

The 9th CJK Cooperation Dialogue | 11-15-2022

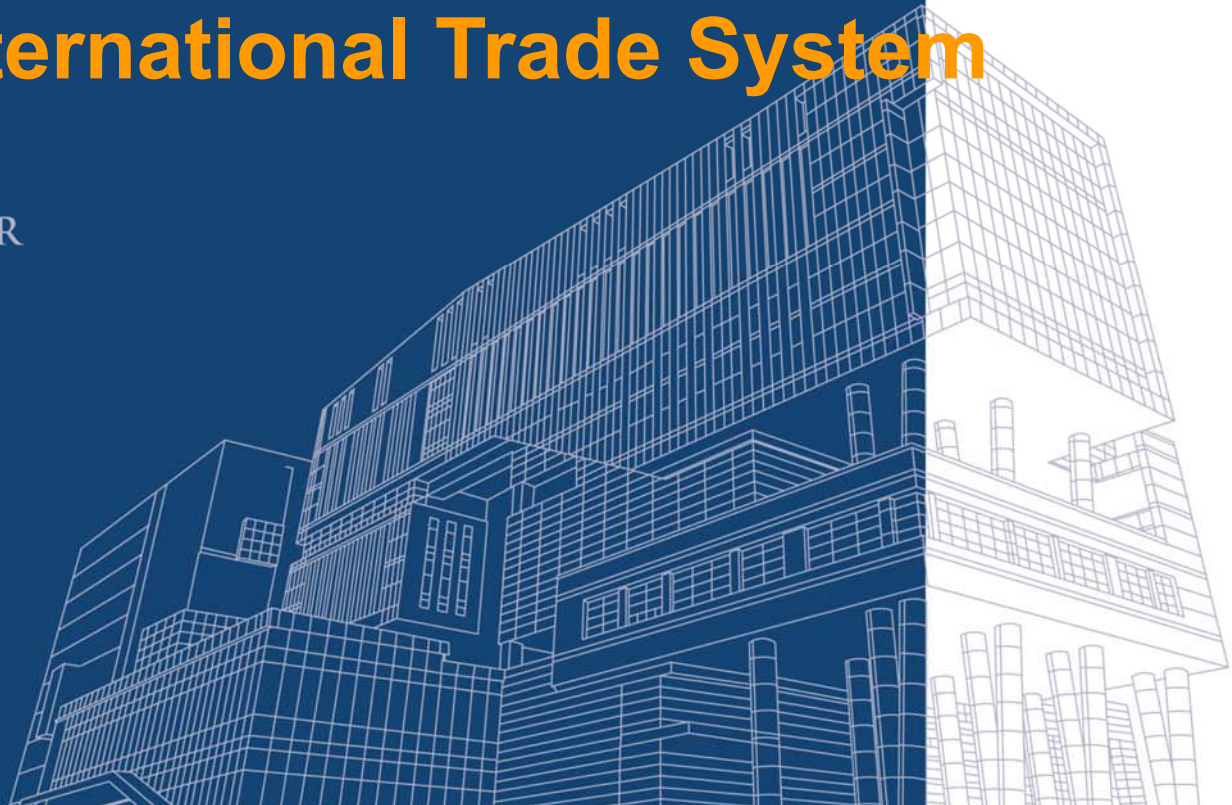
Rule-based International Trade System

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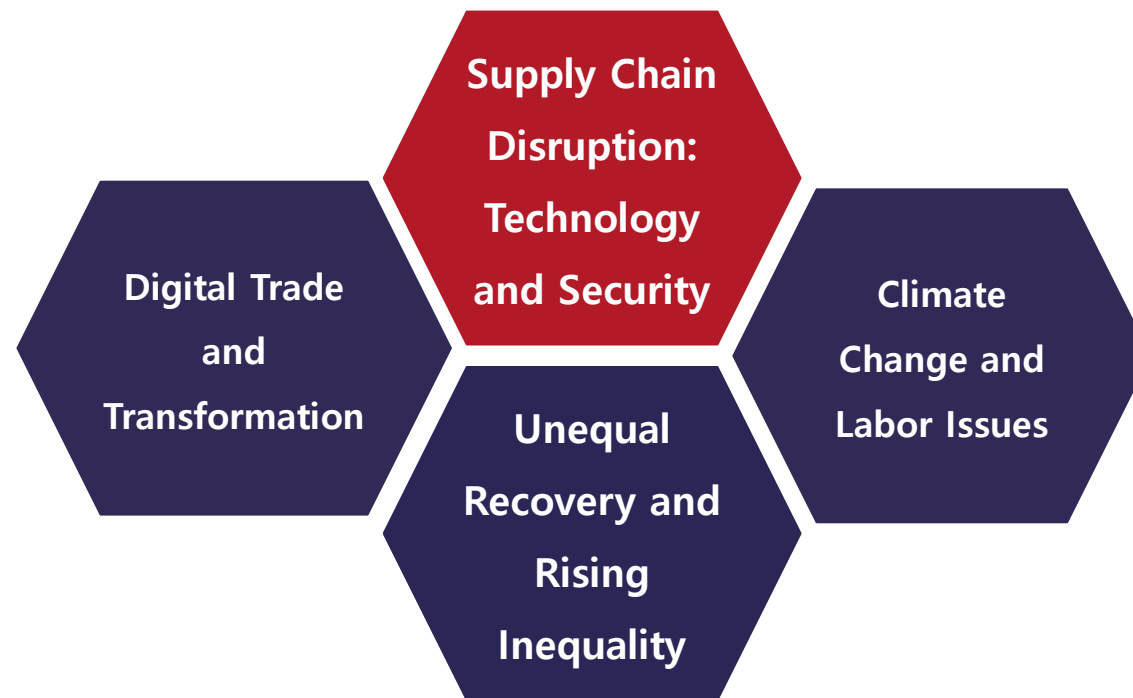
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Critical Issues in the Global Trade and the World





Where we are today

- ❖ Multilateral Trading System (MTS) and WTO in crisis
 - Protectionism and America Firsts in many countries
- ❖ US-China Strategic Competition
 - National security and economic security, technologies
- ❖ Global supply chain disruption
 - Pandemic and lockdowns; golden age of globalization over? Deglobalization?
