

Abstract

The Impact of Strengthening Protectionism by the U.S. on Korean Industry

Soo-Dong Kim et al.

sdkim@kiet.re.kr

The basic nature of protectionism originating from the United States needs to be reviewed at the industrial level. The impact of protectionism and countermeasures should be studied by industry. In order to expand and revitalize trade with the U.S. we will look at a series of trade measures under protectionism and analyze the impact of protectionism through various methodologies. We also use the results of past case studies of trade remedy in order to develop countermeasures and review domestic trade remedy-related systems.

First, in chapters 2 and 3, we will review changes in the global trade environment and major trade issues and compare trade policies between the U.S. and Korea. We also establish the definition, the development process, and the main means of protectionism. It will be investigated the current situation of protectionism trend underway with the U.S. against the Korea.

In the 20-year period from July 1999 to June 2019, the U.S. invoked a total of 8,589 protectionist measures on Korean products. If we look at them by measures, there are 2,963 cases of animal and plant sanitary quarantine, 4,443 cases of technical barriers to trade, 43 cases of anti-dumping, 16 cases of countervailing duty, 973 cases of special safeguard, 10 cases of safeguard and 141 cases of quantitative restrictions.

In Chapter 4, we look into trends in exports and imports, investment and service trade of two countries. Next, the average effect of U.S. protectionism on Korean industries appearing in the form of tariff increase will be analyzed empirically. Specifically, we estimate export decline in the U.S. market due to the protectionist measures by seven major industries. Based on the estimated results, an input-output analysis is carried out to examine the impact on domestic production, value-added and employment.

According to the analysis in Safeguard Scenario 1, the export decline of the automobile industry is estimated to be at \$2.37 billion, the consumer electronics industry at \$230 million, the petrochemical industry at \$40 million, the steel industry at \$180 million, the machinery industry at \$660 million and the textile industry at \$7 million. Then estimated total export decrease is about \$3.49 billion

per year.

In the scenario of assuming tariff levels prior to the Korea-U.S. FTA talks, the automobile industry's export decline is estimated at \$0.48 billion, the consumer electronics industry at \$79 million, the ICT industry at \$0.15 billion and the petrochemical industry at \$49 million. The machinery and textile industries are estimated to suffer export decline of \$116 and \$58 million respectively. It is estimated that total export fall is about \$961 million.

Export declines due to the tariff-return including direct investment export decrease are estimated at \$0.57 billion for the auto industry, \$0.13 billion for the consumer electronics industry, \$0.17 billion for the ICT industry, \$0.16 billion for the petrochemical industry, \$77 million for the steel industry, \$0.17 billion for machinery industry and \$60 million for textile industry. Then the total export decline is about \$1.34 billion per year.

Chapter 5 presents an overview of the recent major cases of U.S. protectionist measures against Korea. It also provides arguments from both sides, ruling result, dispute settlement processes and implications. An intensive analysis is conducted in five cases with large ripple effects and implications.

With the recent surge in anti-dumping and countervailing duty measures in the U.S. steel industry, the U.S. Department of Commerce's anti-dumping investigation has raised many new issues due to the complexity of investigation methodology (or investigation practice) from each anti-dumping investigation. In order for Korean steel companies to respond to the U.S. anti-dumping investigation, they need to study the methods of the U.S. anti-dumping investigation and related information through experts.

And the U.S. Department of Commerce has been mostly accepting claims about the existence of "special market conditions" by the U.S. complainant in its recent anti-dumping probe on Korean products. Through close cooperation and information sharing among the steel companies in Korea, it is imperative to respond more actively to these issues.

Issue linked to related companies is a very important part of the anti-dumping investigation process in relation to sales and purchases. So considering the recent aggressive behavior of the U.S. Department of Commerce and the complainant, it is necessary for the Korean companies to minimize the risk of anti-dumping investigations by answering more actively.

In Chapter 6, we conducted a survey of 500 companies on the concept and type of protectionism, type and size of damage from trade, the effectiveness of policy support measures, and the measures of self-help efforts. According to the results

of a detailed survey of companies that experienced trade protectionism directly and indirectly, the majority of respondents say that the "expanding tax and financial support" policy would be effective. It is shown that the policies related to trade remedies such as "strengthening trade remedies such as anti-dumping investigations", "tougher penalties for importers violating laws", and "resolution of civil complaints through trade relief support centers" are also effective.

A survey of priorities of what should be pursued in the industry on self-rescue measures to minimize trade damage caused by protectionism shows that the effort of "raising value-added of products through the technology development and quality improvement" is the most important. The effort of "Improving marketing ability to increase sales volume" also shows high percentage of responses. Small and medium-sized companies answer the highest percentage of responses to the effort of "raising value-added of products through the technology development and quality improvement". When we look at by industry, the chemical sector has the highest share of responses to the effort of "raising value-added of products through the technology development and quality improvement". The answering proportion to the effort of "cost reduction through efficiency of management" is found to be relatively high in large companies and electricity/electronics industries.

According to the survey on the need for policies related to the process of protectionist response, all but the policy of "practicing aggressive response measures through the invocation of trade remedies for products from other countries" show positive responses with more than half. In particular, policies of "quick and accurate information on trade remedies" and "establishment of a cooperation system between the government and related businesses" show a positive response ratio of more than 70 percent.

Finally, chapter 7 presents a summary and conclusion of each chapter. It also provides implications, effective measures of policy support and industry self-rescue measures.