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Senior Advisor of KIM & CHANG, former G20 Sherpa of Korea, former Ambassador for International Economic Affairs of the Republic of Korea

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Let me turn now to Lee Hye-min. You have had a long experience in international economic relations, but also particularly in trade. It would be good to get your take on this.

Lee Hye-min, Senior Advisor of KIM & CHANG, former G20 Sherpa of Korea, former Ambassador for International Economic Affairs of the Republic of Korea

Thank you, Masood. I am honored to be with you this morning. Thank you for the invitation and congratulations for the team that organized this.

I think we need to identify the challenges we are currently facing. In this sense, I would like to highlight two very significant challenges, focusing on trade.

First is the breakdown of the international cooperation system and, at the same time, the collapse of the rule-based trading system. Edward Luce, Financial Times columnist, recently said that the rule of world trade is the law of the jungle. I think that he is quite right, because the existing WTO rules are no longer respected and new rules cannot be produced.

With the declaration of Janet Yellen, US Treasury Secretary, in April last year, that the US would pursue free but secure trade with friend-shoring, the WTO's fundamental principle of MFN is dead. As you know, the WTO's dispute settlement mechanism continues to remain paralyzed with the non-functioning of its appellate body.

More seriously, new international rules cannot be agreed upon, even though we need new rules on digital and climate change, because the global cooperation system has broken down due to the intensifying US/China conflict and Russia's invasion of Ukraine.

The G20 Summit of last year, and this year, clearly demonstrated that the G20 has lost its role as the World Crisis Management Committee, with the breakdown of global cooperation mechanisms. The G20, in addition to stabilizing the world economy after the 2008 financial crisis, was very instrumental – I witnessed it as the G20 Chief of Korea – in concluding the Paris Climate Change Agreement in 2015 at COP21 which only came into force in 2016.

However, in view of the current international political situation, it would be very unlikely that the G20 can do anything meaningful regarding global issues, such as climate, digital, health, energy, or food crisis.

Because of the impossibility of producing a consensus on global issues, we can see the recent trend of fragmentation of the international rules on climate change and digital economy in particular. In fact, it would be more appropriate to say that the European Union is monopolizing the legislation on those issues through GDPR, EU Taxonomy, Carbon Border Adjustment Mechanism, and the Digital Services Act and the Digital Markets Act.



Those EU rules are to be applied beyond the European Union. A good example is X, the former Twitter, which can be subject to EU sanctions because of its misinformation and harmful content, based on the EU Digital Service Act, and the EU's recent decision to ban misleading carbon neutral claims will be applied to Apple Watches as well.

With the launch of the Indo-Pacific Economic Framework, the United States is also trying to make new international rules, but it is not so certain because there are too many different economies participating in this discussion and the issues are very difficult to be resolved.

Moreover, the recently published draft text of Pillar II Supply Chain – which I think is the most important pillar of the IPEF – is very disappointing and far from establishing binding rules. We can see the proliferation of national security exception invocation by major economies and increasing export control, based on these national security exceptions.

Since the government cannot produce the rules, we can see more active roles played by the private sectors and NGOs. RE100 is an initiative by NGOs and the International Sustainable Standard Board, not the government, is producing a global standard for ESG disclosure of the companies.

The second challenge is the strengthened government intervention in the economy. Deglobalization since the financial crisis of 2008 and Covid-19 has significantly strengthened government regulations. Climate change and digitalization of the global economy require a stronger government intervention, as we need new rules on these issues. The direct impact of the strengthened government intervention is increased subsidies by the major economies to the detriment of the middle power countries.

The US, the European Union and Japan are currently trying to offer subsidies to their own industries, most notably in semiconductors and Lithium car batteries, in order to combat China's State capitalism.

I think the problem with the subsidies is this thought – trade and industry – because government decisions determine competitive outcomes, not market forces. Thereby substantially reducing efficiency. We can see the invisible hand of the market is giving way to the visible hand of the State.

I stop here and will come back later about how to appropriately address these challenges. Thank you.

Masood Ahmed

Thank you very much, Hye-min. We will come back to that because you could have a parallel conversation where people will say, 'Look, we have to achieve a set of goals', whether they are security, whether they are climate change, or global public goods, and we have to use a set of instruments that we have, policy instruments, some of them are subsidies.