

Discussion Points in the Pre-TPR for Japan

1. Difficult macroeconomic situation and deteriorating external balance

With very limited room for fiscal and monetary policy to support sustainable growth, structural policy becomes more important. Trade policy would need to be reconsidered in this context.

In the absence of strong export growth, the negative effects of the depreciation of the Yen may cancel out any positive effects of expansionary fiscal and monetary policy. Tapering of monetary policy seems inevitable.

2. National security and supply chain resilience

Measures taken in the context of national security and supply chain resilience may have undue trade-restrictive effects.

A tradeoff between national security and economic efficiency would exist. It may need to be considered in the implementation of the new legislation.

3. Sustainability and climate transition

Immediate measures to contain energy price hikes could work against achieving an overall reduction of GHG emissions, putting the net-zero commitment at risk. GX policy should not be discriminatory or protectionist.

Japan could take a leadership role in the Coalition of Trade Ministers on Climate as a long-standing supporter of multilateralism. Japan's position towards the IRA of the US and CBAM of the EU would need to be consistent with its support for the WTO and the multilateral trading system.

4. Structural policy and trade

Trade implications of Covid-related measures should be evaluated. Emergency measures would need to be progressively lifted/repealed. Moral hazard may have become an important issue in some sectors.

Labor market reform and human capital development – The entry and treatment of foreign workers would need to be further reconsidered in the context of a rapidly declining population.

5. Conclusion

With its strong reliance on global supply chains and free and open trade, Japan would need to take an active role in WTO reform and demonstrate stronger leadership in defending the multilateral trading system. Transparency of policies has been improving, but there is room for further progress.