have been the cause of the greatest number of trade disputes between developed countries and NIEs since the late 1980s.

1-2. EC's Consumer Electronics Industry

The ECC emphasises the importance of EC's electronics industry as follows:¹³

The Community markets for the electronics and information technology industries, along with telecommunications, are worth some ECU 175 billion, or about 5 per cent the twelve's combined GDP. By the year 2000, this turnover should reach some 10 per cent of GDP. The importance of these industries also derives from their development of enabling technologies with widespread economic and social impact, which play an essential part in the competitiveness of industry and the quality of services.

Within the electronics industry, the consumer electronics is one of four major sectors doing major contribution to production and consumption, as seen in Tables VIII-3 and VIII-4. In 1990, production of consumer electronics accounted for 12.53 per cent of total EC electronics production. Furthermore, EC consumption of consumer electronics represented 17.35 per cent of total EC electronics consumption. The consumer electronics sector is, however, the major contributor to the worsening trade deficit in the EC's electronics sector: EC's trade deficit recorded in consumer electronics sector represented 39.06 per cent of the EC's total trade deficit in the electronics sector.

Table VIII-3: EC's Electronics Production (million ECU)

Years	EC	COE	TE	CE	Total
1981	777	14746	16379	8671	47573
1982	8576	19580	17593	9850	55599
1983	9762	23961	18543	8064	60330
1984	12368	29365	20601	7808	70142
1985	13228	35388	22390	8895	79901
1986	13615	35326	22226	12111	83278
1987	13772	36053	22584	12526	84935
1988	14406	41553	22939	12906	91804
1989	15413	45663	24328	12243	97647
1990	15969	49090	25798	13020	103877

Source: EC Commission (Panorama of EC Industries 1991-1992), p.12-2.

Notes : EC=Electronics Components.

COE=Computer and Office Equipment.

TE=Telecommunications Equipment.

CE=Consumer Electronics.

The EC's electronics industry, with the exception of consumer electronics sector, recorded continuous increases in production in the 1980-1990 period, a trend

also found in the figures for consumption, as seen in Table VIII-3 and VIII-4.

Table VIII-4:EC's Electronics Consumption(million ECU)

Years	EC	COE	TE	CE	Total
1981	7101	17272	14113	12200	50686
1982	7760	22572	15136	13487	58955
1983	9279	27791	16302	13318	66690
1984	13197	35048	18250	12925	79420
1985	13992	40543	20184	14304	89023
1986	14023	40630	20307	18550	93510
1987	14487	42784	21555	19201	98027
1988	15832	51221	22848	21055	110956
1989	17276	56494	24219	20978	118967
1990	18237	60987	25672	22020	126916

Source:EC Commission(Panorama of EC Industries 1991-1992), p.12-3.

However, the only electronics sector in the EC recording a trade surplus is telecommunications equipment, as seen in Table VIII-5.

Table VIII-5:EC's Trade Balance in Electronics(million ECU)

Years	EC	COE	TE	CE	Total
1981	+676	-2526	+1759	-3529	-3620
1982	+816	-2992	+1949	-3637	-3864
1983	+483	-3830	+1949	-5254	-6652
1984	-829	-5683	+1745	-5117	-9884
1985	-764	-5155	+1570	-5409	-9758
1986	-408	-5304	+1233	-6439	-10918
1987	-715	-6731	+1029	-6675	-13092
1988	-1426	-9668	+91	-8149	-19152
1989	-1863	-10831	+109	-8735	-21320
1990	-2268	-11897	+125	-9000	-23040

Source:EC Commission(Panorama of EC Industries 1991-1992), p.12-3.

There is a causal relationship between characteristics of the EC's electronics industry, specifically the consumer electronics sector, and its international competitive weakness. Firstly, major consumer electronics companies in the EC have been inactive in promoting strategies to raise their international price competitiveness. For example, "Japanese firms began moving assembly operations to South Korea (and later to Singapore and Taiwan) and U.S. firms to Mexico and Southeast Asia in order to

lessen the burden of higher wage in their production costs. Offshore processing became a common strategy throughout the industry as price competition spread to other products and markets."¹⁴ However, "Europeans have been slow to undertake many cost-cutting measures or to develop any serious export programmes. This trait has led to a fragmented production pattern with many small and sometimes uneconomic units."¹⁵

Secondly, "the fragmented European market limits economies of scale and leads to higher R&D and production cost. It also prevents European firms from getting new products first to market."¹⁶ These factors became the major reason for expediting a movement towards creating inefficient national champions in the consumer electronics sector.¹⁷ Furthermore, European firms were weak in adopting upstream strategy to extend both the range of products and their function, due to the shortage of research and technical development (R&TD) cost.

Thirdly, there were increases in defensive protectionism after the protection given by built-in mechanism, afforded by transmission/reception technologies, such as SECAM in France and PAL elsewhere in case of color television sector, expired in the 1980s. Such protective measures were also increased for the protection of both fragmented markets and national champions from foreign competition. For example, there were no trade disputes in the 1960s and the 1970s in the consumer electronics sector between the EC and Korea. However, the EC has imposed AD duties and price-undertaking measures, or initiated AD investigations since the 1980s against almost all Korean consumer electronics items--compact disc player, video cassette tape, color television set, audio cassette tape, car stereo radio, video tape recorder, floppy diskette, DRAM and electronics scale. The sensitivity of the EC producers is also due to "the unique structure of the European market which evolved towards the reduction of direct influence by producers and growth of volume purchasers who now exert

considerable influence. This has been the key channel for Far East producers to penetrate EC markets, and has deprived domestic producers of a prime means of exploiting their domestic markets."¹⁸

To cope with its competitive weaknesses, and other problems, the EC industry has carried out various strategies to date. Firstly, the European consumer electronics industry speeded up concentration to meet the competitive pressure, having only two consumer electronics makers in the EC--Philips, the third largest consumer electronics manufacturer in the world, and Thomson, the sixth largest. "Philips has its overseas plants in Singapore, Taiwan, Hong Kong and Mexico, and Thomson has its production subsidiaries in Malaysia, Singapore, Thailand, Taiwan and China. However, their production concentrates in lower-cost consumer electronics products, rather than high-value electronics equipment."¹⁹ As a result, EC electronics companies have to depend on imports of components from Japan for the manufacture of high-cost electronics products. That is the major reason the EC is recording trade deficit in electronics components since 1984. Previously, electronics components belonged to one of two electronics sectors in the EC which recorded a trade surplus, the other being telecommunications equipment sector. For example, EC's import dependence on Japanese TV tubes is absolute. "Japan considerably increased its tube exports to the EC: from 1.7 million in 1974 to 1.9 million in 1977. That increase could be interpreted as the start of a drive into the EC market, which should ultimately result in a TV set dominance."²⁰

Secondly, the European consumer electronics industry actively pursued automation of the production process. According to Peter Dicken,²¹

technological change has been extremely rapid in the consumer electronics industry. A major effect has been in increasing greatly the labor productivity. Major firms altogether have been investing heavily in automated production and assembly and thus, greatly reducing the number of workers required for

a given level of production in the consumer electronics.

These two factors have caused declines in both number of employees and factories in the EC consumer electronics industry, as seen in Table VIII-6.

Table VIII-6:EC's Employment in Consumer Electronics

Years	Employment(1000)	Number of Factories
1980	160	N/A
1981	151	N/A
1982	147	N/A
1983	146	N/A
1984	134	N/A
1985	134	N/A
1986	131	N/A
1987	127	224
1988	123	165
1989	126	139
1990	126	114
1991	130	N/A

Source:EC Commission(Panorama of EC Industries 1991-1992), p.12-39.

Thirdly, "notwithstanding the strong competition, several collaborations in consumer electronics sector have been promoted between the EC and Japanese producers. Sony-Philips and JVC-Thomson established collaborations towards the harmonization of technical standards for video tape recorders, along with joint research and development between Philips and Sony for CD interactive equipment."²² The motive behind such cooperation could well be that collaboration between the world's two largest consumer electronics producers reduces competition and provides each with a greater or more secure share of the world market.

Fourthly, the ECC has been strongly supporting cooperative research projects in order to improve EC industry's competitiveness. "The projects include the ESPRIT-Programme(European Strategic Program for Research and Development in Information Technology), the RACE-Project(Research in Advanced Communications Technology for Europe), the EUREKA(European Research Coordination Agency), the Brite-Project(Basic Research in Industrial Technologies in Europe), and the JESSI-Project(Joint

European Semiconductor Silicon Initiative)."23 The support reflects the direction of the ECC's policy to promote the development of growth industries, such as electronics and information technology sectors.24

1-3. Korea's Consumer Electronics Industry

The electronics sector was not important in the early 1960s in Korea when no electronics products were included in the list of the nation's top ten export items. However, this had changed by 1970 by which time electronics products had become the fifth largest export item of Korea. This moved electronics products to the second largest export item in 1975 and finally to the largest export item in 1988, pushing textiles and clothing to the second place on the list of the nation's traditional export items. The development of Korea's electronics sector owed much to foreign direct investment(FDIs) in Korea by TNCs, seeking offshore processing in cheap labour-cost countries to strengthen their price competitiveness. "On an arrival basis, FDIs in Korea during the 1962-1978 period in the electronics sector amounted to \$121 million. The figure represented 12.1 per cent of the total FDIs of \$1,001 million in Korea for the same period."25

However, the development of electronics industry was further expedited by industrial policy in Korea. T. Kang points out:26

The Korean government regarded the electronics industry as one better suited to a country without many natural resources and put a lot of emphasis into consumer electronics sector. The government concern was made clear in 1969, when the Electronics Industry Promotion Law was enacted. The law required routine formulation of an electronics sector plan by the Ministry of Trade and Industry, registration of all participants in that industry, establishment of a promotions fund for the industry, promotion of overseas investment and the formation of industry complexes.

Following Korea's export-led industrialization strategy, and the government's full-scale support, the electronics industry grew very rapidly. The share of electronics industry in the total production of the manufacturing

sector rose from 2.7 per cent in 1985 to 4.6 per cent in 1989, as seen in Table VIII-7.

Table VIII-7: Korea's Electronics Production (1B.won, %)

Years	TM(A)	E(B)	CE(C)	C/A	C/B
1975	-	1,180	260	-	22.0
1985	77,033	6,338	2,098	2.7	33.1
1988	134,331	17,177	6,724	5.0	39.1
1989	148,477	19,004	6,876	4.6	36.2
1990	-	21,035	7,265	-	34.5
1991	-	24,156	7,820	-	32.4
AGR 1975-88	-	22.9	28.4	-	-
1988-91	-	17.7	5.2	-	-

Source: Korea Institute for Industrial Economics and Technology (Recent Trends of Korea's Consumer Electronics Industry and Changes of Competitive Environment), p.8.

Notes: TM=Total Manufacturing. E=Electronics Industry.

CE=Consumer Electronics. AGR=Average Growth Rate

Especially important, the consumer electronics sector occupied a very important position in the nation's electronics industry, raising its share in the total production of electronics sector to 36.2 per cent in 1989 and 32.4 per cent in 1991 from 22.0 per cent in 1975.

Table VIII-8: Korea's Electronics Exports and Imports (\$1M)

Years	E		IE		EP		CE		HE	
	EX	IM	EX	IM	EX	IM	EX	IM	EX	IM
1977	1086	950	120	156	466	456	448	113	30	209
1980	2115	1658	169	350	775	732	1019	181	101	363
1985	4853	3668	904	956	1824	1735	1859	248	174	679
1986	7575	5396	1449	1245	2742	2735	3058	361	198	984
1987	11563	6946	2353	1348	3876	3931	4904	516	279	1082
1988	16313	9393	3225	2287	6069	5218	6436	621	365	1180
1989	17138	10227	3484	2573	7131	5683	5947	670	413	1209
1990	17869	11222	3480	3067	8015	6056	5726	723	490	1298
1991	20157	13017	3894	3529	9384	6972	6054	742	541	1652

Source: Korea Foreign Trade Association (Major Statistics of Korean Economy, 1992), pp.226-228 and 246-247.

Notes: E=Electronics Industry. IE=Industrial Electronics.

EP=Electronics Parts. CE=Consumer Electronics.

HE=Heavy Electric Equipment. EX=Export.

IM=Import.

As seen in Tables VIII-8 and VIII-9, "consumer electronics exports also increased during the 1985-1988 period from \$1,859 million to \$6,436 million,

representing 12.28 per cent of the world total exports of consumer electronics. Korea's share in world's total exports of electronics products rose from 18.8 per cent in 1985 to 35.5 per cent in 1988."²⁷

Table VIII-9: Korea's Share in World Exports of Electronics Products(%)

Items	1984	1985	1986	1987	1988
Insulated Wire and Cables	1.87	1.65	2.09	2.10	2.35
Electrical Machinery	1.05	0.96	1.05	1.31	2.07
Telecommunications Equipment	2.07	2.20	2.81	3.68	4.82
Consumer Electronics	6.32	6.18	8.17	11.92	12.28
Electrical Components	3.56	3.29	3.67	4.29	4.91
Household Appliances	3.73	3.42	5.16	6.64	6.34
Information Technology Equipment	0.91	1.10	1.52	1.93	2.71
Total	19.51	18.8	24.47	31.87	35.48

Sources: Korea Foreign Trade Association (Report on EC and Korea's Footwear and Consumer Electronics Industries), p.6.

According to a detailed analysis by Korea Foreign Trade Association regarding Korea's position in the world electronics market,²⁸

Korea is the world's sixth largest producer in the electronics industry. Although it still lags behind the United States and Japan, it is also the third largest producer of consumer electronics products. Korean manufacturers began to export microwave ovens in 1980 and by 1987. They were the world's largest producer of microwave ovens. They are the second largest producer of color television sets and very successful in exports of video tapes and VCR. They are alone in a position to compete Japanese companies in the development of DRAMs.

In 1989, Korea recorded the second largest trade surplus with the EC in consumer electronics sector after Japan, causing 10.6 per cent of the EC's total extra-EC trade deficit of 8,725 million ECU in the consumer electronics sector, as seen in Table VIII-10. Despite such great successes in the electronics industry, Korea has many weak points exerting their influence over production and trade activities in this sector.

Table VIII-10:EC's Major Consumer Electronics Products Traders(1989)(million ECU)

Traders	Exports to EC	Imports from EC	Trade Deficit of EC
Japan	5,374	40	5,334
Korea	936	10	926
Austria	762	275	487
Singapore	709	31	678
USA	622	286	336
China	591	5	586
Taiwan	543	31	512
Hong Kong	298	31	267
Malaysia	416	5	411
Brazil	104	15	89
Thailand	103	5	98
Turkey	94	34	60
Total Extra-EC	10,958	2,233	8,725

Source:EC Commission(Panorama of EC Industries 1991-1992), p.12-43.

Table VIII-11:Korea's Exports and Imports of Electronics Products by Region(\$1M, %)

Countries	Exports				Imports			
	1989	Share	1991	Share	1989	Share	1991	Share
USA	2091	36.0	1649	28.3	92.5	17.9	91.8	17.4
CAN	296	5.1	226	3.9	0.8	0.1	0.5	0.1
EC	979	16.9	1080	18.6	40.9	7.9	71.1	13.4
JAP	443	7.6	325	5.6	309.6	59.9	270.3	51.2
Asian								
NICs	339	5.8	273	4.7	41.1	7.9	47.1	8.9
EFTA	355	6.1	268	4.6	9.2	1.8	12.9	2.4
Others								
	1297	22.4	1996	34.3	22.9	4.4	34.6	6.5
Total								
	5800	100.0	5817	100.0	517.0	100.0	528.3	100.0

Source:Korea Institute for Industrial Economics and Technology(Recent Trends of Korea's Consumer Electronics Industry and Changes of Competitive Environment), p.11.

Firstly, Korea is heavily dependent upon imports of electronics components from Japan for the manufacture of finished products. T. Kang points out:²⁹

The one Achilles heel that Korean electronics products makers have is that a significant part of their final product content is Japanese. For example, in a VCR, close to 70 per cent of the parts come from Japan. Open a Korean VCR, and one finds Matsushita, Toshiba and other brands.

Korea's imports of electronics products from Japan in 1991 accounted for 51.2 per cent of the nation's total imports of the products in the year, as seen in Table VIII-11.

Secondly, Korea is also heavily dependent upon technology licensing agreements with major companies for the production of mature electronics products and for the development of new products. In the beginning of Korea's electronics industry, Korean companies usually introduced foreign technology through technology licensing, OEM agreements or joint ventures with foreign companies. Technology licensing is now the only method of introducing foreign technology since Korean companies changed their overseas marketing strategy from original equipment manufacturing(OEM) to own brand manufacturing(OBM). This change in marketing method brought into effect two factors damaging to Korean companies: technology developers in the electronics sector generally endeavour to protect their technology from foreign companies in an effort to stay ahead by denying licenses to competitors,³⁰ and in addition, Korean companies face protective measures from advanced countries against electronics products having Korean brandnames.

