US-KOREA DISPUTES ON THE OPENING OF KOREAN INSURANCE MARKET: SOME IMPLICATIONS

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Abstract

This paper studies a recent case of US-Korea disputes on the opening of Korean insurance market. The case is interesting for several reasons. It occurs at a time when the US has been pressing hard to place trade in services on the agenda of the forthcoming round of GATT trade negotiations. It thus provides an opportunity to assess the interests of developed and developing countries in trade in services. On the other hand, the course of the negotiation and its results allow observation of the effective bargaining forces that have driven the negotiation. This may shed some light on the prospects of opening of service markets in developing countries.

The major findings of the paper are: (1) both Governments (especially US) approached the case with the perception that the main issue of negotiation is the sharing of market and profit in Korea's rapidly growing insurance industry, (2) the issue that has been the key in the negotiation was related to "international investment" that generates the financial services rather than the "international trade" in financial service itself, (3) it would be hard, at this moment, to expect active participations of developing countries in discussions of the multilateral forum of trade in financial service, (4) Korean Government decision that allowed the US entry into the service market in order to avoid the shrinkage of the current level of Korea's export to the US is economically sensible in the sense that it chose the option of more trade than the option of less trade which might have resulted if it had refused imports of US insurance services, and finally, (5) developing countries, such as Korea, should now consider whether it would be better for them to maintain the protection and cartelized domestic market structure and share the rent out of it with foreign firms or should they deregulate the market and let the rent disappear and the gains be distributed to policy holders. The case provides an opportunity to reflect on whether it may be for the developing country's interest to deregulate the market rather than keep regulations and protection and share the profit out of this with foreign firms.
Introduction

In September 1985, the initiation of an unfair trade practice (Section 301) investigation by USTR opened a dispute between US and Korea over the access of US firms to Korea's insurance market (see appendix about Section 301). The Government of Korea had pursued a policy of preventing foreign insurance firms from providing certain types of insurance services in Korea, and US insurance firms petitioned for an investigation on the basis that they were not treated equally with Korean firms in the Korean insurance markets. They alleged that the Korean Government prohibits foreign firms from writing life insurance for Korean nationals as well as the most lucrative types of fire insurance (fire pool) despite Korea's obligation to provide national treatment (nondiscriminatory treatment) to US firms under the "Treaty of Friendship, Commerce and Navigation."

The issue occasioned several meetings between the US and Korean Governments. In the upshot, US firms have obtained greater access to the Korean insurance market.

The case is interesting for several reasons. It occurs at a time when the US has been pressing hard to place trade in services on the agenda of the forthcoming round of GATT trade negotiations. It thus provides an opportunity to assess the interests of developed and developing countries in trade in insurance services.
On the other hand, the course of the negotiation and its results allows observation of the effective bargaining forces that have driven the negotiation from the US side. This may shed some light on the prospects of a multilateral negotiation on trade in services such as the US proposed at the 1982 ministerial meeting of GATT.

The position of the Government of Korea, on the other hand, provides an opportunity to investigate the real motivations of developing-country restrictions on service trade. This may permit elucidation of developing countries' perception of, and attitudes toward, trade in financial services.

The paper is organized as follows. The first section briefly reviews the recent development of the Korean insurance market. The second section describes the issues between the US and Korea, and their respective positions on these issues. It also investigates the real motivations of both governments behind their formal arguments. In the third section, the progress of the negotiation and the bargaining counters used by each party are described. Finally, several implications for negotiation on trade in financial service between developing and developed countries are considered.

I. Korean Insurance Market

The history of Korean insurance industry is short. Most Korean insurance firms date from 1950s. The systematic development of the insurance business started in 1962 when the Government took several measures to foster the industry, including promulgation of the Insurance Business Act.

