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Round table discussion: Will a new global trade system or a stronger Asian free trade arrangement emerge against the United States' aggressive tariff regime? A political economy approach

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ABSTRACT

The following material is a transcription of a discussion among the contributors to and organizers of the Round Table on the topic: Will a New Global Trade System or a Stronger Asian Free Trade Arrangement Emerge against the United States' Aggressive Tariff Regime? A Political Economy Approach

JEHOON PARK: The interesting thing is that both of the European scholars, Drabek and Hoekman, touched upon mainly technical issues. Drabek talked about some deep trade agreements and Hoekman talked about the open plurilateral agreements.

On the other hand, the two Korean scholars talked about some scenarios. Many of them overlap with each other. So, my question is, Professor Hoekman, would you elaborate on the idea of the open plurilateral agreement? It seems to me this idea is a kind of official position of the European Union. You also talked about some industrial policies. Frankly speaking, I could not see how this policy is related to trade agreements, especially in this kind of crisis.

Another question goes to Professor Kim. You talked about some scenarios, and it seems to me you also very much prefer some kind of regional approach. Especially some kind of suggestion from the European Union focusing on coordination between CPTPP and European Union, including South Korea. So, could you explain what could be some detailed ideas or scenarios for realizing this kind of idea? And lastly, Professor Park, you talked about some very interesting scenarios. It seems to me the most probable scenario could be some kind of combination or a mixture of scenario two and scenario three. Unfortunately, even though we hope, all of us hope, that the optimistic scenario, scenario four, could be realized, but you know, in reality maybe even though the worst scenario could not happen, for the time being, scenario two, some unilateralism by Donald Trump could continue for the time being at least so long as Trump is in power. So maybe the core problem is actually Trump himself. Why did he try to initiate this kind of terrible trade war?

I think mainly because he wanted to continue to be in power. Maybe he wanted to have another Trump era, "Trump Three". So, it seems to me much depends on the situation of the U.S. economy. I analyzed some forecasts about the U.S. economy up to the end of this year and even to the next year. Many analysts agree that the U.S. economy will be much worse through next year. So, in that case Trump's policies may change.

HOEKMAN: I thought going back to Kindleberger, the role of a hegemon, was really useful. It makes you reflect on—and I think this is something we should do collectively—what actually are these public

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goods and to what extent is there free riding and how do we define that free riding.

Here I would argue we need to make a difference between reciprocal access to markets as opposed to the public goods that are provided by the hegemon which have more to do in my mind with ensuring that trade can actually occur. So, dealing with pirates, transport, defense-related, security-related services clearly have characteristics of a public good. Let me just go through some of these things that have been put forward.

I think the free riding dimension is a key element, and that really boils down to the most-favored-nation principle. The presumption here is that we have negotiated reciprocally. And that deal reflects a balance of concessions. The notion of the hegemon in this equation is that the hegemon accepts an unbalanced deal to some extent in some dimensions, in return for these vague benefits, which balances it out and makes it sustainable politically in the hegemon.

That has a lot to do, I think, certainly with respect to the U.S. role in the WTO and the post-World War II period, with national defense and security considerations arising from dealing with the Soviet Union and pursuing the Cold War. Part of the deal was, okay, you guys work with us against the Soviet Union. We will support this trade system, which will benefit you. In a sense, we have a similar type of dynamic today where now the bad guy for the U.S. is China and not the Soviet Union, even though, of course, Russia has invaded Ukraine and the real bad guy is Russia, as far as the Europeans are concerned, where I'm sitting.

When we're thinking about moving forward, within the WTO the issue of consensus as a working practice needs to be revisited, but I think more fundamentally, we would need to go back to a notion of conditional MFN. That is something which was discussed during the Tokyo Round. It always was part of the debate. While we moved towards unconditional MFN in the WTO, in practice, of course, there is conditional MFN big time embedded in the many preferential trade agreements that have been negotiated. In a sense, this is also where issue-specific plurilateral agreements are going. These are premised on countries agreeing to do something in a particular area, say on use of trade policy to fight climate change. Countries that do that get access to our markets. Countries that do not, do not. That is the European approach, which, as I said in the beginning, kind of parallels the use of trade policy by the Trump administration to achieve a range of objectives, although in the framework of WTO rules. The EU supports expanding the possibility of including plurilateral agreements under the WTO that are not MFN. It's not just the United States who is implicitly, if not explicitly, questioning MFN.