Thirdly, the Korean electronics industry is losing its price competitiveness against products, manufactured in other low labour-cost countries such as Malaysia, Thailand, India, the Philippines and Indonesia. For example, Korea's monthly labour cost in consumer electronics in 1987 was £298.2, far higher than India's £96.3, Indonesia's £48.05 and the Philippines' £96.13.³¹ Major TNCs such as Philips moved their assembly process to plants located in such low labour-cost countries. As a result, Korean companies attacked on all sides--price disadvantage against new producing countries, and import restraints by advanced countries against Korean products despite inflows of electronics products manufactured by

TNCs in such low labour-cost countries into their markets.

Fourthly, Korea's export performance in consumer electronics entirely depends on a limited range of consumer electronics items such as audio equipment, color television sets, VTR and microwave ovens, representing a very high proportion of Korea's exports of consumer electronics products. In 1991, the share of these four items in total consumer electronics exports was 86 per cent. In addition, Korea heavily depends its exports of consumer electronics products to three markets--the United States, the EC and Japan, shipping 52.5 per cent of its total exports of consumer electronics products to these countries, as seen in Table VIII-11.

Finally, although Korea's industrial policy contributed to the rapid development of Korea's consumer electronics industry, it also acted as a negative factor following the development of the industry's emphasis on quantity, rather than quality: concentration on simple assembly production rather than development of value-added items through continuous investment in R&D. Quantitative development only is limited by the industry's specific characteristics--rapid innovations, higher R&D cost, concentration of big companies and fierce competition among world-famous manufacturers. Korea's consumer electronics sector showed an annual average growth of 5.2 per cent in terms of production in the 1988-1991 period, far lower than 28.4 per cent recorded in the 1975-1988 period, as seen in Table VIII-7. Furthermore, Korea cannot easily raise its price competitiveness because it wholly depends on imports of essential components for the production of consumer electronics. As a result, the labour cost of assembly is very important in deciding export prices of consumer electronics. However, this former strength is disappearing following increases of labour cost in the domestic market, and emergence of new cheap labour cost countries. Korea's consumer electronics

industry is typical of most industries, superficially strong but weak in substance.

2. Case Study of Color Television

2-1. Introduction

The CTV sector has been the object of frequent trade disputes between advanced countries and NIEs. Such trade disputes could worsen in future due to the pattern of production and trade---geographical concentration in the Asian region of production and division into two regions(Asia and the EC) in trade under the situation that the Asian countries have to dispose of their surplus production and EC countries also have to protect their CTV industries from foreign competition. Louis Turner and Neil McMullen point out:³²

The CTV sector is a skilled labour-intensive industry that the leading NICs are trying to break into, and that illuminates an interesting area in which the AICs are having difficulty in adjusting smoothly to competitive change. Above all, though, colour televisions are interesting because they are a case of an apparently technologically mature product, increasingly fit for manufacture in the NICs, which rejuvenated itself as one part of a research-intensive complex of activities in which the AICs have been able to regain some lost ground.

In the field of world-wide CTV production, one clear indication is the dominance of Asian producers, accounting for 55.7 per cent of world total production in 1987, with China the world's largest single country producer of CTV with its share of the world total production representing 19 per cent. The dominance of China in the world's CTV production results from the assembly process of CTV production, which is highly labour-intensive, employing large numbers of low-skilled, mainly female, workers with the additional advantage of low-labour costs, and standardized manufacturing technology. It became very important to reduce the production cost of finished products through economies of scale and to use less-skilled labour force. As a result, large CTV producers began offshore processing in cheap-labour Asian countries. Furthermore, many Asian NIEs

began to produce their own brandname CTV with their cheap labour force, using technology introduced under licensing agreements with foreign technology holders and with components imported from advanced countries.

Table VIII-12: World's CTV Production by Region (1978-87)

Region	Production (1,000 Units)		Change(%) 1978-1987	Share of World Production(%)	
	1978	1987		1978	1987
Asia	21,175	56,826	+168.4	35.0	55.7
Japan	13,116	14,777	+12.7	21.7	14.5
Korea	4,826	14,664	+203.9	8.0	14.4
China	517	19,334	+3641.6	0.9	19.0
Malaysia	150	1,240	+726.7	0.3	1.2
Singapore	725	2,123	+192.8	1.2	2.1
Europe (excluding USSR)	17,656	19,193	+8.7	29.1	18.8
Germany	4,391	3,537	-19.5	7.3	3.5
U.K.	2,417	3,022	+25.0	4.0	3.0
Italy	2,172	2,233	+2.8	3.6	2.2
France	2,101	2,184	+4.0	3.5	2.1
USA	9,309	11,310	+21.5	15.4	11.1
World Total	60,592	101,985	+68.3	100.0	100.0

Source: Dicken, Peter (Global Shift), p.316.

The first NIE which entered successfully the CTV sector was Japan. "The Japanese version of the strategy was imitative. Initially, Japanese companies made use of a labour cost advantage since the relevant wage rates were roughly one-fifth the prevailing scale in the United States. Later, they successfully combined their imitative practices with extensive offshore processing, and diversified their export items to television sets, tape recorders, and stereo equipment."³³ Major markets for Japanese CTV were the United States where the transmission/reception method was the same as in Japan. Faced with waves of imports of CTV from Japan, the U.S. firms responded in various ways.

Firstly, "most companies were tempted to shift a substantial proportion of their activities offshore."³⁴ As a result, Zenith became the only indigenous manufacturer of CTV left in the United States, as I mentioned above.

Secondly, "the U.S. firms sought legal redress. The U.S. industry made its first dumping appeals against the Japanese in 1968, and this strategy was developed in the mid-1970s, with the industry lobby called COMPACT(Committee for the Preservation of American Color Television) leading the attack."³⁵ However, this first appeal was not settled until 1980 when Japanese manufacturers agreed to an out-of-court settlement of \$76 million. Such delay in the decision was due to "attributes of TNCs from the United States. It is natural that these firms strongly favour free trade in the finished and semi-processed items exported by their own subsidiaries, associates and affiliates in LDCs."³⁶

Table VIII-13: International Trade in CTV(1990)

Region	Exports (\$1000)	% of World Trade	Imports (\$1000)	% of World Trade	Trade Balance
World	14739209	100	15879347	100	-1140138
Asia	6134186	41.7	2285333	14.4	+3848853
JAP	2028858	13.8	158546	0.99	+1870312
KOR	1351217	9.2	36816	0.23	+1314401
SIN	1324790	9.0	639287	4.0	+685503
HK	553621	3.8	784410	4.9	-230789
Europe	7436344	50.5	10672787	67.2	-3236443
EC	6100166	41.4	9108685	57.4	-3008519
GER	2185544	14.8	2828954	17.8	-643410
UK	1105749	7.5	1090286	6.9	+15463
ITA	478814	3.2	1492198	9.4	-1013384
FRA	803475	5.5	1241967	7.8	-438492
USA	534353	3.6	2150286	13.5	-1615933
CAN	56194	0.4	272731	1.7	-216537

Source: United Nations(International Trade Statistics Yearbook, 1990, Vol.II), p.669. Note :Market economies only(exclude China, Taiwan, USSR and Eastern Europe).

Following the entry of Japanese CTV into advanced countries, many Asian NIEs have followed suit. As a result, the Asian region has been rapidly emerging in world-wide exports of CTV, with a share in the world's total exports of CTV accounting for 41.7 per cent in 1990, as seen in Table VIII-13.

However, the EC was the largest exporting bloc of CTV in the world, with its value of exports in 1990 amounting to \$6,100.166 million (41.4 per cent of world's total exports). Germany, on a country-by-country basis, ranked first in the list of CTV exporters with its share of 14.8 per cent in the same year. Japan and Korea ranked second and third, respectively, in the list of the world's major exporters of CTV in 1990.

In trade with Korea, the EC member state which first began to impose import restraints against Korean TV was the United Kingdom. The United Kingdom started in 1977 to impose VER against imports from Korea and Taiwan. Under the VER measure, Korea's black and white (B/W) TV exports to the United Kingdom were restricted to 35,000 units each in 1977 and 1978 which was raised to 150,000 units in 1985, and 200,000 units in 1986. The VER against Korean B/W TV was expired in January in 1988. Along with the VER against B/W TV, the U.K. also implemented VER against CTV since October 25, 1984 under which Korean CTV exports to the United Kingdom were regulated to 46,000 units in 1985, 100,000 units in 1986, 200,000 units in 1987 and 300,000 units in 1988. This VER against Korean CTV was terminated in April, 1990 when the EC-wide AD measure of 1989 became effective. Marcel Marion points out that "Japanese manufacturers in Britain benefited from these deals."³⁷

The second EC member state to restrict CTV imports from Korea is France which so far has been imposing residual import quotas against Korean CTV since November in 1984. The residual import quotas were set at 20,000 units in 1985, 23,000 units each in 1986, 1987 and 1988, 40,000 units in 1989 and 50,000 units each in 1990, 1991 and

1992. This French import restriction was partly a result of "its electronics policy under a socialist government since 1981 that was to relaunch the French electronics industry."³⁸

Along with the import restraints at EC member state level, the EC began to implement AD measure on an EC-wide basis in 1989, which will be analysed later in detail in Section 2-4. The EC-wide measure is closely related to the characteristics of production and trade in the EC CTV industry. The EC owes the maintenance of continuous growth in CTV production to the unique characteristics of the EC's CTV industry, which helped the EC not be totally overwhelmed by foreign imports, especially from Japan. The Korea Foreign Trade Association analyses the reasons as follows:³⁹

Firstly, there was the adoption of two 'European' standards and the refusal of the European patent holders to grant licenses to Japanese manufacturers.

Secondly, the fragmentation of the EC-market into national markets with their own characteristics, tastes, etc. made it impossible to sell one single, standardized product in Europe.

Thirdly, the EC showed a preference for large color television sets while the Japanese firms were specialized in the manufacture of small-and medium-sized televisions.

The continued concentration of CTV production in the EC, contrary to the complete halt of production by U.S. companies, the characteristic labour intensive aspects of CTV production as compared with "the production of electronics components such as integrated circuits only made by machines with human assistance,"⁴⁰ the expansion of local production by Japanese CTV producers in the U.K., and extensive CTV production by Korea have caused serious trade disputes between the EC and Korea. Such trade disputes are inevitable, considering the importance of CTV industry both to the EC and Korea, as seen later in Sections 2-2 and 2-3.

2-2. The Situation in the EC

According to the ECC, "CTV accounts for 33 per cent of the total consumer electronics market in the EC, and has

remained as the market's leading item. The penetration rate of imports into the EC market for CTV is only 20 per cent, which is far lower than that for VCR(46 per cent), camcorders(99 per cent), other audio products(89 per cent), CDP(74 per cent) and in-car entertainment(ICE) (58 per cent)."⁴¹ In addition, "color TV production in the EC countries now exceeds that of the United States, with Germany being the dominant European producer followed by the United Kingdom, although most British production is now by foreign, mostly Japanese, firms."⁴²

Despite the favorable CTV production trend, deep penetration by Asian CTV exporters of the EC market, as seen in Table VIII-15, has inevitably caused the growth of trade disputes between the EC and Asian CTV exporters. There is a close link between the dramatic shipments of Asian CTVs to the EC market and the characteristics of the EC CTV market: the EC's demand for CTV is mainly for screen sizes greater than 42 cm. In 1989, demands for this size CTV accounted for 62.8 per cent, and for more than 52 cm alone, the figure was 46.2 per cent. As a result, the EC has specialized in production of large-screen CTVs, depending on imports for small-screen CTVs. This allowed the EC to maintain its competitive strength in the CTV sector.

Table VIII-14: Breakdown of CTV Market by Size of Screen(%)

Years	Screen<42cm	42cm<Screen<52cm	Screen>52cm
1980	13.3	21	65.7
1981	21	21	58
1982	22.8	15.5	61.7
1983	25	19.4	55.6
1984	31.2	18	50.8
1985	31.7	19.5	48.8
1986	34.7	N/A	65.3
1987	36.3	21	42.7
1988	41.1	21.4	37.5
1989	38.1	16.6	46.2

Source: EC Commission(Panorama of EC Industries 1991-1992), p.12-40.

The Korea Foreign Trade Association analyses the demand pattern of CTV in the EC as follows:⁴³

The EC's current demand is primarily for the replacement of old sets with large receiver sets with screen size over 52 cm and the purchase by households of a second set with a small screen size. Demand for the large-size screen CTVs is mostly met by EC producers. However, the market for small-and medium-sized television sets is increasingly being met by imports, originating mainly from Korea and Hong Kong, which account for 32 per cent of the total market.

This unique demand pattern allowed the EC CTV manufacturers to meet 68 per cent of total EC CTV demand in 1990. However, the share of total EC production in total EC demand was far lower than the 90 per cent recorded in 1981. In the 1981-1990 period, the figure declined to 68 per cent.

Table VIII-15: EC's CTV Demand and Share of EC Production and Foreign Imports in Its Demand(%)

	80	81	82	83	84	85	86	87	88	89	90
Share of EC Production in Total Demands	84	90	80	87	81	85	82	74	73	69	68
Share of Imports --Extra-EC in Total Demands	16	10	20	13	19	15	18	26	27	31	32
of Which Korea	N/A	N/A	N/A	N/A	2	7	8	7	9	4	4
HK	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6	3	2
JAP	6	7	6	6	6	6	6	3	2	2	3
Total Market	100	100	100	100	100	100	100	100	100	100	100

Source: EC Commission (Panorama of EC Industries 1991-1992), p.12-41.

There are several reasons why imports of foreign CTVs into the EC market increased so rapidly within a short period. Firstly, the built-in protective mechanism contributed negatively to the competitiveness of EC's CTV industry. The mechanism allowed the EC to continue the ineffective production by many small and fragmented companies, thus weakening price competitiveness. It also

restricted a more aggressive approach to R&TD for the development of new products. As a result, EC CTV companies had to face fierce competition from Japanese companies and later NIEs when the exclusive transmission system licenses began to expire in the 1980s.

Secondly, the EC's import protection to prevent foreign penetration was "mainly against the largest sets and did little to prevent the inflow of smaller sets, for which demand was growing most rapidly."⁴⁴ Major EC CTV plants were "concentrating on the production of 20 inch and 22 inch tubes at a time when demands of EC consumers seem to be swinging in the direction of smaller sets, adding to the vulnerability of EC industry."⁴⁵ As a result, "no colour picture tubes for sets smaller than twenty inches are produced in Europe although all smaller tubes account for at least one-third of the cost of a finished set. All these components are imported--chiefly from Japan--ironically."⁴⁶

Faced with such a strong foreign penetration, the ECC began to impose import restraints against foreign products, arguing that "it is more important to counter unfair trade practices, and operate the Community's AD procedures efficiently within the scope of the EC's international obligation"⁴⁷ The EC concentrated on restricting imports from Japan, Korea and Taiwan. The major protective measure by the EC was the imposition of AD duties as these can be selectively applied to specific countries, effectively evading non-differentiation and compensation requirement under the GATT safeguard clause. However, the market share of imports from Korea, Japan and Hong Kong in 1990 was confined to 28 per cent (9/32) in total extra-EC imports, as seen in Table VIII-15. The lion's share of EC imports in the EC's total CTV demand are from countries other than these three. Thus, the appropriateness of intensive import restraints against those three countries were open to question. Import restraints against specific countries give opportunities to other exporters to increase their shipments to the EC

market, with, for example, EFTA and low labour-cost countries in Southeast Asia the major beneficiaries of the selectivity of the EC's import restraint.

Along with defensive protective measures against foreign CTVs, the EC has completed the concentration of its CTV sector--merging fragmented companies into two large companies--Philips and Thomson. In addition, the ECC has been providing strategic support to the consumer electronics industry in R&TD area, with the result that the EC CTV sector has maintained a relatively strong position in the world market--in contrast to the situation in the United States where all consumer electronics companies left the business, except for Zenith, as I mentioned above.

2-3. The Situation in Korea

The Korean government has provided a wide range of supports to the consumer electronics industry, including CTV sector, since the 1980s. Peter Dicken describes the Korean government policy for the development of consumer electronics industry as follows:⁴⁸

- 1) Protectionist trade barriers---both tariffs and a ban on the imports of foreign-made electronics.*
- 2) Provision of low-interest capital for companies in targeted sectors, which has given the state an influence on industry decision-making.*
- 3) Heavy government investment in electronics R&D, particularly in the design of semiconductors, the results of which are made available to Korean producers.*

As a result of this intensive support, the production of CTV in Korea has been showing the greatest share of the nation's total production of consumer electronics products, 19.8 per cent in 1990. In addition, the CTV sector recorded an annual average growth of 7.8 per cent in production since 1987. In trade, exports of CTV represented 23.5 per cent of Korea's consumer electronics exports which rose to 24.5 per cent in 1991.

This expansion led to two problems which could cause trade disputes with foreign importers, especially the EC. Firstly, Korea recorded a trade surplus of \$1,314.401 million in CTV trade with the world in 1990, the second

largest trade surplus after Japan, sharply in contrast to the EC's trade deficit of \$3,008.519 million in that year, as seen in Table VIII-13.