The growth of the industry has been rapid since then, and was particularly rapid in the 80s (see table 1). This growth was shared with
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<tr>
<td>GNP</td>
<td>13,381</td>
<td>18,115</td>
<td>24,225</td>
<td>31,249</td>
<td>37,205</td>
<td>45,775</td>
<td>51,787</td>
<td>58,428</td>
<td>65,380</td>
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<tr>
<td>Life</td>
<td>85</td>
<td>140</td>
<td>243</td>
<td>479</td>
<td>603</td>
<td>922</td>
<td>1,685</td>
<td>2,319</td>
<td>3,084</td>
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<tr>
<td>Non-Life</td>
<td>99</td>
<td>129</td>
<td>202</td>
<td>297</td>
<td>387</td>
<td>495</td>
<td>633</td>
<td>765</td>
<td>874</td>
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<tr>
<td>Total Premium/GNP (%)</td>
<td>1.5</td>
<td>1.8</td>
<td>2.5</td>
<td>2.7</td>
<td>3.1</td>
<td>4.5</td>
<td>5.3</td>
<td>6.1</td>
<td></td>
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<tr>
<td>Total Assets</td>
<td>145</td>
<td>212</td>
<td>355</td>
<td>667</td>
<td>998</td>
<td>1,468</td>
<td>2,488</td>
<td>3,685</td>
<td>5,314</td>
</tr>
<tr>
<td>Life</td>
<td>141</td>
<td>220</td>
<td>326</td>
<td>446</td>
<td>607</td>
<td>772</td>
<td>918</td>
<td>1,043</td>
<td>1,111</td>
</tr>
<tr>
<td>Non-Life</td>
<td>800</td>
<td>1,028</td>
<td>1,406</td>
<td>1,662</td>
<td>1,589</td>
<td>1,719</td>
<td>1,773</td>
<td>1,912</td>
<td>2,041</td>
</tr>
<tr>
<td>Per Capita GNP (/b)</td>
<td>46,6</td>
<td>53,9</td>
<td>65,7</td>
<td>79,6</td>
<td>100,0</td>
<td>115,9</td>
<td>124,1</td>
<td>127,1</td>
<td>137,5</td>
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</table>

Note: /a Figures in parentheses are normal annual growth rates %.  
/b US dollar  
Korean Economic Indicators, Economic Planning Board, Korea, 1985
other nonbank financial institutions (NBFIS) such as investment and finance companies, and was largely owing to two major factors: (1) the domestic financial liberalization policy pursued by the Korean Government and (2) the reduced inflation rate, which attracted financial savings toward nonbank financial institutions, whose interest rates were higher than the banking sector. 1/

The present insurance system in Korea is divided into life and nonlife insurance. No insurance company may handle both at the same time.

The life insurance business is at present dominated by six-life insurance companies, all of which are domestic. No entry, either domestic or foreign, has been allowed during last three decades. 2/

In 1984, the total premiums revenue of the Korean life insurance industry was 3,084 billion won, which was approximately 2.5% of the figure for the American life insurance industry. 3/ More than 95% of the total life insurance premiums paid in Korea are for a savings plan while only 5% are for pure insurance function. In Korea, the six-life insurance companies are important savings institutions and take about 11% of total financial

1/ See Cho (1986) for the discussions of the financial liberalization policy and the growth of nonbank financial institutions of Korea.

2/ The Government of Korea has pursued the policy of protecting the insurance industry from severe competition since it worried about the possible bankruptcies of firms which would give rise to the instability of the financial industry.

3/ Korea's population was about 1/6 of US and its per capita GNP was about 1/7 of US in 1984.
institutions' deposits (including all banks and nonbank financial institutions) as of 1984. 1/

The nonlife insurance industry is much smaller than the life insurance industry. Its total premiums were 874 billion won in 1984—approximately 28% of that of life insurance industry. Thirteen companies are licensed to sell nonlife insurance, including two-US firms and three-joint ventures between Korean and non-Korean companies.

Insurance firms are strongly regulated by the government. Their premium rates, asset management and the interest rates they charge to borrowers are tightly controlled and monitored by the government.

II. The issues and the two countries' positions on the issues

1. Background

Since 1968, several foreign insurers have received licenses to underwrite certain life and health insurance policies for resident aliens including US Armed Forces personnel and their families. At present, seven-American companies provide such insurance in Korea.

In 1968, two-American insurers, American Home Assurance Co. (AHA) and American Foreign Insurance Association (AFIA) received licenses to underwrite

insurance other than life insurance for resident aliens. 1/ Later, these companies were licensed to write fire and other casualty policies to Korean nationals also (AHA in 1977 and AFIA in 1978).

AHA in 1979 filed 301 petition to USTR on the ground that it was not treated equally in Korean nonlife insurance market. Its complaint was based upon AHA's exclusion from the pool for noncompulsory (so-called banking pool) and compulsory fire insurance. AHA alleged also that it had no access to marine insurance.

