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## 국외훈련 개요

1. 훈련국가: 영국
2. 훈련기관: 브리스톨 대학교 및 영국통상정책연구소  
(University of Bristol / UK Trade Policy Observatory)
3. 훈련분야: 국제통상
4. 훈련기간: 2018.7.3 ~2020.7.2

## 훈련기관 개요

### 1. 영국 브리스톨 대학교 (University of Bristol)

#### □ 개 요

- 영국 잉글랜드 지역의 남서부에 있는 항구 도시 브리스톨(Bristol)에 있는 공립 종합대학교
- 사회과학·법학부, 의학·수의학부, 예술인문학부, 공학부, 약학·치의학부, 과학부 등으로 구성

#### □ 연혁

- 1876년 : 브리스톨 유니버시티칼리지(University College, Bristol) 설립
- 1893년 : 브리스톨 의과대학(Bristol Medical School)과 통합
- 1909년 : 왕실로부터 칙허장(Royal charter)을 받으면서 공립대학교로 인가
- 1929년 : 윈스턴 처칠(Winston Churchill, 1874~1965)이 3대 총장으로 취임
- 1960년대 : 영국에서 활발하게 벌어졌던 학생운동의 중심지 역할
- 2002년 : 스포츠센터 설립
- 2009년 : 나노과학·퀀텀정보센터 설립

#### □ 개 요

- 유럽의 명문대학 리그인 코임브라 그룹 (Coimbra Group)의 영국 4개대학 (옥스퍼드, 케임브리지, 브리스톨, 에든버러)중 하나
- 영국 내 150개 대학 중 24개 대학간의 연구기금 협력 단체(영국 대학 전체 연구자금의 2/3 차지)인 러셀 그룹 (Russel Group)의 일원
- 세계 19개 대학간 공동연구와 인력양성을 위한 세계 대학 네트워크 (Worldwide Universities Network)의 회원

- 노벨상 수상자를 12명을 배출한 영국의 전통적인 명문대학으로 학문적인 성향이 강한편, 영국의 대학지원 선호도에서 매년 1위를 차지
- 입학생들의 평균 대입시험(A-Level) 점수는 AAAA로 영국최고수준, 명문사립학교 출신이 41% 정도로 옥스퍼드, 케임브리지에 이어 3위
- 2000년대 초반까지 영국대학랭킹 4위를 지켜왔고 거의 매년 영국 대학 상위 10개 대학에 포함되고 있으나, 학생만족도가 낮아 학생만족도가 큰 비율을 차지하는 영국 및 세계 대학랭킹조사에서 순위 하락
- 로스쿨
  - 동대학 로스쿨은 영국내 10권(2018년 8위)을 기록하고 있으며 연구 역량 5위권, 졸업생 고용율 6위 등 기록
  - 석사 과정으로는 학부 3년 과정을 2년 동안 압축적으로 하는 MA과정, 1년간 진행되는 법학석사인 LLM, MSc 등이 있으며, LLM 과정은 전공별로 10여 개의 세부 과정으로 나누어져 있음
  - 수업은 대부분 세미나 식으로 이루어지며 두 번째 term까지는 수업, 세미나(1 term 당 4과목)로 이루어지고 이후 논문학기가 진행

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## 2. 영국 통상정책 연구소(UK Trade Policy Observatory)

### □ 개요

- 영국 서섹스 대학(the University of Sussex)과 영국 왕립국제 문제 연구소(Chatham House; the Royal Institute of International Affairs)가 공동 설립한 독립 연구소

\* The UKTPO, a partnership between the University of Sussex and Chatham House, is an independent expert group. (UKTPO 홈페이지)

### □ 관련 업무

- '16.6월 영국의 브렉시트(Brexit) 결정 직후, 영국의 독자적인 통상정책 연구를 위해 설립
  - 그간 영국은 학계차원의 통상 연구는 있었으나 EU가 대부분의 통상 문제를 담당하고 있어 영국의 독자적인 통상 정책은 부재
- UKTPO는 국제통상시스템 하에서 영국의 위치를 진단하고 통상 파트너와 어떻게 협상할 것인지를 연구
  - 주된 업무로, ① 영국통상정책을 제안, 조언, 분석, ② 영국의 통상 정책입안자, 협상가 양성, ③ 통상관련 다양한 의견 수렴 등을 수행

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## I. Introduction

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The global trading environment is becoming unfavourable to international trade, as the neoliberal trade order becomes unstable. The main reason for this change is the way US trade policy has shifted under the slogan of "America First" since the Trump administration was inaugurated in 2017 (Park and Stangarone, 2019: 1). Putting US trade deficit reduction at the top of its trade agenda, the US is taking various measures to limit free trade, following Trump's insistence that "globalisation has moved US jobs, wealth and factories overseas and has left millions of US workers with poverty and heartache" (Politico, 2016). The US has used trade remedies and safeguards on electronics such as large residential washers and metal including steel as protectionist means to limit imports to the US (Park and Stangarone, 2019: 1). It has also threatened regional trade partnerships by forcing trading partners to renegotiate regional trade agreements (RTAs) such as the North American Free Trade Agreement (NAFTA) and the Korea-US FTA (KORUS). In addition, the US is undermining the WTO multilateral trading system: it has blocked the appointment of four Appellate Body members among the total seven permanent members of the WTO dispute settlement system (Condon, 2018: 535); in the last Ministerial Conference held in Buenos Aires in 2017, the US

did not show its traditional leadership at the WTO, instead criticising the WTO (Lighthizer, 2017), while other WTO members rushed around in confusion without any agreed outcome at all (Bacchus, 2018: 1-2). Above all, in 2018 the US started a trade war with China, in which the two biggest economies in the world threaten to impose high tariffs on each other's products. The tension and uncertainty this has caused are constricting world trade and the global economy significantly (Zhang et al, 2019: 47). Economists from the World Trade Organisation (WTO) (2019 a) forecast that growth of world trade in goods will drop from 3.0% in 2018 to 2.6% in 2019 due to the US-China trade war. According to the Global Economic Prospects report from the World Bank (2019 e: 10), this is the weakest trade growth since the global financial crisis in 2008. The International Monetary Fund (IMF) (2019: 7-8) expects world output in 2019 to fall by 0.4 % more than the outlook for 2019 published in 2018 because of trade tensions between the two countries. All these recent policies from the US have unsettled the neoliberal order, which has promoted a free trade atmosphere around the world until now.

This global trading environment change has a serious impact on South Korea's economy. Fitch Ratings (2019) has made a forecast that if the US and China impose high tariffs on each other's products in reality, South Korea

would suffer the most heavily, with a gross domestic product (GDP) drop of 1.3% from baseline in 2020. This fall in GDP is even bigger than those of the US and China, which are 0.46% and 0.77% respectively. According to the Korea International Trade Association in Seoul (KITA), South Korea's exports already fell by 6.9%, while its imports declined by 4.5% in the period from January to April in 2019.

South Korea has been called one of the 'Four Tigers' along with Hong Kong, Taiwan and Singapore, because it showed rapid economic growth since the 1960s (Connolly and Yi, 2015: 188; Kriekhaus, 2017: 43). In the 1960s, just after the Japanese colonial period (1910-1945) and the devastation of the Korean War (1950–53), South Korea's per capita incomes were comparable to that of the Ivory Coast at that time, and its real GDP in 1960 was US\$ 38,936, which was only 12 percent of that of the US (ibid; Groningen Growth and Development Centre, 2019). However, during the period from the 1960s to the 1990s, South Korea experienced an average 9.4% annual GDP growth and is now the twelfth largest economy in the world with a \$1.619 trillion GDP (World Bank, 2019 c; World Bank, 2019 d; World Bank, 2019 f). While several elements to South Korea's economic success are discussed in the next chapter, the international neoliberal economic order, as well as the

government's strong role for nation building and export-oriented policies, is thought to significantly contribute to this success. The state in South Korea intervened deeply in trade for the purpose of boosting Korea's economy through export, and this policy fell into place in the world neoliberal free trade order. After joining the General Agreement on Tariffs and Trade (GATT) in 1967, South Korea could take advantage of the US-led open and rules-based international economic order, which have dominated the world economy (Park and Stangarone, 2019: 25). Under this neoliberal order, most countries reduced tariff barriers according to the trade rules of the GATT and the WTO, and opened their markets. South Korea has participated actively in this trade liberalisation: it gradually reduced tariff rates in GATT era, it has taken part in the WTO's multilateral trading system as an original Member, and further it has implemented 15 bilateral or regional trade agreements with 52 countries (Kang, Park and Rhee, 2017: 2475, 2482-2483). Through such a vigorous involvement in trade liberalisation, South Korea was able to significantly expand its trade, especially in exporting goods to other countries' open markets, and invigorate its economy. Therefore, for South Korea, trade has been a driving force of economic growth under the neoliberal economic order (ibid).

This dissertation starts from how South Korea, whose economy has significantly depended on free trade under neoliberalist economic order, has responded to the current crisis in the world economy. More specifically, it explores what directions South Korea's future trade policy will head in, on the basis of critical analyses regarding current problems of South Korea's trade. The biggest problems in South Korea's trade patterns are the economy's excessively high dependence on trade and this trade's unduly high dependence on China and the US. Therefore, the first way for South Korea to overcome the current unfavourable trade environment could be to reduce its high reliance on trade. However, despite the government's long-term effort, this is not easy because of South Korea's lack of natural resources, small internal market and insufficient domestic demand. This dissertation argues that trade diversification is the best policy for South Korea to consider in order to reduce its trade reliance on China and the US and to minimise the impact of the neoliberal crisis. Three possible ways to diversify trade are suggested. Firstly, South Korea needs to foster trading partnership with the Association of Southeast Asian Nations (ASEAN) and Latin America. To do that, South Korea should make full use of both regionalist approaches such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and a bilateral

FTA. Secondly, South Korea must manage and reinforce trade relationship with the EU, which is South Korea's third biggest trading partner and already has a FTA with South Korea. Presently, in its relations with the EU, there are both opportunities and risks for South Korea such as Brexit, growth of the Visegrád Group (V4) and the EU-Japan Economic Partnership Agreement (EPA). In this situation, to intensify trade cooperation with the EU, South Korea needs to maintain a free trade partnership with the UK, which will withdraw from the EU, and to develop amicable relations with V4 countries with which South Korea's trade and investment are growing rapidly. Further, it must endeavour to improve its brand image and quality of exports to meet EU customer demand to survive fierce competition with Japanese exports. Lastly, under the condition that North Korea is denuclearised, it is necessary to reopen trade with North Korea through the Kaesong Industrial Complex (KIC), whose operations have been suspended since 2016 due to North Korea's rocket launches and nuclear tests. If South Korea's original plan to utilise the KIC as a local area for international trade is realised, it would be possible to boost trade with North Korea and lower its dependence on China.