Secondly, the proportion of Korea's CTV exports under OEM contract was relatively low at 55.2 per cent in 1986. That means Korean CTVs were more likely to be a target of import restraints because Korean CTV manufacturers sell their products with their own brandnames rather than brandnames of world-renowned importers. It is natural that the high proportion of OEM in exports raises not so many trade disputes because under OEM, "manufacturers supply products to other manufacturers with the latter's brandnames and sometimes with specifications outlined by the purchasers,"⁴⁹ and it is not likely that these purchasers are involved in filing complaints against imports. The share of OEM contracts in Korea's CTV exports compares with 64.0 per cent in microwave ovens, 80.6 per cent in refrigerators, and 76.7 per cent in audio equipment.

Table VIII-16: Korea's CTV Exports (Small+Large Screen) to USA (\$1000)

Years	Total CTV Exports(A)	CTV Exports to USA(B)	B/A
1985	374,959	178,775	47.7
1986	533,502	257,537	48.3
1987	795,326	245,174	30.8
1988	1,174,427	218,617	18.6
1989	1,168,413	177,242	15.2
1990	1,351,217	139,587	10.3
1991	1,505,199	148,321	9.8

Source: Korea Foreign Trade Association (Directory of Import Restraints by Advanced Countries against Korea), p.51.

In addition to the above, the switch of Korea's CTV exports from the United States to the EC brought negative reactions from the EC CTV industry. The largest customer for Korean consumer electronics was the United States, with CTV exports peaking at \$257 million in 1986, but showing a continued decrease thereafter, as seen in Table VIII-16. As a result, the market share of Korea's CTV in the United States declined to only 9.8 per cent in 1991

from 47.7 per cent in 1985. The major reason for the decline in CTV exports to the United States were the tight import restraints by the United States, forcing Korean exporters to switch shipments of CTV to the EC in order to develop alternative markets. As a result, Korea's exports of small-screen CTV to the EC peaked in 1987, as seen later in Table VIII-23.

Despite the several factors contributing to trade disputes between the EC and Korea, it is suspicious that Korea was seen as a threat to the EC market's CTV sector, considering Korea's CTV production structure, which is very different from the demand pattern of the EC market.

Table VIII-17: Comparison of EC Demand with Korea's Production of CTV(%)

	EC Demands(1989)	Korea's Production(1990)
Share of CTV with Screen Over 25-Inch	54.7	1.8
Share of CTV with Screen Under 25-Inch	45.3	98.2

Source: Korea Ministry of Trade and Industry (The Current Situation of Competitiveness in Major Industries and Tasks for Future Development), p.11.

According to Table VIII-17, the EC's demand is largely composed of CTV with screen size over 25-inch, representing 54.7 per cent of total demand. This resulted in EC's CTV production largely concentrated on large-screen CTVs. Furthermore, EC's production of CTV with screen size under 17-inch (43.18 cm), which are subject to EC's AD measure, represents merely 28.4 per cent of EC's total CTV production in 1989, 27.4 per cent in 1990, 26.9 per cent in 1991 and 27.9 per cent in 1992.⁵⁰ Korea's CTV production, however, has been concentrating on screens under 25-inch. Therefore, it is questionable that Korean CTV can be a threat to the EC producers in the standpoint of industrial injury allegation.

2-4. EC's Decision

In August of 1987, the ECC received an AD complaint, against Korean-made CTV with a screen measurement of not more than 42 cm, from the European Association of Consumer Electronics Manufacturers(EACEM). Faced with the complaint, the EC announced its initiation of an AD proceeding concerning imports of small-screen CTV from Korea on Feb.27, 1988. In the announcement, the ECC points out the reasons for AD investigation as follows:⁵¹

- Firstly, imports of small-screen CTV from Korea increased some 9,000 units in 1983 to 358,000 units in 1986.*
- Secondly, in terms of market share, the imports from Korea represents a development from 0.3 per cent to an estimated 16 per cent in 1987.*
- Thirdly, these imports sold in the Community have significantly undercut the prices of Community producers (by up to 38 per cent between June 1985 and April 1987) and forced the latter to lower their prices.*
- Fourthly, the consequent impact on the Community industry is claimed to be a reduction in utilization of capacity, forgone sales and a 6 per cent loss of market share in 1986 despite the growth of overall Community consumption (by 11 per cent in the same period).*
- Fifthly, profits of Community producers have allegedly been reduced and their stocks are said to have increased (by 10 per cent in 1986).*

After a long investigation period of 26 months, the ECC decided to impose 13.0 per cent provisional AD duty on Samsung, 10.2 per cent on Daewoo, 12.3 per cent on Goldstar and 19.6 per cent on other Korean exporters. In the announcement to impose provisional AD duties on October 28,1989, the ECC strongly argued that "a loss of over 1,000 jobs in the CTV industry had been made in 1986-87 period, and the gravity for Community industry of the injury considerations outweighs the important consumer interests involved."⁵² The AD duties were slightly reduced when definitive AD duties were imposed on April 27, 1990, to 10.4 per cent from 12.3 per cent for Goldstar and to 10.5 per cent from 13.0 per cent for Samsung. However, some questions have to be raised about the EC's action.

Firstly, there is some controversy regarding the relationship between the import penetration rate and its alleged injury to the EC industry. Even though Korea's share of EC's small screen CTV imports increased to 15.2 per cent in 1987 from only 4.2 per cent in 1985, as seen in Table VIII-18, still 84.8 per cent of small-screen CTVs are being imported from major CTV exporters such as Japan, Taiwan and Hong Kong into the EC market without any import restraints.

Table VIII-18: EC's Imports of Small-Screen CTV(\$1000)

	1985	Share	1987	Share
Korea	25,859	4.2	118,429	15.2
Hong Kong	9,700	1.6	52,700	6.7
China	300	0.05	23,300	2.9
Total Imports	610,000	100.0	781,600	100.0

Source: Korea Trade Promotion Corporation (Analysis of Import Restriction Cases by Advanced Countries against Korea), p.219.

Despite EC's AD measure against small screen CTV from Korea, the EC's color TV industry's share of its total demand had declined continuously. As seen from Table VIII-15, EC's share of the Community demand peaked in 1981 with 90 per cent, declining to 74 per cent in 1987 (the year when the EC initiated its AD investigation against Korean CTV), then to 69 per cent in 1989 (the year when the EC imposed provisional AD duties against Korean CTV) and to 68 per cent in 1990 (the year when the EC imposed definitive AD duties against Korean CTV). Consequently, the import penetration rate of CTV into the EC market rose to 26 per cent in 1987, 31 per cent in 1989 and 32 per cent in 1990. The EC had succeeded in weakening the growing imports of color television sets from Korea, as seen later in Section 3-2, but failed to prevent a rush of imports from other countries. Therefore, EC's import restraint provided opportunities to some CTV exporters to increase their shipments to the EC market at the expense of Korean exporters. Korea has

been singled out for AD duties imposition as major exporting countries such as Japan, Taiwan and Hong Kong have good excuses for evading import restraints. Japan contributed to local production of consumer electronics in the EC through direct investments, Taiwan has been traditionally engaging in exports of electronics parts to the EC (namely, intra-industry trade), and Hong Kong is a country with an emphasis put on free trade.

Secondly, the argument that job losses in the CTV sector may be due to increase in imports from Korea is unreasonable, because rapid technological change, with strategies of rationalization and reorganization among consumer electronics companies on a global basis contributes to a continuous decline of employment. However, it can not be denied that these factors came into action as a consequence of imports from foreign countries such as Korea.

Since the imposition of AD duties, Korea's exports of small-screen CTV followed a continuously declining trend, whilst EC's import dependence on foreign CTV continued to increase. Especially, Japan's share in imports of CTV into the EC market increased from 7.4 per cent (2/27) to 9.4 per cent (3/32) in the 1988-1990 period, in contrast to Korea's share in EC's CTV imports declined to 12.5 per cent (4/32) from 33.3 per cent (9/27). According to Marcel Marion, it can be imagined that Japan could be excluded from EC's AD measure but Korea be easily subject to the measure even though the fact does not support the injustice of EC's AD measure against Korea. Firstly, he points out the possibility of Japan being escaped from EC's AD investigation as follows:⁵³

Japan set up a strategy of establishing themselves in the EC and both importing sets of Japanese origin and components for assembly of sets in the EC which are hardly distinguishable from each other. Furthermore, the long time period normally taken for AD investigation in the EC made Japanese exporters easily transfer production to the EC or some other place during this time. A dumping complaint therefore is made void and become useless.

However, he also argues "Korea's ability to dump, and to hide that dumping is less developed than in Japan, based on the fact that Korea's *Chaebol* have not yet completed the establishment of captive distribution networks as in Japan, so that dumping can be discovered more easily, and the Korean population is also smaller than that of Japan and has less purchasing power."⁵⁴

Korea, therefore, seems to be the only scapegoat for NIEs. The possibility of the EC, having some misconceptions about leading NIEs in connection with Japanese success in exports in the EC, is pointed out by Louis Turner as follows, even though the specific application of his argument to consumer electronics and CTV sector is questionable:⁵⁵

Japan has very much remained the leading individual target of EC concern, as the bilateral trade balance has remained stubbornly in Japan's favor and continued to deteriorate in 1981. Both national governments and the ECC are deeply dissatisfied with what they see as a lack of adequate Japanese trade concessions to them. It is particularly significant that the relatively free trading West Germans retreated in 1981 to a more protectionist position in CTV, in both cases getting a Japanese promise of restraint. The Japanese thus have a secure position in the demonology of Western Europe's trade politics, and this can only bode ill for those NICs which are trying, in their turn, to establish themselves in world markets.

However, it can not be disregarded that trade stages in Japan or Korea are far different from the EC member states. As a result, the ECC has even been accused of dishonesty or unfairness in the debate about EC's AD policy. At the same time, the difference could justify the necessity of AD measure in a position of the EC to fill up the gap. For example, "costs that in Europe are normally borne by the selling organization are in Japan or Korea partly borne by the manufacturer, whereas some profits which in Europe normally would accrue to the manufacturers can be made by other stages in distribution in these two East Asian countries, in the captive distribution companies."⁵⁶

After the EC's AD measure against Korean CTV with screen sizes of not more than 42 cm, Korea's small-screen CTV exports rapidly declined in the 1987-1991 period. The AD measure encouraged Korean CTV exporters to adopt a strategy of diversifying their CTV exports to CTV with screen size more than 42 cm, to the EC market. As a result, Korea's exports of large-screen CTV rapidly rose by 287 per cent to \$268.665 million in 1990 from \$69.487 million in 1988. The EC's CTV industry, without exception, filed an AD complaint against the large-screen CTV from Korea and the ECC decided to implement an AD investigation in July, 1992. Since the announcement of EC's AD investigation, Korea's large-screen CTV exports to the EC market sharply declined, as seen later in Section 3-2.

3. Determinants and Effectiveness of Protectionism in Color TV trade

3-1. Determinants of Protectionism in Color TV Trade

One of the major determinants of protectionism in the EC-Korea color TV trade was Japan's role in advancing into the EC market in the early 1980s when the exclusive transmission system expired as seen in Section 2-1. As a result, Japan's share in EC's CTV imports peaked with 70 per cent (7/10) in 1981. The EC, however, was moving to tighten import restraints against Japanese CTV, causing Japanese exporters to alter their strategy from direct exports to local production in the EC through direct investment. Korea's maiden export of CTV to the EC market was made in 1984, by which time the EC were acutely aware of industrial damage caused by Japanese CTV exporters. Furthermore, Japanese market share of EC's CTV imports continuously decreased to the level of 7.4 per cent (2/27) in 1988, thanks to local production by them.⁵⁷ On the other hand, Korea's market share peaked at 46.7 per cent (7/15) in 1985, even though it declined to 33.3 per cent (9/27) in 1988. As a result, the EC, concerned about the drastic increases in exports by Korean companies, linked the phenomenon with its previous experience of

industrial damage caused by Japanese exporters. Unusually, Japan was not included in the EC's AD investigation despite its deep concentration in the production of large-sized CTV which were directly competing with EC producers.⁵⁸ The main reason for the exclusion was the Japanese contribution to the production of consumer electronics in the EC. For example, "two-thirds of the CTVs manufactured in Europe were now made by Japanese companies, and more than 80 per cent of the VCRs as of November in 1993."⁵⁹

The problems of the EC's CTV industry were themselves a determinant of protectionism in the EC-Korea trade. Namely, the unique characteristic of the EC industry, built-in protection through transmission/reception method and failure in demand forecast centering on large-screen CTV, contributed directly to the crisis of EC CTV industry, causing heavy protective measures to be taken in the EC later. Robert Ballance points out:⁶⁰

The CTV industry's great diversity, its pace of innovation and its rapidly changing market opportunities, meant that troubled firms often suffered from ill-advised decisions of a managerial or marketing nature rather than from the effects of import penetration.

A third determinant is the EC's trade policy mechanism in consumer electronics sector, which appears to be based on political expediency rather than on purely economic considerations. In connection with the political nature of protectionism, Vinod Aggarwal, Robert Keohane and David Yoffie maintain "protectionism's economic failures are often its political success and vice versa."⁶¹ This is reflected in the fact that the ECC did not accept the Electronics Industries Association of Korea (EIAK)'s proposal, which fully recognized the request from EACEM to regulate export volume of Korea's CTVs to the EC market. There were several rounds of business-level talks between the EACEM and its Korean counterpart (EIAK) to solve the trade disputes between the EC and Korea, during which the EACEM forcefully requested the Korean side to limit the quantity of CTV exports to the EC market at

2,950,000 units for three years by 1990 (980,000 units in 1988, 980,000 units in 1989 and 990,000 units in 1990). In reply, the EIAK counter-offered to set the voluntary export quantity of CTV to 3,300,000 units for the three years (1,100,000 units annually for the 1988-90 period). After initially failing to reach any agreement, the EIAK finally conceded on June 4, 1988 to accept the EACEM's request without reservation. However, the EIAK's decision did not change EC's original standpoint to implement AD measure. The EC was already in a position to proceed an AD investigation against Korean small-screen CTV in August, 1987, and officially announced the AD investigation on Feb.17, 1988. The EIAK and the EACEM had four rounds of bilateral meetings on Dec.2, 1987, Feb.24, 1988, March 15, 1988, and Nov.3, 1988, respectively, despite the official announcement on Feb.17, 1988. The bilateral meetings, held after EC's position was established, seem to be gestures from the EACEM to disguise its intention to get rescue measures from the ECC through AD action against Korean CTV. The EC's measure, to implement AD action regardless of the concession by the EIAK, is against the following ECC's official policy guideline:⁶²

In any event, the anti-dumping procedure can only be considered as a last resort. For this reason, it is necessary to maintain detailed statistics and use all available bilateral and multilateral consultative fora in order to anticipate and avoid those situations which could result in the Community having no other choice than to take anti-dumping measures.

Furthermore, the strong political power of EACEM acted as a major determinant of EC's protectionism. In the process of decision-making, the EC seems to be at the mercy of active lobbying by politically strong industrial associations. As I mentioned in Chapter IV, the EC rejected AD complaints from the Community industry against imports of tungsten products, steel nails, aluminium-clad cookware, polyester film and polyester staple fibre. In contrast, the ECC imposed AD duties

against any complaints related to consumer electronics against Korea. Joyce Tan and Jacques Pelkmans also point out the political power of lobbying groups in the EC's consumer electronics sector as follows:⁶³

For the sector of consumer electronics, there is no doubt that a systematic campaign by industry leads to the maximum possible number of complaints in practically every major product.

Such political nature of EC's protectionism is closely related with social rigidities in the EC against rapid restructuring and job losses. Regarding this point, Louis Turner and Neil McMullen maintain,⁶⁴

such political nature of protectionism in the EC CTV industry is closely related with a perception of the inability of the West European political culture to accept the type of ruthless rationalization of production facilities which is found in the United States.

In addition, Robert Ballance takes rapid increases in Japanese direct investments in the EC as an example of such social rigidities against restructuring and job losses. Namely, "the ready acquiescence of some countries to a Japanese strategy of supplanting exports by foreign investment represents an effort to acquire know-how and to improve performance in both domestic and foreign markets while minimizing the adjustment costs of contraction."⁶⁵

In addition to this political and social background to the EC's protectionism, the negative experience of EC member states with national import restraints against Korea seems to have influenced the EC's decision to disregard the agreement between EACEM and EIAK. Despite the VER measure by the United Kingdom, Korea's CTV exports to the U.K. market increased to \$35.312 million in 1987 from \$24.318 million in 1986. This situation was the same as in case of French residual quota against Korean CTV. Korea's CTV exports to France went up by 278 per cent to \$19.402 million in 1990 and by 190 per cent to \$14.897 million in 1991 from the only \$5.135 million in 1987. The ineffectiveness of VERs by the United

Kingdom and France is likely due to transshipment strategy by Korean exporters as seen later. Furthermore, this experience enforced the ECC to prejudice that Korean CTV exporters are untrustworthy in observing the promise of quantitative restrictions under VER. According to the EIAK, Mr. Moltke, director general of DG III in the ECC, disclosed the official position that the ECC can not trust Korea's promise of voluntary restraints and it is a different matter to implement VER and impose AD duties in a meeting between him and EIAK officials on May 20, 1988.⁶⁶ The EC's deep distrust in Korean CTV exporters is likely to be rooted from its Japan complex. Korea's export pattern in the 1980s was very similar to that of Japan in the 1960s-70s. Korean CTV exporters, all subsidiaries of *Chaebol*, were involved in a cutthroat competition in the EC market to raise their export records because favors from the Korean government wholly depended on their export performance, as seen in Chapter II. The cutthroat competition among Korean CTV exporters to increase their export records enabled the EC to have lack of confidence in their promise of quantitative restrictions in exports, and would be one of major reasons for increases in exports by them to the United Kingdom and France, despite the VERs. In addition, the ECC found "a Korean company was known to be exporting large quantities of small-screen CTVs to the EC, with many of them being transshipped via third countries."⁶⁷ That was a clear indication that Korea was actually transshipping their CTVs to the EC market via third countries. Furthermore, the ECC concluded that "a threat of increased injury existed from Korean exports in the future, in view of the possibility of diverting exports from the now saturated United States market."⁶⁸ Therefore, the cutthroat competition among Korean exporters with large production capacity and their transshipment and switching strategies also acted as major determinants of EC's protectionism against Korea in CTV case.

