

# Is the world regressing to protectionism?

Al signs are that the months-long war over trade between the United States and China will increasingly worsen. The trade war was initiated by Washington in violation of the rules set by the World Trade Organization (WTO). U.S. President Donald Trump nevertheless has repeatedly expressed his disdain for the WTO, in both words and actions. He is so disgruntled with the organization that he may eventually decide to withdraw the United States from it.

Threatening to impose tariffs on cars imported into the U.S. market, Trump has successfully compelled Canada and Mexico to renegotiate the North American Free Trade

Agreement (NAFTA) and replace it with a new pact, named the U.S.-Mexico-Canada Agreement (USMCA). His administration is also set to enter into new trade negotiations with Japan and Europe. As such, the world's trade system is now being overwhelmed by his advocacy for bilateral trade deals in place of multilateral free trade agreements.

It is true that the trade-related tensions we have been witnessing in recent months are mostly attributed to Trump, especially due to his extraordinary personality. But it is not the first time that Washington has taken self-entered trade policies prioritizing U.S.-led rules to secure its political benefits.

While the U.S.-China trade war continues to intensify, many members of the U.S. Congress, whether Republican or Democrat, strongly criticize China's industrial and trade policies. Likewise, not a few U.S. voters favor Trump's high-handed manner toward China. There is no question that the WTO and other existing multilateral trade-governing systems are now facing a major turning point, given China's determination to challenge U.S. political and economic dominance in world affairs. What is important under such circumstances is to carefully watch what will be happening to the global and regional trade systems while following the U.S.-China war trade.



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## From GATT to WTO

The WTO came into being in 1995 as the only global international organization "for dealing with the rules of trade

between nations." It superseded the General Agreement on Tariffs and Trade (GATT), launched in 1948 essentially as a venue for developed countries to hold "GATT rounds" of multilateral tariff negotiations with the aim of eliminating quantitative restrictions on imports and lowering tariffs.

The most important principle of GATT, founded by 23 countries, was stipulated in Article 1 of the agreement, requiring member states to comply with the rule of "most-favored-nation (MFN) treatment." When they lowered tariffs on imports from certain countries, they had to "immediately and unconditionally" accord the trade advantage to all other member states.

For many years after the inception of GATT, most of the developing countries did not actively take part in GATT rounds of trade negotiations, even while they kept benefiting from the lowering of tariffs by developed countries.

Developing countries finally chose to actively participate in multilateral trade negotiations within the framework of GATT in 1986 when the eighth and last GATT round started. The round, which was called the Uruguay Round as it was kicked off in Uruguay, lasted until 1994, with the participating countries reaching various accords, including an agreement to create the WTO in 1995. Six years later, in 2001, China joined the WTO.

With the launch of the WTO, developed and developing countries alike had a common venue for multilateral trade negotiations. In 2001, the organization started a new round of multilateral trade negotiations, called the Doha Round, aiming to reform the international trading system through "lower trade barriers and revised trade rules." But, as of today, the WTO is not yet close to bringing the round to a successful end, undoubtedly because its membership is much larger than that of GATT, which was effectively run by the "club of developed countries."

In the early years of GATT, developed countries often took protectionist measures in response to developing countries' efforts to challenge them economically. When GATT was established in 1948, Britain and France strongly opposed the entry of Japan, which subsequently had to wait until 1955 to become a GATT member.

Britain and France supposedly remembered how badly their exports had been damaged in the 1930s due to Japan's massive exports of cotton and other textile goods. The two European countries therefore worried that Japan would again make it impossible for them to maintain free trade once it

was admitted to GATT. Even when Japan was permitted to join GATT, Britain and France as well as other countries invoked Article 35 of GATT, which provided for the non-application of GATT obligations, to discriminate against Japan.

For its part, the United States initially stood by Japan, but trade battles then erupted repeatedly between the countries as exports from Japan — which was a "fast-emerging economy" — continued to grow sharply. Every time Japanese manufacturers of textiles, steel, color television sets and cars flooded the U.S. market with exports, trade friction between Japan and the United States intensified without exception. Those trade disputes often led to temporary political tensions and also resulted in the spread of protectionism.

## Self-imposed export restraints

In the postwar era, Japan experienced the first round of trade friction with the United States over Japanese exports

of textile goods. In 1971 when Tokyo reached an agreement with Washington on the much-sought reversion of Okinawa to Japan from U.S. rule, the U.S. government used this political event as leverage for having Japan yield to pressure from the United States and adopt "voluntary" quantitative export restraints. This format of self-imposed export control turned out to be the beginning of "voluntary" restraints on textile exports from many developing countries, preventing the normal development of textile trade in the world.

Japan and the United States were seriously at odds again in the late 1970s. At the time, the automobile industry was the mainstay industry in the United States. Therefore, even though U.S. consumers began preferring fuel-efficient compact cars from Japan to "gas-guzzling" U.S. cars in the wake of the oil shocks, the United States became enraged by the fact that there was a steep surge in imports of Japanese cars into the U.S. market. This row was finally resolved with Japan agreeing to a U.S. demand that it impose a voluntary export restraint on cars. Japan's self-imposed export control led to a sharp increase in car prices in the United States, ironically enough, causing serious damage to U.S. consumers.

The export restraints gave Japan's automakers no choice but to accelerate overseas production. They subsequently found themselves in an "after-rain-comes-fair-weather" situation with enhanced global competitiveness.

However, the pattern of trade talks, characterized by

fierce bilateral trade talks and the adoption of voluntary export restraints, then became a new norm for Japan-U.S. trade talks involving other sectors.

Especially in the case of friction arising from increased exports of Japanese semiconductors to the U.S. market in 1986, Japan intended to offer to resolve the issue by increasing imports of computer chips from abroad and expanding domestic demand. But there was political intervention, impairing normal market development.

While looking at recent U.S. renegotiations of NAFTA, I became worried particularly about the inclusion in the new trade deal of higher "regional value content" (RVC), which requires automakers to source more of their cars' content from within North America if they want to sell their autos in the region. I am afraid that the RVC clause could effectively serve as a de facto quantitative export restraint.

Washington may demand in bilateral trade negotiations with Tokyo that Japan agree to include in a new bilateral trade agreement a clause for restricting export volume of autos and steel. If this really happened, the situation would be tantamount to going several decades backward.

If we define trade protectionism from a historical perspective as slapping down any emerging state challenging the world's existing economic order, there is a strong possibility that the U.S.-China trade war will not be a one-off phenomenon unique to the Trump administration. Even though it is the United States that has picked the fight, it is China that is to blame for the cause. Despite having become the world's second-largest economic power, China still levies high tariffs on imported products, while maintaining certain restrictions on inward investment. The country is still enjoying the trading privileges that are granted to small emerging economies. There are many countries in the world that cannot tolerate China's self-centered trade policies, but it is probable that only the United States can confront and rebuke China with both words and action.

How will the U.S.-China trade war end? What kind of world trade system will emerge? Now, it is all up to China and what it will do in trade with the United States. Will China remain intransigent toward the United States in the trade war? Or, will it constructively move in order to establish a new economic order for the world? As far as the last question is concerned, China has so far shown no such sign.

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