This dissertation is based on secondary data, which consists of existing academic sources, journal articles, statistics from international institutions

such as the World Bank, economic organisations in South Korea, including KITA, policy reports and other reliable internet sources. The research is structured as follows. First of all, it reviews literature relevant to the debate regarding the main factors of South Korea's economic growth. This section explains that in much of the literature, a strong government role for nation building (developmental state) and neoliberal policies have been at the center of the debate. However, it is argued that South Korea's rapid change cannot be explained through just one aspect, and needs to be understood through a holistic approach combining arguments from developmental statist and neoliberalists. This dissertation follows the holistic perspective that the international neoliberal trade order and the South Korean government's strong role for export-oriented growth have contributed to South Korea's fast economic growth, and seeks to find a way for the South Korean government to overcome the crisis of the neoliberal trade order. Next, it explores the global trading environment, South Korea's trade policy under neoliberalism, and also this policy's accomplishments and drawbacks. In this chapter, it is shown that while South Korea has achieved rapid economic growth by joining the global neoliberal wave and trade liberalisation, it has become excessively dependent on trade, particularly with the US and China. Then, in the next chapter, the research examines and analyses how the current global trading environment

is changing and what impacts this shift has on South Korea's trade. This chapter demonstrates that South Korea's trade is taking a direct hit from the current economic environment which is unfavourable to trade, particularly due to the US's America First policy. After that, this dissertation discusses what directions South Korea's future policy should take. Here, it is argued that trade diversification is the best policy and three possible ways for trade diversification are suggested: strengthening its trading partnership with the ASEAN and Latin America through regionalist moves or bilateral FTAs, managing its trade relationship with the EU, and seeking to reopen trade with the KIC in North Korea, if the nuclear issue is resolved. Finally, it summarises the research findings and concludes that South Korea needs to adjust its trade policy to respond to the changing global economic situation.



## **II. Literature Review: Debate regarding South Korea's Economic Growth**

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Along with other East Asian countries, South Korea's economic development and rapid growth have been extensively debated in the academic world. In this debate, several elements are regarded as key factors in South Korea's economic success: a robust government intervention for economic growth (Choi, 2013: 209; Singh, 1994: 1819-1820), neoliberal policies (Balassa, 1978; Krueger, 1979), rapidly growing human capital, well-educated people, capital accumulation (Birdsall et al, 1993: 5), geopolitics between the US and China (Kriekhaus, 2017: 53) and a rapid fertility rate decline (Bloom and Williamson, 1998: 419; Bloom, Canning, and Malaney, 2000: 283-284). Particularly, among these factors, a strong government role for nation building and neoliberal policies have been at the center of this debate.

### **1. Developmental State**

Developmental statisticians insist that industrial policies led by a developmental state resulted in South Korea's economic success. Here, the developmental state means a government or state which plays a crucial role in economic development and leads its economy as the main actor (Johnson, 1982: 17-20). This concept was first defined by Johnson (1982), who explored critical factors

of Japan's economic success. While in 1980, Jones and SaKong had already investigated the state role of the Park Chung Hee regime in dramatic economic development over the period of the 1960s-1970s in South Korea (Lee, 1981: 156), numerous scholars actively adopted the 'developmental state' theory in research of South Korea's economic growth from the late 1980s after the theory was introduced by Johnson (Krieckhaus, 2017: 54). Deyo (1987) maintained that the state in South Korea actively intervened in economic restructuring, guiding domestic development and managing international relations. Amsden (1989) also strongly argued that in South Korea, the state played the role of an "entrepreneur", making and implementing economic development plans through directions, disciplines, and selective financing, and this comprehensive intervention of a powerful state led to South Korea's economic development. More specifically, Woo (1991) showed, based on the concept of developmental state, that the South Korean government firmly controlled industrial finance to exercise its power in order to drive swift industrialisation. Scholars such as Wade (1993), Evans (1995) and Kohli (2004) agree that a development state is the main factor in South Korea's economic success (Krieckhaus, 2017: 54).

## **2. Neoliberalism**

By contrast, neoliberals argue that South Korea could achieve rapid growth due to the adoption of a free market system and trade liberalisation. In fact, before the 'developmental state' theory was introduced, this neoliberalist argument was regarded as conventional wisdom (Deyo, 1987:7; Amsden, 1989: 4; Krieckhaus, 2017: 54). Balassa (1978) indicated, using empirical estimates from his investigation regarding the relationship between exports and economic growth of eleven developing countries, that South Korea's export-oriented policies boosted its export expansion and economic growth in the 1960-1973 period, while Latin American countries' import substitution did not during the same period. Krueger (1979) supported this argument, maintaining that South Korea's policy shift from import substitution to export promotion resulted in enormous export growth and modernisation. Although the developmental statist's argument was widely supported for a while since the late 1980s, more recently, a neoliberal explanation seems to have attracted more attention again. This trend can be due to the fact that the developmental state weakened considerably after political democratisation in 1987 (Kang, 2002: 193), and South Korea has pursued liberal policies vigorously, especially in the financial sector, corporate sector and labour market after the East Asian crisis in 1998 (Haggard, Pinkston, and Seo, 1999:

203). Connolly and Yi (2015: 190) explain, through a neoclassical growth and trade model, that both South Korea's trade-oriented policies and tariff reduction of the GATT contributed to 17 percent of South Korea's catch-up to the G7 countries in manufacturing sector's value-added per worker. Kang, Park and Rhee (2017)'s analysis also indicates that South Korea's export-oriented industrialisation and trade liberalisation at the multilateral level are the main factors of South Korea's economic development. What is notable is that as is shown in Connolly and Yi (2015: 190) and Kang, Park and Rhee (2017), the recent explanations tend to emphasise not only South Korea's neoliberal trade policies but also the global neoliberal economic order inherent in tariff reduction of the GATT and trade liberalisation at the multilateral level as the decisive elements of South Korea's growth, whereas the earlier neoliberal argument stressed the benefits of export-oriented policies compared to import substitution.

### **3. Holistic Approach**

Both developmental statisticians and neoliberals contribute to an understanding of South Korea's development. However, South Korea's rapid change cannot be explained through just one aspect, and needs to be understood through a holistic approach combining arguments from developmental statisticians and

neoliberalists. It is true that South Korea's policy has shown neoliberal characteristics: the government spending remained at a lower level compared to other developing countries (Kriekhaus, 2017: 54), it focused on export expansion and reduced general tariff rates since the early 1970s (Connolly and Yi, 2015: 189), and it has maintained sound economic fundamentals based on market price and competition (Birdsall et al, 1993: 366-367). All these neoliberal features contributed to South Korea's export-led growth performance. Nevertheless, the government has also intervened in markets selectively to boost economic growth. For example, in the early 1960s, South Korea removed import duties only when the relevant imports were employed to produce exports (Connolly and Yi, 2015: 189). In addition, the state made its developmental plan in the 1960s and the 1970s, in which the conglomerates called "*chaebol*" were promoted in desired sectors and led South Korea's industry (Choi, 2013: 211). It also artificially created competition in the market and supported export by giving subsidies or tax benefits to competitive companies as prizes for economic performance (Birdsall et al, 1993: 366-367). Even when it adopted actively liberal policies after the East Asian crisis, it maintained much "command and control" over financial and corporate restructuring and expanded government-owned banking and corporate assets (Haggard, Pinkston, and Seo, 1999: 201). Therefore, South

Korea's economic growth can be understood better when it is explored through both developmentalism and neoliberalism. For this reason, Kriekhaus (2017: 53-55) argues that South Korea adopted both liberal and statist policies, and this "complementary policy mix" needs to be considered to understand South Korea's economic success.

In this holistic approach, there is a slightly different point of view regarding South Korea's development. This interpretation acknowledges the developmental statist's argument that the state in South Korea deeply intervened in various sectors such as industry, trade or finance, but it also stresses the neoliberalists' perspective that the global neoliberal economic order, as well as South Korea's export-oriented policy, offered great economic benefit. The World Bank report written by Birdsall et al in 1993, which analyses the East Asian economic miracle, takes this position. This report (Birdsall et al, 1993: 5) emphasises that in South Korea, like in Japan or the other "Four Tigers", the government intervened "systematically and through multiple channels" to promote the development of selected industries. However, at the same time, this report (ibid: 367) argues that a successful export push, which most likely results from an open global economy, offers high economic gains. Harvey (2015: 74) also explains in his article related to

neoliberalism that economic growth in Japan and the “Four Tigers” was led by state investment in technological innovation and strong ties between state, companies and banks, but this was more easily feasible due to the global neoliberal economic order characterised by greater openness in trade and market. In short, this view sees the main factors of South Korea’s economic success as combination of the state’s strong intervention and its export-oriented policy in the context of an open global economy.

#### **4. Dissertation’s approach**

This dissertation generally follows this holistic approach. It admits that the South Korean government has been actively engaged in the market in order to lead such rapid growth, and even the export-oriented policy, which is pursued by neoliberalism, has been led by the government’s plan and active incentives as mentioned above. However, this dissertation also focuses on the context of an open global economy. Although South Korea’s growth is the result of its strong government role, it is also true that South Korea has benefited from the open global economic order affected by neoliberalism. From this perspective, the current shift in the global economic order and unstable neoliberalism would harm the basis of South Korea’s export-oriented growth. Therefore, this dissertation aims to find a way, from this holistic

perspective, for the South Korean government, which guided its economy for the purpose of economic development, to respond to this global change and suggest future trade policies to stabilise its economy and maintain its economic growth.



### **III. Global Trading Environment and South Korea's Trade Policy under Neoliberalism**

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Before exploring future directions of South Korea's trade policy in the current radical shift of the global economic order, identifying characteristics of the global trading environment under neoliberalism and the South Korean government's trade policy corresponding to this ideology is useful to understand better why the crisis of neoliberal economic order unsettles South Korea's economy significantly.

