

REVISION OF TRADE DEALS

Virginie ROBERT

I am curious, how do you view the revision of those trade deals? Is this a fool's game? Is it a way to put more protectionism, because you say it is taking away free trade. I mean all those negotiations, Japan, Korea, Mexico, Canada. How do you view them, totally inefficient? This was supposed to bring norms at a certain level. I mean they are supposed to bring some good at some areas, or you do not find them useful at all?

Taeho BARK

In the case of KORUS FTA revision, as Marcus already said, not much has been changed. But one thing to be noted is about the US tariff on pickup trucks. According to the original agreement, from 2021, 25% tariff on the US pickup trucks would be gone. However, through the renegotiations, 2021 is postponed to 2041. Currently, the Korean auto companies do not produce and export pickup trucks yet to the US. But Korea has lost potential benefits out of this renegotiation. Yes, this is another example that we are moving further away from free trade.

Virginie ROBERT

Marcus, and then Karl.

Marcus NOLAND

The NAFTA agreement was 25 years old, and there were all kinds of things like digital commerce that really did not even exist when it was negotiated. Therefore, you could make the argument that it was sort of like an old house that needed some refurbishing. If you had had the kind of government that existed in the United States for the previous three generations, what would have come out of that process would have been far from perfect, but it would have been a kind of rational attempt to bring the rules more into alignment with the actual way commerce was operating.

However, what happened was that effort, a lot of it was focussed on the Trans-Pacific Partnership, because it was simply a bigger deal. Canada and Mexico were already members, so when we got TPP we would basically be sort of cleaning the – now I am really mixing metaphors – but we would sort of be cleaning the whole house.

When Trump pulled us out of TPP, that caused the trade diversion problems I alluded to earlier with respect to say pork and the Japanese market, but it also meant that we had to address those new issues within the context of NAFTA. A government that wanted to fix up those things probably could have done a better job, but this government is fundamentally protectionist. It used that opportunity to do things like alter rules of origin that had the effect pulling the agreement away from free trade rather than moving it ever closer.

Virginie ROBERT

Karl?

Karl BRAUNER

I only wanted to add that I think that the EU, in its efforts to conclude bilateral trade agreements, generally wants to open markets, I think so. There are new issues beyond tariffs. I mean what is happening in the services sector, this is all liberalising.

Virginie ROBERT

You know, there is a lot of opposition to trade deals in Europe today. I mean in France especially, I mean the population does not understand them, and it is a hard thing to explain nowadays why it would be good eventually to have a level playing field. It is just not working, people are not buying it anymore.

Karl BRAUNER

I think Europe has a different issue than in other places. In Europe, it is about the fear of losing influence on standards, and the fear that there is no democratic legitimacy in the changes.

Gabriel FELBERMAYR

And of course distributional concerns-

Virginie ROBERT

And the secrecy of it too, yes.

Gabriel FELBERMAYR

And of course distributional concerns.

Virginie ROBERT

Yes.

Gabriel FELBERMAYR

I think what we have seen over the last 30 years or so, certainly during the period of hyper-globalisation, is an increase in inequality, sometimes very clearly measured in the United States, sometimes not that obviously, like in Germany. Since 2005, numbers are not actually moving anymore, but perceived inequality has gone up quite a lot. If you look at the research that exists for populism, you know, there seems to be a link. Many believe that opening up trade exacerbates that problem, it creates losers, and there is a very strong opposition politically to allow these losses to occur in periods of political fragility. I think that is maybe in Europe the most important argument right now. Many would believe that for example the Mercosur agreement is actually a good thing, it will actually help us, make Bolsonaro abide by the Paris agreement for example, but you know, fragility, political fragility within Europe makes it difficult to create losers that would then, you know, support populist parties and wreak havoc in ways that we do not want.

Taeho BARK

Can I add one more thing?

Virginie ROBERT

Sure.

Taeho BARK

I would like to make a comment on the argument that free trade is not welcome by France or the EU. I think this is a traditional issue. I taught international trade to students for many years. When I come to the part of the political economy of trade policy, I always point out that gains from trade are spread all over the people, consumers and exporters, in other words, the whole population. However, losses and difficulties coming from market opening are concentrated on certain people and sectors. They can unite themselves and demonstrate. In other words, they can do lots of collective actions. Therefore, politicians, looking at these two sides, utilise the sentiments of losers to get more votes. A protectionist policy stance is much better for their election. Therefore, as you mentioned, I think politicians tend to pay more attention to populists' arguments when it comes to the elections.