It can not be overlooked, however, that Korea's exports of CTV to the EC market grew dramatically in a very short period. Korea's exports of small-screen CTV went up by 358 per cent in the 1985-1987 period because Korea's CTV exports to individual EC member states, including the United Kingdom and France where Korean CTVs are under VERs, increased, based on their international price competitiveness in the period. Furthermore, exports of Korean large-screen CTV rose up by 287 per cent in the 1988-1990 period, as seen in Section 2-4. Therefore, dramatic increases in Korea's shipments of CTV to the EC market within a very short period acted as one of other major determinants of EC's protectionism against Korea. However, Korea's successful shipments of CTV to France and the United Kingdom under VERs support my argument. Namely, VER or quota restriction against products with strong international competitiveness is useless in reversing the growth of imports because exporters are able to adopt strategy of coping with VERs such as upgrading strategy, even though the possibility of adopting transshipment strategy by Korean exporters, as argued by the ECC, can not be excluded. Korea's CTV was extremely competitive relative to other exports with RCA ratio of 7.5 in 1986.

3-2. Effectiveness of Protectionism in Color TV Trade

There are no analyses regarding the effectiveness of import restraints by the EC against CTV imported from other foreign countries. However, Gary Hufbauer, Diane Berliner and Kimberly Elliott analyze the effect of OMA signed between the United States and three East Asian countries--Japan, Korea and Taiwan--to regulate imports of CTV to the U.S. market from these three countries. They firstly examined output of U.S.CTV industry, employment in U.S. CTV industry, CTV industry capacity utilization, changes in imports before, during and after import restraints, and finally comparison of costs to consumers and benefits to producers. According to their analysis, output of U.S.CTV industry during the OMA

restraints continuously increased by 25 per cent to \$3,336 million in 1982 from \$2,668 million in 1978,⁶⁹ as seen in Table VIII-19.

After terminating the OMA restraints in 1983, the U.S. production of CTV increased by 17.8 per cent to \$3,929 million from 1982's \$3,336 million. This result can be interpreted in two ways: Firstly, the OMA measure was very effective in increasing the domestic production during the period of restraints. Secondly, the U.S. production of CTV, however, increased enormously after the end of restraints, meaning that there were other factors, in addition to the OMA measure, raising the U.S. production, such as increased levels of automation in the U.S. CTV industry.

Table VIII-19: Effect of U.S. OMA Measure Against Japan, Korea and Taiwan (million units, \$M, %)

Years	Output (Volume)	Output (Value)	Employment (Production Workers)	ICU

Before Restraints				
1976	5.87	2,071	26,957	60.2

During Restraints				
1978	8.28	2,668	23,854	79.6
1980	10.73	3,343	21,679	90.7
1982	9.71	3,336	21,350	76.5

After Restraints				
1983	11.64	3,929	21,121	90.5

Source: Hufbauer, Gary Clyde, Diane T. Berliner and Kimberly Ann Elliott (Trade Protection in the United States: 31 Case Studies), p. 221.

Notes: ICU = Industry Capacity Utilization. Production workers are based on average numbers.

The number of production workers in the U.S. CTV industry continuously decreased from the level before restraints in 1976 (26,957 workers), to 21,350 in 1982 and to 21,121 in 1983. Therefore, the OMA measure was not effective in preventing job losses, nor were these losses directly caused by import penetration. Again, the automation and rationalization of U.S. CTV industry was a factor reducing

employment, rather than inflows of foreign CTV into the U.S. market.

Concerning industry capacity utilization, the rate before restraints remained as 60.2 per cent in 1976, but this rose to 90.5 per cent after restraints in 1983. Considering both the declining trend in employment and the rise in production, it is clear the automation and rationalization of the industrial sector contributed to the increase in industry capacity utilization.

Table VIII-20: Imports Affected from Japan, Taiwan and Korea (million units, \$M)

Years		Volume	Value
Before Restraints	1976	2.97	723
During Restraints	1978	2.56	821
	1980	1.05	643
	1982	1.92	854
After Restraints	1983	4.22	1,217

Source: Hufbauer, Gary Clyde, Diane T. Berliner and Kimberly Ann Elliott (Trade Protection in the United States--31 Case Studies), p.220.

The import penetration from Japan, Taiwan and Korea into the U.S. market for CTV continued to increase regardless of the OMA measure, as seen in Table VIII-20. That means the OMA measure provided opportunities to foreign exporters to increase their exports of CTV into the United States by adopting upgrading strategy.

Table VIII-21: U.S. Imports of CTV (million units, \$M, %)

Years		Volume	Value	Growth in Value
Before Restraints	1976	3.30	927	-
During Restraints	1978	2.84	1,145	23.5
	1980	1.31	1,449	26.6
	1982	2.35	1,543	6.5
After Restraints	1983	5.21	2,006	30.0

Source: Hufbauer, Gary Clyde, Diane T. Berliner and Kimberly Ann Elliott (Trade Protection in the United States--31 Case Studies), p.220.

It can be found through a fact that imports from the three countries in terms of volume were declined with the figures in terms of value increased during import restraints. During import restraints, U.S. imports of CTVs from all sources also rapidly increased by 34.8 per cent to \$1,543 million in 1982 from \$1,145 million in 1978, as seen in Table VIII-21. That indicates other CTV exporters exploited opportunities to increase their shipments to the U.S. market as the United States implemented OMAs against Japan, Taiwan and Korea.

Table VIII-22: Effects of OMA for CTV to Consumers and Producers in the United States(1982)

	Gains from Restraints to U.S. Producers	Costs of Restraints to U.S. Consumers
Total Value	\$190 Million	\$420 Million
Value Per Worker	\$9,000	\$420,000

Sources: Hufbauer, Gary Clyde, Diane T. Berliner and Kimberly Ann Elliott (Trade Protection in the United States--31 Case Studies), p.224.

Finally, the costs of restraints to U.S. consumers were far higher than gains to U.S. producers, the reverse of the intended effect of the OMA which was to reduce the costs to consumers and raise gains to U.S. producers, as seen in Table VIII-22.

The analysis of the effect of U.S. OMA measure can be applied to EC's import restraints. Considering the fact that the EC began to impose AD duties against Korea's CTV from 1986, it is reasonable to check both the effectiveness of EC's import restraints in the 1980s and major changes in economic indicators during the period.

Firstly, the EC's production of consumer electronics has continuously increased since 1985, up 46.4 per cent from 8,895 million ECU in 1985 to 13,020 million ECU in 1990 (see Table VIII-3). Especially, CTV production in the United Kingdom rose by 25 per cent in the 1978-1987 period, that in Italy by 2.8 per cent and that in France

by 4.0 per cent. Only Germany recorded a decrease of 19.5 per cent in CTV production in the same period(see Table VIII-12). The increase in CTV production in the United Kingdom, France and Italy was partly due to Japanese direct investments in these countries. In the 1980-1990 period, 107 new Japanese electronics plants, including CTV factories, were set up in EC member states such as Belgium, France, Germany, Ireland, Italy, the Netherlands and the United Kingdom.⁷⁰

Secondly, contrary to the production, EC's employment in the consumer electronics sector has shown a continuous decline in the 1980-1988 period, down 23 per cent from 160,000 in 1980 to 123,000 in 1988. As a result, the number of factories in the EC consumer electronics industry drastically declined to 114 in 1990 from 224 in 1987(see Table VIII-6).

Thirdly, EC's imports of CTV from the world continuously increased, despite the AD measures against Korea. Exports to the EC by Thailand, Malaysia, Turkey and Indonesia, where many Japanese plants are also under operation, have rapidly increased. The share of import penetration in the EC's total CTV demand increased to 32 per cent in 1990 from only 10 per cent in 1981. On the other hand, Korea's share in EC's total CTV imports declined to 12.5 per cent (4/32) in 1990 from 46.7 per cent (7/15) in 1985(see Table VIII-15).

Considering these three trends, the drastic decline in both employment and number of factories in consumer electronics industry appears to result from EC industry's strategy of rationalization and reorganization on a global scale. In addition, rapid technical change, which increased greatly the productivity of the labour force, and automated production, contributed to reducing the number of workers required for a given level of production.

In the EC-Korea trade, the EC's AD measure was very effective in reducing market penetration by Korean CTV producers into the EC market. Korea's small screen CTV

exports to the EC market peaked with \$118,429,000 in 1987, the year when the EC officially started AD investigation against Korean small screen CTV. However, the export value declined to \$103,883,000 in 1988, to \$25,355,000 in 1989, to \$16,989,000 in 1990 and finally to \$15,554,000 in 1991. Furthermore, Korea's exports of large-screen CTV to the EC market, peaked with \$268.665 million in 1990, rapidly declined to \$143.509 million in 1992, the year when the EC officially started AD investigation against Korean large-screen CTV.⁷¹ The AD measure by the EC against Korea's CTV exports was more effective than similar measure by the United States, considering the export trend of Korean CTV to the U.S. market down by 17 per cent in the 1985-1991 period(see Table VIII-16).

Table VIII-23:Korea's Small-Screen CTV Exports to the EC(\$1000)

Years	Total Small-Screen CTV Exports(A)	Small-Screen Exports to EC(B)	B/A
1985	N/A	25,859	N/A
1986	N/A	91,027	N/A
1987	532,405	118,429	22.2
1988	649,391	103,883	15.9
1989	640,088	25,355	4.0
1990	510,132	16,989	3.3
1991	608,394	15,554	2.6

Source:Korea Foreign Trade Association(Directory of Import Restraints by Advanced Countries against Korea), p.119.

Before the AD complaint, Korea's exports of small-screen CTV to the EC market in 1987 represented 22.2 per cent of Korea's total small-screen CTV exports in the year. However, the export value declined by 86.9 per cent in 1991 and market share to 2.6 per cent. Therefore, David Yoffie's approach seems to be inapplicable to the case of CTV sector. This approach, however, is applicable in Korea-United Kingdom, and Korea-France CTV trade. Despite VERs by the two EC member states, Korean CTV exporters increased shipments rapidly to these markets as seen in Section 3-1.

In sum, EC's CTV industry has been experiencing job losses due to unique characteristic of the industry itself. Even though the EC's measure to prevent imports from Korea was very successful, import penetration into the EC market has been under continuous increasing trend, indicating that some exporters have been exploiting export opportunity of not having to compete with Korean manufacturers in the EC market. Therefore, it is clear that approaches considering mainly economic or political factors only without regard to characteristic of specific industry, are liable to draw an inconclusive evaluation of the effectiveness of protective measures.

Notes and References

1. The Commission of the European Communities(1), "The European Electronics and Information Technology Industry State of Play, Issues at Stake and Proposals for Action," *Information Memo*(Brussels, EC Commission, March 26,1991), p.1.
2. Korea Foreign Trade Association(1), *Report on EC and Korea's Footwear and Electronics Industries* (Seoul, KFTA, 1991), p.136.
3. Ballance, Robert, *Collapse and Survival:Industry Strategies in a Changing World* (London, George Allen and Unwin, 1983), p.130.
4. Ballance, *op.cit.*, p.131.
5. Korea Foreign Trade Association(1), *op.cit.*, p.137.
6. Ballance, *op.cit.*, p.132.
- 7.The Commission of the European Communities(2), *Improving the Functioning of Consumer Electronics Markets--Report of the Directors General for Industry*(Brussels, EC Commission DG III A.3, 1991), p.8.
- 8.The Commission of the European Communities(2), pp.9-11. Robert Ballance maintains one of factors in Japan's success in consumer electronics as "the appeal of modular manufacturing tactic, which requires that suppliers provide manufacturers with entire modules rather than bits and pieces. With such tactic, Japanese producers--even those with only limited engineering expertise--are able to assemble products from parts and modules provided, and achieve the necessary economies of scale by lowering the costs of entry into mass-market business." See Ballance, Robert, "European Economic

Restructuring:Retrospects and Prospect," *European Industrial Restructuring in the 1990s* edited by Cool,Karel, Damien J.Neven and Ingo Walter(London, MacMillan, 1992), p.49.

9. Ballance, *op.cit.*, pp.131-132.

10.Dicken, Peter, *Global Shift--the Internationalization of Economic Activity (Second Edition)*(London, Paul Chapman Publishing Ltd., 1992), p.326.

11.Korea Foreign Trade Association(1), p.196. For example, "France Telecom and Deutsche Telekom, the world's second and third largest international operators after AT&T of the United States, announced on Dec.8,1993 a strategic alliance as a defensive move by the two companies in the face of alliances formed summer in 1993 by AT&T with Asia-Pacific Operators, and by British Telecommunications with MCI, AT&T's main U.S.rival." See Adonis, Andrew, "Franco-German Telecom Link Aims for Global Market," *Financial Times* (Dec.8,1993), p.1. In addition, "Nokia, the Finnish telecommunications manufacturer, and Hewlett-Packard, the U.S. electronics group, have forged a strategic alliance to develop 'intelligent network' systems." See Adonis,Andrew, "Nokia & HP in Telecom Deal," *Financial Times*(Jan.18,1994), p.19.

12.Turner, Louis and Neil McMullen, *The Newly Industrializing Countries:Trade and Adjustment*(Hertshire, George Allen and Unwin (Publishers) Ltd., 1982), p.66.

13.The Commission of the European Communities(1), *op.cit.*, p.1.

14.Ballance, *op.cit.*,p.134.

15.Ballance, *op.cit.*, pp.134-135.

16.The Commission of the European Communities(1), *op.cit.*, p.4.

17.According to Robert Ballance, "EC's long tradition of national champions and its reliance on national markets will become increasingly irrelevant. There is the added danger that the current system of national champions will be replaced by a new network of regional champions. In contrast, an efficient and effective method of restructuring must have a genuinely international flavour, linking European manufacturers with counterparts in North America and Japan." See Ballance in Cool, Neven and Walter, *op.cit.*, pp.50-51.

18.The Commission of the European Communities(2), *op.cit.*, p.17.

19.Dicken, pp.341-342. As a result of such concentration in consumer electronics industry, "more than half of VCRs

consumption were produced within the Community by the end of the 1980s, compared to the situation that all of the VCRs sold in Europe used to be imports." See Ballance in Cool, Neven and Walter, *op.cit.*, p.39. That is an indication that international competitiveness of Philips and Thomson has been greatly improving.

20.Marion, Marcel F.van, *Liberal Trade and Japan* (Heidelberg, Physica-Verlag, 1993), p.177.

21.Dicken, *op.cit.*, p.344.

22.Korea Foreign Trade Association(1), *op.cit.*, p.197. "Over the coming five years private ownership of national telephone operators was the norm in the EC. A major motive for privatization is a perceived need to respond to global competition by forming alliances. Such alliances are easier to cement if the partners are privatized and so can take stakes in one another." See Financial Times Editorial, "Private Phones in Europe," *Financial Times* (Nov.10,1993), p.21.

23.Korea Foreign Trade Association(1), *op.cit.*, p.194.

24.However, EC-wide projects are under criticisms in the EC. Namely, "such programmes have conspicuously failed to prevent EC's deficit on high-technology trade from widening further in the past decade. Too much money has been squandered on failed prestige projects such as high-definition television and the Jessi microchip scheme, intended to nurture infant industries and equip European industrial champions to compete on world market. That has repeated the error of national policies which relied on state-backed investment projects to foster big technological breakthroughs. As a result, Germany, Britain and France, the EC's biggest paymasters, are baulking at the ECU 13 billion in funding of projects proposed for the next five years." See Financial Times Editorial, "Innovation in Europe," *Financial Times*(Oct.14,1993), p.15.

25.Korea Foreign Trade Association(2), *Major Trade Trend Index*(Seoul, KFTA, 1990). pp.49-50.

Korea Foreign Trade Association(3), *Major Statistics of Korean Economy 1992*(Seoul, KFTA, 1992), pp.260 and 265.

26.Kang, T.W., *Is Korea the Next Japan?---Understanding the Structure and Tactics of America's Next Competitors*(New York, the Free Press, 1989), pp.85-86.

