



**INTERNATIONAL INSTITUTIONS AND DOMESTIC PRESSURES:
KOREAN GOVERNMENT POLICY AFFECTING TRADE WITH THE
PHILIPPINES UNDER THE WTO**

By

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THESIS

Submitted to
School of Public Policy and Management, KDI
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

2001

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ABSTRACT

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This study aims to examine the Korean government trade policy decision-making process within the context of Philippine-Korean relations and international institutions, specifically, the WTO. It also analyzes the domestic and international pressures for and against trade liberalization affecting bilateral trade between the Philippines and Korea.

Findings show that increased institutionalization has resulted in more liberalized trade between the Philippines and Korea from 1997 up to the present. Korea had to abandon certain restrictive trade policies after such policies had been found to be inconsistent with WTO rules. Persistent pressures from the Philippines and Korea's other Southeast Asian trading partners, including relative use of international norms, put the necessary pressure on the Korean government to change its trade policies.

Findings further show that various domestic pressures affect bilateral trade. Korean interest groups either held up negotiations or advanced resolutions of issues,

depending on how much influence they exerted. In general, how much impact various domestic groups have on the policy choices of Korea depends on the wider international negotiating environment rendered by the WTO. Although bilateral negotiations were stalled by domestic pressures in some cases, Korea made its decisions based on the binding rules of the WTO.

Overall, the interplay among WTO norms and obligations, pressure from the Philippines and other foreign governments and pressure from domestic groups determine Korean government policy affecting trade with the Philippines.

ACKNOWLEDGMENTS

Completion of this thesis would have not been possible without the help and generous support of some very wonderful people. I am particularly grateful to my advisor, Dr. David H. Lumsdaine for his guidance and moral support. With his constructive criticism and insight, he has taught me to think and write more analytically and logically. I am also thankful to Dr. David (Hun-Joo) Park and Dr. Dukgeun Ahn for taking time to review my draft and for their helpful suggestions on improving this paper; Dr. Jong-Il You for being “favorably disposed” to my request for extension, thus, enabling me to finish my research in Korea; Ms. Hai-Young Yun for her assistance in the final stage of completion of this thesis; the Philippine Commercial Attache in Seoul, Mr. Nicanor Bautista and his staff, Mrs. Ae-ja Jeon for sharing important information and granting me access to official documents; and Mr. Chan-ho Choi and Mr. Yeon-suk Kim of *Nonghyup* for granting my request for interview despite their tight schedule.

I am also grateful to my friends in Korea for making my study at the KDI

School of Public Policy and Management such a rewarding experience. I will always be indebted to them for their loving support and understanding and for enriching my life in so many ways: Dear Gun-Do, Rura, Kang-kong (Hoon-kyu), Seong-jai Oppa, Sun-hee, Jeab (Wanna), Sreng, Mother Huong, Nai, Karla, Jerome, Isao, Tomoki, Hitomi, Cynthia, Mei-won, Papa You Yu, Young-sook, Min-jung, Gabi, Yu-kyeong, Sung-ae, Nana, Sung-shil Haraboji, Sandag, Ji-ae, Thata, Jane, Ding, Chalee and Anousone.

Lastly, I am deeply thankful to my Dada, my sisters Lina and Ely and my brother Terry for being always supportive, loving and understanding even when my decisions did not seem to make sense. I couldn't ask for a better family!

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Chapter I

INTRODUCTION

Bilateral trade relations are better understood within the overall context of the prevailing international trading system. Indeed, as economies become more interdependent and as globalization proceeds, trade between any two countries cannot be analyzed solely on the basis of the decisions and agreements reached bilaterally, for what happens between them is often based on agreements previously reached with other trading partners.

Perhaps no other institution provides a better clue in determining the nature of the prevailing world trading environment than the World Trade Organization (WTO). More and more countries have become members of the WTO since it was established in 1995. From a mere 23, when the General Agreements on Tariffs and Trade (GATT), the WTO's predecessor, came into being in 1947 as an inter-governmental treaty, membership has expanded to 140. One may argue that just as the number of member countries has increased so had the number of nations that could join since colonies of the great powers became independent states after World War II. However, these independent nations *may have chosen not to join*. What then prompted them to become

WTO members?

The WTO makes it easier for countries to cooperate in furthering their interests, which would have been impossible in an international system that is lacking a central authority. It exists to facilitate cooperation among states that want to achieve or maintain economic development through open trade. Cooperation does not necessarily mean that states work together to attain a common good. WTO members have conflicting interests but they cooperate by “adjust[ing] their behavior to the actual or anticipated preferences of others” because they think that they can pursue their individual self-interests better by cooperating than by not cooperating at all.¹

The WTO includes provisions of differential treatment for weaker states that are less able to take advantage of the opportunities it provides. Under the Agriculture Agreement, for instance, WTO members are required to reduce tariffs and subsidies but least developed countries are exempted from making the same commitments. Implementation timetables are also flexible so that developed countries are required to meet the numerical targets for cutting subsidies and protection over a six-year period while developing countries are given 10 years to comply.

The WTO facilitates dispute resolution, with the Dispute Settlement Board

¹ Robert Axelrod and Robert O. Keohane, “Achieving Cooperation under Anarchy: Strategies and Institutions,” in *Neorealism and Neoliberalism: The Contemporary Debate*, (New York: Columbia

compelling violators, regardless of whether they are strong or weak states, to conform to the rules. By promoting a norm of reciprocity, members are assured that although they may have relative losses in one period or on one issue, they can expect to be compensated in a later period or on another issue.² The regular trade policy reviews that the WTO conducts provides sector and product information on trade practices of members. Canada, the European Union, Japan and the United States are reviewed every two years; the 16 member countries following these four largest trading powers (in terms of the value of their trade) are reviewed every four years; and most other members are reviewed every six years.³

In other words, the WTO functions to facilitate cooperation and hinder interstate conflicts *by ensuring that states achieve mutual interests*. It reduces the transaction costs involved when states negotiate and makes information open to all so that members can scrutinize each other and mitigate cheating.

Like other self-interested states, Korea and the Philippines want to take advantage of the opportunities provided by the WTO. However, membership entails abiding by stringent trade rules and adjusting one's trade behavior according to WTO

University Press, 1993), p. 85.

² Andreas Hasenclever, Peter Mayer and Volker Rittberger, *Theories of International Regimes*, (Cambridge: Cambridge University Press, 1997), p. 123.

³ Judith Goldstein and Lisa L. Martin, "Legalization, Trade Liberalization, and Domestic Politics: A Cautionary Note," *International Organization*, Summer 2000, p. 611.

norms. In the event that bilateral trade relations between Korea and the Philippines are constrained due to non-compliance to international trade rules, the negotiating environment promoted by the WTO helps them settle issues amicably.

This is not to say that issues of contention will be resolved smoothly at all times because there is always the WTO to turn to. Certainly, compliance would have been easier if states are the only ones involved in decision-making. However, various domestic pressures from non-state actors also affect trade policy-making. These domestic groups, whether they are for or against free trade, have their own self-interests to promote. Ultimately, states may delay in complying with WTO rules because they may have to consider the concerns of certain domestic groups. Results of my study show that it took some time for the Korean government to lift trade restrictions on Philippine agricultural products because of the strong pressure exerted by Korean farmers' groups. Also, as later discussed in my study, the Korean government has had to attend to the interests of domestic farmers and pharmaceutical wholesalers while Seoul-based Del Monte Korea and Korea Logistics Services vigorously urged the Philippine Embassy in Seoul to demand for more liberal trade practice from the Korean government.

The interplay of both domestic and international pressures compels states to

weigh their options and make decisions that would work best to their advantage. Considering the real hardship encountered by Korean farmers and their relentless lobbying, why did the Korean government finally give in to the request of the Philippine government to eliminate certain trade barriers? My findings show that Korea's decision was partly a result of combined pressures from the Philippines and other Southeast Asian countries, which have become its important trading partners in the 1990s. Korea was not only concerned about maintaining a good reputation. It also mattered to the Korean government to maintain good relations with countries that may either retaliate or resort to unfair treatment of Korean products.

Essentially, the value of international institutions such as the WTO as reflected in my analysis of Philippine-Korean trade relations in post-1997 depends on the absolute gains that both countries perceive they can achieve by complying to institutional rules; the weight they give to international and domestic pressures and the extent of such pressures; and the information and reduced transaction costs provided by the WTO.

A. Summary of Contents

Chapter I of this study presents the hypotheses from which I drew my analysis

of Philippine-Korean trade relations in post-1997 and the theoretical framework from which I based such hypotheses. It discusses in brief the two dominant approaches in the study of international relations, i.e., neoliberal-institutionalism and realism and how they apply to my analysis of bilateral relations between the Philippines and Korea. It also discusses how I gathered data and information essential to my research.

Chapter II is a review of related literature. It is important to carefully examine previous studies of both neoliberal-institutionalist and realist scholars and domestic politics scholars to understand converging and contrasting views on the value of institutions. This section presents various views of how international institutions or regimes affect relations among states and how they interact with domestic politics. It also includes a review of useful studies of Philippine scholars on Philippine-Korean relations which help and guide this present study.

