

Section 4 The need to reestablish the international trading system

As stated in Section 1, protectionism, rapidly spreading in the 1930s, was partially responsible for World War II. Having learned from the past, GATT was established in 1948 to pursue multilateral trade liberalization, before it was reorganized in 1995 as a more comprehensive institution, the WTO. Despite fears about possible proliferation of protectionism around nations in economic depression amid the 2008 Global Financial Crisis, the additional monitoring performed by the WTO and efforts of the G20 and others to maintain initiatives for international cooperation successfully prevented its resurgence. Some point out, however, that the WTO and other initiatives for the multilateral trade system and international cooperation have recently been unable to fully perform the role as a check against the spread of protectionism. At annual G20 meetings after the Global Financial Crisis, world leaders had repeatedly declared their commitment to "fight protectionism." The phrase was shied away the first time in the 2018 G20 Buenos Aires Leaders' declaration, an instance perceived as symbolic.

1. Fears about the failure of the multilateral trade system to function

"Reinvigorating Trade and Inclusive Growth," a report issued jointly by the World Bank, IMF, and WTO, states that reforming the multilateral trade system developed around the WTO is the key to facilitating further growth of the world economy after the slowdown of the progress from the early 2000s.⁷⁹ The WTO has three major functions to perform - (1) rule making, (2) monitoring mechanisms, and (3) dispute resolution. Challenges that the Organization faces there are explained below.

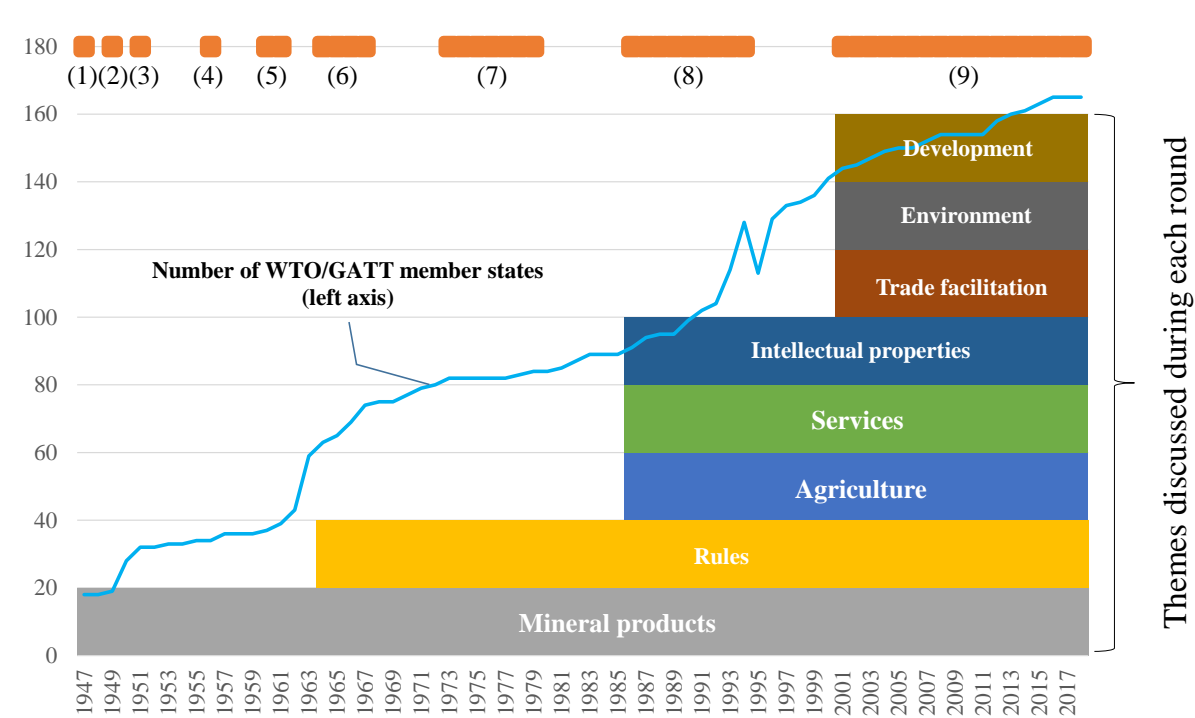
(1) Stagnation in rule making

After GATT was established in 1948, Parties engaged in eight series of multilateral negotiations to develop rules for free and fair trade. Through several rounds of negotiations,⁸⁰ they successfully reduced tariffs in phases and developed rules for trade other than duties. The GATT served to reduce tariffs and non-tariff barriers against the trade of goods through rounds of negotiations and adopt more enhanced and enriched trade rules with greater predictability. With its expanded scope of regulation, the WTO also works on the trade of service and trade-related aspects of intellectual property rights (TRIPS). The principle of unanimity for decision-making at trade rounds makes any agreement difficult to reach with the expanded scope of regulation and growing complexity of interests among the increased Member States. Therefore, trade rounds took more time to reach a consensus year by year. (Figure II-2-4-1).

⁷⁹ IMF, World Bank, WTO (2018), p. 4.

⁸⁰ From the 5th round, held in 1960 in Dillon, multilateral trade negotiations are called after their venues.

Figure II-2-4-1 WTO Member States, years of trade rounds, and their themes



Notes: The length of an orange strip in the Figure represents years of trade rounds (1) to (9) below:
(1) Geneva, (2) Annecy, (3) Torquay, (4) Geneva, (5) Dillon, (6) Kennedy, (7) Tokyo, (8) Uruguay, (9) Doha
Source: WTO website.

The Doha Round, which started in 2001, covered a broad range of issues, not only trade of agricultural, forest and fishery products and mineral products, but also liberalization of service trade, as well as anti-dumping and other trade rules, trade and the environment, and development. Parties also considered rules that should be established especially for investment, competition, and trade facilitation. With the principle of unanimity for decision making, the Round only made very slow progress amid conflicts of interests between developed and emerging and developing economies. Since its commencement in 2001, it had been limping along, with several suspensions and resumptions. After the breakdown of the July 2008 Ministerial Conference over the Special Safeguard Mechanism (SSM), progress in negotiations stalled. At the eighth Ministerial Conference, December 2011, they acknowledged in the part of "Elements for Political Guidance" of Chairman's Concluding Statement that it was unlikely that all elements of the Doha Development Round could be concluded simultaneously in the near future. They agreed to advance negotiations, where progress can be achieved, with an eye to possibilities to reach agreements based on consensus earlier than the full conclusion. Also, the followed negotiations led to a common understanding that progress could be made in the areas of trade facilitation, part of agriculture, and development. After intensive negotiations at the ninth WTO Ministerial Conference, held in December 2013 in Bali, Indonesia, they agreed to adopt the Bali Package, including a trade facilitation agreement, the first multilateral agreement since the establishment of the WTO.

At the 10th WTO Ministerial Conference (MC10), divergences of representation appeared clearly between developed countries and emerging and developing economies, as the former considered that a

new approach was needed in place of the Doha Round after a long period of negotiations, as many as 14 years, without adequate achievements while the latter insisted that the negotiation be continued. Opinions were also divided in terms of new issues that should be addressed in the changing times, such as spread of global value chains (GVCs) and information technology. In contrast to advanced economies, such as the United States, the EU, and Japan, other emerging and developing countries, including India and China, showed rather cautious towards initiatives for tackling with such new issues.

(2) Hollowing of the monitoring mechanisms

The monitoring mechanisms of the WTO, one of its main functions, are divided into three categories⁸¹:

- (1) Obligatory notification by Member States of their legislation and policy;
- (2) Reviews by the Trade Policy Review Body (TPRB); and
- (3) Monitoring program set out by the WTO Secretariat after the Global Financial Crisis (Monitoring reports published jointly by the WTO, UNCTAD, and OECD).

