

# Trade, Investment, and Governance: The Case of Korea-USA Free Trade Agreement

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In this age of globalization, the FTA is flourishing in numbers. It is no exaggeration “the FTAs are covering the whole globe”. However, it has some defects that it is far from an ideal means of globalization. The Korea-USA FTA has been being pushed by both governments and reached into final conclusion within a very short period of time. However, we cannot expect favorable effect to the Korean economy because of its many drawbacks. Its contribution to the expansion of Korean exports will be quite limited to a very small number of industries. The non-tariff barriers which are as important as tariff barriers, have not been scrapped, thus will still remain great potential impediment to the free trade between the two countries. The single most serious problem resides in the investor-state dispute clause which will curtail the policy sovereignty of Korea, and confine the future course of the Korean economy to the narrow model of Anglo-Saxon liberal market economy. This model is not comparable to the superior performance of the Nordic market model of the social democracy. Thus the issue of K-A FTA is not that of growth and employment, but of governance and sovereignty.

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## 1. Introduction: Is Globalization Victorious?

Without doubt today is the heyday of globalization. The globalization, defined as the worldwide integration of markets of commodities, labor, and capital, is on the one hand hailed as the engine of world economic growth, but on the other hand criticized as the source of all evils happening in the modern world. Thomas Friedman, one of the spokesmen of globalization, says the world is flat so every country can participate in the game and play on the level field, and benefit. He argues the results are higher economic growth and lower poverty (Friedman, 1999, 2005).

On the other side of the battlefield, positioned are numerous NGOs across many countries crying out against the globalization. Since the 1999 Seattle Summit meeting it is almost a new custom the NGOs rally against the globalization in front of the building where the Summit meeting is held. Noam Chomsky's denouncement of the WTO, one of the wheels of globalization, is worth mentioning. "The WTO only serves the interests of the multinational corporations" and "the WTO is killing people". Who is right? Which is the true face of the globalization? Maybe both. It seems globalization has two faces, like Janus in Roman mythology.

At present there are two approaches of NGOs towards globalization. One is total denial. The other is a more reasonable and constructive criticism against it. The best solution may be the second. It is silly to throw away the baby along with the bath water. It would be wise to understand the tide of globalization and make use of it rather than to totally discard or escape from it. According to Bhagwati there are two approaches of NGOs toward globalization. One is stake-wielding group, and the other is stake-asserting group (Bhagwati, 2004). As Bhagwati argues the latter approach seems to have better chance of winning the tide.

As time goes by and globalization becomes the everyday word among people, there seem to be some noticeable trends in the public opinion towards globalization. First, compared to the nineties, the hatred of globalization is evidently dwindling. Second, the stronghold of anti-globalization movement has moved to rich countries from the poor countries. In the past we could witness widespread fear against globalization among people in less developed countries, but not any longer.

The report of Environics, a Canadian poll company, presented at the 2002 World Economic Forum, based on a poll of 25,000 people across 25 countries, is interesting in many respects including the sharp contrast in the attitudes of people in the North and South toward globalization. There seems to be a sharp change in the periods of several decades with this respect. In the old days, people in the North were supporting the liberalization of trade and investment and the integration of the world economy while those in the South were looking at them with suspicious eyes. But now the way of thinking in both the North and the South is changing, and we see a switch between the two.

## **2. Globalization versus the Civil Society**

If the globalization is the trend in the world economy, it is interesting to watch the countervailing power a la Galbraith is also growing. It is the growth of the influence of the civil society, especially the growth of the NGOs in many countries which lies in the way of globalization. Bhagwati says the two big prominent trends in the twentieth century are the tide of globalization on the one hand and the growth of the civil society on the other hand (Bhagwati, 2004). Lester Salamon calls the rapid growth of NGOs as 'association revolution' which has some statistical evidence. In 1994 when Salamon was writing a book, he conjectured there existed 175 thousands NGOs in the United Kingdom, and around 20 thousands in the poor countries.

However, the number of NGOs is growing at an unbelievable speed. When the Third Ministerial Meeting was held in Seattle, and there gathered the NGOs all across the world, *the Economist*, a century old British weekly magazine estimated that there existed around one million NGOs in India alone, and approximately two million in the whole world. The reason why there are so many NGOs in India is related with its long history of religious tradition. The disobedience movement of Gandhi was an example following this tradition.