I think where the big difference is between, let's say, the EU and the US in that the EU is still - or at least it claims to be - firmly committed to a rules-based approach with binding third party dispute settlement. The United States in contrast, has made very clear, no, we will decide what the rules are, and we will decide whether you violated some deal that we made with you, but we are not going to go to a tribunal. We are not going to do anything we feel is not appropriate for us.

So, I think the question is whether it is possible to design conditional MFN agreements on issues that are important enough economically so that countries have the incentive to agree to an enforceable set of commitments, and whether enforcement would then need to be defined in terms of trade sanctions, market access, or entail other instruments. That is one of the interesting things about the plurilateral, issue-specific track. You do not necessarily have to use trade as a sanctioning device. We can also think about potentially other instruments which have to do with access to finance, development assistance, etc..

Where do open plurilaterals fit in terms of EU policy? I think they are rather far away from being at the center of how the EU is thinking about how to respond to what is going on. The EU is very much focused on trade agreements. That's in the DNA of the European Commission's Directorate-General for Trade (DG Trade), and it is something the politicians can relate to. They understand trade agreements.

I am not all that hopeful about an open plurilateral approach as part of the response to what we are seeing today. It is going to take quite a while for people in Brussels to wrap their heads around the role that plurilateral agreements and instruments could play. Certainly, there are many people in DG Trade who understand that, in principle, it would have been better to negotiate plurilateral agreements than to impose unilateral measures such as the EU deforestation directive or the corporate due diligence directive, all the stuff the EU has been doing to use trade to pursue non-trade objectives. But all I am saying is that there is still quite a bit of work to be done for the plurilateral track to get some traction, even in the EU.

To come back to the free-riding point that Professor Brada made, and the point that was made, I think, by Professor Kim on French farmers killing Mercosur—we will have to see to what extent that actually is the case. But what it points to is that the trade agreement approach is also not a panacea. We are going to have to be a lot more flexible and consider elements of both approaches. On the one hand, a plurilateral issue-specific agreement on industrial policy or on the use of trade instruments for climate change may not require a trade agreement. Alternatively, on the trade agreement front, we might want to accept that these need not cover substantially all trade. As all of us in this roundtable know, the "substantially all trade" requirement under the GATT/WTO was never really taken particularly seriously. Certainly not when it comes to agreements with and among developing countries.

One way of recognizing that reality is to say, okay, we will do deals which exclude agriculture. Agriculture has always been a thorn in the side of trade negotiations. It is, of course, the number one issue for India, which has prevented India from making a lot of agreements. It has always been a big issue in the EU. So maybe that is a path forward. But again, I would come back to this: the free riding dimension really can be delineated through conditional MFN. And I think there the question that Professor Brada is asking is important: is there enough of a collective interest among participants to accept binding enforcement mechanisms and enough of a capacity of the group that proceeds to prevent free riding from other countries? The standard approach would be we do not give you access to our markets. We do not let you free ride. But if you were to join us, then, of course, you get the benefits of whatever we have agreed to do.

SUNGHOON PARK: All the papers in this symposium have noted that there has been a breakdown in the global trade system, and its existence is at risk. There is broad agreement that the multilateral trading system is one of most important and remarkable achievements of the world economy after World War II, in my view. There is ample evidence to prove that trade expansion brought about by the global trading system has contributed considerably to world economic growth. But this linkage has been broken since the global financial crisis. The contribution of world trade expansion to economic growth has been weakened if not eliminated.

After Trump Two, there have been many attacks on the global trading system, but, in a nutshell, we can say all the shattering of the global trading system was due to the U.S. trade and tariff war. U.S. practice in this tariff war forced bilateralism and even in some cases unilateralism rather than multilateralism on its trading partners. So that, as a result, the MFN principle, which is the most important principle of the multilateral trading system, is broken by the most important market of the world economy, the U.S. market.

In addition, we have to discuss responses by major trading nations. The European Union, I judge to be relatively passive, because it has negotiated 15 so-called reciprocal tariffs with the United States. China prolonged its bilateral negotiations with the US, but within a short period of time, China is now poised to take a decision how high the reciprocal tariff would be to be on Chinese exports going to United States. Japan, Korea are not much different in their response

The UK, which is outside the USMCA, has secured so far the best deal in terms of reciprocal tariffs. Before Trump, we had a few threats to multilateral trade relations as well. A notable one is regionalism. Regionalism, FTAs, RTAs, mega FTAs, things like that have proliferated since the 1990s. I have written about this phenomenon, and I termed it the coexistence of multilateralism and regionalism, and it has become a new normal in the global economy.

