

Diffusion of new protectionism and trade policies of major countries in Asia

Korea Trade Research Association holds an international academic event annually, and the event of 2017 was held with a theme of “Diffusion of new protectionism and trade policies of major countries in Asia” in Daejeon, a central area of South Korea. At this event, 30 academic journals were presented, and 7 of them were chosen for inclusion in the special issue of *JKT*.

The seven papers analyze trade issues in common, and in a qualitative or quantitative way. Three out of the seven papers in the special issues analyze global trade issues, and the four explore economic integration issues in Asia-Pacific. The topics of the global trade issues are trade protectionism and the Paris Convention; the topics of the Asia-Pacific include Regional Comprehensive Economic Partnership (RCEP), trade promotion in the East Sea Economic Rim (ESER), the issues of logistics and trade between China and South Korea and more.

Computational general equilibrium (CGE) models are used in Cheong and Tongzon (2018), Li and Moon (2018) and Roh and Kim (2018), while partial equilibrium models in Kang and Dagli (2018). Two papers by Wang (2018) and Feng and Zhang (2018) research into trade and distribution between China and South Korea. Through an input-output analysis, Feng and Zhang (2018) analyze the impact of China’s structure of trade on South Korean exports, and Wang (2018) assess the value-added service of cold chain logistics between China and Korea. Kang and Dagli (2018) demonstrate the economic losses of protectionism in general context, while Cheong and Tongzon (2018) criticize the protectionism by the US Administration of Trump, providing the estimates of the costs of protectionism. Li and Moon (2018) analyze the effects of forming an RCEP in East Asia, using a CGE model with a module of investment. Roh and Kim (2018) estimate the effects of the Paris Agreement on Korean Economy with a CGE model based on the assumption of firm’s heterogeneity, which is a scarce version of CGE models.

Papers on trade protectionism are examined by Cheong and Tongzon (2018) and Kang and Dagli (2018). Cheong and Tongzon (2018) provide the economic implications of Trump administration’s trade protectionism, a controversial issue of interest to countries across the globe. Cheong and Tongzon (2018) evaluate the economic impact of an emerging US trade protectionism on the economies of East Asian nations, including China, Japan, South Korea and the ASEAN countries, and attempt to draw out policy and strategic implications for both the USA and East Asia. Through the CGE approach, supplemented with a qualitative analysis, the paper explores two major cases: increase in US import tariffs and imposition of a border adjustment tax. Furthermore, this paper draws out possible implications for intra-Asian trade and regional integration, and earns compelling outcomes that address controversial issues in relation to the economic impact of rising US trade protectionism.

Kang and Dagli (2018) examine the changes in demand of intermediate and final goods when the USA raises its import tariffs on transport and metals. In March 2018, President Trump has made a decision to impose a tariff of 25 percent on steel imports under Section 232 of the Trade Expansion Act of 1962. This new tariff imposition on steel imports could benefit the steel industry of the USA, but at the cost of other US manufacturing industries that use steel as their intermediate goods, resulting from increased production costs. The US industrial sector has already warned about the danger of losing US international



competitiveness, a subject discussed and quantified in Kang and Dagli (2018). They also estimate the indirect impacts of higher tariffs on trade under protectionism, and found, through a partial equilibrium analysis with multi-regional input-output data, that the consequent economic losses were greater for tariff-imposing economies than for exporting countries. Through forward and backward linkages, the authors attempt to analyze the extent of the impact, which depends on the position of an economy and sector in the global value chain, and the outcomes suggest that tariff-imposing importers can ironically converge to pernicious spillover effects.

Similar studies are made by the Australian Government Productivity Commission (2017), Cheong and Tongzon (2018), Jaimes (2017) and Walmsley (2017). The former assesses the impact of the North American Free Trade Agreement (NAFTA) on the supply chain among the member countries of the NAFTA, while the latter estimates Mexican tariff hike. Kang and Dagli (2018) seek to examine these spillover effects across different sectors and countries through industrial linkages and conclude that substantial economic losses are generated through direct and indirect channels in the context of the global value chain.

