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**The Emerging WTO and New Trade Issues
— Korea's Role and Priorities —**

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**KOREA INSTITUTE FOR
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ECONOMIC POLICY**

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I . INTRODUCTION

The aim of the World Trade Organization (WTO) is to clear the way for a new international economic order, one of freer and fairer trade in the global economy. In this sense, it is hoped that the WTO will lead us out of the protectionism and managed trade of 1980s and into a free trade regime of the 1960s and 1970s. Since its inception less than two years ago, the WTO has already made considerable accomplishments and has shown its potential in playing a central role in the multilateral trading system.

Although WTO efforts have thus far concentrated on the full and efficient implementation of UR commitments, the WTO will soon be looking ahead in other directions. Namely, it will focus on maintaining the momentum of trade liberalization among countries and on keeping up to date with the ever-changing integration processes of the world economy. In fact, the first WTO Ministerial Conference will be held in Singapore on December 9th-13th to review the work and progress of the WTO's UR implementation efforts over the last two years and analyze the outstanding service negotiation results. Furthermore, the so-called new trade issues such as the environment, investment, competition policy, labor standards, and bribery and corruption will also be examined. Lastly, the topic of regionalism as a threat to the WTO system will be under heavy discussion at the Conference.

This paper examines the role and priorities of Korea in the WTO system. To this end, in Section II, we start by elaborating on the characteristics of the WTO system and then discussing Korea's role within that system. Based upon these observations, Section III assesses the WTO's first twenty months of activity and the WTO's future direction, and consequently, looks at how Korea's

priorities fit in line with these directions. Section IV explores new trade issues facing the WTO and Korea, and the last section offers a brief conclusion and some comments.

II . THE NATURE OF THE WTO SYSTEM

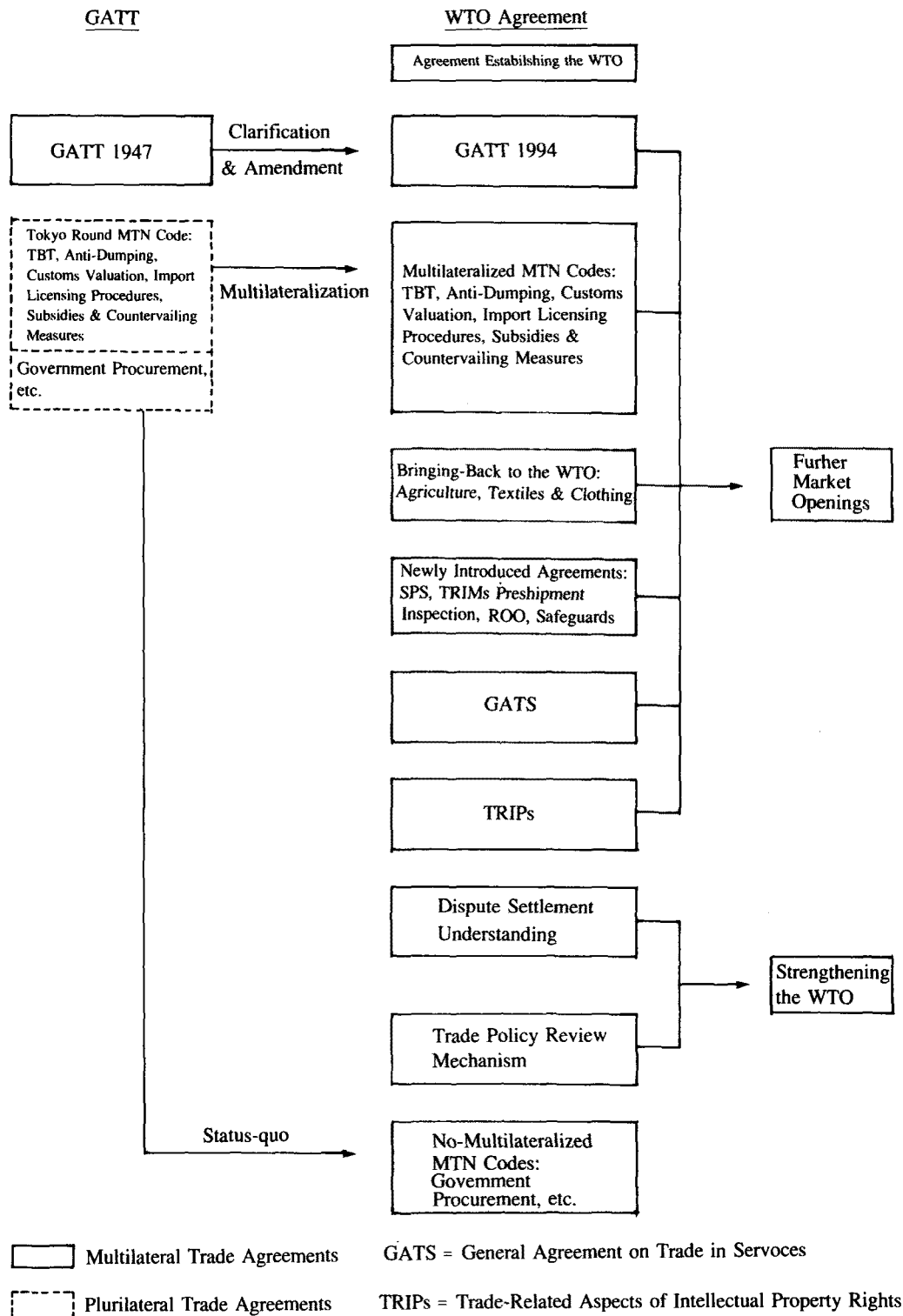
Market Openings and the Strengthening of the Multilateral System

To properly understand Korea's role in the WTO system, it is important to first understand the background and vision of the WTO system itself. As a unique UR implementing organization, one of the WTO's main priority, along with increasing the number of member countries, is overcoming the limitations of the General Agreements on Tariffs and Trade (GATT). The WTO does this in two ways: one, by promoting the opening of world markets; and two, by strengthening the multilateral trading system.

The WTO has many approaches towards its goal of further opening the world market. Some examples of these approaches are the following: cutting tariffs on manufactured goods; adopting a multilateral agreement on agricultural trades; introducing new multilateral rules for trades in services; interfacing intellectual property rights into a trade regime; enhancing the transparency of rules and provisions of GATT; and promoting fairness in trade.

In the strengthening of the multilateral system, the WTO is encouraged by many measures in the UR agreements. For one, the WTO is intended to settle trade disputes among member countries using the strong Dispute Settlement Body (DSB). Further, the WTO must monitor the member countries' trade policies, trade-related laws, systems and customs through the mandated Trade Policy Review Mechanism (TPRM). The WTO is also required to enhance policy cooperation with other related international organizations such as IMF and the World Bank to truly make the WTO the UN in the international trade arena.