These mechanisms can be ranked as services for collecting, assessing, and disclosing information about trade policies and measures to prevent trade disputes. Global Trade Alert⁸² shows that among trade-restrictive measures recently adopted, the share of export-related ones is declining while that of non-tariff barriers, such as subsidy⁸³ and trade-related investment measures,⁸⁴ is rising, making situations more complicated (Figure II-2-4-2). That has made it more difficult to recognize realities of trade-restrictive measures of countries from the outside. Despite greater significance of notifications of their own measures, more countries are failing to satisfy their notification obligation, which many consider problematic.⁸⁵

The Member States are obliged by the WTO agreement to report a broad range of trade-related legislation and policies. The legislation and policies are summarized below (Table II-2-4-3).

81 WTO (2013) "The History and Future of the World Trade Organization," p. 271.

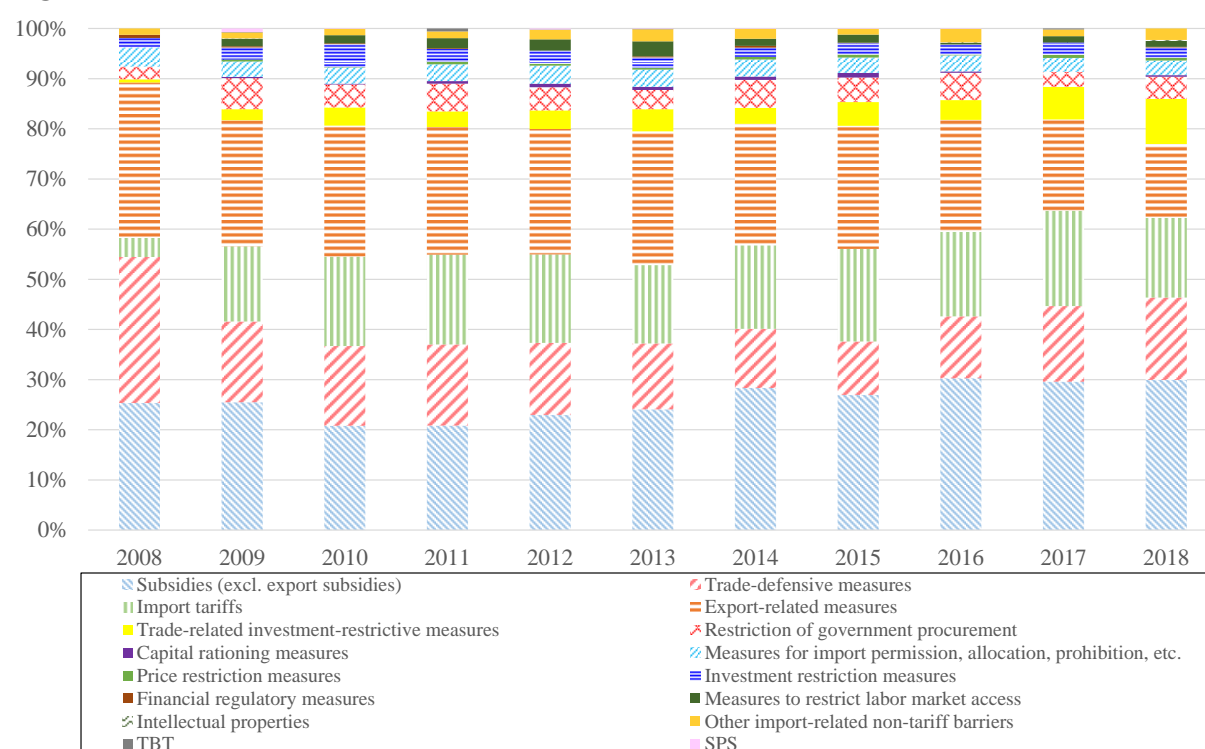
82 For specific classifications of measures, see UNCTAD (2015) "International Classification of Non-Tariff Measures 2012 Version."

83 Measures by the government other than export subsidy, such as capital contribution, loan, guarantee, capital injection, and income and price support.

84 For instance, local content requirements, and component and material import restrictions.

85 Ministry of Economy, Trade and Industry (METI) (2018), "2018 Report on Compliance by Major Trading Partners with Trade Agreements - WTO, EPA/FTA and IIA -," pp. 240 - 241.

Figure II-2-4-2 Trade-restrictive measures and their shares



Source: Global Trade Alert.

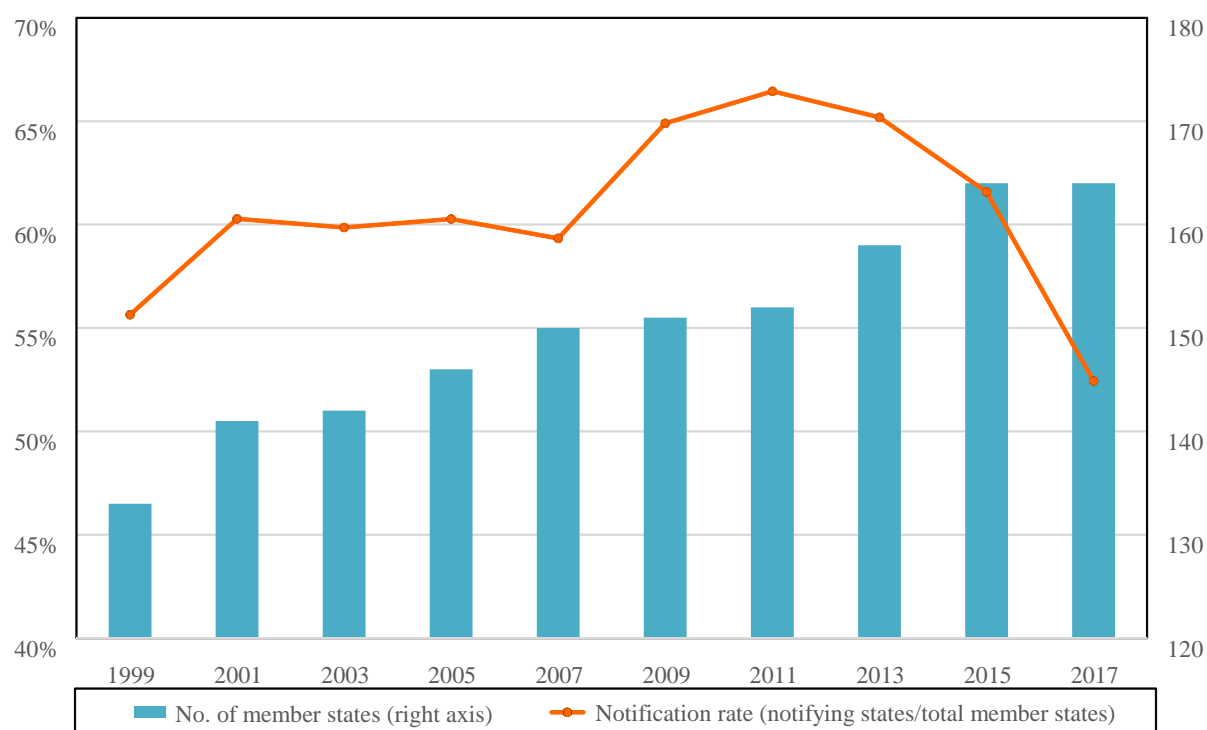
Table II-2-4-3 Legislation and policies that Member States must report under the WTO agreements

-	Tariff measures
-	Tariff quota and surcharges
-	Quantitative restrictions (incl. voluntary export restraint)
-	Other non-tariff barriers
-	Customs valuation
-	Rules of origin
-	Governmental procurement
-	Technical barriers to trade (TBT)
-	Safeguard measures
-	Anti-dumping measures
-	Countervailing measures
-	Export taxes
-	Export subsidies, etc.
-	Free trade zones
-	Export restrictions
-	Other governmental aid
-	Roles of state trade companies
-	Foreign exchange operations
-	Government-led counter-trades
-	Other measures regulated under a multilateral agreement in accordance with Appendix IA of the WTO Agreement

The Member States are obliged to report their measures concerning subsidies by June 30 every year,

whether they have any relevant measure in place or not. (Actually, notification is made every two years in accordance with a decision by a committee.) When all the Members satisfy their notification obligation, the share of notifying states should be 100%. In fact, since 2011, when more than 65% of the Members made notification, the share has been falling with the growing membership (Figure II-2-4-4). One of the factors contributing to the decline would be participation of developing countries with the lack of capabilities needed for notification.⁸⁶ Nonetheless, between 2015 and 2017, a period when the WTO admitted no new members, a decline of more than 5% was recorded. That is, some of the Members who had made notification (those with capacities to report) in 2015 have failed to, which suggests some might have intentionally neglected their obligation.⁸⁷ It should also be noted that Members that make notification annually may fail to file a correct report and fulfill their obligation.

