



An Open Trading System: A Common Responsibility

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Ladies and gentlemen,

It is an honour to be here today. The Japan Institute of International Affairs is one of the most prestigious think tanks in the world. It has been home to many great thinkers, scholars and intellectuals – not least among them its first chair and former Prime Minister of Japan, Shigeru Yoshida.

Yoshida was the pinnacle of what it meant to be a diplomat and statesman. He was central to rebuilding Japan from the ashes of war. His vision – of a new nation dedicated to peace, democracy, freedom – has continued to shape Japan to this day. He was a liberal. He believed in a free market and open trade. He supported liberty and equality – that everyone should have the same choices and the same chances.

But he was also a pragmatist. He was willing to compromise on his beliefs – aiming to get things done rather than to let his ego get in the way. For example, he was a strong supporter of the liberal global order. His support was not necessarily out of some sort of grand vision of global harmony. Instead, he could see that to secure the tools he needed for Japan's prosperity, the international order was necessary.

So he committed Japan to them – another legacy that has lasted beyond him. Yoshida's words of hope resonate still: "We pray that henceforth not only Japan but all mankind may know the blessings of harmony and progress."

It is important to remember that today. It was an audacious plan – and it worked. The global order institutionalised open trade in the General Agreement on Tariffs and Trade, now the WTO.

It secured monetary stability through the International Monetary Fund. And it fostered political cooperation through the United Nations. Indeed, this vision of global collaboration has overseen one of the most prosperous periods of human history.

But these days support for this liberal global order is wavering. And some are questioning the value of international cooperation. Protectionist tendencies are taking hold. And in trade, we once again see some call for barriers to be erected.

RESPONDING TO GLOBALISATION

Over the past seventy years, we promoted certain values to our citizens – including free trade and opening of borders. They generally supported these policies, but this consensus has now partly eroded. Many people question the value of systems that have brought us prosperity.

This, in part, is a backlash to the pains that came with globalisation. Globalisation is a good thing. It has connected the world and created unprecedented opportunity. However, such fundamental and rapid shifts in the economy has also come with difficulties. This caused pain. Sometimes jobs that had been around for generations ceased to exist. Other times, industries moved. And people started questioning whether trade was to blame.

Previously trade had not been such a controversial topic. It was the realm of experts and politicians. Of business and academia. But then it moved front row, centre – and became a target for frustration.

In Europe, we took it as an opportunity for reflection. Like Yoshida, we had to be pragmatic. We believed in openness and we could see that some of the frustrations were based on misconceptions. They deserved a response.

Trade policy cannot change everything, but it can do its part. Our response has been paying dividends since. At the beginning of my mandate as Commissioner for Trade, very often there were demonstrations outside my office, big demonstrations. Our solution came in three parts:

- Becoming a highly transparent trade negotiator. I would say that we are probably the most transparent trade negotiator in the world today. We publish papers, background documents, negotiating positions, summaries of rounds, evaluations, etc.
- And those who protested – we included them, we listened to their concerns. And we have made sure that civil society has a regular role to play, we listen to them in our trade negotiations. We take their advice and we allow them contribute.

- We have also made sure that we have values in our trade agreements. We have worked to spread the benefits of globalisation by including special provisions for small and medium sized companies – like in the Japanese agreement.

So we try to change the way we do trade policy – and now there are no longer protestors. I could not find any protests against the EU-Japan agreement anywhere in Europe. Which is a good thing. Of course we need to constantly engage with our citizens to make sure that they trust our trade policy. It makes us a more reliable negotiator, and it makes us more effective on the international stage. This is increasingly important as the global environment is changing – and we need to adapt to it.

CHANGING GLOBAL ENVIRONMENT

Trade has really changed in recent years. I do not need to tell any of you that – many of you have been around for a long time, you have seen it. We operate in a complex global economy. Value chains stretch across borders. We are more interlinked than at any point in history.

This brings great benefits. Wherever supply chains run, they bring wealth and jobs. A car today can be bought in Mexico, assembled in the US, with German parts, arranged and managed by a Japanese company. That is quite normal.

