

# Reshaping the Multilateral Trade Policy for Korea

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## I. Introduction

The World Trade Organization (WTO), launched in 1995 as a successor of the GATT system, has ambitiously begun its first multilateral trade negotiation round, Doha Development Agenda (DDA) in 2001. Since then, notwithstanding with its great ambition, the DDA has failed to draw visible results up to now, and hence confidence in the WTO-centered multilateral trading system has been declining accordingly. Nevertheless, there are some notable progresses made in the WTO system: at the beginning of the WTO with the conclusion of the Uruguay Round, the rules in service and intellectual property rights have been set-out and established; the liberalization of the commodity markets has expanded and deepened through the conclusions of plurilateral negotiations under the WTO such as the Information Technology Agreement (ITA) and the Government Procurement Agreement (GPA). As a result of these rules and agreements, the volume of global commodity trade has increased by more than three times, and the market share of developing countries has also increased from 28% in 1995 to 43% in 2017. The rapid increase of the number of member states is

notable under the WTO. Although such expansion may have increased the difficulties and complexity of decision making in the WTO, it is clear that the expansion of new business opportunities by successfully incorporating developing countries into the global economy and applying unified WTO rules and standards is regarded as an achievement of the WTO. In addition, the dispute settlement system, the Agreement on Trade Facilitation (TFA) and its implementation can be counted as the achievements of the WTO system. In particular, the Trade Facilitation Agreement is recognized as the first multilateral trade agreement concluded after the establishment of the WTO and the launch of the DDA negotiations, while the Information Technology Agreement and the Government Procurement Agreement are plurilateral agreements. Economically, it is expected of the increase in exports by more than \$ 1 trillion, the creation of 20 million export-related jobs, and the increase in the world's GDP by about \$ 960 billion due to the reduction of trade costs and the improvement of trade environment.

## II. The Challenges and Limitations of the WTO

The limitations and problems of the WTO system are as clear as its progresses the WTO have made. In particular, governance issues have long been pointed out as such typical examples: First, decisions in the WTO system are in fact made by consensus, and enlarging the number of Member States has become a decisive factor in hindering efficient decision-making in the WTO. Second, although The 'Single Undertaking' principle of concluding the agreement contributed to maintaining the consistency and stability of the multilateral trade system, it caused the problem of the rigidity of the WTO system at the same time. The dispute settlement procedure is another problem that has become noticeably messier: Recently, the dispute settlement implementation process is increasingly followed by the retaliation process. In such processes, the situation in which the complainant must observe the implementation failure of the defendant until the retaliation is approved is undermining the fairness of the WTO system. Not only that, the lack of safeguard measures in service trade and the limitations and problems of special and differential treatment for developing countries have been pointed out as major challenges related to the current WTO system. In addition to the limitations of the WTO system itself, the fact that the WTO does not adequately respond to the rapidly changing global trade environment is also a major challenge to the current WTO system. The reason why the FTAs around the world in the 2000's have rapidly proliferated is the WTO multilateral system has failed to respond effectively to the new trading environment. Since the early 2000s, the Global Production Networks have spread out and the 'made in world' has become common due to such international division of

production, and hence the set-out of new trading rules and further tariff concessions in accordance with such development has long been awaited. However, the progress of DDA has fallen far short of such expectation as the confrontation between developed and developing countries has escalated. Furthermore, as the global economic slowdown has been prolonged since the global financial crisis in 2008, countries around the world have strengthened their protectionist policies for their industries and jobs. Notwithstanding, the WTO failed to issue a proper prescription for them. WTO members have constantly bashed protectionism and stated the importance of strengthening multilateral trade system whenever there is an opportunity, but this is only an empty declaration; non-tariff measures have steadily increased since the financial crisis and have not returned to pre-2008 levels.

## III. Rising Issues and Controversies in the WTO Reform

In recent years, as trade liberalization has widens and deepens around the world, inclusiveness and sustainability of international trade has drawn more attention in trade discussions and so has in the WTO. Trade liberalization that has been pursued so far has mainly focused on trade barriers, especially tariff concession. In this situation, the abolition of tariff barriers has rather created a favorable environment for large companies, which definitely have more human and physical capital than small and medium enterprises to deal with customs procedures and domestic regulations. As a result, the majority of SMEs have failed to enter the foreign markets due to complex customs procedures and regulations behind the border, while large companies have succeeded in entering those markets. Such imbalance re-

sults in the concentration of benefits from trade liberalization into large corporations. The same stark reality applies between capital and labor: the share of labor income to capital income after trade liberalization is gradually decreasing. The issue of unequal distribution of benefits from trade liberalization between labor and capital has been pointed out and noted in multilateral trade negotiations. Therefore, inclusiveness and sustainability of international trade have become main topics. The need for discussions about reform of the WTO system are invigorated among developed and developing economies alike.