Figure II-2-4-4 Share of states making notification on subsidies



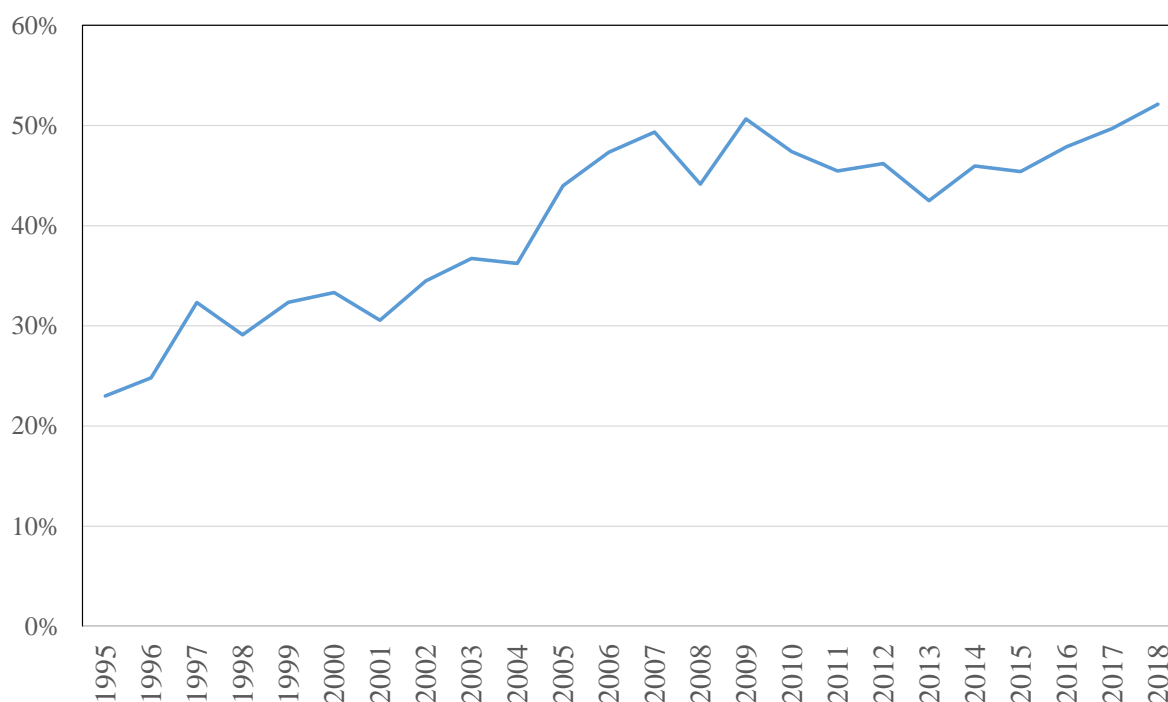
Source: *Report (2018) of the Committee on Subsidies* (WTO).

In contrast to the falling share of members reporting subsidies since 2011, more of the Member states are making notification of some measures. An example is notification of technical barriers to trade (TBT). In 1995, roughly 20% of the members reported their TBT measures. After temporary declines from 2009, the share of notifying members started increasing in 2013, before going above 50% (Figure II-2-4-5).

⁸⁶ European Commission (2018), "WTO modernization – Introduction to future EU proposals" (http://trade.ec.europa.eu/doclib/docs/2018/september/tradoc_157331.pdf).

⁸⁷ Ibid.

Figure II-2-4-5 Shares of members making TBT notification



Source: Technical Barriers to Trade Information Management System (WTO).

For such measures Member States are more willing to report, the General Council and Committees can discuss their compliance with Agreements, which would allow member states and the WTO to solve trade conflicts at lower cost than engaging in disputes.⁸⁸

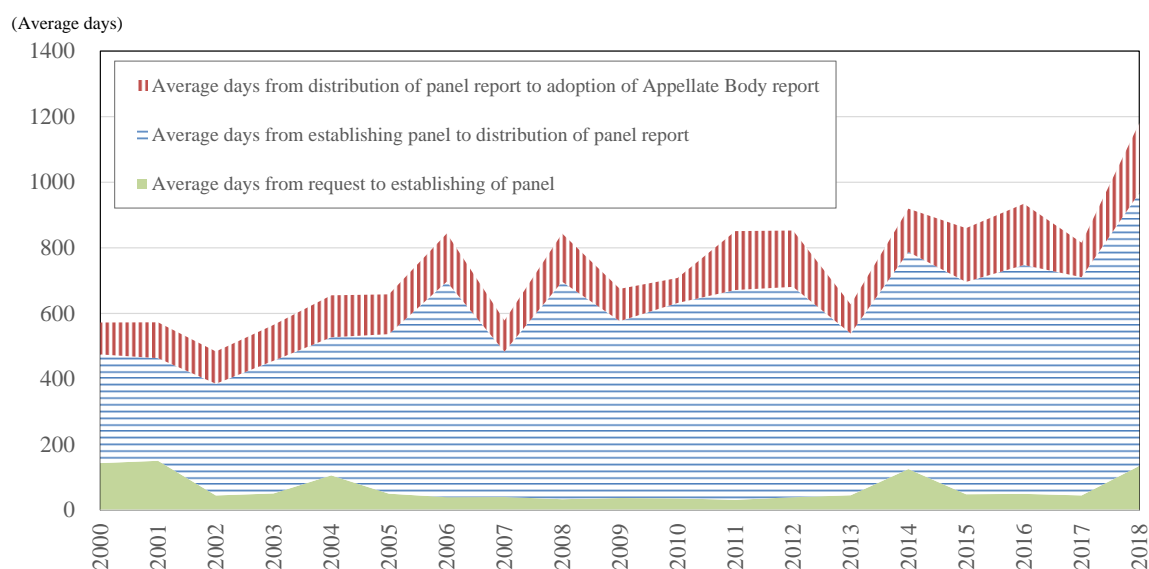
(3) Prolonged dispute resolution processes

The WTO's dispute resolution procedures worked effectively to help Member States solve disputes about problematic trade-restrictive measures between them. However, in recent years, some point out as a problem that longer time is needed before a dispute is resolved. Here, let us examine how many days it took from request to establish a panel through adoption of an Appellate Body report to see changes over time. Compared with 2003, it took more days on average in 2005. After that, even more days were needed to go through the process, with some fluctuations. Especially since 2013, the number of days needed has been rapidly increasing. Among the cases for which the Appellate Body adopted a report in 2018, it took 1,180 days on average before a dispute was resolved, much longer than the average over the entire period after the establishment of the WTO, 704 days. This suggests that, given little change seen in the number of adoptions through the years, there are more disputes for which they can find no easy solution than before. Another factor that may have something to do with the prolonged process is a growing share of cases where a consultation is requested before a panel is established. In the 1990s, many cases were solved out of the dispute resolution procedures, despite a request having

88 European Commission (2018), "WTO modernization – Introduction to future EU proposals" (http://trade.ec.europa.eu/doclib/docs/2018/september/tradoc_157331.pdf).

been made for a bilateral consultation, before a request was filed to set up a panel. In recent years, requests for a panel are filed more often than before, probably because parties are more willing to use dispute resolution procedures. On the other hand, in some cases, a great deal of technicality and consequent difficulty in fact-finding and/or disputes in legal issues that are difficult to interpret contribute to a prolonged period of inquiry and delays.

