

# Korea-US Free Trade Agreement Pre-Mortem: Turning South Korea into an “American colony”

By [Walter Hendler](#)

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The deal faces uncertain prospects

What has it come to? Elderly farmers and their leftist sympathizers from the Democratic Labor Party are engaging the police in fistfights, smashing windows and setting cars on fire.

Former Uri Party chairman Kim Geun Tae went on hunger strike, declaring that the government will finalize the KORUS FTA “over my dead body.” (Chosun Ilbo, March 23, 2007)

These hitherto supporters of President Roh are now calling him, and his pro-free-trade advisers, “pro-American quislings,” intent on turning South Korea into an “American colony.” All this is to prevent the lowering of trade barriers between South Korea and the United States.

The KORUS FTA negotiations are headed for stormy waters. Undermined from the start by opposition in Korea and indifference in America, the whole effort has proven to be untimely and ill-conceived. It wasn’t supposed to end that way.

President Roh and his pro-free-trade advisers initiated the KORUS FTA talks in early 2006 with the best of intentions in mind. Those included, but were not limited to, weaning the Korean economy off its heavy reliance on the export-driven manufacturing sector, which faces increasingly tough competition from China and other emerging manufacturing centers, by further integrating the country into the global financial system and facilitating the growth of a competitive services sector.

To his credit, President Roh showed considerable political courage by yielding to the American demands on reducing the domestic film quota and agreeing — if only in principle — to re-open the domestic market to American beef to get the KORUS FTA talks started. The technocrats in the Roh Administration understand that if the Korean economy is to continue to grow, it must undergo a fundamental restructuring in the coming years.

Kim Hyun-chong, the minister of trade in the Korean government put it this way: “We must be willing to compete. If we do not compete, our \$100 million per day trade surplus with China will turn into deficit by 2012, and our technological advantage will disappear...We need to enter into free trade agreements not only with the United States, but also with other major trading partners to increase trade, attract investment and create jobs for the next generation.” (www.korea.net, 2006/06/28) The technocrats like Minister Kim believed that a KORUS FTA could act as a ramming rod to pry the Korean economy open and provide a catalyst for change in the economic structure of the country. Greater American investment

in the Korean economy, the theory holds, would make domestic companies, faced with increasing competition, more efficient while providing the Korean consumers with more choices and cheaper goods. For the United States, the KORUS FTA, if realized would be the most ambitious free trade agreement since the NAFTA pact enacted in 1994.

By and large, for the free-trade advocates and just about anyone who studied trade economics a KORUS FTA was a no-brainer. President Roh declared its successful conclusion to be one of the top priorities in his remaining time in office in spite of the spirited opposition from his traditional supporters in the organized labor, the farmers' groups, and the left-leaning civic and student movements. The Roh Administration clearly underestimated the breadth, intensity and organization of the opposition groups. That may prove to be the undoing of the entire initiative.

It must also be said that the Korean negotiating team, led by chief negotiator Kim Chong-hoon, was dealt the weaker hand in the negotiations from the very beginning. It had many more "sensitive" sectors to protect.

It was also placed under an immense pressure from both the FTA supporters in the Roh Administration and big business interests and the FTA opponents from the civic and farmers' groups. Every twist and turn in the protracted and often technical negotiating process has been put under a microscope, making the Korean negotiators' job even more difficult.

#### KORUS FTA Implications for Korea

Over the last four decades, South Korea has undergone a remarkable transformation from an economic backwater, with a per capita GDP on par with some of the least developed African nations, and an international mendicant to a first-rate industrial power. Yet, the development of the Korean economy has been narrowly focused and unbalanced.

From the heyday of the breakneck economic development in the 1960s and 70s, the Korean economy has been deliberately organized to benefit producers rather than consumers, partly by shielding the former from the rigors of international competition, at least at home, by tariff and non-tariff barriers that are among the highest in the industrialized world, reaching a staggering average of 52 percent in the case of agricultural products.

Production and export has been rewarded; consumption and import — penalized.

While benefiting a handful of large, family-controlled chaebols, this policy imposes a heavy economic burden on the vast majority of Koreans, forcing them to pay exorbitant prices for often substandard goods and services, substantially lowering their quality of life.

As a consequence, along with world-class manufacturing companies, more than capable of standing their ground against any competition, Korea also boasts a hibernating and inefficient service sector; an underdeveloped banking and financial sectors; and a still large (albeit shrinking) agricultural sector, which, due in part to the natural limitations imposed by the Korean terrain, and in large part to the government protectionist policies that shielded it from foreign competition for decades, is simply incapable of adjusting to the opening of the Korean market in a time frame Korea's trading partners would insist upon in any balanced trade agreement.