〈Figure 1〉 Comparison between the GATT and the WTO Agreement



As <figure 1> shows, the WTO has put to rest concerns about the shortcomings of the past GATT system and has replaced GATT with remarkable, visible changes--changes that expand market openings and strengthen the multilateral system. For example, there was the introduction of GATT 1994 which clarified, amended, and completed the provisions of GATT 1947. There was the multilateralization of most of the Tokyo Round MTN Code agreements, excluding government procurement. The WTO also incited the return of agricultural and textile trades into the GATT system and the introduction of agreements related to trades in services and intellectual property rights. In addition, there has been the development of new agreements related to sanitary and phytosanitary measures, trade-related investment measures, preshipment inspection, rules of origin, and safeguards.

As such, the establishment of the WTO will restore confidence in the future of the world trading system, and thereby drastically expand world trade. Both the dispute settlement procedures and the trade policy review mechanisms not only clarify and enhance the transparency of WTO rules and standards, but also transform the WTO into a powerful international trade organization.

Another important aspect of the establishment of the WTO system is the completion of the Bretton Woods tripolar system, a system which failed in 1948 at the time of GATT's inception. The Bretton Woods system tried to reconstruct a world economy destroyed by World War II and to expand world trade. In launching the Bretton Woods agreement in July 1943, a number of major countries tried to establish a tripolar cooperation regime for international trade called the International Trade Organization (ITO), along with IMF, for finance and foreign exchange, and IBRD for the development of the world economy. The regime failed when the U.S. administration and Congress decided not to

participate and thus the leading stabilizing economic force was lost.

Since GATT was written on the same basis as the ITO, the failure of the ITO foreshadowed the inherent shortcomings, and ultimate inadequate operation, of GATT as a supporting system for world trade. Specifically, the GATT could not deal effectively with problems such as the emergence of protectionism among contracting parties and the unfair use of various trade measures, particularly unilateral actions of parties and discriminatory regional integration agreements. Thus, GATT could not respond effectively to changes in the world trade environment.

Accordingly, the WTO now is attempting to overcome the shortcomings seen in the past GATT system by fully and effectively implementing the UR agreements and by playing a role in the world trade arena similar to that of the UN in international relations. In this sense, the launch of the WTO can be viewed as a late embarkation of the ITO. The WTO requires that all member countries make a commitment to transform domestic laws and regulations as necessary in order to ensure conformity to WTO standards. Through these commitments, the WTO plans to build a new, yet strong and efficient, multilateral trading system and in doing so, establish a new international trade order.

Toward Freer and Fairer Trade

The GATT that aimed for 'free trade' came to an official end at the close of 1995. The WTO has been given the task to accomplish more than what GATT did—establish a new international trade order. Given the weakness of GATT and the undermining of free trade principles in the world economy by the protectionism of the 1980s, the WTO aims for 'a freer and fairer trade' in the

global economy. In fact, WTO's means of achieving this vision have attracted much attention recently from economies around the world. Although it is true that the WTO system does accommodate some protectionist measures in exceptional cases, thereby resulting in partly distorted and unfair trade from the outset, the WTO system is a regime in which the spirit of liberal, fair, and undistorted trade prevails. This is particularly true when the notion of 'fair trade' is understood to be fair competition in international transactions. Furthermore, WTO has been provided with strengthened dispute settlement procedures as well as a monitoring function in the form of its trade policies review mechanism. Together these features serve to enforce and maintain the increased fairness of trade within the WTO system.

In addition, the much developed notion of 'fair trade' has been applied to various multilateral trade agreements in the WTO compared to the previous GATT. Currently, trade measures such as dumping, actionable government subsidies, abuse of safeguards, export of counterfeit goods, and complicated or deterrent customs clearance procedures, are seen as unfair trade practices by the WTO. Under GATT, the fairness of these trade measures was not clearly determined and thus it was difficult to enforce or take action on the trade measures. The rules and provisions regarding such unfair trade measures in the WTO are expected to grow rapidly as more multilateral trade agreements are introduced.

In cases where the concept of fair trade and fair trade-related measures are applicable to all agreements horizontally and comprehensively, the concept and measures become very influential. In the WTO system, we find two important criteria for fairness in trade: the national treatment principle and the non-discriminating principle, that is, the most favored nation (MFN) rule. According

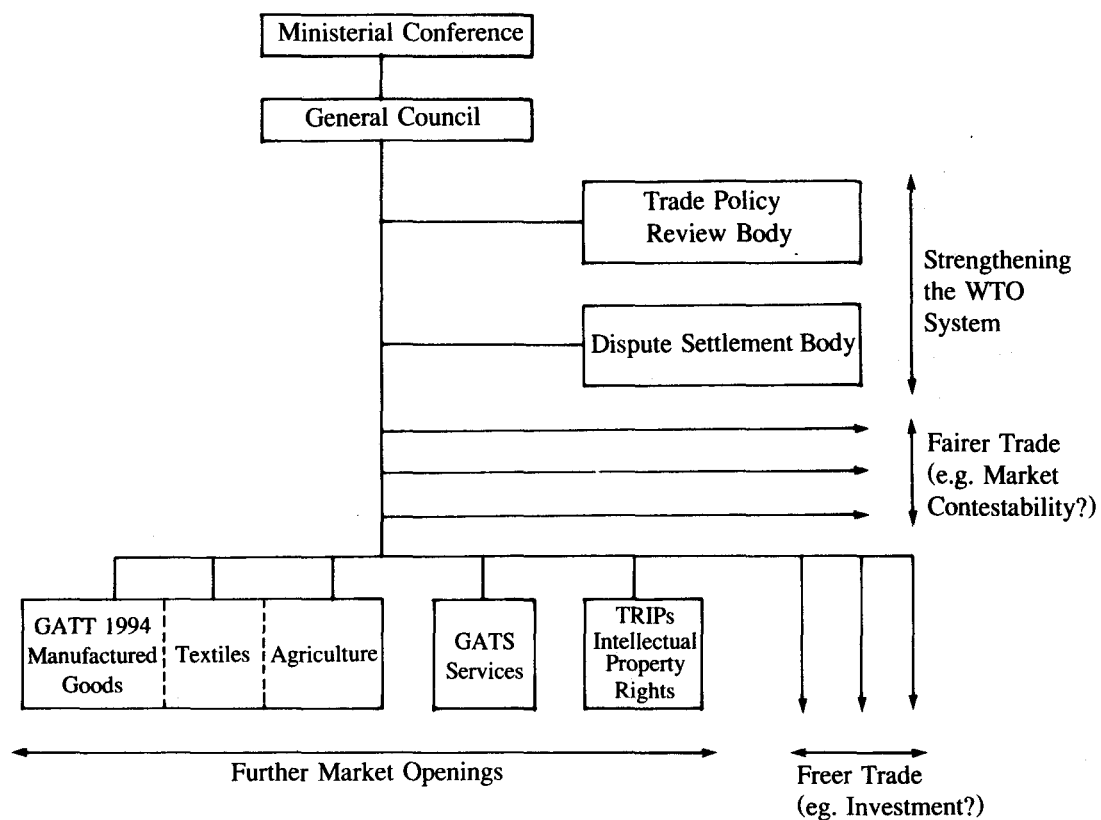
to conventional wisdom, trade measures will be interpreted to be unfair if they violate one of the two principles in the GATT system. In contrast, with establishment of the WTO, judgement on fairness cannot be made simply using these two principles as the criteria. The notion of fairness changes as the WTO system proceeds.