Figure II-2-4-6 Average days from a request to establish a panel to adoption of an Appellate Body report, and their breakdowns



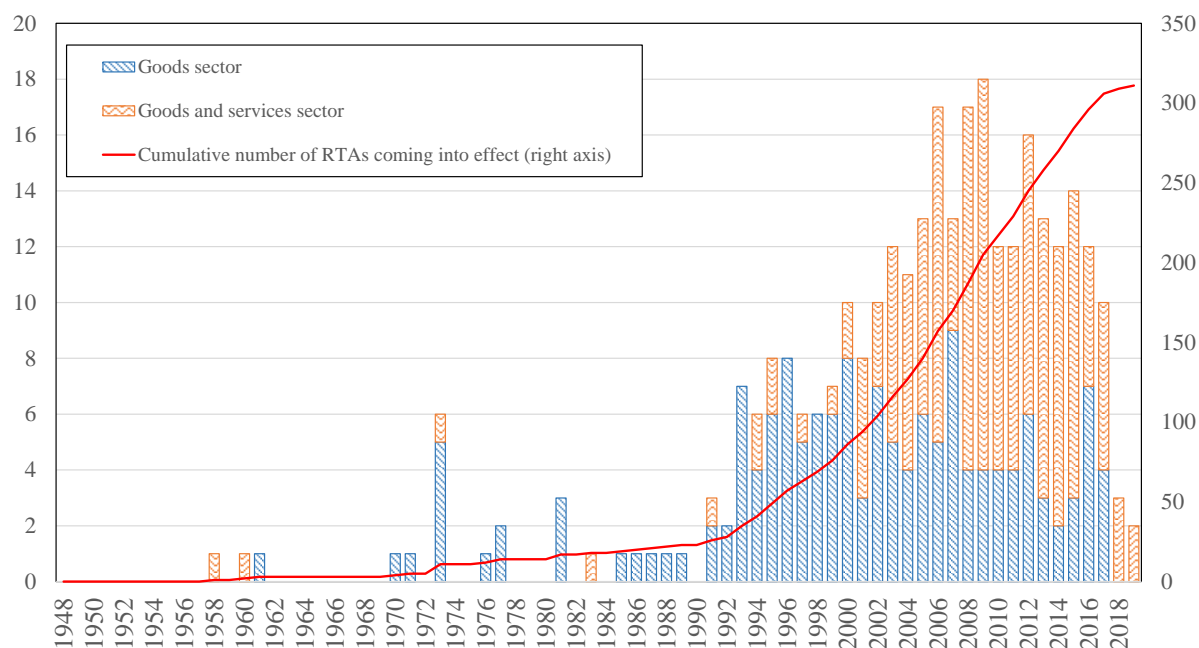
- Notes: 1. Cases are picked out only when data are available about the date of a request filed for setting up a panel and that of an Appellate Body report adopted to count days that passed between them retroactively, from the latter date to the former. Among cases for which a report was adopted in a year, days counted in that way are summed up, before divided by the number of cases to calculate the average for the year.
2. When several cases with different DS numbers are dealt with by the WTO as a single case, it is counted as such. When requests for setting up a panel were filed on different dates among them, the earliest date is selected as the starting point for calculating days.
3. Given that it took five years in the longest case from a request having being filed for setting up a panel through the Appellate Body report having being adopted, figures for the period between 1995 and 1999 are excluded.

Source: WTO.

2. Increase of regional trade agreements

In recent years, major economies around the globe have been active in concluding bilateral and/or regional agreements for development of trade and investment (Regional Trade Agreements, RTAs). Amid the lack of progress in rule making at the WTO, they are working to develop trade rules more quickly between countries and/or regions that share basic ideas and build a system earlier. The number of RTAs coming into effect started increasing in the late 1990s, before marking a peak in 2008. As of March 2018, a total of roughly 300 RTAs have been concluded. Into the 1990s, many RTAs focused mainly on issues concerning the trade of goods (tariff increase, etc.) while, from the 2000s, more RTAs also cover rules for the service sector (Figure II-2-4-7).

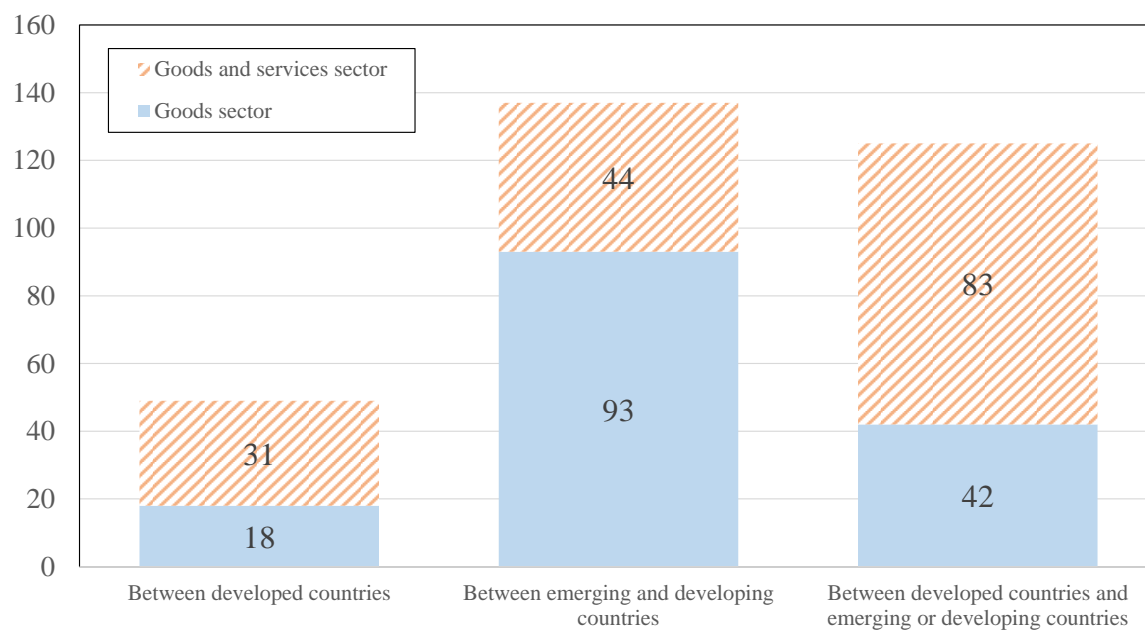
Figure II-2-4-7 RTAs coming into effect



Source: WTO-RTA-IS.

The breakdown by region shows that two-thirds of the RTAs concluded by emerging and developing countries cover only the trade of goods, while the majority of the RTAs among developed nations or between developed, and emerging and developing economies have a broader coverage that includes the trade of service (Figure II-2-4-8).

