

WTO General Council: Japan

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1 Introduction and Executive Summary

By many metrics, Japan is considered both a geopolitical, as well as an economic powerhouse. It is a member of many relatively elite international organizations, such as the OECD, G7, G8 and G20 and also the third-largest world economy by nominal GDP and fourth-largest by purchasing power parity.

Current focal points for the Japanese administration in trade and economic policy are:

- integrating women into the domestic workforce,
- benefitting from the economic rise of developing economies and expanding trade relations with them, especially China,
- achieving free, fair and high-level international trade rules to boost innovation, inclusive growth and participation in global trade (21st century-style trade policy). [1]

This brief dossier is summary of the most important information and may serve as a starting point for further research.

2 Economic Structure

Japan is a highly developed market economy with a strong global standing and reputation regarding its manufacturing sector, in particular electronics and automotive manufacturing. Japan's industry is well known for its advanced technological achievements and quality, as well as its large potential for innovation. Like in many advanced economies, industry accounts for a smaller portion of GDP than services in Japan. In 2012, 22.5% of Japanese GDP in was produced in manufacturing, compared to 71.4% produced in services. Major services in Japan include banking, insurance, retailing, transportation and telecommunications. [2]

Based on data from the first quarter of 2018, among OECD members, Japan is the third-largest exporter, as well as the third-largest importer of goods. When it comes to export and import of services, Japan ranks in the top 10, but lags behind major European countries and the USA (OECD Stats). In 2016, Japan exported \$ 688 bln and imported \$ 575 bln, resulting in a positive trade balance of \$ 113 bln. Both exports and imports have been declining, however, with import rates decreasing slightly more than export rates. [3]

Despite an economy that is growing at similar rates than fellow OECD member states, Japan's fiscal status is rather unique and arguably worrying. It has a public debt to GDP rate of 219% of GDP in 2016, making it one of the highest rates of public debt in the world. Furthermore, public debt has continuously been on the rise for 10 years [4]. Apart from an enormous amount of public debt, Japan is also facing both an aging population, as well as a decline in population numbers, demographic developments that are likely to put a strain on Japanese workforce supply in the near future. This is partly why the Japanese government is trying to boost female labor market participation.

In 2013, Japan launched Abenomics with three arrows—a bold monetary policy, flexible fiscal policy and a growth strategy—to

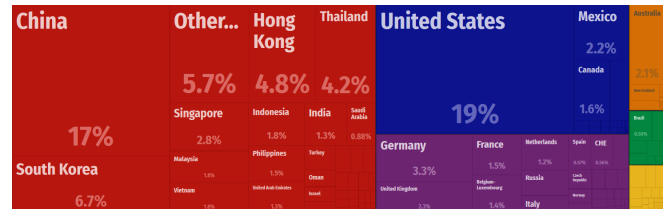


Fig. 1: Japanese export destinations of 2016 [3]

overcome two decades of sluggish growth [4]. In terms of domestic politics, Abenomics—named after Japanese PM Shinzo Abe - has dominated the discourse on economic policy since its establishment and is variously credited for Japanese economic growth picking up again. Inflation remains too low, however, and growth is not distributed inclusively. [4]

3 Trade Partners

The top export destinations of Japan are the United States (\$ 129 blnB), China (\$ 120 bln), South Korea (\$ 46.4 bln), Other Asia (\$ 39.3 bln) and Hong Kong (\$ 32.9 bln) [3].

4 Trade Balance

Japan's current account balance as of the first quarter of 2018 is positive. In fact, with a surplus of \$ 43 mln, Japan reports the second-largest surplus among OECD countries. [5]

5 Trade Interests

As a member of the WTO and GATT, Japan believes that free trade is an engine of economic growth and contributes to narrowing inequality [1]. A 2017 White Paper by the Japanese Ministry of Economy, Trade and Industry paints a coherent picture of the Japanese government's attitudes to free trade:

In recent years, discontent with globalization has been growing in advanced economies against the backdrop of the widening inequality. However, the inequality is due in large part to technological innovation, among other factors. Trade contributes to narrowing inequality. [1]

There is an enormous trade potential in a consumption-led Chinese economy for Japan and the government is eager to take advantage of economic opportunities in consumer-focused business sectors, such as e-commerce. There is also still room for growth in the export of Japanese consumer goods to the Chinese market, whereas the Japanese manufacturing presence is already very strong in China.

In general, Japan has an interest in a rules-based system of international trade and does not benefit from retrenchment in free trade policies. In order to achieve a rules-based system, the government is very willing to engage in discussions on the plurilateral, multilateral, regional and bilateral levels [1]. As mentioned in the Introduction

and Executive Summary, Japan dubs its ideas and aspirations for international trade politics 21st century-style trade policy. In sum, this policy recognizes the challenges posed by globalization and free trade and thus advocates for increased participation in global trade, while also promoting the free flow of people, goods, money and information [1].

In WTO negotiations, Japan is member of the following groups formed by member states: APEC, G10, Friends of Ambition (NAMA), Friends of A-D Negotiations (FANs) and Joint proposal (in intellectual property). The exact positions on trade policy of these groups are further explained at the source [6].

6 Recent Developments

Japan has recently signed an Economic Partnership Agreement with the European Union, giving it improved access to one of the largest market in the global economy. The next large agreement that is likely to be signed soon is the Regional Comprehensive Economic Partnership between ASEAN member states and the Asia-Pacific states with which ASEAN already has free trade agreements, one of them being Japan. Also of regional nature, a trilateral agreement between Japan, the Republic of Korea and China is being negotiated. Finally, Japan is currently in negotiations with Colombia and Turkey. [7]

The Japanese government has reacted negatively to the ongoing trade war between the US and China, initiated by President Trump. It has repeatedly called on both countries to hold a dialogue and negotiate over their differences, instead of imposing tariffs that erode the current international consensus in favor free trade.

As for Japan's activities as WTO member states, there are ongoing disputes with the Republic of Korea.

7 References

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