Political Risks Motivate Japan to Seek Ever More Global Trading Partners

Tao Huang
Revelle College, University of California San Diego, La Jolla, U.S.A.

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Abstract: 2024 has become a historic turning point for Japan. Shigeru Ishiba dramatically became the country's 102nd and 103rd prime minister in 43 days. Less than 2 months are left for the newborn Japanese government to be prepared for the second Trump administration's strike after the trust crisis's chaos. The world is paying close attention to how the Ishiba administration will deal with the Japan-U.S. relationship and its actions on other international affairs. After world war Ⅱ, Japan made astonishing economic growth through foreign trade and was known as a trade-oriented nation. Nowadays, foreign trade is increasingly correlated with politics. This paper is researching whether international political risks would have either a positive or negative impact on Japan’s foreign trade. With graphs, figures of quantitative indicators, case studies, and supportive opinions from other researchers, the work is committed to providing a clearer vision of both the source of the risks and the level of the influences in terms of foreign trade. At the moment, foreseeable political risks are threatening on economic partnerships and the growth of trade scale.

1 INTRODUCTION

The last months of 2024 should be considered a turning point for Japan when looking back on those spotlighted events that occurred near the end of the year. Donald John Trump won the 2024 presidential election and would be back to his chair in the White Palace on January 20, 2025. Previous Abe administration has already experienced Trump’s strong protectionism da-ting back to the period of the first Trump administration. Unquestionably Trump’s return will cast a shadow on Japan-US economic partnership over the next four years. Shigeru Ishiba was reelected as 103rd Prime Minister, 8 days after the House of Representatives under his party was dissolved and 43 days after he was elected as 102nd Prime Minister. The next few months will be crucial for the 2-term prime minister to prove his leadership and reform a new well-served Japanese cabinet before he moves his hands onto other challenges.

Fumio Kishida, the former prime minister, emphasized that the time has come for “historic economic and social transformations” in the World Economic Forum’s virtual event, the Da-vos Agenda 2022. “There has been an overreliance on competition and self-regulation to con-strain the excesses of market forces,” he added. “This must change (Oblaković, 2023).” During his comparatively short tenure of 3 years and a half, efforts on reform of liberal democratic capitalism were converted into evident but temporary economic recoveries from COVID-19 shock and reinforced bilateral cooperation with the U.S., EU, and Indo-Pacific.

On 27 September 2024, a few days right before the election victory, Ishiba Shigeru was in-troduced as an advocate of the NATO Asian version with hostility by Russian media. Whether he continues with the economic policies of his predecessor or attempts to deploy some varia-tions, the newborn Japanese government must review cautiously on international circum-stances before taking any action that may have an impact on the international order. And in today’s world, economic activity is highly correlated with politics. Political consequences can have either positive or negative influence on economic activities. To avoid these risks of ten-sion, economists strive to identify the source of the risks and propose alternative solutions or countermeasures.

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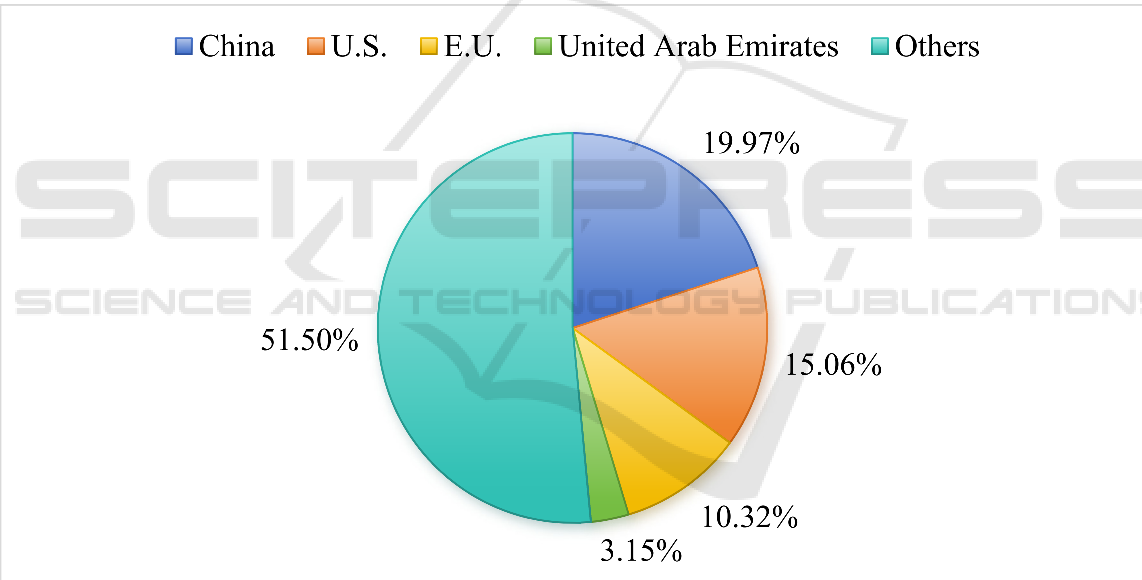
2 ANALYSIS OF JAPAN’S FOREIGN TRADE