The WTO system addresses a wide range of terms and concepts: 'derogation' from the MFN principle or 'exemption' from its application; the application of 'conditional' MFN; the 'de facto guarantee' of national treatment; the concept of a 'level playing field', 'market contestability', and so on. These concepts, however, fundamentally damage the principles of MFN and national treatment, and will become more problematic in determining fairness in trade. This can become an especially serious issue, for example, when ensuring a 'level playing field' (regardless of its definition) for foreign firms, for this goes far beyond the national treatment criteria. The concept of market contestability will also go beyond the national treatment criteria by giving non-discriminatory treatment to foreign firms in trade, and in investment, management operation, and business activities in the country. In addition, closely related to these changes, interpretations of comparability and reciprocity are also vastly changing and causing much discussion.

The WTO's pursuits of more open trade in the global economy and a stronger role are closely related to its pursuit of 'freer and fairer trade': The idea of an open market is related to the concept of 'free trade', and 'fair trade' is closely related to the strengthening of the WTO. As such, the WTO could introduce a separate agreement vis-a-vis other multilateral agreements, such as the Anti-Dumping, Safeguard, ROO, Subsidies & Countervailing Duties, TRIMs, TRIPs, GATS, etc. That is, the concept of freer trade (e.g., the investment issue)

can be implemented by a separate agreement (e.g., TRIMs) in addition to current multilateral trade agreements. Meanwhile, the notion of fairer trade (e.g. market contestability) can be encompassed by a separate functioning mechanism, one which has a horizontal structure similar to the dispute settlement and trade policy review mechanisms as seen in <figure 2>.

<Figure 2> The Structure of the WTO and Freer & Fairer Trade



It is more likely, though, that the WTO system will implant fair trade by leveling competitive playing fields, enhancing market contestability, adopting competition policy, etc. Many unfair trade practices by member countries' governments are already implemented in separate multilateral agreements, thus only the unfair trade practices of private firms could be dealt with in this fashion. The development of fair trade implementation however, has yet to

come.

Korea's Role in the WTO

Considering that Korea has been one of the greatest beneficiaries of the GATT system, Korea has a keen interest and responsibility in the successful, effective operation of the WTO. Thus, Korea has put great effort towards expanding market openings in its own economy and other member economies. Korea has also been firmly committed to strengthening the WTO system through active participation in regional moves that are geared towards open regionalism.

In fact, Korea has the potential to be a leading, model country in fulfilling the WTO's vision. Korea is in a position that would exemplify the enormous benefits of trade leading to economic growth, and how trade liberalization and multilateralism are essential to a fast-growing, heavily trade-dependent nation. One of the fundamental challenges that the WTO faces in a world of rapid global integration is convincing everybody that "open trade within the rules of a multilateral system is the key to economic growth, and hence, the key to all our hopes of a more prosperous and stable existence."¹⁾ Thus Korea can indeed act as a role model country for other countries to realize the value of market openings and strengthened multilateral system.

In order for Korea to fulfill its role as this model country and play a substantial role in world affairs, such as in APEC, Korea needs to first fulfill its own duty and obligations. To this end, Korea's top priority policies have been

1) Excerpt from the speech of Mr. Renato Ruggiero, Director-General of the WTO, "The Road Ahead: International Trade policy in the Era of the WTO," delivered at the 4th Sylvia Ostry Lecture, Ottawa, May 27, 1996

directly related to the implementation of its UR commitments since the launch of the WTO.²⁾ Korea believes that full and efficient UR implementations by each member country will help actualize the WTO's spirit of freer and fairer trade. Korea has more or less completed most of its obligations to date. Nevertheless, Korea needs to open its market to a greater extent than simply obliged by UR commitments.

For 'freer trade', Korea has pursued some liberalization programs, but it has faced rigidities that seem to come from structural aspects of the economy. Thus to realize 'freer trade', Korea needs to act as a leading country in opening its market beyond UR commitments.

Given this, we can see that Korea addresses three different areas for the opening of its market: 1) the area where relatively easy reforms, deregulations, and changes can be made to keep conformity with the WTO system, 2) the area

2) Here are some examples of the implements:

- Carrying-out trade liberalization commitments based on the WTO agreement
 - Reduction of concession tariff rates of 9,900 items, which composed of 8,480 manufacturing items and 1,420 agricultural products
 - Elimination of 43 items (e.g. stainless pipes, photo frame, etc.) from export recommendation and 48 products (e.g. cheese, garlic, etc.) from import recommendation
 - Import of rice according to minimum market access
- Ensuring conformity of domestic laws, regulations and system with the WTO
 - Amendment of 25 domestic laws (e.g. laws on copyright, patent, food hygiene, etc.) to meet the WTO's requirements
 - Changes of industrial subsidy policy and tax exemption policy, etc. to satisfy the corresponding WTO's agreements
 - Major amendment of directly trade related laws and policies, such as import licensing procedure, rules of origin, foreign trade act, and import source diversification policy, etc.
- Pursuing notification obligation
 - Faithfully notified in areas of textile, safeguard, rules of origin

where the Korean government has historically been more or less reluctant to open its market (e.g. financial services) or where domestic-interest groups disturb market openings (e.g. import source diversification policy), and 3) the area that has been relatively underdeveloped compared to other sectors of the economy, thereby possibly standing as barriers to freer trade (e.g. most of welfare-related sectors including sanitary, quarantine, environmental, and safety inspections).

The second area has an enforcement problem and this can be solved if the government has stronger will to open the market. The third area, however, has a structural aspect that may require adjustments for a longer time schedule to ensure proper conformity to WTO guidelines. Thus it remains as the single biggest stumbling-block for Korea's role as the model country in the WTO. It will not be surprising to see Korea having trade disputes with major trading partners because of its inspection system of agrochemical and pesticide residues, and other technical regulations. Consequently, for Korea to realize its leading role in opening its markets beyond UR commitments, both Korea and other countries need to understand the situation and invest concerted efforts in this problematic area.

For "fairer" trade, Korea takes a more cautious position, particularly in areas in which the notion of fairness in the WTO is changing. The national treatment and MFN principles have been two pillars that sustained the GATT system, and without any deliberation, it would not be wise to adopt even seemingly innocuous changes in the definition of fairness. In this respect, Korea hopes the WTO will carefully monitor any progress made in the OECD.

In strengthening of the multilateral trading system, Korea works hard to counter the rising surge of discriminatory and inward-looking regional trade

agreements or blocs. As a country that is not a party to any single regional trade agreement, Korea has actively participated in the APEC process and very recently in ASEM talks. APEC aims for "open regionalism", and the expansion of APEC's efforts to other regional blocs will be of great value. In addition, ASEM seeks to bring about the much needed cooperation to potentially volatile relations among EU, NAFTA, ASEAN, and other Asian countries.

