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# Japanese Response to US-China Trade Tensions

Fukunari Kimura

Professor, Faculty of Economics, Keio University

Chief Economist, Economic Research Institute for ASEAN and East Asia (ERIA)

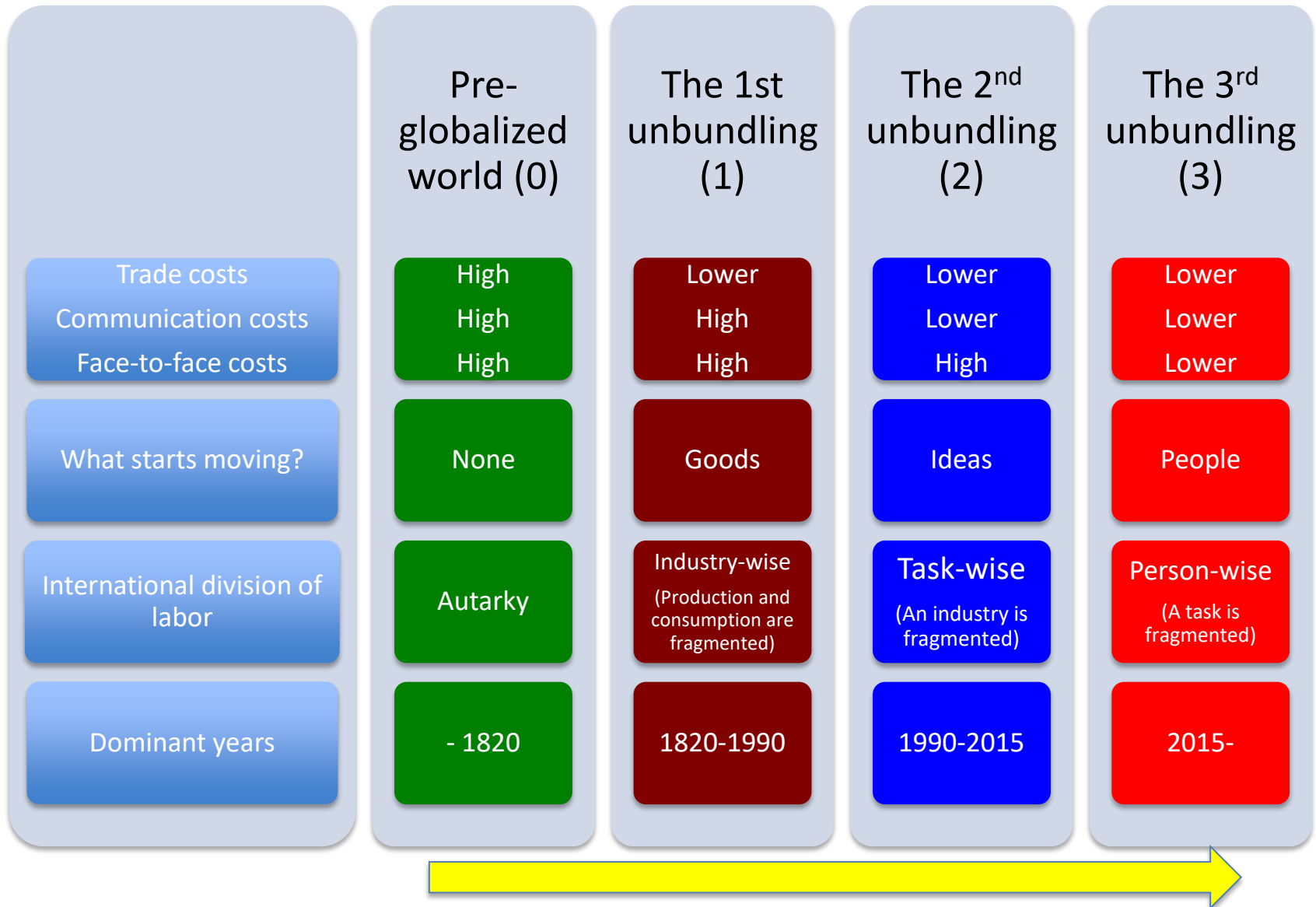
# 1. Danger to the rule-based trade regime

