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KDI FOCUS | Analysis on critical pending issues of the Korean economy to enhance public understanding of the economy and provide useful policy alternatives.

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The Global Trade Environment in the Biden Era and Response Strategies for Korea

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"Many expect that the trade war between the US and China will persist, and East Asia's global value chains will undergo a significant transformation in the mid- to long-term, as China's contracts while that of ASEAN expands. Accordingly, to effectively respond to the coming changes, Korea should adopt proactive strategies to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and attract quality FDI in an effort to realize sustainable growth."

I. Issues

As Joe Biden finds his footing as the 46th president of the United States, the world's attention has been captured by the coming policy moves of the new administration, especially in terms of trade. Details have yet to be released on President Biden's position on prominent issues such as a re-entry into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and policies toward China. However, fair trade is expected to serve as the backbone, encompassing 1) an adherence to multilateralism and international norms, 2) reinforcement of labor and environmental standards in trade agreements, 3) stronger US-centric global value chains (GVCs), and 4) a continuation of hardline China policies.¹⁾ While Biden is a supporter of free trade through multilateral cooperation and principles, he also believes that the US, and

Biden's trade policies highlight fair trade, which indicates that the US will maintain its hardline stance toward China.

1) Refer to Biden (2020). Fair trade issues were first discussed in the 1980s when the US began negotiating the North American Free Trade Agreement (NAFTA) with Mexico and concerns were raised that Mexico's low labor and environmental standards provide Mexican products with an unfair advantage.

The policies of the new administration could drive the transformation of East Asia's GVCs

not China, should take the reins in setting the new world trade order.²⁾ The President signed a \$700 billion 'Buy American' executive order to bolster domestic manufacturing and strengthen value chains;³⁾ underpinned, in part, by plans to make the US a leading contender in the high-tech race, which includes 5G. Indeed, by embracing universal regulations, and environmental and labor issues, the current trade policy stance stands in stark contrast to that of the prior administration. But, there are also similarities on the matter of China.⁴⁾

The direction of Biden's policies will entail significant changes for East Asia where China, Japan, and Korea are tightly intertwined, particularly in electronics. Taking into account that the region's GVCs are the culmination of three decades of trade and investment, the shift will not be swift. Still, Korea is deeply imbedded in the GVCs in East Asia, and as such, preemptive efforts will be needed to identify and prepare for the coming events. Accordingly, this study intends to analyze the factors of change, and discuss the necessary policy response which should focus on minimizing the potential risks and maximizing opportunities for the Korean economy.

II. Drivers of the Change in East Asia's GVCs

Global exports grew exponentially in the 2000s, marking an annual average growth of 15.6% in 2005-2008.⁵⁾ However, circumstances reversed sharply in 2009 due to the effects of the global financial crisis, with figures plunging to -22.3% followed by years of volatility. Indeed, despite indications of a recovery in 2010-2011, exports drastically fell thereafter, slightly rebounding in 2017 before tumbling again from 2019. The share of trade in global GDP has fluctuated accordingly from 22% in 2005 to 25% in 2008, and back to 22% in 2015.⁶⁾

The decline in global trade has been largely affected by the ebbs and flows in China's import and export growth.⁷⁾ Once known as 'the world's factory,' China spurred the expansion of global trade and GVCs through the 30%-plus growth in its imports and exports in the early 2000s. However, the global financial crisis bought this to a halt in 2007. During the 2006-2019 period, the share of China's exports and imports in GDP plummeted from 29% to 14% and 35% to 17%, respectively.

2) For the Korean economy, whose rapid growth is owed to the benefits from predictable multilateral trade rules, Biden's stance is positive news since it will put an end to Trump's 'America First' policy, and ensure high compliance with multilateral trade agreements that the US has played a leading role in establishing since World War II. It is highly likely that the US in the Biden era will participate in the WTO-driven structural reform efforts, and will also be willing to play a central role in formulating new global trade rules in the fields of Dispute Settlement Understanding (DSU), state-owned enterprise subsidies, and digital trade to respond to the rapidly changing international trade environment.

