



Session Sketch

Asan Plenum 2019: “Korea’s Choice”
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Session: Free Trade or Fair Trade?

Date/Time: April 24, 2019 / 13:30-15:00

Rapporteur:

Troy Stangarone, Korea Economic Institute of America

Moderator:

Asif Hasan Qureshi, Korea University

Speakers:

Ahn Dukgeun, Seoul National University

Fukagawa Yukiko, Waseda University

Patrick Messerlin, Sciences Po Paris

Tami E. Overby, McLarty Associates

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With the shift in U.S. trade policy, the Session 3 panel on “Free Trade or Fair Trade?” looked at whether there is a trend in the global community to move from free trade to fair trade. However, one key issue for the panel was how to define the current international trade system and how reflective free and fair trade were of the current international trading arrangements.

For Patrick Messerlin, free and fair trade do not exist in the real world. The idea of free trade comes from economics and the writings of David Ricardo. However, Ricardo and other scholars have noted that there are obstacles in the trading system that will prevent countries from ever truly achieving free trade. As for fair trade, it is a polite way of saying a country desires to pursue protectionist trade policies. Instead of a world of free or fair trade, Messerlin argued that we are living in a world of liberal trade, of which there are many variants.

Messerlin suggested that the World Trade Organization (WTO) has been unable to deal with subsidies in agricultural, industry, and services, as well as subsidies designed to promote exports. It has also failed to deal with State Owned Enterprises (SOEs), but that was not a significant issue before China’s economic development. Chinese SOEs are a challenge of a different order because of the size of China, the size of the SOEs, and their ties to the state. What the WTO did well was to reduce tariffs and maintain the trading order during the Global Financial Crisis, however, the system is now under strain because U.S. President Donald Trump is targeting the successes of the WTO.

In regards to U.S. concerns over the WTO dispute settlement system, Messerlin suggested that countries still willing to use the system for disputes that do not involve the United States should be allowed to and the door should be left open for the United States to return to the

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system at a later date.

Ahn Dukgeun concurred with Messerlin’s contention that free trade and fair trade are misunderstood concepts. Ahn said that fair trade really means managed trade, which seems to be growing more prevalent, while free trade requires rigorous rules and institutions. When China says that it is supporting free trade with the United States giving up its mantle of trade leadership, that is not really the case as China does not follow the rules.

In regards to the United States current trade talks with China, Ahn is unsure if the U.S. will be happy with any deal it gets in the long-run, but that in the short-run it will be a winner. The losers will be the countries of East Asia who will see significant trade distortion from any deal reached between the United States and China. One feature that Ahn suggested could be an interesting outcome from the talks will be whether the enforcement mechanism codifies the trade balance as a metric for determining compliance. If it does, the agreement will introduce seeds of a new global trade rule.

The United States is changing the paradigm of trade with the new rules in the United States, Mexico, Canada (USMCA) FTA. When Korea renegotiated the KORUS FTA with the United States, it was not asked to include these new rules which raises questions about whether Korea will now be outside the U.S. trading system. If so, the only way back in may be for Korea to join the TPP-11.

Tami E. Overby argued that the issue of free trade vs. fair trade has received significant attention in the United States, as Americans feel that they have not received a fair deal. This is part of the reason that Trump was elected. Under President Trump, the United States is moving away from rules-based trade towards managed trade and President Trump is using tariffs to bring countries to the negotiating table.

While President Trump called for both the KORUS FTA and NAFTA to be updated, no one objected to the idea of updating NAFTA as it needed modernizing. However, that could have been done through the original TPP, which President Trump withdrew from on his third day in office. In the long-run, history will likely view this as one of President Trump’s greatest strategic mistakes.

To pursue his agenda, President Trump has misused trade rules, specifically the national security exemptions more commonly known as Section 232. The former U.S. Secretary of Defense James Mattis is on record saying that steel imports, President Trump’s first use of Section 232, are not a risk to national security, but placing tariffs on U.S. allies as the administration did is a national security risk. Now there is the threat of President Trump using Section 232 on automotive imports. Even President Trump has admitted this would just be to use as leverage in negotiations with Japan and the EU.

The change in U.S. strategy on trade has damaged U.S. credibility globally, and the use of

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tools such as Section 232 could come back to haunt the U.S. in the future as it is teaching other countries how to break the rules.

Much of the anxiety over free trade has been caused by the bubble in the U.S. that led to the global financial crisis. Having gone through a bubble before, Japan has gone through the process and concluded that free trade benefits everyone according to Fukagawa Yukiko. This is why Japan is trying to see how it can contribute to WTO reform as chair of the G20 and has worked to keep the TPP alive. Japan has also sought to keep the TPP alive so if the WTO were to collapse, a U.S. lead block could join it at a later date.

Fukagawa also noted that much of the innovation today is from digital trade. However, while goods trade can be managed behind borders, it is hard to contain services with borders. This is partially why China has been successful in developing a strong artificial intelligence (AI) ecosystem. For these reasons, there need to be a set of rational rules in place to govern AI that China is interested in enforcing as well.

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