- Problematic trade policy by the US Trump administration
  - Re-negotiations of free trade agreements (FTAs)
    - KORUS, NAFTA
      - Voluntary export restraints, forced imports, safety regulation, rules of origin, ...
  - Trade measures possibly inconsistent with the WTO policy discipline
    - Section 232 of the Trade Expansion Act of 1962 (cf. GATT XXI)
      - Aluminum (10% tariff) and Steel (25% tariff); only for nominated countries; rebalancing measures by EU, Canada, and others planned/imposed.
      - Automobiles (announced to start investigation on June 21)
    - Section 301 of the Trade Act of 1974 and related articles
      - Claiming IPR issues against China, tariffs will be imposed (25% for 1,333 tariff lines from July 6; possibly extended); China announced to impose retaliatory tariffs (25% for 545 tariffs on July 6; possibly extended).
    - Retaliation/rebalancing measures by other countries: also need to check the WTO consistency.
- Concern over not only direct losses from trade shrinkage but also the degradation of rule-based trade regime
  - “Not rules but deals”: approaching to “managed trade.”
  - Links with politics and security issues are also dangerous.

## 2. Tariff war is anachronism

- Bilateral trade balance, mercantilism, ...
- Since 1990, production process-wise or task-wise international division of labor (the second unbundling) has dominated.
  - Globalization of production activities, expansion of international trade in parts and components
  - Beyond tariff cuts, we have pursued the higher level of liberalization and facilitation (goods, services, investment)
- Moreover, the digital economy has recently emerged.
  - Drastic reduction in B2C or C2C matching costs
    - New business models in retail services, transportation, tourism/lodging, financial sector, and others.
    - Soon extensive “service outsourcing” (the third unbundling) will come.
  - New international rules needed
    - E.g., free flow of data and back-up policies

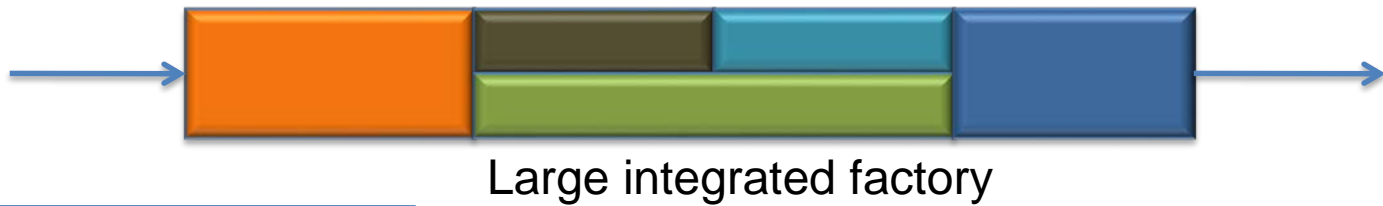
Figure 1 “Unbundlings” to overcome distance