3) The Buy American Act is aimed at prioritizing domestic products and service that are procured by federal government entities. To revive the growth of US manufacturing and technology firms, Biden promised a \$400 billion federal budget for the purchase of American-made goods and services over the next four years and another \$300 billion for R&D in the fields of 5G, AI, and clean energy. To promote these future technologies, Biden (2020) has recommended that the US, together with its allies, should drive the efforts to develop secure, open private sector-led 5G networks regulated by laws and ethics.

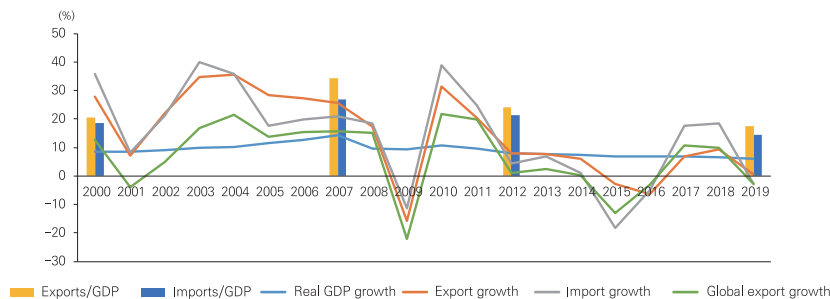
4) Biden (2020) emphasizes the need for new trade rules with higher labor and environmental standards for the protection of middle-class wages and countermeasures to climate change. Biden openly supports the carbon border adjustment mechanism, and thus, is most likely to deepen relevant discussions with the EU, also a supporter of the mechanism. This means that Korea should prepare for possible scenarios. Relevant issues are not covered in this study due to page limitations.

5) This study focuses on goods trade only, meaning that exports here exclude services.

6) Refer to WTO (2016), p.11. Research is currently underway to identify factors behind the rapid fall in global goods trade since 2012. See Hoekman (2015) and Choi *et al.* (2017) for further details.

7) Several factors have been suggested as the cause of the slowdown in global trade, including the global recession, structural changes in global demand, China's rebalancing, changing GVCs, and the spread of protectionism (Hoekman, 2015; Hong *et al.*, 2016; Constantinescu *et al.*, 2020), but Hong *et al.* (2016) pointed to the decline in China's import growth.

[Figure 1] Changes in China's Imports, Exports, and GDP



Source: Website data on China: World Bank for GDP, Korea International Trade Association for imports and exports, IMF for real GDP growth; UNCTAD for global export growth (last access: Nov. 30, 2020).

Accordingly, while it is still too early to conclude that this setback will persist, some project that China's share of the GVCs in East Asia will shrink.⁸⁾ Specifically, a realignment in China's growth strategy will lead to a trade depression, particularly in the import of intermediate goods and export of finished goods, which will, in turn, reduce its share of the region's GVCs. Moreover, the CPTPP, which entered into force without China, could create a new form of GVCs in East Asia that includes ASEAN by prompting a trade diversion. This will allow China's import and export of immediate goods to be replaced by those of other countries. The ongoing US-China trade disputes could spur on this "evolution" as China's presence in trade weakens, especially in future technologies such as 5G and AI.

It is too early to tell if China's trade will remain sluggish. But, from a mid-to long-term perspective, East Asia's GVCs will likely undergo some change due to China's trade depression and diversion.

1. Changes in China's Growth Strategy

Much like Korea, China's rapid growth was driven by the manufacturing-led processing trade. Upon joining the WTO in 2001, China was quickly incorporated into GVCs as they expanded and deepened which significantly bolstered its economic growth. However, the global financial crisis in 2007 forced China to redirect the focus of its growth strategy from exports to domestic demand. Making matters worse was that, in addition to this rebalancing, China chose to increase its onshoring which served to further slacken its import growth.