Chapter III gives a historical background of the bilateral relations, including two-way trade volume and elaborates on the increasing importance of other Southeast Asian trading partners for Korea.

Chapter IV discusses in detail the issues and problems in bilateral trade relations which include such politically sensitive goods as agricultural products. It shows how bilateral negotiations proceeded and the dilemma faced by the Korean

government in dealing with combined pressures from both the Philippines and other Southeast Asian countries. This section focuses on the WTO norms and obligations that Korea was expected to conform to and how Korea's trading partners made relative use of such norms to put pressure on the Korean government to change its trade policies.

Chapter V expounds on domestic pressures affecting trade relations. It examines the degree of Korea's compliance to WTO rules when such compliance was challenged by influential domestic groups such as farmers and pharmaceutical wholesalers. It likewise discusses the influence exerted by domestic groups supporting free trade and how they coursed their influence through the Philippine Embassy.

Finally Chapter VI sums up my findings and my explanation and interpretation of such findings. Although my conclusions vary slightly from my hypotheses, they do not deviate entirely from my greater aim of showing what effects international institutions have on state policies.

B. Statement of the Problem

The Philippines and Korea, as members of WTO, are subject to the institutional rules and principles governing members' behavior and decisions in the conduct of trade. By analyzing trade relations between the two countries, my study aims to show how

institutionalization has significantly affected their trade policies and how they deal with certain political realities involving interest groups. Problems and issues that arise in the conduct of bilateral trade are examined to provide a basis in determining prospects for the future, considering both countries' commitment to freer and fairer trade.

Polo's prior analysis of early relations between the Philippines and Korea from the late 1940s to the early 1980s was based primarily on their pro-US and anti-Communist orientation as discussed later in this study.⁴ I believe it is important that an analysis is also done within the context of the post-Cold War period.

However, my analysis cannot cover all aspects of bilateral trade, but focuses on the problems and issues in post-1997 trade relations. The aim is to show how such issues or problems have been resolved or are being resolved to further improve trade relations between the two countries.

My analysis centers on the following hypotheses:

1. Increased institutionalization resulted in more liberalized trade between the Philippines and Korea from 1997 up to the present.
2. Domestic and international pressures for and against trade liberalization affect the bilateral trade between the Philippines and

⁴ See Lily Ann Polo, *A Cold War Alliance: Philippine-South Korean Relations, 1948-1971* (Quezon City: University of the Philippines, 1984).

Korea.

3. How much impact various pressures have on the policy choices of the two countries depends on the wider international negotiating environment promoted by the WTO.

Based on the above hypotheses, I assumed that changes in international rules in GATT and then WTO regarding products that Korea has banned from entering its domestic market and which the Philippines exports, were pivotal in making the Korean government adjust its trade policies in favor of the Philippines. Bilateral trade relations have improved considerably starting in 1997 when issues involving the import tariff on bananas, trade restrictions on floppy disk drives and pharmaceuticals, and the import ban on Philippine mangoes and papayas that have been pending for years were resolved. I wanted to find out what would explain the rapid changes after decades when negotiations were stalled and why negotiations were stalled in the first place.

I also assumed that various pressures for and against trade liberalization affect the bilateral trade. I took into account persistent pressure from the Philippine government, pressures from various domestic groups in Korea and pressures from Korea's Southeast Asian trading partners.

In formulating the third hypothesis, I assumed that the Korean government was

faced with the dilemma of giving in to the requests not only of the Philippines but also of its other trading partners; of complying with WTO norms and rules that were supposed to work to its advantage, Korea being a major trade-dependent country itself; and of addressing the concerns of domestic groups that expected to lose from trade liberalization. I further assumed that the Korean government had to weigh its options, calculated the risks involved and ultimately reached decisions which it thought would generate absolute gains for itself but actually worked for the mutual benefits of both Korea and the Philippines --- outcomes that the WTO is supposed to facilitate.

C. Sources for the Study

I used both primary and secondary sources in describing and analyzing post-1997 trade relations between the Philippines and Korea.

The Philippine embassy in Seoul and the Southeast Asia Division of Korea's Ministry of Foreign Affairs and Trade provided relevant documents such as annual reports, statistics and official correspondence. Other primary sources that I used included books, newspapers, magazines, journals and similar types of publications.

My interviews with the Philippine commercial attaché in Seoul and his staff and the official correspondence they provided were most helpful in my study. My

analysis of the cases presented here was largely based on them.

Although my research tends to present the Philippine point of view, comments and suggestions of some Korean government officials, scholars as well as representatives of farmers' and business groups were also taken into account through interviews. I conducted face-to-face and telephone interviews and when appropriate, received supporting data and information from my respondents via e-mail.

D. Theoretical Framework

Neoliberal institutionalist theory is used in this study as the main tool of analysis. The core premise of the theory is that although states may be unitary actors in a system seeking to promote their own self-interests, institutions can prevail over obstacles to cooperation arising from the anarchic nature of the system.⁵ This is in contrast with realist thinking which considers international institutions as weak. For realists, competition is a natural consequence of an ungoverned international system because states cannot trust each other and must resort to self-help. According to them, "the logic of action in anarchy... leads nations into conflict, however pacific their initial

⁵ Peter A. Gourevitch, "Robert O. Keohane: The Study of International Relations," (available at <<http://www.apsanet.org/PS/sept99/keohane.cfm>>).

intentions [are].”⁶ Institutional rules can be enforced only when there is a hegemonic or dominant state that promotes them and compels others to conform to them.

Proponents of neoliberal institutionalist theory do not deny the importance of the system in shaping state behavior. They recognize the fact that because the international system is anarchic, cheating and deception are endemic. Where realists see near-inevitable conflict, however, institutionalists see the possibility of cooperation.

In a system realm that realists have in mind, cooperation among unitary states only becomes possible in the presence of a hegemon --- “a strong sovereign to punish defectors”. Realists further contend that states are more inclined towards conflict than cooperation because they seek relative gains. This means states are very much concerned about how well they do compared to other states. Kenneth Waltz (1979) summarizes it more succinctly when he says:

When faced with the possibility of cooperating for mutual gain, states that feel insecure must ask how the gain will be divided. They are compelled to ask not “Will both of us gain?” but “Who will gain more?” If an expected gain is to be divided, say, in the ratio of two to one, one state may use its disproportionate gain to implement a policy intended to damage or destroy the other. Even the prospect of large absolute gains for both parties does not elicit their cooperation so long as each fears how the other will use its increased capabilities.⁷

⁶ Gourevitch, 1999.

⁷ Waltz as cited by Duncan Snidal in “Relative Gains and the Pattern of International Cooperation,” in *Neorealism and Neoliberalism: The Contemporary Debate*, (New York: Columbia University Press,

Keohane (1984), however, contends that institutions can increase cooperation among states even in the absence of coercive power. In his view, diminished hegemony will not necessarily result in conflict, as realist theorists expect, because the international institutions established during hegemony persist. Such institutions do not only discourage cheating but also address the relative gains problem. They redistribute gains. The WTO, for instance, includes provisions of differential treatment for weaker states, facilitates dispute settlement, promotes norms of reciprocity and non-discrimination that are intended to redistribute the gains of free trade under conditions of high-quality information and reduced transaction costs.

Do international institutions, defined as “enduring sets of rules, norms and decision-making procedures that shape the expectations, interests and behavior of actors,”⁸ really have significant influence on relations among states as far as promoting cooperation is concerned? The answer to this question is reflected in my analysis of trade relations between the Philippines and Korea vis-à-vis their compliance to liberal commitments as WTO members.

While the main theoretical framework for this study is neoliberal institutionalism, it likewise considers domestic politics elements. After all, it is not

1993), p. 172-173.

⁸ Judith Goldstein, Miles Kahler, Robert O. Keohane and Anne-Marie Slaughter, “Introduction:

enough to recognize that states seek cooperation. It should also be analyzed if there is domestic political support for them to do so. Domestic politics theory argues that parties, interest groups and domestic political institutions are important in shaping state behavior. Viewed from this perspective, international institutions are strong because domestic actors support them, believing that there are gains to be had in fostering state's cooperative behavior.

How various pressures for and against trade liberalization that the WTO promotes affect bilateral trade between the Philippines and Korea is examined within this framework.

Legalization and World Politics," *International Organization*, Summer 2000, p. 387.

Chapter II

REVIEW OF RELATED LITERATURE

In his analysis of the structure of international trade, Krasner (1976) contends that a more open trading structure is most likely to prevail “during periods when a hegemonic state is in its ascendancy.”⁹ This is because “[s]uch a state has the interest and the resources to create a structure characterized by lower tariffs, rising trade proportions, and less regionalism.”¹⁰ He provides convincing evidence to show that during periods characterized by ascendancy of Great Britain and the United States as hegemonic powers, specifically from 1820-1879 and from 1945-1960, greater openness in the world economy took place. He further claims that “[t]he potentially dominant state has symbolic, economic and military capabilities that can be used to entice or compel others to accept an open trading structure.”¹¹

Keohane (1997) challenges such proposition on “state power and the structure

⁹ Stephen D. Krasner, “State Power and the Structure of International Trade,” *World Politics*, 1976, p. 323.