2.1 The Current Status of Japan’s Foreign Trade

In 2023, Japan is the fifth in total international trade, following behind China, the U.S., Ger-many and Netherlands (JETRO, 2024). Because of a shortage of natural resources, Japan im-ports most of its fuel resources, such as crude oil, and industrial raw materials. On the other hand, its economic growth is partially generated from processing and manufacturing these materials for exports, fully taking advantage of its high-tech industries.

The 21st century ushered in an era of economic globalization. New categories of biotech-nology and renewable energy such as wind-solar power generation have emerged, causing rap-id innovations in both industrial and business environments. Competition with the rise of emerging countries such as China leads to the promotion of free trade agreements (FTAs) be-tween countries. Meanwhile, with the task of getting rid of the economic downturn due to COVID-19 shock, Japan’s trade structure has undergone various changes to arrive at what it is today.

Japan's main exports include automobiles, semiconductors and other electronic parts, steel, automobile parts, and semiconductor manufacturing devices, and main imports include crude oil, LNG (Liquefied Natural Gas), pharmaceuticals, semiconductors and other electronic parts, communication devices, clothing and accessories. Figure 1 shows China, the U.S., and the European Union (EU) took most of the share of Japan’s foreign trade in 2023. Though exports to the U.S. were over that of China, the largest sum of trade (sum of exports and imports) was still from China because of high dependencies on importing necessities from China.



Source: Trade Statistics of Japan
Alt Text for the figure: Figure 1 displays Japan’s major trading partners’ share of sum of foreign trade in 2023. The figure shows China, the U.S., and the European Union (EU) took most of the share in 2023.

Figure 1. Share of sum of foreign trade in 2023

2.2 Tasks and Challenges

2.2.1 Trade Friction

Trade friction occurs between two countries due to an imbalance between exports and im-ports. Japan has had trade friction with the U.S., one of its major trading partners, over beef, oranges, textiles, steel, televisions, automobiles, and semiconductors. Each time it has oc-curred, the two countries have resolved it through negotiations and adjustments. Bilateral trade talks on resolving trade frictions between Japan and the U.S. are considered to occur more frequently after Trump’s return.

Recently, in trade with resource-rich and agricultural countries, there have been problems such as export restrictions on mineral resources like rare metals. Crops grown by Japanese farmers are becoming difficult to be sold in domestic due to the influx of agricultural products with lower prices from oversea.

2.2.2 Economic Partnership Agreement: FTA/EPA/TPP

After world war Ⅱ , Japan made astonishing economic growth through foreign trade and was known as a trade-oriented nation. The government must ensure the premise of trade liberaliza-tion to continue its business partnerships in the long term with countries and regions around the world.

World Trade Organization (WTO), the international organization, is obliged to make rules and regulations to promote trade liberalization. However, the WTO, which has many members, has not made any progress in creating new rules to accommodate economic globalization. In recent years there has been a trend to conclude free trade agreements (FTAs) and economic partnership agreements (EPAs), which determine rules through agreements among the trade participants. Japan has been actively promoting FTAs and EPAs through bilateral trade con-versations since 2002.

