

Free Trade System Remains a Key to Global Economic Revitalization Depending on US Trade Policy

Summary of Talks on Upgraded International Economic System,
Feb. 16, 2022

By Japan Economic Foundation

Japan SPOTLIGHT Introduction

Rules-based trade liberalization, the spirit of the WTO, is acknowledged by many as the key driving force for global economic growth. But with rising nationalism and anti-globalization sentiment, it is politically difficult to be achieved. The United States is the nation that was once the strong leader and advocate for rules-based free trade but now faces serious challenges in domestic politics antagonizing free trade. In this current administration, how likely is it that the US can come back to its original position in trade policy discussion?

The Japan Economic Foundation (JEF), in organizing a monthly online experts meeting early in 2022, had a chance to listen to opinions on this question from two distinguished American trade policy experts. We are happy to introduce a summary of their viewpoints below.

Matthew Goodman, Senior Vice President for Economics at the Center for Strategic and International Studies (CSIS)



- Economic cooperation is one of the main pillars of the US-Japan alliance. In this light, the US and Japan share a commitment to the international economic system based on our common values and transparent and high-standard rules. At this moment, the international economic system is faced with a challenge from emerging nations including China. The challenge is not only from those nations but also from domestic politics in the US. However, the US-Japan alliance is committed to common values not only to maintain the existing system but also to update it by expanding the rules to important areas not covered by the existing rules, such as the digital economy.

- 1989 was truly a historical year for the US to have launched its involvement in the Asia-Pacific region or Indo-Pacific region. It was a turning point for US involvement in the Indo-Pacific region in economic policy that, together with Japan and Australia, it founded APEC in 1989. The US founded APEC not to force the partners to use its own rules but to form rules and norms through a soft approach. The US had been working on such a soft-law approach to new rule-making among nations. I was engaged in such strategic use of APEC when the US last hosted the forum in 2011. I believe APEC is an invaluable tool as an economic foreign policy strategy. In 2023, the US is the Chair nation of APEC meetings.

- The TPP was born from APEC. The US decided to use the TPP concluded among Singapore, New Zealand, Chile, and Brunei as a base for challenging economic rule-making in 2008. The TPP was signed by 12 countries in 2016, but with the advent of the administration of President Donald Trump, the US left it. Afterwards, the CPTPP was put into effect at Japan's initiative. Here, I would like to confirm that the US had an intended route to get involved in this region's economy and in this route Japan was always its important partner.

- The administration of President Joe Biden announced its Indo-Pacific Strategy on Feb. 11. This shows how the US will be engaged with the Indo-Pacific region. We should take note of the Indo-Pacific Economic Framework (IPEF) consisting of four pillars: connectivity/trade, supply chain resilience, clean energy, and tax and anti-corruption.

On the IPEF

- Though the IPEF can be a platform for the US to be engaged with this region, this is the second-best policy and the best is to come back to the TPP or something like it. Trade agreements would provide the region with long-term US engagement by offering the US market access.

- The IPEF must have binding commitments on digital rules, labor standards, environmental standards, etc. consistent with the US national interest. To achieve this, it would be necessary to provide incentives that are as appealing as market access for Asian nations like Indonesia, Vietnam, Thailand, and Malaysia to join the IPEF. Without it, the IPEF would fail.

- A wide range of US government agencies [ministries] will be involved in such a horizontal initiative like the IPEF, and a leading agency or person would be indispensable to coordinate these different interests. At this moment, we cannot see such an individual

or agencies for the IPEF.

- The US and Japan share the common interest of promoting rule-making like the IPEF. Thus any bilateral talks between the US and Japan could provide a good agenda for rule-making, such as METI- USTR talks on trade, METI-Commerce talks on commercial and industrial policy or the “Economic 2+2” (Economic Ministries and Foreign Affairs Ministries) talks on how both nations could promote desirable economic rules and norms benefitting this region and the world.

Mireya Solis, Director of the Center for East Asia Policy Studies at The Brookings Institution



- There are important differences in the trade policies of the Trump and Biden administrations: the US trade deficit is no longer the only measure to evaluate economic relations and the Biden administration wants to repair relations with allies. Respecting multilateralism and alliances is clearly to be noted as a difference. The Biden administration is taking a more productive and strategic initiative in promoting multilateralism and alliances. This was instrumental to breaking the stalemate in the appointment of Okonjo Iweala as Secretary General of the WTO and the US coming back to the Paris Convention on Global Climate Change. Biden is also promoting the G7 Build Back Better initiative in infrastructure investment in collaboration with US allies. Its foreign relations with allies are much improved as shown in the agreement regarding national security tariffs on EU steel and aluminum products.

