

# Trade Disputes and Global Economy

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## Session 2. Trade Tensions and Financial Stability

*G20 Global Financial Stability  
Conference 2019*

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# *Main issues*

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- What caused the US—China trade war and Japan—Republic of Korea (Korea) trade disputes?
- What would be the implications of these trade disputes for regional and global economies?
- What are the possible efforts to mitigate the risk of escalating trade conflicts and to promote stable economic growth?

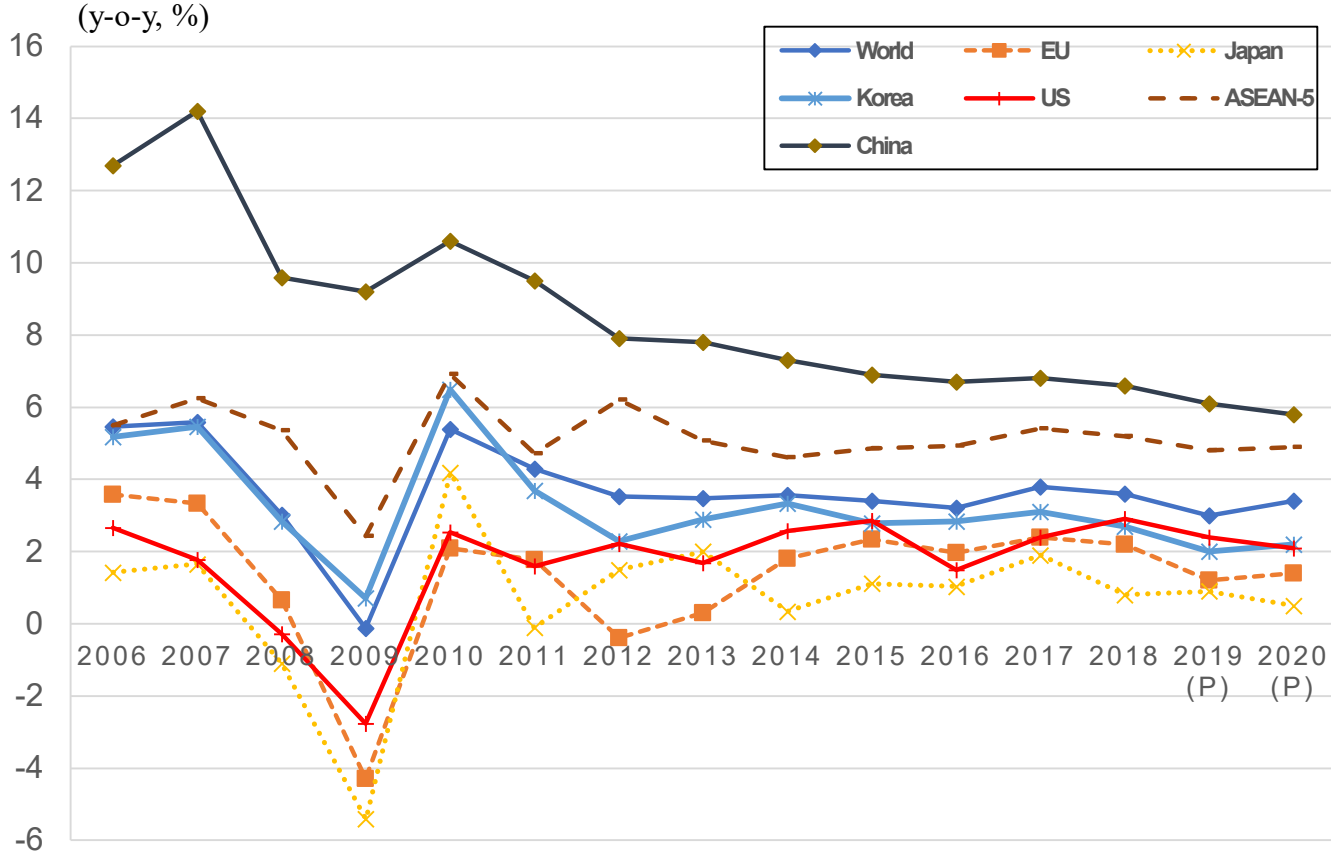
# *Main arguments*

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- We have witnessed the rise of global protectionism, nationalism and populism amid weakening growth momentum in recent years.
- The prolonged U.S.–China trade war, Japan–Korea trade conflict, and heightened geopolitical risks add significant uncertainties to the regional and global economies.
- In an uncertain global environment, major trading players must avoid trade war.
- It is time for leaders and policymakers to adopt appropriate policies that can protect global free trade and stable economic growth.