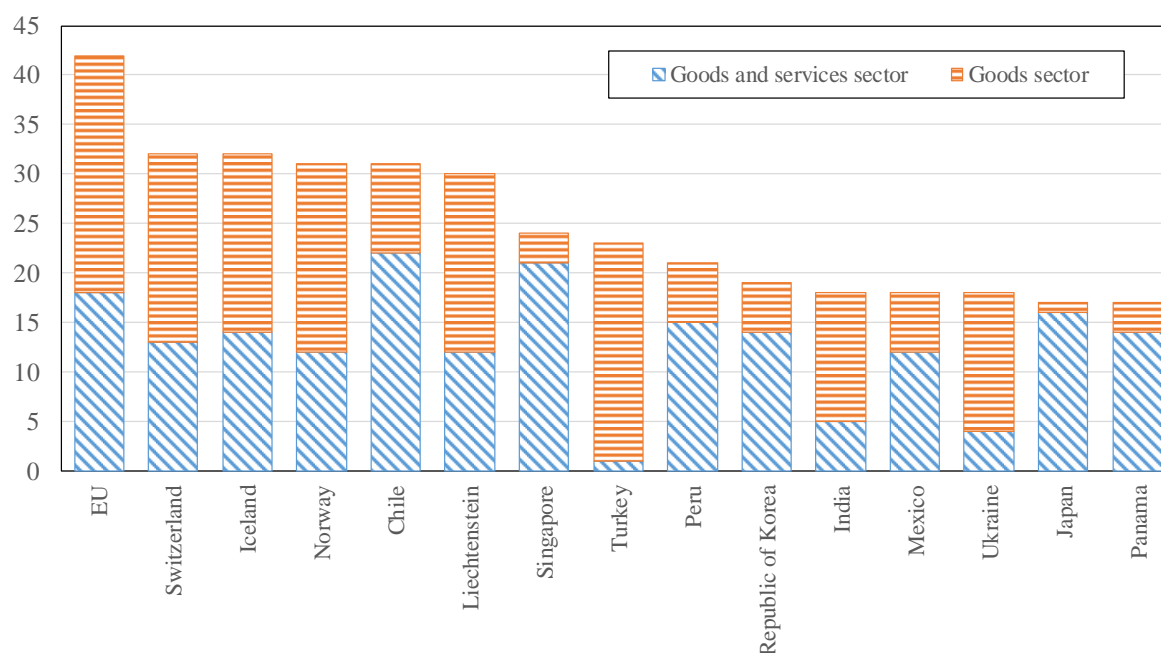
Figure II-2-4-8 Breakdown of RTAs by region



Source: WTO-RTA-IS.

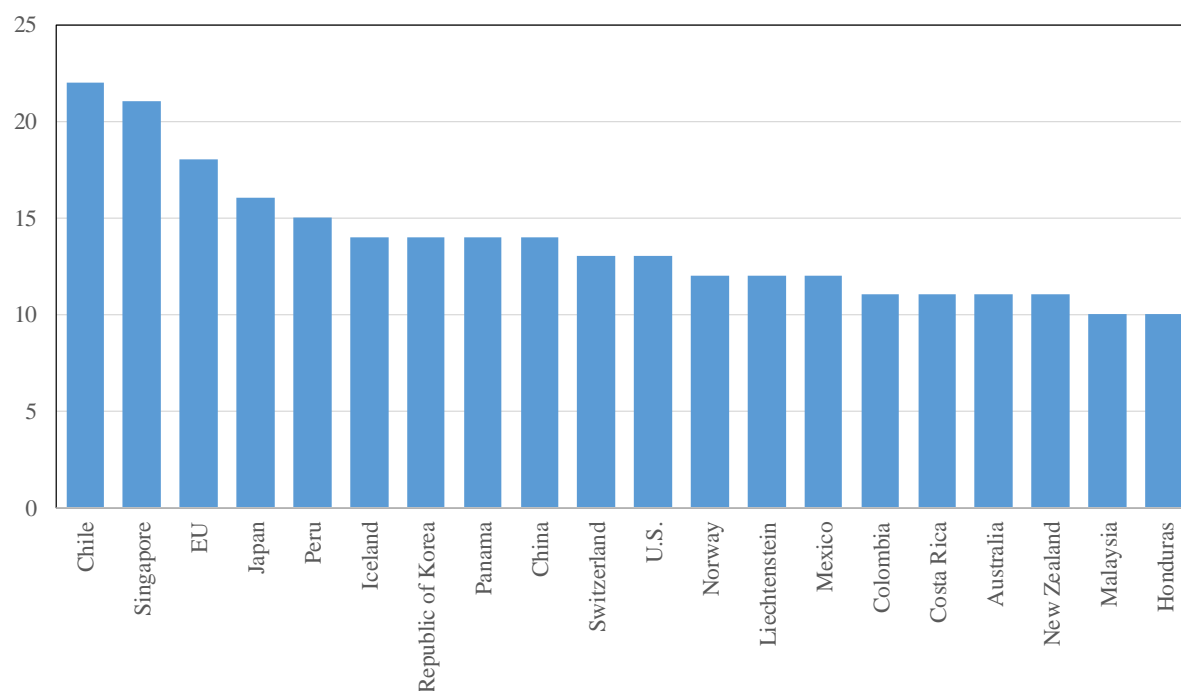
Seen in terms the number of RTAs concluded by a country, the EU and other European states rank the highest, followed by Chile, Singapore, Turkey, and Peru, countries that have been working actively since an earlier phase to conclude RTAs (Figure II-2-4-9). Seen in the number of RTAs concluded by a country, Japan ranks 14th. In terms of RTAs that cover the service sector, Japan comes in 4th, after Chile, Singapore, and the EU, findings that demonstrate that Japan is leading the effort to develop more comprehensive and higher-level rules (Figure II-2-4-10).

Figure II-2-4-9 RTAs by country & region



Source: Compiled by METI based on data from WTO-RTA-IS.

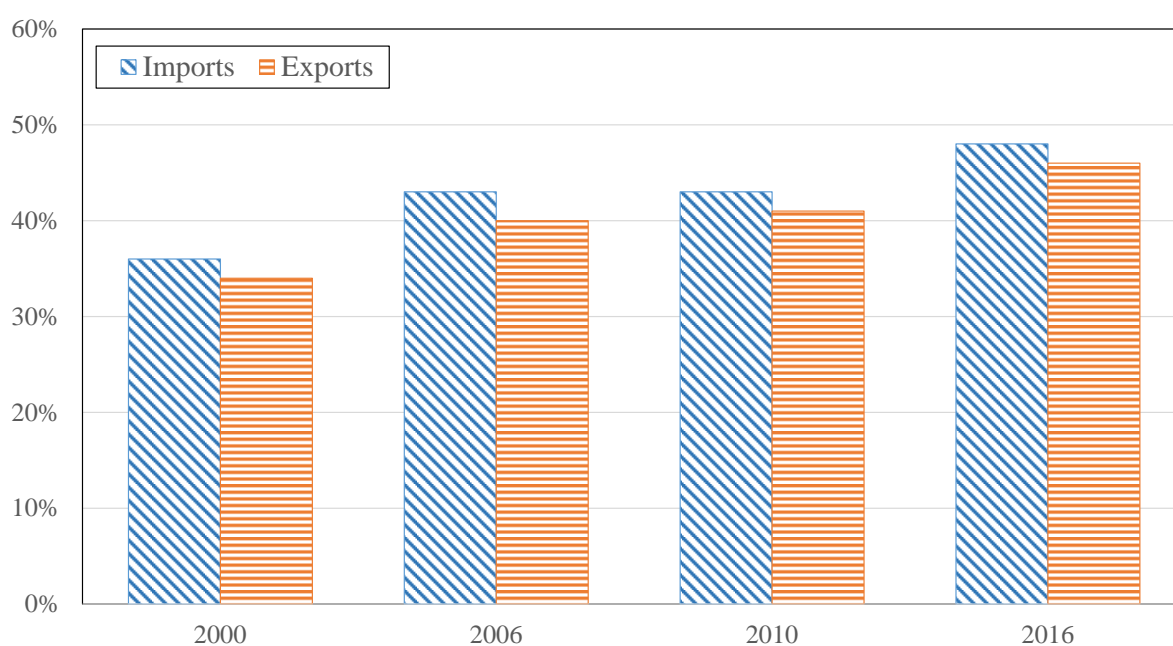
Figure II-2-4-10 RTAs by country & region (incl. those covering the service sector)



Source: WTO-RTA-IS.

