

Should Japan be the Active Guardian of Free Trade?

By Masakazu Toyoda

My answer is “yes”, and I strongly believe that one of Japan's important missions should be to promote the virtues of free trade. My reasoning is that Japan has greatly benefitted from a free trade environment since its defeat in World War II, 80 years ago. In fact, free trade permitted Japan to quickly become one of the world's leading advanced countries and it would be a way for the country to give back to the world by arguing in favor of free trade which would contribute to the development of many economies and provide strength to supply chains. Those economies, especially the ones considered as developing and emerging, have a right to enjoy the fruits and benefits of economic development through free trade.

However, the Trump administration in US seems to be taking a different approach or path to support its growth and prosperity at the expense of others. What should we do? Five ideas come to mind.

First, it is important to understand that the tariff policies being pursued by the US violate the principles and rules of the WTO. We must perform in-depth quantitative economic impact analyses of these policies and share the results. Second, it is important to conclude FTAs and RTAs with as many countries as possible, so that we can all share the benefits of free trade. Third, expand the number of countries participating in the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), which is endorsing the highest-level of FTAs. Fourth, once a sufficiently wide range of countries are included in the agreement, work towards transferring the embedded CPTPP rules into the WTO. And finally, provide support (such as reskilling) to those who would lose out from free trade.

First, among the various tariff policies currently being pursued by the second Trump administration, it is important to clarify that reciprocal tariffs, which impose higher additional tariffs on countries with large trade surpluses with the US, violate the WTO/GATT principle of most-favored-nation treatment, which states that “special treatment granted to one country must be granted equally to all other countries.” This treatment is an important rule “to avoid discrimination in international trade.” Among many factors, trade imbalances often reflect differences in industrial structures, etc. and are not a matter of fairness or unfairness which can be resolved through subsidy rules or anti-dumping rules. According to OECD estimates, the US proposal would reduce the world average growth rate for this year by 0.2% to 2.9%, with the US itself experiencing a decline of 0.6% to 1.6%. For Japan the estimates are for a decline of 0.4% to 0.7%. Other international economic institutions have reported similar results. In essence, those results suggest that the US would be most adversely affected by its own policies. The current US administration appears to want to revive manufacturing in the US, but given public interest and cost factors such as wages, many manufacturing industries in the US find it difficult to gain competitiveness. The US, however, excels in AI and software, and is generating significant surpluses in service trade.

Second, due to the legislative dysfunction that prevent the WTO from promoting free trade, Japan should step-in to

accelerate negotiations and advance FTAs and RTAs with countries in Latin America, the Middle East, and Africa. It should also help to strengthen the supply chain. While several rounds of dialogue have been held with MERCOSUR (Brazil, Argentina, Paraguay, and Uruguay), the official negotiations for an economic partnership agreement never truly began. Similarly, negotiations with the Middle East have been suspended since 2009 and the TICAD (Tokyo International Conference on African Development) forum for exchange with Africa, initiated by Japan some 30 years ago, has not yet reached the point of official FTA negotiations. As all these countries are now regarded as part of the Global South and subject to great expectations, it is important to advance negotiations with them so they can soon benefit from free trade.

Third, following the US withdrawal from the TPP, Japan, which led the establishment the CPTPP, should urgently seek to expand the number of participating countries and further pursue the membership of the EU, which has recently shown interest. Japan should develop some kind of cooperation agreement. Already, several ASEAN countries and Latin American countries have expressed interest in joining and, if realized, it would form a massive economic zone spanning from the Asia-Pacific to Latin America and Europe. There are many voices in India expressing interest while China, which has also expressed interest, has not yet joined. The important thing is to maintain the high level of standards for the CPTPP and not lower them. A huge economic zone should be attractive to the US as well. As a result, this would contribute to a resolution of the US-China conflict based on rules.

Fourth. Because the number of WTO member countries has now reached 166, the process of decision making by consensus only has become impractical. However, if the proposed high standards of the CPTPP are preserved, many countries will join, and wide regions could be covered. It would then be a good idea to transfer the rules of the CPTPP into the WTO and be important to shift decision-making to a majority vote system rather than consensus.

My final idea would be to not forget those considered as losers as a consequence of free trade, including those in the US. Support could be provided through labor adjustment laws and other measures, such as reskilling, in order to pave the way for development. It would also reduce social fragmentation.

In the US, the second Trump administration has now entered its seventh month. Negotiations over tariffs are still ongoing and, as mentioned earlier, these tariffs not only violate WTO rules but also harm the US economy while clearly wearing-down the stability of the supply chains.

What the world needs is free trade and a few leading countries, like Japan, to unequivocally advocate for the acceptance of free trade.

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