- ❖ Domestic politics dominates
 - Trade is one of the most contentious of political issues, both domestically and between governments
 - FTA negotiations? Not for the time being
- ❖ Return of industrial policy focusing on domestic manufacturing capacity
 - Semiconductor, electric vehicles and batteries, bioindustry, etc.
- ❖ Labor and environment (traditionally non-trade issues) take the first seat in trade talks
 - Jobs and employment, climate change and clean energy

➤ So, whither trade policy?



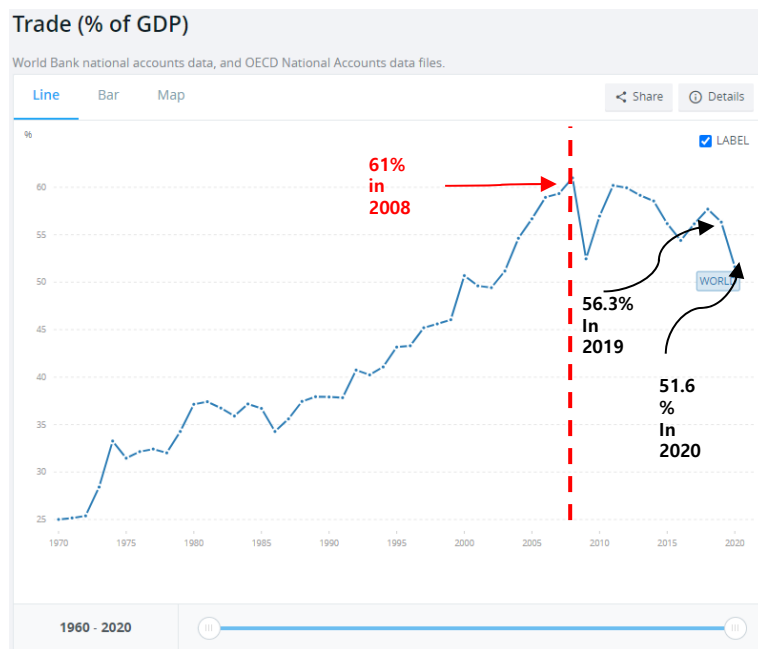
Challenges to global trading system and CJK