¹⁰ Krasner, (1976), p. 323

¹¹ Krasner, (1976), p. 322.

of international trade” and argues that even in the absence of a hegemon, “a small number of countries, each concerned about linkages among issues and about their reputations, could maintain cooperation among themselves on the basis of shared interests” under the right conditions.¹² His is a liberal-institutionalist view that “emphasizes the capacity of a small number of states, linked by institutions, to cooperate for mutual gain.”¹³

Keohane focuses on the conditions wherein states will keep their commitments when there is incentive to renege from them. According to him, international institutions' main function is to facilitate cooperation by providing states with information and reducing transaction costs. For instance, the WTO mitigates cheating, which is a potentially serious problem in international trade, by making information about member countries' compliance more easily available through its periodic trade policy reviews. Thus, WTO members find it easier to cooperate because their fear of being cheated is reduced. The greater probability of getting caught and jeopardizing their reputation makes deception a less desirable option for these states. Reputational concerns are important because those following their short-term interest of non-compliance face difficulty in realizing gains through cooperation in the future.

¹² Robert O. Keohane, “Problematic Lucidity: Stephen Krasner’s ‘State Power and the Structure of International Trade’,” *World Politics*, October 1997, p.161.

Noting the domestic politics elements of international trade, Keohane claims that “[o]penness [to trade] is self-reinforcing within countries, since it increases the economic strength and political influence of interests that favor it.”¹⁴ However, he concedes that scholars “will have to examine more closely how domestic politics are linked to international institutions.”¹⁵ According to him, it could be “worthwhile to focus on the degree of state compliance with agreed-upon rules when such compliance is contested --- that is, when opposition to compliance is manifest in domestic politics.”

Although not directly concerned with international institutions but more focused on internationally oriented firms that resisted protectionism, Milner (1988) has shown that the preferences of non-state domestic actors are altered by increased international economic interdependence especially after World War II. She maintains that the effects of more liberal trade among advanced industrial countries changed domestic actors’ trade policy preferences and discouraged recourse to protectionism. She supports her argument by discussing detailed and structured comparison of trade policy making among industries in France and the United States. Her study is helpful in understanding the domestic politics elements that both realists and neoliberalists tend to

¹³ Keohane (1997), p. 162.

¹⁴ Keohane (1997), p.169.

¹⁵ Robert O. Keohane, “Institutional Theory and the Realist Challenge after the Cold War,” in *Neorealism and Neoliberalism: The Contemporary Debate*, (New York: Columbia University Press, 1993), p.295.

overlook when analyzing state policies.

The link between international institutions and domestic politics is discussed to some extent in Paarlberg's (1997) study on agricultural policy reform and the Uruguay Round (UR).

Paarlberg examines what role multilateral negotiations play in bringing about substantial domestic agricultural policy reforms in the United States and the European Union between 1990 and 1996 in his study. He asks how much of such reforms would have been undertaken even in the absence of a multilateral agreement or a final agreement in GATT. He concludes that "the reforms secured through international negotiation were modest at best", most of which "would have been achieved even if the Uruguay Round had never been launched".

Paarlberg's study is important because it suggests that at least in the case of agriculture, governments should exercise caution in using international institutions when dealing with domestic policy reform constraints.

In their analysis of the domestic requisites of free trade and the relationship between international legalization and trade, Goldstein and Martin (2000) assert that:

[t]he source of stability of trade agreements is found in domestic political mechanisms. The rules of the regime influence countries by making it easier or harder to find majority support for trade openness; if the regime supports rules that are unhelpful to politicians at home, it may well undercut its own

*purpose. Thus the legalization of international trade could turn on itself if analysis of the benefits of legalization neglects associated political costs.*¹⁶

By regime here, they mean international institution.¹⁷ Legalization, on the other hand, refers to a particular form of institutionalization encompassing three aspects of international law: obligation, precision, and level of delegation to a centralized authority, such as the WTO.¹⁸ Politicians particularly bear the “political costs” that Goldstein and Martin mention because their interests in trade liberalization are constrained by elections.

This literature contains different, even contrasting, perspectives on how international institutions or regimes affect relations among states and how they interact with domestic politics. The studies provide extensive and helpful insights on international institutions but my concern here is to assess how they apply to bilateral relations, particularly in the area of trade, between the Philippines and Korea. Considering the real hardship encountered by Korean farmers and their relentless lobbying, why did the Korean government finally give in to the request of the Philippine government to eliminate certain trade barriers?

Parrenas (1995) maintains that Korea's imposition of import restrictions on

¹⁶ Goldstein and Martin (2000), p. 632.

¹⁷ A regime is more clearly defined as “a set of mutual expectations, rules and regulations, plans, organizational energies and financial commitments, which have been accepted by a group of states.” Ruggie (1975) as cited by Keohane (1984), p. 57.

¹⁸ Abbott et al., (2000) as cited by Goldstein and Martin (2000), p. 603.

various Philippine agricultural products and very restrictive quarantine requirements can be attributed to political pressure from local farmers' groups. His work provides a good start in understanding the problems and issues in Philippine-Korean trade relations but it neither adequately explains the Philippine government's course of action to counter the pressure from Korean farmers nor discusses in detail how negotiations have progressed.

In her study on Philippine-Korean relations from 1948-1971, Polo (1984) takes a somewhat realist point of view and assumes that the shifts and changes in the balance of power in the international system would inevitably lead to a transition in bilateral relations. Other factors she cites as determinants of such a transition include changes in US foreign policy in Asia. She thinks the bilateral relations were solely determined by a hegemon that enforced cooperation.

I take a different view. I consider bilateral cooperation, particularly in the area of trade, as developing over time based on the existence of shared interests under conditions of high quality information and mechanisms for surveillance provided by the WTO. I do not refute the fact that during the Cold War, bilateral relations were limited and prevailing conditions did not permit expansion of trade between them because they were more preoccupied with aligning their policies with those of the US and containing Communism. Taking a neoliberal-institutionalist stand, I argue that increased

institutionalism has led to significant improvements in bilateral relations, as manifested by increased and more open trade and more frequent negotiations that led to the resolution of trade issues that have been pending for years. I also contend that various domestic pressures contribute to changes in the relations. In my study, I take into consideration which domestic interest groups are doing what and with how much influence without ignoring other factors that may have influenced the relations such as persistent pressure from the Philippine side and pressure from other Southeast Asian countries.

It is in the light of the literature reviewed here that this study was undertaken.

Chapter III

BACKGROUND OF PHILIPPINE-KOREAN TRADE RELATIONS

Formal diplomatic relations between the Philippines and Korea were established in February 1953. The Philippines, together with Australia and Taiwan, was one of the first countries in the Asia-Pacific region to establish diplomatic relations with South Korea, which was then embroiled in a civil war with North Korea.¹⁹

The Philippine legation in Seoul was established on November 11, 1954, which was elevated to embassy in 1957. The Korean legation in Manila was simultaneously upgraded to embassy and the elevation of the respective missions of the two countries took effect on February 1, 1958. Yet it is noteworthy that from the time formal diplomatic relations were established until 1980, no official visits by presidents of both countries were undertaken. Although Korean President Park Chung-hee visited Manila in October 1966, it was mainly because of his participation in the Manila Summit Conference of the seven countries that supported the United States during the Vietnam

¹⁹ Polo (1984), p.65.

War.²⁰

Evidently, bilateral relations during the Cold War were quite limited. The prevailing conditions afforded the Philippines and Korea few opportunities to learn from each other, to expand trade or to engage in cooperative pursuits other than containment of Communism. Bilateral relations were not given the chance to flourish in an era when countries were largely identified with either the US or the former Soviet Union. Both the Philippines and Korea were more concerned with aligning their policies with those of the US than focusing on their bilateral relations.

Significant improvements in the bilateral relations only became apparent after the Cold War as indicated by more frequent exchanges of official visits between Korean and Philippine presidents.

In 1981, President Chun Doo-hwan came to the Philippines for an official visit while Presidents Kim Young-sam and Kim Dae-jung undertook official visits in 1994 and 1999, respectively. In 1993, President Fidel Ramos became the first Philippine president to make a state visit to Korea since diplomatic relations between the two countries were established. During his visit, the two governments decided to hold regular consultations with the objective of strengthening bilateral relations. The first of

²⁰ Polo (1984), p. 68.

such consultations was held in April 1994 in Seoul. President Joseph Ejercito Estrada followed Ramos, with a state visit in 1999.

Bilateral trade was small and one-sided in the early years of diplomatic relations. From 1948-1971 there was a consistent trade imbalance in favor of the Philippines. Philippine exports to Korea amounted to \$31, 355 at the end of 1970, but Korean exports to the Philippines were valued at a mere \$959.²¹ The first formal trade agreement was not concluded until 1979, twenty-six years after formal diplomatic relations were started.