Statistics confirm that the shares of domestic consumption and local production (capital and intermediate goods) in China are indeed increasing. According to MGI (2019)'s analysis of the World Input-Output Tables (WIOT), China's export of locally produced goods fell from 17% in 2007 to a mere 9% in 2017, which is similar to the US but far below Germany (34%), Korea (28%), and Japan (14%). Meanwhile, Choi *et al.* (2017)'s analysis found that China's consumption of locally finished goods dropped from 88.8% in 2001 to 79.9% in 2006 due to its participation in GVCs, and then bounced back to 88.5% in 2014. In terms of gross fixed capital formation, spending on domestic products posted a sharp increase from 86.1% in 2004 to 94.6% in 2014. In all, these structural changes in the Chinese economy are factors that reduce China's trade and its share of East Asia's GVCs.

Statistics confirm the structural changes in China which could diminish its share of East Asia's GVCs.

8) Refer to MGI (2019; 2020).

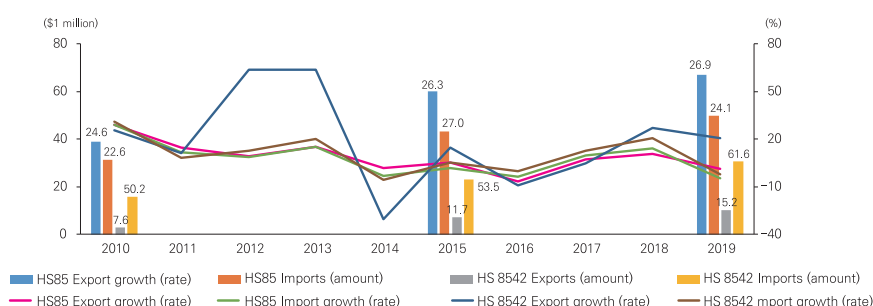
2. Conflict between the US and China

The US strategy of remodelling GVCs around itself, particularly in future technologies like 5G and AI, will likely have a huge impact on East Asia's GVCs, especially in the electric/electronic industry which accounts for 25% of China's imports and exports.

While it remains to be seen whether the tariffs imposed on China by the previous administration are lifted, it is highly likely that President Biden will readdress certain issues that were not dealt with by his predecessor, such as the violation of intellectual property rights, including technology theft, and problems over subsidizing state-owned enterprises. The subsidy issue, in particular, could draw out tensions between the two parties as it is directly tied to the Chinese economy itself. Emerging technologies will also continue to serve as a source of contention. It is expected that Biden will reach out to allies such as Korea for their participation in the expansion of US-centric GVCs in a move to break new ground in key areas of future technologies such as essential health, 5G, and AI.⁹⁾

The trade dispute between the US and China will have a hand in reshaping the GVCs in East Asia through the depression and diversion of China's trade. The Biden administration's plans to take a central role in 5G infrastructure will most probably impede its exports to the US, particularly that of electric/electronic devices. A protraction of such conditions could result in a mass exodus of foreign tech companies from China, and a fall in its import and export of immediate goods for the electric/electronics industry as it ramps up domestic production. The opposite (in import/export) would be true for countries like Vietnam if China's outward FDI finds its way to ASEAN. In 2019, electric/electronic products (HS 85) accounted for 25% of China's total imports and exports while electronic integrated circuits (HS 8542) accounted for over 50% of imports (Figure 2). Under the circumstances, a shift in East Asia's GVCs in this industry will have huge consequences for both the global and Korean economies.

[Figure 2] Changes in the Import and Export of China's Electric/Electronics Products (HS 85)



Note: 1) HS 85: electric/electronic products, HS 8542: electronic integrated circuits.

2) Figures above the bar graphs are the share (%) of HS 85 exports (imports) in China's total exports (imports) and that of HS 8542 exports (imports) in HS 85 exports (imports)

Source: Korea International Trade Association (<https://stat.kita.net/stat/istat/cts/CtsWholeList.screen>, last access: Nov. 30, 2020).

3. CPTPP

The CPTPP is yet another factor that could drive the changes in East Asia's GVCs. Led by Japan following the withdrawal of the US from the Trans-Pacific Partnership (TPP) in January 2017, the CPTPP entered into force at the end of December 2018.¹⁰⁾ While some of the original provisions

9) Refer to Biden (2020).

10) Trans-Pacific Strategic Economic Partnership (TPP) was established and signed by 12 countries in February 2016.

have been suspended, the fundamentals of the CPTPP remain unchanged from the TPP.¹¹⁾ The TPP was an initiative that was spearheaded by the Obama administration which sought to establish new global trade rules and keep China in check. It was comprised of thirty chapters, and adopted new provisions including the rules of origin and subsidies for state-owned enterprises and fisheries.