#### **1. Global Trading Environment before Neoliberalism**

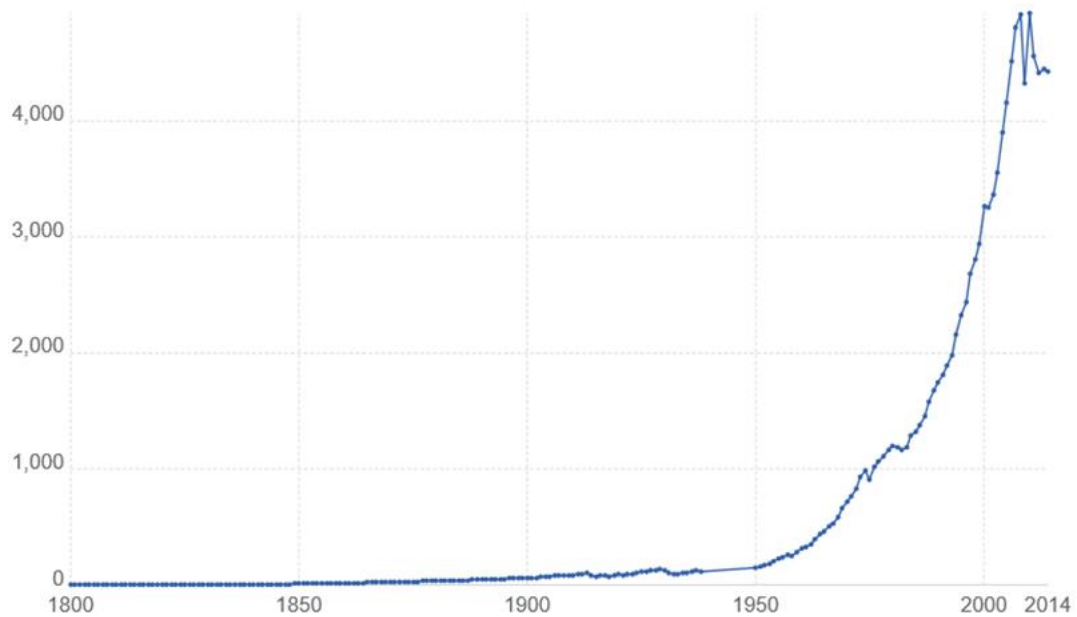
Here, comparison to the trading environment just after World War II rather than going directly to the neoliberal trading environment offers clear features of global trading environment under neoliberalism. According to Ruggie (1982), who critically analyses the international regime after World War II, the trading environment from this period to the 1970s reflected a mix of liberalism and interventionism, and he terms the regime "embedded liberalism". He explains that although liberalism was restored after the war, it was quite different from the original liberalism grounded in the theories of Adam Smith and David Ricardo: it pursued multilateralism to prevent

mutually destructive protectionism during the interwar period, but at the same time, it allowed widespread governmental intervention for economic reconstruction, domestic stability and welfare (Ruggie, 1982: 393). This is due to the effect of Keynesianism (ibid: 395).

As a result, trade liberalisation under this international trade regime proceeded very slowly and gingerly so as not to disturb domestic policies for economic stability (Lang, 2014: 414). First of all, the International Trade Organisation (ITO) as the third pillar of the international economic order after World War II could not be established due to strong opposition of the US, which was concerned for the ITO's infringement on its trade policy (Herdegen, 2016: 34, 196). A part of the US's concern originated in a protectionist view that an international organisation would limit the US's trade sovereignty, when state socialism and stateism came to the fore (Toye, 2012: 97). This resulted in a much smaller trade-related area subject to an international regime, and only the GATT, the coverage of which is limited to trade in goods, entered into force. Moreover, the GATT did not guarantee trade liberalisation due to its many exceptions and flexibilities to allow for domestic stability (Lang, 2014: 414). For example, it provided elimination of quantitative restrictions such as quotas and import or export licences, but

permitted exceptions for measures of domestic stabilisation in agriculture and fishery (Lang, 2014: 415; WTO, 2005: 437). It also stipulated, as a key obligation, the most-favoured-nation (MFN) treatment, which prohibits discrimination between other countries (Bossche and Zdouc, 2017: 306), but at the same time it allowed all existing preferential arrangements (Ruggie, 1982: 397). It included exceptions for safeguards, balance of payments difficulties and development of developing countries (Lang, 2014: 415). In addition, the early GATT negotiations did not achieve the desired results in tariff reduction (Ruggie, 1982: 398). It was not until the sixth GATT round, named the Kennedy Round, held in 1964-1967 that the GATT achieved substantial tariff cuts (BBC, 2012). This Round accomplished tariff reductions worth \$40 billion of world trade for the first time in the postwar period (ibid; Irwin, 1995: 326). Compared to the interwar years, trade between countries in this period grew significantly, but not as much as the period after the 1970s, as shown in Figure 1, which indexes value of global exports to the value of 1913, which is calculated as 100.

**Figure 1 The Value of Global Exports from 1800 to 2014**



Source: Federico and Tena-Junguito (2016) in [ourworldindata.org/trade-and-globalization](http://ourworldindata.org/trade-and-globalization)

## **2. Global Trading Environment under Neoliberalism**

### **1) Characteristic of Neoliberalism as an Ideology**

After the embedded liberalist era during the postwar period when active government intervention was thought to be necessary for social welfare, job creation or economic reconstruction, widespread problems stemmed from stagflation and lack of economic growth in the 1970s allowing the original liberalism to revive and then strengthen with the election of Thatcher in the UK and Reagan in the US (ibid; George, 1999: 26). This resurrected

liberalism is called as neoliberalism.

Neoliberalism, which is based on the original liberalism in classical and neoclassical economies which was pervasive in the late 1800s and the early 1900s (Hartwick and Peet, 2003: 188-189), focused on free market as the centre of economy and small government (ibid). Regarding the function of market, it emphasised competition between individuals, firms, regions and states as the central value because competition was thought to lead to an optimal resource allocation in a market system with great efficiency (George, 1999: 26). In addition, neoliberalism pursued minimum government intervention, which is seen by neoliberals as an obstacle to natural competition, specialisation and trade to vitalise the economy (Hartwick and Peet, 2003: 188-189). It argues that the role of the state must be limited to preserving an institutional framework for free market and free trade (Harvey, 2015: 71). These neoliberal policies were well displayed in lending conditionality known as the "Washington Consensus" of the IMF and the World Bank, which were suggested as prescriptions of development to debtor countries in return for their loan. The "Washington Consensus" consisted of policies for free market such as "liberalising interest rates, competitive exchange rate, trade liberalisation, liberalisation of inward

foreign direct investment, privatisation, deregulation, and protection of property rights" and also policies for minimising government intervention including "fiscal discipline, reordering of public expenditure priorities, and tax reform" (Williamson, 2000: 252-253). Particularly, the "Washington Consensus" shows that neoliberalism supports an "outward-oriented economy", where economic growth can be promoted by a bigger market and more competition in the international level (Williamson, 1990: 95-96). Therefore, neoliberalism favors expansion of international trade. Neoliberalists argue that for export growth, it is important to establish a competitive real exchange rate system, where exchange rates are determined by market (ibid: 95). Moreover, they insist that imports must be liberalised by removing or limiting tariffs of intermediate products needed to promote exports. They see protectionist policies against foreign competition as detrimental methods to distort markets, restrict exports and harm the economy (ibid: 96). Another characteristic of neoliberalism is that it regards cooperation between states as possible. Unlike economic nationalists, who focus on inevitability of conflicts between states in anarchy, neoliberalists consider that the world is interdependent, and countries can gain mutual benefits through cooperation in a positive-sum game (O'brien and Williams, 2016: 12). Moreover, they argue that cooperation between states is

expedited by international institutions, highlighting the role of these institutions in achieving joint outcomes (Sterling-Folker, 2016: 88-89). According to their argument, the growth of international institutions in the twentieth century has facilitated international cooperation more than in the past (ibid).

## **2) Global Trading Environment under Neoliberalism**

During the neoliberal era, global trade was much more liberalised than under the former embedded liberalism. Lang (2014) depicts concretely the trading environmental shift in this period, using the GATT regime, although he thinks that this trade environmental change was not totally brought about by neoliberalism, and there were also other factors to affect this shift such as increase of GATT Member countries. According to his description, the international trade regime such as the GATT under neoliberalism from the 1970s acted as “a venue for bargaining between states with their own purposes like a marketplace” and “institutional machinery for the credible enforcement of commitments entered into by its members” rather than as a community of countries to establish an international economic order for the prevention of protectionism and economic reconstruction (Lang, 2014: 417). This is because easing of stagflation and economic growth became the core

goal of each country in the 1970s. Therefore, in this regime, significant tariff reductions for trade expansion and fast economic recovery occurred in the Tokyo Round, which achieved tariff cuts worth more than \$300 billion of world trade (BBC, 2012). Moreover, numerous government measures including industrial subsidies or domestic regulatory interventions in environment and food safety were deemed behind the border trade barriers as they were seen as source of market and international trade distortions (Lang, 2014: 418). The scope of the regime was also expanded from only tariff issue to non-tariff measures and further to almost all issues such as rules, services, intellectual property, dispute settlement, textiles and agricultural subsidies, as shown in Table 1.

<b>Table 1 GATT Trade Rounds</b>				
<b>Name</b>	<b>Year</b>	<b>countries</b>	<b>Subject covered</b>	<b>Achievement</b>
Geneva	1947	23	Tariffs	Signing of the GATT
Annecey	1949	13	Tariffs	Exchange of 5,000 tariff concessions
Torquay	1951	38	Tariffs	Exchange of 8,700 tariff concessions, cut of the 1948 tariff levels by 25%.
Geneva	1956	26	Tariffs	tariff reductions worth \$2.5bn of world trade
Geneva Dillon Round	1960-1961	26	Tariffs	tariff reductions worth \$4.9bn of world trade
Geneva Kennedy Round	1964-1967	62	Tariffs and anti-dumping measures	tariff reductions worth \$40bn of world trade



Geneva Tokyo Round	1973- 1979	102	Tariffs, non-tariff measures, “framework” agreements	tariff reductions worth more than \$300bn of world trade
Geneva Uruguay Round	1986- 1994	123	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc	The creation of WTO, extension of the range of trade negotiations, major reductions agricultural subsidies (about 40%), an agreement to allow full access for textiles and clothing from developing countries, and an extension of intellectual property rights

Source: WTO (2018); BBC (2012)

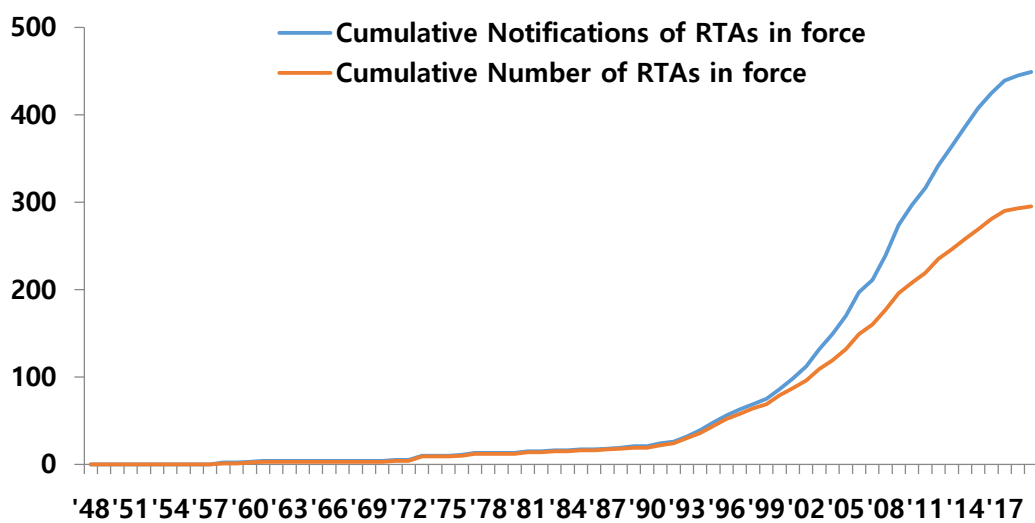
Furthermore, as a result of the Uruguay Round, the WTO was established as the third pillar of the international economic order, and commitments of trade liberalisation were undertaken and became better implemented due to the WTO dispute settlement system, which is more organised and systematic than that of the GATT (ibid: 417). More importantly, by the continuous effort and lobbying of developing countries, a scheme which accords preferential treatment to developing countries was adopted in 1971 and became permanent policy in 1979 as a part of Tokyo Round (Ezeani, 2010: 35). This scheme is the Generalised System of Preferences (GSP) also known as “Enabling Clause”. Due to this scheme, developing countries

benefitted from reduced or zero tariff rates in selected products, and the least-developed countries were granted this benefit for more products with even lower tariffs (ibid). In addition, more developing countries, including China, which is not yet accorded “market economy status” by all WTO Members (Hornby, L. and Donnan, S., 2016), joined the GATT and the WTO multilateral trade regime, so now the international trade system has 164 countries (WTO, 2019 b). In this period, the number of regional trade agreements (RTAs), which are agreements for economic integration efforts between some countries in the same region or from different regions (Bossche, P. V. D. and Zdouc, W., 2017: 672), also grew geometrically. Figure 2 shows the dramatic rise of the number of RTAs around the world from the 1970s, particularly after the 2000s where the latest WTO round, the Doha Round, has not been successful. Moreover, as Figure 1 indicates, after the 1970s, value of global exports has increased sharply compared to the period before the 1970s.