However, the trend was reversed in the 1980s when Korea experienced economic growth under its export promotion scheme, which had been initiated in the mid-1960s. By 1989, total Philippine merchandise exports to Korea was \$175 million while merchandise imports from Korea reached \$420 million.²²

In 1999, total trade between the two countries amounted to \$3.76 billion, accounting for 5.72% of the Philippines' worldwide trade of \$65.76 billion²³ and 1.43% of Korea's worldwide trade of \$263.39 billion²⁴. Korea ranked fifth among the Philippines' largest trading partners, after the United States, Japan, Taiwan and

²¹ Polo (1984), p. 70.

²² Unpublished statistics from the Department of Trade and Industry, Manila.

²³ Annual Report of the Philippine Embassy in Seoul, 1999.

²⁴ International Monetary Fund, *Direction of Trade Statistics Yearbook, 2000*, (Washington, DC: International Monetary Fund, 2000), p. 284.

Singapore. Philippine exports to Korea totaled \$1.03 billion, registering a growth of 102.74% over that of 1998 while imports from Korea reached a record level of \$2.72 billion, an increase of 24.44% over 1998 figure. It was during this year that Korea became one of the only 10 countries absorbing at least \$1 billion of Philippine merchandise and at the same time ranked 10th among the Philippines' export markets.

Table 1 shows the top 10 Philippine exports to Korea in 1999.

Table 1. Top Philippine exports to Korea

Products	Value in US\$ Million
<i>TOTAL</i>	<i>1,032</i>
1. Semi-conductor devices	687
2. Copper cathodes	46
3. Electronic office & automatic data processing machines	41
4. Fresh bananas	22
5. Petroleum naphtha	17
6. Copper alloys, unwrought	16
7. Copper waste & scrap	15
8. Electrical machinery & apparatus	12
9. Oil-cake	7
10. Power generating & specialized machines	7

Source: National Statistics Office, Manila, Philippines

The top 10 Philippine imports from Korea, on the other hand, are summarized in Table 2.

Table 2. Top Philippine imports from Korea

Products	Value in US\$ Million
<i>TOTAL</i>	2,723
1. Semi-conductor devices	1,245
2. Textile yarns & fabrics	190
3. Power generating and specialized machines	107
4. Telecommunications/sound & video machines	99
5. Transport equipment	61
6. Electrical machinery and apparatus	52
7. Automotive & truck tires	31
8. Propene (propylene)	24
9. Consumer electronics	20
10. Polypropylene	20

Source: National Statistics Office, Manila, Philippines

The Philippines is not the only country in Southeast Asia that has recorded a significant increase in trade with Korea in the 1990s. While Association of Southeast Asian Nations (ASEAN)²⁵ comprised 6.6% of Korea's total trade in 1980, its share had risen to 10% by 1993.²⁶ In 1999 total trade between ASEAN and Korea amounted to US\$23 billion, as against US\$17 billion in 1998.²⁷

The surge in trade between ASEAN and Korea took place against a backdrop of

²⁵ Composed of Brunei, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam and Cambodia.

²⁶ Yen Kyun Wang, "Overview of ASEAN-South Korea Economic Relations," in *ASEAN and Korea: Emerging Issues in Trade and Investment Relations*, (Singapore: Institute of Southeast Asian Studies, 1995), p. 1.

²⁷ Statistics available at <<http://www.aseansec.org>>.

phenomenal increase in trade volume and openness in the global economy. From 1990-1999, growth in the volume of world merchandise exports posted an annual percentage change of 6.5 and developing countries, to which both Korea and the Philippines belong, recorded a growth of 9%, increasing their share in world exports to 26.5%.²⁸ While these countries “traditionally refrained from full-fledged participation in GATT-based trade liberalization efforts,” with the establishment of the WTO in 1995, they “signalled a greater willingness to abide by the rules of the game.”²⁹

One may argue in the vein of Kenneth Waltz that expansion in world trade can be explained by the fact that states are merely following the path of the more successful among them lest they “pay a stiff price for not doing so”³⁰ rather than attribute it to increased institutionalization. Countries denying the merits of free trade and refusing to join the pack will be at the losing end. It would work against their interests to keep their markets closed.

One of the greatest challenges facing the WTO at the moment is the process of integrating a large economy like China and the transition economies of Eastern Europe and former Soviet republics, which are obviously following the path of the more

²⁸ World Trade Organization, “International Trade Statistics, 2000,” (available at <<http://www.wto.org>>).

²⁹ Bernard M. Hoekman and Michel M. Kostecki, *The Political Economy of the World Trading System*, (Oxford: Oxford University Press, 1995), p. 10.

³⁰ Kenneth N. Waltz, “Globalization and Governance,” (available at <<http://www.apsanet.org/PS/dec99/waltz.cfm>>)

successful US and Western Europe, into the trading system. The WTO as an international organization has very little power (in the sense that realists use that term) and yet it is able to discipline even these more powerful or more successful countries. There have been many instances when the US has lost its case against a developing country before the WTO's Dispute Settlement Board and conformed to the decisions of the dispute panel. As Hoekman and Kostecki assert, "...at the end of the day what matters is the willingness of WTO Members to invoke multilateral dispute-settlement procedures and play by the rules of the game"³¹.

The question remains why in a states system that realists say is characterized by the constant struggle for power and advancement of self-interests, actors would be willing to accept losses or to delegate authority to an international institution that "implements, interprets and applies the [regime] rules [and] resolves disputes"³²

States have goals that they expect to realize through international institutions. In the case of WTO members, this goal is to achieve or maintain economic development through trade. Norms of non-discrimination and reciprocity in the WTO make redistribution of gains possible. A WTO member may raise its concern against an unfair trade practice of another member and push for compliance before the DSB. The

³¹ Hoekman and Kostecki (1995), p. 11.

³² Kenneth W. Abbott and others, "The Concept of Legalization," *International Organization*, Summer

transparency and enriched information environment afforded by the WTO also allow members to monitor each other's behavior and demand correction to skewed trade practice. More significantly, it is easier for members to accept relative losses in some issues because they expect to gain in other issues. In the discussion that follows on the issues and problems in Philippine-Korean trade relations, this is more clearly illustrated.

Chapter IV

ISSUES AND PROBLEMS IN TRADE RELATIONS

The issues and problems discussed in this chapter include such politically sensitive goods as agricultural products. Agricultural issues have long loomed large in world trade discussions and it is not surprising that they have also been a source of irritants in Philippine-Korean trade relations. The first two cases involve Korea's import tariff on Philippine bananas and its import ban on Philippine mangoes and papayas. The negotiations that took place indicate how the Philippines and Korea have upheld the norms of reciprocity and non-discrimination expected of WTO members despite strong pressure from local farmers' groups. They also show the dilemma faced by the Korean government in dealing with combined pressures from both the Philippines and other ASEAN countries.

The next two cases involving the import restriction on floppy disk drive and entry barrier for pharmaceutical companies indicate how WTO rules prevailed over the protectionist tendencies of the Korean government and pressure from the militant

pharmaceutical wholesalers' group in Korea. Since Korea is bound by the rules specified in WTO agreements, it had to abide by them lest they face difficulty in realizing the gains from cooperating with other trading partners in the future.

A. Import Tariff on Bananas

In 1999, Korea imported \$68.38 million or 93.5% of its banana requirement from the Philippines.³³ Owing to the relatively short distance between the two countries, the fruits are easy to ship to Korea via the ports in Masan and Incheon from the southern island of Mindanao, where the plantations are. Ecuador, the second biggest banana exporter to Korea does not pose any immediate threat to the Philippines. Its share of the market was a meager 6% in 1999.³⁴

At present, Korea imposes a 50% tariff on Philippine bananas, which the Philippine government considers “inordinately high.” This is may be decomposed into an in-quota tariff duty of 30% (also called “basic duty” under Korea’s Customs Duties Act) and an out-of-quota surcharge of 20%.³⁵

Before 1991, Korea banned importation of bananas altogether and when it did

³³ Philippine Trade and Investment Promotion Office’s 2001 Work Program, Seoul, November 2000.

³⁴ Philippine Trade and Investment Promotion Office’s 2001 Work Program, Seoul, November 2000.

³⁵ In-quota tariff duty refers to the tariff rate for specified quantities while out-of-quota surcharge refers to the rate for quantities that exceed the quota.

allow the fruit to enter the domestic market in 1991, a 90% tariff was imposed, 50% of which was in-quota tariff duty. Table 3 shows changes in tariff rates within a period of 10 years since restriction on importation of bananas was lifted.