A variety of the long-lasting WTO controversies have deeply rooted in the conflict between developing and developed members and such conflicts have remained persistent over the course of the DDA negotiations. According to the proposals submitted by developed countries regarding WTO reform, transparency and notification enhancements are on the table. A set of regulations is to be strengthened in order for the WTO member states to comply with the notification duty. In spite of how the reform of the WTO Appellate Body will be done is controversial, that reform will move in the direction of mitigating the complaints of the United States. In that regard, a certain extent of differentiation among developing states will be inevitable. It is obvious that such a discussion will face strong opposition from developing countries. However, as the economic heterogeneity across developing countries widens up, it is difficult for developing economies to ignore the disparity in their levels of development and to assert the same obligation among all developing countries. In addition, the "flexible multilateralism" referred to by the EU will also be at the center of the debate. Since developing countries have argued to keep issues on the DDA negotiation table there as they are

now, plurilateral negotiations led by developed countries will also be actively pursued in parallel with the existing DDA. Adding to the existing conflicts between developed and developing economies, it cannot be ruled out the possibility that the pursuit of flexible mechanism could divide alliance among developed economies and a group of developing countries even further. In fact, if the WTO reform initiative led by developed countries such as the United States is not reaching to their desired level due to the opposition of developing economies, the current WTO regime may demise indeed.

#### IV. In Pursuit of Korea's New Multilateral Trade Policy

Korea needs to be strategically prepared for the reform of the WTO system. With regard to transparency enhancement and notification enhancement, obtaining information on industrial subsidies across member states is intended and according to them more stringent classification and international review of subsidies is expected to be set-out. Therefore, Korea should review whether the current supplementary policies are in accordance with the WTO regulations and minimize the possibilities of countervailing duties from other WTO members in advance. Maintaining the status of developing countries has been the principal premise of the DDA agriculture negotiations of Korea. However, given that recent development of the discussion with regard to the differentiation of developing countries, keeping Korea as a developing country will not be an option any longer. Since the obligations between developing and developed countries is considerably different in the agricultural sector, the implementation of Korea's obligations as a developed country will not show a

favorable impact on the agricultural sector for a while. Therefore, there is a need for thorough preparation of the agricultural sector for such changes. Since the discussions on reform of the WTO system will go through every detailed issues, it is necessary for Korea to actively participate in the discussions on the agenda of our interests, especially transparency and notification and differentiation of developing countries, and reflect our interests in those discussions as much as possible.

Moreover, the direction of Korea's multilateral trade policy, taking into consideration of the WTO system reform and the changes in the global trade environment, should include strengthening the status of Korea in the WTO, promoting inclusive trade within the WTO system, multilateralization of bilateral and regional trade agreements, and embracing the sustainability issues in the multilateral trade agenda. In order to strengthen Korea's status within the WTO system, it is necessary to cultivate multinational trade experts and expand the dispatch to the WTO Secretariat. In addition, it is necessary to increase the contribution of Korea by actively participating in various projects managed by the WTO. It is also a good idea for Korea to lead the WTO ministerial meeting. At the same time, it is an effective way to substantially promote Korea's position in the multilateral trade stage with new proposals supported by developed and developing countries that can break through the deadlocked DDA.

To pursue and lead inclusive trade, it is necessary for Korea to contribute to promoting the implementation of the trade facilitation agreement first. In particular, it is effective to provide customized consulting services to developing countries focusing on the e-Customs clearance system or 'single window' system that Korea has strengths with and developing

countries are in need of. It is also important to develop a Korean GSP program for developing countries. For example, Korea opens up commodity markets developing countries desire and provide technical and financial support contents in those sectors so that encourage them to experience the benefits of trade liberalization. Along with these efforts, a customized bilateral solution system for SMEs as well as large companies to resolve the difficulties with regard to access to those markets should be pursued together.

In order to multilateralize bilateral or regional trade agreements, a unified framework is needed to connect the FTAs together that Korea has been promoting so far. In the case of tariffs, for instance, the tariff concession for all products in all FTAs could be uniformly set at the most liberalized schedule Korea has offered to any WTO members. In the case of services, a unified liberalization framework can be created as well with applying the MFN principle.

Last but not least, in order to strengthen the sustainability of trade, we have to consider the resumption of Environmental Goods Agreement (EGA) negotiations, the harmonization of trade and environment, and the promotion of new rules for permitting environmental subsidies. Furthermore, we must now consider sustainability issues i.e. the implementation of the Paris Climate Accord in the multilateral trading system. **KIEP**