In short, while this trade environmental change and the increase of world trade volume was not entirely due to neoliberal impact, but also affected by other factors such as growth of the GATT and WTO members or technological development in transportation, communication and information,

it is clear that the ideological shift to neoliberalism caused by the necessity of economic growth has had a great impact on trade environment change and increase of trade volume.

**Figure 2 Number of RTAs in the World**



Source: WTO Secretariat (2019 c)

### 3. South Korea's Trade Policy under Neoliberalism

#### 1) Strong Export-oriented Policy

In the face of this neoliberal international regime and atmosphere of trade-liberalisation, the South Korean government aggressively sought export-oriented policy in trade (Kang, Park and Rhee, 2017: 2477). In fact, this

policy started in the 1960s with the ascension of Park Chung Hee, earlier than the advent of the neoliberalism, when South Korea's trade policy was reformed from import substitution to export expansion (Connolly and Yi, 2015: 189). While liberalists argue that this policy change was due to South Korea's adoption of neoliberal policies domestically as mentioned above, the change was in fact a result of a more practical economic growth strategy rather than the effect of ideology. In the 1960s, foreign currency for imports was urgently needed as US aid was reduced, the domestic market was not big enough to lead economic development, and also natural resources were scarce (ibid; Kang, Park and Rhee, 2017: 2478). Therefore, the policy shift to export expansion for the purpose of development was an inevitable option for the South Korean government and the state intervened actively in trade for this purpose. According to Hong (1979: 54-55), in the 1960s, for export promotion, the state used 38 types of incentives in tax, tariff and various non-tariff schemes such as export subsidies and export performance system. For example, import duties were exempted or refunded, but only for raw materials utilised as parts or components of exports, and traders were treated differently based on their export performance (ibid). It is after its accession to the GATT in 1967 that South Korea joined international neoliberal trade regime and began to be affected by neoliberal ideology.

However, the government strategy for economic growth still played an important role in South Korea's participation in the international trade regime: as Choi (2009: 604) suggests, South Korea's participation was not just to remove trade barriers of other countries and to retain overseas markets, but to upgrade its internal economic environment by forcing its system to compete with other efficient economies. Since joining the GATT, South Korea took part in broader and more progressive tariff cuts and reduced its general tariff rates from 40% to 13% until the 1980s, especially by adopting "Five-Year Plan of Tariff Reduction for Trade Liberalisation" during 1983-1988 (Connolly and Yi, 2015: 189; Kang, Park and Rhee, 2017: 2479). Further, since 1994, as an original Member of the WTO, South Korea has been not only a party of the WTO Agreement covering various sectors such as agriculture, service and intellectual property rights, but also has participated in agreements for further trade liberalisation between some WTO members including the Agreement on Government Procurement (GPA) and the Information Technology Agreement (ITA) (WTO, 2016: 36). Outside the WTO regime, it continued to conclude RTAs with trading partners, so it has now 15 FTAs with 52 countries which have entered into force (Kang, Park and Rhee, 2017: 2483; *ibid*: 36-37). All of this shows that South Korea actively pursued export-oriented trade policy for the purpose of development.

## **2) Accomplishment of the Export-oriented Policy**

These active government interventions in trade resulted in a great success with international trade liberalisation in the neoliberal era. Around the period of South Korea's accession to the GATT in 1967, the global trading environment change occurred toward neoliberal economic order. Therefore, South Korea could benefit from this global change right after its participation in global trade regime. Firstly, South Korea enjoyed global tariff reductions and broader overseas markets in the GATT/WTO system. As mentioned above and shown in Table 1, enormous tariff cuts in the GATT rounds were accomplished between Kennedy Round and Uruguay Round (Connolly and Yi, 2015: 189), so tariff barriers against South Korea were much lowered. In addition, South Korea could enjoy the GSP scheme adopted in 1971 due to its 'developing country' status. Especially, it received benefit from the US GSP scheme until 1981 (Kang, Park and Rhee, 2017: 2481), which established a foundation for trade expansion with the US. Now, it is still eligible for this benefit from Australia, Belarus, Kazakhstan, and the Russian Federation (WTO, 2019 c: 39). Under the WTO system, the ITA and the GPA gave other chances for South Korea to expand its export. As South Korean conglomerates such as Samsung, LG and Hyundai developed IT industry as a key growth engine in the 1990s, the ITA, which was agreed in 1996 to

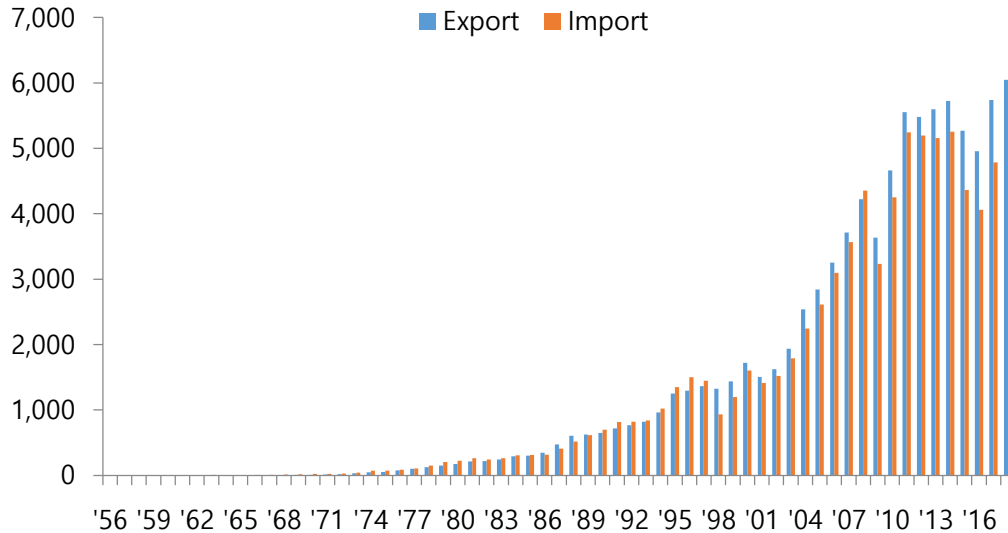
completely remove tariff on IT products, provided South Korea with a timely opportunity to expand overseas markets in this sector (Kang, Park and Rhee, 2017: 2482). South Korea's IT exports increased dramatically from \$ 41.2 billion in 1996 to \$220.3 billion in 2018 (IT Statistics of Korea in Seoul, 2019). With reference to the GPA, the government procurement markets expanded to America, Europe and other Asian countries. At the same time, the proportion of import in the domestic procurement remained at a low level of around 1% (Public Procurement Service of Korea in Seoul, 2019), while South Korea's government procurement system was improved in terms of competition and efficiency after joining this Agreement as appears in fall of the average share of limited tender by about 5% and decrease of the gap between market price and actual contract price by about 3-4% (Choi, 2003: 260-261). Secondly, in a neoliberal trend, numerous countries joined the multilateral trading system, and South Korea could gain additional benefits from the accession of new WTO members. Above all, China's entry into the WTO in 2001 led to a great change in South Korea's trade trend. As China opened its market, the biggest trading partner of South Korea became China, which surpassed the US, the former biggest trading partner, since 2003, and China became the center of South Korea's global value chains (Kang, Park and Rhee, 2017: 2483). Immense trade surplus with China enabled South

Korea to achieve further economic growth. Thirdly, while the number of RTAs showed a sharp rise globally of further liberalisation in a wider variety of sectors than that of the WTO, South Korea's FTAs with key trading partners such as the US, China and the EU provided South Korea with wider trade opportunities and strong economic ties with these countries.

As a result of the harmony of the export-oriented trade policy and the neoliberal economic order, South Korea's trade grew fast since the 1970s, and as trade liberalisation was intensified over the world, South Korea's trade growth accelerated. Figure 3 presents this trade trend. This South Korea's continuous trade expansion had positive economic effects, particularly in the period from the 1970s to the 1990s, and led to South Korea's miraculous economic growth. Kim (2000: 81) found in his empirical research of the relationship between South Korea's productivity growth and trade openness that the South Korea government's effort for trade liberalisation since the late 1960s increased total factor productivity by 2 percent by the 1980s, boosted competition and promoted scale efficiency. Furthermore, Whang et al (2018: 1) explains that in the period of the 1970s to the 1990s, exports and employment in manufacturing sector of South Korea rose at an annual average rate of 12.4 and 7.4 percent, respectively.



