

Korea's Multilateral Trade Policies in the Changing Global Trade Landscape

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I. Changes in the Global Trade Environment

The 10th WTO Ministerial Conference (MC10), held in Nairobi, Kenya on December 2015, concluded with the adoption of the “Nairobi Package,” several ministerial decisions on agriculture, cotton and least-developed countries (LDCs). The Nairobi Package includes an important decision to eliminate agricultural export subsidies, the historical reform of international agricultural trade rules in place since the WTO was founded. The biggest discord at the MC10, however, is about the future of the Doha agenda. While developing countries pursued to continue the Doha Round negotiations, developed countries, including the United States, insisted an end to the Doha Round. Hence, the Nairobi Ministerial Declaration acknowledges that WTO members “have different views” on the future of the Doha Round negotiations but notes the “strong commitments of all members to advance negotiations on the remaining Doha Issues.”

In this situation, there have been significant changes in international trade in recent dec-

ades. First, trade growth has been depressed since 2010. World trade grew about 3% per annum in 2012-2015, which is much less than the pre-Crisis average of 7% for 1987-2007 and less than the growth of world GDP. What is worse is that the WTO cut 2016 global trade growth forecast to 1.7%, down from its previous estimate of 2.8%. The WTO warned that protectionist measures were being introduced at an accelerating rate, while increased protectionism is pointed out as one of explanations for the trade slowdown

Second, plurilateral negotiations are rapidly becoming widespread in the WTO negotiations. In particular, developed members have pushed for more sectoral deals like the ITA (Information Technology Agreement)-II. Currently, a similar deal on tariff reductions for environmental goods is being negotiated. More sectoral tariff liberalization of this sort might be a good area to pursue. Along the same lines, the trade in services (TiSA) talks going on in Geneva could be brought formally into the WTO framework.

Third, at the Paris climate conference (COP21) in December 2015, 195 countries

adopted the first-ever universal, legally binding global climate deal, which is expected to have a significant impact on global trade. At the heart of the Paris climate agreement are national-level plans, called Intended Nationally Determined Contributions (INDCs), to reduce greenhouse gas (GHG) emissions. Although these INDCs are voluntary, they are considered a critical first step for an agreement designed to progressively ratchet up national commitments to collectively limit a global temperature rise to 1.5 degrees Celsius above pre-industrial age levels. It is now time for us to re-design a harmonization between trade and environments.

Finally, globalization is under attack. There is a rapid spread of increasing anger over globalization. The electoral victory of Donald Trump, the Brexit vote and the rise of an aggressive nationalism in mainland Europe and around the world are all part of a backlash to globalization. Political and economic elites in the world argued that free trade, global markets and production chains that snaked across national borders would eventually raise all living standards. Popular opinion, however, has turned against globalization. A chasm is growing between these elites and the mass of blue-collar workers who saw little improvement from economic globalization.

Under the above turbulent situations, the next WTO Ministerial Conference will be held in Buenos Aires, Argentina in early December 2017, while the Trump administration is developing a national trade policy that would seek to diminish the influence of the WTO in the United States. What should the new direction for Korea's multilateral trade policy be in such a changing global trade environment? What should be Korea's positions ahead of the 11th WTO Ministerial Conference (MC11)?

II. New Directions for Korea's Multilateral Trade Policy

1. Short Run Measures on MC11

Trade-distorting subsidies for agriculture will be one of the most prominent issues at MC11. It is, however, highly unlikely that WTO members will obtain a successful outcome regarding trade-distorting domestic support at MC11. First of all, an ongoing stalemate between the U.S. and China that has blocked progress so far is expected to run on, even at the final stage of MC11. It is not mere nonsense that Mr. Trump threatened to pull the U.S. out of the WTO if membership in the global trade body interferes with his plan to impose penalties on companies that move American production offshore. Thus, a more plausible compromise is to increase transparency in domestic support notifications. WTO members have fully acknowledged the significant lack of compliance with transparency obligations regarding domestic support notifications. As for Korea, the transparency issue is not a big problem for Korea. Rather, Korea has to make efforts to secure enough flexibility in the reduction of both total and product-specific AMS (aggregate measure of support), since AMS of rice accounts for more than 90% of the Total AMS of Korea.¹ Other agriculture-related issues such as SSM (special safeguard mechanism) and public stockholding for food security purposes are unlikely to be placed on the table at MC11 due to huge gaps among the major players, such as the U.S., China, and India.