Table 3. Korea's import tariff on Philippine bananas

Year	Basic Duty	Tariff Rate	Import Volume (MT)	Import Amount (US\$)	Import Price (US\$/MT)
1991	50%	90%	314,748	203,511,677	646.59/MT
1992	40%	90%	171,203	80,810,856	472.02/MT
1993	40%	90%	146,045	56,640,234	387.83/MT
1994	30%	90%	138,422	49,299,358	356.15/MT
1995	30%	70%	121,538	49,512,584	407.38/MT
1996	30%	70%	123,945	56,386,558	454.93/MT
1997	30%	70%	135,702	58,368,291	430.12/MT
1998*	30%	70%	65,140		
1999*	30%	60%	138,000		
2000*	30%	50%	134,290		

Sources: Philippine Trade and Investment Promotion Office, Embassy of the Philippines, Seoul, Korea

**Data for 1998-2000 were provided by Del Monte Korea, which did not have figures for import amount and price.*

Although the in-quota tariff duty was reduced by 10% in 1992 and by another 10% in 1994, the overall tariff rate was not reduced until 1995, the same year the newly committed tariffs and tariff quotas under the Uruguay Round took effect. The

succeeding tariff reductions were a result of the Philippine government's relentless effort, mainly through the Philippine Embassy in Seoul, since 1998.

The Philippine government seizes every opportunity to lay the matter on the negotiating table. During the Asia-Europe Meeting (ASEM) held in London in April 1998, Department of Trade and Industry (DTI) Secretary Cesar Bautista once again raised the issue of reducing the 70% tariff rate in his meeting with Korean Minister of Foreign Affairs and Trade Han Duck-soo. Minister Han responded by saying that "Korea would welcome further discussion of finding ways to gradually reduce the high tariff."³⁶

Apparently without much progress after the ASEM in London, the Philippine Trade and Investment Promotion Office in Seoul reiterated its request for tariff reduction in a very detailed letter addressed to the Ministry of Foreign Affairs and Trade (MOFAT) and Ministry of Agriculture and Forestry (MAF) in July 1998.

The letter specifically enumerates the GATT provisions that Korea violates as a WTO member by imposing a high tariff rate on bananas. It also discusses the discriminatory nature of the Customs Duties Act and claims that the high tariff is inconsistent with Korea's commitment to free trade. The letter further states that

³⁶ "Highlights of Discussion in the Bilateral Meetings of Secretary C. B. Bautista during the ASEM Leaders' Summit," attachment to memorandum by DTI Bilateral Relations Chief Ma. Salome C.

reduction of the tariff would not negatively affect Korean trade policy.

It is clear that although WTO rules and principles make non-discrimination and reciprocity obligatory to member countries, it was imperative that the Philippine government reminded Korea of such obligations. As Keohane explains, international regimes are “rarely enforced automatically and they are not self-executing.”³⁷ The Philippines took it upon itself to pressure Korea to conform to the rules like any WTO member is expected to.

The Ministry of Agriculture and Forestry, through its Bilateral Cooperation Division, sent a reply to the letter from the Philippine Embassy saying that the 70% tariff was actually lower than the bound tariff rate agreed upon during the Uruguay Round and that the issue should be discussed in future WTO negotiations.³⁸ It also claimed that local fruit growers were “seriously concerned” about any tariff reduction that would be made and faced stiff competition in the initial years that the market was liberalized for bananas.

MOFAT responded in support of MAF, stating that the 70% tariff was in fact lower than the 96% bound tariff committed during the Uruguay Round.

Rebosura to Commercial Attache Zafrullah G. Masahud, dated April 14, 1998.

³⁷ Keohane (1984), p. 89.

³⁸ Ministry of Agriculture and Forestry’s Bilateral Cooperation Division Head Yoo Byung-rin’s letter to Philippine Commercial Attache Zafrullah G. Masahud, dated August 8, 1998.

After more exchanges, meetings and consultations, MOFAT finally informed the Philippine embassy on December 14, 1998 that the Korean government has decided to lower the tariff to 60%, effective January 1, 1999.

A month after the tariff reduction took effect, the Philippine Commercial Attache received a letter from MOFAT requesting that the anti-dumping case against Korean electrolytic tinsheets filed by the National Steel Corporation before the Philippine Tariff Commission earlier be settled as soon as possible.

On August 4, 1999, Philippine Ambassador Juanito P. Jarasa made a courtesy call on Minister Han Duck-soo, discussing among other things, further reduction of the 60% tariff rate. Minister Han made an assuring response that the concerned Ministries would review the possibility of reducing the tariff by an additional 10% in 2000.³⁹ This was, however, followed by a request to the Philippine government to bring to a final resolution the anti-dumping case against Korean electrolytic tinsheets. Minister Han also asked Philippine assistance on the elimination of the pre-shipment inspection by the Societe Generale de Surveillance (SGS) on Korean exports to the Philippines, a matter that according to him the WTO has decided to eliminate beginning January 2000.⁴⁰

³⁹ Ministry of Foreign Affairs and Trade's Emerging Markets Division Head Ahn Gil-won's letter to Philippine Commercial Attache Zafrullah G. Masahud dated August 17, 1999.

⁴⁰ Philippine Ambassador Juanito P. Jarasa's memorandum to the Department of Foreign Affairs Secretary dated August 18, 1999.

The anti-dumping case has since been settled in favor of Korean tinplate importers⁴¹ while the tariff on bananas was further lowered by 10% in 2000.

At present, the Philippine government is working on further reduction of the 50% tariff rate, resolutely insisting on the elimination of the 20% out-of-quota surcharge by 2001. Its main argument is that Korea does not produce bananas and therefore, does not have any similar industry that needs government support. Moreover, tariff rates in other countries range from a low 1.4% in the US to a high of only 30% in China.⁴²

Judging by the way negotiation progresses on the issue, it is unlikely that Korea would easily give in to the Philippines' request while there is still an anti-dumping case on Korean polypropylene resins pending before the WTO's Dispute Settlement Board.⁴³ However, one can expect negotiations to be more fruitful because the norm of reciprocity will prevail. This has been proven before when the tariff on bananas was further cut by 10% in exchange for settlement of the anti-dumping case against Korean electrolytic tinplates.

Agricultural self-sufficiency and the preservation of farmers' way of life tends,

⁴¹ Philippine Trade and Investment Promotion Office, "Inputs on Various Matters Scheduled for Discussion between the Philippine and Korean Sides during the Visit of President Kim Dae-Jung," Seoul, 1999.

⁴² Philippine Trade and Investment Promotion Office's 2001 Work Program, Seoul, November 2000.

⁴³ See "Philippines – Anti-Dumping Measures Regarding Polypropylene Resins from Korea," Request

in Korea as elsewhere, to be an emotionally evocative issue as a whole. Earlier attempts by the Philippines to remove the ban on bananas were unsuccessful largely because of pressure from Korean farmers. It did not help that agricultural products were not considered regular goods subject to bounds on tariff and other restrictions, a process known as "tariffication," before the Uruguay Round. Following the UR, however, Korea began to comply with its international obligations by placing bananas as possible imports, although subject to high tariffs. Repeated requests and pressure from Philippine officials, however, over the relatively short period of ten years resulted in progressive reductions in the tariff from 90% to 50% with further reduction expected. How does one explain this rapid reduction after decades in which bananas were simply prohibited?

Clearly, the change in international norms/rules in the GATT and then the WTO regarding agricultural products were pivotal in this change. However, close evaluation of the process shows that the GATT/WTO rules alone were not entirely responsible for the change. Rather, persistent pressure from the Philippine side, including relative use of international norms, put the pressure on Korean officials needed to change government policy while at the same time the Korean government used this process of appeal and discussion to settle some issues and negotiate changes in

for Consultations by Korea, WT/DS215/1, 20 December 2000.

certain Philippine trade regulations.

B. Import Ban on Fresh Mangoes and Papayas

The Philippines had negotiated for the entry of fresh mangoes and papayas into the Korean market since 1989.

The import ban was justified on the grounds that the fruits were hosts to the Oriental fruit fly and that the vapor heat treatment (VHT) used by the Philippines and accepted by other importing countries did not meet the standards the Korean National Plant Quarantine Service (NPQS) deemed appropriate. In 1989, the Bureau of Plant Industry (BPI) in the Philippines, in its effort to convince the NPQS of the efficacy of the VHT, submitted official documents on the VHT and invited NPQS officials to come to the Philippines to observe the fumigation process for fresh mangoes and papayas.

Almost a decade after the issue was first presented, the import ban prevailed. A joint experimentation test was not discussed at length until August 14, 1997, during a meeting between MOFAT officials from the Southeast Asia and International Trade Divisions and members of the ASEAN Committee in Seoul (ACS) subcommittee.⁴⁴ During the meeting, Southeast Asia Division Head Lee Joon-jae informed then

⁴⁴ Philippine Ambassador Ernesto S. Gidaya's memorandum to the Department of Foreign Affairs Secretary dated August 14, 1997.

Philippine Ambassador to Seoul Ernesto S. Gidaya that Korea agreed to fund a joint experimentation test for Philippine mangoes and papayas through the ASEAN Special Cooperation Fund (to which Korea was, and still is, a contributor), which was likely to be conducted in September or October 1997. Mr. Lee further said that NPQS officials were just waiting a letter of invitation from Philippine authorities.

It must be noted, however, that two days prior to the meeting in Seoul, the ASEAN Secretariat in Jakarta, Indonesia sent a letter to the ASEAN-Philippines National Secretariat, informing the latter of the status of a project called "Joint Experimentation Test for Tropical Fruit Export of ASEAN Countries to ROK," proposed by Singapore.⁴⁵ A copy of the letter was sent to the Korean Embassy in the Philippines.