The background of the rapid growth of NGOs cannot be explained without mentioning the revolution in information and communication in the late twentieth century. Can you imagine the growth of NGOs without the use of the emails? In this sense the revolution in information and communication contributed to the globalization on the one hand and to the growth of NGOs on the other. These two phenomena took place hand in hand.

Mancur Olson indicates that the producers are not too many in numbers and more concentrated while the consumers are a large number and more diffused so that the former is easily organized to raise voice while the latter seldom are organized to defend their interests (Olson, 1982, 1996). In the latter, there arises a serious problem of free ride. Under this circumstance, the NGOs can play the role of voice a la Hirschman on behalf of the consumers who can hardly defend themselves thus contributing to the solution of the free ride problem. In this regard, the NGOs in Korea which have grown both in number and impact as fast as any others in the world can play a good role of defending the interests of the voiceless public.

On the day of Nov. 29, 1999 when the Ministerial Meeting was held in Seattle, dozens of thousands people from all over the world shouted against globalization shaking the whole world. Seattle Tea Party was especially interesting because it was modeled after the Boston Tea Party of 1773. As the slogan in 1773 was “No Taxation without Representation”, the slogan in 1999 was “No Globalization without Representation”. As people in Boston threw the tea to the sea, people in Seattle threw some items which were suspected to threaten the fair trade, i.e., steel made in China, American beef suspicious of containing hormone, shrimps which cause death to the sea turtle and other things (Frieden, 2006).

As the number of demonstrators was increasing the tension was gathering that the police had to rely on the tear gas and rubber guns. Bill Clinton made a statement, “... peaceful demonstration is healthy. I understand this demonstration supports my idea of social approach which harmonizes the trade, labor rights, and environment. International trade is no longer an exclusive area of business leaders, organized interest groups, and politicians. The whole process should be democratized, and we should carry out the trade policy which is wanted by the members of society”.

These remarks made by the President of the United States of America sound like almost supporting the rallying demonstrators on the street. This incident symbolizes the current development of globalization which is directly opposed by NGOs of the world. It is to be watched whether the current tide of globalization would follow the steps of the first one in the second half of the nineteenth century which

brought the reaction and world wars or this one will follow a more reasonable path after making revisions demanded by the civil society. This will depend on the future struggle between globalization and the civil society.

### 3. Free Trade Agreement between Korea and the USA

Up to 2003 there were no FTAs Korean government concluded. When Korea contracted its first FTA with Chile in 2004, there were only four other countries which had no record of FTAs concluded. No doubt Korea was a late-comer as far as FTAs were concerned. But, the picture is abruptly changing. There is a Korean saying “the late burglar does not notice the coming of the dawn”. Korea has put a large effort to filing up the FTAs, with some success. EFTA, Singapore, and recently the USA are new names on the list.

Korean government now openly declares it takes the strategy of open-door and globalization of the Korean economy with the aid of Korea-USA Free Trade Agreement (K-A FTA hereafter). The Korean government and the supporters of K-A FTA are trying to criticize the opponents of K-A FTA as the followers of the failed Daewongun (大院君), the political leader of the late nineteenth century Korea who refused to open the door with complete collapse of the nation as a result. They do not realize that there are many among the opponents who admit the advantage of open-door policy in general, but the specific case of K-A FTA is a different story.

Out of blue the Korea-USA FTA has become a keen policy issue in Korea since early 2006 when the President Roh announced his intention to contract K-A FTA within a short period of time. At that time that was quite shocking news because President Roh’s remarks did not sound consonant with his long political standing of keeping distance with the USA which was rather unique among Korean politicians. Since then, there has been a hot debate going on between the two circles, one supporting and the other opposing the idea.

The former include the government, big business, conservative academia, conservative press, and conservative political parties, while the latter include the labor, peasants, the reformist academia, press, and the Democratic Labor Party. The public opinion was sharply divided into almost a half and half that no side could dominate. That balance has been shattered since early March of 2007 when the two countries reached the final conclusion after rounds after rounds of deals for a whole year. Now the public opinion looks to be steering favorably to the government once the deal is completed. Yet it is to be seen whether the agreement will obtain the approval of the congresses of both countries.

