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A book launch event featuring Dr. Mireya Solís at JCER on July 12, 2017

*Dilemmas of a Trading Nation**Japan and the United States in the Evolving Asia-Pacific Order*

Summary of the presentation by Mireya Solís,
Co-Director, Center for East Asia Policy Studies, The Brookings Institution
The author of recently published book: "Dilemmas of a Trading Nation"

Goals of Trade Policy

Although trade policy is critically important and very hot in terms of politics in Japan and the United States, it is not becoming so critical to the national conversations in both countries. However, when these countries are thinking and talking about some profound questions such as economic renewal, re-launching social compact, or what kind of international influence is desirable and is achievable, trade policy is right there in these national conversations.

To appeal the traction of trade policy to the general public is challenging because getting that policy right is incredibly hard. In other words, it is very difficult to reconcile the essential goals of trade policy. One goal of the trade policy is to achieve economic competitiveness and to exercise leadership abroad. Another important goal is to build social understanding as the trade agenda continues to grow and now has deeper reach within the border. Therefore, it is important to build the case to show why trade is important, why it is desirable and how to do it carefully to protect the domestic regulation. And the last goal is to make this agreement politically viable, or to make sure the ratification is possible. If the negotiated trade agreement falls apart, it is obviously a big blow to the participating countries and its members. When trade policymakers try to reconcile these goals of the economic competitiveness, social legitimacy and political viability, the essential dilemmas appear.

Two Essential Dilemmas: Decisiveness vs Inclusiveness and Reform vs Subsidization

First dilemma is a tension between executive leadership and social responsiveness. Under this dilemma, there are strong empirical records that top-down executive leadership is necessary to push vested interests to make sure those reforms have a fighting chance. The problem arises when the top-down executive leadership becomes too extreme, then the trade policy maybe be seen as exclusionary and as not incorporating the voices or inputs from other groups in the society. And the challenge against legitimacy comes in because there are now many groups who have a larger stake riding for the negotiation. Therefore, there is a tension between the decisiveness and inclusiveness. To strike right balance of these two is complicated.

Another essential dilemma is the tension between the drive for economic reforms and the need for the political pragmatism. In other words, the second dilemma is how to make the agreement politically viable at home so that the ratification can materialize. This may dictate some compromise that may pair down liberalization commitment or may extend the subsidies to dying sectors with political necessity. However, in that process you may give up some of the economic reform objectives. So there is a tension here between ambition and pragmatism. This is very much everyday concerned for trade policymakers as they are asked to be economic reformers but they are also known as the political operatives. For this reason, the trade policy is crafted in the world of constraints. It is about balancing and competing interests. It is required to make hard choices and this would be contested decisions because different groups of society have different ideas for what kind of acceptable tradeoff should be worked out. This shows how hard the trade politics are.

Defining Dilemmas for Japan

The first defining dilemma for Japan is the search for decisiveness. Japanese diplomacy was one-step behind because Japan played a passive role in trade negotiations. The first decade of FTA policy yielded a modest accomplishment with smaller economic partners and not opening enough the Japanese market. (Only 90% of tariffs were eliminated.) It was self-inflicted wound. Japan failed to overcome the resistance of agricultural lobby and to bring changes in policy making with the greater centralized decision-making system (i.e., a top-down executive leadership that cracks down bureaucratic sectionalism) and more proactive trade policy. However, given a strong public support and fragmented opposition parties, current Abe administration seems to be able to carry out trade policy more decisive way. Although ultimate outcome may depend on political priorities, Japanese government shows a “negotiated decisiveness” in trade negotiations. : In the case of TPP, government can attain its goal unless it makes no concessions in the five sacred agricultural commodities.