Among total imports and exports around the globe in 2000, those between countries that had concluded RTAs accounted for around 30%. The share has since been growing, although still staying below 50%. This result suggests a critical role of the WTO to play in making rules that should cover all its 164 Member States (Figure II-2-4-11).

Figure II-2-4-11 Coverage of RTAs in total imports & exports around the globe



Notes: An RTA coverage represents a share of imports and exports between countries that have concluded FTAs among the global total.

Source: Reinvigorating Trade and Inclusive Growth (WTO, 2018), p. 34.

3. Need to develop rules relevant to new sectors

(1) Digital disruption

"Digital disruption" refers to game changes in an existing industry, by new entrants who come with some digital technology. Waves of digital disruption arrived in the music and retail industries in the 1990s. Then, the media, tourism, and, human resource service sectors, among others, in the 2000s experienced upheavals in their existing structures, followed by the wholesale and financial sectors in the 2010s (Table II-2-4-12).

How significant the impact was can be seen in the music industry, for instance. In the 2000s, global sales of CDs, DVDs, and other physical media amounted to more than 25 billion dollars. Since the appearance of digital media during the decade in the music market, sales of discs have shrunk to around one-fifth, in terms of both value and market share. In contrast, digital media have been steadily growing to reach around one billion dollars in sales, more than half the revenue of the global music industry. In addition, since around 2013, streaming services have been rapidly growing in market share. Disruption is also taking place within the field of digital industries (Figure II-2-4-13).

As a way to recognize the impact of digital disruption in the media industry in Japan has felt, let us focus on advertising spending by type of media. Amid the growth of total advertisement expenses for years, conventional media - newspaper, magazine, radio, TV, and sales promotion media - see their declines both in absolute revenues and market share while media for advertising on the internet have been growing fast (Figure II-2-4-14).

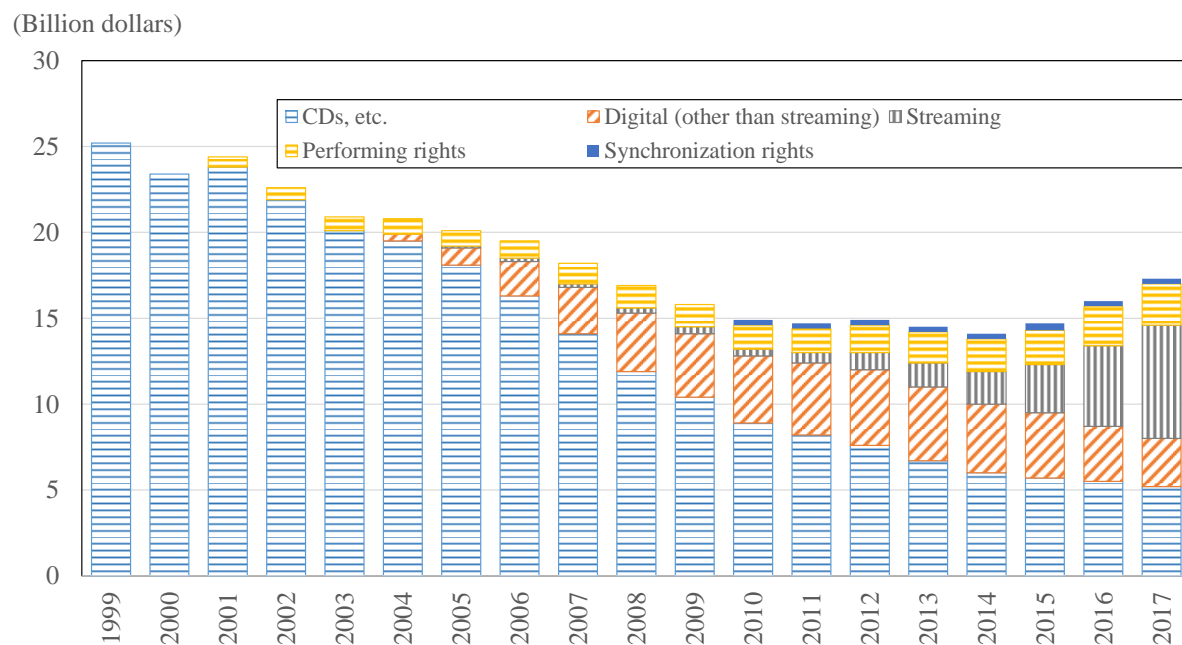
As seen here, digital disruption has the potential for making significant impact on the existing structure of industry. This is not an event that some industries may experience as has ever been, but a cross-industrial possibility, because the explosive growth of data made available through development of IoT, technology for connecting everything in this world together, is taking place together with advancement of AI, cloud, and blockchain technologies, which should facilitate more efficient and effective use of the data.

Table II-2-4-12 Examples of digital disruption ever seen

1990s	2000s	2010s
Music	TV	Wholesale
Photography	News	Taxis, etc.
Video rental	Tourism	Financial services
Retail	Human resources	Healthcare

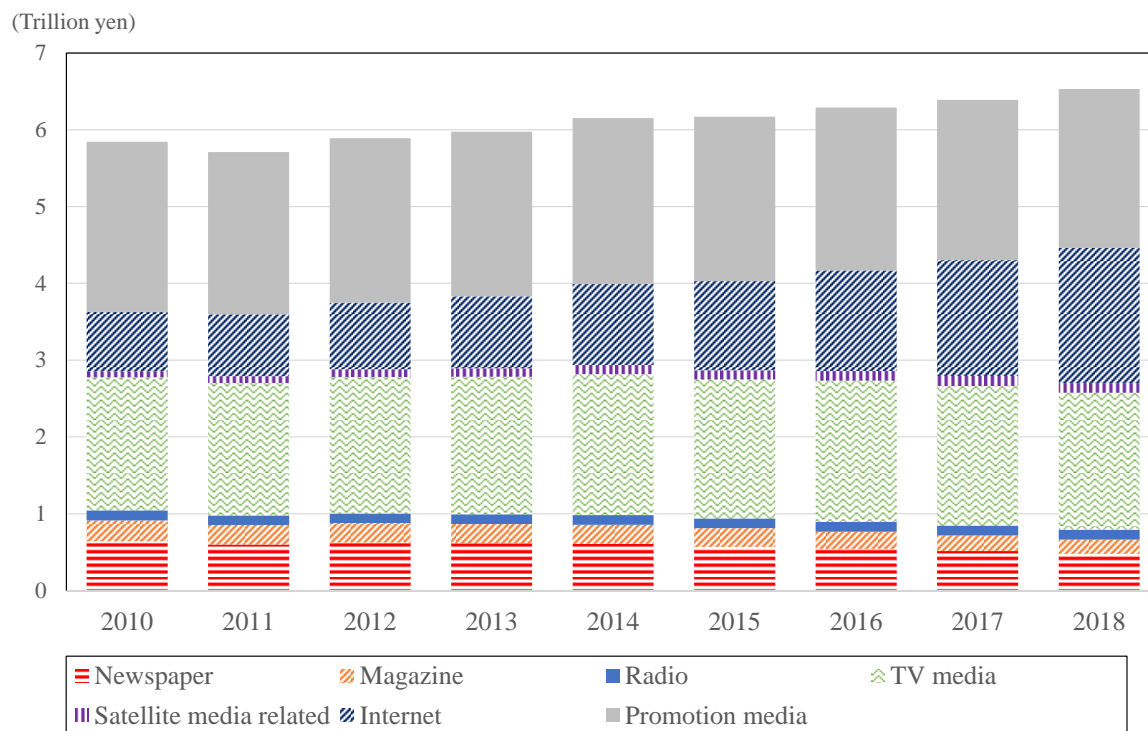
Source: ORACLE and Efma (2016).