In 1981, the Korean Government responded to it by an expansion of the licenses of AHA and AFIA to permit them to write marine insurance. By 1984, the noncompulsory Fire Pool (bank pool) was abolished and the US insurers were given unrestricted licenses to underwrite noncompulsory fire insurance, pursuant to an agreement with US and AHA reached in connection with the Section 301 petition filed by AHA in 1979. 2/

2. Issues

Life insurance was not an issue in the 1979 301 petition, but in October 1985, the US again raised the issue of discrimination. USTR initiated an investigation under Section 301 into Korea's policy of prohibiting or restricting US firms from providing insurance services. On this occasion, the

1/ In October 1984 AFIA transferred its license to CIGNA, another American insurer.

2/ The buildings over 4 floors in seven-major cities of Korea are required by law to get fire insurance which is operated in the pool system (compulsory fire pool).
opening of life insurance market and compulsory fire pool became a major issue. The US Government initially demanded that the Korean Government immediately dismantle the compulsory fire pool or permit the access of two-US firms (which are already in Korea) to pool with equal shares of premium income as Korean firms. Since Korean Government opposed to dismantling of the pool by certain reasons, the negotiation throughout has been focused only on the participation and shares of US firms in the fire pool. In addition, the US demanded that several US firms be licensed to sell the life insurance by June 1986 and that three additional nonlife firms and four additional life insurance firms be licensed by the end of 1987.

3. The Two Countries Positions and Motivations

US Position

The US approach to the case was legalistic. Economic arguments did not play a major role in the formulation of the US position. Its main argument was based upon "national treatment." The Governments of the US and Korea on Nov. 28, 1956 entered into a "Treaty of Friendship, Commerce and

1/ The compulsory fire pool accounts for about 3% of the total fire insurance market. However, it is the most lucrative part of Korean nonlife insurance market.

2/ One of the reasons that Korean Government could not accept the US demand for immediate dismemberment of fire pool was that it could not immediately close down the company which organizes and manages the compulsory fire pool.
Navigation" which is still in force. That treaty provides for national treatment. 1/

US firms (AHA, AIG), through their 301 petition to USTR, argued that Korea had continued its long-standing policy of discrimination against American insurance companies in Korea. This time, among other things, US firms made an issue of the Korean Government's restrictions on their access to the life insurance market and to the market for compulsory fire insurance (fire pool). They argued that these policies and practices were inconsistent with the provisions of the "Treaty of Friendship, Commerce and Navigation," and otherwise denied to US firms the benefits to which they were entitled under that trade agreement, and that the practices are unjustifiable, unreasonable or discriminatory and burden or restrict United States commerce and thus violates Section 301. They alleged that the Korean Government continued to violate its treaty obligations to the US and violated the international legal norms incorporated in Section 301(e). USTR exactly repeated these arguments of US insurers to the Korean Government.

1/ The treaty specifies that, "Neither party shall take unreasonable nor discriminatory measures that could impair the legally acquired rights or interests within its territories of nationals and companies of the other party in the enterprises which they have established," and, "Nationals and companies of either party shall be accorded national treatment with respect to engaging in all types of commercial, industrial, financial and other activities for gain (business activities) within the territories of the other party, whether directly or by agent or through the medium of any form of lawful juridical entity."
Motivations: US

The recent explosive expansion of the life insurance industry and the expected-continued growth of the insurance market owing to the growing income level of Korea, provide an attraction for US firms to enter the market and occupy a growing share of the market. In addition, the relatively inefficient management of Korean insurance firms and oligopolistic structure of the market made entry into this market particularly profitable and attractive since US firms are considered to be quite competitive and efficient compared to Korean firms. 1/

The fire pool, though small, has been the most lucrative part of nonlife insurance market. US firms have a strong interest in sharing the profit of this market.

Another motivation may be that the entry of insurance firms permits US firms to invest in the Korean capital markets. Currently, investment by foreign nationals in the domestic stock and securities market is restricted. Investments in the Korean capital market by foreign-bank branches and special funds managed by foreign finance companies (such as Korea Fund) have, however, been very profitable.