# Weakening global growth momentum

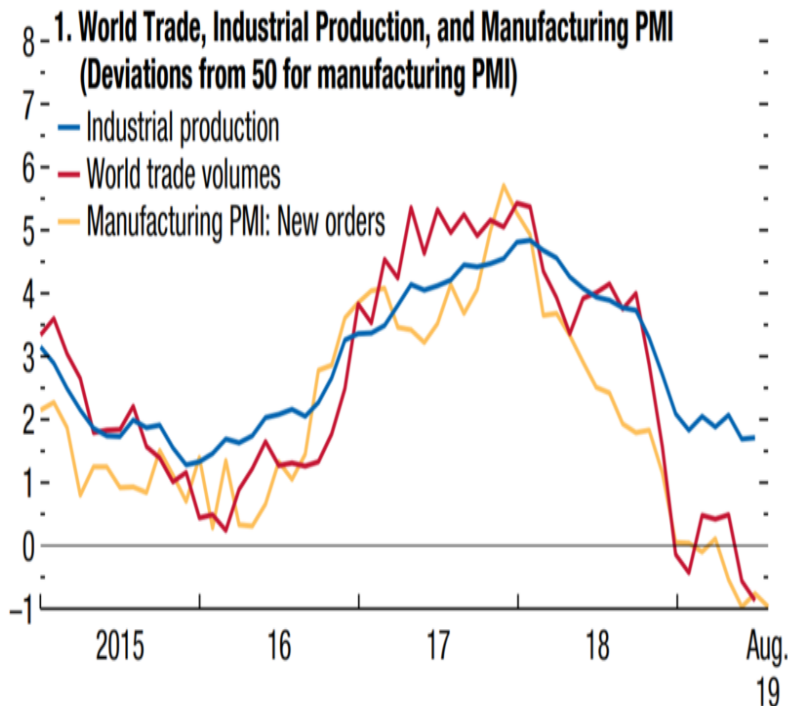
## GDP growth rate



Source: IMF, World Economic Outlook Database, October 2019

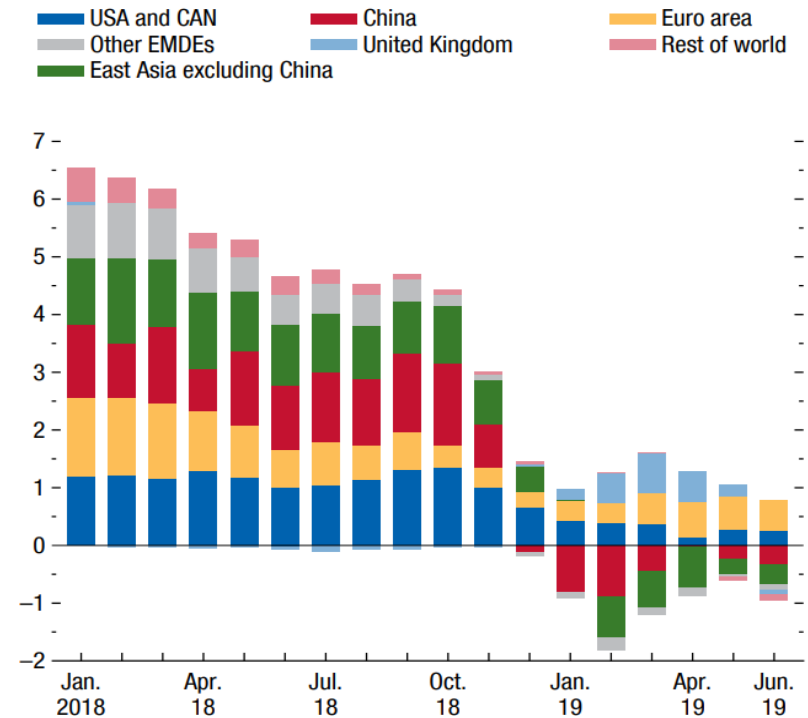
# Global trade contract

## Global Activity Indicators (Three-month moving average; year-over-year percent change)



Source: IMF, World Economic Outlook , October 2019  
 Note: PMI=purchasing managers' index.

## Contribution to Global Imports (Percentage points, three-month moving average)



Source: IMF, World Economic Outlook October 2019.  
 Note: CAN = Canada; EMDEs = emerging market and developing economies;  
 USA = United States.

# *The world economy is under threat*

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- Risk of global stagnation and recession
- Rising inequality and people's discontent
- Geopolitical risks
- Possible policy mistakes in major advanced economies
- Nationalism
- Protectionism
- Populism
- *US–China trade war and Japan–Korea trade disputes*

# *The rise of nationalism and protectionism*



**“We will bring back our jobs.  
We will bring back our borders.  
We will bring back our wealth.  
And we will bring back our  
dreams.....**

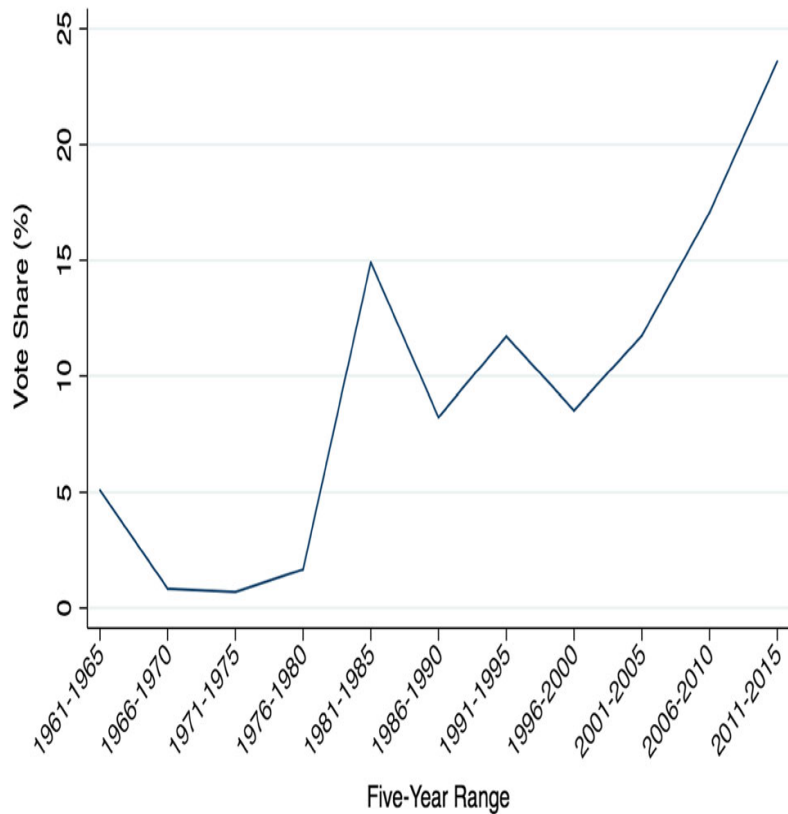
We will follow two simple rules:  
**Buy American and Hire  
American.”**

(Donald Trump, January 20, 2017)

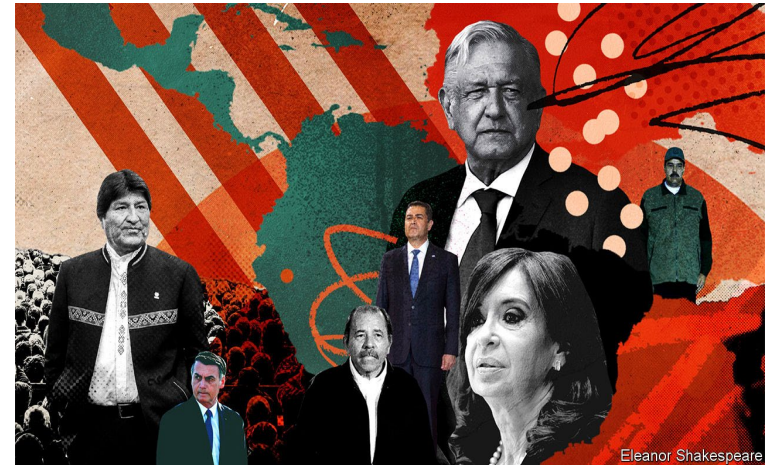
# Populism rises everywhere

## Global rise of populism

Support for populist parties over time among countries with at least one populist party