In 2010, the U.S. began to promote negotiations for an EPA in the Pacific Rim region, which is known as the Trans-Pacific Partnership Agreement (TPP). Like other EPAs, it deter-mines the rules necessary for coordinating trade activities across borders. Japan joined the TPP after discussions with the government. However, Trump won the presidential election in 2017 and decided to withdraw from the TPP later. Once paused by the withdrawal of America, TPP eventually came into effect on December 30, 2018, with the participation of 11 countries ex-cluding the U.S..

Besides the TPP, Japan has concluded more agreements such as the Japan-EU Economic Partnership Agreement, the Japan-U.S. Trade Agreement, the Japan-U.S. Digital Trade Agreement, and the Japan-U.K. Comprehensive Economic Partnership Agreement. On Janu-ary 1, 2022, the Regional Comprehensive Economic Partnership (RCEP) agreement, which in-cludes the 10 ASEAN countries including China, South Korea, Australia, and New Zealand, claimed a new era for newborn Asian economic partnership.

2.2.3 Summary

Saori Katada, a professor of international relations from the University of Southern California, states, “Japan is actively pursuing new free trade agreements to enhance its economic security and resilience against a hostile global trade environment, having already established major FTAs covering 80 percent of its trade (Katada, 2024).” She accurately summarizes Japan’s ef-forts to improve the conditions of trade globalization. In other words, Japan is attempting to reveal its leadership and taking advantage through conducting a new international order, which is also related to the reform of liberal democratic capitalism advocated by the Kishida administration and the theoretical basis of Asian NATO advocated by Shigeru Ishiba.