27.Korea Foreign Trade Association (1), *op.cit.*, pp.5-6.

28.Korea Foreign Trade Association (1), *op.cit.*, p.189.

29.Kang, *op.cit.*, p.96.

30.Major countries are "attempting to slow the diffusion of their own technology while forcing other countries to

share theirs. Governmental restrictiveness regarding technology transfer for commercial reasons is extended by the enhanced importance of 'dual technology' for both commercial applications and national security." See Gilpin, Robert G., "The Implications of the Changing Trade Regime for U.S.-Japanese Relations," *The Political Economy of Japan-Vol.2:The Changing International Context* edited by Inoguchi, Takashi and Daniel I. Okimoto (Stanford, Stanford University Press, 1988), p.154. In addition, in his partners-and-rivals(PAR) model, Jonathan Tucker argues "optimal conditions for collaboration in advanced technology should arise when the capabilities differential is small enough so that the weaker partner has sufficient assets to engage in mutually beneficial exchanges yet at the same time large enough so that the stronger player feels secure in its superior position and can thus afford to be generous in transferring technology." See Tucker, Jonathan, "Partners and Rivals: a Model of International Collaboration in Advanced Technology," *International Organization* (Vol.45, No.1, 1991), p.94. Therefore, the trend of technology developers reluctant to transfer technology to Korea reflects the relative improvement of Korea's position in world's advanced technology development.

31. See International Labor Organization, *Yearbook of Labour Statistics* (Geneva, International Labour Office, 1992). I calculated labour costs of each country in terms of British Pound because all labour costs in the book are represented with local currencies.

32. Turner and McMullen, *op.cit.*, p.48.

33. Ballance, *op.cit.*, p.135. A Japanese businessman criticises the Japanese imitative strategy that "Japanese manufacturers may not have any morals for international business and they are always imitating--it is a very bad point." See Marion, *op.cit.*, p.88.

34. Turner and McMullen, *op.cit.*, p.56.

35. Turner and McMullen, *op.cit.*, p.56.

36. Ballance, *op.cit.*, p.137.

37. Marion, *op.cit.*, p.175.

38. Marion, *op.cit.*, p.184.

39. Korea Foreign Trade Association(1), *op.cit.*, p.165.

40. Marion, *op.cit.*, p.25.

41. The Commission of the European Communities(3), *Panorama of EC Industries 1991-1992--Current Situation and Outlook for 180 Sectors of Manufacturing and Service Industries in the European Communities* (Brussels, the EC Commission, 1991), pp.12-39 and 12-44.

42.Dicken, *op.cit.*, pp.316-317.

43.Korea Foreign Trade Association(1), *op.cit.*, p.156.

44.Dicken, *op.cit.*, p.326.

45.Turner and McMullen, *op.cit.*, p.62.

46.Ballance, *op.cit.*, p.136.

47.The Commission of the European Communities(2), *op.cit.*, p.24.

48.Dicken, *op.cit.*, p.326.

49.Marion, *op.cit.*, p.159.

50.EC's CTV Production by Screen Size (M.units)

Screen/Years Sizes	1989	1990	1991	1992
Screen<17 Inch =	4.2	4.6	4.6	3.9
18<Screen<21 =	4.4	4.7	4.2	3.2
22<Screen<29 =	6.1	7.4	8.1	6.8
Screen>30 =	0.1	0.1	0.2	0.1
Total	14.8	16.8	17.1	14.0

Source:Electronics Industries Association of Korea

51.The Commission of the European Communities(4), *Notices of Initiation of an Anti-Dumping Proceeding Concerning Imports of Small-Screen Colour Television Receivers Originated in the Republic of Korea*(88/C 44/02, Feb.17,1988).

52.The Commission of the European Communities(5), *Notices of Imposition of Provisional Anti-Dumping Duties on Imports of Small Screen Colour Television Receivers Originating in the Republic of Korea* (October 27,1989).

53.Marion, *op.cit.*, p.172.

54.Marion, *op.cit.*, p.197.

55.Turner and McMullen, *op.cit.*, p.140.

56.Marion, *op.cit.*, pp.169-170.

57. Jeffrey Frieden criticises Japanese investments in the EC. Namely, "international capital mobility may have increased the ability of foreign producers to respond to trade protection by locating in the protected market; inasmuch as the purpose of protection was to support locally owned firms, this objective may be frustrated. The proliferation of Japanese-owned factories in the EC may have reduced some of the benefit of the controls to shareholders and employees of EC-owned manufacturers." See Frieden, Jeffrey, "Invested Interests: the Politics of National Economic Policies in the World of Global Finance," *International Organization* (Vol.45, No.4, Autumn 1991), p.430.

58. Japan's share of CTVs with screen size over 25-inch was 62 per cent in its total CTV production in 1990.

59. Hill, Andrew, "Hitachi Components Move," *Financial Times* (Nov.16,1993), p.2.61. Among EC member states, the United Kingdom heavily depends on local production by Japanese plants. For example, "Japan has 675 world-class manufacturing operations, North America has 221, Germany 71, Britain 40 and France 32. When the number of operations are split by location, 510 (75.6 per cent) of the Japanese-owned operations, are in Japan, 113 (51.1 per cent) are in North America, 67 (94.4 per cent) are in Germany and 29 (90.6 per cent) are in France. However, for the British operations, 34 (85 per cent) are located outside the United Kingdom, indicating the degree of foreigners' dominance especially by Japan in local production." See Cross, Michael, "British Manufacturing Far Short of World Class," *Financial Times* (Dec.14,1993), p.16.

60. Ballance, *op.cit.*, p.138.

61. Aggarwal, Vinod K., Robert O. Keohane and David B. Yoffie, "The Dynamics of Negotiated Protectionism," *American Political Science Review* (Vol.81, No.2, June 1987), p.362.

62. The Commission of the European Communities(6), "The European Electronics and Information Technology Industry," *the Commission's Document on Telecommunications, Information Industries and Innovation* (Brussels, DG XIII, EC Commission, 1991), p.17.

63. Tan, Joyce and Jacques Pelkmans, "Bilateral Trade Relations between Korea and the EC," *the Economic Cooperation between EC and Korea: Problems and Prospects* edited by Min, Chung Ki (Seoul, Korea Institute for International Economic Policy, 1991), p.114.

64. Turner and McMullen, *op.cit.*, pp.61-62. However, Robert Ballance indicates a limit in political influence on technological change in consumer electronics industry. According to him, "consumer electronics, especially CTV, is not a highly political field and, in comparison with

some industries, government intervention has seldom gone so far as to seal off the domestic industry from technological advances or foreign competitors." See Ballance, *op.cit.*, p.143.

65. Ballance, *op.cit.*, p.143.

66. Electronics Industries Association of Korea, *A Diary of External Trade Negotiations on Electronics Products with Europe* (Korean Version), p.13.

67. The Commission of the European Communities (7), *Amending Regulations (EEC) No.1048/90 with Regard to the Imposition of a Definitive Anti-Dumping Duty on Imports of Small Screen Colour Television Receivers in the Republic of Korea* (No.2900/91, Oct.1,1991).

68. The Commission of the European Communities (8), *Imposing a Definitive Anti-Dumping Duty on Imports of Small Screen Colour Television Receivers Originating in the Republic of Korea and Collecting Definitively the Provisional Duty* (No.1048/90, April 25, 1990).

69. Hufbauer, Gary Clyde, Diane T. Berliner and Kimberly Ann Elliott, *Trade Protection in the United States: 31 Case Studies* (Washington D.C., Institute for International Economics, 1986), pp.221-224.

70. Korea Foreign Trade Association (1), *op.cit.*, pp.11-14.

71. Data from the Korea Foreign Trade Association (KFTA).

Conclusions

1. Introduction

This thesis has examined determinants and effectiveness of EC's protectionism against Korea. In my research, I found that the current studies in IPE literature do not fully explain the determinants of protectionism in the EC-Korea trade. Furthermore, most IPE investigations into protectionism have been based on the United States-Korea trade, rather than the EC-Korea trade. In addition, EC member states have individually been implementing import restraints against Korea besides import restraints on an EC-wide level. Therefore, I extracted several specific factors as determinants of protectionism which can be primarily divided between two groups--economic and political determinants. Economic determinants are 1)a causal relationship between protectionism by the United States against Korea and protectionism by the EC against Korea, 2)Korea's neo-mercantilist policy approach and Korea's concentration of exports to a limited range of products and 3)inter-industry trade structure between the EC and Korea. Political determinants are 1)political expediency of the EC's protectionism against Korea, and 2)a kind of "Japan complex" effective against Korean exports to the EC. As a result, my hypotheses--EC's Japan complex and its relationship with EC's import restraints against Korea, Korea's switching strategy of exports from the United States to the EC and its relationship with EC's import restraints against Korea, and Korea's strong neo-mercantilist policy approach and its relationship with EC's import restraints against Korea--have been proved to be effective in explaining determinants of EC-Korea trade disputes. In addition, it has been demonstrated that these economic and political determinants are very useful to find out origins of EC-Korea trade disputes.

In case of effectiveness, I also found that the approaches in the IPE literature regarding the effectiveness of the aims of protectionism, as used by

David Yoffie and Patrick Messerlin, should be complemented by some additional approaches when measuring the effectiveness of protectionism by the EC against Korea. In case of David Yoffie's approach, the economic advantage and political attractiveness of VERs and OMAS must be reconsidered. In addition, the imposition of AD duty must be included in his analysis of the effectiveness of import restraints by the United States against NIEs.

Patrick Messerlin's approach also needs to be complemented with regards to the effectiveness of other types of import restraints such as VERs, OMAS and quota restrictions, in addition to AD duty impositions. However, this approach is applicable in the EC-Korea trade because only seven of a total of 16 items subject to EC's import restraints showed an increasing trend of exports in the 1987-1991 period, despite the import restraints by the EC. Furthermore, footwear was the only item showing a continuous increase in shipments from Korea to the EC market in the same period. The followings are the results of the application of the main IPE approaches regarding the determinants of protectionism in the case of trade between the EC and Korea. The time framework for this analysis is the 1970-1992 period, as mentioned in Introduction.

2. Determinants of Protectionism in the EC-Korea Trade

2-1. Applicability of Approaches in the IPE Literature Regarding Determinants of Protectionism

2-1-1. Hegemonic Stability Approach

Despite the tightening of import restraints in the 1970s by the United States against Korea during its present hegemonic decline, the EC did not implement the same degree of protectionism against Korea in the 1970s. Furthermore, there were no import restraints against Korea by the EC in the 1981-1987 period when the United States adopted a total of 12 import restraints against Korea, 57 per cent of its total import restraints against Korea since the 1970s(21 cases). However, it is difficult

to decide whether this unusual phenomenon relates really to hegemonic decline or is just accidental. In addition, the EC-Korea trade was relatively unimportant to the EC, at least in the 1970s, compared with the importance of the trade with Korea for the United States.¹ Furthermore, it must be noted that the EC did not impose many protectionist measures against Korea as a result of a lack of agreement between individual EC member states. Therefore, the application of the hegemonic stability approach is meaningless in the EC-Korea trade. In EC member states-Korea trade cases, however, the U.S. hegemonic decline contributed indirectly to the surges in import restraints by EC member states against Korea because this provided EC member states with the political incentive to do the same import restraints. The coexistence of import restraints at the EC and individual EC member states levels resulted in the sharp contrast in the applicability of this approach.

2-1-2. Business Cycle Approach

The EC, which recorded the lowest GDP growth rate in the 1981-1990 period, as compared with the United States and Japan, implemented 15 cases of restrictive measures against Korea in the period, slightly less than the 17 cases by the United States. The number of EC's import restraints against Korea, however, rapidly increased after 1988, when the EC's GDP growth showed a favorable trend. That is in sharp contrast to the business cycle approach which suggests the contrary. In addition, this approach seems also to be inapplicable to the level of EC member states-Korea trade cases because France and Italy imposed the greatest number of import restraints against Korea, contrary to their high GDP growth in the 1961-1990 period.

2-1-3. International Economic Interdependence Perspective

Of the major trading partners with Korea, the EC recorded the lowest GDP dependence on exports to Korea with 0.13. However, the EC's import restraints against Korea numbered 16 cases as of 1991, lower than each of 21 cases

in Canada and the United States. Of individual EC member states, France implemented the greatest number of import restraints against Korea, despite its relatively high GDP dependence on exports to Korea. On the other hand, Spain, Greece and Portugal, showing very low dependence of exports to Korea on GDP, did not adopt any import restraints against Korea. Therefore, this perspective is difficult to apply in either the EC-Korea, or individual EC member states-Korea trade as determinants of protectionism.

2-1-4. Diversification of Export Items Perspective

It is hard to count the number of export items at the EC level. As a result, I only considered the application of this approach in trade between individual EC member states and Korea. France has been implementing the greatest number of import restraints against Korea even though its export items were highly diversified. On the other hand, Greece, Portugal and Spain have not adopted any import restraints, and Belgium, Luxembourg, the Netherlands and Ireland only one each, against Korea, despite their low diversification of export items. Therefore, the degree of diversification of export items is not related to weakness or strength of demands for protectionism in individual EC member states-Korea trade.

2-1-5. Multinationalization Approach

The EC implemented a relatively higher number of import restraints against Korea, despite having the highest number of MNCs in the world. France, among EC member states, imposed the greatest number of import restraints against Korea, despite its higher degree of multinationalization of companies. On the other hand, Switzerland and Sweden implemented very low degrees of import restraint against Korea despite their low level of multinationalized companies. However, it is misleading to argue that Switzerland and Sweden have a low level of multinationalization of their companies as the small populations combined with high number of multinationalized companies gives the opposite result.

These shortcomings make this approach meaningless at the level of the EC-Korea as well as individual EC member states-Korea trade.

2-1-6.Strategic Trade Demands Approach

The EC has been asking for the reduction of Korea's import tariffs and for treatment based on comparative reciprocity, rather than being based on strategic trade demands by the EC companies, similar to Korea's treatment of the United States. This approach is rather more applicable in the United States-Korea trade case

2-1-7.Exit-Entry Barriers Approach

This approach seems to be applicable in trade of iron and steel products between the EC and Korea because the demands for protection in iron and steel products are sporadic, and almost institutionalized both in the United States and the EC. However, it is hard to define the EC's import restraints against Korean footwear as either temporary or institutionalized because the EC has been imposing VER against Korea since 1990 to date (as of December 1993). It is also hard to argue that the exit-entry barrier approach is applicable in the EC-Korea CTV case because the import restraints have only been initiated since 1990. However, this approach is not applicable at the level of individual EC member states-Korea color TV trade because the import restraints against Korea were institutionalized. In the case of footwear, import restraints by individual EC member states were institutionalized, rather than temporary, with protection against footwear imports from Korea in the 1978-90 period, contrary to this approach.

2-1-8.Voter Support and Degree of Collective Action Approach

Polyester staple fibre and microwave ovens were not included in the list of items receiving protective treatment even though these industries have strong political power; oxalic acid and photo albums received protection despite weak political power. However, sundries, toys and parts, stoneware and tiles were

received protective treatment from individual EC member states despite their minor political power as very small industries. Therefore, purely political approaches of determinants of protectionism seem not to be applicable at the levels of the EC-Korea, and EC member states-Korea trade.

In conclusion, there were no IPE approaches which completely satisfy the requirements as determinants of protectionism in the EC-Korea trade. As a result, I propose my own hypotheses to explain determinants of protectionism in the EC-Korea trade. For this purpose, I made sectoral case studies in textiles and clothing, iron and steel products, footwear and consumer electronics(CTV) to find determinants of protectionism which are specific to the EC-Korea trade.

2-2.Economic Determinants of Protectionism in the EC-Korea Trade

2-2-1. A Causal Relationship with Protectionism by the United States against Korea

One of the influential factors in the EC's decision to implement import restraints against some imports from Korea has been the fact that those same products were or still are under import restraints by the United States. As the products were subject to import restrictions by the United States, there were subsequent increases in shipments of the products from Korea to the EC market. This phenomenon enabled the ECC to have a prepossessed idea that Korea would switch its exports of some products to the EC when Korea's exports of these products to the United States were under import restraints, jeopardizing the industries concerned, and so the EC imposed import restraints against Korea. However, the EC rejected requests to impose import restraints on products from Korea that the United States had no protective measures against, on the assumption that Korea would continue to concentrate on exports of these products to the United States. In addition, previous cases of import restraints by the United States encouraged the EC to adopt more

stringent import restrictions against Korea. There are several examples illustrating the link between U.S. protectionist measures against Korean products and subsequent EC protectionist measures.

2-2-1-1. The Case of Textiles and Clothing

Korean textiles have been included in import restraints by the United States since 1965 under the Long-Term Agreement(LTA). As a result, exports from Korea to the EC market began to increase. Spurred by the switch of exports from the United States to the EC, the EC began import restrictions in 1971 under the its own LTA. The motivation of import restrictions by the EC was directly related to a rush of imports from Korea following the LTA signed between the United States and Korea.