1. External shocks such as pandemic and war become more frequent and critical factors to the world economy;
Protectionism, MTS/WTO crisis, GVC disruption
2. Geopolitical tension and security issues;
Conflicts and lack of political will for restoring MTS and setting trade rules, essential for the new era
3. Digital and carbon-neutral transformation;
New technologies and more severe competition
4. Rising inequality within and across economies;
Development and inclusive trade?

Trade growth slowed down since 2008 Global Financial Crisis (GFC): Deglobalization?

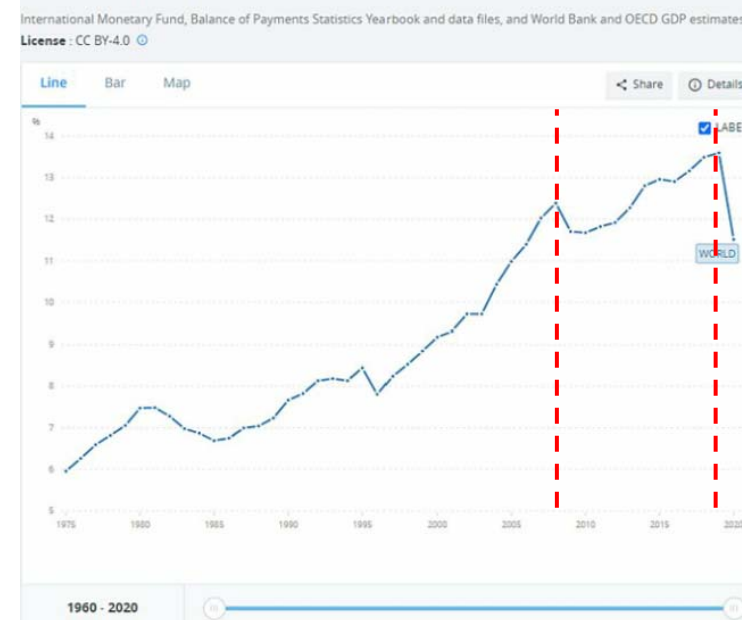
Slow down in goods trade, but not in services and digital trade

Trade in Goods (% of World GDP)



Source: World Bank

Trade in services (% of GDP)