3 POTENTIAL POLITICAL RISKS ON JAPAN’S FOREIGN TRADE IN 2024

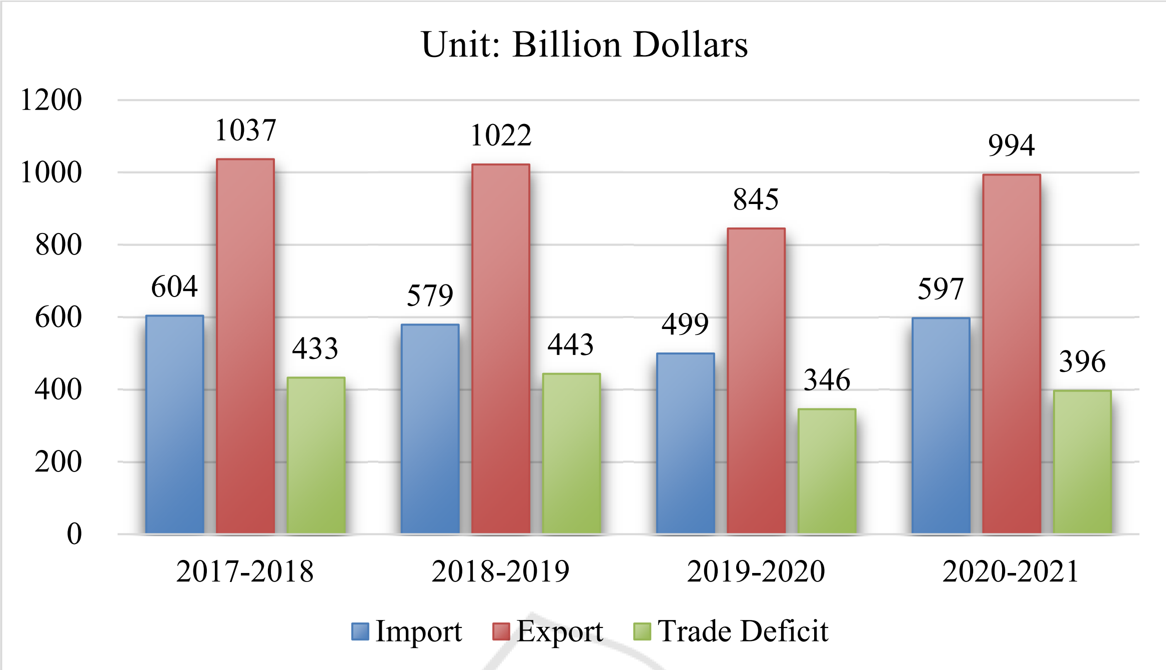
3.1 International Political Incidents

Donald John Trump won the 2024 presidential election and will be formally back to his chair in the White Palace on January 20, 2025. The newborn Japanese government led by Shigeru Ishiba is forced to be prepared for foreseeable Japan-US trade frictions once after getting rid of a temporary trust crisis. It has come to a turning point for Japan not only because of the up-coming Trump administration. International affairs such as China issues, Russia-Ukraine wars, Indo-Pacific affairs, and the G7 conference are all intensely involved in the future inter-national trade environment for Japan. In this section, potential political risks with 3 major trading partners are analyzed with facts, figures of quantitative indicators, graphs, and sup-portive opinions from other researchers to forecast the prospect of Japan's foreign trade.

3.2 Case Study

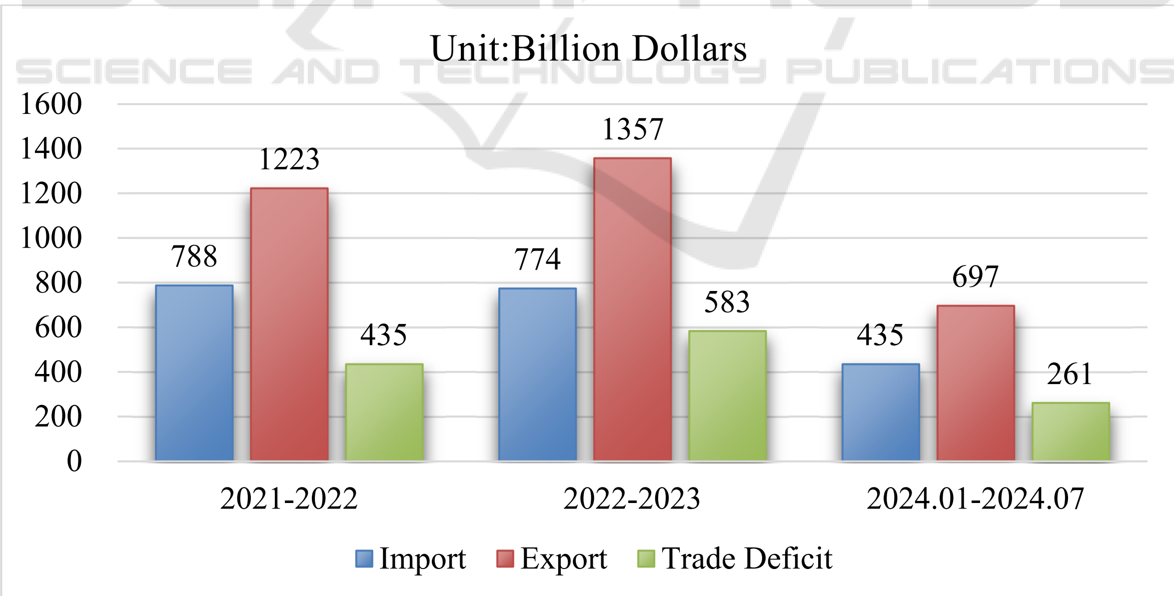
3.2.1 Trump’s Disdain for Multilateralism

In terms of trade policies, Japan has a deep concern about the upcoming Trump administra-tion, which is considered to be averse to multilateralism. During the previous tenure of Trump, the former president withdrew from the Trans-Pacific Partnership trade agreement and expressed dissatisfaction with the operation of the World Trade Organization.



Source: Trade Statistics of Japan
Alt Text for the figure: Figure 2 displays the trade statistics (in billion dollars) between Japan and the U.S. under the first Trump administration from 2017 to 2021. The figure consists of three indica-tors: statistics of import, export and trade deficit.

Figure 2. Trade between Japan and the U.S. under first Trump administration



Source: Trade Statistics of Japan
Alt Text for the figure: Figure 3 displays the trade statistics (in billion dollars) between Japan and the U.S. under Biden administration from 2021 to July 2024. The figure consists of three indicators: statistics of import, export and trade deficit.