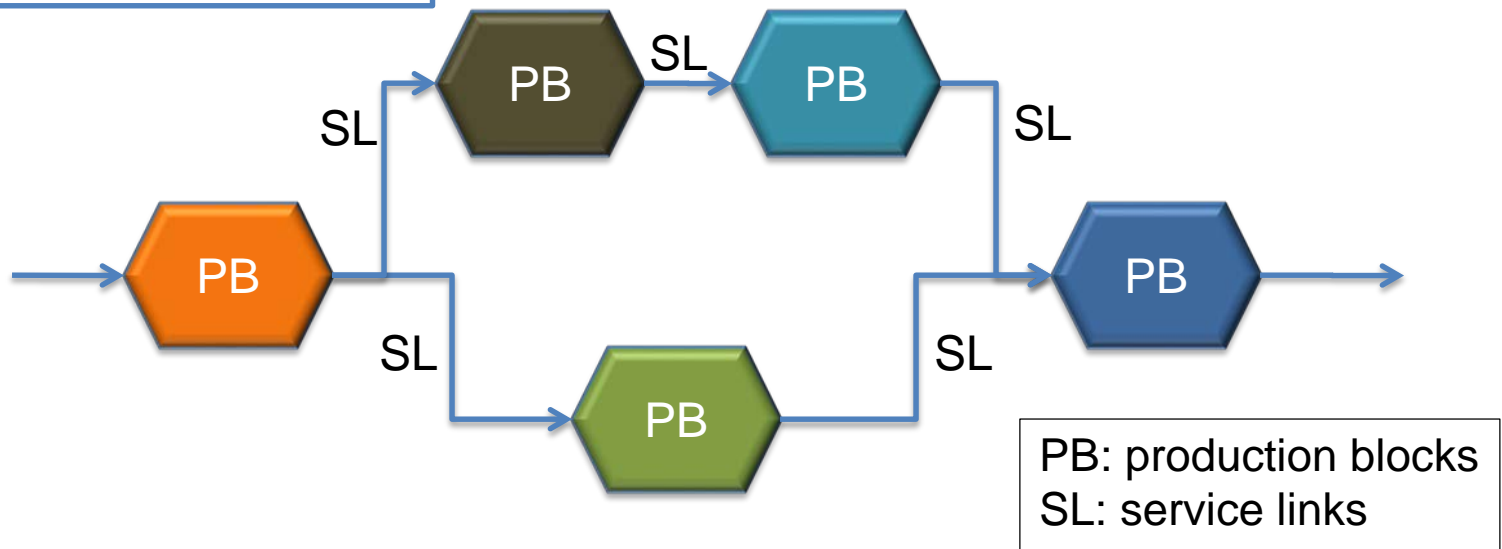
Source: By the author.