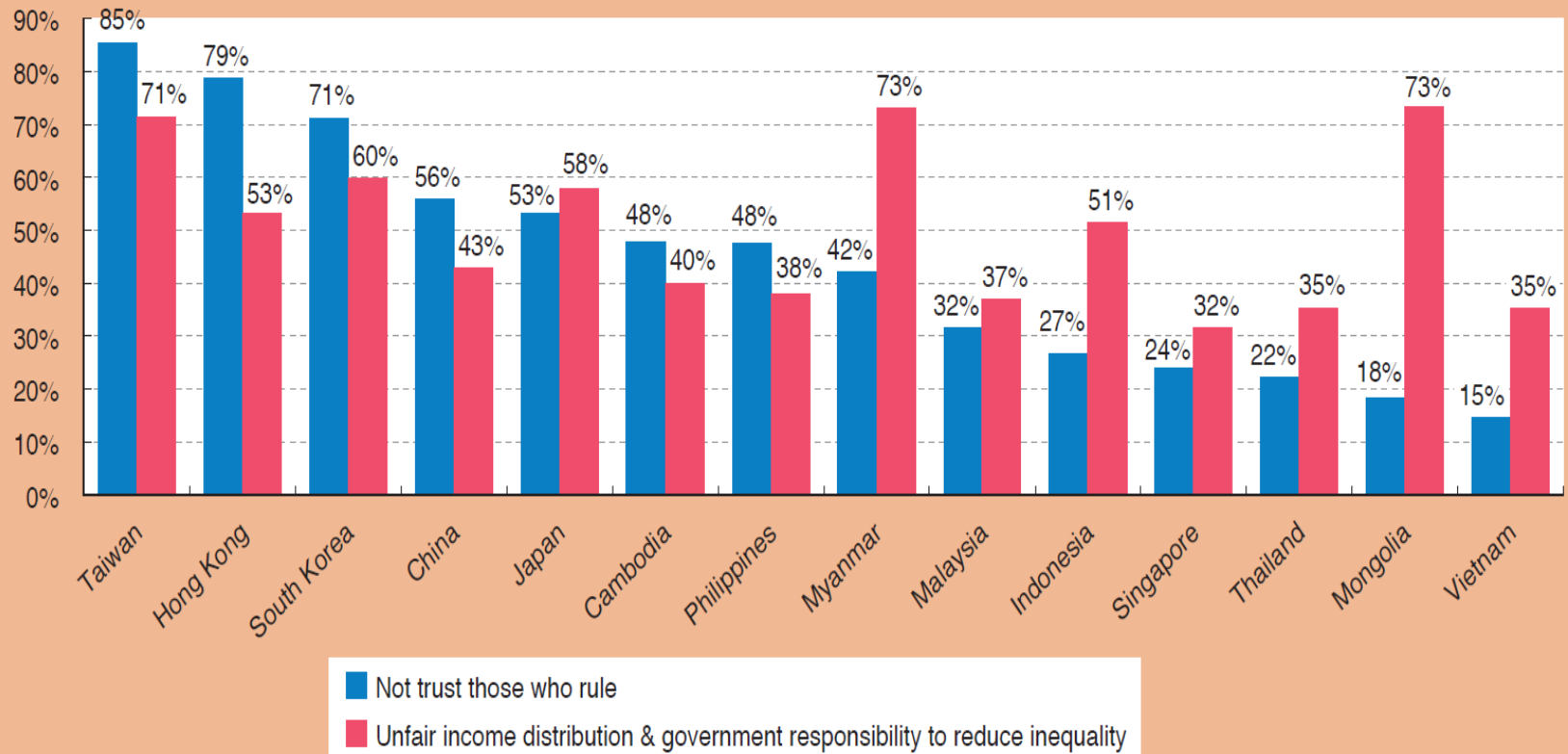
Source: Rodrik, D. (2018b). Populism and the Economics of Globalization. *Journal of International Business Policy*, 1(1-2), 12-33.



Source: Gwynne Dyer: Populism — It's the Automation, Stupid

# Populism takes Asia

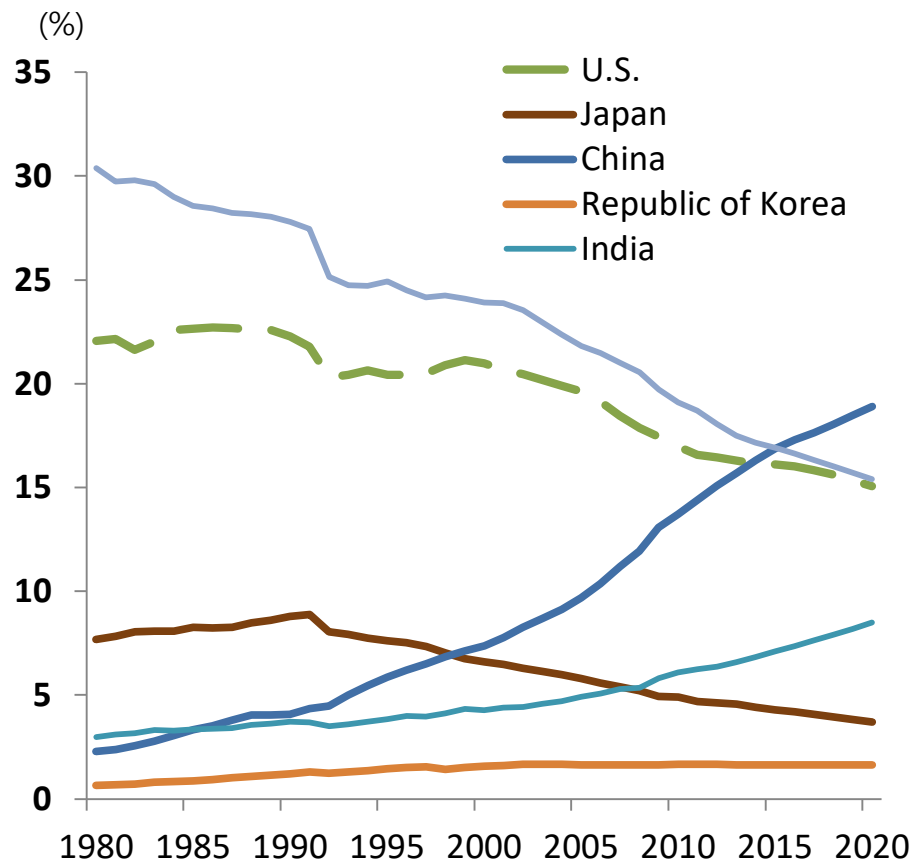
## Populist sentiment & dissatisfaction with income inequality



**Source:** Mark Weatherall, Min-hua Huang, and Tachee Whang, "The Malaise of Globalization in East Asia: Income Inequality, Perceived State Capacity, and Anti-Establishment Attitudes", Korean Journal of International Studies Vol. 16, No. 1 (April 2017: 1-27). Survey data from Asia Barometer Survey Wave 4.