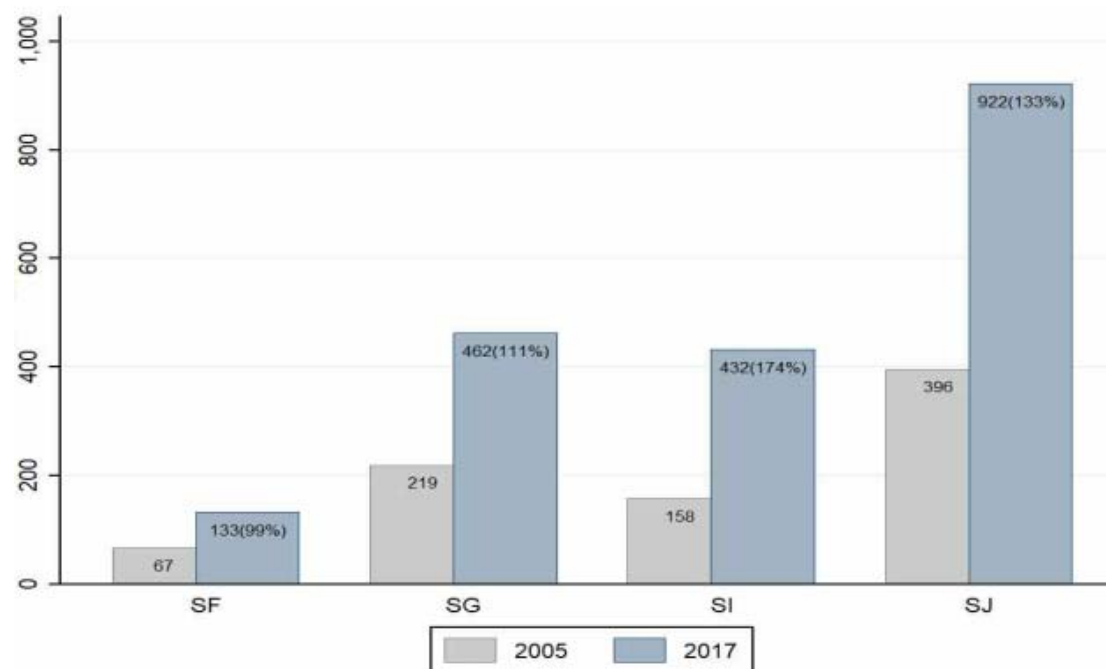
Source: IMF

Digital Trade

- ❖ Digital services trade through internet: mostly done in the form of mode 1 (Cross-border supply)

Digital services exports by sector

(unit: billion dollars)



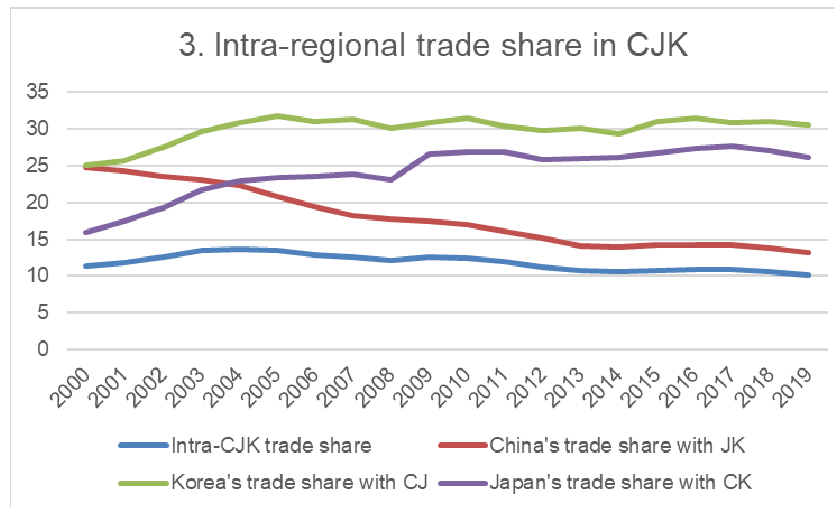
Note: parentheses (growth rate); SF (insurance), SG (finance), SI (communication, computer information), SJ (other business services)
Source: Lee et. al (2022), KIEP (analysis conducted by employing the WTO TiSMoS (Trade in Services by Mode of Supply))

Regional Trade in Northeast Asia

Intra-region trade in Northeast Asia

“ What regional integration? De-regionalization due to GVC expansion? ”

- ▶ **Intra-CJK trade share** slowing down not rising for the past 2 decades
- ▶ **China's trade share** has been decreasing with Korea and Japan