In the polyester yarn case, the additional AD duties imposition against these products from Korea, which had been subject to MFA restriction, became a very controversial issue. The EC quoted that the United States had on several occasions adopted AD measures concurrent with existing MFA restriction. Furthermore, the diversion of Korean exports from the United States to the EC is closely linked to the implicit encouragement of protectionism by the United States. Therefore, the example of import restraints given by the United States was followed by EC protectionist measures against Korean polyester yarn, in addition to the MFA measure by the EC, worsening the trading environment worldwide.

2-2-1-2. The Case of Photo Albums

The causal relationship with protectionism by the United States against Korea can also be found in the EC-Korea photo album trade case. Korea's exports of photo albums to the EC market began to dramatically increase after the AD duties were imposed by the United States against Korea in 1985. The EC photo album industry filed an AD complaint against Korean photo albums in 1988 to ask the ECC for redressive actions against switched imports of Korean photo albums from the United States. After the implementation of price undertaking regarding Korean

photo albums, Korea's exports of these products to the EC market began to decline.

2-2-1-3. The Case of Footwear

In the footwear sector, import restraints by both EC member states and the EC were also closely related to measures by the United States. The year the United Kingdom implemented VERs(1977) against Korean footwear coincided with the OMAS by the United States against Korea's non-rubber shoes, implemented for the 1977-1981 period. In addition, the import restraints by France and Italy against Korean footwear were implemented during the process of four rounds of investigations into possible import restrictive measures against Korea by the United States in 1982, 1984, 1985 and 1989. The Korean companies switched their export markets from the United States, to evade possible import restraints, to the EC, resulting in an increase of exports of Korean footwear to the EC market. Therefore, the investigations into restriction of imports from Korea by the United States had an influence on the measures taken by Italy and France, implementing quota restrictions against imports of Korean footwear for the period of March 1,1988-June 30,1990 (Italy) and July 1, 1988-June 30, 1990 (France), and on introduction of EC-wide VER as of December in 1993 since July 1,1990.

2-2-1-4. The Case of CTV

In the color television sector, Korea CTV has been subject to the imposition of AD duties by the United States since Oct.12, 1983. As a result, exports of CTV to the United States declined to \$148.321 million in 1991 from 1987's \$245,174 million. In addition, the United States has been implementing AD duties against Korean CTV Braun tubes since Jan.6, 1987. Korea's small-screen color TV exports to the EC market peaked in 1987 at \$118.429 million. The EC began to impose AD duties from Oct.28, 1989 against Korean small-screen CTV. Furthermore, large-screen color TV sets, which had been excluded from AD duties, were then included in the list of AD investigations by the EC from Nov.20, 1992. The

U.S. import restraints against Korean color TV sets again influenced EC's decision making for implementing import restraints against Korea.

2-2-1-5. The Case of the EC's Rejections of Import Restraints in the Absence of U.S. Restriction

The causal relationship of EC protectionism is strengthened by those cases where the United States' lack of import restraints can be causally related to the EC's rejection of such restraint demands. For example, the EC rejected requests for import restraints by industrial associations against Korean products such as tungsten products, steel nails, microwave ovens, aluminium-clad cookware, polyester film and polyester staple fibre. Of these six, only polyester film had been under import restrictions by the United States, the remaining five items free of import protective measures by the United States. This result, however, seems also to be explained with no consensus among EC member states and weak industrial lobby by pertinent industrial associations.

2-2-2. Korea's Neo-Mercantilist Policy Approach and Concentration of Exports on a Limited Range of Products

2-2-2-1. Korea's Neo-Mercantilist Policy

Korea's industrial policy of fostering specific industries, providing various industrial incentives including policy loans, fostering a *Chaebol*-oriented economy and creating a heavy dependence upon Japan for major equipment and technology, has been a direct contribution to the EC-Korea trade disputes. The highly-centralized economic interventionism of Korean government, which partially explains how Korea could develop its economy through the promotion of exports, led to the negative effect of causing many trade disputes with advanced countries, especially with the United States and the EC. When the national economy was not so sophisticated, Korea's discretionary enforcement of policy decisions could carry significant positive effects for the development of national economy. However, Korea is now standing at a cross-road where policy directions

must be adopted to accommodate political and economic liberalization requests at home and abroad. Therefore, Korea's economic interventionist policies have been confronting many challenges internally and externally. Even though Korea has been actively implementing market opening policy since the 1980s, Korea-EC trade disputes are not being lessened so far. That indicates Korea-EC trade disputes can not be solved with a simple concession of one party to the other.

2-2-2-2. The Concentration of Korea's Exports on a Limited Range of Products and Rapid Increases of Shipments in a Short Period

As a result of the active industrial policy targeted to the development of a limited range of strategic sectors, Korea's exports concentrated on specific products. In 1990, Korea's exports of textiles and clothing to the EC market totalled \$1,802 million, representing 20.3 per cent of its total exports to the EC that year. In addition, exports of electronics products accounted for 35.2 per cent of its total exports to the EC market, at \$3,125 million. This partial success of Korea's exports in a limited range of products raised the issue of Korea's supposed graduation from a status of developing to developed country, as outsiders suffering from Korea's sectoral export success concluded from this partial success that Korea had become an industrialized country and had therefore to offer equal market access to the other advanced countries, and abolish high tariff and non-tariff barriers for the protection of commodity and financial and service markets. In addition, there was cutthroat competition among Korean exporters themselves in attempting to raise their export records as all credit and tax favors from the Korean government were provided on the basis of the level of exports, giving rise to dumping activities by Korean exporters in overseas markets. Furthermore, the aggressive government policy in promoting exports resulted in a steep growth of Korea's exports in a very short period, also causing many trade

disputes following industrial damage among advanced countries by the entry of Korean exports.

For example, Korea's exports of polyester yarns were concentrated on two EC member states--Spain and Italy, shipping to them 84.5 per cent of total polyester yarn exports to the EC market in 1986. Korea also recorded a dramatic increase in shipments of polyester yarns to the EC in a very short period. These two factors together, arousing fears in EC industries and thus causing requests for protective measures against Korean products, resulted in the EC's protectionism against Korea. Korea's exports of textiles and clothing to the EC increased by 50.3 per cent in the 1986-1991 period and Korea's market share of polyester yarn in EC's total imports increased to 1.9 per cent in 1986 from the negligible level in 1985.

Korea's footwear exports to the EC market expanded from only \$135.576 million to \$799.975 million in the 1985-1991 period. As a result, the share of EC market rose from 8.6 per cent to 20.9 per cent of Korea's total footwear exports in the same period. Such strong growth in exports motivated the EC footwear industry to request remedial measures to provide against industrial injury from imports.

Korea's small-screen CTV exports to the EC market, as seen in Section 2-2-1-4, increased more than four times to \$118.429 million, from \$25.859 million in the 1985-1987 period. Furthermore, exports of Korean CTV with screen-size more than 42 cm rose by 287 per cent to \$268.665 million in 1990 from \$69.487 million in 1988. In particular, Korea's consumer electronics exports grew to \$6,054 million in 1991 from 1977's \$448 million. The splendid success of Korea's consumer electronics industry in a very limited period provided sufficient concern for the EC industry to ask for import restraints against Korea.

2-2-3. Inter-Industry Trade Structure between the EC and Korea

2-2-3-1. Impact of Inter-Industry Trade Structure

Inter-industry trade pattern in the EC-Korea trade has been one of the major reasons for the increase of bilateral trade disputes between the EC and Korea. The trade pattern resulted from Korea's development strategy in the 1960s and 1970s, in which the Korean government was heavily dependent upon foreign loans, rather than foreign investments, as capital resources to fill the gap between the capital required for industrial development and domestic savings. As a result, Korea's export pattern to date has put special stress on exports of finished products rather than parts, causing inter-industry trade structure, rather than intra-industry trade structure in trade with major trading partners. For example, Korea introduced a total of \$2,731.1 million in foreign loans in the year of 1978 alone, which was far higher than \$1,001.244 million in foreign investments introduced for seventeen years in the 1962-1978 period. "Among foreign investments in the 1962-1978 period, those from Japan represented 53.5 per cent of the total at \$535.282 million, followed by the United States with \$161.816 million (16.2 per cent). The Netherlands topped the list of investors from EC member states during the same period, with only \$51.545 million, followed by France with \$12.087 million, the United Kingdom with \$10.937 million and Germany with \$6.616 million."² Therefore, the relatively low level of foreign investments by EC member states became the major reason for inter-industry trade between the EC and Korea. On the other hand, Korea's heavy dependence on Japanese investments resulted in a relatively small number of trade disputes between Japan and Korea helped by intra-industry trade structure, despite the expansion of economic relations between the two countries. For example, Korea had been exporting, to Japan, electronics parts, iron and steel products and organic chemicals all of which are included in the top ten export items to Japan, and was also importing these same products as major import items included in top ten imports from Japan.

In addition, the range of both Korea's export markets and export items were limited in scope, due to the negligence of developing new overseas markets and export items, respectively, resulting in Korea's brisk or sluggish export performance dependent upon economic environmental changes for a small number of products and markets.

There are certain additional factors which are responsible for the inter-industry trade structure between the EC and Korea. The EC has continued to concentrate on exports of labour-intensive products such as textiles and clothing, iron and steel products, and footwear, following strong resistance to industrial structure adjustment pressures among EC member states, and enlargement of EC membership to such countries as Greece, Portugal and Spain which have these labour-intensive industries. In addition, the EC is still the world's largest exporter of consumer electronics, thanks to the EC-wide aggressive industrial policy in this sector. These factors on both sides resulted in a head-on collision in specific industrial sectors under an inter-industry trade structure.

As a result, the EC-Korea trade became an example of problems associated with inter-industry trade rather than intra-industry trade. The EC has few trade disputes with the EFTA countries and the United States, but has many trade disputes with Japan. Considering the fact that the EC-EFTA and EC-United States trade patterns are both intra-industry trade, and that EC-Japan trade pattern is inter-industry trade, the EC-Korea trade pattern is certainly a major cause of bilateral trade disputes.

2-2-3-2. Growing Trade Disputes in Specific Sectors

The EC-Korea trade disputes worsened regardless of any changes in bilateral export and import volume, indicating that the major cause of bilateral trade disputes was the characteristic type of inter-industry bilateral trade. The EC's imports from Korea in the 1990-1991 period only increased by 9.6 per cent to \$9,728 million from \$8,876 million, whilst its exports to Korea in the same period

were up by 17.7 per cent to \$9,908 million from \$8,421 million, and as a result the EC recorded a trade surplus with Korea in 1991. In contrast to this, however, trade disputes in the three years 1990-1992 numbered 13 cases, almost equal to the 14 cases recorded during the previous 10 years.

Rather than by the overall trade balance, the EC's import restraints were caused by sectoral imbalances resulting from the inter-industry trade structure between the EC and Korea. EC's import restraints against Korea have been concentrated on products in which Korea has falling RCA ratios, such as textiles and clothing, iron and steel products and consumer electronics, as a result of a head-on collision in the specific industries. That reflects Korea's failure to develop new export items through R&D, which led to Korea's displacement from its major markets by new, cheap labour-cost countries. On the other hand, Korea's imports of machinery from the EC has been increasing continuously, reflecting Korea's efforts to switch import sources for machinery towards the EC and away from Japan and the United States. If the trend of EC's import restraints on products with falling RCA ratio continues, along with Korea's failure to develop new export items and the continuation of Korea's import source diversification to the EC, the trade deficit of Korea with the EC is expected to increase in future, supported by the fact that Korea's trade deficit of \$180 million with the EC in 1991 widened further to \$352 million in 1992.

2-3. Political Determinants of Protectionism in the EC-Korea Trade

2-3-1. Political Expediency of the EC's Protectionism against Korea in Its Actual Policy Implementation Procedures

2-3-1-1. Low Rate of Actual Imposition of EC's Import Restraints

There are several examples which support the political nature of EC's protectionism against Korea. First of all, the proportion of investigations into import restraints

terminating with no suspicion of injury to EC's industries was very high, at 64.7 per cent in the 1975-1992 period, far higher than the 54.2 per cent figure for the United States. This fact supports the argument that the EC has been doing investigations into possible protective measures against Korea, all due to the political expediency of imposing protective measures to satisfy growing demands from EC industries, and to the relative weakness of Korea in the international political arena. Korean exporters had to accept the loss of business incurred by the investigations, such as withdrawals of orders by EC importers, despite the fact that they were cleared of any unfair trading activities in 64.7 per cent of the total investigations initiated by the EC.

2-3-1-2. EC's Resistance to Industrial Structure Adjustment Pressures

As I mentioned in section 2-2-3-2, EC's import restraints against Korea were mainly concentrated on products which had been losing their international competitiveness in terms of RCA ratios, such as textiles and clothing, iron and steel products and consumer electronics products, to accommodate political pressures from the industries opposing industrial structure adjustment. Through the case analyses in this thesis, it was found that Korean exporters, who were subject to the EC's import restraints, were only in a position to expand their shipments to the EC market if their international competitiveness was strong. On the other hand, in terms of employment, the EC did not effectively protect its industries from foreign imports through the implementation of import restraints. In reaction to foreign competition, efforts were being made to increase productivity through modernization of production facilities in the fields of textiles, iron and steel products and consumer electronics products. Offshore processing activities have also been carried out by the EC industries in clothing and consumer electronics

sectors. Both activities worked against employment in the EC, negating the purely economic argument for restriction of imports to aid employment. The EC's argument that imports are the sole cause of unemployment is therefore doubtful.

2-3-1-3. AD Investigations as a Preliminary Stage to Obtain Concessions

The EC used the means of initiating AD investigations against Korean products as a ploy to obtain concessions from Korea to make it voluntarily restrict export volumes to the EC market. This is another aspect of the EC's partially political nature of some cases of protectionism against Korea. For example, the EC announced in 1972 that it had decided to initiate AD investigations against Korean acrylic fibres and acrylic stockings. However, the EC stopped the AD investigations after reaching agreement with Korea in 1975 in which Korea voluntarily restricted its exports of a wide range of textiles, from natural fibre to man-made fibres. The EC also threatened to impose AD duties against Korean steel plates in 1978, and finally suspended the AD investigation after receiving a promise from Korea to conclude VERs with the EC. The EC made a threat to initiate AD investigation against Korean H-beam, and again the threat was withdrawn after a promise from Korea to conclude an agreement in addition to the EC-Korea steel agreement, under which Korea's exports of H-beam have to be made under quota restrictions set at individual EC member states' level.

2-3-2. A Kind of "Japan Complex" Effective against Korean Exports to the EC

Based on the analysis of some cases, I come to the conclusion that the EC and EC member states have a "Japan complex" meaning that Korea will have a similar destructive effect on the EC as Japan had. Therefore, an important determinant of EC's protectionism against Korea was the EC's experience of industrial damage arising from Japanese imports. Because Korea was regarded as a "second

Japan," due to its similar export patterns and strategies to those of Japan, Korea became an immediate target for import restraints when it entered EC markets. As in the case of Japan earlier on, this sudden and massive appearance of Korean exports in a few sectors was compounded by the problem of the non-existence of any yardstick with which to measure the graduation of a country from developing to developed status, allowing the EC to hold a perception that Korea had completely moved from being a developing country to one fully developed, and so be expected to behave according to the same trade rules as applied to other advanced industrial countries.

2-3-2-1. The CTV Case and Japan's Role in EC-Korea Trade Disputes

The EC's decision to implement AD measure against Korean CTV was made following its previous experience of industrial damage caused by Japanese exports to the EC market. Japan advanced into the EC market with exports of CTV in the early 1980s, when the exclusive transmission systems expired. As a result, Japan's share of EC's CTV imports peaked with 70 per cent in 1981. However, the EC was moving to tighten restraints against Japanese CTV exports, causing Japanese exporters to switch its strategy to local production in the EC market through direct investments. Korea's exports of CTV to the EC began in 1984, when the EC was vividly aware of industrial damage caused by Japanese CTV exporters.

2-3-2-2. The Case of Iron and Steel Products and Japan's Role in EC-Korea Trade Disputes

The EC implemented VER against iron and steel products from Korea for the 1980-1990 period, despite the fact that Korea's ability to export declined in 1978 and 1979 as its indigenous demand took all the steel it could produce. The major reason for imposition of VER was the EC's concern over possible sharp inflows of iron and steel products from Korea, as happened with imports from Japan which were subject to VER after 1975. When the EC concluded VERs with 13 steel exporting countries

including Japan and Korea in 1980, Korea's production of crude steel (8.6 million tonnes) amounted to only 7.7 per cent of Japan's crude steel production (111.4 million tonnes). Korea's steel exports that year were 4.5 million tonnes, 13.2 per cent of Japan's exports (34.1 million tonnes). Korea was sucked into trade disputes although the prime problem was Japan's export success.

2-3-2-3. The Case of DRAMs and Japan's Role in EC-Korea Trade Disputes

Korean-made DRAMs (dynamic random access memories) were filed for an AD investigation by the European Electronics Component Manufacturers Association (EECMA) in 1991. Major reason for the AD complaint was that Korean exporters had been dumping in the EC market. However, the actual motivation of complaint was that during the process of AD investigation against Japanese exporters (1987-1990), Japanese producers argued that Korean companies were also dumping in the EC market. This argument was designed to involve Korean firms in the EC's AD restraints so that they could not replace Japan's exports, inducing the EC to imagine Korea as a second Japan.