# US-China trade war and Thucydides's trap

## Share of world GDP



Source: IMF World Economic Outlook Database

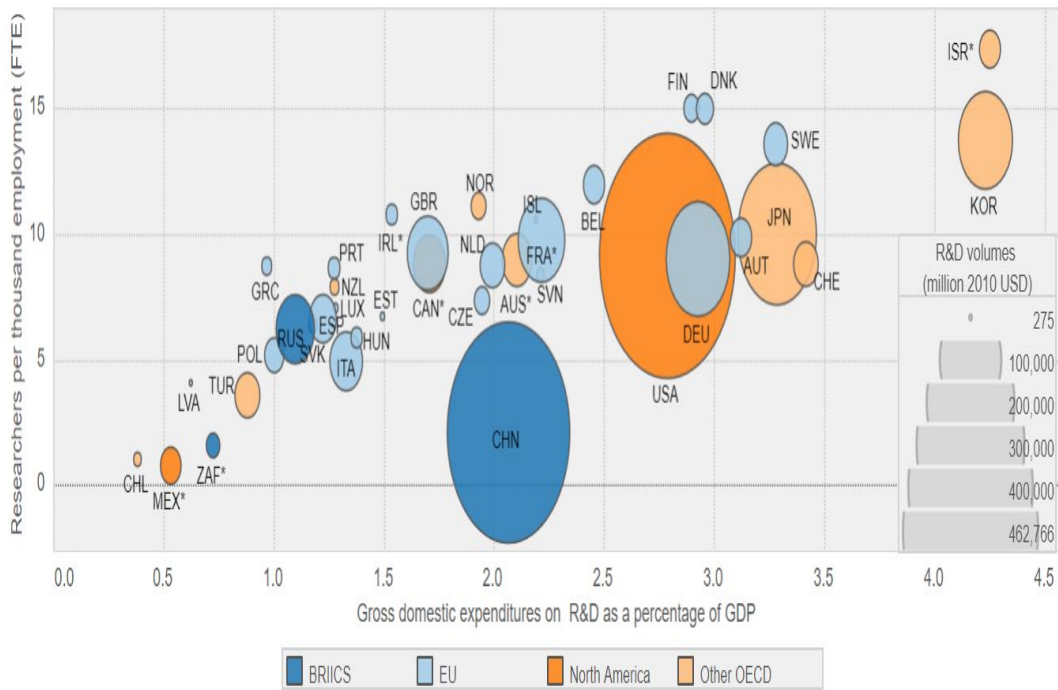
Note: PPP(Purchasing Power Parity)-adjusted current international price



Note: Chinese edition of Graham Allison's book "Destined for War: Can America and China Escape Thucydides's Trap?" is published in January, 2019. [Photo from China.org.cn]

# Can China become a global technology leader?

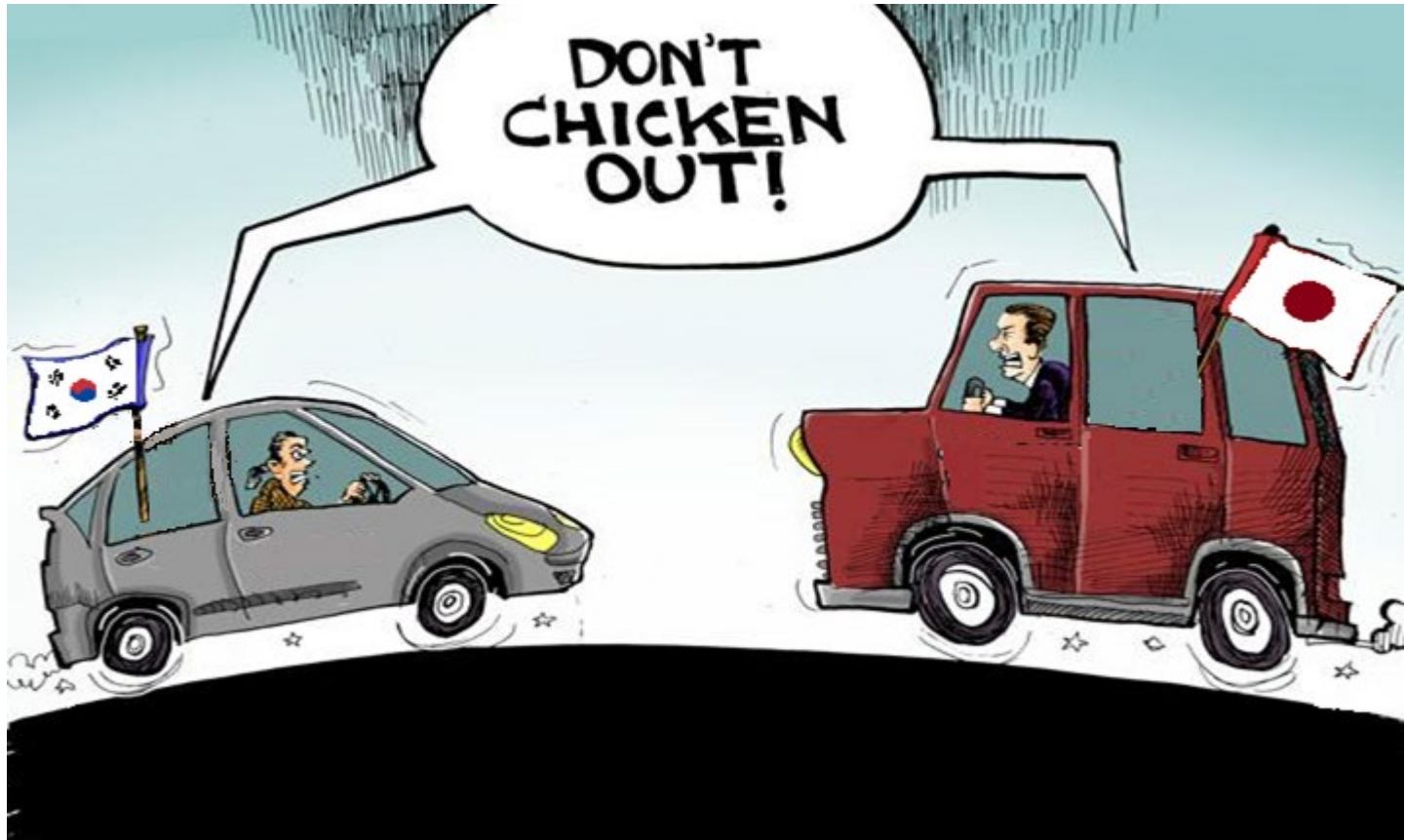
## World R&D spending, 2015



Source: OECD (2017), OECD Science, Technology and Industry Scoreboard 2017: The digital transformation, OECD Publishing, Paris.

Source: Washington post

# *A chicken game between Japan and Korea*



Adapted from: [https://madison.com/wsj/news/opinion/column/phil\\_hands/hands-on-wisconsin-a-dangerous-game-of-chicken/article\\_a9462304-3f77-11e0-856f-001cc4c002e0.html](https://madison.com/wsj/news/opinion/column/phil_hands/hands-on-wisconsin-a-dangerous-game-of-chicken/article_a9462304-3f77-11e0-856f-001cc4c002e0.html)

## *Tit-for-tat retaliations over a year*

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- Korean Supreme Court ordering Mitsubishi Heavy Industries to compensate victims of forced labor during WWII
- Japan tightening export control of three high-tech materials critical to producing semiconductors and display panels in Korea
- Japan pulling Korea from a “white list” of trusted trade partners
- Korea lodging a complaint with the WTO
- Korea removing Japan from its white list of trusted trade partners
- Korea announcing it would not renew the General Security of Military Information Agreement (GSOMIA)
- Koreans boycotting Japanese products.