The CPTPP maintains the rules of origin, and therefore, member countries that produce any intermediate good are also considered the country of origin. Given that the provision is aimed at revitalizing the region's investment and intermediate goods trade, it is highly likely that new GVCs will emerge that center around Japan and ASEAN members like Vietnam. The potential for the agreement to breath new life into the region's GVCs will be further enhanced if the US rejoins.

The CPTPP's rules of origin could change the GVCs in East Asia via the trade diversion effect.

III. Korea's Policy Response

For the highly trade-dependent Korean economy, the evolving landscape will present not only opportunities but also risks. Indeed, China's shrinking share of East Asia's GVCs could have negative ramifications for Korea's key industries, such as electric/electronics, chemicals, and auto parts, in terms of export and growth. On the other hand, ASEAN-led GVCs could also be beneficial. To take advantage of the potential opportunities, Korea's response should be focused on expanding the export of intermediate goods and FDIs to increase its share of new GVCs. From an external perspective, firms should be provided with support to enable them to cultivate new export markets to replace China, and to attract more FDIs. Internally, firms should be incentivized to improve productivity and find new growth engines. To that end, this study presents the following two recommendations.

1. Joining the CPTPP

Becoming a member of the CPTPP could be a very effective policy for Korea to lessen its dependence on China and broaden the trade landscape. Under the current conditions, entering the CPTPP will accelerate the diversification of Korea's export markets.¹²⁾ If the CPTPP's high market openness and rules of origin are properly utilized to integrate into East Asia's GVCs, it could bolster exports, especially for SMEs. The expected benefits of joining the CPTPP could also serve to motivate manufacturing SMEs into improving their productivity.¹³⁾ However, some contentious issues remain in regard to Korea's membership. Of these, this study will examine and evaluate market openness, state-owned enterprises, and fisheries subsidies.

Firstly, there are concerns over the level of market openness under the CPTPP. The agreed-upon level of trade liberalization demands, among others, significant tariff eliminations—

11) A total of 22 provisions were "suspended" from the original, such as intellectual property rights, data protection for new pharmaceuticals and biologics, patent term extension, ISDS, labor rights and environment standards, etc. which the US supported but others opposed.

12) Refer to Schott and Cimino-Isaacs (2014), Schott (2015), and Song (2020a) for further insights as to why Korea should join TPP(CPTPP).

13) Song (2020b) compared the contribution of trade to the productivity of the trade and non-trade industry and found that the surge in trade in the 2000s caused an increase in productivity of companies in the trade industry.

specifically, 95-100%—that must be implemented immediately or during a maximum period of 30 years. Nine signatories agreed to completely remove the tariffs on industrial products in the short- to long-term, with the exception of a few products for Australia (99.8%) and Mexico (99.6%). But, while the level of liberalization under the CPTPP is high, it is similar to that of Korea's current FTAs, and as such, the negative impact for Korea will be limited; Mexico is the only state without a FTA with Korea. Take for example, agriculture, which could be a sensitive area for Korea. In agriculture, the average trade liberalization rate of the FTAs entered into force between Korea and CPTPP members is 78.4%. This is higher than Japan's 76.2% tariff elimination under the CPTPP.¹⁴⁾ From this perspective, there is ample grounds for Korea to push through certain sensitive aspects during the negotiation process to become a member.

Secondly, there are concerns that the CPTPP's mandatory provisions in relation to state-owned enterprises could restrict the role of policy financing that is issued by Korea Development Bank (KDB), among others. To ensure a level playing field in the market, Chapter 17 mandates that state-owned enterprises and designated monopolies shall not receive discriminatory treatment and non-commercial considerations, except to fulfil any terms of their public service missions. However, exceptions are made on a temporary basis for national and global economic emergencies (Article 17.13.1), and there are no restrictions on the establishment/preservation of state-owned enterprises or designation of monopolies (Article 17.2.9). Additionally, not only is the clause on state-owned enterprises and designated monopolies similar to that under the Korea-US FTA (Article 16. Competition-related Matters), the matter of policy loans for manufacturing firms is also covered by the WTO Agreement on Subsidies and Countervailing Measures (ASCM). The Korea-US FTA (2012), though not as detailed as the CPTPP, already mandates non-discriminatory commercial considerations and treatment to designated monopolies (Article 16.2.1) and state-owned enterprises (Article 16.3.1). Thus, again, the impact of this on Korea will be minimal.