**Figure 3 South Korea's Export and Import (Unit: \$ 100 million)**



Source: Korea International Trade Association in Seoul (KITA) (2019)

### 3) Drawback of the Export-oriented Policy

However, despite the positive economic effects of trade expansion, South Korea's policy also resulted in two grave drawbacks: the economy's excessively high dependence on trade and this trade's unduly high dependence on China and the US. South Korea economy's trade dependence has been pointed out for a long time as a problem South Korea must overcome, particularly when global economic situation was unstable. This is because the dependence makes the economy vulnerable to the other countries' economic conditions. In 2010, just after the global financial crisis,

its high dependence on international trade was deemed a serious problem. At that time, South Korea, exports of which accounted for 43.4% of its GDP, was the country with the highest dependence on international trade among OECD members, most of which had an export-to-GDP ratio of between 10% and 20 % (Cho, 2010). Due to this high dependence, during the financial crisis, South Korea's GDP growth rate dropped by 0.2 percent in 2009, even though its banking system was relatively sound (ibid). Therefore, the government sought to reduce its economic reliance on trade by developing domestic industries in service sector (ibid). Nevertheless, South Korea still depends on trade for its economy. According to Yonhap (2019), a South Korean news agency, which cites data from the Bank of Korea in Seoul, South Korea's external transactions related to trade presents 30.1% of total supply of goods and services in 2015, while those of the US, China and Japan are 13.7%, 14.1% and 16.5% respectively. This means the South Korean economy is more vulnerable to external economic circumstances than other countries (ibid). The fact that South Korean trade is in large part dependent on China and the US is another challenge. According to a research paper from the Institute for International Trade in Seoul (IIT) (2019), South Korea's export dependence on China and the US, which is calculated by the amount of its exports to these two countries of its GDP, is the highest

in the world except Taiwan. While South Korea's trade expanded at rapid rate from the 1970s, it was not diversified enough to offset impact of economic changes from these two major countries. From the 1970s to the 1990s, South Korea's main trading partner was the US and this trade volume accounted for between 25% and 35% of South Korea's total trade volume (Nam, 1993: 185-186; KITA, 2019). In this period, South Korea relied on the demand of the US, the biggest market in the world. However, since the 1990s, while the trade volume with the US has decreased, that with China has gradually increased and surpassed the trade volume with the US in 2004 (ibid). Trade with China expanded swiftly since 2000s as China's market became larger due to its fast economic growth and China opening its market by joining the WTO in 2003. In this circumstance, geographical closeness between South Korea and China favoured China over the US. Now, China is the greatest trading partner of South Korea and it presents roughly 25% of South Korea's total trade volume. Here, what is clear is that South Korea's trade pattern always shows high dependence on the largest markets such as the US and China. Even though the trade with the US was reduced compared to the past, it is the second largest trading partner and still occupies a considerable part of South Korea's total trade. Now around 40% of South Korea's trade is taken up by trade with China or the US (Trade

Map, 2019). Consequently, it is natural that its trade and economy can be vulnerable to economic changes in the G2.

## **IV. Changing Global Trading Environment and the Impact on South Korea**

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### **1. Changes in Global Economic Environment: Crisis of Neoliberalism**

Currently, neoliberal international trade order is quickly collapsing mainly due to the US's 'America First' policy. It is also true that in Europe, antagonisms toward globalisation affect international trade in a negative way. Brexit in the UK, the growth of rightwing parties in Germany, a government consisting of La Lega and Cinque Stelle in Italy or the yellow vests movement in France can all be seen as rooted in backlash against globalisation, liberalism and growing inequality (Wolf, 2018; Balz, 2018). This backlash is not directly related to trade, but can be extended to trade issues, considering that free movement of goods, services and labour can cause domestic inequality. With reference to all these massive shifts, including the US's policy change and antagonisms toward globalisation in Europe, Wolf (2018), Blaz (2018) and Henökl (2017) regard them as signs of the end of the neoliberal economic order, calling this phenomenon "the Dawn of the liberal World" and a "historical turning point away from liberal democracy".

However, the radical policy change of the US, which has led neoliberalism in

international society until now, affects international trade more directly and is weakening the neoliberal order rapidly above all things. Although the US adopted protectionist trade policies at times in US history and Trump's protectionism is not the first one, previous protectionism in the US has tended to be used mainly as means of domestic politics, and globally the US has taken on the leadership of the global neoliberal order (Park and Stangarone, 2019: 3-4). However, Trump's 'America First' policy is a "surprising reversal", considering the US's traditional ideology supporting free trade (Kriekhaus, J., 2018: 619; Park and Stangarone, 2019: 4). Trump's protectionist policies are thought to be in large part derived from his personal ideological beliefs, so unlike former protectionisms, his protectionist policy becomes more than just political rhetoric, threatening neoliberal trade order (Park and Stangarone, 2019: 9).

### **1) US Trade Policy Shift under Trump's Administration**

Trump is known to have long-held views that nations compete for its own profits in a zero-sum game, that 'fair trade' and 'protectionism' are better strategies for the US (ibid), and his trade policies reflect these views. For Trump, who believes that US allies have used the US for their own good, and

that this has resulted in US trade deficits (Kurse, 2016), fair trade means that the US does not experience heavy deficits in trade with its trading partners (Park and Stangarone, 2019: 11). To realise his 'fair trade', the US is taking various measures. It withdrew from the Trans-Pacific Strategic Economic Partnership (TPP) between Asia-Pacific countries in order to deal directly with individual countries on a one-on-one basis in trade deals for US's interests (Whitehouse, 2017). The US also renegotiated RTAs such as NAFTA and KORUS to reduce US trade deficits in trade with Canada, Mexico and South Korea (Whitehouse, 2018; Campbell, 2018). On top of that, it utilised protectionist measures such as safeguards on large residential washers, solar panels and cells (United States Trade Representative (USTR), 2018 a) and unilateral imposition of duties on steel and aluminum (USTR, 2018 b) for the purpose of protecting US industry and US workers. More seriously, the US started a trade war with China by imposing punitive tariffs on 1,300 Chinese product types in the name of unfair trade practices and a further wave of tariffs targeting \$200 billion of Chinese exports (USTR, 2018 c; Gunnella and Quaglietti, 2019). In a multilateral system, the US is blocking appointments of four judges in the Appellate Body, which is originally composed of seven judges and has settled numerous trade disputes between member countries, to force other WTO members to negotiate new rules including US concerns

and to limit legal intervention in US protectionist intention (Payosova, Hufbauer, and Schott, 2018: 1). This blocking also originates in Trump's hostility toward multilateral cooperation. As seen in his remarks that the WTO is a "catastrophe" and has been a "disaster" for the US (BBC, 2018), he seems to believe that the WTO system contributes to US trading partners' benefits at the cost of the US (Sheldon, McGuire and Chow, 2018: 14).

## **2) Crisis of Neoliberal Trade Order**

Trump's policies seriously damage the foundation of neoliberalism as mentioned above: it limits free trade, it spreads protectionism, and it obstructs trade cooperation between states. According to trade statistics released by the WTO (2019 a), trade growth in 2018 contracted from 4.6% in 2017 to 3.0%, and this trend is expected to continue in 2019, the estimated trade growth of which is 2.6%. Although the WTO does not explicitly mention that this trade shrinking is due to the US's protectionist policies, it expresses indirectly that this trade decrease is mainly caused by the US, mentioning that one of the causes is rising trade tensions, increased economic uncertainty, and new tariffs and retaliatory measures affecting widely-traded goods (ibid). Above all, US-China trade war, which is a war between the two largest economies in the world, affects world trade severely. Furthermore, the US's protectionist



measures have encouraged other states to intervene in markets to take retaliatory responses, and this spreads a protectionist atmosphere around the world. For instance, the US's levy of 25% duties on numerous products imported from China led to China's response of tariffs on US exports worth \$ 60 billion (Gunnella and Quaglietti, 2019). The US's imposition of 25% duties on steel and 10% duties on aluminium resulted in a 25% tariff on various US products in the EU, which is another major economy (ibid). That is, major economies have become engaged in a protectionist tariff war spurred by Trump's protectionism. The US's 'America First' policy is also weakening trade cooperation between countries, which is emphasised by neoliberal ideology. The international institution in trade, the WTO, has become impaired. Not only does it have difficulties in suggesting timely resolutions to trade disputes between members because of a lack of judges, it also hardly provides a negotiation venue to coordinate members' interests due to the US's skeptical and uncooperative attitude towards multilateralism and Doha Development Agenda (DDA) negotiations, unlike the former US's leadership. Bilateral cooperation in the current situation is not smooth in such a relationship where the US demands unilaterally and imposes arbitrary tariffs, as shown in NAFTA and KORUS renegotiations and the US's several trade remedy measures. In short, US policies under the Trump administration

endanger the neoliberal international economic order by constricting world free trade, diffusing protectionism and hampering international cooperation.

## **2. Impact on South Korea's Trade**

This global trade environmental change has a significant impact on South Korea's trade and economy. South Korea is affected not only directly by the US's policy change and but also by the unstable neoliberal economic order.

### **1) Direct Impact of US New Trade policy**

South Korea is one of Trump's target countries in terms of US's trade imbalance, so it could not avoid the direct consequences of the US's trade policy change. This is because around half of US's \$500 billion merchandise trade deficits is caused by trade with China, Japan, and South Korea (Noland, 2018: 262), and especially, in 2015, 62% of US trade imbalance was with these Northeast Asian countries (Park, 2018: 94). Trump commented on the Korea-US FTA called KORUS that, "It's a horrible deal. It was a Hillary Clinton disaster, a deal that should've never been made", and forced South Korea to renegotiate it (Economist, 2018). As a result of the renegotiation with the US, South Korea restricted steel exports to the US to 70% of the average volume

from the past three years. It also allowed a US car manufacturer, who does not meet South Korean standards, but U.S standards, to export up to 50,000 vehicles per year, a change from 25,000 vehicles per year under the original KORUS (Lester, S., Manak, I. and Kim, K., 2019: 2-3). In addition, most U.S. automobiles could be exempt from South Korea's rigid CO<sub>2</sub> emission standards. South Korea also agreed that the US can continuously impose a 25 % tariff on light-truck imports until 2041, which was decided to be phased out by 2021 under the original KORUS (ibid). The US's safeguard measures on large residential washers and solar panels and cells also are expected to harm South Korea's relevant exports. While South Korea was exempted from tariffs on steel and aluminum because of its promise of voluntary export restraint during the KORUS renegotiation, it could not avoid effects from the US safeguards. These safeguard measures levy 16-50% tariffs on large residential washers imported to the US for three years and 15-30% tariffs on solar panels and cells imported to the US for four years (USTR, 2018 a). South Korea is one of the biggest exporters of these products with other East Asian countries including China, Japan, Vietnam and Thailand: South Korea was the single largest source of U.S. imports of large residential washers in 2012, and accounted for 25% of US solar panel and cell imports in 2017 (U.S. International Trade Commission (USITC), 2017; USITC, 2019). Therefore, it is

expected that these measures will limit South Korea's exports to the US seriously.

## **2) Impact of Crisis of Neoliberal Trade Order**

However, what is worse is that the crisis of neoliberal trade order caused by the US's radical policy change fundamentally damages South Korea's export-led growth. Above all, the trade war between the US and China has a detrimental impact on South Korea's trade. The Global Economic Prospects published in June 2019 by the World Bank Group (2019 e: 10) notes that due to heightened tension between the US and China and elevated trade uncertainty, trade in Asia was enormously affected and industrial activity was slowed in late 2018 and early 2019. To prove this, the report provides a graph, as shown in Figure 4 below, where China's imports dropped sharply to -4.8% and Asia's exports declined drastically to -3.3% in March 2019 on a year-on-year basis (ibid). This report forecasts that exports of this region are expected to decelerate this year.