Figure 3. Trade between Japan and the U.S. under Biden administration

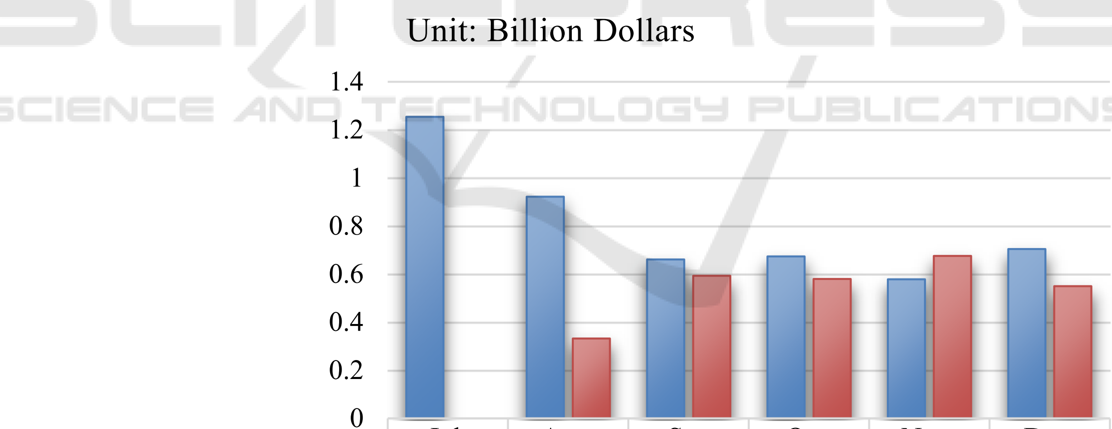
Figure 2 and Figure 3 incompletely describe the difference in trade volume between the first Trump administration and the Biden administration. The trade deficit of 2024 could be rough-ly predicted as a number around 500 billion and thus the average annual trade deficit under the Biden Administration would be a number over 500 billion accordingly. Compared with the average annual trade deficit of 404.5 under the 1st Trump Administration, an approximately 20 percent decline in trade deficit is foreseeable to occur during the second Trump administra-tion if "American First" doctrine revives.

Regarding bilateral trade talks, Trump has suggested imposing additional tariffs on Japanese cars. Not only additional direct tariff on Japanese products is considered a negative factor on Japanese exports to America, but it is also worried that exports to China will be limited under the probable requests of participation in anti-China actions by the Trump administration.

Nor is Trump's "America First" policy entirely a bad thing for Japan. "A phase-two bilateral trade deal, building on the one negotiated by Trump and Abe in 2019 (mainly to restore lost U.S. agriculture sales in Japan as a result of Trump's decision to pull out of the Trans-Pacific Partnership) is possible (Goodman, 2024)", mentioned by Matthew P. Goodman, the senior vice president for economics. But then he also adds, "IPEF is likely dead in the water, and other forms of affirmative U.S.-Japan economic cooperation in Southeast Asia do not appear to be on the horizon. (Goodman, 2024)" No considerable economic benefits is guaranteed through the alliance of Trump's anti-China strategy nor by the trade partnership with the sec-ond Trump administration.

3.2.2 "China Risk" Matters

Though exports to China have no longer ranked at the top since 2023, the solid business part-nership between the two Asian powers continues to be studied by economists from both coun-tries. Hideaki Kishida, a researcher from MGSSI, claims that because of the connection, China risk should be evaluated more cautiously. In his report, "China risk is broken down into three categories. First, as external risks to Japanese companies' China business (macro risks), there are China dynamics and international community dynamics, then as internal risks to China business (micro risks) there are managerial and operational risks (Kishida, 2022)." In brief, China risk is categorized as either nation-perspective force majeure or contradictions on com-mon values.