Thus, it can be assumed that Korea's decision to conduct the joint experimentation test was more of a result of pressure not only from the Philippines but from ASEAN as well. After all, the August meeting in Seoul was called to dispel the impression that Korea was a closed market, especially as far as ASEAN products were concerned.⁴⁶

⁴⁵ ASEAN-Philippines National Secretariat Assistant Secretary Ernesto V. Llamas' letter to Korean Minister-Counsellor Kook Ho-shin. ROK refers to Republic of Korea.

⁴⁶ Philippine Ambassador Ernesto S. Gidaya's memorandum to the Department of Foreign Affairs Secretary dated August 14, 1997.

However, the joint confirmatory test on VHT did not take place until 1998. The Philippines once again reiterated its concern during the ASEM Leaders' Summit held in London in April 1998, wherein Korean Trade Minister Han Duck-soo made it clear that "Korea would ensure the expeditious resolution for the admittance of Philippine fresh mangoes and solo papayas in the local market and work towards the timely conduct of the joint confirmatory test on VHT scheduled on 13 April-13 May 1998."⁴⁷

Not wanting to lose the momentum gained in April and May, the Philippine Commercial Attache in Seoul met with MOFAT's Asia Trade Division Head Jeon Jaeman in July 1998, from whom he received an assurance that based on the results of the joint experiment, the Korean government was in the process of revising its policy on Philippine mangoes and papayas and that the ban was likely to be lifted in October 1998.

In September 1998, Korean experts were again invited to the Philippines, this time to provide a status report on the joint experiment during the "Seminar-Workshop on Vapor Heat Treatment." Delegates from ASEAN member countries also participated in the seminar-workshop organized by BPI.

In January 1999, the NPQS finally lifted the import ban on Philippine mangoes and papayas. The import quarantine requirements issued by the NPQS appeared on the

⁴⁷ "Highlights of Discussion in the Bilateral Meetings of Secretary C. B. Bautista during the ASEM Leaders' Summit," attachment to memorandum by DTI Bilateral Relations Chief Ma. Salome C.

Korean Government Gazette on January 2, 1999 and took effect on the same day.

Although the lifting of the ban should come as good news, the Philippine Commercial Attache wrote that:

...the requirements needed to be complied with are quite stiff, especially the matter of preparing the exports and bringing in Korean inspectors whose expenses will be borne by the Philippines. It is likely that small and medium size exporters and those with limited resources will, at least in the short term, have difficulty meeting the requirements of the NPQS.⁴⁸

One of the difficulties in complying with the requirements was highlighted in a request made by the BPI to the NPQS in February 1999. The BPI asked that the expenses to be paid for the Korean experts during the pre-clearance inspection be reduced.⁴⁹

The requirements specify that NPQS inspectors should be posted in the Philippines for three months each year to oversee the VHT fumigation for mangoes and papayas to be exported to Korea. A replacement staff from the NPQS may be requested in case there will still be exports beyond the three-month period. Requirements such as this, hindered the early entry of the fruits. Although the import ban was lifted in 1999,

Rebosura to Commercial Attache Zafrullah G. Masahud, dated April 14, 1998.

⁴⁸ Philippine Commercial Attache Zafrullah G. Masahud's memorandum to Minister Counselor Petronila P. Garcia dated January 12, 1999.

⁴⁹ BPI Officer-in-charge Santiago R. Obien's letter to NPQS' International Quarantine Cooperation Division Head Byoung Kyu-ahn dated February 5, 1999.

the fruits did not become available in the Korean market until April 2000.⁵⁰

The case of the import ban on fresh mangoes and papayas illustrates the protectionist nature of certain sanitary and phytosanitary (SPS) measures that most countries adopt especially when such measures can be used as a mechanism to deter entry of politically sensitive goods.

While it is clear that combined pressures from the Philippines and ASEAN were significant in convincing Korea to lift the import ban, the "Agreement on the Application of Sanitary and Phytosanitary Measures" (or SPS Agreement), which was entered into force with the establishment of WTO in 1995 have significant implications that Korea could not have afforded to ignore. Was it coincidental that Korea, classified as a developing country under WTO, agreed to a joint experimentation test in 1997, the same year determined by WTO's Committee on Sanitary and Phytosanitary Measures as the deadline for developing countries to meet the requirements of the SPS Agreement?

The transparency provisions of the SPS Agreement are meant to make information on SPS measures more accessible to interested public and trading partners. The agreement requires governments to promptly publish all sanitary and phytosanitary regulations, which Korea complied to as soon as it lifted its import ban on fresh

⁵⁰ Interview with Philippine Commercial Attache Nicanor S. Bautista, Philippine Trade and Investment Promotion Office, Seoul, Korea, 20 February 2001.

mangoes and papayas. The agreement likewise requires governments, upon the request of another government, to provide an explanation, strictly based on scientific evidence, of the reasons for any particular food safety or animal or plant health requirement and to establish offices, called "enquiry points," to respond to requests for further information on new or existing measures. The Korean government, would have been deluged by requests from ASEAN countries had it maintained the import ban.

The case once again illustrates how international institutions and regimes operate to change government behavior through injunctions. When member countries closely examine each other's behavior, there is also increased likelihood that cooperation will be achieved even under the "constraints of bounded rationality."⁵¹

The Korean government could no longer justify its import ban on Philippine fruits solely on the basis of its own standards. Such standards have been superseded by international standards specified under the SPS Agreement. The Philippines, along with other ASEAN countries, put pressure on the Korean government to abide by the rules and the first indication that they succeeded was highlighted by the joint confirmatory test on VHT. Entry of the fruits was nevertheless delayed and when the Korean government did lift the import ban, the Philippines has had difficulties in complying

⁵¹ Keohane (1984), p. 84.

with the requirements.

Institutional rules are by no means inviolable --- more so when there is pressure from an influential, relatively well-organized block of voters and who in practice had an effective lobbying organization such as Korean farmers. And yet rules are sometimes maintained even when it is not convenient for governments to do so. The Korean government had to seriously weigh its options while confronted with the reality to conform to international norms and at the same time attend to domestic concerns. Korea could have chosen not to lift the import ban on fresh mangoes and papayas but that could have meant foregoing the benefits it can get from trading not only with the Philippines but also with other ASEAN countries in other industries, say, semiconductors. For a trade-dependent country like Korea, this would mean a big loss for such a relatively small gain.

C. Import Restriction on Floppy Disk Drive (FDD)

In 1991, Korea introduced the marks of origin system on 675 products and required such products to have at least 35% local content. This adversely affected Philippine FDD exports, which had grown from \$4.5 million in 1987 to \$36.2 million in 1990 but plummeted to \$29 million in 1991 and further to \$4.9 million in 1993 as a

result of the new regulation.⁵²

The Philippines considered the 35% local content rule to be arbitrarily imposed by Korea and brought the matter before the GATT Standards Committee in 1992. Subsequently, Korea notified the Committee that the 35% local content rule was primarily concerned with technical standards such as product quality, performance, safety and dimension.⁵³

In May 1998, the Philippine Trade and Investment Promotion Office once again presented the issue to the Trade Promotion Bureau under MOFAT, to which the latter replied that “the Korean government has a plan to exclude the FDD (HS Code: 8471 70 2010) from the Korean Export Diversification Program by the end of 1998.”⁵⁴

During his courtesy call on Minister Han in August 1999, Ambassador Jarasa discussed the matter again and the Minister informed him that FDD had been excluded from the Korean Export Diversification Program effective December 31, 1998 while the program itself was abolished on June 30, 1999 since it had been found incompatible with WTO rules.⁵⁵

Essentially, the Korean government’s decision to abandon its export

⁵² Philippine Embassy, file document, Seoul, n.d.

⁵³ Philippine Embassy, file document, n.d.

⁵⁴ Ministry of Foreign Affairs and Trade’s Asia Trade Division Head Jeon Jae-man’s letter to Philippine Commercial Attache Zafrullah G. Masahud dated July 24 1998.

⁵⁵ Ministry of Foreign Affairs and Trade’s Emerging Markets Division Head Ahn Gil-won’s letter to

diversification program was in accordance with the 1994 UR agreement on trade-related investment measures (TRIMs). The TRIMs agreement that emerged during the UR negotiations included an illustrative list of measures violating GATT's national treatment rule and its prohibition on the use of quantitative restrictions. One of such measures was the local content requirement.

TRIMs found to be inconsistent with the GATT were to be notified to the WTO Secretariat within 90 days of the WTO's entry into force and member countries must eliminate such measures within two years for industrialized countries; five years for developing countries; and seven years for least developed countries. Thus, Korea was given until 1999 to phase out its localization program.

The Philippines found it relatively easier to settle the issue on import restriction on FDD than those involving agricultural products in the absence of an influential group of domestic lobbyists. Moreover, the implementation of the TRIMS agreement after the UR has had significant implications on trade involving goods subject to the local content requirement, including the export of FDD to Korea. The case shows that bilateral negotiations produced favorable outcomes because the Philippines invoked WTO rules/norms. It was not entirely a loss for Korea because it can use the same

Philippine Commercial Attache Zafrullah G. Masahud dated August 17, 1999.

rules/norms when negotiating for issues involving its own goods that are subject to the local content requirement in other countries. After all, the national treatment rule that the WTO implements works in favor not only of one but all members.