It is important to remember that a trade balance is not like a bank balance. Everyone involved in this process benefits. Every community becomes enriched. But not everybody sees it that way anymore. They look at trade as a zero sum game – with winners and losers. Looking for protection in protectionism. They favour closing up over working together. Building walls, rather than building bridges. It is a tempting path, but this short-term thinking falls short.

It is true that trade is a complex web. But it is a mistake to think that it is simply a weakness. It is an economic strength – but also cultural and strategic. The same goes for multilateral agreements and treaties. I think that it is unfortunate that the US – once the great advocate and architect of global influence through alliances – seems today to be moving in another direction.

We see a broad withdrawal from multilateralism by the US. That is of course particularly poignant is the Trans-Pacific Partnership – especially as China builds influence in the Pacific region. The EU respects America's right to make its own decisions. But we disagree on the motivation. We do not think that these agreements threaten sovereignty or autonomy – we see them as a vehicle to extend power and shape globalisation. We need to face the challenges of this century – and trade is one of our tools to do it.

GLOBAL ALLIANCE FOR PROSPERITY

The way we propose to face these challenges is by pressing ahead with international cooperation. That involves forging new links – like the EU-Japan Economic Partnership Agreement – and updating older ones – like the World Trade Organisation.

It is still very early to judge the impact of the EU-Japan agreement. However, initial signs are already good. Japanese Finance Ministry figures already show that people here are hungry for EU pork, wine and cheese. And good news for Japanese consumers of course. As this food is loaded onto ships that make their way across the ocean, passing Japanese cars on their way to drivers across Europe. Indeed, auto shipments from Japan to the EU have increased by 13%. This agreement is a true win-win. And these are just the first preliminary statistics of course.

By working together we will be more prosperous, all of us. This is about more than economics. The Ambassador who was instrumental in finalising this knows that we discussed all kinds of issues in these negotiations. It is also a signal to the world as well. The EU-Japan EPA is the biggest trade agreement that we have ever made. It covers more than a quarter of the world's GDP and 630 million people.

It is a modern agreement too. It opens up trade for services and tears down tariffs. It addresses a range of issues, from opening up public procurement, to dedicated provisions that help smaller companies benefit from the new opportunities. It brings us closer together, and it shows what it is possible to achieve through open trade. We are more than just trade partners. We are strategic allies in the fight for open trade.

We are not alone either. The EU has making connections with other believers in open trade. We have agreements with Singapore, Mexico. South Korea, Canada, Vietnam. We are closing deals with all of them. We are very close with some others like Mercosur and Indonesia, We have started new ones, with New Zealand and Australia.

We are building a circle of friends – supporters of the multilateral system and open trade. I know that Japan have also made these choices. By continuing with the TPP11, or CPTPP as it's called. And other relations you seek.

It is important, as this effort comes at a critical moment. We are here today to talk about where the EU-Japan relationship goes from here – what our next great cooperation should be. Well, as Commissioner for Trade, I see a great threat to the world. The erosion of international institutions, as I mentioned before Our next endeavour together should be develop all the possibilities of our trade agreement, but also to save the World Trade Organisation.

RISE OF CHINA

A core concern of the past decades has been how to respond to China. It has moved from being a developing country, to a strategic and systemic competitor of the EU, of Japan, of the US. They have serious ambition too – from building influence around the world, to driving industry at home. The aim is to become the largest world economy in the coming decades.

I have no problem with competition. It drives on innovation and drives down costs. It is a good thing, but it has to be fair.

We play by a set of rules – and China has been taking advantage of that. They have blurred the line between state and private sector. The State has undue influence –

- economic diplomacy can be used as a threat or a reward,
- the intellectual property of our companies is stolen,
- and state subsidies, direct or indirect, are common.

The impacts felt all across the world. They range from overcapacity to unfair competition. They are at the centre of many of the challenges in the global economy – and should be at the centre of the solutions.

Action on the international stage requires nuance however. It is tempting to try to lock out China. To decouple, rather than to discipline. Doing that may have gains in the short-term, but the long term requires a deeper fix – a systemic reform, built to last.

