

# Researcher's Eyes | What is the prospects of trilateral cooperation to the WTO reform?

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I had an opportunity to participate in the Japan Trilateral Forum held in Brussels on October 1 and 2. The Forum was hosted by the German Marshall Fund (GMF) of the United States. The objective of the Forum is to bring together policymakers, intellectuals, journalists, and business leaders from Japan, Europe, and the United States to discuss topics of mutual interest and concern for cooperation.

In the Forum, many participants shared concern about unpredictable Trump administration's policy as the biggest threat to the world as I had expected. What impressed me most was participants from the US and Europe shared strong cautiousness about China's growing influence.

I have had business trip to Brussels at least once a year these ten years, I began to feel European policymaker's perception of China changed dramatically most recently. The presence of Chinese IT companies has grown to be explicit in specific areas such as data analytics, artificial intelligence and telecommunications. Chinese companies have also become bullish in merger and acquisition activities, targeting high-tech companies abroad. The growing concern over China's massive infrastructure finance in Belt and Road countries, so-called "debt-traps". These events form the background behind a rising concern over China.

As I mentioned earlier, many participants shared concern about Trump administration's protectionism. More precisely, a serious threat is one of the two objectives of the Trump's trade policy. However, in terms of another objective, there were a vague expectation that it could be a chance to promote the WTO reform.

A serious threat is the objective to reduce the U.S. trade deficit. President Trump perceives the

U.S trade deficit has resulted in loss. It is supposed to equate to a net loss of jobs in the U.S. economy. In President Trump's eyes, reducing the trade deficit is an effective policy for booting manufacturing and jobs in the U.S. economy. President Trump also regards the U.S. trade deficit as a reflection of unfair trade practice by trading partners.

Trump administration use Section 232 of the Trade Expansion Act of 1962 as a policy tool to reduce the U.S. trade deficit. Section 232 authorizes the U.S. President, through tariffs or other means, to adjust the imports of goods or materials from other countries if those imports threaten national security. President Trump use automobile and parts tariff hike as bargaining leverage for deal with trading partners including alliance countries such as the EU and Japan. The U.S. applied import tariffs on steel and aluminum in early 2018 and threaten to do the same with autos.

In July, President Trump and President Juncker of the European Commission agreed to work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods.

President Trump and Prime Minister Abe decided to enter into negotiation for a US-Japan Trade Agreement on goods on September 26. In the joint statement of the U.S and Japan, it is confirmed that "with regard to agricultural, forestry, and fishery products, outcomes related to market access as reflected in Japan's previous economic partnership agreements constitute maximum level".

Salient features of both the US- EU agreement and the US-Japan agreement is the scope of negotiations is limited. Those are supposed to be completely different from a high level, comprehensive trade agreement that the EU and Japan has pursued so far. That is because these agreements are compromises for them to avoid harmful additional tariff on automobile.

It is quite uncertain of destination of these negotiations, however, participants in the Forum shared views that the result of trade negotiation with the U.S, such as the U.S.-Mexico-Canada Agreement (USMCA), is not a progress but a regress.

On the contrary, regarding the U.S pressure on China's unfair trade policy and practice under Section 301 of the trade act of 1974, there were an atmosphere that could be a chance for the EU and Japan. Absolutely, none of participants think the President Trump's trade tariffs on China are a rational response. If retaliation leads to further escalation, the EU and Japan will suffer negative impact through global supply-chine. If the two largest economies decelerate because of trade war, it will be difficult for both the EU and Japan to keep economic growth. Even the

current way of the U.S. trade policy on China is the problematic, however, it might be an opportunity to promote WTO reform to address China's unfair trade policy.

There are three common factors observed in agreements between the US- EU and the US-Japan; "limited scope trade negotiation" as mentioned earlier, "refrain from taking additional measures during negotiation" and "working closely together with like-minded partners to reform the WTO and to address unfair trading practice, including intellectual property theft, forced technology transfer, trade-distorting industrial subsidies, distortion created by state-owned enterprises, and overcapacity".

Furthermore, common concern and shared objectives to address non-market-oriented policies and practices and a common view on the need for the reform of the WTO were expressed in the Joint Statement on Trilateral Meeting of the Trade Ministers of the U.S., Japan, and the EU on 25 September.

However, it seems unlikely that trilateral cooperation will contribute to end the Trade War between the U.S and China immediately and to advance to the stages that the long-standing issues relating to unfair trade policies and practices will be solved through the WTO reform.

There are two reasons.

Firstly, the U.S and EU are not equally eager in their approach to the WTO reform. European commission issued a concept paper for the WTO modernization in September 2018. That is detailed, comprehensive 18 pages proposal which covers rulemaking, streamlining of structure and dispute settlement which is in a most critical moment by the US's blockage of appointments of members of Appellate Body. On the other hand, scope of agreements in Trilateral Meeting of the Trade Ministers is rather limited. In its Joint Statement, there is a sentence "The Ministers called on advanced WTO Members claiming developing country status to undertake full commitments in ongoing and future WTO negotiations". The ministers also confirmed their commitment to continue working together to maintain the effectiveness of existing WTO disciplines related to industrial subsidies. Regarding digital trade and e-commerce, the ministers agreed to continue work toward the timely launch of negotiation of a high standard agreement with the participation of as many members as possible. However, there is no agreement on reforms of dispute settlement, so called the jewel in the crown of the WTO. Therefore, these statements don't make sure the US will be kept in a multinational framework in the future.

Secondly, it seems difficult for trilateral countries to cooperate with China. At the EU-China

summit in July, the two sides agreed to cooperate on the WTO reform. A joint statement exaggerates that the both sides firmly supported the rule-based, transparent, non-discriminatory, open and inclusive multilateral trading system with the WTO as its core and are committed to complying with existing WTO rules. However, the EU and China could agree with the necessity of the WTO reform, there seems to be a significant difference of views over specific measures. EU and China launched negotiation of a comprehensive investment agreement to remove market access barriers to investment and provide a high level of protection to investors and investments in November 2013. However, it is reported that there still remains a lot of issues to be solved. Separate negotiations with China for an upgrade of the 1985 Trade and Economic Cooperation Agreement were launched in 2007 but have been stalled since 2011 due to divergences between the mandates and expectations of the parties.

In the Japan Trilateral Forum, some Japanese panelists mentioned the latest changes of China to soften the growing concerns among trading partners especially in the U.S. and the EU. One of the reasons why the tone of Japanese views are little bit different from those of the US and the Europe is Japan-China relationship has been gradually improving from mid- 2010's, the worst period since the introduction of reform and open-up policy in China. That might be because Japan is the neighboring countries of China and have longer and closer relationship than the U.S and EU have.

Anyway, it seems it will take some time until policymakers not only in the U.S. but also the EU overcome skepticism about China and try to find the way to enhance the multilateral trading system in cooperation with China.

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