It is no exaggeration when one says “FTAs are covering the whole globe”. It is true the numbers of FTAs are rapidly increasing since the 1990s. It is said the number of FTAs reached agreement is almost 300, and the number of FTAs which are effective at the moment is over 150. Indeed we are watching a heyday of FTAs. On the other hand the multilateral negotiation of liberalizing international trade such as Doha Development Agenda (DDA) is struggling. If the multilateral

negotiation makes no progress, isn't it a clever national strategy to engage in the bilateral negotiation like K-A FTA. This is what the Korean government is saying.

It is well known that there are two approaches to the international economic integration. One is the multilateral integration like GATT or WTO which is based on the 'equality' principle summarized in the Most Favored Nation Clause. The other is the regional or bilateral integration which is based on the system of discrimination and exclusion. Theoretically speaking the former is superior to the latter. One might say the former is the best while the latter might be a second best. However the former is so complicated and covers such a large number of participants that it is a long and tedious game to reach a consensus. This is the reason why the former is struggling while the latter is prospering. If this is what's going on in the world economy, isn't the latter justifiable on the ground that the second best is better than doing nothing.

But, the issue is not that simple. As the number of the second bests is increasing, it is getting more difficult to reach the best. The reasons are threefold. First, as the number of the FTAs is increased, there arise regional vested interests which contradict the interests of the multilateral liberalization of the trade. If a regional integration is substituted by the multilateral integration, then the parties should give up the benefit exclusively accrued to them so far. This makes the parties more reluctant to agree to a multilateral integration. Second, because of the so-called spaghetti bowl effect of the regional integration, the international economic order gets more complicated and it is getting more difficult to reach a multilateral agreement. Third, given the limited number of government officials engaged in international trade, as more of them gives their effort to the regional integration issues, it is quite natural less energy is put into the multilateral integration. This is especially true in Korea where only a small number of civil servants are engaged in international economic issues.

For these reasons the best strategy for the international economic integration is the multilateral system. Therefore the movement toward FTAs is not the best, but only a second best solution. The Korean government has been broadcasting TV commercials asserting K-A FTA is the only and the best way to develop the nation, which is obviously an exaggeration. However, the situation is DDA stuck in the muddle, while the FTAs are prospering covering the globe by patchwork.

The USA government, well aware of this situation, has been endeavoring to establish regional integration with individual countries. Robert Zoelick of the Trade Representative years ago succinctly expressed the idea of 'competitive liberalization' as the key trade strategy of the USA. It seems that the USA government is trying to steer the economies of partner countries towards a liberal market economy utilizing the bilateral trade agreement with the country. They are trying to use the FTAs as the leverage to move the economic systems of as many countries as possible towards one of American system. At the moment Korea is standing on this test.

#### 4. The Probable Effects of K-A FTA

If we accept the FTA as the second best way to international integration, could we justify the K-A FTA too? The answer depends on its future impact on the Korean economy in terms of economic growth, employment, productivity growth, and concrete impacts on specific industries and other considerations. This is really a complicated question. FTAs in general can bring favorable results to the national economy as the economics textbooks show by proving the existence of 'gains from trade'. However, it may not be the case for the K-A FTA.

The Mexican economy can be a good precedent. In fact the Mexican economy has not shown a fantastic record since the contract of NAFTA in 1994. It is estimated that NAFTA has boosted the economic growth rate of the USA by a meager 0.02%. That of Canada and Mexico has been up by a larger magnitude, but not a huge jump. In fact Mexico which has boasted twelve FTAs with as many as 43 countries, one of the largest number of FTAs in the world a single nation has contracted so far, is showing a poor record in economic performance. The average economic growth rates of Mexico since the 1990s is only 2.8%. It is no wonder Mexico has declared a FTA moratorium which means it will not conclude any more FTAs with other countries.

Looking into the record of NAFTA, we find only a small impact on the total employment with some movement of work force among the industries affected by the regional integration of the economy. It naturally follows that the social safety net in the form of training and re-training of the work force, and the dissemination of job information are crucial for bringing a successful FTA. In that sense the USA which has a rather poor social safety net by international standard is not a good candidate for engaging in many FTAs. It also applies to Korea armed with even poorer social safety net.