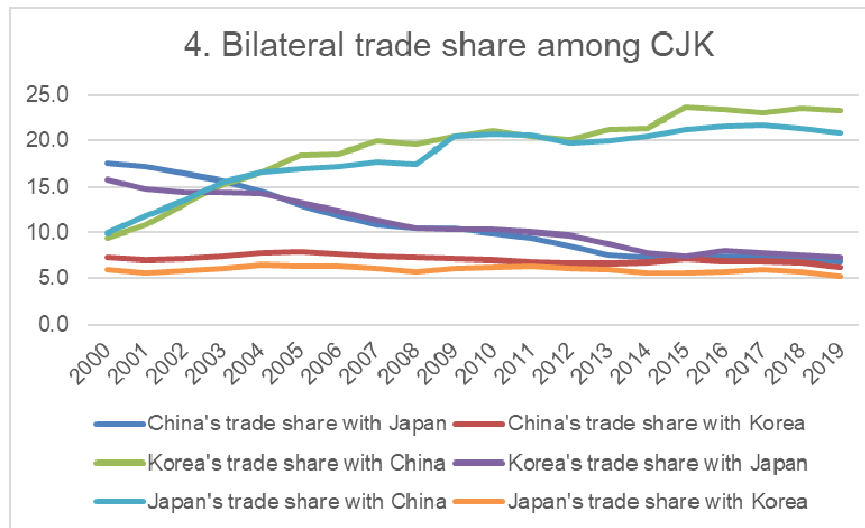
| Year | 2000 | 2009 | 2019 |
|-----------------------------------|-------|-------|-------|
| CJK share of world trade (%) | 25.4 | 30.3 | 37.5 |
| Growth of trade volume, 2000-2019 | | | |
| | China | Japan | Korea |
| Ratio (2019/2000) | 9.6 | 1.7 | 3.1 |

Bilateral Trade in Northeast Asia

Look into the detail (CJK's bilateral trade)

Statistics show

- ▶ China: region's darling (both **K** and **J's** trade share with **C** rising)
- ▶ Japan: losing trade share from both **China** and **Korea**