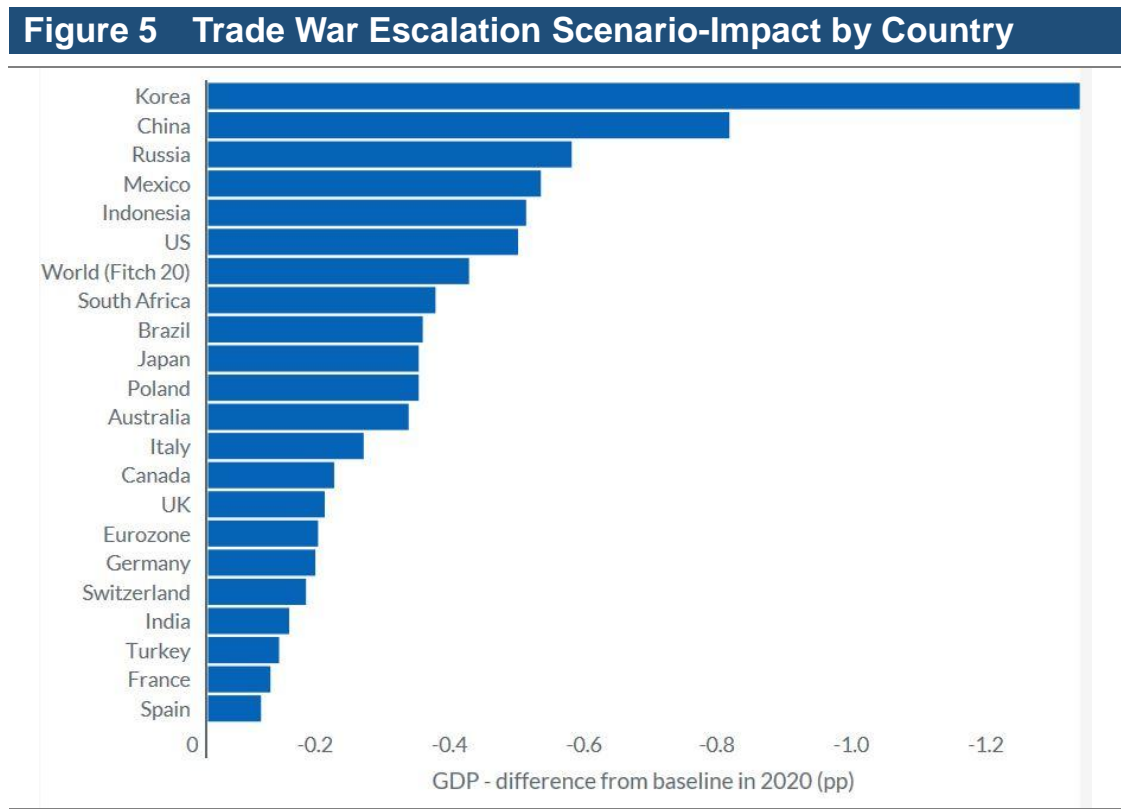
**Figure 4 Nominal Merchandise Import Growth in China and Export Growth in Asia**



Source: World Bank (2019 e)

A press release of Fitch Ratings (2019) published in the similar period shows the negative impact of the trade war between the US and China on South Korea more directly and concretely. According to the press release, South Korea would be the country most severely affected by the trade war, and the impact on South Korea is even much bigger than those on China and on the US, the two economies directly involved: compared with the Fitch's latest "Global Economic Outlook" baseline, which forecasts GDP growth in 2018 and 2019 without the trade war, South Korea's GDP growth would fall by 1.29% below baseline in 2020 in the case of a trade war, while those of China and

the US would decrease by 0.77% and by 0.46% respectively (ibid). Lee (2018) and Gallo (2019) also predicted that South Korea would be one of the hardest-hit countries by the trade battle.



Source: Fitch Ratings (2019)

This result is due to the problems of the South Korea’s export-oriented policy as mentioned above: the economy’s heavy dependence on trade and this trade’s high reliance on China and the US. Gallo (2019) explains that South Korea’s special vulnerability to this war is attributable to its dependence on trade, especially exports to China and the US. Lee (2018) gives a similar

explanation, reporting that South Korean exporters depend significantly on China and the US. A closer look at the mechanisms of South Korea's trade shows that South Korea exports to China mainly intermediate goods, which account for 79% of total exports to China, and China exports to the US finished goods made with imported intermediate goods, while there are also products which South Korea exports to the US directly (IIT, 2019: 2). This means that China's export decrease inevitably leads to South Korea's export drop. Particularly, South Korea supplies semiconductors as the chief intermediate product to China, and this intermediate product presents almost half of South Korea's total exports to China (Lee, 2018; Gallo, 2019). China makes smart phones and other electronics with the semiconductors, and then reexports large part of the finished products to the US (ibid). If Trump imposes tariffs on those electronics, it would raise their price and decrease their shipments from China to the US, and accordingly South Korea would sell far fewer semiconductors than before (ibid). To sum up, the unstable neoliberal trade order caused by the US's protectionism harms global value chains, and this would impair South Korea's trade and economy more than any other country due to South Korea's heavy dependence on trade, especially with China and the US.

## V. South Korea's Future Trade Policy

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Therefore, under the neoliberal crisis, where indiscreet trade restrictive measures from the US are taken, global trade contracts due to the US-China trade war, international cooperation system such as the WTO do not work well, the best policy South Korea can consider is to diversify its trade. Regarding countermeasures, the first strategy could be to reduce its economic reliance on trade as the government sought to do by nurturing services-related industries such as finance and hospitality after the global financial crisis (Cho, 2010). However, considering the lack of natural resources, small internal market and insufficient domestic demand in South Korea, it will not be easy to reduce this dependence. For this reason South Korea still relies heavily on trade despite the government's endeavours. If South Korea has no choice but to rely on trade, at least it needs to diversify its trade and decrease its trade dependence on China and the US in order to be less vulnerable to global trade environmental changes, particularly to the current neoliberal crisis caused by the US policy shift. In this regard, this dissertation suggests three possible ways for South Korea to diversify its trade: strengthening its trading partnerships with the ASEAN and Latin America through regionalist moves or individual FTAs, managing its trade relationship with the EU, and seeking to



reopen trade with the KIC in North Korea if the nuclear issue is resolved.

## **1. Trading Partnership with ASEAN and Latin America**

First of all, for South Korea, one solution for trade diversification is to strengthen trading partnerships with ASEAN and Latin America through a regionalist move or an bilateral FTA. ASEAN, which is a regional intergovernmental organisation consisting of ten Southeast Asian countries, demonstrates high potential for cooperation with South Korea in trade and investment. It is regarded as another world factory, following China, with a quality workforce and low labour cost (Ahn, 2019), so South Korea can expand trade with ASEAN through more investment. Moreover, ASEAN member countries are mostly dependent on trade, and the structure of South Korea's exports and ASEAN's imports are complementary as found in the result of trade complementarity index (TCI) calculation of Truong, Dong, and Nguyen's research (Ahn, 2019; Truong, Dong, and Nguyen, 2019: 55). In addition, there is little possibility of political conflict between ASEAN countries and South Korea as historically they did not seek regional supremacy in Asia unlike China, Japan or Russia (Ahn, 2019). Geographical proximity between two areas is also advantageous because transport cost, together with artificial

barriers such as tariffs and quotas, is a factor that negatively affects trade expansion (Dutt, Mihov, and Van Zandt, 2008: 7). Despite these beneficial trade conditions with ASEAN countries, South Korea's trade volume with some of this group is not as great as expected: according to the 2018 trade statistics from KITA as seen in Table 2, Vietnam is the only country in the top 10 countries in terms of trade volume with South Korea (KITA, 2019). As South Korea's investment in Southeast Asia is largely concentrated in Vietnam (Ahn, 2019), its trade in this area also is weighted towards this country. Truong, Dong, and Nguyen's study (2019: 80-81) shows that there is a substantial room for South Korea to expand its exports to Brunei, Myanmar, Thailand and Laos, and there is also a possibility for South Korea to increase its exports to Cambodia, Indonesia and Philippines and Singapore. In other words, South Korea needs to pursue a stronger trade relationship with ASEAN countries other than Vietnam to fully realise the potential of trade cooperation and to lower its trade dependence on China and the US.

**Table 2 South Korea's Trading Partners in 2018 (Unit: \$ billion)**

Rank	Country	Trade Volume	Rank	Country	Trade Volume
1	China	268.6	16	Philippine	15.6
2	US	131.6	17	Thailand	14.1
3	Japan	85.1	18	Kuwait	14.1
4	Vietnam	68.2	19	Arab Emirates	13.9
5	Hong Kong	48.0	20	UK	13.2
6	Taiwan	37.5	21	Netherlands	11.7
7	Australia	30.3	22	Canada	11.5
8	Germany	30.3	23	Iraq	11.5
9	Saudi Arabia	30.3	24	Italy	10.8
10	Russia	24.8	25	France	9.4
11	India	21.5	26	Brazil	8.8
12	Indonesia	20.0	27	Turkey	7.2
13	Singapore	19.8	28	Iran	6.4
14	Malaysia	19.2	29	Chile	6.3
15	Mexico	16.6	30	Spain	5.5

source: the Korea International Trade Association in Seoul (KITA) (2019)

Along with ASEAN, Han (2018) suggests Latin America as new markets to mitigate South Korea's risks under the US-China trade war. He explains that South American states currently desire to change their economy from being resource and agriculture-based to manufacturing industry-based, and if South Korea makes good use of this opportunity, South Korea could expand its exports to these countries, providing them with investment to promote new industries (ibid). In fact, South Korea does not have any active trade

partnerships with Latin American countries. The 2018 trade statistics from KITA in Table 2 shows that Mexico is the top country among these countries in terms of trade with South Korea, but it ranks 15<sup>th</sup> country and the trade amount is only \$ 16.6 billion (KITA, 2019). The trade with Brazil, which is the 8<sup>th</sup> largest economy in the world with 209.47 million populations (World Bank, 2019 a; World Bank, 2019 b), is also only \$ 8.8 billion, ranked in 26<sup>th</sup>. The reason for this relatively small amount of trade with Latin America is not only the geographical distance but also these countries' closed economic policy of the past, which contrasts with some Asian countries' open economy policy (Kwak, 2018: 2). However, major countries in this area such as Brazil and Argentina have begun to pursue more open economies and free trade in order to improve manufacturing industry after the inaugurations of the Temer government of Brazil in 2016 and Macri government of Argentina in 2015 (ibid: 5). Mexico is also being transformed from the most closed market in the world to a free-trade country to sell manufactured goods from its manufacturing powerhouse (Dixon, 2018). The policy change towards an open economy in these states gives numerous trading partners, including South Korea, enormous opportunity to expand trade with these countries.

Two ways can be considered to foster trading partnership with ASEAN and

South American countries: one way is to participate in a regional trade agreement including these countries, and the other is to conclude or upgrade an individual FTA. Generally, to expand trade with a country or a region, trade cost with the country or the region must be low, and the trade cost largely consists of transport cost and market access cost which is brought out by trade barriers including tariffs and quotas (Dutt, Mihov, and Van Zandt, 2008: 7). Therefore, trade with neighbor countries tends to be active due to relatively low transport costs, and even if the distance between states is far, a free trade agreement or a preferential trade agreement between the nations can promote trade by removing market access cost. If transport cost cannot be dramatically changed due to a static geographic distance, it is necessary to focus on decreasing market access cost, and this is why South Korea needs to actively participate in an RTA or to conclude a bilateral FTA. Although there is a debate on whether RTAs including bilateral FTAs are an instrument of trade liberalisation or not, especially from a multilateral trade perspective (Panagariya, 1999: 455), these agreements for free trade between some countries or in a region can be a solution to maintain and promote trade continuously in this neoliberal crisis.