	Jul.	Aug.	Sep	Oct.	Nov.	Dec.
Food Exports	1.254173	0.922054	0.66129	0.67402	0.578545	0.704103
Range of Decline Compared with Data before the discharge	0%	33%	59%	58%	68%	55%

Food Exports　Range of Decline Compared with Data before the discharge

Source: Trade Statistics of Japan

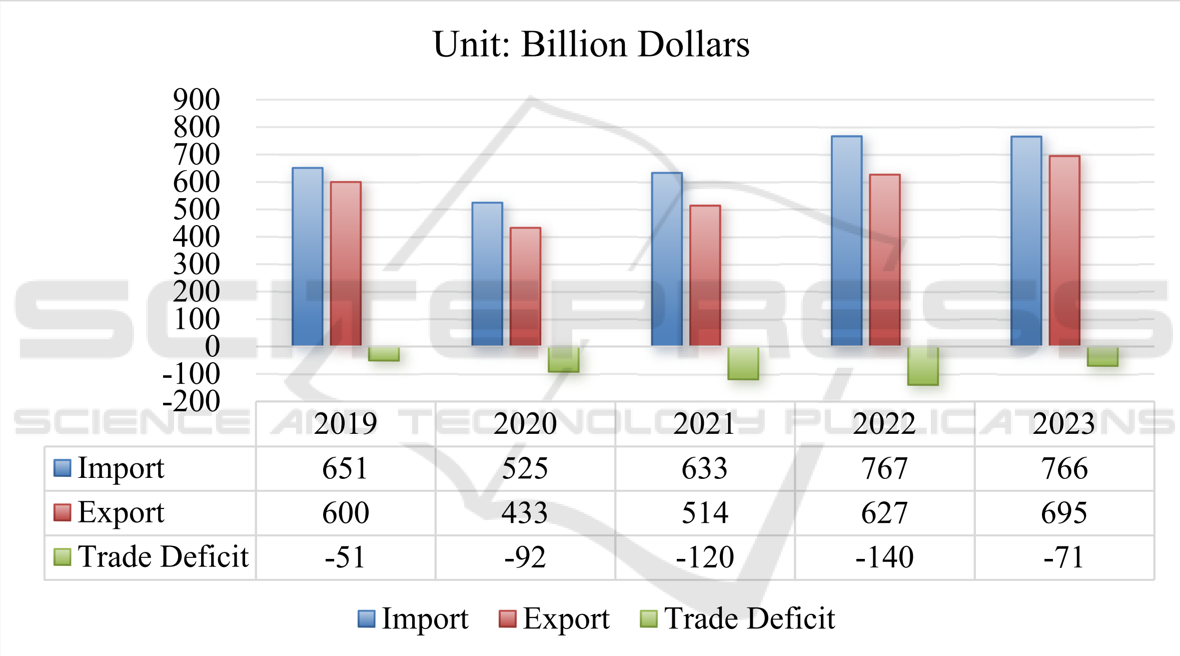
Alt Text for the figure: Figure 4 displays how trade statistics of food exports to China is affected by the discharge of treated wastewater from July 2023 to December 2023. The figure consists of two indicators: statistics of food exports (in billion dollars) and calculated range (in percentage) of de-cline compared with data before the discharge.

Figure 4. Declining food exports to China after the discharge

On 24 August 2023, Japan formally began the discharge of treated wastewater into the Pa-cific Ocean, sparking protests in the region and China to expand its ban on all aquatic imports from Japan. Exports in the category of food, especially marine products, were significantly re-duced accompanied by voiced concerns from various governments. Among the countries op-posed to the discharge, the Chinese government is considered to overreact by the Japanese side as China claims a complete prohibition of all marine products imports.

3.2.3 European Union-Reliable Business Partner in Response to Protectionism

Based on the EU-Japan Economic Partnership Agreement (EPA) issued on 1 February 2019, the EU has become one of the most reliable trading partners of Japan. The largest trade agreement signed by the two powers in the middle era of the first Trump administration is considered a milestone, in response to trade protectionism. The relevance of Japan-EU rela-tions is precisely analyzed by PAULA CISNEROS CRISTÓBAL from the form of bilateral re-lation framework to the negotiation process of the EU-Japan EPA. In conclusion, she com-ments, "It represents a significant boost for trade exchanges on both sides and will particularly affect the future of important sectors such as the agri-food and automobile sectors, liberalizing them (Pérez, 2021)." Both Japan and the EU are dedicated to the elimination of trade barriers and expansion of cooperation beyond the field of economics.