Four major challenges(among others) to opening the world market and strengthening the multilateral trading system have been widely cited as the fundamental challenges for the WTO:

- 1) establishing confidence that open trade and the multilateral system are beneficial to all parties,
- 2) enhancing cooperation between developed and developing member countries of the WTO,
- 3) increasing the participation of non-member countries for the universality of the WTO system,
- 4) keeping regionalism supportive of the multilateral trading system.

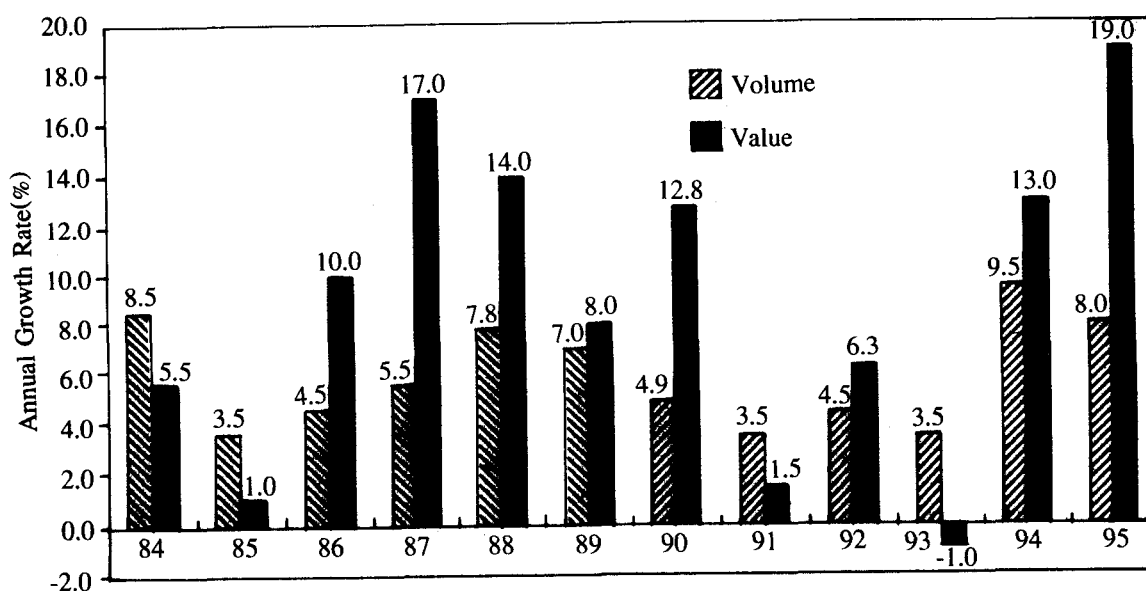
In sum, Korea is in a position, if encouraged, to address at least three of the four fundamental challenges facing the WTO. In other words, Korea can act as a role model country that inspires confidence in the WTO system, acts an intermediary between developed and developing countries, and works hard to keep regionalism and multilateralism mutually reinforcing.

III. THE PERFORMANCE AND FUTURE DIRECTION OF THE WTO

Assessment of the WTO's First 20 Months Performance

The WTO's first year and a half has been said to be a successful one. Shortly after the WTO's embarkment, we have seen the implementation of the Uruguay Round agreements, continuing negotiations for unresolved issues, the establishment of the dispute settlement body and the trade policy review mechanism, and the discussion of new trade issues, as well as the increased number of WTO member countries. Given that the initial year of a new organization is crucial to its future credibility and effectiveness, the conclusion that the WTO

〈Figure 3〉 Trends in World Trade Growth : 1984-95



Note : Based on commodity exports.

Source : WTO, International Trade, each year.

has gotten off to a successful start is well justified.

As <figure 3> illustrates, world trade had increased significantly in quantity as well as value during the period 1994-95. In 1995, the rate of value increase reached a remarkable 19.0%, which is the largest increase since 1979. In terms of the rate of trade volume growth, it remained at about 8%. This figure more or less supports the claim that the WTO's first year had a very encouraging start.

Looking back at the WTO's first year, however, it is apparent that there are still some problems WTO must face. It seems that a considerable amount of time had been spent on setting up the organization itself, rather than on the important task of pursuing a more open market and strengthening its role in a multilateral trading system. The WTO has spent much time appointing the Director-General and the panel members of the Dispute Settlement Body and Appellate Body. As a result, the task of UR implementation, on-going negotiations of services, and expansion of the number of WTO member countries have been by and large neglected, thus limiting the task of making the WTO truly global in name and reality. While the present membership accounts for more than 90% of world trade, a number of nations are still outside the WTO. Twenty months after its launch, the WTO had 121 member countries, still less than the 128 contracting parties of the GATT. This kind of limited participation restricts the full and efficient operation of the WTO.

A number of WTO member countries are still facing difficulties in carrying out the obligation of notification requirements. It has been rather difficult to determine whether a member country has adequately adjusted its domestic laws and regulations to ensure its conformity to WTO rules. As a result, no one can guarantee that the concessions and liberalization commitments are being fulfilled in cases where the notification requirements are not being met. Accordingly,

simplification and standardization of notification procedures are of great need; unnecessary or duplicate notification requirements and inconveniently timed notifications should be avoided. Thus we can see that there still remains much room for improvement in the implementation of UR commitments.

The establishment of the WTO, in pursuit of a freer and fairer trade, is expected to strengthen and stabilize the multilateral trading system and thereby suppress the potential proliferation of regional trade agreements. Shortly after the establishment of the WTO, however, the world economy was in fact dominated by regional economic cooperation activities and bilateral trade disputes. Both EU and NAFTA worked hard to increase the number of their member states, and APEC was in the process of developing the integrity of its region, and has since been discussing forming its own free trade area.

In 1995 there were also several cases of bilateral trade friction. Some examples include the intellectual property rights dispute between the U.S. and China, the U.S.-Japan and Korea-U.S. conflicts concerning automobiles, and U.S. discontent with Korea's inspection system for agrochemical residues and meat shelf-life requirements. With rising regional economic blocs and increasing bilateral trade friction, the importance of the WTO becomes significantly weakened. In addition U.S. withdrawal from the final stage of financial service negotiations has further weakened the WTO system.

Singapore Ministerial and the Future Direction of the WTO

A WTO Ministerial Conference will be held on December 9th-13th in Singapore. Since this will be the first ministerial meeting after the inception of the WTO, member countries will review the WTO's progress thus far and will

consider possible future directions of the multilateral trading system.

The expected agenda of the WTO ministerial meeting will encompass the following issues: 1) evaluation of the implementing status of UR/WTO agreements, 2) review of unfinished businesses of continuing negotiations and the built-in-agenda (services, rules of origin, etc.), 3) examination of the recommendations made by the Committee on Trade and Environment, 4) discussion of new trade issues, and 5) further liberalization. How to group the issues still remains a point of contention among WTO members.

