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## **THE RISE OF PROTECTIONISM AND JAPAN'S TRADE POLICY**

***Shujiro Urata***

- Protectionism is on the rise worldwide. [Trump's protectionist policy is one such example.] Unless rising protectionism is stopped and reversed, the world economy will shrink, resulting in military conflict or other disastrous consequences.

*The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

- The TPP will not now be realized because of Trump's decision to withdraw the US from the TPP. Japan needs to contribute to the conclusion of other mega-FTAs such as the TPP-US, the RCEP and the Japan-EU FTA by cooperating with like-minded countries.
- If the US approaches Japan for a bilateral FTA, Japan should accept this on several conditions, one being that a bilateral FTA would be a steppingstone to a mega-FTA such as the TPP.

Protectionism is on the rise. Symbolic of this is the election as US president of Donald Trump, an advocate of high protectionist tariffs on imports from Mexico and China, but protectionist measures are being increasingly employed worldwide. According to Global Trade Alert, which monitors protectionist trends across the globe, there has been an upsurge in protectionist measures such as higher tariff rates and anti-dumping taxes since the global financial crisis. Driving these protectionist measures are demands by workers blaming higher imports for their unemployment or reduced incomes that politicians and governments impose protectionist measures. Considerable research has shown, however, that lower demand for labor attributable to economic stagnation and to a growing reliance on IT is a far larger factor in unemployment and lower incomes than is greater imports.

While protectionism can maintain employment and thereby protect workers for a time, restricting trade will hinder economic growth over the medium to long term, causing hiring to fall off and workers to suffer. In a global economy comprising national economies closely tied together through a global supply chain, the harmful consequences of restraining trade through protectionism are significant. Protectionism begets retaliation from countries adversely affected, and the destructive impacts of rampant protectionism reverberate around the world. It would not do to forget the precedent of global trade shrinking when countries worldwide embraced protectionism during the post-World War I economic slowdown to protect their own industries, with the resultant plunge in production bringing about the Great Depression and ultimately triggering World War II.

The General Agreement on Tariffs and Trade (GATT) promoting trade liberalization was signed after World War II to avoid protectionism. As trade liberalization talks under GATT convinced countries around the world to substantially lower their tariff rates, trade expanded impressively and contributed to rapid growth in the global economy. However, the negotiations on liberalizing trade that began in 2001 (the Doha Round) under the World Trade Organization (WTO), which superseded GATT, ran aground due to differences of opinion among member states. This has led to countries like-minded on the importance of liberalizing trade to conclude free trade agreements (FTAs) amongst themselves.

Numerous bilateral and multilateral FTAs have been concluded in the Asia-Pacific region, and recent years have seen negotiations get underway on mega-FTAs with large numbers of states as members. Garnering the most attention of all of these is the Trans-Pacific Partnership (TPP) Agreement. The TPP comprises 12 Asia-Pacific countries, including Japan and the US, that account for 40% of global GDP, and offers not only a high degree of trade liberalization but also a comprehensive framework that includes rules governing e-commerce, government procurement and other areas of increasingly important economic activity not covered in previous FTAs. The TPP is expected to serve as a model for future trade agreements around the globe. Nevertheless, Donald Trump, who is of the opinion that multilateral trade frameworks do not benefit the US, decided after assuming office as president to withdraw the US from the TPP Agreement.

Having regarded the TPP Agreement as the key to maintaining a free trade regime and achieving economic revitalization, the Abe administration is now being compelled to amend its trade policy. What kind of trade strategy should Japan adopt? First, agreements need to be reached on the mega-FTAs currently being negotiated. The Japan-European Union FTA is in the final stage of negotiations but, if no agreement has been reached by the end of March when elections begin in the EU, these talks will be set adrift. Negotiations on the Regional Comprehensive Economic Partnership (RCEP) of 16 East Asian countries, including those of the Association of South East Asian Nations as well

as China and India, are making little headway in the absence of some driving force. The second strategy is to put the TPP Agreement into force without the US. Because the TPP Agreement has already been signed, it need only be amended to allow it to go into force sans the US. Putting the TPP Agreement into effect absent the US is essential for creating an exemplary FTA that will already be in place should the US have a change of heart and wish to participate. Successful conclusion of the Japan-EU FTA and RCEP could possibly encourage US participation in the TPP Agreement.

In implementing these two mega-FTA strategies, progress must be made in liberalizing the agricultural sector, the heavy protection of which has proven a major obstacle in trade liberalization talks, so that Japan can effectively cooperate with like-minded countries such as Australia and Singapore, and so that it can provide leadership in pushing the trade liberalization negotiations forward.

It has been suggested that the Trump administration, which favors bilateral over multilateral talks, may seek to negotiate bilaterally on a Japan-US FTA. Japan should agree to such negotiations if premised on a shared understanding that the FTA would require mutual opening of markets rather than the one-sided market liberalization characterizing Japan-US negotiations heretofore, and that a bilateral FTA would be a steppingstone to a mega-FTA such as the TPP. 

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