

The New Phase of International Trade Policy: Expanding and Promoting the TPP after the Return of the United States

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Key points

- Biden administration expected to return to the TPP
- Add labor and environment-related rules to the RCEP
- Lobby the United States which holds the key to improving WTO functions

From the end of 2020 to the beginning of 2021, a series of developments had a major impact on Japan's international trade policy. The Trump administration, which advocated the America First principle, came to an end and the Biden administration began. In this context, it is highly likely that the international trade policy adopted under the Trump administration will be reviewed.

In November 2020, the Regional Comprehensive Economic Partnership (RCEP) was agreed without the involvement of India. Once the RCEP comes into effect, a free trade zone of fifteen countries, including the Association of South-East Asian Nations (ASEAN) and China, will be created. At the start of the year, the Economic Partnership Agreement (EPA) with the United Kingdom took effect, and the United Kingdom and the EU provisionally adopted a Free Trade Agreement (FTA).

On the other hand, the World Trade Organization (WTO) is still dysfunctional. I would like to consider the issues and prospects for Japan's international trade policy, which has now entered a new phase.



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First, it is highly likely that the new Biden administration will review the international trade policy of the Trump administration. Former President Trump withdrew from the Trans-Pacific Partnership Agreement (TPP) soon after taking office in 2017. In addition to raising tariffs on steel and aluminum products under the pretext of protecting domestic industry, his administration revised the North American Free Trade Agreement (NAFTA) and the US-Korea FTA based on the view that they were linked to the hollowing-out of the manufacturing industry. The United States imposed wide-ranging sanctions and tariffs up to 25% on China with the conflict escalating to the point of a trade war.

Biden has said that he will oppose China by leveraging multilateral frameworks, such as the ones with Japan and Europe, rather than introduce sanctions and tariffs or other punitive measures. The United States has raised issues such as China’s industrial subsidies and the forced technology transfer with Japan and the EU in the framework of the Trilateral Meeting of Trade Ministers. The new administration will continue to call on China to change its policies under this framework.

Now then, will the Biden administration return to the TPP? Biden has said that he will first rebuild labor competitiveness with domestic investment before starting trade negotiations. It is likely that trade negotiations, including any return to the TPP, will follow after such domestic investment. In addition, it is a principle of trade negotiations to emphasize labor policies and environmental policies, but the TPP has clear conditions and generous provisions for labor and the environment (see table). It is possible that the administration will examine a return to the TPP after the Biden inauguration, but it will be preceded by domestic investment in the labor market.

Main TPP rules for labor and the environment (relevant articles in parentheses)	
Labor	Comply with ILO core labor standards (19.3)
	Prohibited to attract trade and investment by easing labor standards (19.4)
	Effectively enforce labor laws (19.5)
	No imports of goods produced by forced labor (19.6)
	Guarantee procedures for enforcing labor law (19.8)
Environment	No failure to effectively enforce environmental laws and regulations in a manner that affects trade or investment (20.3.4)
	Prohibited to attract trade and investment by easing environmental laws (20.3.6)
	Comply with multilateral agreements on the environment (20.4)
	Protect the ozone layer (20.5)
	Protect the marine environment from ship pollution (20.6)
	Prohibit fishery subsidies leading to overfishing (20.16.5)
Comply with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (20.17.2)	

Japan should actively lobby the United States to return to the TPP. After the conclusion of the RCEP negotiations, Chinese President Xi Jinping announced that he would actively consider participating in the TPP. This is a statement with great political implications for the transfer of power in the United States and one that cannot be ignored.

The first stage of the region-wide FTA negotiations for the Asia-Pacific region was completed with the conclusion of the RCEP negotiations. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, or TPP11), initiated by Japan and signed after the departure of the United States, is on an equal footing with the RCEP. The return of the United States to the TPP is the missing piece in the puzzle. Once the United States has returned, China will be welcome. The standard of tariff liberalization is high under the TPP and there are also strict rules prohibiting forced

technology transfers, protecting intellectual property rights, and regulating state-owned enterprises. It will not be easy for China to join the TPP, but it would be beneficial to ask China to change its domestic system through the negotiations for admission after the US' return to the TPP.