1/ One similar case that might have inspired US insurance firms of high-profit opportunity in Korea is the case of foreign banking. The foreign banks in Korea have been very profitable. The Korean banking industry, like the insurance industry, is subject to strong government regulation and domestic banks are quite inefficient. In 1985, foreign banks in Korea made net profits of 91.5 billion won while five domestic commercial banks (Korea has only five commercial banks nationwide) made net profits of 38.8 billion won (Dong-A Daily News).
Korea's Position

The formal position of the Government of Korea at the start of the dispute was based on second-best arguments. Those are as follows. a) In the absence of social security system in Korea, life insurance firms play a role in social welfare. Therefore, the government regulates and supports the industry as a guarantor of payment and monitor of the industry. (b) Insurance firms are often used as a vehicle of monetary control since they are de facto saving institutions and are required to purchase government bonds to stabilize the money supply. (c) Fire pool, which includes the government and military buildings, deals with sensitive information related to defense and national security. Korea argued that foreign firms entry can make it difficult to achieve or to take care of the above goals or considerations.

Korea, however, soon realized that the first two of these arguments could not establish effective arguments for restricting the entry of US firms since the issue that was raised by US was "equal treatment" and US firms, once entered, could be subject to the same regulations as domestic firms. Since then, its efforts have been focused on delaying the time of opening the market to US on the ground that Korean firms are as yet very uncompetitive and their profitability poor. Also, Korea argued that to limit foreign entry does not violate national treatment since the Government has pursued the policy of protecting the industry from overcompetition, securing the stability of it, and in so doing, the Government has restricted not only foreign firms' entry but also domestic firms' entry, limiting the number of firms to six during the last 30 years in the case of life insurance industry. Therefore, it argued
that US firms were treated equally as domestic firms who did not succeed to enter into life insurance.

**Motivations: Korea**

Behind the formal arguments, the motivations of Korea's restrictions seem to be the following:

(a) Losing the market share and the possibility of bankruptcies of domestic firms

Firstly, Korean Government worries that because of the relative inefficiency of domestic firms, compared to US firms, competition with US firms may lead to a significant loss of market share of domestic firms and this may lead to bankruptcies of some of inefficient firms which may trigger serious instability of financial market.

Secondly, given the regulations and protection of the insurance industry which provides the oligopolistic structure of the market and resulting rents, the Korean Government wants this rent to be shared among domestic firms and does not want it to go to foreign firms. This motivation is similar to the case of restriction on foreign direct investment (FDI) in some manufacturing industries. 1/

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1/ Korea has been very reluctant to induce foreign direct investment compared to other developing countries. Foreign direct investment is less than 5% of its total external debt while it is much higher in the case of other LDCs (for example, it is higher than 20% in Brazil). Recently, however, Korea substantially relaxed its restrictive policy on foreign direct investment.
However, Korean Government admits that the entry of US firms and the competition with domestic firms will improve the quality of service and efficiency of domestic insurance firms. But if the improvement of efficiency and welfare is the purpose, it thinks it can partly achieve it through deregulation and allowing more competition among domestic firms not necessarily through foreign entry.

(b) Difficulties of regulating foreign firms

Again, given that the Korean Government wants to continue to regulate and control the insurance industry or has no immediate plan to deregulate it for whatever reasons, 1/ it feels that control of foreign firms is more difficult than control of domestic firms. This feeling of uneasiness does not constitute a strong motivation of restriction as the above-mentioned one. However, through the experience of dealing with foreign-banks branch in Korea, Korean government officials seem to have a perception that foreign firms or financial institution located in the domestic market are not as cooperative (according to their language) with government policy as domestic firms. The government officially can impose the same extent of regulation on both domestic firms and foreign firms in order to control the industry by whatever reasons it may think necessary to achieve certain government goals. However, it is true that every situation in which the government may wish to put regulation cannot be fully specified by law, and in that case, government asks the firms in the industry, say banks or insurance companies, to cooperate with government policies in an informal way. For instance, in Korea, insurance

1/ The discussion about whether this regulation should be relaxed or not for the efficiency of the economy is beyond the scope of this paper.
companies are designated as institutional investors in the stock market. When the government feels the market is overheated or too dull, it informally asks the insurance firms to help to adjust the market by reducing or increasing their stock assets. And also, when domestic real estate market is overheated, the government may wish to further limit the investment of insurance companies or other financial institutions in real estate beyond a certain point although it may be less than the point that is specified in the law. In this situation, the common practice is to ask firms for cooperation through the informal regulatory framework by, say, making phone call to the managers of insurance firms.