	2019	2020	2021	2022	2023
Import	651	525	633	767	766
Export	600	433	514	627	695
Trade Deficit	-51	-92	-120	-140	-71

Source: Trade Statistic of Japan

Alt Text for the figure: Figure 5 displays the trade statistics (in billion dollars) between Japan and the EU. from 2019 to 2023. The figure consists of three indicators: statistics of import, export and trade deficit and records the growth of trade partnership between the two powers after the EU-Japan EPA was issued.

Figure 5. Trade between Japan and EU since 2019

Figure 5 shows despite disastrous years of experiencing COVID-19 shock, both exports and imports between the two powers have been growing steadily year by year since the launch of EPA. The economic benefit is evident, and so is in other perspectives. "The title 'Econom-ic Partnership Agreement' rather intends to emphasise that the cooperation goes beyond trade and should be viewed as a strategic partnership including cooperation on many levels (Frenkel, 2017)," commented by Michael Frenkel and Benedikt Walter, German researchers from WHU. The in-depth cooperation also contributes on acceleration of the economic recov-ery and innovation of medical support for the two powers to combat the pandemic crisis.

However, despite the pandemic crisis, the Japan-EU relationship is now facing new chal-lenges due to the Russia-Ukraine war in 2022. Structural upheaval occurred after the Kishida administration decided to aid Ukraine with nonlethal military equipment. Céline & Eva, both senior researchers on the Japan program from CSDS, states, “As European and Japanese firms withdraw from Russia, the importance of ensuring resilient and ethical value chains and re-ducing dependencies on China and Russia have become key (Céline, 2022).” It is since 2023, China no longer maintains the position of Japan’s largest exporter. Trade between Japan and Russia is shrinking as well because of the worsening relationship. The unforeseeable end of the war, the regime changes of Kishida onto Ishiba, Trump’s attitudes, and reactions from Russia, China, and the EU, any of these factors can carry out another storm onto the Japan-EU relationship in near future.

4 CONCLUSION

At the moment, political risks from the U.S and China, two major trading partners of Japan, are threatening both economic partnerships and the growth of trade scale. Japanese econo-mists have been concerned about the complexity of global situation after the re-appointment of Trump. On one hand, Japan-US trade frictions are considered disastrous enough to let the efforts of the Kishida administration to stabilize the economic partnership with the Biden ad-ministration be in vain. On the other hand, Trump is disruptive on international order due to his advocacy of protectionism. His return is also threatening the economic partnerships be-tween Japan and China. Though the level of impact depends on how Ishiba administration is involved in Trump’s anti-China actions, certain persecuted conflicts unavoidably cast a shad-ow on the economic partnership between the two Asian powers.

Hence, the rest of time before the formal return of Trump is crucial for Ishiba administra-tion to determine the standing position. The growing trade scale of Japan and EU can not eliminate the huge negative impact from a slump of trade with U.S. and China. As men-tioned, no considerable economic benefits is guaranteed through the alliance of Trump’s anti-China strategy nor by a reinforced trade partnership with the second Trump administration as Trump has already suggested imposing additional tariffs on Japanese cars.

In this perspective, “China risk” is not an idiosyncratic troublemaker as many Japanese re-searchers describe but a much milder conflict due to contradictions on values. On the contra-ry, China could become one of Japan’s reliable allies to combat protectionism with its market scale and resources. China's government’s promise to resume imports of aquatic products from Japan implies China is not willing to prohibit any foreign trade as well if unnecessary. The global situation on international trade policies motivates Japan to seek ever more bilateral agreements with its largest trading partners, and so does China.

Rome wasn’t built in a day. History of the relevance of the Japan-EU relationship can be even dated back to the 1991 Joint Declaration. The successful Japan-EU partnership through a long process of negotiation provides experience for future diplomacy. To deepen international economic integration in response to the rise of trade protectionism, more strategic alliances are required to create economic vitality for the island country.

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