Second defining dilemma for Japan is the quest for reform. Structural reforms, the third arrow of Abenomics, are essential to unleash productivity and innovation in Japan. Trade policy has a role to play in helping these reforms move along, however, it is also important to have a realistic expectation, because some of most important priorities of structural reforms such as labor market reform, social security reform and energy policy lie outside the scope of trade agreement. Nevertheless, the Japan’s decision to join TPP did help the Prime Minister Shinzo Abe to advance his economic goal of reforms. And he gained credibility from other countries after he managed to get Japan into the TPP. -- They noticed that Japan could aim for more and Japan could open its market meaningfully more. Although agricultural sector no longer has veto power on trade agreement in Japan, the inertia is so strong that government plans to spend more in agricultural prefectures. We should watch the development.

Defining Dilemmas for the United States

The third defining dilemma is for the United States and is the renewal of internationalism that is the most fundamental challenge in the future. The unprecedented trade backlash in 2016 presidential election was in fact years in the making. There was expanding legitimacy problem on American trade policy fueled by three major concerns. These were concerns about distributional consequence of globalization (shared economic prosperity), growing reach of trade commitment on the domestic regulatory agenda (sovereignty and the regulatory state), and insufficient representativeness of the formulation of trade policy (the fact that the US does not have a broader set of voices incorporated when rules on trade and investment were drafted). Obama administration embarked ambitious trade negotiations across the Pacific and Atlantic oceans in the middle of the broader political and economic polarization without fully addressing those domestic concerns.

American public is skeptical when it comes to the benefit of trade agreement in terms of employment and wages. According to the recent Pew Research Center survey, 50% of Americans responded that trade destroys jobs, in contrast, the average number of other countries was 19%. The solution for the concern has to be the trade adjustment assistance program because the US pursued globalization without investing much for work force and social mobility. The US was supposed to have social and geographical mobility. However, it is no longer applicable. Government should renew the safety net for displaced workers and their children.

To give workers tools to cope with the difficult challenges ahead, the renewed safety net should be organized with two core ideas. One is resilience. For instance, a fallback program might help people to have a floor to land such as unemployment insurance and affordable health care. Another is mobility, in other words skill acquisition. The spring forward program (i.e., more funding for the community colleges) may allow workers move across occupations, fields and geographies. Skilled mobile work force is imperative.

What should be done internationally?

If every country moves fast with multinational trade negotiation, the US should not say “America first.” Sticking to time-consuming bilateral trade negotiations makes “America last”. There is no assurance that bilateral trade negotiation yields more.

TPP is still in Japanese interest even without the US. I think that Japan can obtain some from rescue operation of TPP. With the closure of Japan-EU FTA, TPP 11 can send a message that industrialized countries still believe in the merit of trade liberalization. Moreover, these trade agreements facilitate

Japan's supply chains that are so important to Japanese economic prosperity and give Japan a horse in a race in the region to define the terms of economic integration. If not, by default this will go to China. It would be a constructive way for Japan to exert leadership.

The US will not prepare to come back to TPP tomorrow or in any time soon. However, TPP is a safe bet rather than embark a new negotiation from a scratch. TPP is in many senses reflecting a template of the US free trade agreement and the US regional trade architecture to be wielded in the long term. Reviving TPP requires hefty dose of political capital by Japan again. And it is a role played by Japan to create the diplomacy and bring those remained reluctant countries on board since Japan has many economic tools to make the TPP an attractive proposition to those countries.

Mireya Solís is Co-director, a senior fellow, and the Philip Knight Chair in Japan Studies in the Brookings Institution Center for East Asia Policy Studies. An expert in Japan's foreign economic policies, Solís earned a doctorate in government and a master's in East Asian studies from Harvard University, and a bachelor's in international relations from El Colegio de México. Her main research interests include Japanese politics, political economy, and foreign policy; international and comparative political economy; international relations; and government-business relations. She also has interests in broader issues in U.S.-Japan relations and East Asian multilateralism.

Vanxay Sayavong
Visiting Research Fellow
Asia Research Department, JCER

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Japan Center for Economic Research (JCER)

Nikkei Inc. Bldg. 11F 1-3-7 Otemachi, Chiyoda-ku, Tokyo 100-8066, Japan

Phone: +81-3-6256-7710 / Fax: +81-3-6256-7924