Fisheries subsidies could be one of the poten-

¹ It is reported that AMS of rice in 2016 will be 100% of Korea's upper limit on the Total AMS (1,490 billion won), leaving no space for any other "amber box" support.

tial outcomes for the WTO's 11th Ministerial Conference. An agreement on fisheries subsidies, which could result in banning subsidies that contribute to illegal, unregulated and unreported (IUU) fishing, is seen as a possibility because Target 14.6 of the United Nations Sustainable Development Goals is providing an impetus for the negotiations. Behind that goal is the belief that certain forms of subsidies that contribute to overfishing should be eliminated by 2020. Thus fisheries is an area that appears ripe for agreement. Korea should actively participate in both the U.S.-led plurilateral discussions on fishery subsidies and multilateral negotiations led by the EU, if it is to reflect its interests in the process of rule-making on fishery subsidies.

Other negotiations on issues such as e-commerce, EGA (Environmental Goods Agreement), and LDCs issues have not gained traction among members that is likely to lead to outcomes by the Buenos Aires Ministerial. In particular, since Mr. Trump has made clear that he believed bilateral deals were better than regional or multilateral agreements, the U.S. is not expected to play a major role at MC11.

2. Long Run Directions

Even if we are convinced of the benefits of globalization, we have an obligation to reach out to others in our communities who have felt left out and penalized by globalization. In other words, we need to develop a new way to promote open markets that helps people who are feeling left out in the process of globalization. Globalization needs to have a more inclusive face. In this respect, the new multilateral trade policy of Korea should aim to spread benefits of trade liberalization out to the whole stakeholders, particularly focusing on small and medium enterprises (SMEs).

Small businesses often find that the playing field for trade is not level. While the market is generally open with no tariffs, small businesses face a strong obstacle of domestic regulations and non-tariff barriers, which are hardly to be overcome by SMEs through their own efforts. Thus, it is important to deliberate on proper measures to ensure real market access for SMEs in current WTO negotiations. It is also clear that the recent effectuation of the WTO Trade Facilitation Agreement (TFA) is particularly beneficial to SMEs which faces higher costs than those of large multinational corporations.

Second, Korea should prepare for the proliferation of plurilateral negotiations led by developed countries. With the WTO now reaching 164 members, it will be very rare for members to agree on all aspects of even one issue. That means we will likely also have to be flexible on who participates. In some cases, we will have to work on trade deals between smaller groups of countries as well—so-called plurilateral agreements. The new plurilateral agreements may merely impede progress in the WTO negotiations due to the diversion of negotiating resources and attention away from Geneva. However, such arrangements can be the final push that multilateral negotiators need. At the same time, it is highly expected that various plurilateral negotiations will appear in the near future within the framework of the WTO, since most developed countries have continuously pursued plurilateral negotiations such as those for EGA, TiSA, fishery subsidies. Fortunately, Korea has gained time to prepare effective strategies for various plurilateral negotiations. It is unlikely that the Trump administration will strongly pursue plurilateral or regional negotiations in the near future. Prior to Korea's joining the plurilateral negotiations, a detailed examination of the economic impacts of plurilateral negotiations

should be completed.

Third, we should fully consider the negative impact that free trade can have on climate. Climate change is the biggest sustainable development challenge that the international community has had to tackle to date. Korea joined 175 countries in signing the United Nations Paris Climate Agreement setting a path forward to reduce global greenhouse gas emissions. Thus, it is time for us to plan how to harmonize trade policies and environmental protection policies. We have to think of environmental subsidies as green subsidies, which are allowed in the WTO system.

legal foundation. We all are at transformational moment in the history of the world. **KIEP**

III. Concluding Remarks

To break the current deadlock of WTO negotiations and make a reversal pace of global trade slowdown, both developed and developing countries must commit to working together to prevent the re-emergence of protectionism, and strengthening of the rules-based trading system, in a way that is fair, development-oriented and inclusive. This is the feasible basis to resolve the current crisis in global economy and the multilateral trading system and create a more secure and peaceful world.

Trade is critical to development and growth, particularly for developing countries. The continuing uncertainty in the global economy and trade needs a multilateral trading system such as the WTO that can effectively devise global rules on the issues that both developed and developing countries have deep concern. It does not matter whether Doha Round is dead or alive. The WTO still needs to provide the legal ground-rules for international commerce and to settle harmoniously disputes through some neutral procedure based on an agreed