Figure II-2-4-13 Sales of music industry by type



Source: Global Music Report 2018 (IFPI, 2018).

Figure II-2-4-14 Advertising spending in Japan by type of media (100 million yen)



Notes: TV media include terrestrial broadcasters.

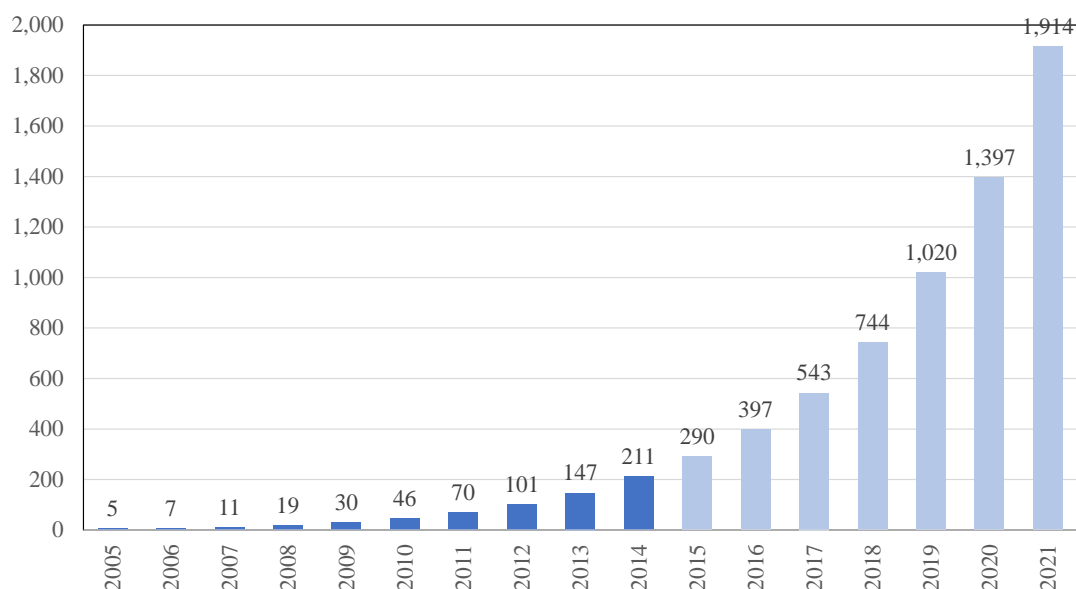
Source: *Knowledge & Data: Advertisement Spending in Japan* (Dentsu)

(2) Trend of cross-border digital trade

In addition to explosive growth of data available, cross-border trade of data has been increasing exponentially (Figure II-2-4-15). To see geographical distribution of data flow, let us focus on shares of regions in subscriptions to broadband services that enable high-speed transmission of information. Subscriptions to broadband services have been rapidly growing since 2000. Seen by region, Europe and North America accounted for 65% of subscriptions that year. In 2017, East Asian and Oceanian countries alone amounted to 46%. Emerging and developing regions - ASEAN, South Asian countries, Russia and CIS, and the Middle East - are taking an increasing share, evidence of rapid growth taking place in data flow everywhere around the globe (Figure II-2-4-16).

Figure II-2-4-15 Global cross-border data trade: Past records and forecasts

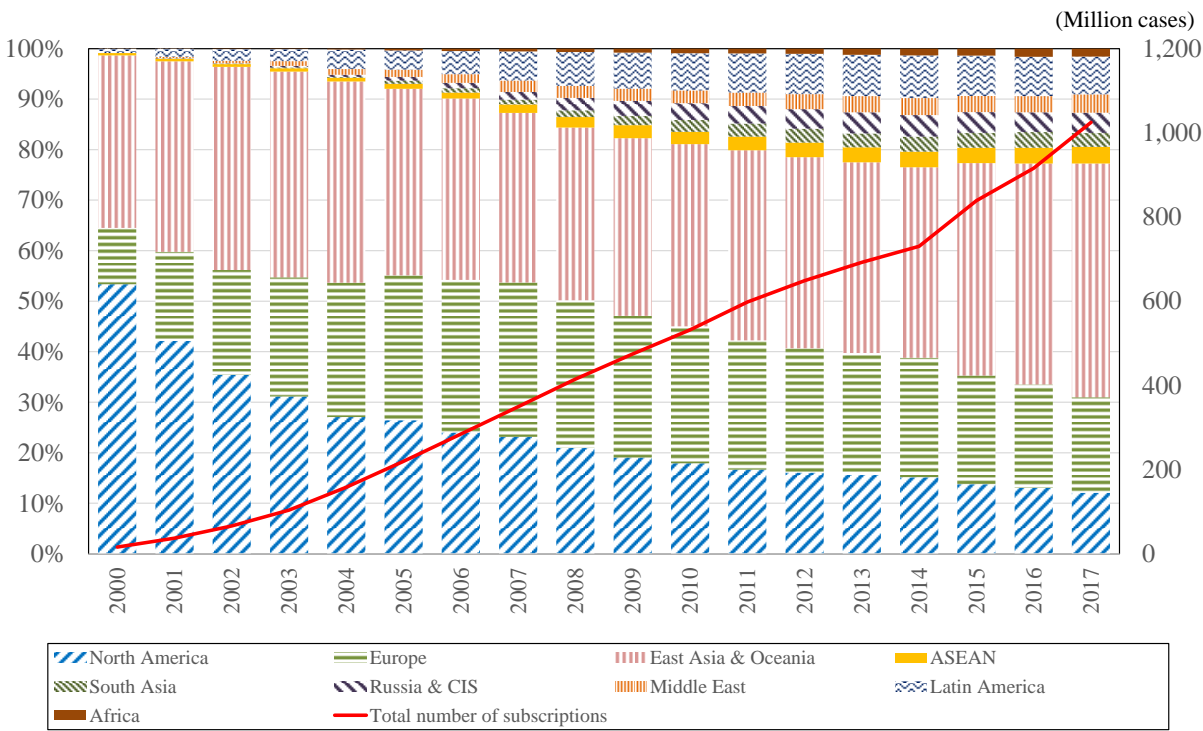
(Terabyte per second)



Notes: Figures for 2015 onwards are forecasts.

Source: *Digital Globalization: The New Era of Global Flows* (McKinsey Global Institute, 2016).

Figure II-2-4-16 Subscriptions to broadband services by region

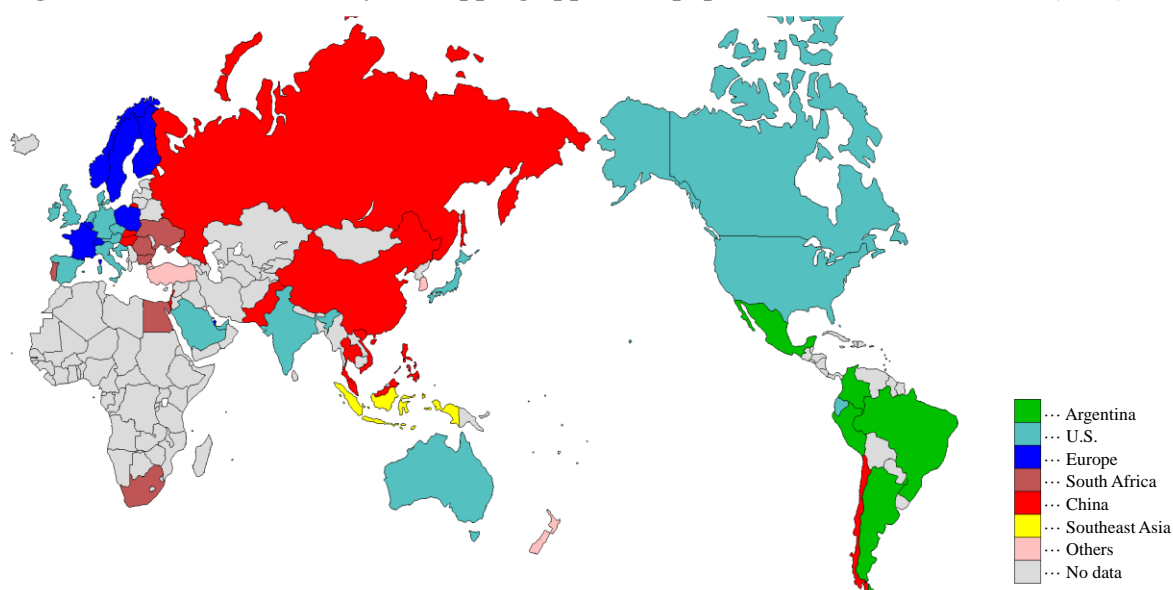


Sources: ITU statistics.

