

■ COMMENTARY

As G20 chair, Japan is placed to resurrect free trade – but faces challenges

By Duvvuri Subbarao and Rupakjyoti Borah

Japan is the chair of G20 this year, under the established system of annual rotation of chairmanship among member countries. Since its phenomenal success in securing global cooperation that prevented the global financial system from spinning out of control during the sub-prime meltdown in September 2008, the grouping has become the premiere international platform to manage global challenges.

Because it has no permanent secretariat and has no specific mandate beyond discussing the most critical issues facing the global economy, it has now become common practice for the chair country to set the agenda for the year of its chairmanship.

Predictably, Japan has listed free trade as its top priority, quietly but effectively positioning itself as the champion of a multilateral rules-based trading order. Tokyo will likely stress that protectionist policies are self-defeating and that structural impediments at the global level should be settled via multilateral policy coordination rather than bilateral trade deals, much less trade wars. Free trade has all along been a regular item on the G20 agenda.

Notably, at the height of the global financial crisis in 2008, amid fears around the world that countries would adopt “beggar thy neighbour” mercantilist policies to fight recession at home – which would be individually defeatist and collectively disastrous – it was the explicit resolution at the Washington meeting of G20 in November 2008 that “we will not repeat the historic mistakes of protectionism of previous eras” that saved the global economy from slipping into another Great Depression.

With the arrival of Donald Trump on the global scene, the G20 commitment to free trade is under threat. Notably, at the end of their previous summit in Argentina in December last year, the G20 leaders, ostensibly at the insistence of the US, shied away from incorporating the traditionally used phrase “fight protectionism” in their communiqué.

How the ongoing trade wars will unfold in the runup to the G20 summit in Japan, slated for June, is uncertain. Even as the United States is locked in high-stake negotiations with China to reach a truce on the trade war which saw punishing tariffs exchanged between Beijing and Washington, Mr Trump is threatening to open another battle front with Europe by slapping tariffs on European auto imports, a move that Brussels has vowed to parry with its own set of counter-tariffs.

Mr Trump’s assault on free trade risks undoing much of what the G20 has accomplished since the global financial crisis a decade ago. It is now widely agreed that at the root of the 2008/09 global financial crisis was unsustainable global imbalances. Quite unsurprisingly, in several meetings following the crisis, the G20 was engaged in reaching an agreement on preventing a repeat of such imbalances.

TWO TENETS

The G20 deliberations on global imbalances were informed by two tenets. First, that what matters for global financial stability is not just trade flows but current account flows, which include flow of both goods and services. Second, in an integrated world, it is inevitable that some countries run deficits mirrored by other countries running surpluses. The G20’s agreed action plan was that the current account balances of countries must reflect their economic fundamentals and countries must desist from gaining unfair advantage by policy manipulation. This was to be enforced through a mutual surveillance of external sustainability of systemically important countries. Mr Trump’s “America First” credo has upset this effort.

In championing free trade, Japan has a three-fold challenge. It will need to convince Mr Trump that the US attempt to balance trade on a bilateral basis is self-defeating, that US interests – as indeed those of every country – will be better served in a multilateral framework and that trade imbalances should be corrected through domestic structural reforms rather than protectionist policies. Japan will have to convince China that it has to fall in line with internationally accepted policies regarding intellectual property and investor protection. Finally, Japan will have to persuade other countries, notably the EU, to stay committed to the multilateral order.

Can Japan make meaningful headway in managing this challenge? It certainly has impressive credentials as a champion of multilateralism. After Mr Trump’s shocking withdrawal from the Trans-Pacific Partnership (TPP), Japan quickly took the lead to conclude the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), also known as TPP-11 with the remaining countries. Again, Japan is leading the negotiations on the Regional Comprehensive Economic Partnership (RCEP) involving the 10 members of Asean, Japan, China, South Korea, Australia, New Zealand and India. Accounting for nearly 30 per cent of global trade, the RCEP bloc has the potential to rival the EU in economic heft and trade potential.

From a political perspective too, Japan has a unique advantage in leading the charge for international cooperation. Prime Minister Shinzo Abe is in a politically strong position and enjoys wide popularity. Although a rich, first-world country, Japan has not witnessed either the left-wing populism or the right-wing anti-establishment moves sweeping across industrialised countries. Its recent indication that it is ready to accept more foreign workers is at best only a small concession, but will nevertheless burnish its credentials as a good global citizen. The daunting challenges confronting the world today cannot be managed without global cooperation. Yet, in a world divided by nation states, there is no voice for the global optimal. As the G20 chair, can Japan be that missing voice for reason and cooperation?

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