Thirdly, the CPTPP's tougher regulations on fisheries subsidies has prompted uneasiness over a possible cutback in such allowances as tax-free fuel. For the protection of the marine environment, Chapter 20 proscribes subsidies for illegal, unreported and unregulated (IUU) fishing, or for fishing that negatively affects fish stocks that are in overfished condition (Article 20.16.5). However, a grace period of a maximum of three years after the date of entry into force of the agreement is offered to help Parties prepare for and avoid confusion (Article 20.16.6). Moreover, fuel subsidies do not fall within the bounds of the ban (20.16.11).

In all, joining the CPTPP is not only an effective policy option to lower Korea's dependence on China and expand trade, it can also contribute to enhancing the productivity of manufacturing firms, particularly SMEs. If Korea were to be excluded from the agreement, there may be mid- to long-term repercussions that include being put in a disadvantageous position in terms of the competition with Japan, especially in the export of intermediate goods. Since the CPTPP evolved from the TPP, it is possible that the Biden administration will rejoin the agreement in an effort to contain China.¹⁵⁾ If the US does return to the fold, the potential benefits for Korea will

14) The tariff liberalization rate of the recently signed Regional Comprehensive Economic Partnership (RCEP) is not included in the average rate of existing FTAs. Refer to Moon *et al.* (2018).

15) Biden (2020) argues that the norms of the digital age should not be written by China or Russia. He emphasized that the US should take the lead in establishing new global trade norms for labor, environment, transparency, and protection of middle-class wages through new trade negotiations. Biden (2016) is a strong supporter of the TPP.

Concerns over sensitive issues related to the CPTPP, such as market openness, policy loans, and fisheries subsidies are largely based on weak arguments.

be much bigger. As examined above, the concerns over sensitive issues related to the CPTPP are mostly based on weak arguments. Rather, becoming a member could lay the groundwork for institutional and policy reform. This is because it can serve as an opportunity to redress inappropriate public-sector practices, such as inefficient investment and subsidy delivery systems. For instance, support for state-owned enterprises should not hinder fair competition with private enterprises, and fisheries subsidies must be managed in a way that prevents overfishing.

Although China recently expressed an interest in the CPTPP, abiding by many of the provisions will prove difficult. Notwithstanding these challenges, China may decide to start negotiations that will likely come to a standstill for some time. All of these possibilities—China's participation, Korea's exclusion, and the possible costs for Korea's exports—suggest that Korea should at least join the CPTPP before China.

The longer Korea remains a non-member of the CPTPP, the bigger the decline will be in its exports. Accordingly, Korea must at least join the agreement before China.

2. Active Pursuit of Policies that Attract Quality FDI

The outlook for Korea's exports, the driving force of the economy, is being challenged by the possible transformation of East Asia's GVCs. Hence, to safely navigate through the pending uncertainties, Korea must equip itself with policy measures that can compensate for its heavy reliance on trade. The economic benefits of quality FDIs cannot be denied. FDI has already played a significant role in driving China's economic growth, and thus, more serious considerations are needed to estimate what it could do for the Korean economy. Indeed, attracting FDIs will enable Korea to maintain an inflow of investment necessary for sustainable growth, and to broaden its share of new GVCs.

Attracting prime FDIs can serve as an effective policy to raise the investment necessary for sustainable growth.

However, although sincere actions have been taken by the Korean government to attract quality FDI, they have been to no avail.¹⁶⁾ Investors are motivated by a country's market size and its institutional and policy stability. As such, the focus must be placed on expanding market size through additional economic integrations and improving the stability of domestic systems and policies.

