

# METI's White Paper on International Economy & Trade 2024 – Challenges for Japan's Trade Policy: Rebuilding a Rules-Based International Order & Resilient Supply Chain with the Global South

By Naoyuki Haraoka

METI's White Paper on International Economy & Trade 2024 clarified Japan's position in supporting a rules-based international trade regime based on free trade. This has distinguished Japan's position from other developed nations. Against the background of rising geopolitical risks, economic security has emerged as a key value to be achieved in international trade. With friend-shoring or reshoring, developed nations are now strengthening supply chains and thus confirming their economic security. In addition, international trade is increasingly expected to respond to social needs such as labor rights and the environment. These new expectations could make international trade less liberal and more managed, as it could become restricted somehow with regard to such non-trade concerns.

METI's White Paper articulated the importance of free trade and that rules-based trade liberalization should be the fundamental way to manage the global economy, with some exceptions to allow for non-trade concerns. It should be noted again that free trade creates much larger economic benefits than otherwise. First, free trade would lower prices of tradable goods because of lower tariffs and mitigate other protectionist measures. As prices of intermediary goods are lowered as well, the producers of final goods would be beneficiaries and production at such lower costs would make producers more competitive.

Free trade would also make all essential goods available for everybody. Thanks to liberalized trade, during the pandemic all essential goods like masks, medicines and other medical items were available for all nations in general. More importantly, in the long run, trade liberalization would motivate all nations to promote their domestic economic reforms to become more competitive in international trade, thereby raising their growth potential.

These merits of international trade are already acknowledged by people, even if not consciously. Recent international trade has been increasing in spite of the rising geopolitical risks pressuring players to reduce their dependency on trading with specific nations for security reasons. The WTO recently forecast global trade to grow by 2.6% in 2024, which suggests that the growth of international trade is still robust in spite of political divisions

today. Comparing this with the large negative growth recorded on the occasions of the global financial crisis in 2008 or the pandemic in 2020-2021, it seems that a significant macroeconomic downturn would lead to a drastic decline in international trade but not an increase in geopolitical risks.

Economic interests would thus exceed political concerns. I believe that trade regime discussions will return to normal soon, namely liberalization-based policy making. The fact that even today deglobalization is not happening would imply that everybody, consciously or not, is aware that globalization is still under progress and that as its merits are clear to all, we will return to a free trade-oriented regime as the engine of globalization.

Today, the political implications of trade tend to predominate in discussions, but when the Russia-Ukraine war is over, for example, and the world is facing fewer geopolitical risks, we will rediscover that the economy must be given priority over politics. To be prepared for this, it will be important to secure a rules-based international trade regime, and all the instruments for the smooth functioning of globalization.

If we added a political reason for Japan's support for free trade, it would be that Japan needs to advocate for it in order to achieve influence and partnership among the nations of the Global South, in particular ASEAN nations that would be one of the largest beneficiaries of free trade as well as Japan. Without US leadership today, Japan needs partners to maintain its presence in the global community, and will have no choice but to advocate for the merits of free trade.

Following the introduction of this METI White Paper on International Trade in a summary written by the METI officials who drafted it, we have a roundtable discussion on it as usual.

This provides a good opportunity to consider the future path of Japanese trade policy in a world of rising geopolitical risks.

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