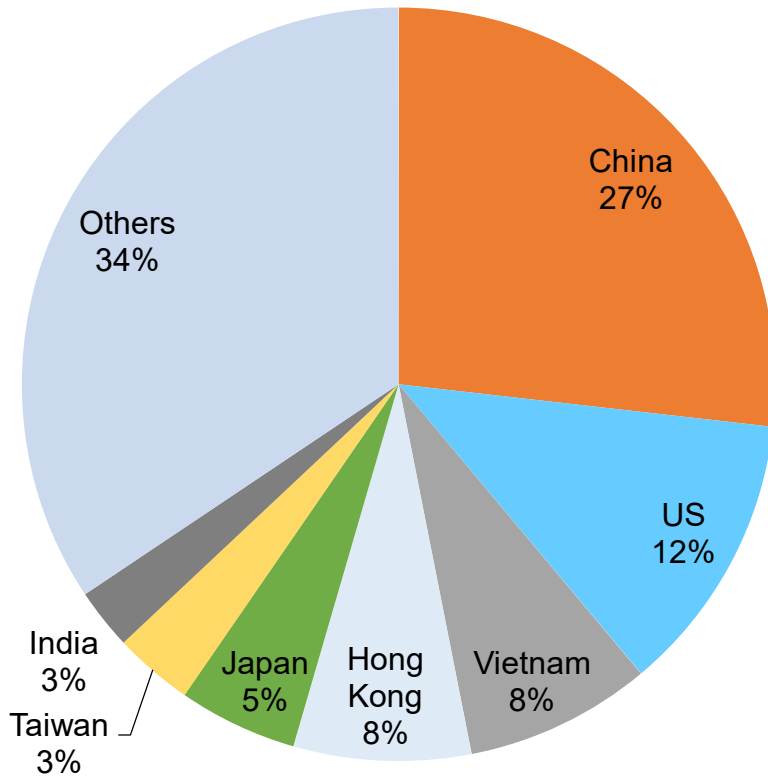
# *Consequences of escalating Japan-Korea feud*

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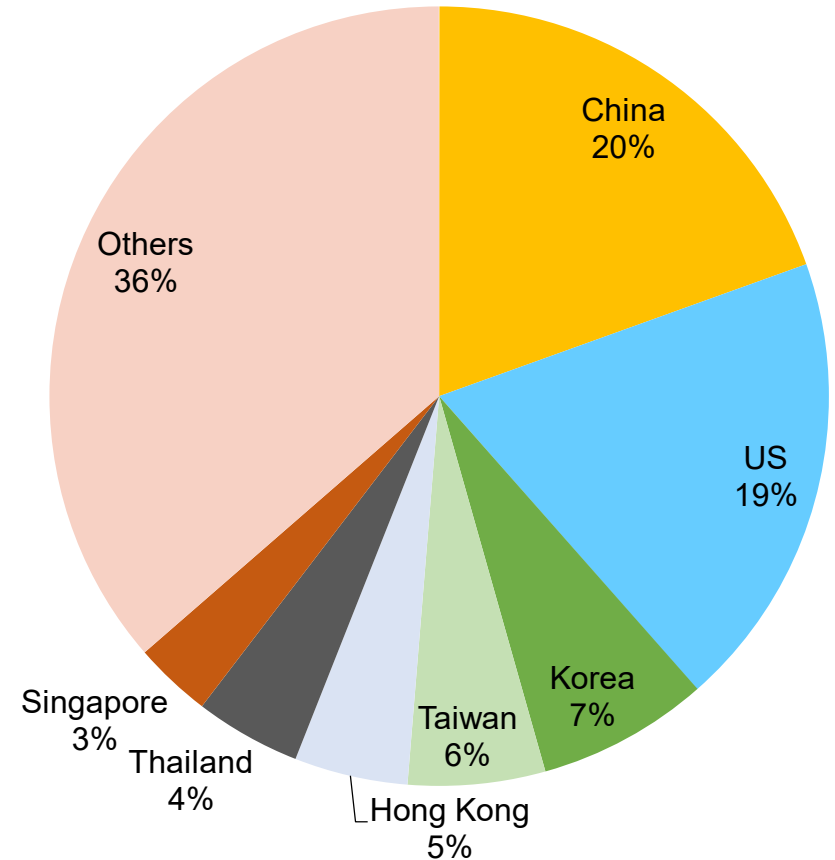
- *Hurting bilateral trade*: Japanese car sales in Korea plummeted by 57% and the number of Korean visitors to Japan dropped by half year on year in August.
- *Threatening global supply chains*: Japan and Korea are the world's fourth- and fifth-largest exporters, respectively, and major players in global tech supply chains.
- *Damaging multilateral trading system*: Japan and Korea, two of the largest beneficiaries of the post-World War II multilateral trading system, can damage it.
- *Increasing geopolitical risk*: The Japan—Korea dispute makes them harder to cope with North Korea's nuclear ambitions.

# Close bilateral trade relation

## Importers of Korean exports (%)



## Importers of Japan exports (%)

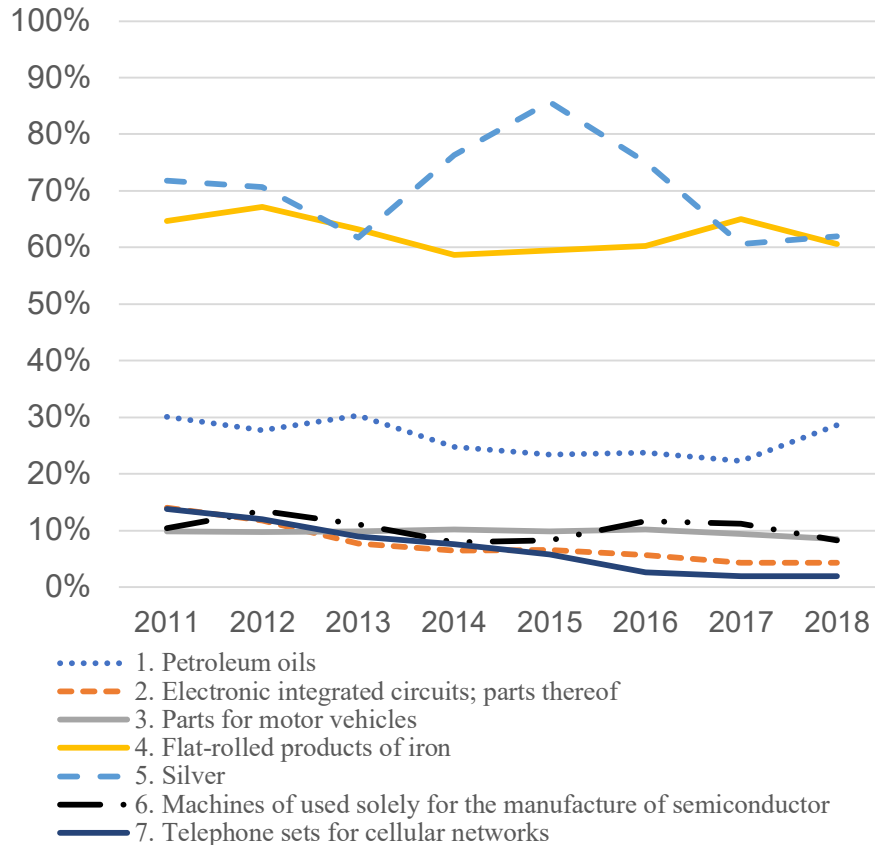


Source: The World Factbook, [Field Listing: Imports – Commodities](#), Central Intelligence Agency. Accessed on January 20, 2019  
<http://www.worldstopexports.com/japans-top-import-partners/>