Roh and Kim (2018) assess the effects of the Paris Convention on Korean economy and trade, using a CGE model with a structure for Armington assumption and the Melitz effect. The Melitz effect is the impact of trade on industrial productivity and the number of exporting firms, explored in Melitz (2003) and Balistreri and Rutherford (2012). The study also takes the international carbon leakage and the input-output structure into account. During the Paris Convention, the Korean Government, as part of the Intended Nationally Determined Contribution, made assurance to restrain carbon emission by 37 percent by the year of 2030. The paper seeks to find out whether the effects of reducing carbon emission would spell the concomitant economic slowdown or not. Furthermore, it shows experiments with conservative scenarios with 10 percent reduction in carbon emission using the recent data, eventually leading to highlight how agreement or carbon emission could potentially impact Korea's economic performance. The paper reports that the welfare of Korean people could be improved depending on the carbon reduction scenarios and the assessment methodology, although the production level goes down with the implementation of the obligations under the Convention.

Although there are many precedent studies, new papers continue to be introduced as economic integration in the Asia-Pacific is in progress. A firm heterogeneity CGE model by Li *et al.* (2017) is employed to estimate the trade and income effects of RCEP, with a particular focus on China. Li and Moon (2018) demonstrate that China and other member countries will benefit after the formation of the RCEP due to an increase in trade and welfare. While the impacts of the regionalism in the East Asia and the Pacific region are done by several research studies such as Cheong and Tongzon (2013), Itakura (2014) and the World Bank (2016), the work by Li and Moon (2018) deserves special attention due to the adoption of a CGE model, which can capture the dynamic entry and exit of firms. Furthermore, the author emphasizes that China should take a gradual step in pursuing services liberalization when those services do not have international competitiveness. For the members of RCEP, a reduction of behind-the-border barriers is highly constructive for an increase of trade, income and welfare and, thus, should be considered as significant in the process of trade negotiations.

The paper by Lee *et al.* (2018) looks at how to promote China–Korea trade in the ESER from the viewpoint of Korea. Its main contents include a proposed maritime logistics system that satisfies the One Belt and One Road (OBOR) Initiative, which China is promoting. The paper evaluates the maritime logistics connectivity of ports and shipping network in the ESER to promote international trade in the context of OBOR, considering centrality, primary flow and clustering interaction. Researchers and governments from Korea, China, Russia and Japan have addressed ESER over the last three decades, and its significance is

highlighted in the Greater Tumen Initiative, with the objective of promoting international trade and regional economic development of its members, comprising Mongolia, China, Russia, South/North Korea and Japan. The analysis of the shipping service network is critical to promote international trade by sea transportation in the ESER. Based on the results, the paper argued that the ESER can use this well-polished shipping road of sea, and can make promising opportunities in the Maritime Silk Road.

Wang (2018) and Feng and Zhang (2018) wrote a paper on Korea–China trade issues. In order to activate fresh food transactions between Korea and China, Wang (2018) suggests a high-value service of cold chain logistics between China and Korea. With the strategy for developing the cold chain value-added service between China and Korea, the paper seeks to extricate value-added service of cold chain logistics between the two countries. This paper analyzes a cold chain and its relationship with biological processes, as well as how facilities will spur the development of the cold chain logistics between China and Korea. The study clarifies the value-added service and value-added mechanisms, analyzes the drawbacks in cold chain system and presents some strategies for the development of value-added cold chain service.

Feng and Zhang (2018) examine structural changes of trade between Korea and China. Using the non-competitive input-output model and the World Input-Output Table database, this paper analyzes China's imports from Korea induced by its four final demands, comprising its final consumption expenditure, fixed capital formation, exports and changes in inventories and valuables. Among the four final demands, changes in inventories and valuables are the strongest driving forces of China's position as Korea's market provider. This study proposes that final consumption expenditure and fixed capital formation have a more extensive impact on China's imports from Korea. Furthermore, the paper clarifies that, although in the structure of China's market for Korea, industries including manufacture of computer and electronic products are actively contributing to the rise of China's position as Korea's market provider, import induction in other industries is declining. The study provides an empirical support of China's role as a market provider for Korea, which will no longer rise significantly in the future, although it will be in a steady state.

