

South Korea-U.S. FTA deal would trigger unfair bilateral trade and investment agreement at the expense of the common interest of most developing countries

Dear President Roh Moo-Hyun and National Assemblymen,

We are writing this letter to express our deep concerns regarding the recent South Korea-U.S. Free Trade Agreement (FTA).

Most of us are graduate students who are studying economics and other related social sciences in Korea, Canada, the United States and the United Kingdom. Before pursuing our graduate studies, some of us were working in various government agencies in our respective countries and some in international non-governmental organizations.

Our different backgrounds notwithstanding, we believe that we share the same goals and ideas concerning how to make our world a better place to live in. As life-long students of economics, we have been searching for strategies to change the prevailing unequal and unjust international trade and financial system.

In this letter, we would like to express our concerns about the potentially detrimental impacts of the recent Korea-U.S. FTA on the countries signing the treaty as well as on other developing countries.

Before directly addressing our concern, it is necessary to mention how we have perceived the economic achievement of South Korea over the last half century. Mr. President and Assemblymen, Korea has long been a 'model country' for most developing countries in Asia, Africa and Latin America. As generally agreed, it is mainly due to the fact that, since the Second World War, no other country among those who became politically independent from the colonization has ever achieved such a rapid economic growth and industrialization as Korea.

In stark contrast to the deplorable reality of most developing countries, Korea's economic performance has been remarkable. Developing countries in South Asia, sub-Saharan Africa and Latin America as well as 'transition economies' in Eastern Europe are still suffering from the inadequate provision of basic goods and services (clean water,

medical care, education, etc), absolute and relative poverty, extremely high unemployment rates and unstable income, and persistent aggravation of the terms of trade in which they specialize. Most developing countries in this world have been struggling to deal with these fundamental economic challenges.

We believe these problems arise not because workers and farmers in developing countries do not work hard. On the contrary, the average labor time and the labor intensity have substantially increased in most developing countries over the last several decades. Nowadays, it is generally accepted among development economists and specialists in international economics that these serious challenges are not due to some inherent lack of skills in the developing world. Nor are they the outcome of any type of 'Dutch Disease' (declining in manufacturing sectors and/or dis-incentive to work due to abundant natural resource revenues). They are due mainly to the unfair world trade and financial system prevailing in the contemporary globalized economic system, which has exacerbated the already uneven development between rich and poor countries.

Because of this, we have attempted in various ways and degree to promote change in the current unequal global trade and financial system as well as the neo-liberal economic doctrine that are enforced by the International Monetary Fund (IMF) and the World Bank. The neo-liberal economic doctrine (embodied in the so-called "Washington Consensus") is characterized by a series of conservative economic policies such as the privatization of public enterprises, the sharp reduction in public expenditures on education and infrastructure, the indiscriminate deregulation of the public sector, the abrogation of many regulatory and monitoring activities in financial markets, and the creation of the so-called 'flexible labor markets'. We firmly believe that these policies are, in large part, responsible for what we have witnessed over the last quarter of century: a sharp fall-off in the growth rate measured by GDP per capita, a significant slowdown in our capacity to reduce infant mortality rates and to enhance adult life expectancy, and a drastic reduction in public spending for education and infrastructure, to name but a few.

As students of economics and social sciences, we are well aware of the fact that many Koreans have paid a heavy price in socio-economic terms to achieve rapid economic growth. It is true that behind your rapid industrialization, there lies the diligence, abstinence and hard-work of many Koreans. Without self-sacrifice and devotion on the

part of many Koreans, there would have been no ‘miraculous’ economic growth. However, as even the World Bank once grudgingly agreed, we also recognize that the Korean government’s ‘strategic trade policy’ as well as ‘industrial policy’, have played crucial roles in accomplishing the “Miracle of Han river”, ranging from strong infant industry protection, government fiscal (tax) policy, public R & D subsidies and the selective coordination of investment for rapid industrial upgrading.

Considering these historical and institutional characteristics, Mr. President and members of the National Assembly, it is very difficult for us to understand why the Korean government decided so hastily to agree to an FTA deal with the United States, without carefully examining the possible long-term devastating effects of its implementation.

