Comments on **U.S.–China Trade Conflict and the Changing Multilateral Trading System: Korea's Perspective**

Prema-chandra Athukorala, Australian National University: This paper deals with two specific themes relating to the U.S.–China trade conflict: the impact of the U.S.–China trade war on South Korean foreign trade and the U.S. attempt to squeeze China through the World Trade Organization (WTO). The paper is motivated by the concern that the root cause of the trade conflict is U.S.–China hegemonic rivalry, a fundamental concern that goes well beyond the widening trade deficit experienced by the United States in its bilateral trade with China, and hence it is bound to persist much longer than many anticipate.

Korea provides an ideal laboratory to study global implications of the U.S.–China trade conflict in the context of the ongoing process of cross-border production sharing, and the resultant rapid growth in trade in parts and components (P&C) and final assembly in manufacturing trade. China is now the premier final assembly center within global production networks and the United States is the major market for products assembled there. As the detailed data presented in Section 2.1 in the paper show, more than 80 percent of Korea's exports to China are P&C, which are assembled into final products exported from China to the United States and other countries. Therefore, tariffs imposed by the United States on imports from China is bound to have a knock-on effect on Korean exports to China. Therefore, based on the analytical narrative in Section 2, the author has convincingly concluded that Korea is one of the countries most exposed to the dispute given its integration with Chinese-led supply chains. However, surprisingly this inference is not consistent with the empirical evidence (based on the Wang, Wei, and Zhu [2013] decomposition approach) reported in Section 2.2 of the paper. The results suggest that, under the scenario of both the United States and China mutually imposing 25 percent tariffs on a bilateral basis, Korean exports would contract only by 2.2 percent! Presumably, the particular methodology used here (which is not clearly spelled out in the paper) suffers from a failure to distinguish between P&C and final assembly in trade flows. Alternatively, it could be that trade in P&C is "relationship-specific" (that is, based on well-established supplier–user relationships) and hence not sensitive to tariff-propelled price changes.

Relating to the implications of global production sharing in determining the trade effects of the trade, an important aspect overlooked in the empirical analysis is the possibility of

Asian Economic Papers 18:3

https://doi.org/10.1162/asep_a_00734

shifting production bases within global production networks. There is already evidence of some Korean firms involved in final assembly in China relocating their operations in Vietnam, Cambodia, and other countries in East Asia. For instance, Samsung has already shifted most of its assembly of hand-held devices from China to Vietnam. Samsung's assembly plants in Hanoi currently employ about 120,000 workers and total exports of Samsung now account for over 15 percent of total manufacturing exports from Vietnam. Also, firms have the option of undertaking "quid pro quo investment" (setting up new manufacturing plants or expanding existing plants) in the United States to circumvent the overall increase in U.S. tariffs (Bhagwati, Dinopoulos, and Wong 1992). There is anecdotal evidence that LG, Samsung, and Hyundai have already started expensing production bases in the United States.

Section 3 of the paper contains interesting material on the U.S.-led attempts to reform the trade rules of the WTO and, in particular, to secure changes to WTO provisions that permit China to gain from "developing country" privileges. This section sits on its own without a clear link to the rest of the paper, however. There is no discussion here on the implications of the U.S. case for rewriting Korea's role in the WTO in world trade. Recently, U.S. President Trump escalated his fight with the WTO, giving it 90 days to change eligibility criteria for "developing country" status. South Korea was among the "wealthy" countries listed in the announcement, which allegedly enjoy a gain from a WTO provision that allows member countries to decide whether they qualify as "developing countries" (Swanson 2019).

References

Bhagwati, Jagdish N., Elias Dinopoulos, and Kar-yu Wong. 1992. Quid Pro Quo Foreign Investment. *American Economic Review 82*(2):186–190.

Swanson, Anna. 2019. Trump Presses World Trade Organization on China. *New York Times*. 26 July.

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Yunjong Wang, Kyunghee University: As Jin Kyo Suh clearly points out, the U.S.–China trade conflict is much more than tariffs and trade. At the June 2019 G20 summit,