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A Shift from Passive to Proactive Protector of a Rules-based Open Trading System

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Japan changed from a passive to proactive participant in the formation of regional frameworks. After US withdrawal from TPP, Japan led the TPP11 negotiation to reach an agreement. Japan needs to become a leader in protecting a rules-based open trading system by corporate reform.

Economic Situation at the Beginning of Heisei

The Heisei era began in the midst of a changing economic environment both inside and outside Japan. Japanese economy was at the peak of a bubble economy, which began in the latter half of the 1980s. In the early 1990s, the economic boom seemed to last indefinitely, but it soon collapsed. The Japan entered a long period of low growth.

As for the external economic environment, the world was experiencing globalization and technological progress and deregulation in transportation and communication services as trade and investment policies promoted the international flow of goods and services. While regionalization intensified in three regions-- East Asia, North America, and Europe--as the

were realized.

On trade policy fronts, things were not going well. Japan and the United States were involved while the Uruguay Round of multilateral trade negotiation under the General Agreement on Tariffs and Trade went into a deadlock. There were, however, some signs of change in trade policies.

Establishment of APEC

The first notable international economic event for Japan in Heisei was the establishment of the Asia-Pacific Economic Cooperation (APEC) in December 1989. Australia and Japan played a key role in the long period of gestation, APEC was launched with twelve countries including Japan, Australia, New Zealand, South Korea, the United States and six members of the Association of Southeast Asian Nations. The motivation behind APEC was to keep the trade environment open in the Asia-Pacific, as trade tensions between Pacific countries were becoming severe. Two factors external to the Asia-Pacific pushed the regional cooperation. One was intensified moves toward united Europe and the other was the Uruguay Round.

APEC contributed to maintaining an open trade and investment environment in the Asia-Pacific region. In 1994 by setting the Bogor Goal of establishing free and open trade and investment areas for developed members and by 2020 for developing members, and to promoting economic cooperation through a flexible regional framework by adopting voluntary and non-binding principles. APEC has become a forum for 21 members at present. APEC contributed to the conclusion of the Uruguay Round which led to the establishment of the World Trade Organization (WTO) in 1995.

Advent of FTA Boom

The 1990s is the period when free trade agreements (FTAs) began to increase rapidly. A free trade agreement, under which trade between and among FTA members becomes free by the elimination of import tariffs. One important reason behind rapid expansion of FTAs was the stalemate in multilateral trade negotiations. With this situation, countries eager to expand exports to achieve economic growth opted for bilateral FTAs with like-minded countries. East Asia was slow in establishing FTAs, compared to other regions. Japan and South Korea were particularly hesitant about FTAs. For Japan and South Korea, adhering to the multilateral framework under the GATT and later the WTO was considered important for export expansion. Joining the WTO was most important trade policy agenda.

The end of the 1990s saw a change in the attitude of Japan and South Korea toward FTAs. The economic situation caused by the Asian Financial Crisis (AFC), East Asian countries including Japan and South Korea realized the importance of regional economic cooperation. FTAs became an important and effective means of regional economic cooperation. In addition, the rapid expansion of FTAs in other parts of the world and the discrimination of Japan and other East Asian countries in the global market, making them more aware of the need for FTAs.

In the 21st century, among East Asian countries, Japan, South Korea, and Singapore became active participants in FTAs. Japan's first FTA was with Singapore in 2002, followed by FTAs with Mexico, Malaysia, and Chile. Japan was a passive participant in FTA in that it was approached by other countries in bilateral form. Japan changed to a proactive participant when Japan approached ASEAN for an FTA. This

China's approach to ASEAN.

China changed the patterns of FTAs in East Asia from bilateral to plurilateral forms. After WTO in 2001 to obtain an access to the world market, China approached ASEAN member: plurilateral FTA rather than bilateral FTAs individually. China-ASEAN FTA was enacted in 2002. To form a plurilateral FTA with ASEAN triggered a series of FTAs with ASEAN by Japan, South Korea, and Australia-New Zealand separately. By 2010 five ASEAN+1 FTAs, each with these countries

Emergence of Mega-regional FTAs

The concept of a region-wide FTA or a mega-regional FTA encompassing all countries in the region emerged in the aftermath of the AFC. The first idea was an East Asian FTA (EAFTA) comprising of ASEAN+3 (ASEAN+ South Korea) countries in early 2000s. China was eager to take a leading role in the formation of a region-wide integration in East Asia and thus led the discussions. Soon after the EAFTA discussions began, Japan led the Comprehensive Economic Partnership for East Asia (CEPEA) with the member countries of ASEAN+3 (ASEAN+ India, and Australia and New Zealand). Japan's move is apparently in response to China-led discussions. Studies of EAFTA and CEPEA were undertaken by private sector experts separately, but not until the early 2010s.

