'US Is Not a Model for Korea'

By Yoon Ja-young, Staff Reporter
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A renowned economist says the United States represents economic neoliberalism and should not be a model for Korea.

Cho Soon, an honorary professor at Seoul National University, criticized the Lee Myung-bak administration for blindly pursuing a free trade agreement with the U.S., an example that showed Korea is seeking to emulate the world's largest economy without giving enough consideration to the pros and cons. Cho, who served as deputy prime minister for economic affairs and governor for the Bank of Korea, made the jab at the current administration at the seminar held by the Korea International Economic Association yesterday.

``After signing an FTA with the United States, Korea is pushing for many FTAs simultaneously. When all these agreements are signed, Korea's external economic policies will be tightly bound to many countries ― It will have no such thing as external economic policies,'' said Cho.

Cho, who taught many famous economists including former Seoul National University President Chung Un-chan, made it clear that he doesn't oppose free trade. The huge freedom coming from simultaneous FTAs, however, brings about many restrictions, he warned.

He said the U.S. economy shouldn't be a model for Korea. ``The neoliberalism lost validity as a policy. If Korea adopts the model, its economy won't sustain the weight and the society would suffer endless implosion.''

He said neoliberalism, which says the free market is absolutely effective and the government is always ineffective, leaves most social services to the market. ``The society would be `winner takes all.' The United States is not a country where grass-roots have a say.''

Cho added that the financial capitalism of the United States didn't contribute to sound development of the economy though it returned huge profits to Wall Street. ``The real income of the low-income class has been at a standstill since the end of 1970s, and the middle class, which the United States boasted of, is going downhill.''

``Korea seems to believe that it has only to mimic the United States in every sector including finance, to become a developed country,'' Cho pointed out. However, it should set up the basic infra first and people should recover morality, according to the senior economist.

``We should throw away fantasy and set up the right form of the country. I would call it identity. Korea is going through an identity crisis," Cho said.

Lee Kyung-tae, head of the Institute for International Trade, said the administration should seek transparency and legitimacy while pursuing FTAs. He supported the notion that Korea should actively pursue such agreements after the Doha Development Agenda got into a deadlock, but said lack of transparency while reopening the beef market caused the candlelit protests against the U.S. beef.

Lee made the criticism that Seoul paid needless costs by focusing only on the expansion of FTAs while neglecting procedural transparency or hearing public opinion.

``In the case of the Korea-U.S. FTA, they suddenly announced beginning the negotiation without an open discussion, making people wonder why. The opposition to the import of the U.S. beef comes from the government's failure to show transparency in procedure," he said.

He showed concern that there could be a ``spaghetti bowl effect" when a number of FTAs get into effect simultaneously. ``Spaghetti bowl effect" refers to the side effect from simultaneous FTAs, in which a complicated set of rules of origin, customs procedures and others eat into benefits of the FTAs.

It would also break up the capability to negotiate, marring the negotiators to get the best they can in each agreement.

Lee said focusing only on bilateral agreements could make Korea deficient of a long-term vision and roadmap on the integration incorporating East Asia.

Choi Chang-kyu, an economics professor at Myongji University, emphasized that it isn't good for the government to intentionally raise the won/dollar rate considering that consumer prices are hugely affected by the foreign exchange rate.

``The unprecedented huge current account deficit of the United States resulted in weakening of the greenback. Increasing demand from India and China after economic growth and the speculative global liquidity targeting oil, crops and raw materials, made oil and other raw material prices soar," he said.

The professor said Korea, a small, open economy that allows free flow of capital and has a price stabilization target, should allow free movement of foreign exchange rates. He said the government should adopt a high interest rate policy upon growing inflation pressure following foreign exchange rate hikes.

He criticized the government for trying to exert influence on the central bank. ``The foreign exchange rate policy aims at stabilizing the foreign exchange market by diminishing volatility as well as maintaining an appropriate rate. For this, it is better to respect the central bank, which is more politically independent compared with the administration."

He said the government's policy to weaken the Korean won has a fatal effect on consumer prices, and is not good for the recovery of the domestic economy, either.

The professor opposed expansion of the sovereign wealth fund, saying it is the time when people call for ending the government-ruled financing and privatizing state enterprises. ``If the recent intervention in the foreign exchange market intends expanding foreign exchange reserve to make additional investment in the sovereign wealth fund, it isn't the right policy."