Overall, the seven papers contained in this special issue are excellent in quality and have adequately analyzed the trade issues affecting the world in general and the Asia-Pacific economy in particular. The paper contributors are all professional scholars in their respective fields, and thus, expected to come up with outstanding follow-up papers for each topic in the future. As a guest editor, I would like to express my deep gratitude to the authors for their valuable contributions to the publication of this special issue.

Inkyo Cheong

Inha University, Incheon, Korea

References

- Australian Government Productivity Commission (2017), "Rising protectionism: challenges, threats, and opportunities for Australia", Productivity Commission Research Paper, Canberra, available at: www.pc.gov.au/research/completed/rising-protectionism/rising-protectionism.pdf
- Balistreri, E.J. and Rutherford, T.F. (2012), "Sub-global carbon policy and the competitive selection of heterogeneous Firms", *Energy Economics*, Vol. 34 No. S2, pp. S190-S197.
- Cheong, I. and Tongzon, J. (2013), "Comparing the economic impact of the trans-pacific partnership and the Regional Comprehensive Economic Partnership", *Asian Economic Papers*, Vol. 12 No. 2, pp. 144-164.
- Cheong, I. and Tongzon, J.L. (2018), "The economic impact of a rise in US trade protectionism on East Asia", *Journal of Korea Trade*, Vol. 22 No. 3, pp. 265-280.

-
- Feng, Y. and Zhang, T. (2018), "Driving forces and structural changes of China as a market provider for Korea: an input-output analysis", *Journal of Korea Trade*, Vol. 22 No. 3, pp. 194-211.
- Itakura, K. (2014), "Impact of liberalization and improved connectivity and facilitation in ASEAN", *Journal of Asian Economics*, Vol. 35, December, pp. 2-11.
- Jaimes, L.D.B. (2017), "Effects on prices of an increase of the tariffs in Mexico through social accounting matrix", Presented at the 25th Conference of the International School of I-O Analysis, Atlantic City, NJ, June 19-23, available at: www.iioa.org/conferences/25th/papers/files/2807.pdf
- Kang, J.W. and Dagli, S. (2018), "Tariff barriers and industrial spillover effects", *Journal of Korea Trade*, Vol. 22 No. 3, pp. 228-246.
- Lee, P.T.-W., Lee, S.-W., Hu, Z.-H., Choi, K.-S., Choi, N.Y.H. and Shin, S.-H. (2018), "Promoting Korean international trade in the East Sea Economic Rim in the context of the Belt and Road Initiative", *Journal of Korea Trade*, Vol. 22 No. 3, pp. 212-227.
- Li, Q. and Moon, H.C. (2018), "The trade and income effects of RCEP: implications for China and Korea", *Journal of Korea Trade*, Vol. 22 No. 3, pp. 307-319.
- Li, Q., Scollay, R. and Gilbert, J. (2017), "Analyzing the effect of the RCEP on foreign direct investment within a firm heterogeneity CGE framework", *Economic Modelling*, Vol. 67, December, pp. 409-420.
- Melitz, M.J. (2003), "The impact of trade on intra-industry reallocations and aggregate industry productivity", *Econometrica*, Vol. 71 No. 6, pp. 1695-1725.
- Roh, J. and Kim, H. (2018), "The effects of Paris Agreements on Korean economy and trade analyzed by the computational general equilibrium method considering firm's heterogeneity", *Journal of Korea Trade*, Vol. 22 No. 3, pp. 281-306.
- Walmsley, T. (2017), "Supply chains and tariff rates: the impact of reversing NAFTA", Presented at the 25th at the 25th Conference of the International School of I-O Analysis, Atlantic City, NJ, June 19-23, available at: www.iioa.org/conferences/25th/papers/files/2767.pdf
- Wang, S. (2018), "Developing value added service of cold chain logistics between China and Korea", *Journal of Korea Trade*, Vol. 22 No. 3, pp. 247-264.
- World Bank (2016), *Potential Macroeconomic Implications of the Trans-Pacific Partnership*, January, World Bank, Washington, DC.