2-3-2-4. Japan's Role in EC's Concurrent Investigations against Japanese and Korean Products

The EC has a tendency to include Korea in the list of countries for investigation into possible import restraints when the prime target is Japan. A major reason for concurrent investigations was that Korean exports might also threaten market shares held by European companies because they would exploit restraints on Japanese exports. This concern is also partially justified by many technical and technological linkups of Korean companies with Japanese companies. The EC investigated Japan and Korea together regarding anti-dumping of CDP, CTV, VCR, audio cassette tape, car stereo radio, DRAMs and micro-wave ovens. In some later cases, Japan was omitted from the investigations because the EC reasoned that Japanese producers were contributing

greatly to intra-EC production by direct investments in the EC such as in the case of color TV. However, there were no examples of Korean exporters being excluded from the investigations to leave only Japanese exporters in the list.

2-4. Specific Determinants (or Procedures and Incidents) of Protectionism in the EC-Korea Trade

2-4-1. Textiles and Clothing Trade

2-4-1-1. The EC's Inconsistent Policy Implementation

The EC was not consistent in implementing external trade policy. In 1979, the EC had disclosed its position on the relationship between the MFA and other quantitative restrictions, arguing that agreements under MFA contain an undertaking by the Community not to introduce further quantitative restrictions under the GATT or the MFA, or introduce measures having an effect equivalent to quantitative restrictions. However, the EC's position changed completely in 1988 when it stated its belief that neither Community law nor international rules--notably the MFA--prohibit the imposition of AD duties, customs duties or any other measures affecting imports subject to quantitative restrictions, provided it is established that injury has been caused despite the restrictions. Such a statement of policy was contradictory to its earlier official position not to introduce further quantitative restrictions under the GATT or measures having an effect equivalent to quantitative restrictions.

2-4-1-2. Clerical Errors Due to the Growing Workload of ECC

The ECC wrongly calculated, by a large margin, the provisional AD duties against Korea's polyester yarn as a result of a computer error. The error was caused by the EC's acceptance of as many complaints as possible for political reasons without having been given the material means to process such a number of complaints. Two Korean companies had to accept the consequence of this computer mistake including withdrawal of orders from EC importers. Furthermore, the ECC did not correct the miscalculation

of provisional AD duties until Korean exporters concerned notified their intention to file a complaint with the European Court of Justice regarding the matter. The ECC was reluctant to recognize its mistake officially, since, were it known, the admission could be detrimental to the credibility of its AD investigation procedure. Even though definitive AD duties were reduced finally, reflecting the computer error, two Korean companies affected by the mistake incurred enormous damage. Among the major causes of the mistake were the recent trend in the EC to depend heavily on implementation of AD duties imposition mechanism, and the relative shortage of manpower to handle such cases, originating from the tightness of administration budget in the EC. The heavy workload in the ECC also prolonged final decisions for import restraints. The average period for final decisions of AD duties imposition in the EC was 714.1 days, far longer than 280 to 415 days in the United States, 245 to 285 days in Canada and 295 days in Australia. Considering that the investigations themselves could be damaging to foreign exporters, the length of time taken for final decisions was very detrimental to Korean exporters, especially if they were subsequently released from the investigations without any suspicion of injury to EC industries.

2-4-2. Iron and Steel Trade

2-4-2-1. The Influence of U.S. Import Restraints against Korea

The EC's import restraints against iron and steel products from Korea were greatly influenced by the United States. The EC's basic import price (BIP) mechanism, applied to decide whether or not dumping margins exist, was introduced in imitation of the Trigger Price Mechanism (TPM) of the United States. The TPM, implemented for the 1978-1982 period, induced voluntary restraints by exporters in establishing a system of dumping reference prices, sales below which would lead to

an investigation by the U.S. government with the threat of further sanctions to follow.

The mechanism for the calculation of dumping margin in the iron and steel sector of the EC is not reasonable on economic grounds. The AD investigation for iron and steel products by the EC has so far been implemented under Commission Decision No.2424/88 in which dumping margin is calculated by comparing the BIP with the export price, rather than by a comparison of the domestic market price of exporters with their export price to the EC market. The BIP is always higher than Korea's export price to the EC market because it(BIP) is calculated in terms of prices of efficient world's steel producers. As a result, Korean exporters are easily subject to EC's AD investigations, and Korean exporters lose their price competitiveness if they export iron and steel products at prices equal to or higher than BIP to the market. Korean-made steel rods have been filed in an AD complaint by the EC industry, in October 1991. This was the first time that the EC officially initiated an AD investigation against Korea's iron and steel products since 1980, when the EC-Korea steel agreement was concluded. Before the date of AD complaint, Korean steel makers were quite, or fairly safe from EC's AD complaints because they had been allowed to export their products to the EC market with price flexibility around the list price(LP), rather than the BIP applicable to other suppliers with no bilateral agreements concluded with the EC. The dumping margin calculation mechanism of comparing the BIP with the export price is unusual, considering the fact such a method is contradictory to the Anti-Dumping Code of the GATT which is to compare the domestic market price of exporters with the export price. It follows that the EC's mechanism is purely political, with the intention of easily relating dumping margins with industrial injury margins.

2-4-2-2.Business Cycle

The business cycle was one of the major determinants of protectionism because the iron and steel industry had been influenced by business of its major consumer industries, such as shipbuilding and automobile production. In the 1970s, when EC's GDP growth was down to 2.9 per cent from the previous decade's 4.8 per cent, the EC implemented AD measures and VERS together to prevent growing imports of foreign products. During this period, the EC implemented AD investigation against Korean steel plate and VERS against Korean iron and steel products. However, the EC's GDP growth rate showed a favorable trend with 3.8 per cent in 1988, 3.4 per cent in 1989 and 3.1 per cent in 1990, contributing to the suspension of VERS by the EC, with subsequent dependence on AD measures only.

2-4-2-3. Korea's Crude Steel Production Expansion and Its Causal Relationship with Temporary Increases in Exports to the EC Market

Wide ranging expansion of Korea's crude steel production and its causal relationship with temporary increases in Korea's exports to the EC market in a very short period became one of major determinants of EC's protectionism against Korea. In 1977, the year following POSCO's second plant completion, Korea's steel plate was filed by the EC industry. In addition, the EC asked to have negotiations with the Korean government for the discussion of VERS applied to Korea's iron and steel products to the EC market. In the 1977-1979, Korea's exports of iron and steel products rose by 107 per cent to 3.1 million tonnes from 1.3 million tonnes. In 1987, the year Kwangyang's first plant was completed, the EUROFER filed an AD complaint against Korean H-beam. Korea's iron and steel exports to the EC also increased by 20.8 per cent in the 1986-1987 period, even though their exports continuously declined by 56.3 per cent and 5.2 per cent in the 1987-1988, and 1988-1989 periods, respectively.

Therefore, the fluctuation of Korea's steel production capacity and temporary growth in exports resulted in trade disputes with foreign countries, especially with

the EC, despite the fact that Korea's self-sufficiency rate remained at 83.4 per cent in 1991 and international competitiveness of Korean iron and steel products, based on RCA ratios, has been weakening continuously.

2-4-3. Footwear Trade

2-4-3-1. The EC's Retaliation against Closed Markets Abroad

The EC's decision to implement VER against Korean footwear had been made under the perception by the EC that its market was relatively open to foreign imports, contrasting with the difficulties faced by EC companies in penetrating markets of other countries. The EC still considers that its footwear exports to the markets in Japan, Australia, Canada and the United States suffer from restrictions, in contrast to the degree of openness of the EC market for inflows of footwear from these countries. For example, the EC's customs duty is 8 per cent for leather shoes, whilst many third countries are setting up a growing array of tariff and non-tariff barriers. This relatively low barrier in the EC has resulted in demands by the EC footwear industry for implementation of import restraints against foreign footwear.

2-4-3-2. The Successful Experience by Italy and France to Restrict Imports of Korean Footwear

The successful experience by Italy and France to restrict imports of Korean footwear through VERs encouraged the EC to adopt an EC-wide VER later, rather than other types of import restraints such as AD action, when a majority of EC member states filed complaints to the ECC for redressive actions against Korean footwear. For example, Korea's exports of footwear to France decreased by 26.6 per cent to \$86.297 million in 1989 from \$117.648 million in 1988, and those to Italy declined by 7.6 per cent from \$79.954 million to \$73.878 million in the same period as a consequence of VERs implemented by them against Korean footwear.

2-4-4. Consumer Electronics and CTV Trade

2-4-4-1.The Built-In Protectionism and Failure in Demand Forecast in the EC

The problems arising from the EC's CTV industry itself, such as built-in protectionism of transmission/reception method and failure in demand forecasting by concentrating on large-screen CTV, accounts as a determinant of protectionism in EC-Korea trade. As a result of the expiration of the built-in protective measure afforded by the transmission systems in the 1980s, the EC CTV companies needed alternatives to win against fierce competition with Japanese companies. In addition, major EC's CTV plants were concentrating on the production of 20-inch and 22-inch tube CTVs at a time when demands of EC consumers seemed to be swinging towards smaller sets, adding to the vulnerability of the EC CTV industry in terms of international competitiveness and endangering competitiveness in small-screen CTV production. This caused the EC industry to move in the direction of adopting protective measures against foreign products.

2-4-4-2.Specific Political Factors in CTV Trade

The political nature of the EC's trade policy mechanism, favoring protectionism rather than industrial structure adjustment, caused by social rigidities, contributed to the EC moving toward protectionism in the CTV case. This is reflected in the fact that the ECC did not accept the EIAK's proposal to fully accept the request from EACEM to voluntarily restrict export volume of Korea's CTV to the EC market. In addition, the strong political power of EACEM acted as a determinant of EC's protectionism. For example, the EC rejected AD complaints from EC industry for some products, as seen in Section 2-2-1-5, but most complaints by the EACEM against Korean consumer electronics products, such as CTV, VTR, CDP, car stereo radio, video cassette tape and audio cassette tape, were accepted by the ECC for implementation of import restraints.

2-4-4-3.Deep-Rooted Distrust of Korean CTV Exporters by the EC

Despite VERs by the United Kingdom and France, Korea's CTV exports to the United Kingdom rose by 45.2 per cent to \$35.312 million in 1987 from \$24.318 million in 1986, and those to France by 278 per cent to \$19.402 million in 1990 from \$5.135 million in 1987. This experience led the the ECC to suspect that Korean CTV exporters are untrustworthy in observing the promise of quantitative restrictions under VER. "Japan Complex" enhanced the EC's distrust of Korean CTV exporters, originated from industrial injury from Japanese entry into the EC market and a very similar strategy by Korean exporters as Japan in the EC. Korean CTV exporters, all subsidiaries of *Chaebol*, engaged in cutthroat competition in the EC market to raise their export performance, as seen in Section 2-2-2-2! This fierce competition among Korean exporters enabled the EC to lack trust in their promise of adhering to quantitative restrictions in exports when EIAK and EACEM had meetings for VERs and would be one of major reasons for increases in exports by them to the United Kingdom and France, in spite of VERs.

3. Effectiveness of Achieving the Aims of Protectionism in the EC-Korea Trade

3-1. The IPE Literature Regarding Effectiveness of Protectionism in the EC-Korea Trade

The IPE literature regarding the cost and benefit of protectionism is in accord with the conclusion of higher cost to consumers rather than benefit to producers in countries which impose import restraints. However, in the IPE literature regarding effectiveness of aims of protectionism, the results of analyses by David Yoffie and Patrick Messerlin are completely contradictory each other. Especially, as I mentioned in Section 1, David Yoffie's approach needs to be complemented by two factors. Firstly, the immediate economic advantages and political attractiveness of VERs and OMAs must be considered. Secondly, the impositions of AD duty must be included in his analysis of effectiveness of import restraints by the United States against NIEs. Patrick

Messerlin's approach is applicable for the EC-Korea trade because only seven out of a total of 16 items subject to EC's import restraints, showed an increasing trend of exports, despite the import restraints.

3-2. Specific Analysis of the Effectiveness of Protectionism in the EC-Korea Trade

3-2-1. General Comments

The effectiveness of EC's import restraints has to be evaluated through examining AD measures, VERs, OMAs, and others together, rather than VERs or OMAs only as fully 80 per cent of EC's total import restraints against Korea were implemented through the imposition of AD duties. In the EC-Korea trade, only textiles and footwear, among four items under EC's VER or quota restrictions, had shown increasing trends despite the EC's measures. Of a total of 12 cases, ten of which had AD duties imposed and price undertakings, and the remainder under investigations for AD measures, five items--CDP, video cassette tape, glutamic acid, bicycle tyre tube and audio cassette tape, showed increases in shipments to the EC market in the 1987-1991 period. However, only one--glutamic acid recorded an increase in shipments to the EC market in the 1990-1991 period. The sharp rise of exports of glutamic acid was a result of extraordinary expansion of consumption in the EC in 1991. In addition, only footwear, subject to EC's VER, showed a continuous increase in shipments to the EC market in the 1987-1991 period, despite the EC's protective measures. Thus, the impositions of import restraints resulted in decreasing shipments of Korean products under EC's import restraints to the EC market to \$2,966.341 million from \$2,908.011 million in the 1987-1991 period.

3-2-2. The Textiles and Clothing Case

Korea's exports of textiles and clothing to the EC market under the MFA have been increasing in the 1989-1991 period in contrast to sharp declines in exports to the United States and Canada. However, the exports to the EC market in 1991 dropped by 2 per cent from the export peak

in 1988 and by 10.3 per cent from 1990's export figure. Likewise, exports of polyester yarns to the EC, under EC's AD measures, sharply fell to \$223,000 in 1991 and \$26,000 in 1992 from \$2,537,000 in 1988. Korea's competitiveness in textiles and clothing has been declining since 1980, limiting Korea's ability to switch exports to the EC market from the United States and Canada. For example, RCA ratio for knitted fabric was 0.8, with other various textiles at 2.1 to 2.9.³ Therefore, the deterioration of the competitiveness of Korea's textiles and clothing played a decisive role in the effectiveness of EC's import restraints, more so than other factors such as the lack of coherent policy and domestic decision making problems of importing countries as argued by David Yoffie.

3-2-3. The Iron and Steel Products and H-Beam Case

Korea's exports of H-beam to the EC market was severely affected by the EC's threat to initiate AD investigation, declining to zero in 1989 from 1987's 23,033 tonnes. The situation was the same as in the case of iron and steel products exported to the EC under VER between the EC and Korea. Exports of these products to the EC market in the 1986-1989 period declined by 49.9 per cent to \$26,879,000 from \$53,632,000. Again, the effectiveness of import restraints was decided by the international competitiveness of products rather than the effectiveness of import measures themselves. For example, RCA ratio for iron and steel bars, rods and shapes was 2.4, that for iron and steel plates and sheets 1.8, and iron and steel tubes and pipes was 1.6. The import restraints by the EC were imposed on Korean iron and steel products which had begun to lose international competitiveness anyway, playing as a determinant in reducing Korea's exports of these products to the EC.

3-2-4. The Footwear Case

Exports of footwear to France and Italy decreased by 26.6 per cent and 7.6 per cent, respectively, in the 1988-1989 period since VERs by these two EC member states against

Korea had been implemented. These declines in exports to France and Italy can be interpreted in two ways. Firstly, Korean footwear exporters exercised self-restrictions of exports to the EC market generally following EC member states' complaints of drastic increases in imports from Korea since 1989. Secondly, Korean companies easily diversified their markets for footwear to other EC member states, rather than France and Italy, which are relatively open for Korean footwear as a consequence of VERs by these two EC member states against Korean footwear. That was possible due to the strong international competitiveness of Korean footwear.

In the EC-Korea footwear trade generally, Korea's exports sharply increased, up 10.5 per cent from \$723.796 million in 1990 to 1991's \$799.975 million. However, it is noteworthy that Korea's footwear exports to the United States have shown a declining trend since 1988, due to changes in demands to low and medium-priced rather than high-priced items in the United States, and not to the weakening international competitiveness of Korean footwear. Korea's RCA ratio for footwear reached 9.3, which was the third highest RCA ratio among Korean-made products, following office data processing equipment (RCA ratio 24.5) and travel and hand bags (RCA ratio 12.3). Therefore, Korea's strong competitiveness in footwear contributed to the switching of export market from the United States to the EC, and to the continued growth of exports to the EC market. Again, the competitiveness of Korean products played a role as a factor determining the effectiveness of EC's import restraints.

3-2-5. The Consumer Electronics and CTV Case

The EC's import restraints against Korea's consumer electronics were very effective in reversing the growing trend of imports from Korea, and were all the result of AD measures. However, VERs by the United Kingdom and France against Korean CTV were useless in reversing the growth of imports from Korea. That supports my argument that VER or quota restrictions against products which

have strong international competitiveness are ineffective in reversing the growth of imports. Korea's CTVs were extremely competitive relative to other exports with RCA ratio of 7.5 in 1986, even though such competitive strength has been worsening every year as a result of emergence of new cheap cost competitors and labour cost hike in Korea.⁴ The failure of EC member states in restricting imports from Korea through VERs encouraged the EC to adopt EC-wide AD measure in 1989, despite the agreement between EIAK and EACEM to voluntarily restrict the export volume of CTV to the EC market.