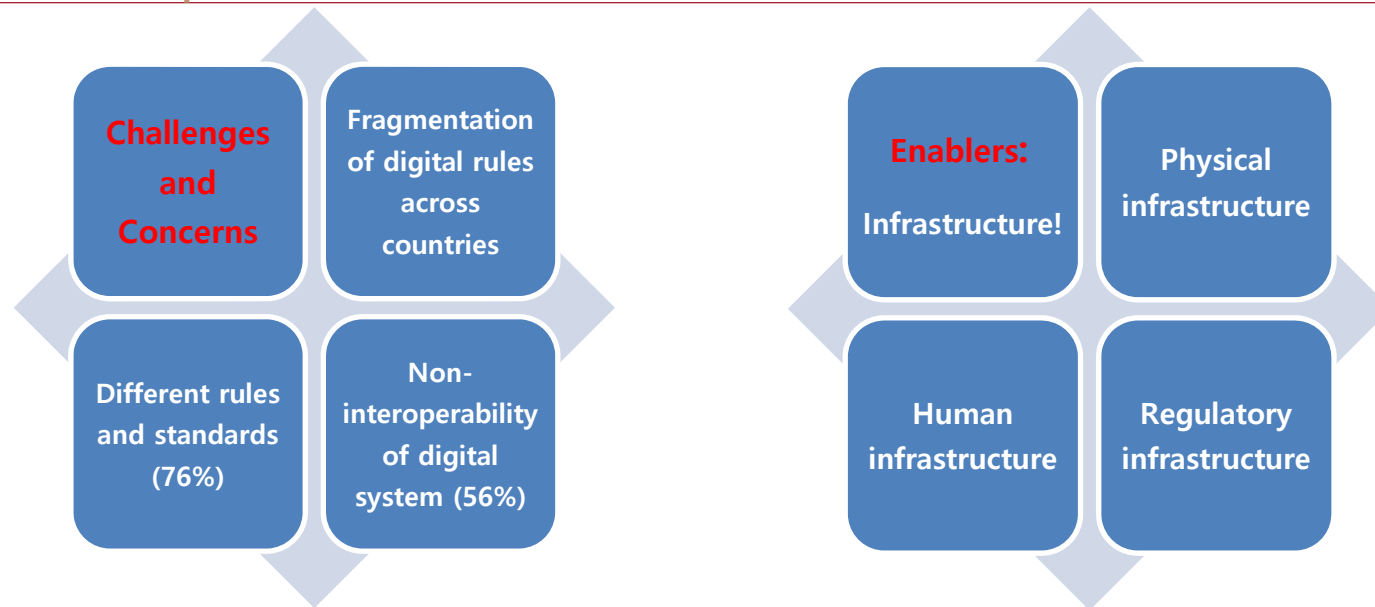


Business community concerns and enablers for digital economy

- APEC Business Advisory Council survey on barriers to digital trade and economy

Challenges and implications for policy

- Global rules and standards: consistency and transparency
- Infrastructure and connectivity
- Public private partnership
- International cooperation essential



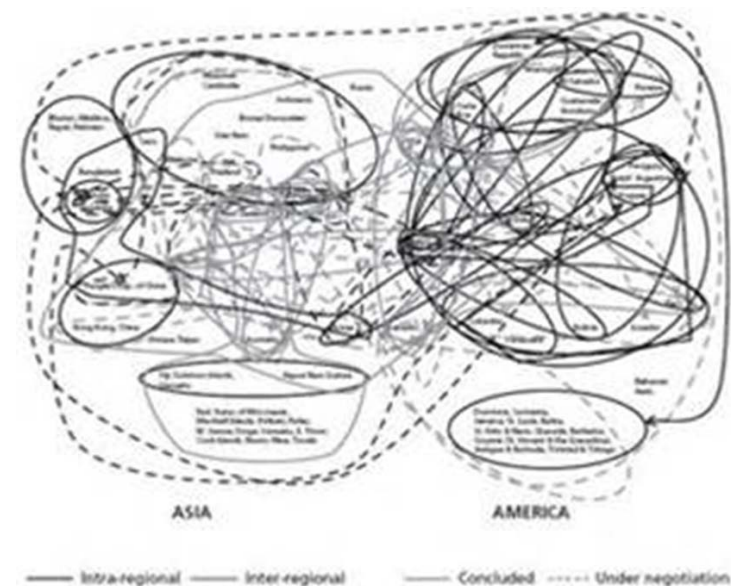


The Way Forward for Economic Cooperation

- ❖ Digital transformation and transition to carbon-neutral society important, but concerns for distortion of the market system and violation of trade rules
- ❖ Technology development and investment in human capital: keys to the problem
 - Low carbon technology, productivity, future generation
- ❖ Cooperation rather than negotiation for the time being
 - Trade-related areas for cooperation: supply chain resiliency, emerging technologies, digital ecosystem, and trade facilitation (ROO harmonization)
- ❖ For the long haul? Trust building process crucial for sustainable supply chain and rules-based trade system
 - Restore MTS? Rather, reestablish some sort of global trade order and rules-based trade system; DSB first? MPIA not sufficient (legal issues)
 - Trade rules to address new trade issues such as climate change and digital economy
 - Utilize existing FTAs and regional mega-FTAs (RCEP/CPTPP; CJK/FTAAP) as an effective channel for addressing outstanding issues
 - Trade policy for social cohesion and trust building; more inclusive policy

