

The “Three Arrows” of Japan’s Trade Policy

By Masakazu Toyoda

In Japan, there is a story about a famous 16th century warlord that inspired us all: “The Lesson of the Three Arrows”. It is a lesson given by an army general to his three sons. He gave each of the three brothers an arrow and admonished them that “One arrow can be easily broken, but if you bind three together, you cannot so easily break them”. With this analogy, he made them pledge for cooperation as a family.

When I saw this year's White Paper on International Economy & Trade offering three pillars for the direction of future trade policy, the “lesson of the three arrows” came to mind. It is perhaps because each of the three pillars are important and part of the overall trade policy. Each one alone would never be enough to achieve the goal.

The first arrow is “Contribution to a rules-based international economic order”. The WTO's dispute settlement mechanism and the United Nations Security Council, both considered as symbols of the “rule of law,” are now dysfunctional.

The WTO issue arises from the fact that decisions made by the panels at the first stage of examination of the disputes have no place to go since no member for the second stage, the Appellate Body, has been appointed since 2019. In a way, this second stage has been nonfunctional since 2019.

During the first 24 years of the WTO, between 1995 and 2019, 592 dispute cases were presented (almost 25 cases per year) and 161 reports of the Appellate Body were adopted during that period. Compared to the 314 dispute cases that were brought during the previous 46 years of the GATT era (only 7 cases per year), the number of cases presented each year to the WTO has nearly quadrupled, demonstrating the emergence of many new trade related issues. Therefore, the impact of the failure of the WTO's dispute settlement function has been extremely devastating.

As for the UN Security Council issue, many feel helpless to see that thousands of innocent people have lost their lives in Ukraine and Gaza. Despite a situation that is clearly in violation of the UN Charter, the aggressions and attacks between neighboring countries (or groups) are left unchecked because of the veto power of a few permanent members of the UN Council.

The functions of the WTO and the UN urgently need to be restored.

The second arrow in the quiver is “Building resilient supply chains”. High dependence on imports from specific countries at a time when the rules-based international order is not functioning adequately can result in serious intended or unintended consequences. Unlike the commodity shortages that were experienced during the Covid 19 crisis, an exporting country can by-pass the rules-based order and intentionally restrict exports of critical materials, thereby creating economic coercion on

importing countries. Hence, developing resilient supply chains require decentralization of supplier countries and friend-shoring. The supply networks should be concentrated in allied or friendly countries. Of course, while reflecting the need to strengthen supply chains, free trade should continue to be promoted as much as possible to enhance the development of the global economy. For the time being, it is necessary to continue striving to fix the first broken arrow, while utilizing an alternative dispute resolution function such as the MPIA (Multi-party Interim Appeal Arbitration Arrangement).

The third arrow is to “Build win-win relationships with other countries, including those in the Global South”. Unfortunately, we are now living in a world of division, with the G7 group of advanced nations, the China and Russia Group, and the Global South which includes ASEAN, India, Latin America, Africa, and other nations. As each group is claiming its own positions, it makes it extremely difficult to reach any global consensus. It is natural for Japan to focus first and foremost on the group of developed countries, including G7, because in a world with diverse values, the advanced economies do not always abide by all the rules while making their decisions. If there are objections, it should be one of Japan's responsibilities to speak out frankly and try to rectify the situation. Only by doing so will the values of the developed countries be understood by all. In addition, intergroup communication is very important and should be promoted without hesitation to not only avoid unnecessary conflicts, but also to promote cooperation on global issues such as Climate Change, as advocated by the United Nations.

As you may have already noticed, these three arrows not only complement each other but form an integral part of the same quiver of policies. For a country like Japan, which renounced war in its Constitution and has no armed forces beyond deterrence, it is important to contribute towards rebuilding the rules-based order, and not to rely on power. However, as the international economic order has already begun to break down, we should be prepared to accept that rebuilding it will not be achieved overnight. For the time being, it is essential to “Build strong supply chains” and, in this context, it is important to form a majority by “Building win-win relationships with other countries”, including those in the Global South, and eventually to “contribute to a rule based international economic order.”

In other words, a set of three arrows bound together is indispensable for the realization of Japan's trade policy.

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