UR Implementation

Since it is the goal of the WTO to further open world markets and achieve a fair trade order, the full and effective implementation of UR agreements and commitments of each WTO member country will be a task of the highest priority. For this reason, the WTO will further strengthen the role of trade policy reviews and will closely examine the state of market openings in each member country. Korea, for example, will be conducting its second trade policy review this year after the first in 1992. Although enhancing the transparency of WTO rules and provisions would be important for fair trade, even more important is the fair and efficient operation of the WTO. In this regard, the role of the newly established dispute settlement body must be strengthened. Since all trade disputes should be brought to the WTO for resolution, the WTO will become a simple 'talk shop' unless the functioning of a fair dispute settlement mechanism is maintained. Having been involved in a number of bilateral trade disputes with the U.S., Korea has a special interest in dispute settlement understandings and its mechanism.

The implementation of UR agreements will be another important task in

1996, as it was in 1995. Since there are a good deal of commitments for the implementation of UR results, and many built-in agenda items in the WTO agreement, it will not be easy for the WTO Secretariat to draft a report. Nonetheless, preparing the report is essential to realizing the benefits of a freer and fairer trade regime. By examining the exact benefits of market openings, it will be possible to gain much insight and guidance for the WTO's future activities.

Unfinished Business and the Built-in-Agenda

There were several unresolved issues at the time of the WTO's inception. These issues were basically the continuing negotiations on services and the harmonization of rules of origin. In the case of the built-in-agenda, there are many examples of unresolved issues: domestic regulations, safeguards, government procurement, the effect of trade in services on the environment, the qualifications of accreditation of professional services, and so on. Safeguards on services are required to be completed within three years after the launch of the WTO. Government procurement of services is supposed to be completed within two years, and the rules of origin are due three years from the WTO's inception. A working party on the qualification requirements of accountants was operational directly after the establishment of the WTO.

As most of the continuing service negotiations have failed to reach consensus, they will be scheduled to resume at a later time. Negotiations on financial services and basic telecommunication services will be renewed next year, and the negotiations on maritime transport services will resume in 2000.

Trade Environment and Other New Trade Issues

There will also be active discussion in Singapore on new trade issues, including policies on the environment, labor standards, investment, and competition. These new issues can be divided into two categories: 1) environment and labor standards, and 2) investment and competition policy. Environment and labor standards introduce non-trade concerns to use as the basis for restricting trade, whereas investment and competition policy seeks the additional expansion of market openings in response to the globalization and integration of the world economy.

The trade and environment issue has been brought into the WTO faster than any other issue. The Committee on Trade and Environment (CTE), established in the WTO system in April 1994, will submit a final report at the Singapore Ministerial Conference this December. The CTE has begun to establish consensus on the notion that trade liberalization and environmental protection are two concepts that could be complementary rather than contradictory. Thus, a report written on the basis of such consensus can be easily adopted by both developed and developing countries.

Among other new trade issues, trade-competition policy and trade-labor standards may find the most difficulty in establishing universal consensus among member countries. In terms of the trade-competition policy issue, developing countries show that the position of the WTO's built-in agenda will be sufficient. Along with the environmental issue, the trade-investment issue will attract much attention, particularly in terms of how the issues will be dealt with in a multilateral trading system. However, it seems unlikely that the trade-investment issue will make any remarkable and visible progress in the near future, though it is quite likely that the issue will be discussed formally inside

the WTO.

Further Liberalization

The focus of further liberalization is the maintenance of its momentum in the world economy. Further market liberalization will be implemented in areas where there are on-going negotiations, or in other possible areas for liberalization beyond the UR agreements. Another important liberalization task for the WTO is ensuring that regionalism remains open and compatible with multilateralism.

There are also suggestions such as zero-for-zero tariff negotiations, additional tariff-cutting, accelerated implementation of UR agreements, and preparation for a new Round on US's "built-in agenda" by the year 2000. Other topics for possible multilateral considerations are the further opening of professional services, multilateralization of government procurement, and the further application of zero-for-zero tariffs.

Korea's Priorities in the Future Agenda of the WTO

Considering the fact that the 20-month old WTO has more or less successfully established itself in the world economy, Korea's priority should now be moving towards the "proper operation" of the WTO system. Maintaining the dispute settlement body and ensuring that its procedures are effective, speed and fairness will be 'one' top priority area. Among others, the 'other' top priority area for achieving the effective operation of the WTO will be enhancing the monitoring ability of the trade policy review body and its mechanisms to ensure the conformity of member countries' trade-related laws, regulations, systems and

customs to WTO rules.

In addition to the effective operation of the DSB and TPRM, Korea needs to do its part in ensuring the full and timely implementation of UR commitments by all member economies for the effective operation of the WTO, this being 'another' top priority area. These implementation activities are indeed the cornerstone of the WTO regime. The WTO agreement itself requests that each member economy abide by notification obligations in implementation activities. The notification requirements are to enhance the transparency of and ensure the conformity of each member economy's laws and actions with the relevant WTO agreements¹⁾. The notification processes, however, have not been very successful until now, and consequently there remains a lot of work on notification obligations to be done.²⁾

There have been many different suggestions thus far on what the agenda of the Singapore Ministerial Conference should cover. As we discussed in the beginning of this section, implementation activities, unfinished business and the built-in-agenda, trade and environment, new trade issues, and further liberalization of markets are the five most common suggestions among WTO member countries. Yet the difference lies in the way one groups the five issues, and where an economy sets its priorities in dealing with these issues in WTO

1) There are 215 notification requirements in total, including 26 periodical notifications. Among 215 notifications, 175 notifications are related to the goods sector; this includes subsidies and countervailing duties, anti-dumping, safeguards, agriculture, state trading, TBT and technical standards, rules of origin, customs valuation, and textile and clothing, etc. The remaining 40 notifications are in the areas of services and intellectual property rights.

2) In the area of subsidies, for example, only 45 countries gave notifications out of 119 member countries as of February this year.

negotiations.

Korea needs to classify the five issues into three priority groups: 1) Addressing past issues: the implementation of UR results, 2) Addressing present issues: on-going negotiations, the built-in-agenda and trade-environment issues, 3) Addressing future issues: new trade issues and further liberalization. These groupings are based on the time horizon for actions needed. Korea should direct concerted action chronologically, giving priority to past issues first, then present issues, and lastly to future issues.

The implementation of Korea's UR commitments was not an easy task, and neither will continuing negotiations nor addressing the built-in-agenda. Agreements have not reached a satisfactory level in any of the major continuing service negotiations, including financial services, basic telecommunication services, and maritime transport services. Furthermore, most WTO agreements have burdensome built-in provisions for future negotiations. There are some 74 provisions in the WTO agreements calling for future negotiations, reviews, and other decisions. As such, there are many tasks, to solidify the WTO system before any further work can be done. In this respect, the past-present-future priority essentially implies returning to the basics of the WTO system.