The results in the Mexican economy since the NAFTA are the peso crisis in 1995, the decline of real wages by 20%, the rising income inequality, the rise in regional economic disparity, the penetration into and dominance of the financial sector of Mexico by foreign capital. Of course all these gloomy pictures cannot be attributed to NAFTA. However, at least it looks almost certain a FTA could not play a magic wand to a national economy.

It is very regrettable that the academic circle in Korea exaggerates the future impact of K-A FTA to the Korean economy. In 1993 John Gilbert of the Institute of International Economics in Washington, D.C. estimated the growth boosting effect of K-A FTA would be 0.03% on the American economy, and 0.4% on the Korean side which is obviously far from remarkable. But, the later estimates presented by KIEP (Korea Institute for International Economic Policy), a government think tank, ranged between as high as 1.95% and 7.75%. As time went by the estimates tended to grow, and made the picture ever rosier. The Korean government has relied heavily on this research for persuading reluctant people.

However, the CGE (Computable General Equilibrium) model which was the base of this research is not too dependable at all because it is notoriously based on

shaky assumptions, and some mysterious process. It is a well known dictum in economics that endless tortures of the data produce a confession to the satisfaction of the researcher. Professor John Whalley, known as the authority in this field, once replied to UNCTAD after examining eight CGE type researches dealing with the effect of international trade on the economies of less developed countries.

The paper argues that there are substantial, and at times hard to explain inconsistencies across model results. One model shows most of the gains come from agricultural liberalization, another from textiles, and yet another from tariff cuts. One model shows developing countries losing from elimination of the MFA, another shows them as large gainers .... These differences occur even where similar data sets, and benchmark years are used (quoted from Bhagwati, 2004, p. 230).

Based on these observations Professor Whalley frankly admits all this is “a develish and unreliable business” (Bhagwati, 2004, p. 231). This is exactly what the governmental think tanks in Korea should listen to. They are used to exaggerate the positive impacts of the K-A FTA based on shaky assumptions and the CGE models.

That’s enough for the macroeconomic impact. What about some micro effects? The major vulnerable sectors of the two countries are agriculture, stock breeding, and pharmaceutical industry in Korea, and textiles, steel, and auto in the USA. Except rice which has already been discussed and finalized on the table of WTO, many agricultural sub-sectors will be hard hit by K-A FTA. The estimates differ widely depending on assumptions and data used, but one thing clear is that huge increase in imports will bring the decline in production and employment in Korean agriculture and stock raising industry. Korean pharmaceutical industry which has largely grown on the basis of supplying generic products to the domestic market will almost collapse after the initiation of K-A FTA as the American multinational pharmaceutical corporations insist their rights of intellectual property.

How much can we expect to increase Korean exports to the USA? The shipbuilding, steel, semi-conductors, the major export items of Korea, will not be the major beneficiaries because the American tariff rates are already zero for these products so that there is no room for further cuts in tariffs. The case of cars which are still protected under the tariff wall of average 2.5% is one of the most likely candidates of beneficiary of K-A FTA. However, the real world is much more complex than the average indicates. This is the problem of non-tariff barriers.

## **5. Non-tariff Barriers are Important**

For the cases of steel and cars, the main trade barriers for the Korean export, the anti-dumping, countervailing tariff, safeguards are still there that we could not expect noticeable increase in export. Korean government has tried to discard or at least lower the notorious American non-tariff trade barrier, which was a necessary step because this has been as great impediment to Korean export as the tariff

barrier. The way American business attacks the foreign competitors through the means of non-tariff barriers is full of arbitrariness and unfairness. The only accomplishment in this field Korea got in the FTA talk was the consensus to establish a joint committee to discuss these non-tariff matters. How much a committee can do to solve the unfair trade practices is to be seen, but it does not look like a basis for optimism to tell the truth.

In the case of textiles the average tariff rate is as high as around 10% that this could be the potential bonanza for the Korean exporters, many people say. However, here comes another story of non-tariff barriers. American textile industry is armed with the complicated 'rule of origin' so that how far the Korean textiles can penetrate the American market is rather dubious. The 'rule of origin' is a notorious mean for the advanced country to escape from the surge in exports from the poor countries. For example, the 'rule of origin' in the FTA between Poland and EU is as long as 80 pages in the FTA book, and those of NAFTA is even 200 pages long. Since the 'rule of origin' clauses are so complicated the small business in less developed countries can hardly benefit from the lower tariffs. This is why the 'rule of origin' is often called the 'hotbed of protectionism'.