Putting aside the problem whether this kind of practice is good or bad, this has been sort of common practice in the society. But this kind of government request for cooperation has not been well received by foreign firms. One of the reasons why domestic firms are more responsive than foreign firms to this type of government control is that the Government has more leverage on domestic firms either through its influence on the personnel management, and the right of authorizing its future domain of operation, say, authorizing new type of insurance policy and so on. 1/ The foreign firms, instead of accommodating this kind of government request upon which this type of control is based, often turn to their home-country government to press the host country's government through political channels to correct this, rather than accommodating it. The domestic government, which may not be in a politically strong position with respect to the foreign government, does not

1/ Lots of high position managers (including president) of insurance companies in Korea are former government officers.
enjoy this much, be it good or bad for the long-run efficiency of the industry.

III. The Progress of Negotiations and its Results

The US demand and Korea's response expressed in the talks between US and Korea Governments in November (Washington, D.C.), December (Seoul) 1985 and June (Seoul) 1986 are as follows:

**US Demand**

(1) The full participation of two-US firms which are already established in Korea in the fire pool.

(2) Equal share of premium income for US firms as Korean firms in the fire pool. 1/

(3) Allowing new entry of US insurance company (numbers are not specified) to life insurance market by the end of June 1986.

(4) Allowing new entry of three additional nonlife insurance firms and four additional life insurance firms by the end of 1987.

**Korea's Response**

Korea initially proposed to US to discuss the issue in the context of the multilateral forum since it thought it can be better off as a multilateral negotiation participant than as a bilateral negotiation partner of the US.

1/ Currently, the premium income of the fire pool is shared equally by 11 Korean firms.
Korea's trade surplus to US and its weak political position to US by various reasons made it expect that its bargaining position would be weaker in the bilateral negotiation. Korea also preferred multilateral forum because it could postpone the opening of market until the final agreement is made in the multilateral forum, which seems to take much longer than the bilateral negotiation. Under these considerations, Korea has assisted US efforts to initiate services negotiation through GATT. It submitted to USTR that a services negotiation under the auspices of the GATT would provide a more appropriate forum for the resolution of disputes between the US and Korea concerning the opening of Korean insurance market than a unilateral proceeding under Section 301. This proposal, however, was not accepted by US. USTR threatened that if the issue would not be resolved by September of 1986, it would make a recommendation to the President as to retaliations against Korea's export to the US. Korean Government was also concerned that if Korea does not accept US demand, it will stimulate US Congress to pass more protective actions against Korea's export. Realizing that acceptance of the US demand was unavoidable, Korean Government sought a way to delay or accept entry on a gradual basis so as to minimize the shock to domestic firms.

Finally, it made the following offers in response to US demands:

- Korea will permit the participation of the two-US firms in the fire pool by July 1986. However, this does not include the government and defense industry building for national security reason.
- About (2), the firms participating in the pool should share the total premium income depending on the size of firms (say total asset). 1/
- About (3), Korea will permit one-US firm entry to life insurance market by the end of 1986.
- About (4), it is difficult to specify the number of firms and date of new entries that Korea will permit.

Final Result

On July 21, 1986, the final results of the negotiation in which most of US demands were accepted were announced simultaneously by both governments. They are as follows:

(1) The two-US firms will participate in the fire pool by July 1986 except government and defense industry buildings.
(2) The method of sharing premium income of the pool will be determined through the discussions among member companies. However, the Korean Government will induce the determination in such a way it secures fair distribution of premium income among members. (Immediately after this announcement, it was also announced that US firms will get the same share as Korean firms.)

1/ US claimed equal share of premium income among companies while Korea claimed sharing of premium income according to the size of companies. The two-US firms (they are branches) are much smaller than Korean firms in size. Their total share is less than 2% in nonlife insurance market.
(3) One-US firm (AIG) will be licensed to enter life insurance market by the end of 1986.

(4) Qualified US firms will be permitted to enter into both life and nonlife insurance market.