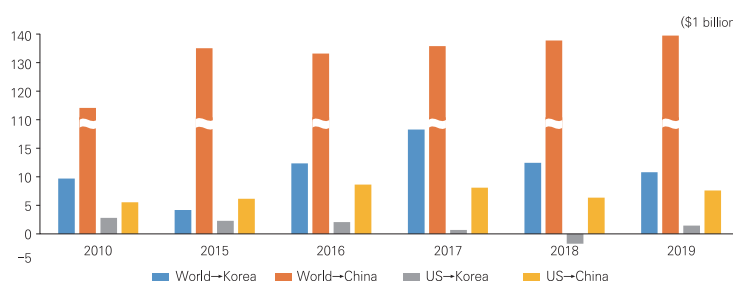
There is no doubt that the trade war between the US and China will endure, which will, in turn, weaken the management of foreign multinational firms operating in China. This could serve as a good opportunity for Korea to attract some of the China-bound FDIs due to the following reasons. Firstly, the ongoing trade tension and CPTPP benefits could prompt foreign multinational firms in China into considering a move to another country, or at least, seek to diversify their supply chains. In fact, according to MGI (2020)'s survey of 60 global CEOs, 93% are planning to increase the flexibility of their supply networks while 53% are planning to diversify their supply portfolios. Secondly, despite the motivation to relocate from China, firms still view China as a lucrative market, as shown by the surge in US FDIs in China from \$6.2 billion in 2018 to \$7.5 billion in 2019. This shows the dilemma faced by firms in retreating from China even with the trade conflict (Figure 3). In other words, China has become a double-edged sword for major multinational companies in that it is an essential component but also a destabilizing force

The US-China trade war presents Korea with an opportunity to attract more high-quality FDIs.

16) Based on his evaluation of the Special Economic Zone policy, Korea's representative policy for attracting FDIs, Song (2014) concluded that its goal of attracting quality FDI is far from being achieved.

in terms of FDI. Accordingly, Korea could implement policies to draw in FDIs headed for China. For example, Korea could speed up the tariff elimination process under the Korea-China FTA which will increase opportunities for foreign firms operating in Korea to export to the Chinese market.

[Figure 3] Amount of FDI Arrivals: Korea vs. China



Note: Figures for World→Korea, World→China are from UNCTAD's FDI data. Figures for US→Korea, US→China are from US BEA's Direct Investment Abroad.

Source: UNCTAD Foreign direct investment (<https://unctadstat.unctad.org/EN/BulkDownload.html>, last access: Nov. 30, 2020; BEA U.S. Direct Investment Abroad, Financial transactions without current-cost adjustment (<https://www.bea.gov/international/di1usdbal>, last access: Nov. 30, 2020).

To take advantage of this opportunity, concession schedules in the Korea-China FTA should be pushed up.

In the Korea-China FTA, the share of products subject to a five-plus-year tariff phase-out is relatively high in most industries.

The Korea-China FTA entered into force in December 2015 after 14 rounds of negotiations that started in 2012; follow-up negotiations on service and investment are still underway. Nevertheless, the pace and scope of the zero-tariff treatment has not reached the level of Korea's other FTAs with major partners including the US and EU. Under these agreements, the proportion of products subject to long-term tariff elimination (10+ years), and exclusion from concessions is 2% which vastly differs from the 21% under the FTA with China. In addition, the Korea-China FTA has a relatively high proportion of items subject to a five-plus-year tariff phase-out across industrial sectors. If this schedule can be expedited, it will generate more export opportunities in the short-term.

<Table 1> Share of Items with a 5-plus-year Concession Period in the Korea—China FTA

(%)

Tariffs	Agricultural goods	Textiles	Chemicals	Electric/electronics	Transport	Others
Korea	79.9	60.4	12.1	30.8	66.1	26.7
China	77.2	56.5	31.4	61.7	83.4	60.5

Note: Codes of above items: agricultural produce (Section 01-04), textile (Section 11), chemical (Section 06), electric-electronic (Section 16) and transport (Section 17).

Source: By author using the schedule of tariff commitments under the Korea-China FTA (<http://www.fta.go.kr/main/>, last access: Nov. 30, 2020).