In the case of K-A FTA both sides have agreed to apply the 'yarn forward' rather than the 'textile forward' clause to the 'rule of origin'. This makes the K-A FTA hardly any blessing to the Korean textile exporters. Most of Korean yarn producers have already moved out of country to find more profitable production bases in China or the Southeast Asian countries taking advantage of the lower wages and other costs, so that it is very unlikely the Korean textiles could benefit from the lower tariff rates in the American market. Korean clothes made of the yarn made in a Korean company located in China are not regarded as Korean exports that they cannot benefit from the K-A FTA. And it is highly unlikely the Korean outposts come back home to seek the tariff advantage arising from K-A FTA. Therefore we could not hope a big export boom in this sector either.

## **6. Investment and Governance: The Issue of Investor-State Dispute**

It is beyond doubt the non-tariff barriers are as important as tariff barriers in Korea-USA trade. However, the single most serious problem with K-A FTA seems to be that of the investor-state dispute (For best references for this issue, see Song, 2006, 2007). It is true the investor-state dispute has had long history. But in earlier Bilateral Investment Agreements and FTAs the investor-state dispute did not give impact on trade issues. However, from the NAFTA in 1993 onward, the USA government has urged other nations to include the investor-state dispute clause in FTAs which it concludes. There are only a few countries which have succeeded in dropping this clause in the FTAs with the USA. One of them is Australia in FTA with USA in 2004. Korea should have followed this good example, but has failed to do that. On the contrary the probability is that it is the Korean government, not the American government, who put this matter first on the table of K-A FTA negotiation. Lawyer Song who has delved into this issue said "the Korean



government has nurtured a poison snake in its cabinet” (Song, 2006, p. 35). This may cause lots of grievances to people in Korea in the years to come if the FTA finally passes the congressional approval in both countries.

For the first time in history NAFTA allowed the investors to sue the government where he did invest his capital on the reason that his capital might have been unduly discriminated or he has lost his money for some reasons of the policies or institutions of the host country. If this is upheld in the international court then the USA government can retaliate the other country by lifting the tariff exemptions and other trade favors concluded in the FTA. If an investor sues the host country, then the case goes not to the court of the host country, but to the ICSID (International Center for Settlement of Investment Disputes) located in Washington, D.C. The case is decided by three member panel. There is little chance for the lawyers from the poor countries to sit in the panel. In most cases the panel may consist of lawyers coming from the rich countries. In this regard Korea is not in good position. Korea is at worse position than Mexico in the court because Spanish is one of the three languages used at ICSID. English and French are the two others.

Why does the USA government insist on introducing the investor-state dispute clause to the FTA? There are two good things for American investors. Firstly, they can invest and operate their business in a foreign country under the protection of familiar American laws, not under foreign laws. Secondly, they can expect to earn more money by operating business under more favorable conditions than otherwise. However, for the Korean part, the FTA clauses of investor-state dispute may be contradictory to Korean laws and even to the Constitutional Law. This is far from fair.

Furthermore, the legal procedure of ICSID is completely veiled because no open hearings are held. Nobody knows how the three-member panel finally reaches the conclusion. And the decisions are binding. The compensation made to the winning investors has been substantial. So far dozens of cases are pending in ICSID and the losers are mostly from the poor countries. Argentina and Mexico are the frequent victims of this court. The American firm Metalclad sued the Mexican government for not giving permission to build a site for dealing with toxic materials at La Pedrera Valley. The Mexican government had good cause for protecting the health of the Mexican residents in denying the permission. But, the ICSID demanded the Mexican government to compensate 16 million American dollars for Metalclad (Song, 2006). This is a case a valid public policy can be put into danger by a strange clause in FTA. In another case the UPS, an American distributing company sued the Canadian Post Office for doing allegedly discriminatory practices against it. This case has not reached the final conclusion yet, but depending on the result, a public utility can be attacked on an obscure reason. These are two samples among 29 cases so far which went to ICSID by American investors who invested in Canada or Mexico since the NAFTA in 1993.

