

“Rapidly Rising Protectionism and East Asia’s Responses”

Talking Points by Yoon HEO (Professor, Sogang Univ., Korea)

Is Korea a victim of the G2 trade war? How do you think can Korea prepare for high U.S. tariff measures against some Korean products like steel and renegotiation of the KORUS FTA?

Korea is and will be a serious victim of G2 trade war. Somehow the US and China can make an arrangement for the resolution of the trade conflict between them, the truce may not last. The truce is just a brief de-escalation of the tensions.

The fact that the US wants structural and substantial economic reforms from China will be there as long as China sticks to status-quo.

Let’s think about what US wants from China.

1. Quit subsidizing domestic firms in the name of industrial policies
2. Enforce better intellectual property protection
3. Ensure no government-enabled cybertheft of intellectual property
4. Eliminate policies and practices that require technology transfer
5. Remove tariff and nontariff barriers in reciprocal way to improve market access for US goods and services including agricultural products so on

Actually, with Trump, the US patience with China ran out. The fundamental differences on trade and other economic issues between the two remain unsolved, G2 trade frictions will re-emerge anytime in the near future.

Korea is not only a victim of Donald Trump’s aggressive protectionist trade measures, but also getting a prey of opaque regulations and practices of Chinese government. To some degree, Korea can benefit out of Trump’s aggressive trade policy against China in that the uncertainty and policy risks of its largest trading partner can be reduced in the future.

Regarding the re-negotiation of KORUS FTA, Korean government accepted a small and doable package offered by USTR. I think Korean gov’t did its best to defend the existing KORUS FTA, making concessions in automobile and innovative drugs. Korea made concessions in whole KORUS amendment negotiation to get exempted from Trump’s Steel 232. Now Trump wants to impose another 232 on Automobile, Korea’s reaction option is quite limited, retaliation or renegotiation bilateral or multilateral.

How does Korea need to go about TPP, RCEP, and CJK FTA?

Korea needs not to break away from the line of multilateralism including mega-FTAs like CPTPP and RCEP. Well, WTO is in deep trouble but still, mega-FTAs can be another alternative channels to mobilize the multilateral pressure against the US or other countries’ unilateral protectionist measures.

CPTPP will be effective among 11 members next year and Korea should join CPTPP as

soon as possible. Indeed, Korea lost its chance to participate in TPP in 2011 and 2012 by the pressure from China. As Korea decided to start FTA negotiation with China in 2012, the situation pushed Korea not to pursue Korea-China FTA and TPP simultaneously. At that time, China was very sensitive to the formation of TPP considering it as a pivotal part of 'China containment policy' of the US. To counter that, China strongly initiated RCEP with the aid of ASEAN countries.

As US exit TPP, the momentum for China to finish RCEP negotiation is also weakened. Chinese policy priority has moved towards Belt and Road Initiative and for the time being, RCEP and CJK might not go nowhere, making no big progress, could be stalled as it is now. The improvement of Korea-Japan bilateral relation is essential for Korean government to join CPTPP in 2019 and to successfully complete RCEP and CJK negotiation.

How can the private sector collaborate with each other across nations?

Definitely, private sector collaborations are getting more and more important in global market. However, as we can see in the CFIUS of U.S., stricter regulations on M&As by foreign firms are well observed. Though many firms will somehow find some optimal ways to adjust themselves to the newly emerging 'managed global trade regime' or 'tit for tat protectionism', it can entail unexpected economic consequences. Private firms will try hard to jump tariff and non-tariff barriers, increasing their production in the export destination markets. However, deindustrialization and consequent job losses can damage many home economies like Korea. Even, firms and governments can face the same protectionist global trading system, their ultimate concerns are quite different. For the government, how to introduce and maintain the effective incentive schemes to make domestic firms stay in domestic market became another important policy objectives in many countries including Korea.

In the upcoming era of the 4th industrial revolution, private sector collaboration in the newly emerging technologies like AI, Block Chain, Big Data, Automated Automobile etc. is more important than ever. To activate the collaboration, Korean gov't need to re-shape its regulatory system which indeed hinder all these cooperative international business activities.