Virginie ROBERT

Before going back to Marcus, I would like to welcome Mr Watanabe, thank you for being here.

Yorizumi WATANABE

Well, thank you very much.

Virginie ROBERT

We were talking about free trade agreements, and I know you have great experience on the Japanese/US trade agreement. It would be nice for you to share with us-

Yorizumi WATANABE

Sure.

Virginie ROBERT

We were talking about convergence of economies. It is not exactly your point of view, I think? If you might tell us what you felt about the renegotiation between US and Japan?

Yorizumi WATANABE

Okay, there is a positive side and a negative side of this most recent Japan/US trade agreement. First of all, from a Japanese perspective, it was quite a good agreement because we could avoid the imposition of 25%, you know, duties on Japanese cars to be imported to the United States from Japan. Therefore, that is one thing. The negative side is that this will reduce the chances, opportunities for the United States to come back to the TPP, so that is the kind of negative side.

Virginie ROBERT

That is a good thing? You think it is a good thing?

Yorizumi WATANABE

You mean altogether?

Virginie ROBERT

Yes.

Yorizumi WATANABE

That is fine, but the kind of negative side is that since, you know, the United States has been looking for the Japanese agriculture market, now the United States has got some access, you know, improved access of US agriculture products to the Japanese market, so that will reduce opportunities for the United States to come back to TPP, original TPP, that is TPP 12.

Virginie ROBERT

So, Marcus Noland, who is sitting next to you, was disagreeing on the tariffs, maybe he can explain why?

Marcus NOLAND



Yes, so I do not believe that this agreement explicitly spares Japan from the Section 232 case on automobiles and the potential tariff. I mean Prime Minister Abe wanted that commitment, but he has not gotten it, at least not formally. What the two sides have said is that there is a phase one of the negotiations which has been announced, which is a limited number of tariff cuts, or tariff cuts on a limited number of sectors, but the key point is it actually does not do that, it does not explicitly spare the Japanese automobile industry.

Now, there is going to be a phase two of the negotiations, and perhaps at that point Japan can extract that formal commitment, but it has not thus far.

The other thing, I would just make a minor point, in the previous discussion we were discussing the US/Mexico/Canada agreement as though it existed. It has been negotiated, but the legislation has not been passed in the United States.

Virginie ROBERT

That is true.

Marcus NOLAND

And the issue we face now is that the House of Representatives is controlled by the Democratic party, through speaker Nancy Pelosi. If you just went and polled the congressmen, USMCA or whatever you want to call it, could probably pass the House of Representatives. But Pelosi wants to keep kind of in step with whoever the eventual Democratic presidential nominee is going to be. If it looks like that is going to be Joe Biden, or somebody who has moderate views on trade, the legislation can move forward. However, if it looks like it is going to be Bernie Sanders or Elizabeth Warren, she may hold back on that legislation.

Therefore, even in the case of this agreement, we have negotiated the agreement but the United States has not actually passed the implementing legislation.

Virginie ROBERT

Gabriel, do you want to add something?

Gabriel FELBERMAYR

And then there is additional collateral damage that might come from the EU/US agreement, and that is the WTO, once again, because of its Article 24, that actually says that free trade agreements should cover substantially all trade. Therefore, if you just pick what is easy for you and leave the rest, then that might be violating Article 24, and no, who cares? The US administration, certainly not, but we thought the Japanese would actually care, and in that sense, that is a negative on that agreement, at least in my field.

Marcus NOLAND

It does not cover substantially all trade, and it does not take the tariffs to zero, either one.

Yorizumi WATANABE

Well actually, you know, I worked as an economic affairs officer at the WTO Secretariat some time ago dealing with Article 24, and actually, you know, after the Uruguay round negotiations, you have more precise terms in, you know, in terms of say for instance those FDA, or customs union agreements should be concluded within a reasonable period of time, and that has been defined as 10 years. Therefore, you see, maybe this agreement will come into force, but in 10 years' time, that is considered to be a reasonable length of time.

Therefore if both Japan and the United States can agree to reach a higher level of coverage of this agreement, that will be fine with WTO.