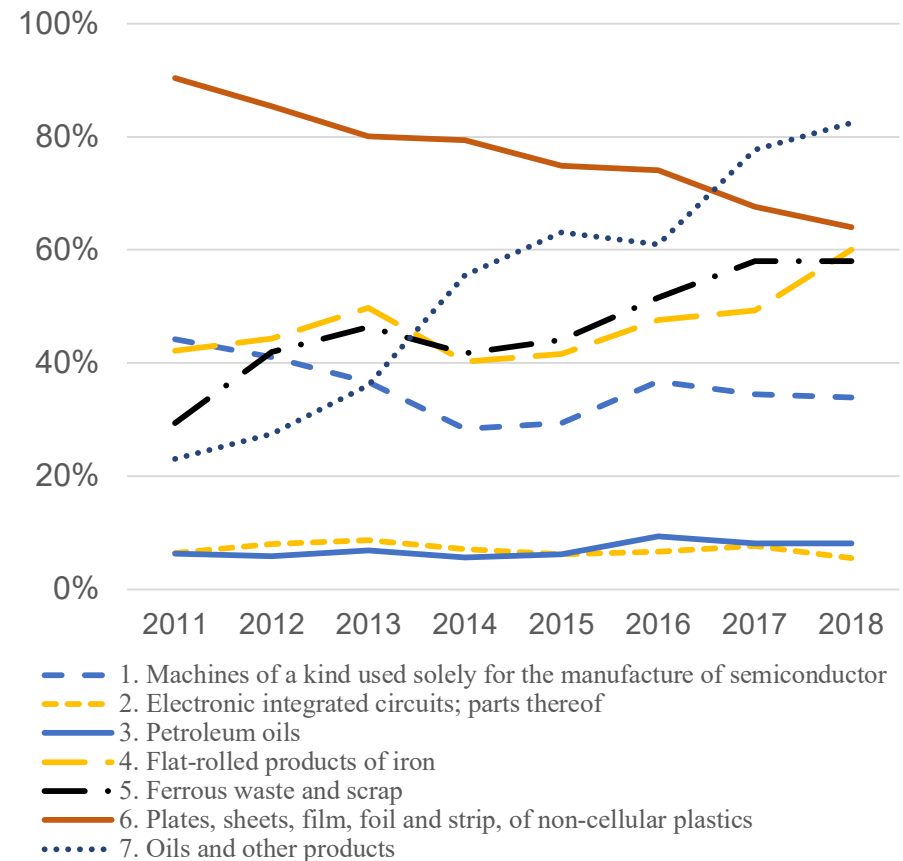
Source: The World Factbook, [Field Listing: Imports – Commodities](#), Central Intelligence Agency. Accessed on January 20, 2019  
<http://www.worldstopexports.com/japans-top-import-partners/>

# Bilateral trade dependence

## Share of Korea's exports to Japan in Japan's total imports



## Share of Japan's exports to Korea in Korea's total imports



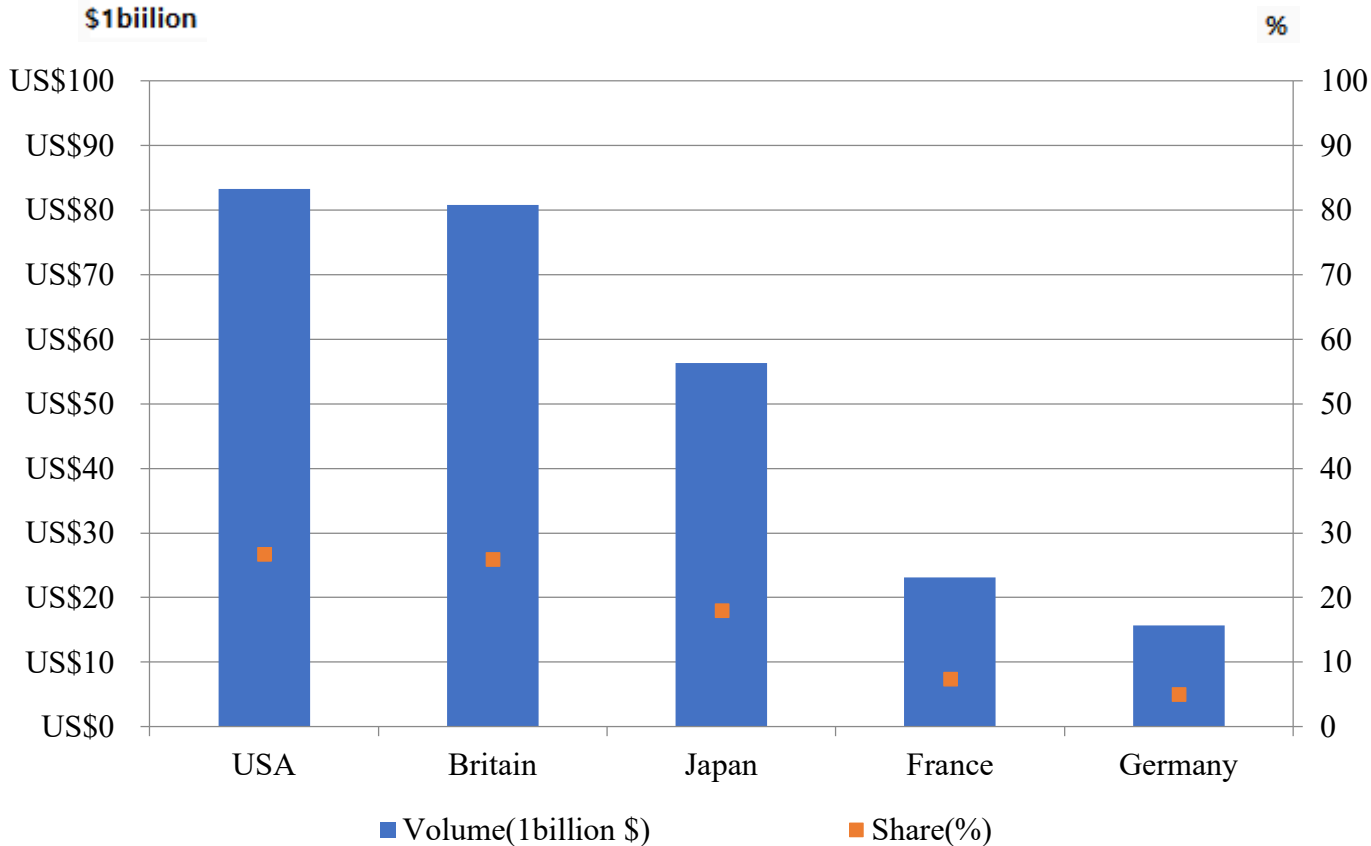
Source: Author's calculation from UN Comtrade Trade competitiveness map 2018,