The most important factor in the effectiveness of VERs in consumer electronics sector is therefore whether or not exporters subject to such import restraints have international competitiveness. If they do not hold such a competitive edge, exporters can not switch markets easily, nor adopt an upgrading strategy. If advanced countries seek to temporarily protect industries losing international competitiveness, using import restraints such as VERs, they will have difficulties in effectively implementing such a strategy when confronting foreign commodities having sufficient international competitiveness to overcome import restraints. In these circumstances, David Yoffie's approach is absolutely applicable. However, the approach is not applicable to the alternative case, in which any protective measures by advanced countries could well be a decisive factor in reversing growing market penetration by exporting countries having weak international competitiveness.

Therefore, it is essential that David Yoffie's approach be complemented by including specific factors regarding EC-Korea trade such as the international competitiveness of Korean exports, the evaluation of VERs, OMAs and AD measures together, the demand situation of specific products, the upgrading strategy of Korean exporters, and decision making issues in the EC. Another matter speaking against the EC's protectionism is that it is harmful both to the EC consumers and the EC economy, as well as to the

Korean exporters. Therefore, the result of protectionism is a negative-sum game, rather than a zero-sum game or a positive-sum game.

4. Final Comments

Through the broad and specific analyses of determinants and effectiveness of protectionism in the EC-Korea trade, it was found that the model of the triangular deflection of protectionist impulses between Japan, the United States and the EC is very useful in explaining protectionist trends in the bilateral trade. However, future determinants and effectiveness of protectionism in the EC-Korea trade may change, depending on the direction of the international political economy.

4-1. The Developments of GATT Talks and EC-Korea Trade

The EC-Korea trade relationship could be influenced by the multilateral negotiations under the GATT. Heinz Preusse argues "replacing the new forms of protection by non-discriminating multilateral GATT regulations should, therefore, be regarded as a fundamental task of future foreign economic policy, and as an essential precondition for a further liberalization of world trade."⁵ If Korea will bind its tariffs in GATT depending on the outcome of multilateral talks, Korea's policy to use tariff barriers as major protective measures for Korean market against foreign imports could give enhanced importance to non-tariff barriers.⁶ The result of multilateral talks, also, could affect trade in agriculture and service areas when the agreements in Uruguay Round are implemented in January or July in 1995.⁷ In 1989, the share of agriculture trade was 13.1 per cent of all merchandise trade, in terms of trade value (\$405 billion/\$3095 billion). In addition, the world value of service trade in the same year amounted to \$3,775 billion, 22 per cent higher than the total value of merchandise trade.⁸ Therefore, some settlements in the GATT talks regarding the service and agriculture trade could emerge as another factor influencing trade disputes between the EC and Korea should pressure be exerted by the EC against

Korea to observe the result of multilateral talks in these areas.

4-2. The Expansion of Regionalism and EC-Korea Trade

The EC-Korea trade relationship could also be influenced by both the current changes in existing economic blocs and formation of new and existing economic blocs worldwide. For example, the expansion of EC membership and the formation of EEA is expected to exclude exports from Korea to the EC or EEA as a result of increases in intra-EC or intra-EEA trade. By the same principle, Korea's active participation in APEC is also possible to increase its trade with Pacific-rim countries, rather than trade with the EC. As I mentioned in Introduction of this thesis, the EC and the EFTA agreed to set up the EEA in October, 1991. The EC is also planning to expand its memberships to some Eastern European countries such as Poland, Hungary, Czech Republic and Slovakia. The United States, Canada and Mexico officially concluded the agreement for the establishment of the NAFTA on Aug.11, 1992. Furthermore, Mexico, Venezuela and Colombia have concluded a free trade agreement in December, 1993, effective in the first half of 1994, as a first step of economic integration and closer political cooperation. A free trade agreement has also been effective between Australia and New Zealand since July 1, 1990. Six Southeast Asian countries--Brunei, Indonesia, the Philippines, Malaysia, Thailand and Singapore--have set up the ASEAN.⁹ In addition, Asian and Pacific-basin countries set up, in 1989, the APEC.¹⁰ This deepening trend towards the formation of economic blocs is certainly against the principle of multilateralization, non-discrimination and free trade under the GATT, even though the formation of economic blocs contributing to the expansion of world trade has been exceptionally accepted under the principle of GATT. The inclusion of developing countries in the EC (Portugal, Greece and Spain), in the formation of EEA (possibly Eastern European countries), and in NAFTA(Mexico) could be

instrumental in expanding trade disputes between developing countries not in these blocs and those developed countries in economic blocs.¹¹ In connection with this trend, Alexis Jacquemin and Andre Sapir argue "the cooperation among a limited number of powerful countries should not lead to the exclusion of weak nations, but, rather, should help reinforce international cooperation."¹²

4-3. The Possibility of Growing Green Protectionism

The growing demands from advanced countries, including the EC, for the establishment of environmental standards for manufactured goods¹³ could be the seed of future trade disputes between the EC and Korea. Korea has a very poor level of environmental standard because it did not consider the environmental effects of production during the process of rapid economic development, a major reason for Korea having an advantage over its major trading partners in the competition on price. Such lack of considerations of environmental issues can also be found in Japan. "The Japanese media is reluctant to cover such issues, especially if there is a large Japanese company involved, in contrast to its responsibilities as a leading industrial country."¹⁴ However, this habit of ignoring environmental issues is expected to face tough periods of environmental protection in international trade. For example, "with the environmental lobby coming to the fore in the EC, one already observes another series of environmental standards being erected which may well amount to discrimination against third countries, in particular developing countries."¹⁵ Therefore, Korea and the EC are likely to face another dimension of trade conflict when the EC-wide environmental standards become effective. At the same time, Korea's international competitiveness, acquired without regard for environmental concerns, could be lost in the growing green protectionism and green conditionality.

Despite these negative factors which could worsen EC-Korea trade disputes in future, there are also very

promising factors expected to lessen the bilateral trade disputes. Firstly, there are growing Korean direct investments in the EC. Again Korea is copying Japan, in a way living up to the EC's "Japan Complex," but this is expected to achieve similar positive results because Korean investments contribute to European employment, and reduce many unpleasant aspects of the bilateral trade through the gradual change of bilateral trade structure from inter-industry to intra-industry trade. Korea's direct investments in the EC in the 1986-1990 period numbered 60 cases, 71.4 per cent higher than the number of cases of Korean investments in the EC by the end of 1985 when its direct investments in the EC numbered 35 cases. Especially, Korea's direct investments in manufacturing in the 1986-1990 period totaled 20 cases, as compared with only one case by the end of 1985. On the other hand, Japan's direct investments in manufacturing in the EC in the 1986-1988 period numbered 164 cases, as compared with Korea's 8 cases in the period.¹⁶ The sharp growth of Japan's manufacturing investments in the EC is caused by "1)the yen's continuing strength, 2)tough regulations on local contents in the EC market and 3)international pressure to cut the trade surplus."¹⁷ Korea's main motivation to invest in the EC, however, is to circumvent the EC's frequent AD impositions and meet tough local content regulations. The big difference in the level of direct investments between Japan and Korea in the EC suggests that Korea is a nominal "Second Japan," rather than an actual "Second Japan."

Secondly, Korea has been adopting a policy of switching its import sources for products, mainly imported from Japan, to the EC member states. As of 1992, Korea successfully switched its import sources for a total of 117 items from Japan to the EC member states.¹⁸ Such Korean efforts contributed to Korea recording a trade deficit with the EC in 1991 and 1992. It was the first time in the history of bilateral trade that Korea recorded a trade deficit with the EC since 1972.

4-4. The EC and Korea's Common Tasks in International Trade Arena

From the perspective of the International Political Economy, the realization of pure free trade is a very difficult task. It can be concluded that world trade to date has been hampered by many types of control and various types of political intervention. Therefore, this thesis tends to confirm neo-realist expectations of increasing economic competition and neo-protectionism, accompanying the process of regionalization. As a prior step to establish the free trade principle and be away from managed trade under neo-mercantilism, a world trade order in which every trading country has the same understanding has to be established. L. Rangarajan enumerated six points for the creation of order in the international trading system, as follows:¹⁹

Transparency--actions of governments likely to injure others should not be clandestine but open, and must be notified to an appropriate body.
Investigation--any complaint or dispute must be investigated, the procedure for which should be an integral part of the rules of the instrument.
Determination--there should be provision for determining definitively whether injury is likely to be or has been suffered.
Surveillance--the actions of all members of an instrument must be subject to scrutiny, surveillance and supervision.
Dispute Settlement--there should be provisions for conciliation and arbitration.
Sanctions--the instrument ought to have a graded set of sanctions and punishments.

Apart from the question of free trade, it will also be very difficult to establish order in the international trading environment, considering the principles recommended by L. Rangarajan. Even though there is enough room to develop harmonious bilateral trade relations between the EC and Korea, negative developments in the world trading environment, such as regionalism and formation of economic blocs,²⁰ dim any optimistic forecast of EC-Korea trade relations in the future. Despite the confused world trading environment, the EC and Korea, as major world exporters of manufactured products, have faced the common task of working towards

the establishment of an order in the international trading system. Regarding the importance of exports in manufacturing output, Geoffrey Shepherd, Francois Duchene and Christopher Saunders point out that "the proportion of exports in the total combined manufacturing output of the EC, North America and Japan was up to 17 per cent in 1978, from 13 per cent in 1970 and from only 9 per cent in 1960."²¹ Therefore, close cooperation between Korea and the EC is expected to be crucial for the establishment of international trading order in manufactured goods. It is a pity that the industrial upgrading still now continuing has little effect in lessening trade disputes, when pursued by both parties at the same time and in the same sectors, as demonstrated by worsening trade disputes between the EC and Korea in the 1990s, as compared with the 1980s. However, EC-Korea trade disputes could be reduced, as occurred in EC-EFTA trade relationship, if both parties improve mutual understanding of each other in economic, political, social and cultural aspects, and subsequently endeavor to establish intra-industry based trade relationship, with the long-term expansion of mutual investments in each other's economy.

Notes and References

1. Korea's share in EC's total imports in 1975 was only 0.23 per cent (\$0.753 billion/\$322.8 billion), compared to that in U.S. total imports marking 1.45 per cent (\$1.53613 billion/\$105.9 billion), data from the Korea Foreign Trade Association.

2. Korea Foreign Trade Association, *Major Statistics of Korean Economy 1992* (Seoul, KFTA, 1992), pp.258-263.

3. For detailed analysis of Korea's international competitiveness, see Chapter III of this thesis and Congress of the United States (Office of Technology Assessment), *Competing Economies--America, Europe and the Pacific Rim* (Washington D.C., the U.S. Government Printing Office, 1991).

4. There is a study by Schweizerische Bankgesellschaft of Switzerland forecasting the international competitiveness of Korea very favorably. The Swiss institution estimated

that Korea's international competitiveness will occupy a top place by the year 2005 with 100 points, based on the calculation of infrastructure, human capital, dynamism and effective achievement of exports, production and productivity. Korea will be followed by China (second place), Israel (third), Singapore (fourth) and Japan(fifth). For further details, see "Korea Ranks First in Terms of International Competitiveness in the World in 2005," *Hankuk Ilbo*(Korean newspaper) Europe Edition (Sept.19, 1993), p.2.

5.Preusse, Heinz Gert, "Voluntary Export Restrictions--An Effective Means against a Spread of Neo-Protectionism?" *Journal of World Trade* (Vol.25, No.2, April 1991), p.16.

6."Korea-EC disputes will be also expanded to standards, subsidies and government procurement under the changing international economic diplomacy." See Gilpin, Robert G., "The Implications of the Changing Trade Regime for U.S.-Japanese Relations," the *Political Economy of Japan Volume 2--The Changing International Context* edited by Inoguchi,Takashi and Daniel I.Okimoto(Stanford, Stanford University Press, 1988), p.168.

7.According to a joint OECD-World Bank study, "the average consumers in the EC paid in 1992 \$450 for agricultural protection. In the United States, they paid \$360 and in Japan \$600. It is because these losses are so high that the greatest gains are shown to these parts of the world. The main losers are a few developing countries which are also heavy food importers. Annual gains from trade liberalization by 2002 will be \$213 billion, of which the United States accounts for \$18.86 billion, Japan for \$25.9 billion, the EC for \$80.76 billion, the EFTA for \$12.8 billion and China for \$37.0 billion." See Brittan, Samuel, "Where GATT's \$200 Billion Really Comes From," *Financial Times* (Oct.4, 1993), p.12.

8.Orr, Bill, *The Global Economy in the 1990s--A User's Guide*(London, the MacMillan Press Ltd., 1992), pp.87-92.

9.On Oct.8,1993, "ASEAN governments have announced plans to relaunch the ASEAN Free Trade Area(AFTA) for implementing tariff cuts for intra-ASEAN trade." See Mallet, Victor, "Move to Relaunch ASEAN Trade Zone," *Financial Times*(Oct.8, 1993), p.6.

10.For United States' increased enthusiasm for APEC, see "Pacific Ties," *Financial Times* Editorial(Nov.5,1993), p.19. For Asia's role in increase in Europe's commodity exports, see Fung, Victor, "Europe Can Not Afford to Miss Asia Boat," *Financial Times* (Nov.10, 1993). p.21. For EC's growing concern in APEC, see Graham, George, "Chile's Request to Join APEC Set to Be Rebuffed," *Financial Times* (Nov.15, 1993), p.4.

11.Louis Emmerij strongly recommends the formation of economic blocs among developing countries to cope with

the growing regionalism. Namely, he argues "developing countries must get their act together, must move actively instead of complaining passively, and must form themselves into regional economic blocs." See Emmerij, Louis, "Europe 1992 and the Developing Countries: Conclusions," *Journal of Common Market Studies* (Vol.29, No.2, December 1990), p.251. On the other hand, "the Mexican government plans to sign a free trade agreement with Venezuela, Colombia and possibly Bolivia by the end of 1993, and another with Costa Rica." See Fidler, Stephen and Damian Fraser, "Mexico Plans S.American Trade Pact," *Financial Times* (Oct.13, 1993), p.8. See also Mortimer, Edward, "Blocs on the Horizon--the Notion of an East Asian Economic Caucus is Gaining Ground," *Financial Times* (Jan.19, 1994), p.18.

12. Jacquemin, Alexis and Andre Sapir, "The Logic of EC Commercial and Industrial Policy Revisited in 1992," *the Economic Cooperation between the EC and Korea* edited by Min, Chung Ki (Seoul, Korea Institute for International Economic Policy, 1991), p.29. For growing conflicts between the United States and the EC, see Williams, Frances, "Audio-Visual Trade Fears Unfounded," *Financial Times* (Oct.15, 1993), p.7

13. As of Dec.9, 1993, "a confidential draft proposal for a work programme to identify links between trade measures and environmental priorities, and to recommend how multilateral trade rules should be modified has been tabled by European Community, Indian and Brazilian negotiators. That is analyzed as a fact that trade policymakers bowed to environmental demands for the Uruguay Round to address directly potential clashes between environmental and free trade priorities." See Dodwell, David, "Environmental Moves up to the Agenda," *Financial Times* (Dec.9, 1993), p.6.

14. Terazono, Emiko, "Making a Splash in Japan--Support for Greenpeace is Growing," *Financial Times* (Nov.24, 1993), p.17.

15. Emmerij, pp.249-250. For example, "environmental groups are pressing for the work programme to include eco-dumping--the competitive advantage alleged to be gained by countries with low environmental standards--and the ability of governments to restrict imports produced in environmentally unfriendly ways." See Williams, Frances, "GATT Support on Environmental Links," *Financial Times* (Jan.27, 1994), p.3. See also Williams, Frances, "Environment Issues Worries Third World," *Financial Times* (Jan.26, 1994), p.6 ;and Williams, Frances, "WWF Calls for GATT Green Plan," *Financial Times* (Feb.2, 1994), p.5.

16. Korea Ministry of Trade and Industry, *Method of Trade Policy Implementation against the EC and Future Tasks* (Seoul, MTI, 1990), p.14.

17. See Pawkins, Williams and Paul Abraham, "Japanese Investment in Europe Falls," *Financial Times* (Jan. 18, 1994), p. 4.

18. Korea Foreign Trade Association, *Potential Items for Importation from the EC and the United States* (Seoul, KFTA, 1988), pp. 13-35.

19. Rangarajan, L., "The Politics of International Trade," *the Paths to International Political Economy* edited by Strange, Susan (London, George Allen and Unwin, 1984), pp. 155-156.

20. However, Robert Gilpin argues "bilateralism and similar arrangements, though having their own dangers, may be the only way to move even haltingly in the direction of a more open trading system." See Gilpin in Inoguchi and Okimoto, *op.cit.*, p. 170.

21. Shepherd, Geoffrey, Francois Duchene and Christopher Saunders, *Europe's Industries--Public and Private Strategies for Change* (London, Frances Pinter (Publishers), 1983), p. 2.

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