Joining the CPTPP is another effective policy to attract quality FDIs.

The premise to start negotiations to accelerate concession schedules are laid out in Articles 2.4.2 and 2.16 of the Korea-China FTA. As such, if these provisions are used to move tariff eliminations forward, it could drive the integration of the two markets, and Korea can overcome its competitive disadvantage in market size and raise its appeal as a FDI destination. There are concerns that such endeavors could intensify Korea's dependence on China. However, any policy that suppresses trade with China to gain greater autonomy could rob Korea of the opportunities that the growth of the Chinese economy presents. Rather, measures must be

sought to diversify trade partners. From this perspective, the CPTPP can substantially contribute to attracting FDIs. The agreement ensures fast and broad trade liberalization, and provides Korea with access to other members. Joining the CPTPP and speeding up the concession schedule could lead to an emergence of new GVCs that connect China and member countries, starting with Korea. Moreover, because Korea has FTAs with both China and the US, strategies could be considered to build a link between the three countries and place Korea at the center.

Granting the fact that Korea lags behind China in terms of FDI, it has comparatively more stability in its policies and systems, which are essential elements for FDI-based foreign firms. Accordingly, Korea must strengthen the expertise of workers managing FDI inflows, and reform the currently fragmented FDI management system and rigid support programs as suggested in Song (2014). Additionally, for the success of the recent 'Korean New Deal' initiative, efforts must be made to foster competent firms in relevant fields which will need a strategy to attract prime FDIs.

IV. Conclusion

Biden's election win is welcome news for the Korean economy. However, the expected changes in East Asia's GVCs in the mid- to long-term are clouding the outlook for Korea's exports. To contend with the coming challenges, this study suggests joining the CPTPP and attracting quality FDI. Korea needs trade policies that can take advantage of the changing world trade environment, especially those that can create opportunities from the emergence of new GVCs in East Asia.

Both policy recommendations bolster Korea's trade liberalization which aims to enhance the productivity of the overall economy by increasing the productivity of the trade industry. This is achieved through the improved productivity of existing firms and exit of low value-added firms. An expansion in imports and exports that is led by trade liberalization policies could brighten the business outlook of the trade industry and encourage more firms to reinforce their productivity. To that end, future policies on trade liberalization should be designed to drive the improvements in the productivity of surviving firms as well as the exit of unproductive firms.¹⁷⁾

Trade liberalization entails structural changes across the industrial landscape, and in this process, incompetent firms are inevitably pushed out. Although there are concerns over increasing imports in some areas of industry after Korea joins the CPTPP, the exit of unproductive firms is imperative in promoting overall productivity. However, there are also social costs, including unemployment, which require welfare policies, such as Korea's Trade Adjustment Assistance and Public-purpose Direct Payment System. To maximize the positive effects of market exits and minimize the negative impact on society, the emphasis of Korea's trade adjustment assistance should shift away from support for firms towards support for workers. This should be done instead of easing the level of trade liberalization. Constant efforts are also needed to improve the effectiveness of retraining programs (Song, 2020b). With respect to agricultural issues, such as the imbalance in supply and demand, measures must be sought

A strategy to attract quality FDI is needed to drive the success of the 'Korean New Deal' initiative.

From an economic policy perspective, the ultimate goal of trade liberalization is to improve the productivity of the overall economy which can be achieved through trade agreements such as the CPTPP.

The fallout from firms exits due to the high level of trade liberalization should be not countered with trade policy, but with welfare policy.

The emphasis of trade adjustment assistance should be placed on supporting workers. Meanwhile, agricultural policy should focus on preserving the income of farmers and strengthening

17) Song (2020b) pointed out that enhancing economic productivity needs to be considered as an essential goal of trade liberalization policy. To this end, he suggests that future measures be designed in a way that improves the productivity of surviving firms and induce the exit of low value-added firms.

their competence through
a public-purpose direct
payment system.

in agricultural policy to secure the income of farmers and upgrade their competency through a successful implementation of a public-purpose direct payment system.¹⁸⁾

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18) Refer to Lee (2019) for details on innovative growth in agriculture through the establishment of a public-purpose direct payment system.