

In Pursuit of a Rules-Based International Economic System

By Naoyuki Haraoka

The Japan Economic Foundation (JEF) started its own policy-oriented research projects at the end of 2021. Trade and investment is one of the main policy issues in pursuing international rules based on free trade theory. Having organized a discussion group consisting of academic members, government officials involved in policy planning and practice, and business representatives, the group published its policy recommendations in May 2022. This issue highlights the recommendations for a rules-based international economic system and the experts' roundtable discussion on the recommendations.

As we are particularly interested in US thoughts about the free-trade based trade and investment regimes they had helped create a while ago but have withdrawn from since the beginning of the administration of President Donald Trump, we invited two distinguished American think-tank representatives, Matthew Goodman from the CSIS and Mireya Solis from the Brookings Institution, to give us their views on free trade systems, including their opinions on the latest US proposal for the Indo-Pacific Economic Framework (IPEF).

We have tried to draw our readers' attention in particular to APEC as a venue for soft law, since rule-making efforts in hard law such as in the WTO or RTAs and FTAs are seemingly losing momentum against the background of growing anti-globalization sentiment among developed nations. In such gloomy times for free and open multilateralism, APEC or the OECD could be good venues for promoting de facto multilateralism through informal exchanges of views and peer review pressure on an individual member nation's policies.

This is a key element of the second roundtable of this issue, consisting of other trade policy experts focusing on APEC's activities, chaired by Takashi Hattori, professor at Keio University and the then deputy director-general for trade policy at METI. This discussion is followed by articles from three experts on APEC, one by Prof. Hattori

himself on the importance of international rule-making in APEC, one by Takashi Imamura, a board member of Japanese trading house Marubeni Corporation, on the invaluable role of APEC in business, and the other by Prof. Hikari Ishido highlighting one of the most important APEC activities – the empowerment of women.

The issue focuses on the global implications of a rules-based international economic system, but I believe that these are also crucial in terms of Japan's growth strategy. A free-trade based regime would reduce uncertainty and unpredictability in the economy and enhance its transparency. We should not forget that active fiscal and monetary policies would not be the sole solution to mitigating the threat of stagflation due to the rise in energy and food prices stemming from the Ukraine crisis. The impact of the still-lingering Covid-19 pandemic in the world could continue to be a deflationary factor in the economy.

Free-trade based multilateralism would be not only a business-stimulating policy but also a sound supply-side policy encouraging competitiveness. Stimulated competition among nations encouraged by this system would consolidate entrepreneurship and innovation. Thus, even though we are still exposed to the headwinds of anti-globalization, we should not forget about these positive economic consequences of a free trade multilateral regime. Otherwise, we could easily fall into long-term economic stagnancy with a decline in productivity due to the lack of competition and innovation.

This nightmare scenario would bring about a vicious cycle in which a fragile and stagnant supply-side economy would be vulnerable to inflation, and inflation would drag on the growth of demand.

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