The leverage used through negotiation

The most strong and effective bargaining force US used was the threat of retaliation on Korea's commodity export to US. US is a major Korean export market (35% of total export in 1985) and Korea had about 4 billion of trade surplus with US in 1985. In addition, the increasing protectionism in US Congress puts the US negotiators in a strong position vis-a-vis Korea. The threat of possible cuts in Generalized System of Preferences (GSP) and protection against Korea's major export items, such as electronics, automobiles, textiles, footwear, etc., were the most effective leverage that yielded Korea's concession in its insurance market.

Korea, on the other hand, had little leverage in the negotiation. Korean Government was greatly concerned about the possible US protection against Korea's export since it will seriously affect the Korean economy, the growth of which has been largely dependent on the export performance and which also has been burdened by heavy external debt services. Under this

1/ Korea exported 10.7 billion to US out of its total export of 30.2 billion and imported 6.5 billion from US out of its total import of 31.1 billion in 1985.

2/ Korea's external debt is 47 billion which is fourth largest among LDC debt figures at the end of 1985.
situation, it thought the best it could do was to postpone the massive entry of US firms. Korea was anxious to appear reasonable in trade matters out of concern that US Congress would pass more protective actions on Korea's export. In addition, some observers say that behind this weak negotiation leverage is the politically weak position of the present Korean Government which strongly needs US political support. They say that this also has been an important factor in the result of the negotiation, i.e., economic concession to US Government to solicit stronger political support from it although it may risk some loss of domestic support.

IV. Some Implications

There are several conclusions that can be drawn from the case. First, both Governments approached the case with the perception that the main issue of negotiation is the sharing of profit in the Korea's insurance market. In the process of negotiation, both Governments (especially US) basically represented the interests of their insurance industries. The effect of the results of the negotiation on the other sector and efficiency of the economy as a whole has not been a major consideration. The issues from the beginning were the "national treatment" and the US entry to the market through "establishment." The effort of the US Government was concentrated on the improved access and opportunity of US firms in Korea's relatively inefficient, highly regulated (and also oligopolistic) insurance market rather than the relaxation of the strong domestic regulation on insurance industry and freer competition in the market were not an important issue in the process of negotiation. This reflects that to deal with domestic policy reforms on
the financial market (including insurance market) is a sensitive and difficult issue which often faces strong objection from host government. However, it may also reflect that US interest of opening developing country's insurance market to her firms access basically lies on the sharing of the profit and rent of the developing country's (Korea's) highly protected and oligopolistic market.

On the other hand, Korea's major concern was not to lose domestic share of market and profit to US firms although it also recognizes some positive aspects of increased competition for the improvement of insurance service.

Second, the issue that has been the key in the negotiation was related to 'international investment' that generate the financial services rather than the 'international trade' in financial services itself. It is usually defined that international trade of financial services occur where financial institutions located in one country provide financial intermediation services to the customers located in other countries (see Whalley 1986). US government also has suggested that multilateral negotiation on the issue should be restricted to nonfactor services, that is, the services that can be traded in the conventional sense of a person or firm in one country selling something to a person or firm located in another country without relocation of either buyer or seller. However, trade in financial service is not possible if there are foreign exchange controls and restrictions on transactions of capital account in either or both party of the trade. In other words, in order for a person or firm to buy insurance policy or deposits from firms (or banks) in a developed country, it should first be able to convert its domestic currency to foreign currency freely. However, in most developing countries,
foreign exchange and capital account are strictly controlled. It is also true that it is necessary to establish a local entity in order to sell financial service in certain countries.

These factors suggest that probably more practical approach at this moment to enhance transactions in the insurance services (or more broadly, financial services) between developed countries and developing countries would be to start the issue in the context of international investment rather than trade. In order for the discussion in the context of trade in financial services to be effective, the considerable liberalization of capital account in developing countries is necessary. 1/

Third, the case suggests that it is hard, at this moment, to expect active participations of developing countries in discussions of the multilateral forum of trade in financial service. This will be true especially to those developing countries to which US (or industrialized countries) does not have large trade deficit or strong political position. The strongest bargaining forces of the US in the negotiation were the threat of retaliation on commodities exports (not service export) of Korea (which has large trade surpluses with US) and strong US political position to Korea. The major reason that Korean Government gave in to US demand for opening insurance market was not because it could expect any concession from US about Korean