## **1) Participation in Mega-FTAs**

With reference to RTAs except bilateral FTAs, presently, in Asia-Pacific region, there are two RTAs called Mega-FTAs due to the large number of countries involved and their broad regional coverage: the RCEP and the CPTPP. These Mega-FTAs are led by two or more states that play a role as a hub in global value chains, and aim at addressing “twenty-first-century trade concerns” such as non-tariff barriers (NTBs) and regulatory harmonisation as well as traditional trade issues including tariff cuts, so they are broader and deeper than bilateral FTAs (Ravenhill, 2016: 2). Therefore, if South Korea joins these FTAs, it can benefit economically from the regional economic integrations more than a bilateral FTA. Participation in the Mega-FTAs can also provide an opportunity to build coalitions with middle powers to counterbalance the impact of the US and China (Sohn, 2019: 16).

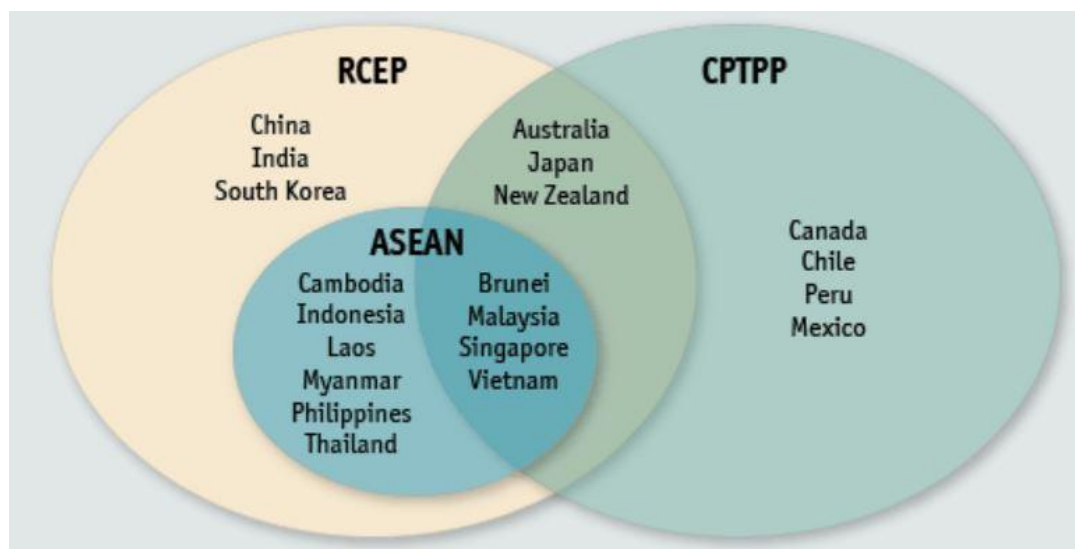
The RCEP is a Mega-FTA between 16 Asia-Pacific nations, which comprises 10 ASEAN members, China, Japan, South Korea, India, Australia and New Zealand. With an intention of reducing tariffs on 90% of all products and harmonising existing FTAs among participating countries, the negotiations began in 2012 and are still ongoing (Economist Intelligence Unit, 2019). As both ASEAN countries and South Korea participate in the negotiations, the

successful RCEP conclusion would allow South Korea to build stronger trade partnerships with ASEAN countries. Although there is already the Korea-ASEAN FTA consisting of agreements on goods, services and investment between two sides, the RCEP includes broader sectors such as e-commerce, competition or intellectual property protection (ASEAN, 2019). In this sense, South Korea's participation in this FTA was a sensible decision.

The CPTPP is another Mega-FTA in Asia-Pacific region which South Korea needs to join to strengthen trade partnership with both ASEAN and Latin America. The CPTPP was originally a FTA named TPP led by the US (Sohn, 2019: 9). A total of 12 countries from Asia, Oceania and America struggled for the agreement for 10 years, and finally this FTA came into force in December 2018, but in the name of CPTPP without the US as it withdrew from the FTA (Economist Intelligence Unit, 2019). The CPTPP was led by Japan after the US's withdrawal (Sohn, 2019: 16). South Korea did not engage in TPP negotiations when the US requested South Korea's joining in 2010 because of three reasons: firstly, South Korea already had a bilateral FTA or was in negotiations with most TPP negotiating countries, secondly, TPP members, especially the US, might require South Korea to open more agricultural markets, which are the most sensitive sector of South Korea, and thirdly,

China, with which South Korea was in the Korea-China FTA negotiations at that time, did not want South Korea to join the US-led TPP (ibid: 9).

**Figure 6 Mega-FTAs in Asia-Pacific Region**



Source: Economist Intelligence Unit (2019)

However, after the CPTPP came into effect, voices of concern from business sector in South Korea are being raised (ibid: 17). South Korea's automotive, machinery and electronics firms are concerned that low or zero tariff advantages, which South Korean companies have been enjoying through a bilateral FTA with most CPTPP members, will be removed because of low or zero tariffs in CPTPP region on Japanese exports, which are in a rivalry with South Korean exports (Nam, 2019). Moreover, there is a possibility that South



Korean automotive firms will lose their price competitiveness compared to that of Japanese companies as they can reduce their car prices through outsourcing car components to CPTPP members in Southeast Asia (ibid). More seriously, South Korea lost an opportunity to conclude a FTA with Mexico: although South Korea has sought to sign a FTA with this manufacturing powerhouse in America since the early 2000s, the FTA negotiations were halted in 2008 (ibid; Ministry of Trade, Industry and Energy of South Korea, 2019). Despite all these disadvantages, the South Korea government is still hesitating in deciding to join this Mega-FTA due to concern about expansion of their chronic trade deficit with Japan and also soured relations between South Korea and Japan rooted in historical conflict (Sohn, 2019: 17). This is why South Korea has not concluded a bilateral FTA with Japan until now. Now, South Korea needs to view the current world trade environment more realistically. Sohn (2019: 18) gives a sharp warning that the situation of collapse of neoliberal consensus could be fatal to South Korea whose economic system is built on an open international trade regime. In this situation, South Korea must overcome historical conflicts and pursue a more long-term, fundamental and timely goal rather than a short-term and temporary one such as trade deficit reduction with a specific country. Participation in CPTPP will allow South Korea to build stronger trade

partnership with ASEAN and Latin American countries and to actively use the global value chain in the Asia-Pacific area for expansion of its export markets.

## **2) Conclusion of a Bilateral FTA**

Alongside the RCEP and the CPTPP, South Korea must seek to make a bilateral FTA with some strategically important trading partners such as Mexico, Brazil, or Indonesia, with which South Korea's trade volume is relatively low compared to their GDP. In spite of the benefits of joining a Mega-FTA, a disadvantage of this type of FTA is that it takes a considerable time to finalise it due to the numerous countries involved. As mentioned above, it took 10 years from 2008 to 2018 for the CPTPP to be concluded, and the RCEP, whose negotiations began in 2012, is unlikely to be concluded in a short time (The Economist Intelligence Unit, 2019). Moreover, According to Truong, Dong, and Nguyen (2019: 74), along with Korea-ASEAN FTA, a bilateral FTA between South Korea and specific ASEAN countries, namely Vietnam and Singapore, facilitated trade expansion between them more. In fact, South Korea trades more actively with these countries than other ASEAN countries, as shown in Table 2. In addition, in the case of the CPTPP, even if South Korea pushes ahead with its membership, it could take a long time for South Korea to be accepted, because Japan is expected to request a withdrawal of

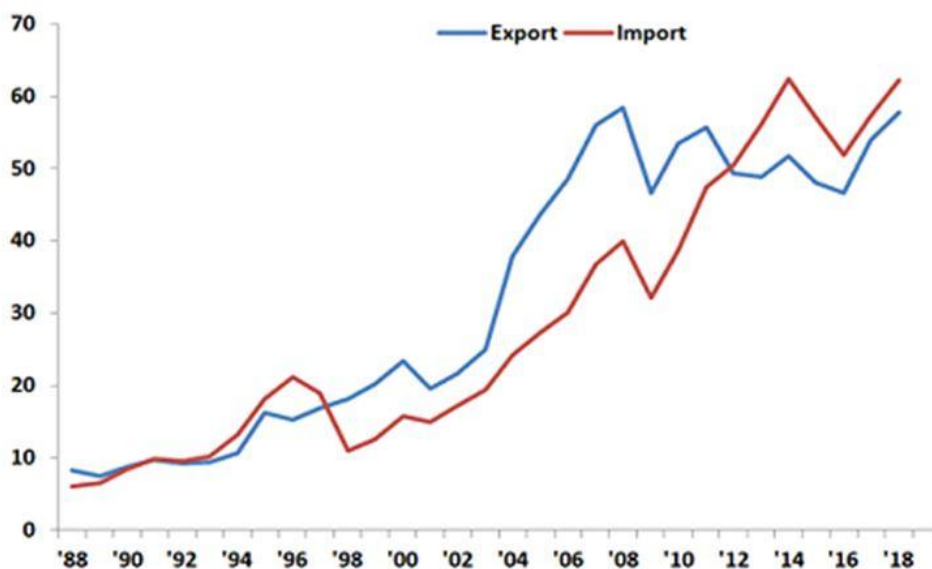
South Korea's court rulings on Japan's compensation for forced labor conscription in the Japanese colonial period or the importation of seafood products from Fukushima which are exposed to radioactivity (Cho, 2019). Lastly, there are many countries such as Brazil and Argentina which do not participate in the Mega-FTAs, but are important in terms of trade partnership. To promote trade with these countries, a bilateral FTA is necessary. Therefore, South Korea needs to join the two Mega-FTAs in Asia-Pacific region, and, at the same time, seek a bilateral FTA with several countries with which a trade relationship can be strengthened.

## **2. Management of Trade Partnership with the EU and Europe**

The EU as an economic block is the third largest trading partner of South Korea following China and the US, presenting 10% of South Korea's total trade volume (KITA, 2019). According to a report from the Korea Institute for International Economic Policy (KIEP) and the Korea Rural Economic Institute (KREI) in 2016, when South Korea and the EU negotiated the Korea-EU FTA, the EU was South Korea's second largest export markets with which South Korea's trade balance was in the biggest surplus in the world in 2007 (KIEP

and KREI, 2016: i). This highlighted the strategic improvement of trade with the EU (ibid). Nevertheless, in recent years, trade with the EU has not been emphasised as much. This is because the surplus turned into a deficit just after the FTA entered into force in 2011, and the deficit reached \$10.7 billion, a record high, in 2014 (KITA, 2019), as seen in Figure 7. After the FTA, South Korea's imports from the EU jumped especially in cars, refined petroleum and high-tech machinery due to the removal of tariffs, while the EU's demand of South Korean ship declined sharply because of the EU's economic downturn (KIEP and KREI, 2016: xvii).