Japan signed the Japan-UK EPA [2020] after the Japan-EU EPA [2018]. The UK and EU also signed an FTA at the end of 2020, minimizing the negative impact of Brexit on trade relations between Japan and the UK, and Japan and the EU.

I would like to draw attention to the regulations related to labor and the environment in the Japan-EU EPA. There is much overlap between the rules on trade and sustainable development in Chapter 16 of the EPA, and the labor and environmental regulations in the TPP. Both agreements stipulate compliance with the core labor standards set by the International Labour Organization (ILO) and compliance with multilateral environmental agreements. This is a common feature of region-wide FTAs led by the US and EU. On the other hand, the RCEP has no regulations related to labor or the environment. Next-generation FTAs should not only aim to liberalize trade and investment, but also to contribute to sustainable development. Adding regulations on labor and the environment to the RCEP should be a goal for the future.

The WTO, which is a multilateral rules-based organization, is still not functioning properly. There are no prospects for a conclusion to the multilateral trade negotiations (the Doha Round), which began in 2001, because of the confrontation between the developed countries and the emerging countries. The [WTO] Appellate Body, which resolves disputes between member nations, stopped functioning at the end of 2019 when the United States refused to appoint or reappoint members. The process of choosing a successor to the Director-General, who resigned in August 2020, has been stalled since the selection was narrowed down to two finalists. [Fortunately, Ms. Okonjo-Iweala took office as the seventh Director-General of the WTO on 1 March 2021.]

There are several reasons for the dysfunction at the WTO. The Doha Round impasse has indicated the limits of a system where all member states negotiate many issues and collectively accept the results of the negotiations based on consensus. It would be more realistic for volunteer member countries to negotiate an agreement, and then release the results to encourage other member countries to join. This is how topics such as electronic commerce and investment facilitation are negotiated with Japan leading the negotiations on electronic commerce.

The issues of appointing members to the Appellate Body depend largely on the intentions of the United States, and there is little Japan can do. However, it may be a good idea to consider lobbying the Biden administration to review the policies of the former administration.

The dysfunctionality at the WTO is deep-rooted. Unlike the era of the General Agreement on Tariffs and Trade (GATT) when the intentions of major developed countries influenced the success or failure of negotiations, the intentions of developing countries, especially emerging countries such as Brazil, India and China, are strongly at work in the WTO. As a result, developed countries have lowered their expectations for the Doha Round and shifted the focus of their international trade policy to region-wide FTAs.



With the conclusion of the RCEP negotiations, the phase of region-wide FTA negotiations was tentatively completed. Japan has played a leading role in this phase, signing three region-wide FTAs, the TPP¹¹, the Japan-EU EPA and the RCEP. I would like to address three issues in the new phase of Japan's international trade policy.

Firstly, lobby the United States to return to the TPP. The TPP regulations on labor and the environment are in line with the Trade Promotion Authority (TPA) and meet Biden's requirements for trade negotiations. There should be nothing to stop the United States from returning to the TPP. If the United States returns to the TPP, the negotiations about tariffs and rules that still remain in the Japan-US Trade Agreement will be unnecessary. Japan should convey these advantages to the United States and persistently lobby for a change of mind.

Secondly, the aim should be to expand the TPP after the return of the United States. The TPP will be the foundation for a new era of trade and investment. In addition to China, South Korea, Thailand and the UK have also indicated their intention to join. There are great advantages to welcoming these countries in terms of both trade liberalization and rules. It is also worth considering inviting India, which has withdrawn from the RCEP, to the TPP.

Thirdly, the functions of the WTO must be restored. Even today when region-wide FTAs have been signed, the reasons for the existence of the WTO, which promotes trade liberalization based on the Most-Favoured-Nation principle, and where most nations in the world participate, have not disappeared. Electronic trade and other forms of trade that did not exist in 1995 when the WTO was established are now flourishing, and there is an ever stronger need to establish WTO rules. It is a realistic measure to formulate rules in volunteer countries and to open them up after the conclusion of negotiations to seek the participation of other member countries. It is worth noting that Japan is leading this trend.

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