[https://www.trademap.org/countrymap/Bilateral\\_TS.aspx?nvpm=1%7c392%7c%7c410%7c%7cTOTAL%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1](https://www.trademap.org/countrymap/Bilateral_TS.aspx?nvpm=1%7c392%7c%7c410%7c%7cTOTAL%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c1)

Note: The order of products' list are the rank of volume imported from Korea or Japan. The share is calculated by each volume of Korea's top 7 exporting items to Japan which is divided by the identical items imported by Japan from the world or vice versa. The products are categorized by HS code in 4digits.

# Korea's financial reliance on Japan

## Consolidated positions on Korea, by country

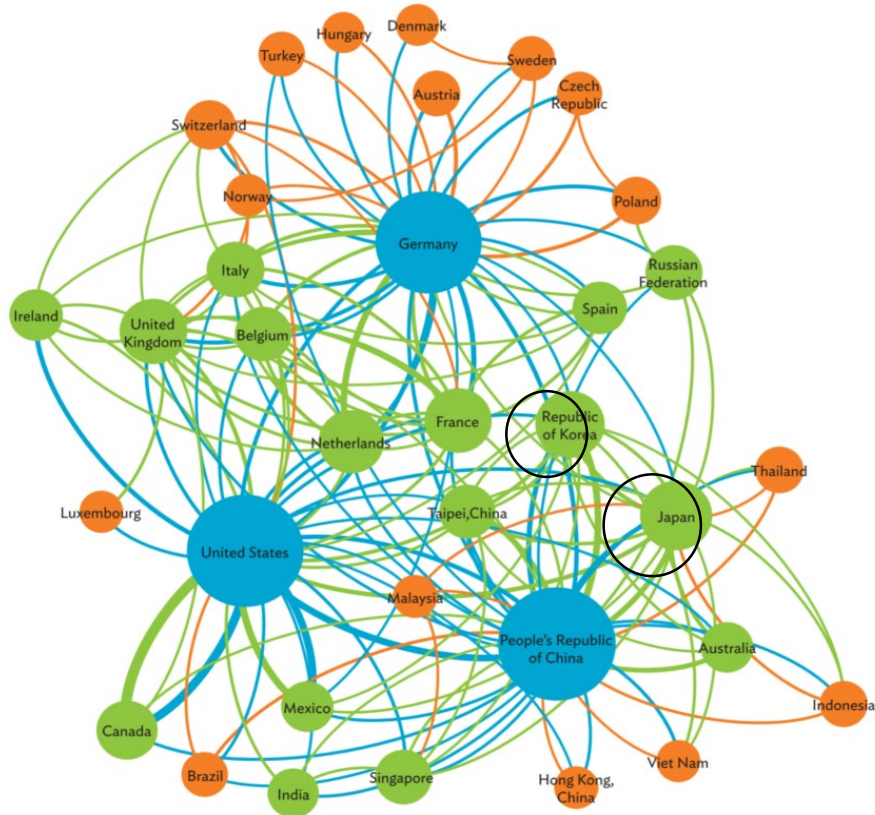


**Source:** BIS, Consolidated positions on residents of Korea (<https://stats.bis.org/statx/srs/table/b4?c=KR&p=20184>)

**Note:** Amounts outstanding / Stocks at end-December 2018, Data are consolidated positions on residents of Korea (banks, non-bank private sector and official sector). They are total claims on an ultimate risk basis.

# Global value chain and spillovers to the world economy

## Global value chain



## Japan's sanction and GVC

Chemical name	Japanese supplier	Korean firms	Major global companies
EUV photo-resists	JSR, TOK, Shinetsu Fuji Film, Sumitomo Chemical	Samsung electronics, SK Hynix, LG display	TV: Sony, Panasonic, Sharp
Hydrogen fluoride	Stella Chemifa, Morita Chemical		PC: HP, Lenovo
Fluorinated polyimide	JSR, Sumitomo Chemical		Smartphones: Apple, Huawei

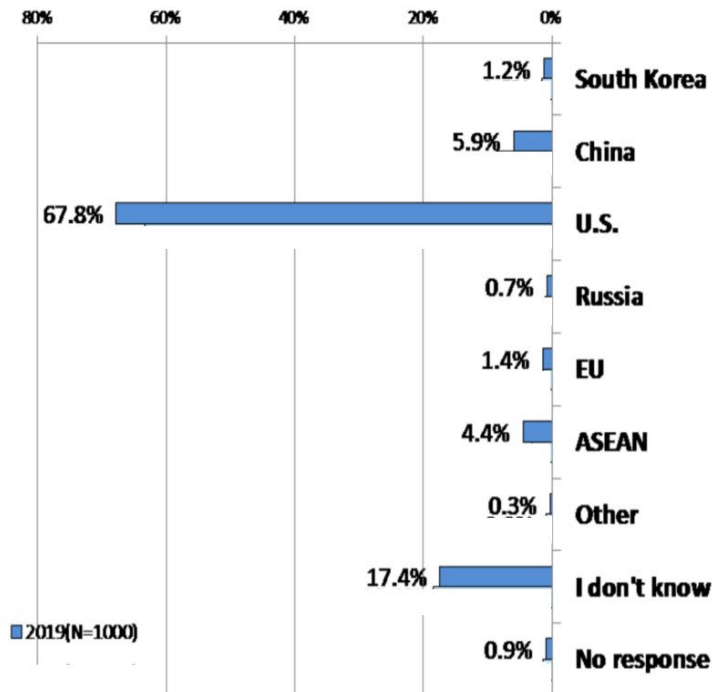
**Source:** The impact of trade conflict on developing Asia, ADB Economic working paper series, 2018. Dec  
**Note:** Chart shows the top 35 economies in the Multiregional Input-Output Table in terms of global value chain (GVC) participation. Node size is based on GVC participation, measured by the sum of backward and forward participation. Blue nodes are the top three economies in terms of GVC participation; green nodes, the next 16; and orange, the following 16. Line thickness indicates the size of bilateral intermediate goods exports, where lines are only shown when these exports exceed \$10 billion. The line color is based on color of source node.

