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EU and Japan sign trade deal

Amid considerable fanfare about the need to defend free trade and in an obvious push back against the protectionist measures of the Trump administration, Japan and the European Union have signed the world's largest bilateral trade pact.

The deal has been five years in the making but the impetus to have it finalised was accelerated by the US trade war measures which have targeted both parties. Japan has been hit by Trump's withdrawal from the Trans Pacific Partnership, advanced by the Obama administration, and was not granted an exemption from the imposition of US tariffs on steel and aluminium.

The EU was also refused a carve-out from these measures and now faces the threat that the US will impose a 25 percent tariff on its auto exports, on the grounds of "national security."

Tensions between the EU and the US have also been ratcheted up with the decision by the European Commission to impose a record €4.3 billion fine on Google in an anti-trust ruling. The EU competition chief Margrethe Vestager, who two years ago ordered the clawing back of €13 billion from Apple, found that Google had engaged in "very serious illegal behaviour" using Android as a vehicle to cement the dominance of its search engine, hitting consumers and competitors.

The EU-Japan trade pact, which will go before both sets of parliaments before coming into effect, covers one-third of the global economy. Involving significant concessions on both sides, the deal will lead to the reduction of significant Japanese tariffs on European wine, cheese and other foods, while the EU will end tariffs on Japanese cars and auto parts.

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Overall it eliminates about 99 percent of the tariffs on Japanese goods sold to the EU and about 94 percent of the tariffs on European exports to Japan, rising to 99 percent in the future. The difference reflects continued protection on rice imports, which is a politically sensitive issue in Japan.

In a joint statement issued at the signing ceremony in Tokyo on Tuesday, Japan and the EU said: “We underline the crucial role of the rules-based multilateral trading system with the World Trade Organisation (WTO) as its core and continue to fight protectionism.”

There was no mention of Trump by any of the participants but there was no doubt where the message was directed, coming in the wake of his designation of the EU as a “foe” in international trade.

“In giving full effect to this agreement, Japan and the EU are sending a powerful message to promote free, fair and rules-based trade, and against protectionism,” the joint statement said.

Hailing the agreement at a joint news conference with European Council President Donald Tusk and European Commission President Jean-Claude Juncker, Japanese Prime Minister Shinzo Abe said: “The EU and Japan showed an undeterred determination to lead the world as flag-bearer for free trade.”

Tusk said it was “the largest bilateral trade deal ever” and that it was “sending a clear message” against protectionism.

The day before the Tokyo signing ceremony, Tusk pointed to the growing dangers of trade war following discussions at the annual EU-China summit in Beijing. The two parties agreed for first time in three years to issue a joint statement, noting progress towards a bilateral investment treaty and the setting up of a working party to examine ways of improving the functioning of the WTO.

Tusk called on Trump, Russian President Vladimir Putin and the Chinese leadership to embrace the proposal in order to “prevent conflict and chaos.” The move to reform the WTO reflects agreement in the EU with US criticism of the state-subsidies for Chinese industries and Beijing’s drive to increase its technological and industrial base. Both claim that China has a case to answer on the issue of its investment practices and appropriation of intellectual property.

But the EU maintains action on these issues should take place through changes to the WTO rules and not the unilateral imposition of tariffs.

Pointing to the stability produced by the post-war international trading system, now under attack from the Trump administration, Tusk said it was “the common duty of Europe and China, but also America and Russia, not to destroy this order but to improve it.”

That means “not to start trade wars, which turned into hot conflicts so often in our history, but to bravely and responsibly reform the rules-based international order.”

Tusk’s citing of “hot conflicts” is a reference to the trade wars of the 1930s, which brought about the virtual disintegration of the world market and played a significant role in creating the conditions for the eruption of World War II.

A warning of the economic impact of trade war has come in the latest update on the global economy issued by the International Monetary Fund earlier this week. It kept its forecast for global growth this year and the next at 3.9 percent but warned that escalating trade tensions could derail an upswing.

“The risk that current trade tensions escalate further—with adverse effects on confidence, assets prices, and investment—is the greatest near-term threat to global growth,” IMF chief economist Maurice Obstfeld said in his prepared remarks on the update.

The IMF warned that if the threats to erect tariffs were carried out, global output would drop by as much as 0.5 percent below its projected level by 2020. Obstfeld said the US would be “particularly vulnerable” as it would be the target for retaliatory action.

He said financial investors seemed “broadly complacent” about the risks facing the global economy and warned that financial markets were “susceptible to sudden re-pricing if growth and expected corporate profits stall.”

While the EU-Japan deal has been hailed as a blow from free trade against protectionism, closer examination leads to a different conclusion.

In an editorial on the agreement, the *Financial Times* gave only a “measured cheer” in what it called “dark days for the global trading system.” It stated that, while it was welcome, the agreement fell “short of an adequate response to the threats to global commerce.”

The fact that the deal does not include China and the US points to its essential character. Rather than signifying the development of freer global trade, it represents a move towards the fracturing of the world market into a series of rival blocs in which countries come together against a common enemy.

That danger can be seen in the actions of the Abe government. In the face of rising protectionism in the US, it is pushing ahead with its own agenda—attempting to revive the TPP, minus the US, and now securing the agreement with Europe.