It was apparent from the start of the KORUS FTA talks that the greatest stumbling block in

the negotiations would be the opening of the Korean agriculture, especially the rice market, to foreign products.

That presented the Korean negotiating team with a Catch-22 dilemma where in order to win American approval of a deal it would have to make concessions that would be untenable to key constituencies in Korea; and vice versa.

There has been a huge amount of hype and media frenzy surrounding the KORUS FTA talks in Korea. Some advocates see it as a panacea to Korea's economic woes that would magically catapult the country into the ranks of the world's leading economies; some of the opponents predict the decimation of local industries, economic subjugation and misery for the Korean nation. The reality, as always, is much more complex.

For Korea, an FTA with the United States holds big potential opportunities and threats; both political and economic. In the economic realm, a greater and freer access to the U.S. market would be a significant boost for large Korean conglomerates (chaebols), dependent on export for their growth.

In the service and financial sectors, a greater participation of American companies would provide a much-needed impetus for their Korean competitors to become more efficient and provide their clients with better quality products. But that would be a long-term effect.

In the meantime, the Korean service, banking and financial industries would have to undergo a painful adjustment, retrenchment and reorganization. Many companies would go bankrupt; many jobs would be lost; many Korean firms would be taken over by foreigners. To limit the inevitable nationalistic and protectionist backlash, the Korean government would have to come up with policies designed to soften the blow to the displaced workers.

The opening of the agricultural market poses an even more daunting challenge to the government and the Korean society as a whole. Whereas the service and financial industries can be restructured and made more competitive over time, the geographic, demographic and cultural realities make it highly improbable, if not impossible, that the country can reform its agricultural sector and sustain its still-large farming population in the environment of open-market competition.

Hence, the two dilemmas facing the Roh Administration — and any successive Korean government pursuing free trade agreements — are as follows.

(1) How can Korea demand greater access for its manufacturing goods in foreign market while refusing entry to foreign agricultural products into its domestic market? and (2) If the government does open the Korean agricultural market, how can it ensure the economic survival of over 3 million people engaged in farming. We are talking about 6-8 percent of the nation's total population and entire regions (the Jollas and South Chungchong provinces with their disproportionately large reliance on rice farming come to mind) liable to economic devastation. Those decisions should be particularly hard to make for the current administration, which depended on many of those very sections of population in its rise to power.

In the realm of international geo-politics, the ramifications of a possible KORUS FTA are also less than obvious. Some advocates of the deal in Korea argue that a successful conclusion of the trade agreement would be essential to cementing the fraying political and military

alliance between South Korea and the United States.

While on balance a free-trade agreement between the two countries is likely to have some positive effect on the bilateral ties, the aforementioned proposition takes the argument too far. After all, the United States does not need — nor does it intend to pursue in the near future — free trade deals with Britain or Japan to count those nations among its closest allies. That closeness stems from shared values and common geo-strategic interests rather than low tariff barriers.

On the flip side, one should consider China, whose trade turnover with the U.S. far exceeds those of Britain or Japan, but that hardly makes the two nations close allies and security partners. Trade alone does not make countries allies. As long as threat perceptions and security policies of South Korea and the United States continue to drift apart, an extra \$15-20 billion in annual bilateral trade — while welcome — is not going to do much to bring the two nations closer together.

Meanwhile in Washington

This essay would not be complete if it did not touch upon the formidable obstacles facing the KORUS FTA in Washington, where free trade is decidedly out of vogue. In the United States, the attitudes toward the current negotiations range from a general indifference and tepid, at best, support from certain industries (banks, insurance companies, etc.) standing to benefit from greater access to the Korean market to vociferous opposition from small but politically-influential interest groups.

While the aggregate effect of a KORUS FTA on the \$13-14 trillion U.S. economy would be negligible and is not worth dwelling on in this essay, the impact on specific industries (such as autos and textiles) and locals (think Midwest and the Carolinas) could be appreciable, however. It would certainly be sufficient to rekindle the protectionist urges in many politicians and mobilize labor, environmental and anti-globalization groups yearning for revenge for the lost battles of the years past, from NAFTA to the more recent ones.

In the case of KORUS FTA those groups are likely to be joined by powerful, and aggrieved, business interests (the beef producers, the “Big 3” of Detroit, and others) with a stake in the proposed agreement and their armies of lobbyists.

Add all this into the mix of a general gridlock and policy paralysis in a Washington preoccupied with multiple foreign policy challenges and the politicking of the looming presidential campaign and it’s hard to be optimistic about the prospects of the KORUS FTA agreement in the current environment. That does not imply that the goal of a free-trade regime between South Korea and the United States is unattainable or is not worth pursuing. It does mean, however, that the time for a comprehensive trade liberalization agreement between the two nations that would enjoy a broad, and informed, public support in both countries has not arrived yet.

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