There are lots of irrational cases pending on the table of ICSID. If Korea concludes FTA with the USA and it gets approval in both countries' congress in the future many of Korean policies and institutions will be put under serious trials,

and it is highly likely the Korean government may have to redeem a huge sum of money to the American investors. And also the policy sovereignty will be in peril. If some of the public utilities are dissolved under attack from the American investors, then there will follow a series of privatization of the utilities, and also a possibility of price hike and service curtailment for Korean people. Yet the Korean government seems to ignore the seriousness of the investor-state dispute on the basis that the cases going to ICSID are not that many so far. That is true. But, what is important is not the number, but the possibility.

Let's imagine after the K-A FTA is initiated, a government policy with good intention goes to ICSID and fails to win the case. Then the Korean government has to pay an astronomical amount of money to an American investor, then it would ruin the government official who originated the policy. He may have to give up the official career. So the government officials would become very careful not to make such foolish mistakes, and shrink to the minimum when they prepare policies. The 'shrink effect' is as serious as the real impact of the disputes.

This will add fuel to the 'race to the bottom' in policy making in the age of globalization. "In a period of intense competition, vast global capital flows and financial instability, governments are increasingly forced to compete for foreign investment. Set in this context, any barrier to the free inflow of the desired capital injections is considered detrimental to the national interests and therefore under pressure to disappear. Previously nourished long-term objectives give way to more immediate and ephemeral targets" (Malhotra, Mezzera and Keklik, 2002, p. 93). Therefore, there should be tendency toward more deregulation and freer market environment on the part of Korean government. This raises serious questions of governance.

There are numerous definitions of 'governance'. One definition of it is "the capacity of a government to make and implement the policies, namely the capacity to steer the society" (Pierre and Peters, 2000). According to this definition the governance will be in serious trouble once the K-A FTA is set on. The Korean government might partly lose its autonomy in policy making, and thereby the freedom to choose its own future.

Despite all these woes the Korean government does not pay enough attention to this issue of governance. It says the investor-state dispute is symmetrical so that the Korean investors in the USA can sue the American government too. That is right, of course. But, the power relation in the real world makes such litigation highly unlikely to occur. Indeed it will be extremely hard for Korean investors to sue the American government at all, nor would they have any good chance to win if they go to ICSID. So far there are few cases the American government has lost at ICSID.

In this respect it is crucial to understand the fact that the FTAs with the USA are fundamentally different from those of other nations. The FTAs with other countries are ordinary regional economic integration by which we could expect the pulling down both tariff and non-tariff barriers, and therefore the favorable effect on trade, investment, employment, and growth is highly likely. There must be some sectors

which lose in the game, of course. Those sectors can be subsidized or relieved from the wounds by the means of social safety net. After compensating the losses in these sectors the net effect to the national economy could well be positive. This is what the economics textbooks tell you.

However, it is a different story when it comes to the FTA with the USA. The USA demands in addition to the liberalization of trade and investment, the changes in domestic policies, institutions and whatever so that they can conform to the American economic system. Nominally they demand the global standard, but it often is the American standard in the real sense. In this regard the economic integration America pursues is the so-called 'deep integration' which is seldom found in other FTAs.

Among the several models of the market economy the USA belongs to the Anglo-Saxon model. And it seeks other countries to follow their steps by establishing FTAs with individual countries. This is exactly what Robert Zoelick of the U.S. Trade Representative meant by 'competitive liberalization'. It seems that to spread the neo-liberal model to as many nations as possible is one of the basic goals of the American trade policy.

When we promise a FTA with America we confine our future economic path to a narrow model of Anglo-Saxon type capitalism, and the chance of trying other ways is almost gone. We have to accept the drawbacks of the model once we go that way. Canada, originally belonging to Anglo-Saxon model, has further reduced social expenditures thus strengthening the model itself. For example the welfare expenditure compared to GDP has declined from 22% to 18%, and the share of workers covered by unemployment insurance has shrunk from 80% to 35% since it joined the NAFTA in 1993.

Given this situation it would not be hard to imagine the future path of the Korean economic development will be confined to a very narrow liberal market economy of the Anglo-Saxon model. Korea which has the smallest size of welfare expenditures among the OECD countries at present will have little chance to expand it in the future once it joins the K-A FTA. The quality of life in Korea which is poor by any international standard will have little chance to be improved.