The implementation of UR commitments and the conduct of the built-in-agenda demand tremendous effort from WTO member countries, particularly developing countries and even worse, the least developed countries. Thus, Korea needs to lead a call for member countries to help these less developed countries. Technical assistance to developing and least developed countries are of great importance to the full and efficient implementation of UR results and the pursuit of the built-in-agenda, and ultimately, to the proper operation of the WTO as a whole.

To keep regional trade agreements open and supportive of the WTO, the role of the newly established Committee on Regional Trade Agreements should be strengthened. In addition, more effort is needed in the Singapore Ministerial Conference to ensure complementarity between regionalism and multilateralism.

Nonetheless, by over-prioritizing the basics of the WTO, Korea could neglect the importance of maintaining the liberalization processes of the world economy. It is important to keep the WTO's momentum in opening markets, and for this purpose, it will be of great value to select one issue from the list of Korea's future issues. Investment would be a good choice in this regard since investment has already become the core mechanism for deepening global integration.

A new Round, however, is not necessary for dealing with the investment issue. Under the GATT system, market openings have proceeded in a stop-go fashion through successive rounds. Under the WTO system however, a permanent institution is established, enabling market openings to be a continuous process, with an agenda constantly adjusting to the reality of the world economy.

IV. NEW TRADE ISSUES

There are a number of new trade issues that have been discussed as potential agenda of the Singapore ministerial meeting. While the environment issue is already a formal agenda item for the Ministerial, there is no consensus on any other new trade issues. The most often cited new trade issues are investment, competition policy, labor standards, corruption and bribery. In addition, regionalism is also included in the new trade issues.

Trade and Environment

The trade-environment negotiation is a multilateral negotiation in the WTO which reflects environmental concerns in the multilateral trading system. In other words, it is a negotiation to establish 'proper' rules in the WTO norm. These 'proper' rules are rules that accommodat the various measures already implemented for legitimate environmental protection and, at the same time, guard against the protectionist abuse of these measures. Environmental measures that have significant trade effects and trade measures created for environmental purposes, both affect the international competitiveness of traded products. Because of this, countries have varying views on what the 'proper' rules should be; which, of course, brings about complicated multilateral negotiations surrounding trade and environment.

The issue of trade and the environment has already started to be discussed under the GATT system, and serious discussions and negotiations have continued since the establishment of the Committee on Trade and Environment in 1995. Trade and environment is one of the built-in agenda items for the Minist-

erial Conference in Singapore. The Committee is supposed to submit a report to the Conference that includes recommendations whether any modifications to the multilateral trade rules are necessary given the need to promote environmental protection. Therefore, the next couple of months negotiations will be critical for the Committee to come up with a balanced report.

The current multilateral trading system offers a reasonable degree of flexibility for member countries to take trade-related environment measures. The trade-environment negotiation will focus on the extent and modality in which trade-related environment measures that are incompatible with the current WTO norm should be integrated into the multilateral trading system. In other words, the trade-environment negotiation is based on the recognition that trade restrictive measures might be necessary to reach the environmental objectives. Up to now, under the GATT system, trade negotiations were aimed at promoting trade liberalization by removing trade barriers.

The core issue in the trade-environment negotiation will be the trade measures based on product differentiation; that is, according to environmental characteristics of Process and Production Methods (PPMs). These kinds of trade measures are vulnerable to protectionist abuse since environmental requirements based on PPMs may be applied to imports in an arbitrary or discriminatory manner. It is expected that the proliferation of trade restrictive measures, especially those based on PPMs, will result in the weakening of international competitiveness of many developing countries. including Korea.

Considering that the Korean economy has pursued export-oriented growth with high trade dependency, Korea should actively participate in the negotiation process from the earliest stage. Then Korea can establish multilateral trade rules that prevent arbitrary abuse and misuse of trade-related environmental measures.

At the same time, ways and means (including the implementation of mid and long-term environmental policies), various incentive mechanisms etc., need to be devised to promote environmentally friendlier products and PPMs in Korea.

Trade and Investment

The WTO and OECD may be the two most important places where the establishment of multilateral rules on investment liberalization is being discussed. Although discussions within the WTO have not seen substantial progress thus far, the WTO is considered an ideal place to discuss the establishment of investment-related multilateral rules due to acceptance of its members from countries all around the world. Unlike the WTO, though, substantial progress has been made in OECD. In particular, the Multilateral Agreement on Investment (MAI) has been actively discussed among OECD member economies and is expected to be signed within the first half of next year. The MAI pursues the establishment of multilateral rules requiring all members of OECD the highest possible levels of investment liberalization. Eventually, the MAI will pursue an international treaty that is independent of OECD.

One can imagine several scenarios regarding the future development of investment-related multilateral rules. The first possible scenario would be that the OECD agreement is signed early next year and the WTO undertakes serious discussions in the next Ministerial Meeting in Singapore in December. The WTO would be required to have a intermission period for review and preparation before it launches multilateral negotiations. During this intermission period, the WTO could capitalize on the experience and knowledge provided by the OECD.

Second, one can simply imagine the possibility of the OECD agreement being adopted by the WTO. In a third possibility, discussions in the WTO see no progress, particularly due to strong objections stemming from developing member economies, and the OECD agreement remains an independent international agreement. At this stage, it is difficult to predict the future direction of investment-related multilateral rules. However, the developed economies have already declared their positions through the OECD agreement. Depending on the speed developing economies adapt to the positions taken by developed economies, global investment rules may surface in the international community earlier than expected.

Korea needs to respond to this changing world economic environment in the following two ways: First, Korea needs to actively participate in multilateral efforts to establish international rules on investment liberalization. By doing so, Korea will be able to incorporate its positions into the newly established multilateral rules. Second, Korea needs to make efforts to improve its own investment environment. One option for this is to join the OECD. Once admitted to the OECD, Korea's investment liberalization should abide by the provisions provided by the OECD agreement. The OECD agreement, though, would require Korea to achieve far more investment liberalization than is required by the current foreign direct investment liberalization program in Korea. Thus, the most desirable choice for Korea would then be to delay its participation in the agreement until it is fully prepared.

However, this may not be easy once Korea is admitted to the OECD. Other members of the OECD would naturally put pressure on Korea for early participation in the agreement. In this regard, Korea needs to build its negotiating power. Korea's negotiation skill should be improved to a level in which it can

secure necessary concessions from other members of the OECD. At the same time, other unnecessary regulations should be dramatically relaxed and abolished.

Considering Korea will be preparing for its participation in the OECD agreement, its participation in the WTO activity of building an investment-related international rule would be a relatively easy transition. In fact, such participation could be another plus for the Korean economy. Accordingly, Korea must support multilateral efforts to build an investment-related international rule in the WTO. Korea would also benefit from such multilateral efforts if these efforts led to the improvement of the investment environment in developing economies. This, in turn, implies that Korea needs to encourage developing economies to join the WTO efforts towards building a freer investment environment across the globe.