D. Entry Barrier for Pharmaceutical Companies

Zuellig Pharma Corp., a leading distributor of pharmaceutical and healthcare products in the Philippines established a joint venture on sub-distribution in the Korean market with Han-Dok, Daewoong Pharmaceuticals, Schering Korea and Bayer Korea in February 1995. To "guarantee independent and neutral management" of its various partners, it held a 51% share in the joint venture.⁵⁶

After the press conference on the joint venture, the Korean Pharmaceutical Wholesalers Association (KPWA), through threats and intimidation, forced Han-Dok to abandon the project on September 30, 1995.

New attempts were made in 1996 and 1997 to push through with the sub-distribution project. Although Zuellig Pharma was successful in assembling a group of manufacturing companies willing to be its partners in the distribution of pharmaceutical products from September to October 1997, KPWA continued to employ its coercive

⁵⁶ DTI Undersecretary Jose Q. Juliano's letter to DFA Secretary Domingo Siazon, Jr. dated November 12, 1997.

tactics to dissuade potential partners despite the ruling of the Korean Fair Trade Commission in 1996 to stop its hostile campaign.

In a letter to the Minister of Trade, Industry and Energy, DTI Undersecretary

Jose O. Juliano wrote:

In the Philippines, Zuellig Pharma distributes Korean pharmaceutical products and Korean companies like Hyundai, Samsung, LG, etc. are thriving and doing well. We hope that your excellency will be able to exert your influence to the KWPA to allow free trade and to follow the regulations of the WTO.⁵⁷

Almost a year after, an exasperated Jan Muller, operations manager of Korea Logistic Services (KLS), Zuellig Pharma's representative in Korea wrote to the Philippine Commercial Attache:

We appreciate the foreseen lift by the government of certain regulations surrounding wholesaling and distribution of healthcare products and believe that the whole industry will respond positively when a number of restrictions will finally be abolished. This move should help to make competition more fair. But as long as KPWA under the current leadership of Mr. H.K. Lee is indirectly controlling this market like pirates, the liberalisation efforts of the government will be in vain.⁵⁸

Evidently, aside from the unrestrained protests of KPWA, Zuellig Pharma had to contend with trade-restrictive regulations on wholesaling and distribution of

⁵⁷ DTI Undersecretary Jose Q. Juliano's letter to Trade, Industry and Energy Minister Lim Chang-yuel dated November 11, 1997.

⁵⁸ Korea Logistic Services Operations Manager Jan Muller's confidential letter to Philippine Commercial Attache Zafrullah G. Masahud dated August 16, 1998.

pharmaceutical products.

Some positive developments came about in 1999. During Ambassador Jarasa's courtesy call on Minister Han on August 4, 1999, he was informed that KLS had not been complaining of protests from KPWA. Moreover, the Ambassador was told that the Korean government was in the process of revising the Enforcement Regulation of the Pharmaceutical Affairs Act to simplify licensing procedure for the distribution of pharmaceutical products.

Korea did proceed with the revision of its regulation on licensing procedure for the distribution of pharmaceutical products and the issue has been resolved since then. Zuellig Pharma Korea Ltd. was finally established in April 2000.

The letter sent by the DTI Undersecretary to the Korean Trade Minister highlights what the Philippines expects from Korea as a trading partner and WTO member. It obviously demands reciprocity and wants Philippine companies to be treated in the same way that Korean companies are being treated in the Philippines. The case also reflects efforts by KLS, a domestic firm, to make use of opportunities afforded by keeping close contact with the Philippine Embassy. KLS coursed its action through the Embassy in pressing for its own demand and in so doing achieved its desired outcomes.

Chapter V

DOMESTIC PRESSURES AFFECTING TRADE RELATIONS

Governments are generally subject to pressure from interest groups that expect to lose or benefit from liberalization. Thus, an important part of explaining the influences on trade policy is to show how the Korean government dealt with domestic interest groups and how pressures for and against free trade affect the bilateral trade.

Korean farmers represent an influential well-organized block of domestic lobbyists and whenever bilateral negotiations between Korea and its trading partner involve agricultural issues they are certain to raise opposition or clamor for support. This has been shown in Korea's experience with its aborted free-trade agreement with Chile or its trade dispute with China involving garlic imports. In both cases, Korean farmers have vehemently raised their concerns. Unlike net agricultural exporting countries, Korea does not have vast tracts of land with suitable soil for farming. Thus, Korean farmers cannot compete with imported agricultural produce in terms of lower price. Understandably, Philippine fruits are considered a threat to the extremely fragile

Korean agricultural industry.

The case of the Korean Pharmaceutical Wholesalers Association, on the other hand, shows certain groups would go even further than what the farmers did to articulate their position against market opening. Although it is assumed that once signed, governments will adhere to trade agreements, the presence of militant anti-trade groups cannot be ignored. Maintenance of free trade does entail political costs and for Korea, it meant having to deal with a group that neither have the public support nor the patience for amicable negotiations.

Just as there are losers, there are also gainers in trade liberalization. Del Monte Korea is one of them. It is a multinational company that best exemplifies the internationally oriented firm opposing protectionism in Milner's study. In the discussion that follows, I tried to show how Del Monte was able to take advantage of the rich information environment provided by the WTO in helping Philippine officials negotiate with relevant Korean Ministries to remove import restrictions on Philippine fruits.

A. The National Agricultural Cooperative Federation (NACF)

NACF (also known as *Nonghyup* in Korean) was established in 1961 as the umbrella organization of Korean agricultural cooperatives. Its mandate is to "increase

agricultural productivity and enhance the economic and social status of member farmers and therefore secure a balanced development of the national economy, as provided for in the Agricultural Cooperative Law."⁵⁹ It is composed of about 1,200 member cooperatives and more than 10,000 various business centers, representing five million farmers nationwide.

NACF's diverse functions include marketing, processing, supply of farm inputs and consumer goods, credit and banking, insurance, warehousing, transportation, farm extension and relevant support activities, such as research and publication. As part of its extension and education service, it organizes and participates in various legal and political activities aimed at protecting domestic producers. Some of these activities are held in cooperation with the Community of Korean Farmers Association, Korea Advanced Farmers Federation and other agricultural organizations. They organize seminars and present their appeal before National Assembly representatives and government authorities.⁶⁰

In 1993, the Federation gathered 14 million signatures for its petition against rice importation. It has also formed a committee undertaking research on the effects of liberalized trade on agriculture. Based on its research results, the committee has made a

⁵⁹ "About NACF," (available at <<http://www.myhome.nonghyup.com/e-home/aboutnacf.htm>>).

⁶⁰ Attachment to an e-mail from NACF Agricultural Trade Division officer Kim Yeon-suk dated March

recommendation to the government to introduce a special 10% agricultural tax that would be channeled to rural areas. At present, more emphasis is being placed on cooperation with other non-government organizations (NGOs), both domestic and international, to promote the position of Korean farmers in WTO negotiations on agriculture. It was one of the 32 NGOs that represented Korea during the WTO ministerial conference in Seattle, Washington in November 1999.

The Federation maintains that the 50% tariff on bananas cannot be considered unreasonably high since the rate is the same for imported oranges, grapes and kiwi fruits. It also argues that Korea, being a net food importing country, is understandably inclined to keep high tariffs.

Although NACF has not done a study on the adverse effects of the free entry of Philippine fruits, it admits that to some extent, pressure from farmers had something to do with the import ban on fresh mangoes and papayas. It argues that although the detrimental effects of importation cannot be determined in the short-term, the long-term effects can be devastating as proven by local farmers' experience with imported oranges. Although the importation of oranges had negligible effects at first, it practically killed the domestic industry as a result of oversupply. NACF further claims that fruits have

substitutional characteristic, which means that once consumers have developed a taste for a particular fruit, it can substitute for their demand for other fruits.

WTO commitments are binding constraints on governments even when there are real and serious costs to them, although governments do take these costs into account in considering how to comply fully with their international obligations.

Arguments put forward by NACF support the Ministry of Agriculture and Forestry's reasoning that local fruit growers were "seriously concerned" about any tariff reduction that would be made on Philippine bananas. However real the concerns of Korean farmers are, Korea as a member of the WTO, has commitments that it needs to fulfill. The specific legal obligations binding Korea make non-discrimination, reciprocity, market access and fair competition explicit. By deciding to become a member, the Korean government knew that its behavior would be subject to scrutiny under the organization's rules and procedures and that failure to conform would mean facing the consequences: compensation, retaliation and jeopardizing its reputation, among other things. This is not to say, though, that governments cannot deviate from its commitments under certain circumstances. Like I said, the WTO includes provisions of differential treatment that exempt least developed countries from certain commitments. The significance of focusing on an interest group such as NACF is to show the dilemma

that the Korean government had to face in "playing by the rules of the game". Indeed, it is worthwhile to focus on the degree of Korea's compliance to WTO rules when such compliance is contested by an influential domestic group such as NACF.