What about efficiency and growth? Isn't the American economy good at these? We need to compare the economic performance of the three major models of the capitalist market economy. First, the Anglo-Saxon model to which the USA, the UK, Ireland, Canada, New Zealand, and Australia belong. Second, the European model of welfare states which has Germany, France, Italy and other continental countries as its members. Third, the social democracy model of the Nordic countries, i.e., Norway, Finland, Sweden, and Denmark (For the typology of capitalism, see Hall and Sokice, 2001; Amable, 2003; Crouch, 2005; Pontusson, 2005).

For the last couple of decades which model is the best in economic performance in terms of growth, macroeconomic stability, income distribution, and others? Alas, the answer is not the liberal market model, but the Nordic model. The liberal market model is superior to the ailing European model, but does not surpass the Nordic model. The latter has the record of high efficiency and growth as well as

equal distribution of income and high social inclusion. People's level of life satisfaction turns out to be the highest in Nordic countries.

Although America shows a good record in economic growth and providing jobs in the labor market, it suffers from the high crime rates and the ever increasing inequality in income and assets, and the persistent problem of the homeless and social exclusion. Thus the American model does not seem to be an attractive future model for Korea. Furthermore, a Korean poll several years ago revealed that the number one preference for Korean people for the future was the social democracy model of Nordic countries. But, once the K-A FTA starts it would be almost impossible for Korea to seek any other model of market economy than the Anglo-Saxon model as we discussed above. No doubt this is the number one defect of the K-A FTA.

## 7. Concluding Remarks

Assume the congresses of both countries ratify K-A FTA in the near future, then in the short run we might expect to see increased Korean exports to the American markets, and thereby increase employment and growth to some extent. But, what we lose in the long run will be the long term development path of our own. Korea may be subject to the danger of losing the policy sovereignty and have to stay on a narrow path of the liberal market model. If the American model is good enough, some sacrifice in policy sovereignty may be debatable especially at this stage of globalization when the policy sovereignty is at risk already all over the world.

However, this is not the case as we see evidence of good performance of Nordic countries. The most serious problem with the K-A FTA is that it has little chance to allow other models than the liberal market model. What a pity any ideal market model will be beyond our choice in the future because of a trade treaty concluded with a country which happens to choose the Anglo-Saxon model. Viewed from this angle, the problem with the K-A FTA is not that of growth nor employment, but that of governance.

Since the 1997 Asian crisis when the IMF intervention over the economy began, the influence of the Anglo-Saxon model has been ever increasing in Korea (Stiglitz, 2002; Aksu and Camilleri, 2002). The academia, the press, political parties, and even NGOs are full of supporters of the model. No single day passes us by without witnessing academic papers, newspaper articles and other media hailing the holy power of the market. Even President Roh did once remark "the power has already moved to the market".

The K-A FTA will surely add oil to the fire. There will be stronger voice heard asking more privatization, less government regulation, and 'everything for sale'. The public domain which is too small in Korea compared to other OECD countries will be constantly under attack and ever shrink rather than blooming thus hurting the poor and the weak social groups. It is very likely the prices of the public utilities will rise after the privatization.

In spite of all these problems the Korean government has paid little attention to

what the opponents are saying. They have not put this issue to the full deliberation of either the parliament or to the scrutiny of the civil society. The voice of the opponents were hardly heard, and often disregarded as the echo of the old isolationism. These are evidence of deficit of democracy, far from good governance even during the process of negotiation. The government seems to be too optimistic toward a coming disaster. Since it reached the final draft of the FTA with the USA in early March of 2007 the Korean government is quite excited and boasts of the fact that Korea is the first major nation in Asia to settle FTA with America.

Yet the final result is to be seen. It has sacrificed many things solely for the success of the K-A FTA including the imports of American beef with the potential danger of mad cow disease, the cut of the screen quota by half, easing the import regulation of American cars and others. Each of these issues is serious enough to cause chains of socio-economic problems. Even after the FTA, the problems with non-tariff barriers remain, and the investor-state disputes may shatter the governance, and become a poison snake nurtured in the cabinet. Considering all these K-A FTA may turn out to be a typical winner's curse after all.

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