# The 2<sup>nd</sup> unbundling

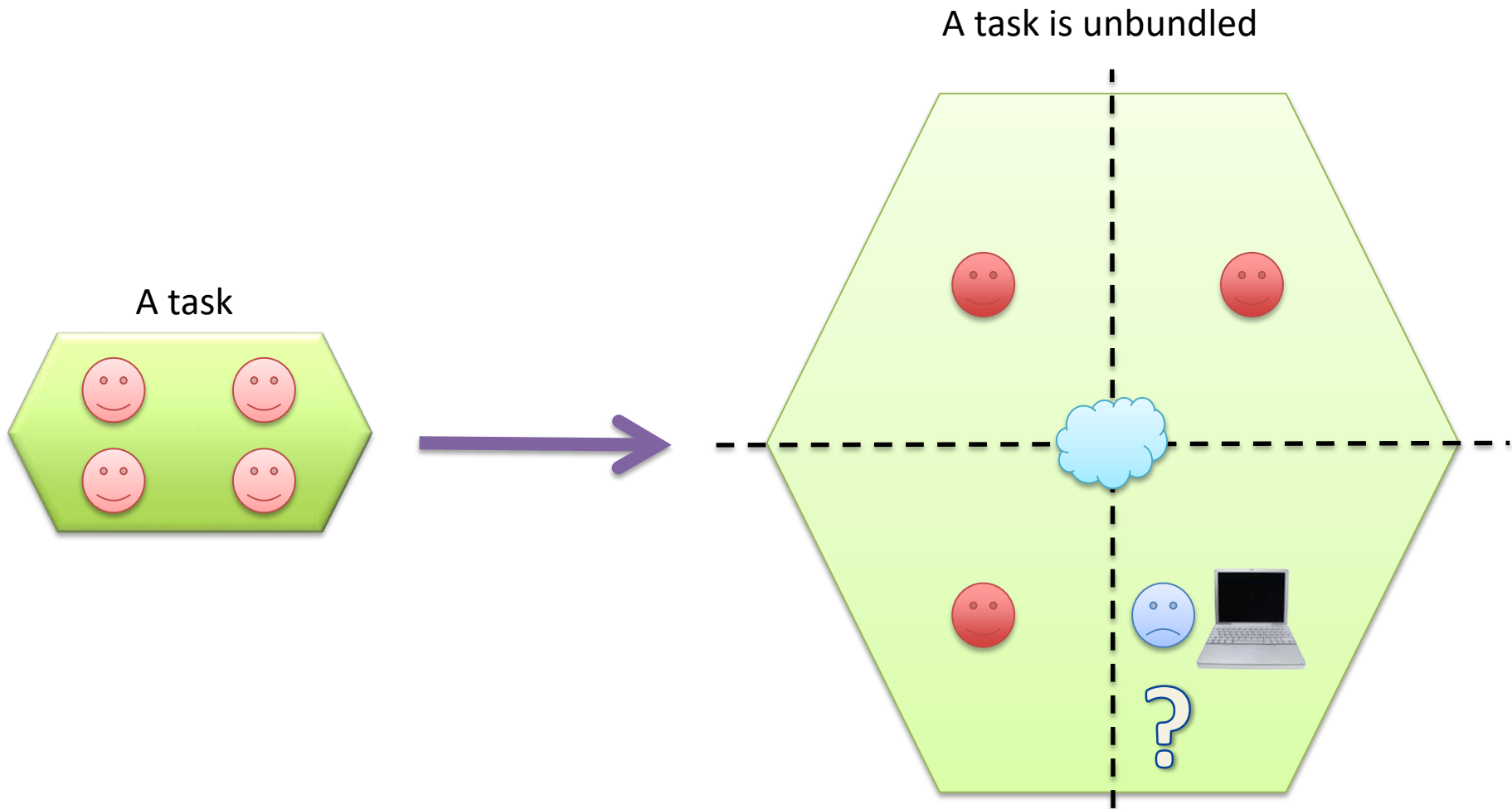
Before fragmentation



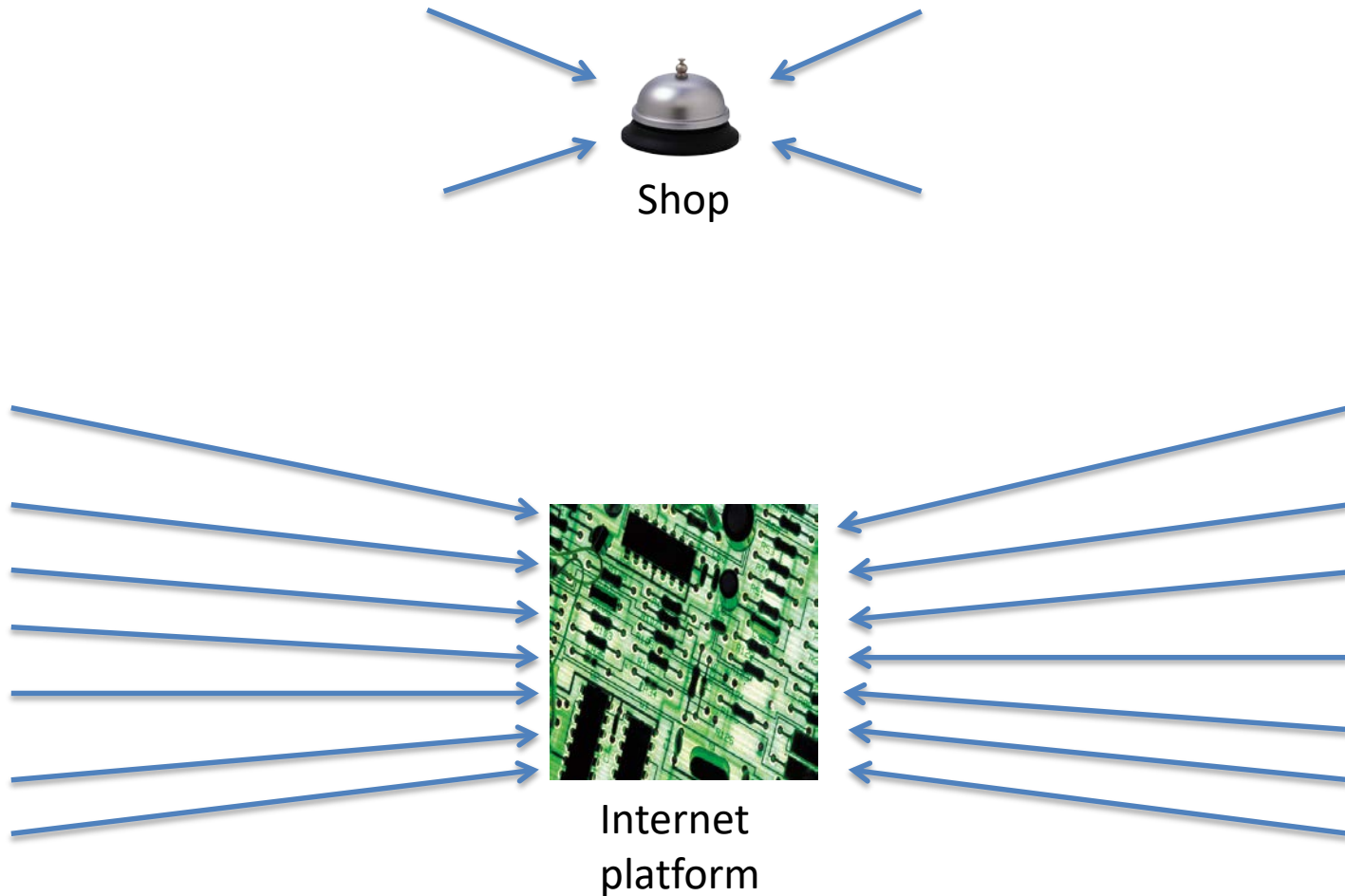
After fragmentation



# The 3<sup>rd</sup> unbundling



# The 3<sup>rd</sup> unbundling: Reduction in B2C, C2C matching costs



Source: By the author.

# 3. Japan's FTA strategy

- Mega-FTAs
  - Accelerated in order to push back protectionism.
  - Trans-Pacific Partnership (TPP)
    - Feb. 2016: TPP signed (In Jan. 2017, the US announced to walk away.)
    - March 2018: CPTPP (TPP11) signed
      - Validated with six countries' ratification. Movements of the expansion of membership
  - Regional Comprehensive Economic Partnership (RCEP)
    - Very important to retain "ASEAN centrality."
    - Negotiations accelerated? Coming back to go in parallel with +3?
  - China-Japan-Korea FTA
    - Can it support RCEP negotiation?
  - Japan-EU EPA
    - To be signed on July 11, 2018.
      - Try to be validated by March 2019.
- Trade talks with the US
  - Japan is trying to narrow down the scope of negotiation.
  - However, at some point in time, negotiation with the US cannot be avoided over CPTPP, bilateral FTA, or both.
  - Again, old homework "agricultural protection" is going to be at issue.



# 4. New international rules required

- Need to respond to the rise of newly developed economies (including China) and the digital economy. Should not go backward.
- CPTPP is a starting point for new international rules.
  - E.g. 1: State-owned enterprises (SOEs)
    - Globalization of corporate activities and the leveling of the playing field
    - May need to reconsider disciplines on foreign aid.
  - E.g. 2: e-commerce
    - Basic principle: free flow of data and no data localization requirements (cf. EU: GDPR, China: Cyber-security Law, ...)
    - Back-up policies: consumer protection, privacy, competition policy, taxation, cyber-security, (infant industry protection)

# 5. Conclusion

- Danger to the rule-based international trade regime.
- Should not go backward to a tariff war but step forward for further liberalization and international rule making in order to catch up with the further globalizing economy.
- Important to proceed mega-FTAs.