Trade and Competition Policy

The important role of investment in rapidly integrating world-trade strongly demands a level playing field in every aspect of economic activity; i.e., the production-process, sales process and other related economic activities.

Though demand is high, there has been no consensus regarding international common competition rule due to political, economic, and cultural factors. These factors, in fact, which have widened the contents and application of competition law and policy in each country.

However, based on the talks carried out thus far, it seems that the probability of setting competition issues on the WTO table in Singapore is higher than ever before.

If member countries decide to adopt competition rules as part of their agenda, the main topics that need to be addressed would be the contents of the competition law itself, namely: (1) export and import cartel, (2) restrictive market access business practices by private firms, (3) vertical restraints, (4) monopolies and the abuse of market dominance, (5) mergers, (6) subsidies in trade and anti-competitive government actions; including dumping and antidumping issues, as well as procedural aspects in implementing competition rules.

Adoption of the rules could take longer than expected because of various factors involved. The talks though, would add impetus to demands from developed countries for reciprocal cooperation and harmonization of competition rules.

The talks on competition rules will require many changes from the Korean economy, which, having experienced tight government regulation, is now facing problems such as a concentration of economic power, as well as a monopolistic and oligopolistic industrial structure.

Anti-competitive behavior—i.e., monopolistic abuse of market power, as a result of conglomerates' vertical distribution system—will be the direct target of the competition round.

In addition, with high technology, developing countries will try to formulate competition rules in a way that guarantees the full use of intellectual property rights in hindering the diffusion of technology.

Action needs to be taken while the current is still strong and the chances of putting competition rules on the WTO agenda are favorable. Legal and institutional changes related to these competition issues need to occur from the inside, while active participation in the talks is also necessary so that the new competition rules will reflect our interests.

Trade and Labor Standards

The United States has sought several times to introduce the issuance of labor standards into the ITO, the GATT, and now into the WTO. Furthermore, in the U.S. Omnibus Trade and Competitiveness Act of 1988, the U.S. Congress made it clear that failure to provide adequate protection of labor rights could be considered an 'unreasonable' trade practice against which the USTR might retaliate under Section 301. Under this backdrop, the United States successfully incorporated a social clause into NAFTA by negotiating a side agreement on labor standards in this regional trade agreement. Then in 1994, the Clinton administration proposed taking up the issue of labor rights in the new WTO. This effort became embroiled in controversy after many developing nations and some developed countries such as the U.K., Australia and New Zealand disagreed with the United States.

The 1993 White Paper of the European Commission, "*Growth, Competitiveness and Employment*," in effect, asserted that the rise of Third World industrializing nations has already had a serious adverse impact on the European economy in general, and particularly on the continuous upward trend in European unemployment rates. In fact, the European Union adopted the Social Charter by a vote of eleven to one (U.K. dissenting) in December 1989. The Social Charter aims to counteract social dumping via longterm "upward harmonization" of labor standards and social policies. In this regard, the European Union has also strongly advocated the protection of labor rights in the form of international trade agreements.

Although the issue of labor standards is not new in the international trade arena, the recently heightened awareness of the trade sector's social dimension

presents a new challenge to the WTO system. In particular, the issue of trade and labor standards has come up again this year before the first WTO ministerial meeting in Singapore. The United States and European Union, both of which experienced bitterness due to failed efforts at Marrakesh, have now brought this issue to the WTO by emphasizing the importance of this issue in the world trading system. Considering the adamancy of these two giants in the world trading system, the issue of trade and labor standards will surely be actualized at some point in the WTO.

If the issue of trade-labor standards is adopted as a new trade agenda item in the WTO, the core of the discussions will be about whether or not trade sanctions are permissible as a retaliatory action against nations that set unreasonably low labor standards. However, despite a two-year discussion on the selection of core labor standards in the OECD, it is still under debate which labor standards should be protected. Core ILO Conventions, such as Convention 87 and 98 (which aim to promote freedom of association and collective bargaining as a labor right), Convention 29 and 105 (which aims to prohibit forced labor) and Convention 111 (which stipulates the principle of non-discrimination in employment), could serve as a good reference point to start in negotiations. But, the task of amending these core Conventions needs to be approached more enthusiastically, seeing as how most ILO member nations have not yet, for whatever reason, applied them. For example, the United States has currently only ratified ILO Convention number 29.

Korea's perspective on trade and labor standards is somewhat complicated. In one respect, Korea supports the multilateral role of the WTO as guiding free and fair trade and mitigating trade frictions in the global trading system. But the existence of links between trade and labor standards have not been verified, and,

in fact, the necessity of these links have not even been accepted by most WTO member nations. As a role model to other developing nations, Korea supports the view that labor standards should be promoted subsequent to economic development and political democracy. Forging a direct link between trade and labor standards in the WTO, though, is not necessarily the best approach to promoting better labor standards in developing nations. In Korea, the creation of new labor relations is now one of the most important issues in the process of economic reform. Facing pressures from OECD member nations and from a labor class pursuing a better quality of life, Korea is trying to reconcile the conflicting interests among different groups on this issue and create more cooperative labor relations.

Trade and Corruption

Bribery and corruption have emerged as important new issues in the international trade policy debate. OECD member countries have increasingly realized that the effects of bribery in daily business dealings and corruption in the government ripple through at the world trade environment, and actually act as trade barriers.

In 1994, the OECD Council declared that OECD members should take effective measures to combat bribery of foreign officials. As a corollary, the OECD recommended in 1996 that member countries prohibit the tax deductibility of bribes to foreign public officials. As a first step, prohibiting the tax deductibility of bribes would serve as a strong and politically visible symbol of the common international commitment to eliminating bribery.

Among the OECD members, the U.S. played a leading role in bringing the

fight against bribery and corruption to the OECD. The U.S. already enacted the Foreign Corrupt Practices Act in 1977 to outlaw bribery of foreign public officials. As a consequence, U.S. companies doing business in foreign countries are at a competitive disadvantage against other foreign companies operating without the constraint of domestic bribery laws. Recognizing this problem, the U.S. government has brought the fight against bribery in international business transactions to the OECD so that other OECD members can take effective measures to combat bribery and corruption in their international business transactions.

The fight against corruption will not be confined to the OECD countries, since companies from countries condoning bribery of foreign public officials would otherwise gain unfair advantage over companies restricted by laws banning bribery of foreign public officials. However, some developing countries oppose the idea of restricting corruption in the multinational framework. ASEAN (Association of Southeast Asian Nations) countries, in particular, are opposed to the idea of introducing the corruption issue to the WTO on the grounds that developed countries are linking trade with corruption as a market-opening strategy.

Few countries question that bribery and corruption in international business transactions is detrimental to the international business environment. In addition, most, if not all, nations in the world outlaw bribery of its domestic public officials. Businesses operating within any country would be subject to the anti-bribery laws of the country in which they are operating. The problem with bribery and corruption in international business transactions arises because these laws are not enforced to the same degree in every country.