While East Asian countries were active in discussing the possible formation of region-wide FTAs, the P4 (US, Japan, Singapore, New Zealand, and Brunei) in APEC began to discuss the formation of a region-wide FTA in Asia-Pacific with liberalisation and broad issue coverage. These discussions resulted in the formation of P4+1 (US, Japan, Singapore, New Zealand, and Brunei) in 2006.

In March 2008, the P4 members began negotiations on trade in financial services in order to expand the agreement's issues coverage. In November 2009, the US joined the expanded P4 negotiations. Viet Nam quickly followed. During this period, P4 became the Trans-Pacific Partnership (TPP). The formulation of region-wide FTAs in East Asia sparked the US' interest in TPP, as it did not have a similar FTA in Asia.

After the TPP negotiations began, Malaysia (2010), Canada and Mexico (2012), and Japan (2013) joined the negotiation after successfully overcoming strong opposition of the agricultural sector. Shinzo Abe skilfully formulated and implemented a TPP strategy. One good example was the establishment of TPP Headquarters at the Cabinet Secretariat Office under Prime Minister, where a TPP team from various ministries was formed to formulate and implement a unified TPP negotiation strategy. This approach was effective and different from earlier FTA negotiation approaches, where officials from each ministry pursued the strategies of their respective ministries. For Prime Minister Abe, the TPP was a key to Japan's successful economic recovery from the long recession.

The TPP negotiations reached an agreement in October 2015. The TPP Treaty was signed by 11 countries because newly elected US President Donald Trump withdrew the US from the TPP in January 2017. The 11 TPP members pursued TPP11 without the US. Japan led the TPP11 negotiations, which quickly reached an agreement. The TPP11, formally named the Comprehensive and Progressive TPP (CPTPP), entered into force in December 2018.

TPP negotiations provoked negotiations of other mega-regional FTAs including Japan-Eu FTA and Regional Comprehensive Economic Partnership (RCEP) with ASEAN+6 countries. Japan and the EU completed their negotiation and the Japan-EU FTA entered into force in March 2019. RCEP was proposed in 2012 and entered into force in 2022.

to the joint proposal by China and Japan for accelerating the EAFTA and CEPEA. ASEAN's concern for losing a central role in the movement towards an East Asian regional framework is under negotiation.

Emergence of Protectionism and Threat of Collapse of the WTO System

The world began witnessing growing protectionism after the Global Financial Crisis. Behind protectionism was anti-globalism, which was supported by the people, who suffered from globalization. Against this background, Donald Trump, who called for protectionism to promote employment, became US President in 2017. Once in office, Trump unilaterally increased tariffs on imports for justifiable reasons, violating WTO/GATT rules under the banner of "America First" policy.

Since the middle of 2018, Trump has applied punitive tariffs on imports from China with China's "unfair trade practices" such as the violation of intellectual property rights and forced technology transfer from foreign firms. China retaliated by increasing tariffs on imports from the US. Application of trade war between China has escalated to become a full-blown trade war. If the US-China trade war continues, the world economy would suffer from a decline in trade and investment, which in turn would do serious damage to the global economy. Furthermore, the world trading system under the GATT/WTO, which contributed to rapid economic growth in the Post WWII period, would be put at a risk of collapse. If that happened, the world economy would fall into a crisis.

Japan's International Role in Reiwa

The biggest problem for the world economy at the beginning of Reiwa is growing protectionism due to the US-China trade war. Japan has to play an active and effective role in dealing with the problem and maintaining a rules-based open trading system, which would benefit all the countries in the world. In his recent comments about the disastrous impacts of the trade war to the Leaders and policy makers, Prime Minister Abe reminded about the pre-WWII episode, Japan needs to make serious efforts on two fronts related to the WTO reform. One is to make progress in on-going trade initiatives, which include plurilateral agreements, to re-establish a rules-based trading system. As for mega-FTAs, Japan needs to lead the conclusion of RCEP negotiation and expansion of the members of the CPTPP and Japan-EU plurilateral agreements. Japan needs to lead the negotiations on new issues such as digital trade. The other task for Japan is the reform of Dispute Settlement Mechanism in the WTO. The Appellate Body is not functioning very soon, because the US has been blocking the appointment and reappointment of Appellate Body members. Without well-functioning Appellate Body, the WTO cannot stop protectionism. Japan needs to make necessary contributions in solving the problem by actively engaging in and leading the discussion.

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