1/ It is still very controversial, however, whether it would be desirable or not for developing countries, where there are still lot of distortions in the commodity market, to liberalize the capital account. Through the Southern-cone countries' economic liberalization experience, it has been suggested that the order of economic liberalization which involves the liberalization of capital account is important and inappropriate or premature opening of capital account in the presence of distortions in the domestic market may call for macroeconomic disruptions and massive capital flight.
firms access to US service industry nor it expected substantial efficiency increase in Korean insurance industry. It was because Korea feared retaliation on its commodity export to US of which cost it expected would be higher than opening the insurance market. In other words, Korea's opening of the insurance market did not come from its positive decision based on the projection of net increase of national interests by doing this but from its intention to reduce net loss under current negotiation environment. The developing countries whose cost of increased US protection on export is not great relative to their own perceived cost of opening service market by whatever reasons would not be obliged to accept the US demand for the trade in services. In this regard, although the discussions of trade service may start in multilateral forum, the prospect of successful outcome is quite uncertain.

Fourth, Korean Government's decision, on whatever basis it was made, that allowed the US entry into the service market in order to avoid the shrinkage of the current level of Korea's export to the US is economically sensible in the sense that it chose the option of more trade than the option of less trade which might have resulted if it had refused imports of US insurance services.

Concluding Remarks

Financial industries (including banking and insurance) are highly regulated, protected and oligopolistic in many developing countries. The governments of these countries often see the problem of opening domestic financial market to foreign competition as the sharing of profit or rent of the domestic market with foreign firms. Some potential positive effects of
deregulation of the industry and foreign competition such as efficiency and welfare gains, usually are not well considered for their policy decision.

Industrialized countries, on the other hand, approach the problem in such a way that they push the developing countries to allow entry of their firms (often exclusively) in the highly regulated and oligopolistic markets which entail rents without emphasis on the liberalization of developing countries' domestic markets. It can be questioned whether the repeated application of this approach, as was seen in US-Korea case, would help to improve the welfare of the world economy.

The effects of trade liberalization on the welfare and efficiency gain are well studied and publicized in the case of commodity trade. Not much research has been done to provide basis for policy decisions regarding trade in financial services. Significant changes from current perception and approach of both developing countries and industrialized countries toward trade in financial services seem to be necessary for the freer trade in financial services and for it to be beneficial to the welfare of the world economy.

Another important point that arose from the study is that, developing countries, for example Korea, should now consider whether it would be better for them to maintain the protection and cartelized market structure and share the rent out of it with foreign firms or they should deregulate the market and let the rent disappear and the gains be distributed to policy holders. The case provides an opportunity to reflect that it may be for developing country's interest to deregulate the market rather than keep regulations and protection and share the profit out of this with foreign firms. This suggests that a further study on the issue such as what would best serve the developing
country's interest under current negotiation environment; is it going to be (1) the unilateral deregulation of the market? 2) the bilateral negotiation granting foreign access to the regulated market? or (3) the multilateral negotiation? would be important.
APPENDIX: SECTION 301 OF THE TRADE ACT

Section 301 of the Trade Act authorizes the President of the US to take action against foreign trade practices that violate international trade agreements or burden or restrict US commerce in an unjustifiable, unreasonable, or discriminatory fashion.

Action may be initiated by the US Trade Representative (USTR) on his own initiative or at the direction of the President, or following a petition from any interested persons, including business or labor. If a petition is filed, USTR has 45 days to determine if an investigation is warranted.

Section 301 directs the USTR to consult with the foreign country involved in the dispute as part of its investigation. USTR also seeks advice from the public and from private sector groups. Most cases are resolved through negotiations with the country whose practices are questioned. If the USTR finds that unfair trade practices exist and the dispute cannot be resolved through negotiations or through the General Agreement on Tariffs and Trade (GATT) dispute settlement procedures, the USTR makes a recommendation to the President of the US as to what action, if any, he should take.

Under Section 301, the President of the US has the authority to take all appropriate and feasible actions within his power to obtain the elimination of unfair trade practices. Specifically, he may impose duties, fees or restrictions on products and services of the offending country; these goods do not necessarily have to be related to the goods and services which are the subject of the 301 complaint. The President of the US may also deny licenses issued by Federal regulatory agencies to foreign service suppliers. The degree and duration of these action is up to the President.
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