Korea is currently at the final stage of its accession into the OECD. Once

Korea joins the OECD, it will also have to join the OECD's efforts to eliminate bribery in international business transactions. The effort should be directed at legislation of laws concerning bribes. Moreover, efforts should be directed at enforcing existing laws dealing with the bribery of domestic officials. The problem of bribery and corruption is essentially an enforcement problem, and it is primarily the responsibility of the hosting country to provide a fair and competitive environment through firm enforcement of anti-bribery laws within the country's territory.

Korea should also urge the OECD to encourage non-OECD members to join in these efforts against international bribery. To this end, there is no reason for Korea to object to raising the bribery and corruption issue in the WTO, as well as in other multilateral forums. In addition, Korea should advocate current efforts to reach a WTO agreement on the three principles governing government procures: transparency, openness and due process.

A clear and competitive international economic environment is something every country wants, but for which no one wants to pay the price. It is important for Korea, which is in the process of emerging as a major player in the global economy, to join in the efforts to end bribery and corruption in international business transactions and encourage others to do so as well.

Regionalism

Upon entering the 1990s, we saw a surge in new regional trade agreements, as well as a deepening and widening of existing regional agreements. Many observers regarded these developments as evidence of the fragmentation of the multilateral trading system. Furthermore, even after the establishment of the

WTO in 1995, a number of new regional trade agreements have been formed that threaten the credibility of the multilateral trading system.

An important repercussion of these events is that such widening of regional integration may lead to the emergence of three potentially inward-oriented trading blocs centered in North America, Western Europe and the Asia-Pacific region. Ironically, the most obvious factor that fueled the expansion of postwar regional integration is the GATT Article XXIV, the only significant exception to the MFN principle. This provision of the GATT sought to ensure compatibility with the multilateral trading system in two ways. One way was requiring such regional arrangements as customs unions and free trade areas to substantially cover all trade among the partners. The other way was to promote trade policies which do not lead to higher protection or extra restrictions on the trade of non-members. However, it has been almost impossible to assess the consistency of regional trade agreements with the multilateral system under this provision. Among over 100 existing agreements, only one has been found to be consistent with the rules laid down in Article XXIV. Hence, the current proliferation of regional agreements and recurrent fears of trade conflicts could endanger the credibility of the global system.

As one of the countries in the world which is not party to any regional trade agreement, Korea works hard to counter the rising trend towards inward-looking regionalism. In this regard, Korea recognizes that APEC and the newly-formed ASEM are important vehicles for promoting a more open multilateral trading environment.

Korea has been actively participating in the APEC process. The Korean government feels it is of crucial importance to not lag behind neighboring Asia-Pacific developing economies, and actually become a leader, in the long run.

Korea should also contribute to deepening economic cooperation in APEC by playing an intermediate role between developed and developing economies. Despite the substantial progress in recent years, the agenda of trade and investment liberalization of APEC economies is divergent, mostly due to the different stages of economic development in each country. In addition, Korea will host, as well as chair, the third ASEM in the year 2000. Korea hopes that ASEM will serve as another avenue for promoting the globalization of the world economy.

In February this year, the new Committee on Regional Trade Agreements was established for two main reasons: (1) to examine all regional trade agreements, and (2) to consider the systematic implications of such agreements and regional initiatives for the multilateral trading system. Korea sees this move as an important step forward in clarifying existing regional trade agreements and making them consistent with WTO rules and provisions. Korea hopes that the Singapore Ministerial Conference will strengthen the role and mandate of the Regional Trade Agreements Committee within the WTO system.

Korea's Position on the New Trade Issues

There are two conflicting views on the new trade issues in the WTO system. Some argue that for the WTO to be relevant and credible, the new trade issues must be addressed in a fashion that is timely and up-to-date with the process of global integration. Others, however, argue that consideration of such issues would distract the WTO from implementing UR agreements and on-going negotiations, and that the new issues could easily be abused as protectionist measures.

With the exception of the trade and environment issue which is already on

the agenda for the Singapore Conference, there has been no consensus yet on any of the new trade issues. How these issues will be handled by the WTO could be of crucial importance to the future direction of the world trading system.

The Korean government should focus on addressing the importance of the trade and investment issues, among others. Conventional wisdom has told us that investment tends to be a great substitute for trade. But in today's world of deep integration, the relationship between investment and trade is increasingly being seen in terms of complementarity rather than substitution. Investment has become one of the principal mechanisms for global economic integration in recent years. It has, in fact, been an engine for globalization and a key factor in achieving effective competition in the global market. In short, it is true that in recent years, "firms trade to invest and invest to trade".¹⁾ Thus, it is quite natural to introduce this important issue into the WTO system. The WTO rules should not slip too far behind the realities of the world trading environment.

Trade and competition policy, trade and labor standards, and trade and corruption are of course important, but these issues will go beyond the Singapore Conference. In particular, dealing with competition policy calls for a cautious approach, as it may greatly change the notion of fairness in the world trading system. In any case, Korea should not let itself lag behind in the negotiations on any new trade issues.

1) This quote, used by a business executive in a recent OECD Trade Committee meeting, remains quite popular.

V. CONCLUSION

The WTO is truly of great significance to the world economy. With the launch of the WTO, we are witnessing the emergence of a new world trade order that pursues freer and fairer trade throughout the global economic market. In fact, the WTO is integral to the final decline of the protectionism and managed-trade prevalent in the 1980s, and we may yet benefit from a resurgence of the trade liberalism of the 1960s and 1970s. Ultimately, it is hoped that the establishment of the WTO will be the precedent for the return to the principle of free trade.

First of all, the future interests of the WTO should lie with the full and efficient implementation of the Uruguay Round results. Furthermore, the WTO needs to continue addressing several other economic issues, including programs for the built-in-agenda, new trade issues like the environment and investment, and any other negotiations that have not been completed yet. It is likely that among these issues, topics related to new trade issues and the further liberalization of trade will draw the most controversy from the world.

Integral to these issues are Korea's role and priorities in the WTO. As we know, Korea has been one of the greatest beneficiaries of the GATT system and thus has one of the greatest incentives to ensure the successful operation and continuation of the new WTO system. In fact, Korea is in the unique position of both acting as a model country in its role in the WTO, and witnessing first-hand the virtues of a multilateral trading system.

Furthermore, Korea can also serve as an intermediary between developed and developing countries, and thereby help resolve any disputes between the North and South. It can then act as a guardian of multilateralism against

discriminatory regional trade blocs. In addition, Korea can bring forward the trade and investment issue for the sake of continuing the momentum of the WTO regime.

It is the vision of the WTO to lead the world economy into “a single market economy” in which “a single trade rule” (i.e., WTO agreements) and “a single governing body” (i.e., the WTO) prevail. The world economy can then enter into an era of integrated, borderless, and thus, truly global competition-- a unique world trading environment where competition and cooperation coexist. Although this vision may seem idealistic, I strongly believe that with sincere, concerted global effort, it is a vision that is fully attainable for Korea, the WTO as a whole, and ultimately, the world.

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