Chapter 7 New Trends and Challenges for the International Trading System

The post-war multilateral trading system has developed in recognition of protectionism and bloc formation on the part of major powers as factors behind the outbreak of World War II. Concerned over the emergence of protectionist trends at a time when the world seemed on the edge of economic recession, the United States and other advocates of free trade led the way in the various rounds of negotiations held within the GATT framework, resulting in significant progress toward the liberalization of trade and other areas and contributing to the smooth development of the world economy.

The development of the multilateral trading system has in recent years been characterized by (a) the wider range of players involved in free trade negotiations, developing countries among them; and (b) instances where an important role has been played by regional cohesion and integration, such as front-running liberalization efforts by APEC and NAFTA.

Protectionism has recently been rearing its head in the form of tariff hikes by some countries in response to the protracted and severe Asian economic crisis, as well as concentrated anti-dumping suits targeting particular countries. However, given the magnitude of the role played in the world economy to date by the liberalization of trade and other areas achieved through the development of the multilateral trading system, efforts to promote liberalization on a global scale remain of crucial importance.

Moreover, development of the multilateral trading system is also pushing forward economic globalization. At the same time, the consequent diversification of modalities for international economic transactions has also created a host of new issues. Taking the case of trade in services and investment, the Uruguay Round produced agreement on multilateral rules (GATS and the TRIMs Agreement), but factors such as consideration given to the position of developing countries at the rule formation stage have left inadequacies in terms of rule content and coverage which will need to be addressed in the years ahead. Multilateral rules also need to be developed for areas such as intellectual
property, competition policy, anti-dumping, electronic commerce and international harmonization, and here the World Trade Organization should be utilized as a forum where the simultaneous participation of many countries allows efficient rule formulation.

(Regional Cohesion and Integration Trends in Parallel with Multilateral Trading System Construction)

While the world trading system of the 1990s, an era in which globalization has advanced at a furious pace, has seen substantial enhancement of the multilateral trading system, epitomized by the WTO, it has also been characterized by a worldwide surge in groupings in the form of regional cohesion and integration. Japan’s stance on such regional groupings has been to stress GATT consistency and the negative economic impact on extra-regional countries, distancing itself from the majority of countries in the international community which were moving ahead with regional integration (free trade areas and tariff alliances) in parallel with the multilateral trading system. However, regional integration has also revealed the following positive aspects, making it increasingly vital that Japan responds flexibly and constructively to such integration in recognition of the potential contribution to strengthening the multilateral trading system.

Firstly, looking at cases such as NAFTA and MERCOSUR, not only has there been a net trade and investment expansion effect, but according to regional integration theory, the higher ratio of intra-regional trade seen also in East Asia in recent years and the surge in cross-border corporate activities will in general reduce the negative effects of regional integration and increase the positive effects. Secondly, the international economic rules which the international community is seeking to develop will lean further toward the harmonization of domestic systems in reflection of the progress of globalization, which will increase the merits of prior development of neighboring regions with similar economic and social circumstances. Thirdly, in the course of post-war rounds of trade negotiations, groups engaged in regional cohesion and integration have come to play an increasingly positive role in the system enhancement (Figure 7-1).
Japan has always devoted considerable energy to strengthening the multilateral trading system, and should obviously redouble its efforts toward the success of the next WTO negotiations. In addition, however, to supplement the multilateral trading system, Japan should seek to deepen intra-regional exchange and understanding in Northeast Asia, the only area in the world which has shown little interest in regional cohesion or integration, applying itself with greater vigor to the development of regional cohesion and presenting a model which will contribute positively to the strengthening of the multilateral trading system.

* An equation based on the work of Jeffrey A. Frankel and Andrew K. Rose (1996), with slight changes made in regard to the countries covered, the period of estimation and explanatory variables. Of 1,020 total samples of world developing country exchange rate fluctuations between 1971 and 1996, those cases in which (a) the exchange rate against the dollar devalued by 25 percent or more on the previous year and (b) the pace of devaluation was at least 10 percent faster than the previous year (in order to exclude cases where continuing inflation causes major currency devaluation every year) were defined as currency crises, and 14 related macroeconomic indicators were used to conduct a Probit analysis, one means of regression analysis, in regard to the 95 cases meeting this definition.