**Figure 7 South Korea's Annual Export and Import with the EU (Unit: \$ billion)**



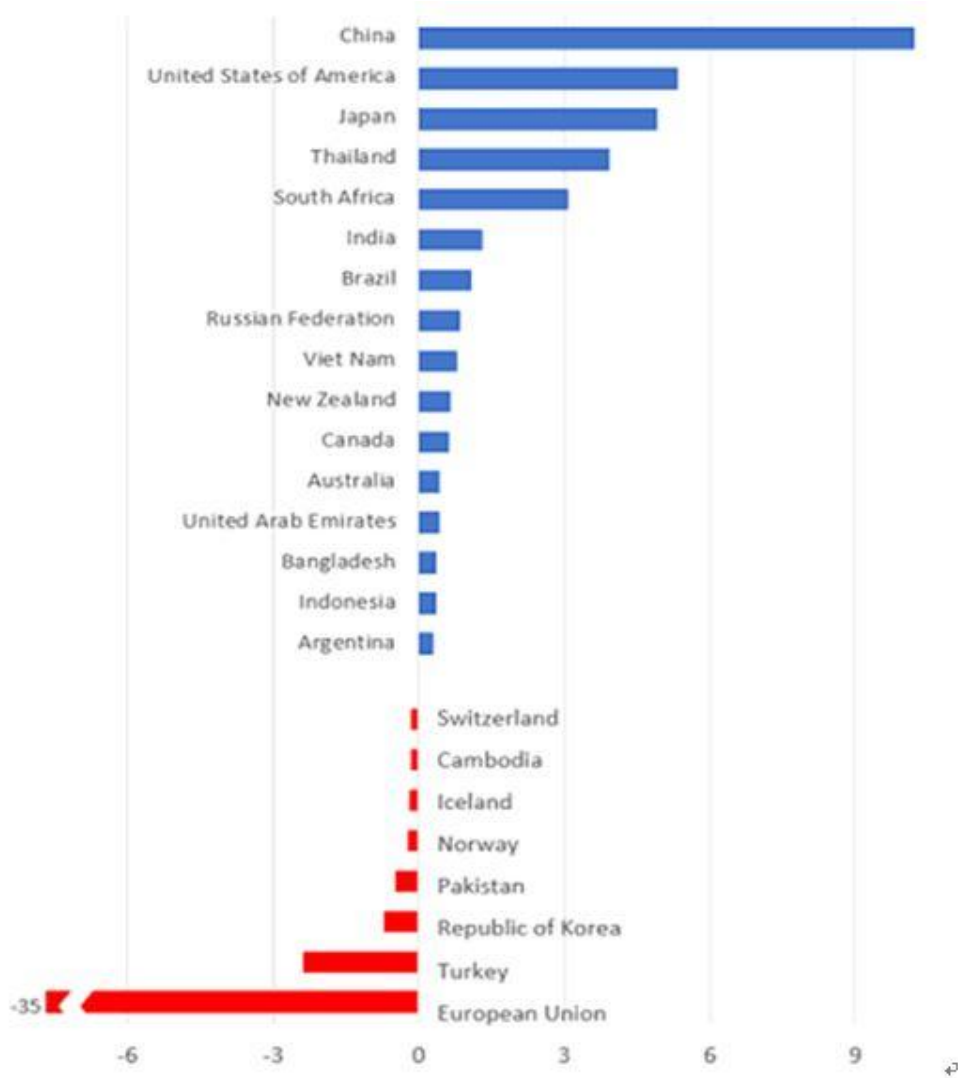
Source: Korea International Trade Association in Seoul (KITA) (2019)

However, as trade relations cannot be decided by only trade deficit, it cannot be ignored that the EU is an important trading partner having big markets and various demands. Therefore, South Korea must manage and reinforce its partnership with the EU, especially in the current EU situation where there are both opportunities and risks for South Korea in the future such as Brexit, the growth of V4 countries and the entry into force of the EU-Japan EPA.

Brexit would be both opportunity and risk for South Korea. The United Nations Conference on Trade and Development (UNCTAD) published a research report last April showing that in case of a no-deal Brexit, South Korea would be the third-biggest loser, with \$0.714 billion export losses (UNCTAD, 2019 a; UNCTAD, 2019 b), following the EU and Turkey, while China, the US and Japan would be winners. The UNCTAD explains that the UK's intention to accord low MFN tariffs would increase relative competitiveness of major exporting countries with which the UK does not have a FTA currently (UNCTAD, 2019 a). Fortunately, to remove this economic uncertainty, South Korea and the UK signed a continuity FTA in 22 August 2019 that will keep trade and business at the same level with the Korea-EU FTA even after Brexit (Department for International Trade of the UK, 2019). Further, South Korea

can make a stronger partnership with the UK through trading promotion events at government level and economic cooperation programmes to help understand each other's markets, as it would be easier to cooperate with a country rather than an economic bloc as a whole where economic and social gap between members is large.

**Figure 8 No-deal Brexit: Winners and Losers in the UK Market (Unit: \$ billion)**



Source: UNCTAD (2019 a)

Next, trade cooperation with the V4, which is a political ally group consisting of four central European countries, Czech, Hungary, Poland and Slovakia (Michalski, 2018: 5), will provide an economic opportunity for South Korea. As these countries have rapidly risen as a strategic location with lower production costs and easy access to Western Europe, South Korean big companies including Hyundai Motors, Samsung Electronics and LG Electronics have invested actively, making South Korea and this region interlinked. This allows South Korea to expand exports rapidly to these states (ibid: 12). To sustain this trend, South Korea needs to maintain amicable relations with these countries. To do that, South Korea must take account of dissatisfaction with heavy trade deficit of these countries in trade with South Korea, and the investment enterprises must seek to more contribute to these countries' society. Among South Korea's total trade volume with V4 countries, exports occupy 82.14% according to KITA statistics (KITA, 2019). Lastly, the EU-Japan EPA is a risk factor for South Korea. The FTA entered into force on 1 February 2019 after five-year negotiations (European Commission, 2019). South Korea and Japan are fierce rivals in the automotive industry, machinery and electronics, but South Korea was able to maintain price competitiveness with Japanese products because of the Korea-EU FTA. However, as the EU-Japan EPA reduced EU's tariffs on Japanese goods, South Korean products cannot

avoid intense competition with those from Japan, which have a better brand strength. To overcome this risk, South Korea must seek to improve South Korean brand image and produce quality goods to meet EU customers' demand. In sum, with reference to the trade partnership with the EU where there are currently opportunities and risks including Brexit, the rise of V4 countries and the EU-Japan EPA, South Korea must strive to manage and reinforce its partnership with the EU, by strengthening cooperative relationship with the UK, contributing to V4 countries' society and improving the brand image and quality of exports.

### **3. Reopening of Trade with North Korea**

Finally, if North Korea is denuclearised, South Korea needs to reopen trade with North Korea. In 2004, the two Koreas built the KIC using South Korea's capital and technology and North Korea's land and labour for the purpose of promoting economic cooperation and easing tensions between the two Koreas (Kim, B. and Kim, H., 2014: 81). In addition to this purpose, South Korea had a plan to make this complex an international area for trade in order to keep production local rather than moving to other nations such as China (ibid; BBC, 2016). To produce internationally competitive and jointly-produced goods in



the complex and sell those goods to overseas markets, under each FTA deal with a trading partner, South Korea endeavoured to include a special treatment provision which provides a standard for the treatment of the KIC products as goods originating in South Korea (Kim, B. and Kim, H., 2014: 82, 94-95). In practice, run by two South Korean corporation, Hyundai Asan and the Korea Land Corporation, the KIC accommodated 124 South Korean companies in total, and all the products made in the complex, which are from industries including clothing, textiles, car parts and semiconductors, were exported to South Korea (BBC, 2016). If the KIC had been developed as planned, the size would have been half the size of Manhattan Island (ibid). However, KIC operations have been halted in 2016 because of North Korea's provocations including rocket launches and nuclear tests, and the complex has been closed down until now. Recently, the US and North Korea restarted talks for North Korea's denuclearisation, and reopening of KIC is mentioned as a condition of the nuclear issue. If the issue progresses and there is not a problem in the Korean Peninsula's security, the original plan to utilise the KIC as a local area for international trade must be actively considered. When South Korea can make full use of the complex, it will be possible to boost trade with North Korea and lower its dependence on China to some degree in the long term.

## VI. Conclusion

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In conclusion, to survive the crisis of the neoliberal trade order triggered by the US's rapid policy change under the Trump administration, South Korea has to lower its heavy dependence on trade with China and the US, which is the main factor making South Korea vulnerable to the international trade environmental change. The best way to reduce this reliance is to diversify its trade. For the purpose of trade diversification, above all, South Korea must build a stronger partnership with ASEAN, which is regarded as another world factory with a quality workforce and low labour costs beyond just China, and Latin American countries, which are trying to change their economic system from a closed economy to an open one. To do that, South Korea needs to make full use of both regional moves such as the RCEP and the CPTPP including ASEAN and Latin America and bilateral FTAs with several important trading partners such as Mexico, Brazil, or Indonesia. In addition, it is important to manage and foster trade relationship with the EU, where South Korea has opportunities and risks including Brexit, the growth in V4 countries importance and the entry into force of the EU-Japan EPA. South Korea must maintain a free trade partnership with the UK after Brexit, develop a mutually helpful relationship with V4 countries, and strive for the improvement of South

Korean product image and quality to meet EU customers' demand in competition with Japanese products. Lastly, if the issue of North Korea's denuclearisation is resolved, South Korea needs to begin to trade again with North Korea by reopening the KIC, which was planned to be an international trade area with low labour cost using South Korea's capital. All these efforts would allow South Korea to diversify its trade and, as a result, to lower its dependence on China and the US. Without these efforts, South Korea may suffer direct consequences as internationally well-known institutions such as Fitch Ratings expects. South Korea accomplished fast economic growth through the government's strong export-oriented policy and the world neoliberal trade order where most countries over the world support free trade, reduce tariffs and remove trade barriers. Now, the Trump's "America First" policy is severely affecting this order through protectionist policies, making the world a "zero-sum game", and this threatens South Korea seriously. This neoliberal crisis affects not only South Korea but also all countries around the world. History tells us that protectionism during the 1930s and a lack of open economy were a contributory cause of another World War (Baldwin, 1984: 7). Therefore, in this period, all countries must make every effort to protect free trade ideology. Especially, South Korea, which has developed through trade, must not jump on the protectionist bandwagon, but safeguard neoliberal

values and cooperate with other countries to overcome this crisis. Trade diversification can also be a way to cooperate with countries which want to protect free trade order.

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