This is another aspect of the shattered global trading system. Some nations try to strengthen regionalism as an instrument to weaken the impact of Trump's trade war as noted by Professors Hoekman and Kim. CPTPP is an example. China and Korea recently declared themselves to be ready to consider joining the CPTPP and von der Leyen's proposal to establish a link between the EU and CPTPP is an example of this trend.

Consequently, a fundamental question is whether a revival of the present multilateral trade order is only conceivable after the end of the Trump era. Another question is whether the global trading system can be restored after Trump or is a new trading order emerging now. Professor Kim mentioned the opinion piece by Greer (2025) in the *New York Times,* who wrote that the foundation for a new global trade order has been laid down by the United States. Clearly, the United States is already talking about a new global trading order. Is it one that is desirable for the United States or for the world economy?

Should and could the other major trading nations accept this imposition of a new global economic order? That is a fundamental question we face now. And I wish to examine how the multilateral trading system could evolve so that multilateralism could continue into the future. I have to say that there are several determinants that will shape future developments. Number one is, of course, US policy. Number two, how the US and the world economy develop. Number three, how the major trading nations respond to the policies of the United States.

I would stress the importance of number two, the development of the US and world economy, because we had a Great Depression in the 1930s, and this was one of the causes of World War II, and we have learned lessons from that. The changes in the US economy may have impacts on the direction of US trade policy as well, even under a Trump administration.

How the US and world economy will develop is one very important determinant of the future developments together with the US policy orientation, which is also influenced by that and also by policy decisions by major trading nations. My tentative conclusion is it is most desirable to restore multilateralism as early as possible. However, my scenario one is expanded protectionism and a trade war. Here, the responses by major trading nations will be important.

When and if other major trading nations like the EU, China, Japan, Canada, and Korea respond with their own protectionism, instigating their own tariff war, this will lead to a global trade war. This global trade war would be detrimental to the health of the world economy, and we could have a situation similar to the Great Depression in 1930s. This would also be a strong blow to developing nations in addition to the lasting negative impacts for the world economy. This is the worst scenario.

There is a possibility for the world economy to develop in that way, because, if the pressure coming from the United States strengthens, there could be responses of this kind from major trading nations. My scenario number two is the new global trade order as mentioned by Greer based on unilateralism and bilateralism by the United States. This scenario would lead to a situation where most of the advantages of multilateralism achieved during the GATT and WTO era disappear. So, this is the second worst scenario. Scenario number three are expanded and interlinked regional trade agreements (RTAs), as mentioned by other contributors to this Round Table.

We have several mega RTAs like the EU and the CPTPP, which are pursuing membership expansion and also, as mentioned by von der Leyen, could try to create trade links among themselves in order to complement the global trading system. This will also contribute to avoiding the unilateralism and bilateralism practiced by the United States. Some of the negative effects of reduced trade on economic growth could be reduced by this greater reliance on RTAs to maintain trade relations. This I will call the second-best scenario. It is not the best one, but, for a limited period of time, it would suffice. The fourth scenario, for which I have strong hopes, would see the global trading system restored soon. Multilateralism, backed by MFN and a functioning dispute settlement mechanism, could be restored quickly and at the latest after the end of Trump's term. Is this scenario possible? That depends on several factors. We have to consider that the US and the world economies have faced major blows and these major blows will wake up policy makers to change their policies. So, this experience could lead the world economy and major economies to a more liberalized trade environment, hopefully for a long period, as occurred in the period after the Second World War. So, I would call this the best scenario.

Which scenario is the most probable? I don't know. Probably scenario three, but I hope that we can have scenario four as a result.

KIM: I really enjoyed all the discussions and presentations. While we are touching upon the same topic, we are analyzing it from different angles. Particularly, listening to Professor Bernard Hoekman, the point about China's preference for bilateralism was very interesting. We may develop a new dimension of discussion about the US and China's sharing of preference for bilateralism, for example.

