

In Pursuit of Restoring a Rules-Based International Trading System Through CPTPP-EU Collaboration

By Naoyuki Haraoka

The international trading system today is expected to meet a variety of needs: not only economic efficiency by free trade but also economic security and issues related to the environment, digital economy, labor standards and human due diligence. At the same time, as technological innovation speeds up significantly, it will be necessary for the international trading system to become more resilient than ever to such rapid technological development.

So it needs to be different from the one in the 1980s and 1990s when WTO rules were dominant in global free trade. The cost of protectionism has been addressed frequently, and the benefits of free trade have been strongly advocated.

Today we see exactly the opposite to what we observed back then. Globalization is often considered the source of social problems such as economic inequality. Economic security is considered a high priority against the background of growing geopolitical risks rather than economic efficiency. However, as both the merits and demerits of protectionism were deliberated in the 1980s and 1990s, it will be necessary to think about both the costs and benefits of any diversion from free trade now. A diversion could bring us benefits in the fields of economic security or social policy needs, but at the same time it would be costly in terms of economic efficiency.

If economic theory is rigorously applied to present realities, diversions from free trade must be allowed only when the benefits exceed the costs. Such an economic calculation would be possible with an evidence-based approach which is now becoming common in policymaking.

The restoration of a rules-based international trading system must be pursued in general for the interests of businesses, as the uncertainty of a power-based system and arbitrary unpredictable policies will make business activity slow and stagnant. The question is whether a restored rules-based international trading system to mitigate such uncertainty should be based on free trade or other values such as security or social policy needs.

Once we have rules, whether they are based on free trade or not, it

is good news for business. But it would be far better to achieve that system based on free trade in view of economic efficiency. If we have to pursue goals other than economic efficiency, we would need to prove that the benefits of such a diversion from free trade to realize them exceed the costs. Assuming that reality makes it inevitable to pursue not only the goal of economic efficiency but also other goals through trade policies, we will need to find an integrative approach to maximize their benefits.

The cover story in this issue highlights CPTPP-EU collaboration to restore a rules-based international order out of concern about a power-based approach initiated by superpowers. Middle powers need to build up a countervailing force against the superpowers by pressuring them to adopt a rules-oriented trading system. Their efforts will be very valuable for business and the economy; but they will need to reflect on the costs and benefits of each trade policy in order to be integrative and take account of all expectations for international trade.

Following policy recommendations on the issue made by the JEF study group and a roundtable discussion, we introduce a number of trade policy experts' articles. The CPTPP-EU FTA's economic impact is assessed by Dr. Kenichi Kawasaki, who has published a number of key trade policy assessments using the Global Trade Analysis Project econometric model. The new needs for trading systems such as the digital economy and environment are examined in the light of how to integrate them into the international trading system by Mr. Shota Watanabe and Ms. Miki Yanagi. Dr. Osamu Umejima's analysis of origin rules, the core of CPTPP-EU rulemaking collaboration, follows.

Beyond the CPTPP-EU collaboration issue, Dr. Priyanka Kishore highlights India's path towards rulemaking, and finally, our New Zealand friend Mr. Raf Manji gives us his suggestions on the important role Japan could play for the restoration of a rules-based world.

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