**Source:** KIEP Japanese sanctions on Korea and its prospects, (in Korean) 2019

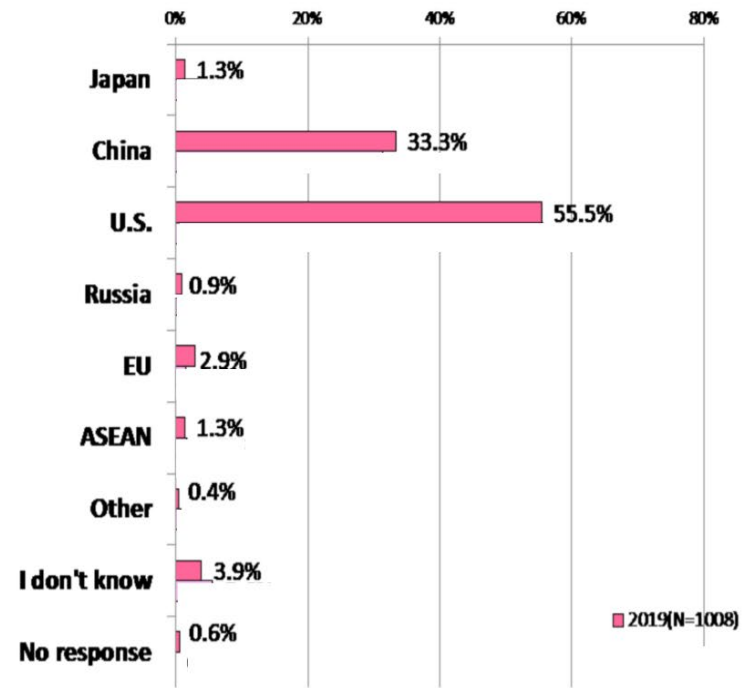
# The role of the U.S. is important

## Countries considered important for my country's future

Japanese Public Opinion



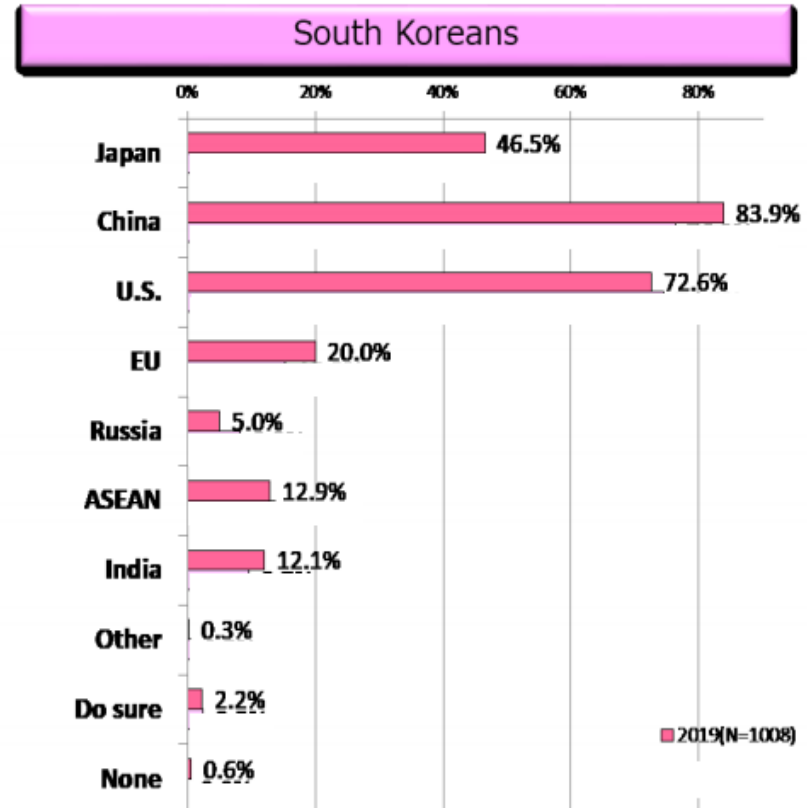
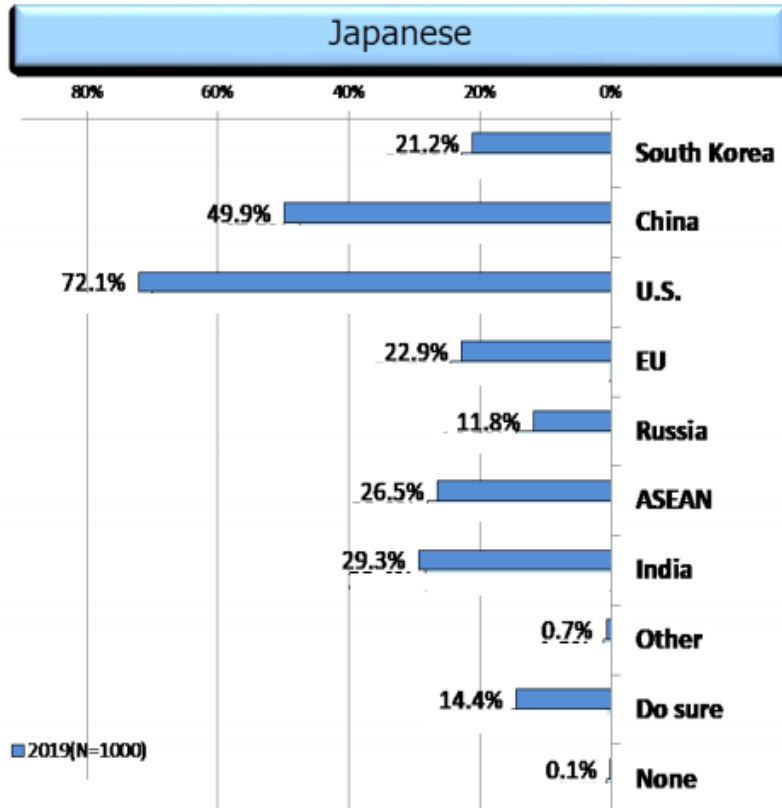
South Korean Public Opinion



Source: The Genron NPO, The Japan-South Korea joint public opinion poll 2019, <http://www.genron-npo.net/en/7th-Japan-South%20KoreaJointOpinionPoll.pdf>

# The role of China is also important

## Economically important countries and regions



Source: The Genron NPO, The Japan-South Korea joint public opinion poll 2019, <http://www.genron-npo.net/en/7th-Japan-South%20KoreaJointOpinionPoll.pdf>

## *Concluding remarks*

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- Regional and global economic uncertainties and geopolitical risks are high.
- The major global traders must exercise self-restraint and find a way to save economic relations with their close trading partners—before it's too late.
- No one will emerge as the winner in a trade war.
- G20 leaders and policymakers must adopt sensible strategies that can mitigate the risk from nationalism and populism and promote stable global economic growth.

*Thank You*

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