A SYSTEMIC FIX

So structural issues are at the centre of the current tensions. We do a set of rules already and a mechanism to enforce them – they are just not working like they should. This can be frustrating, but it is not a good reason to tear it down – not least because it is unlikely that we could rebuild something in its place. The international system as we know it today was built at a special moment. A victory of hope over experience. The system underpinned global growth for decades. It lifted millions out of poverty. We do live in one of the more peaceful periods of world history – not least in Europe and Japan.

These positive changes have led to a certain amount of inertia. Many of the institutions have not been updated for a long time. This is understandable. The problems arising now felt distant. There was not much incentive for action. But now they are no longer fit for purpose, and there is an incentive for action – the potential loss of the global system that changed the world.

This is made all the more urgent by competition for global hegemony. There are alternatives arising to the liberal world order. A web of interlocking security, trade and investment initiatives...

- the Belt and Road,
- the Asian Infrastructure Investment Bank,
- and many more.

And if we don't save the current order, it may well be replaced – and we might not like what replaces it.

This is not just a matter of upholding the rules – it is self-preservation. In the face of unfair play, it is tempting to flip the board – to abandon the rules yourself – but you will hurt yourself and others.

SAVING THE SYSTEM

The EU and Japan agree that the WTO needs reform and updating. These updates need to be anchored in stronger rules, rules that are modern. They need to tackle 21st century challenges, anchored in issues like industrial subsidies and forced technology transfer and others. We are already working together on this. If we can effectively reform and update the WTO, we can set the rules of globalisation.

But the system is already pushed to breaking point. And it is clear to us in Europe and others: We must resolve the Appellate Body crisis, and quickly.

The dispute settlement mechanism of the WTO is vital. Without an effective enforcement mechanism, the rules become an aspiration. Now the US is blocking the appointment of arbitrators. If we truly want to tackle all distortions to the trading system, we need to bring order to trade. We understand the frustration that drives these actions, but breaking the system is not the solution.

We are committed to tackling the distorting practices of China. We must make sure trade remains free and fair. The WTO was created from the GATT in 1995. At the time, there were 16 million users of the Internet – today there are 4.2 billion. At that time countries like China, Russia, Saudi Arabia, Vietnam – even some EU Members were not even Members of the WTO. Today, we have nearly universal membership, with 164 members and 23 observer governments. In 1995, the economic models of its Members were basically the same. Today the membership is much more diverse. All this has brought growth and dynamism, but it has introduced complexity too. We now need new approaches and new flexibility in negotiations.

Here Japan is a very important partner. The “trilateral” initiative between us and the US at a ministerial level. That is a cornerstone in this work. We are seeking to address Chinese distortions here, while maintaining and updating the multilateral trading system.

So far, we have made technical progress around subsidies. We are trying to write new rules on the WTO no less. Quite ambitious, but that’s what we’re doing. We are deepening discussion on possible rules on forced technology transfer. We have made proposals to the larger membership on how to improve transparency and notifications at the WTO. It is important to realise that China has an interest to work with us and make progress as well. That country has gained so much from WTO membership– but every country stands to lose from its demise.

We are doubling-down on these efforts in our bilateral relations too. We have a Working Group with China on WTO reform. We have used this as a forum to increase pressure on core issues – such as forced technology transfer and subsidies. We need China to understand that they need to pay back into the system, in a way that keeps China engaged.

CONCLUSION

So Chair, it is appropriate that in this context we will soon be entering *Reiwa* – the next imperial era of Japan. Indeed, “order and harmony” are what characterise the international rules-based system best. Building, updating, maintaining such as system is difficult. It requires a nuanced approach – balancing alliances, multilateralism, economics, foreign policy. It also requires a broad vision – that stretches beyond our own generation.

Saving the WTO will never be what generates the big headlines. The benefits of WTO might not be as obvious to business as a trade agreement. But without exaggerating, this is arguably the most important task within trade policy today – for the EU, Japan and all of our trading partners. The havoc we would see on the global trade arena without WTO would bear very tangible costs and burdens for business.

It would be the rule of the jungle. Only the strongest may survive – and maybe not even them. We should not take the rules based trade order for granted. It is crucial, for business, for global prosperity and indeed for citizens, for consumers. So building on our trade agreement, I am confident Japan and the EU together are now in a much stronger position to save the world order. We look forward to working with our Japanese friends on that.

Thank you.