Anyway, at this point, let me answer Professor Park's question regarding a preference for regional approach. I actually do not prefer any particular regional approach, but for the time being, as far as we are in a period of uncertainty, I think a regional approach may be a tentative and realist solution. I mean, for example, Professor Park Sung-Hoon also mentioned, several decades ago we had a big debate about multilateralism versus regionalism. And at the time, there was a kind of agreement that regionalism would contribute ultimately to the success of multilateralism.

But let us recall 1995 when the WTO was launched. Ironically, after the launch of the WTO, more and more regional RTAs, regional trade arrangements, have been born. But at that time, yes, we believed that a regional approach would contribute to multilateralism because, I would say, at that time, most countries in the world already were in the framework of WTO and got Article Number One about MFN, most favored nation. So as far as members of WTO benefited with MFN, regional approaches could be additional contributions to free trade movement in the world.

Today, we already witness a kind of fragmentation. Each individual country makes every effort to secure markets, particularly the US market. Now in the US, there is no MFN principle. But on the other hand, recently we listened to Christine Lagarde's argument about strengthening regionalism: we have to find regional deepening efforts in every region, not only in the European Union, but also, we can imagine within RCEP or within ASEAN, whatever. While we can try to rebuild a new global trade architecture, such efforts of strengthening or deepening regionalism may contribute.

At this point, let me ask a very brief question of Professor Brada. In your comments—, you must be discussing kind of a reason or background of all these kinds of policies of Donald Trump. At the end, you concluded that it was not Donald Trump, right, but political or social forces. I recall, for example, a very interesting article by Branko Milanovic, who wrote about global convergence. Joseph Stiglitz in his book *Globalization and Its Discontents* projected developed countries versus developing countries. But Branko Milanovic projected the conflicts and convergences of different classes within developed countries, due to globalization.

So my question to Professor Brada is, why did you find communism was the main reason for which the recent Donald Trump kind of political policy came about? Yes, I understand, for example, free riding or unfair trade, all of those kinds of evaluations of global trade, but did you find communism—communism's expansion over the world—was the main problem? Thank you very much.

BRADA: Let me respond briefly. I did not mean to misspeak about my Boston experience in the early 1960s. The big economic concern in that period among academics was underconsumption. Perhaps a more important concern was for policymakers geopolitical. That is, after the end of World War II, in Western Europe there were quite powerful Communist parties, and they seemed on the verge of attaining power.

The fall of a democratic Czechoslovakia into the communist camp, followed by Moa's conquest of China and France's failures in Indochina created alarm. But the United States could make both developed and developing countries more resistant to communism by making capitalism more economically appealing. So, those were, in a way, what I call the unseen or subtle benefits to the hegemon. Giving good capitalist systems to developing countries and to Western Europe and Japan made them wealthier and happier, and it made us wealthier and happier, but there was this outside effect of battling communism. And that was fundamental.

What do we have now? We do not have an ideological struggle between capitalism and communism. We have geopolitical struggles, but not ideological struggles. No one is worried whether Xi or Putin is a communist – they are not. Trump is certainly not worried about what Putin is doing in Ukraine because Trump's foreign policy is based on personalities not on ideologies. So those intangible benefits I mentioned are less existential to the United States than they were in the 1950s when we came up with the global system that we thought would benefit everyone, but particularly ourselves. China, also not really communist despite the rule of the Communist Party, is an economic threat, and it is a threat in part because of its free riding on WTO membership.

SUNGHOON PARK: Yes, I have three things to do in the following order. I would like to give a very brief comment on free riding and then I would like to answer Professor Jehoonn Park's question. And wait, Professor Brada, I have one question to you as well about the free-riding problem. Also, in my view, a very nice suggestion was made by Professor Hoekman, who mentioned that free-riding problem can be addressed best by conditional MFN. If Trump had done it in this way, then probably the world would now be much happier. Can you pinpoint some enemies—in quotation marks I mean,—who freeloaded for a long time and who have to pay the bill now. So, after that, the question by Professor Jehoon Park, scenario two and scenario three. Yes, this is more realistic. I will agree with you. And the question about how to utilize regionalism to have a global kind of liberalization, it reminds me of APEC's approach.

