

The Role of a Rules-Based Trading System for Strengthened Supply Chain Resilience

By Naoyuki Haraoka



Free trade is a bad thing, as it takes away jobs and expands the gap between the wealthy and the poor – in other words, the winners and losers in the liberalized trading system. This is now more widely believed. But is it true? There are many counterarguments on this issue. With free trade, consumers clearly get benefits, since they can buy goods more cheaply and also enjoy a greater variety of goods from around the world.

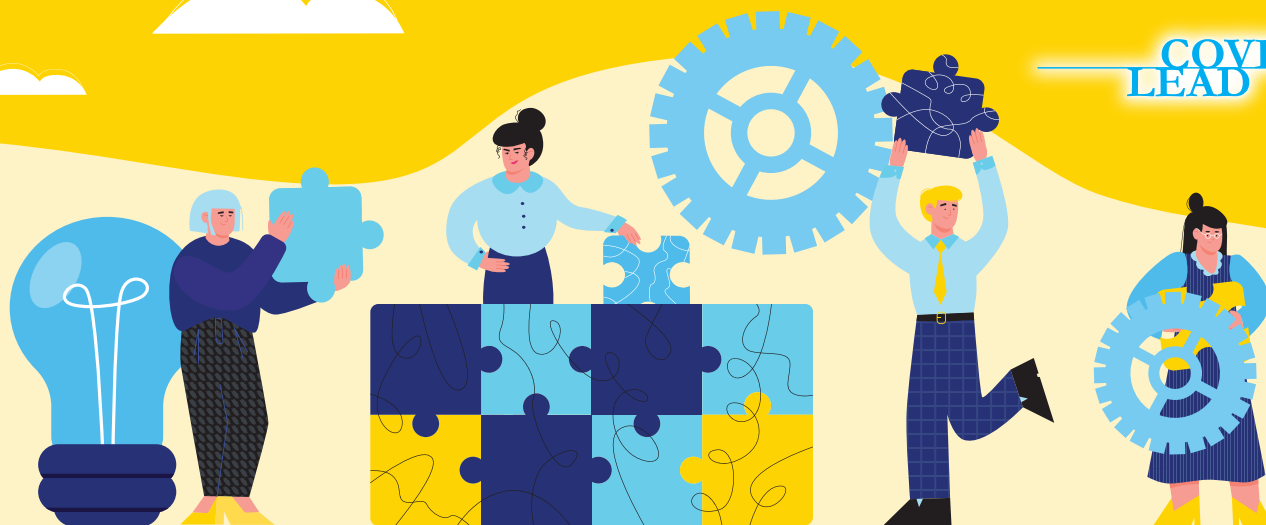
Certain producers may lose out if their goods are not more competitive than imported ones. But if those goods are labor intensive, the workers employed in those sectors would move to other sectors to seek better jobs in more competitive areas. There would be no losers eventually. People who believe free trade is bad for workers may say there would be rising unemployment temporarily while the people who have lost their jobs are looking for work in more competitive sectors. With high growth, it would be easier to find new jobs, but with low growth it would be difficult.

This story is true of the case of innovation. Technological innovation also creates winners and losers. Some people with skills in AI would be winners in the AI revolution, but those who know little about AI or cannot adapt to working with it would lose their jobs. Reskilling or retraining of employees facing the need to adjust to new technologies will be necessary and such programs are usually provided without

argument, since innovation is considered a minimum requirement for all economies to make progress. Free trade is not granted such an honor as a minimum requirement for progress and growth.

However, we have observed that up until now the nations of the world have achieved unprecedentedly high economic growth under a rules-based international trading order supporting free trade in the post-World War II period. In this light, free trade has played the same important role in the economic development of the world as technological innovation. Both would need some policy help in transition periods in which unemployment rises due to external shocks. It is self-evident, though, that free trade and technological innovation create long-term benefits, as both enhance growth potential, producing high productivity and greater job opportunities accordingly.

So why has free trade come to be condemned in some quarters? Intuitively, it would seem to be true that technological innovation's negative impact on jobs is bigger than that of free trade, since innovation's impact affects a wide range of sectors, whereas free trade's impact is limited to certain sectors or regions. Thus, the assumption that free trade is bad is groundless. Economists must clearly argue against politicians exaggerating the demerits of free trade and advocating for the short-term losers of free trade in certain sectors or regions. The essence of modern



economic theory developed over the last 50-100 years would support the notion that free competition is the mother of not only economic efficiency but also equality by ensuring fairness in competition. There are a number of cases where income equality was better achieved in the more liberalized markets. We must make sure that anti-trade liberalization arguments remain political and are not approved by economists.

This issue highlights how supply chain resilience can be ensured in times of rising geopolitical crises by free trade-based rules in the international trading system. Following JEF's policy recommendations for strengthened supply chain resilience, we have a roundtable discussion on the issue with some distinguished trade policy experts. Two articles follow this, written by Asian economists articulately advocating for the need to protect the free-trade system for the benefit of their economies – one by Vietnamese experts and the other by Indians. Both works are supported by the Economic Research Institute for ASEAN and East Asia (ERIA), a Jakarta-based international think tank. These articles suggesting the benefits of free trade are now shared and advocated by countries of the Global South.

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