<A 1-1> Spaghetti Bowl Effect

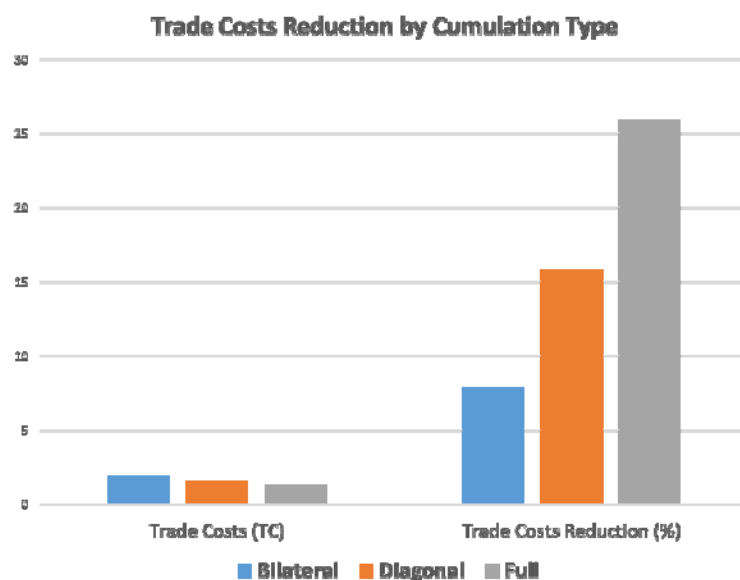
- ❖ With proliferation of bilateral FTAs, exclusive benefits decrease, while **trade costs** increase due to complex ROOs \Rightarrow low utilization of FTAs
- ❖ **Harmonize and simplify** provisions of ROOs and create a regime-wide ROO



<A 1-2> Cumulative ROOs and Trade Costs

- ❖ Chung et al.(2019) estimated the effect of various cumulative ROO on measured trade costs adopting Novy (2013), and analyzed the economic effects of FTAs with different cumulative ROO types using the CGE model.

- ❖ **Full cumulation > Diagonal > Bilateral**



| Effects of Cumulation | | Real GDP (% Deviation) | | |
|----------------------------|------------|------------------------|----------|--------|
| | | Bilateral | Diagonal | Full |
| Static Model | | | | |
| RCEP | Members | 0.021 | 0.524 | 1.252 |
| | Nonmembers | -0.005 | -0.043 | -0.086 |
| | World | 0.010 | 0.399 | 0.707 |
| CPTPP | Members | 0.006 | 0.126 | 0.280 |
| | Nonmembers | -0.001 | -0.007 | -0.015 |
| | World | 0.002 | 0.043 | 0.096 |
| FTAAP | Members | 0.066 | 1.345 | 3.077 |
| | Nonmembers | -0.022 | -0.115 | -0.219 |
| | World | 0.027 | 0.695 | 1.609 |
| Capital Accumulation Model | | | | |
| RCEP | Members | 0.067 | 1.445 | 3.524 |
| | Nonmembers | -0.095 | -0.216 | -0.298 |
| | World | 0.025 | 1.060 | 1.967 |
| CPTPP | Members | 0.022 | 0.429 | 0.949 |
| | Nonmembers | -0.004 | -0.024 | -0.058 |
| | World | 0.005 | 0.146 | 0.320 |
| FTAAP | Members | 0.259 | 3.458 | 7.985 |
| | Nonmembers | -0.290 | -0.610 | -0.938 |
| | World | 0.014 | 1.646 | 4.010 |

<A 1-3>

Economic effects of Cumulative ROOs in CJK FTA

- ❖ **CJK FTA might be beneficial but cumulation types matter!**
- ❖ The key to success lies in the **provision of cumulative ROO** rather than expansion of membership.

| Effects of Cumulation | | Real GDP | | |
|----------------------------|-------|-----------|----------|------|
| | | Bilateral | Diagonal | Full |
| static model | | | | |
| CJK FTA | China | 0.06 | 0.57 | 1.22 |
| | Japan | 0.04 | 0.35 | 0.73 |
| | Korea | 0.03 | 1.5 | 3.38 |
| capital accumulation model | | | | |
| CJK FTA | China | 0.16 | 1.15 | 2.42 |
| | Japan | 0.38 | 1.41 | 2.73 |
| | Korea | 0.21 | 4.45 | 9.86 |