You know, APEC had a very big, very great goal, which is called the Bogor goal: to achieve free trade in the region by 2030. On their road towards this goal, they have had big difficulties. And their approach was, yes, we did APEC as well. We had increasing regionalism, as mentioned by Professor Kim, an increasing number of sub-regionalisms, bilateral FTAs, the minilateral FTAs and so on and so forth. The approach devised by the APEC policymakers was, why do we not dock and merge this sub-regionalism with the final view of achieving APEC internal trade liberalization. I think this is what von der Leyen would like to do with this establishing links to CPTPP because CPTPP is very influential even though the EU is potentially more influential. If the two are merging or even docking, with the view of adopting common rules in important areas, then it can become very influential and it can exercise pressure even on the Trump administration. That is, I think, what we can think of as a way out of this dilemma situation in the world economy.

My question to Professor Brada. You mentioned in your assessment and presentation, which I enjoyed very much. You talked about the good hegemon and that the return of the US to a role as a good hegemon is not realistic because of internal U.S. politics. But you did not elaborate on that. Can you elaborate on that? What is in U.S. politics that is inhibiting the return of the good hegemon? That is my question to you.

BRADA: These are fair questions and thank you for your kind comments about my presentation. Who are the "enemies" of the Unites States hegemon? To the Trump administration, it is all other countries that benefited from the global trading system. The administration devalues the intangible benefits that accrued to the US during the Cold War, and that, in different form, could accrue to the US today. Trump sees no benefits from the current trading system, and US trade deficits are "proof" that other countries are free riding on the trade system we have created. That makes them Trump's enemies.

Would the U.S. return to being a good hegemon? I don't think so. Trump's capricious actions have devastated US credibility with other countries. Once we have shown ourselves capable of what Trump has done, who would try to revert to a system with a hegemon who, based on an election, could upset the entire system again? The United States electorate is amenable to giving up our hegemony because it does not see the benefits. And it sees the costs as bigger. They have been made to seem bigger to voters in part by political rhetoric and perhaps in part by recent economic outcomes. I remember several Forums ago that we had a discussion of US policies under Trump in his first Presidency. Many people believed that, if Trump lost the election, then the international economy would get better. I was skeptical of that, and I predicted that Biden would not do anything different because, politically, China is poison in the United States. And it's not just Trump. The majority of people in the United States believe China is a free rider. China is cheating on its WTO membership. Its economic progress has bad consequences for us. I think there are objective economic reasons why people can make an argument that the U.S. should not be or does not want to be a hegemon..

In fact, the United States is doing just the opposite now. Rather than expending resources to provide public goods, we're squeezing other countries for economic benefits. Trump is saying, we provided defense for you and a good global economic system. Now you are going to pay us for it. We provided a stable currency for you. Now you are going to pay for it. So, we are collecting on debts that we think other countries owe us. We are not giving people gifts any more. And that is a political process that has come about through a lot of discussion in the United States. I am not defending it as being correct, but I am saying that is the public mood.

SUNGHOON PARK: Professor Brada, one related question I have. U. S. behavior at the moment under Trump 2.0, that is, as I think, is the behavior of bad hegemon, right? Not a good hegemon, a bad hegemon. So, will this stay longer, for a long period? I mean, not only will the U.S. force the other countries pay, but also, paying the tariff may be different from what the U.S. or the Trump administration requests. Other countries, Japan, Korea, EU, as an example, they have had to commit investments, individually, of several hundreds of billion dollars. And the profits, the great majority of profits, should be retained in the United States. So that is, I think, the worst part of this deal.

BRADA: The US was a hegemon who provided public goods. Now, we're a hegemon who's going to produce public bads for people..

SUNGHOON PARK: Okay, misallocation of trade, misallocation of investment will result for the foreseeable future? Will this stay longer than global policy makers now expect?

BRADA Yes, I am sorry to say. I think you will need to see much bigger costs before someone steps up to be the hegemon. The question is, who will that be? Political prospects for the U.S. being the hegemon again are not good.

SUNGHOON PARK: So, in this case, probably the best strategy for countries like Japan, Korea, may be not having any deal with the United States for the moment because it will last for a long time, right? And it will be long-term commitments that will be not be reduced within the near future.

BRADA: Indeed. If some government called me and asked for some advice on what to do, I would say, keep a low profile.

This has been a great session. I appreciate all your efforts in bringing it about. I think this will be a wonderful symposium for *Asia and the Global Economy*. So, thank you all very much. Jehoon Park, thank you for making this possible.

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Josef C. Brada: Conceptualization. **Bernard Hoekman:** Conceptualization. **Won-Ho Kim:** Conceptualization. **Jehoon Park:** Conceptualization. **Sunghoon Park:** Conceptualization.

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Reference

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