We certainly do not object to any particular type of international trade and investment agreements, if the latter are beneficial to the majority of the citizens in countries. Nor do we object to any particular form of ‘globalization’, if the governments in each country can devise a series of well-defined welfare policies that ease the social pain stemming from drastic socio-economic transformation after the adoption of the new trade agreements.

We believe, however, that the recent Korea-U.S. FTA deal would not only have detrimental effects on economic stability of small and medium size manufacturing firms and their employees, as well as farmers, in both countries. It will also deepen the dependence of the Korean economy on the U.S., by restricting the Korean government’s ability to pursue autonomous macroeconomic policy.

For example, “Investor-State Dispute Settlement” (ISDS) provision in the FTA allows private multinational corporations and financial investors to file a sue against the local government, whenever they think their profit rates are reduced because of a particular policy of the local government. This ISDS could eventually undermine the capability of the government to adopt countercyclical macroeconomic policies as well as social policies that are necessary to supplement ‘market failures’. Since this provision has been frequently exploited by speculative financial firms and multinational corporations, our worry is not simply a matter of abstract speculations.

In addition, several provisions under the heading of “Financial Services” contain potentially dangerous provisions that will eventually erode the socio-economic basis for stable growth of manufacturing sectors. Since these provisions are aiming at abrogating any types of socially necessary regulatory and monitoring frameworks on financial markets (in the name of the ‘advancement of financial structure’), they will fundamentally undermine the government’s financial regulatory activities, once implemented. If this is unchecked, it will certainly accelerate ‘deindustrialization’ in manufacturing sectors, resulting in the ‘financialization’ of the economy as a whole. Given the fact that the vast majority of the economically active population are finding their jobs in manufacturing sectors, this drastic transformation of the economy would aggravate already serious social problems such as high unemployment rates, worsening working conditions and qualities of jobs, and socio-economic polarization between the rich and the poor.

We also believe that Korea-U.S. FTA would have an adverse impact on other developing countries as well, because it would weaken the developing countries’ bargaining positions in their bilateral negotiations with the U.S. Unlike multilateral negotiation, as exemplified by the series of Rounds within the framework of the World Trade Organization (WTO), a bilateral trade agreement weakens the position of developing countries as negotiating partner to the developed world. Instead of promoting their common interests at the WTO negotiating table, developing countries do not have any better and fresh information that can be used for enhancing their collective interests and bargaining power in most bilateral trade negotiations. This is the main reason why the already developed countries, such as the United States, have preferred to negotiate separate high-level bilateral trade and investment agreements with developing countries, bypassing altogether multilateral trade negotiations around the world nowadays.

Since last summer, the WTO system has faced a stalemate. This was partly because OECD countries have failed to reach an agreement in settling their own disputes, and partly because developing countries have urged incessantly that a fundamental change in the prevailing WTO system should be undertaken.

For most of us, this was a positive sign in the sense that the existing unequal trade and investment system would no longer be imposed by dominant economic powers at the

expense of the common interest of poor farmers and workers in developing countries, at least for some time in the near future. In the meantime, we hoped that there would emerge alternative regional economic cooperation based on the principle of equality and reciprocity, in which developing countries would be able to enhance their common interests.

Unfortunately, however, the recent FTA negotiation between Korea and the U.S. not only fails to address the pending issue inherent in a framework of unequal trade and investment negotiation, but it also has adverse effects on other types of bilateral and multilateral agreements that our respective countries have been negotiating with the U.S. If the recently announced FTA deal between Korea and the U.S triggers a series of similar unequal investment treaties among Asian countries as well as in the northern part of the Americas, we will lose a significant historical opportunity to improve the existing deplorable terms of trade and to change the unequal global trade and investment system. This is what is perhaps most worrisome.

In this regard, we strongly urge the Korean government and the National Assembly to overhaul any type of FTA deal and to purge it of any unfair provisions that might be detrimental to developing countries. We suggest that the Korean government should look for a better way to contribute to economic cooperation in the Asia-Pacific region and among developing countries. Finally, we would like to see the Korean government plays a significant role in contributing to sustainable economic growth in developing countries. This will ensure that Korea remain a model to be emulated by other developing countries in the future.

April 28, 2007

Students majoring economics and social sciences in Korea, Canada, the U.S. and the U.K.

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