- Meanwhile, there is some continuity between the two administrations; foreign policy toward China, the position the WTO Appellate Body, a defensive economic security policy and reluctant engagement with trade agreements. The policy on China regards the country as a competitor, with growing concern about authoritarianism in China, its assertive foreign policy aimed at enhancing its influence on developing nations by its “One Belt, One Road” initiative, as well as its protectionist industrial policy including state enterprises and industrial subsidies. There have so far been no constructive proposals on reform of the WTO Appellate Body. On economic security policy, a common thought is shared by the two administrations: consideration of economic security as national

security. The use of the US Trade Act Article 232 and lowering dependency on China in supply chains or reluctance towards trade agreements have not changed from the Trump administration. With the progress of the RCEP and CPTPP, the US is left marginalized from such regional economic integration efforts. US influence in rule-making would be much less in these circumstances, while the RCEP will strengthen East Asian nations’ economic links including China. It would be desirable for the US to join the CPTPP, but it is difficult in the light of domestic politics. Under this situation, the United Kingdom, China and Taiwan are now applying for membership. Geopolitics have landed on the CPTPP. On future scenarios, I guess we have two. One is that China accepts the standards of liberalization of the CPTPP and promotes domestic economic reforms, and the other is that China asks for many carve-outs and will eventually lower the high standards of liberalization of the CPTPP. I hope the high standards will be maintained, but the US unfortunately cannot say anything on this as it is an outsider.

- On the IPEF, I have concerns about this second-best policy to keep US influence in the Asian region. Without a binding agreement through a Congressional vote, the policy could be easily abandoned with a change of administration. Economic dialogue on a wide range of issues would make it difficult to be promoted without any specific organization or person taking responsibility. It would be dependent upon tangible benefits such as market access concessions whether Asian emerging countries are attracted to the IPEF. I am skeptical about this.

Responses to Questions

Goodman: On the question of possible incentives for emerging and developing nations to join the IPEF, market access concessionality would not be an option in the short term. Which area in the IPEF would attract trading partners? On labor and digital standards, the US will request them to observe those standards. On trade facilitation and investment in infrastructure, the US can offer them an incentive. On supply chain and clean energy, it would be up to the US whether it could be an incentive or an obligation. I believe a good policy would be for the US to support them in decarbonization of the economy or diffusion of supply chains. The Biden administration should pursue a balance between requests and offers.

On the question of export controls related to economic security, this could be used as a protectionist policy, though it could be permitted as far as it is used as a policy for national security. It could have the risk of a negative impact upon the existing international trade system.

On the question of India, it is an extremely important partner for the US Indo-Pacific Strategy, but it would be difficult to cooperate with India on trade rule-making, while cooperation on national security or economic cooperation in the QUAD is under progress. India is certainly to be eligible for the IPEF. I guess qualification for being a member would be considered in a flexible manner, though nations like Myanmar or China where human rights are imperiled should not be qualified for membership. Cooperation with the EU is very important as well. However, I think it would not be easy to find a solution to the issues between the EU and US.

On the CPTPP, I am convinced of the US coming back to the TPP or something like it someday in the future, as it is perfectly consistent with the US national interest. The new US ambassador to Japan, Rahm Emanuel, is a very active person and a strong supporter of the TPP. However, this will not happen in the near term.

On APEC, in 2011 when the US served as Chair, we studied its strategic use and achieved consensus on some principles on environmental trade. In 2023 as well, the US and Japan should discuss about its utilization together.

On the US policy on China, the Biden administration is attempting to strengthen US competitiveness while resolving domestic issues and trying to build up a strategic environment in the region by collaboration with allies in favor of the US. We cannot tell yet which direction the future of the region is moving towards.

Solis: On the question of reform of the WTO Appellate Body, the US approach is not clear yet. The US should provide concrete proposals to restart the Appellate Body and highlight in which ways this is contingent on broader WTO reform.

On the question of labor and the environment as a trigger for rule-making, I think it could lead to a good outcome, if well managed. In the case of the Agreement between the US, Mexico and Canada (USMCA), it was supported by labor unions. That would be a good reference for other trade agreement negotiations as a way to get approval from Congress.

On the question of the possibility of the US coming back to the TPP, I am pessimistic about it considering the US domestic political situation. It is true that we need social policy to mitigate the negative impact of trade, but the Biden administration is faced with significant challenges in promoting such a social policy. We cannot resolve it in the short run.

On the question of the America Competes Act, we have now different versions in the Senate and the Congress. It would take time to finalize it. Whether the USTR is a relevant organization for an FDI review, I do not think so.

On the question of a Carbon Border Adjustment Mechanism (CBAM), the Biden administration has made a clear link between decarbonization and trade policy, but the specifics of whether they will move toward a CBAM are not clear yet.

Note 1: The America Competes Act: the legislation passed by the House of Representatives in the US Diet in February 2022 to aim at strengthening the US industrial competitiveness including semiconductors.

Note 2: CBAM: an EU proposal to impose carbon prices on imports from nations outside the EU with less restricted countermeasures against Climate Change in order to secure fair competition and prevent carbon leakage.

JS