With growth of electric commerce (EC) in countries around the world, EC markets, as well as players who provide services there and environments where they compete, are also globalized. As an example, let us focus on "shopping" apps available at Google Play and Apple Store to examine which app is most popular in each of the 60 countries in terms of which data are available as of 2018⁸⁹ and find where it has been developed, or its nationality. The United States is the country of origin for the most popular app in 19 countries, the largest, followed by China and Argentina, which offer an app most frequently used for shopping in 14 and five countries, respectively. Among the 60 samples, a mere 16 countries have developed the most popular app in the domestic market (Figure II-2-4-17).

89 Seen in the total of monthly active users during 2018.

Figure II-2-4-17 Nationality of shopping apps most popular in different countries (2018)

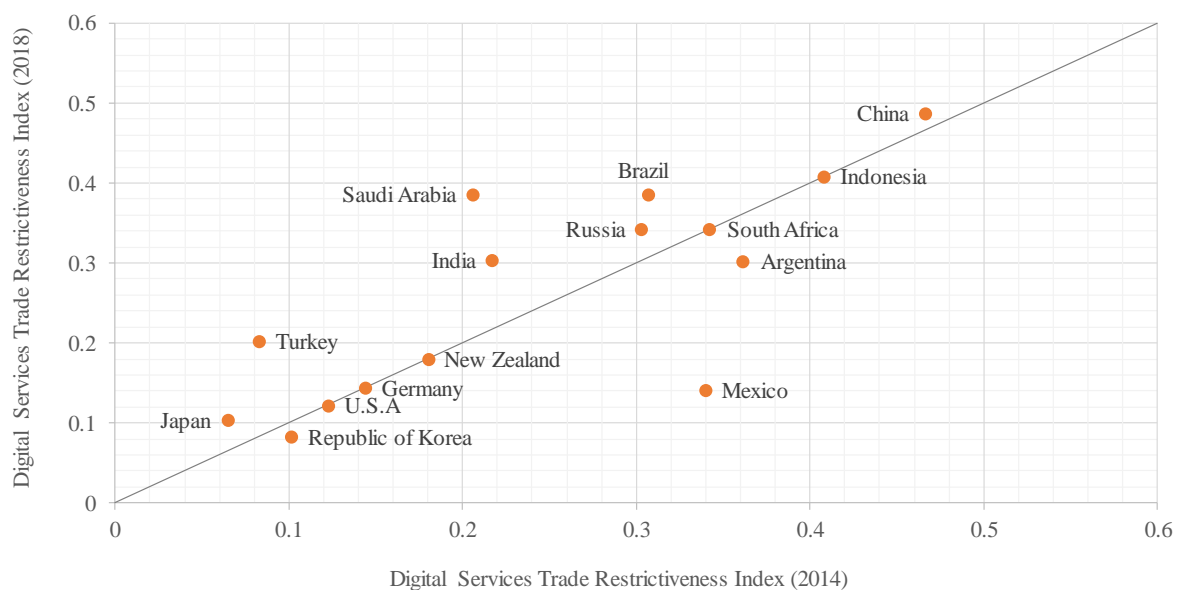


Source: Compiled by METI based on data from App Annie.

As seen above, amid rapid growth of cross-border economic activities aided by development of digital technology, international rules for regulating the digital space must be developed as an urgent task to protect personal information and data on intellectual properties, among others, while enabling free flow of data.

In reality, however, countries are adopting arbitrary regulations to strengthen their own industry amid increasing competition in data-related business around the globe, a move that harms business environments. The OECD examines domestic regulations of 46 countries around the world in terms of their effect on trade of digital services and rates them with an index between zero to one. The findings, "Digital Trade Restrictiveness Index," have revealed that emerging and developing countries impose especially restrictive regulations on digital trade, and that restriction has been tightened between 2013 and 2018, especially by the BRICs members (Figure II-2-4-18).

Figure II-2-4-18 OECD Digital Trade Restrictiveness Index (2014 & 2018)

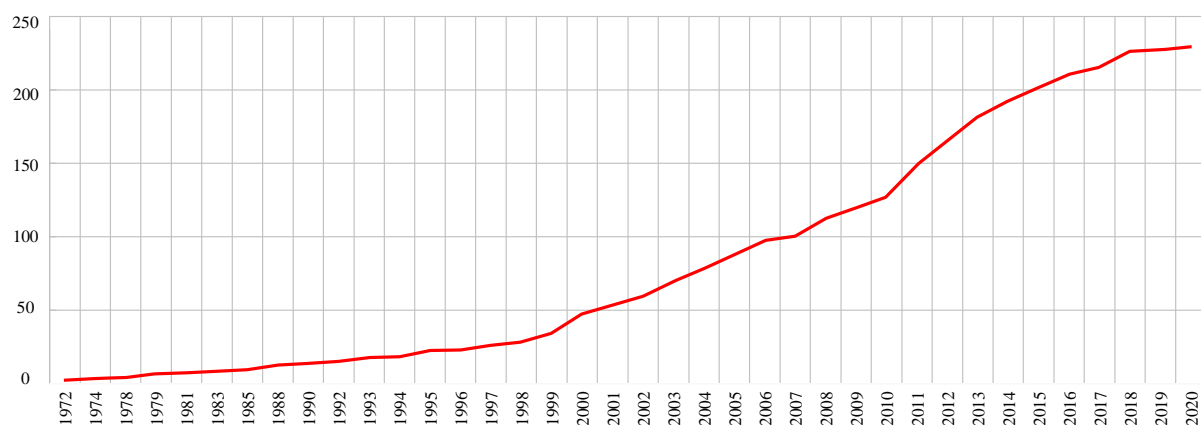


Source: *Digital Trade Restrictiveness Index* (OECD).

The total number of specific data regulations around the world went above 200 around 2015. The growth has been especially fast since 2010, with the doubling of regulations over the past ten years or so (Figure II-2-4-19).

To deal with such new fields of trade, especially digital services, international rules must be developed as an urgent task.

Figure II-2-4-19 Data regulations around the world



Source: Casalini and Lopez-Gonzalez (2019).

4. Need to develop a new, rule-based system of international trade

As seen in the preceding chapter, amid the progress of globalization, complex interdependence is being developed between countries and regions around the world. Each of them needs secure trade for sustainable and steady economic growth. The rule-based multilateral trade system that has been developed around the WTO is indispensable for facilitating and expanding free and fair trade. Moreover,

it is also important for a range of actors carrying out economic activities on a global scale, as it offers and maintains environments for stable and smooth business. At the moment, however, with dissatisfaction in the current system for multilateral trade and concerns about its dysfunction, fears are growing about the rise of outright protectionism as a threat to the existence of the multilateral trade system itself. For delivering global prosperity, growth, and job creation to countries around the world and enabling the world economy to grow in a sustainable and steady manner, a new international order must be developed through international cooperation as an urgent task.