B. Korean Pharmaceutical Wholesalers Association (KPWA)

KPWA was more militant than the farmers' group in opposing the joint venture between Zuellig Pharma Corp. and Korean pharmaceutical companies.

The massive threats the group issued to Han-Dok included non-payment of outstanding invoices, exclusion of Han-Dok products in future purchases, taking-over of the office building on Teheranro, disturbing the inauguration of the new plant in Uneseung in 1995 and personal threats against Han-Dok Chair Kim S.K.⁶¹ As a result of such threats, Han-Dok was forced to abandon the joint venture.

In 1996, based on its investigations on KPWA's activities, the Korean Fair Trade Commission (FTC) ruled that the group should stop hindering competition in the domestic market or disturbing business of its member companies. Apparently, FTC's order did not discourage KPWA from employing coercion. Until August 1998, KLS was complaining to the Philippine Commercial Attache that due to KPWA's serious threats

⁶¹ DTI Undersecretary Jose Q. Juliano's letter to Trade, Industry and Energy Minister Lim Chang-yuel dated November 11, 1997.

and boycotts, its existing and potential partners were afraid to enter into service agreements.

Korean pharmaceutical wholesalers represent another domestic group that expected to lose from trade liberalization. They differed from the farmers' group because they employed more militant and coercive tactics in making their voice heard. And unlike the farmers, they did not have the sympathy of the public. The Korean government was also not as supportive to them as it was to the farmers. Although there is not enough information available on the case, it nevertheless illustrates the point seen thus far. Pharmaceutical wholesalers held up bilateral negotiations just when disagreements would have been settled easily had the Korean government simply followed international norms without regard for domestic concerns.

C. Del Monte Fresh Fruit Far East B.V. Korea Branch (Del Monte Korea)

Del Monte Korea is a branch office of Fresh Del Monte Produce, Inc., which is a licensee of the Del Monte name and trademarks for fresh fruit, vegetables and produce worldwide.⁶² Fresh Del Monte Produce has ports of call in Davao, Philippines and Masan, Korea where fresh fruits from the Philippines are shipped to Korea. It directly

⁶² In 1989, Del Monte Corporation separated the fresh produce business from canned fruit and sold them separately. This explains why there is no affiliation between Fresh Del Monte Produce, Inc. and Del

markets 100% of its products locally, owing to the comprehensive distribution and sales network that it maintains.

Del Monte Korea provides the Philippine Embassy statistics and information needed to support its request to reduce the tariff on bananas and lift the import ban on fresh mangoes. It does its own surveys and research, results of which are made available to the Embassy. The Philippine Commercial Attache usually consults with the company before he makes representations to the relevant Korean Ministries. Del Monte Korea also provides updates and constantly reminds the Philippine Embassy the appropriate time to approach the Ministries.

A month after the ASEM meeting between DTI Secretary Bautista and Minister Han, Del Monte Korea General Manager Kang Keun-ho expressed his disappointment that there had been no progress regarding the tariff issue. He further wrote that:

As the import guideline is adjusted on the first day of every January and July, only the immediate action when the door for discussion is open can provide more opportunity of success. And the inter-ministry action usually requires a considerable period of time due to the bureaucratic practice within the organization. This means any belated action from your side may result in half a year or one year delays in implementation of duty reduction.

...A good material to sustain the rationale of our argument has already been provided to you and I would like the Embassy to take action by the beginning of next week considering the emergency of duty reduction amid current economic turmoil in the Far East.⁶³

Monte Foods.

⁶³ Del Monte Korea General Manager Kang Keun-ho's letter to Philippine Commercial Attache Zafrullah

A few days before the Philippine Commercial Attache was to meet MOFAT officials in July 1998, Mr. Kang wrote him:

...one of the major issues of our concern is import duty of banana which we have been collaborating to reduce. According to the internal procedure, the request of duty reduction should be fully reviewed and screened in the MOFE by the end of October for the final approval within this year. Then it can be implemented from January 1999.

In the light of the above-mentioned practice, we have only a couple of months ahead of us and some of them will not be in our approach due to summer vacation of officials. Therefore, I would like you to adjust your schedule in accordance with the above-mentioned situation.⁶⁴

Just as Korean farmers or pharmaceutical wholesalers that are protectionist in orientation will exert political pressure on the Korean government, so do groups that support free trade such as Del Monte Korea, especially when their interests are at stake. Instead of pressuring the Korean government, however, Del Monte Korea coursed its political influence through the Philippine government. Since there are gains to be had in supporting free trade, the internationally oriented firm took advantage of the information environment enriched by legalization in the international trade regime. That certain provisions in the Customs Duties Act are inconsistent with Korea's commitments to free trade as a WTO member has been pointed out by the Philippine government,

G. Masahud dated May 22, 1998.

⁶⁴ Del Monte Korea General Manager Kang Keun-ho's letter to Philippine Commercial Attache Zafrullah G. Masahud dated July 8, 1998.

partly based on information provided by Del Monte Korea.

Chapter VI

CONCLUSION

Is there convincing evidence to show that increased institutionalization has resulted in more liberalized trade between the Philippines and Korea from 1997 up to the present?

Issues involving the import ban on Philippine fruits and import restriction on floppy disk drives seem to support this hypothesis. Korea, as a WTO member, was bound by the rules specified in the SPS Agreement, which compelled it to refrain from continuously employing certain unjustified SPS measures in protecting its domestic fruit producers and erecting unnecessary barriers to trade. Moreover, it had to abandon the Korean Export Diversification Program that restricted the entry of Philippine floppy disk drives after it had been found to be inconsistent with WTO rules. However, a more in-depth analysis of the negotiation process shows changes in Korean trade policies cannot be attributed solely to WTO rules. Certainly WTO's monitoring mechanism and stringent rules deterred violation but they only became more effective when combined with persistent pressures from the Philippine side, Korea's trading partners and domestic

firms that supported free trade. The Philippines had to remind Korea time and again that it had liberal commitments that must be fulfilled as a WTO member. Korea also had to yield to pressure from a trading bloc such as the ASEAN, which has emerged as an important market for its exports in the 1990s. ASEAN member countries were persistent in their request for the joint experimentation test on tropical fruits exported to Korea.

My study also shows that various domestic pressures affect the bilateral trade. When politically sensitive goods, such as agricultural products, were involved, negotiations took a more complicated course. Concessions could not be acquired by using the simple rule-based technique. For instance, in negotiating for the import tariff on bananas and the import ban on fresh mangoes and papayas, the Korean government had to consider the political influence of a farmers' group representing five million members. This is not unique to the Korean case. In Europe, despite the considerable net costs of the European Union's Common Agricultural Policy (CAP) to consumers and taxpayers, farmers have exerted very strong political influence that the program has not faced any significant internal challenge. The main pressure against the CAP has come from the US and other food-exporting countries who complained that the price of their own exports plummeted as a result of Europe's agricultural export subsidies.

The value of international institutions such as the WTO lies in its ability to

redistribute gains. Member countries can tolerate relative losses because a norm of reciprocity exists. So when the Korean government reduced the import tariff on bananas, it made sure that its requests for the resolution on the anti-dumping case on Korean electrolytic tinplates and assistance on the elimination of the pre-shipment inspection by SGS were granted. The Philippines relented because it had agricultural gains to consider.

The Korean government also had to deal with a militant group such as the KPWA, which delayed negotiations when things would have proceeded more swiftly if rules had simply been followed. The Philippines, on the other hand, was supported by Del Monte Korea in negotiating for issues involving import tariff on bananas and import ban on fresh mangoes and papayas, taking advantage of the rich information environment provided by the WTO.

Overall, how much impact various kinds of domestic pressures have on the policy choices of the Philippines and Korea depends on the wider international negotiating environment rendered by the WTO. Even when negotiations were stalled by domestic pressures as in cases pertaining to agricultural imports and pharmaceutical sub-distribution, Korea made its decisions based on the binding rules of the WTO. Would the Korean government have reached such decisions and would the Philippines have been as persistent in the absence of trading obligations to maintain liberal

commitments? My study suggests that the WTO did have an influence on trade relations between the two countries. The binding constraints it imposed made the Korean government change its trade policies even when there were real and serious costs to compliance.

However, my study likewise suggests caution in making hasty generalizations about the effectiveness of institutions. Although it is ideal to think that member countries will not evade from their commitments because of the norms and mechanisms that deter such behavior, political constraints and incentives provided by domestic interest groups affect trade relations. Such groups may either hold up negotiations or advance resolution of issues, depending on how much influence they exert. The issue on import tariff on bananas has yet to be resolved because farmers' groups remain a dominant influence in policy-making. Moreover, when pressure is not only bilateral but also regional, as that exerted by ASEAN, governments may be more obliged to abide by institutional rules on international trade. Yet states may still not "play by the rules" even in the face of high economic and political costs. When to attribute negotiation results to institutionalization and to domestic factors remains an understudied question while the link between international institutions and domestic factors should be explored more extensively.

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