

Roundtable with Prof. Tsuyoshi Kawase, Prof. Mie Oba, Dr. Satoshi Inomata & Masakazu Toyoda  
(Aug. 7, 2024)

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

By Japan SPOTLIGHT

**Participants:** Prof. Tsuyoshi Kawase of the Faculty of Law at Sophia University  
Prof. Mie Oba of the Faculty of Law at Kanagawa University  
Dr. Satoshi Inomata, Chief Senior Researcher of the Institute of Developing Economies,  
JETRO  
**Moderator:** Masakazu Toyoda, Chairman & CEO, JEF

## Participants



*Prof. Tsuyoshi Kawase*



*Prof. Mie Oba*



*Dr. Satoshi Inomata*



*Masakazu Toyoda*

## Outline of METI's White Paper 2024

**Toyoda:** The Ministry of Economy, Trade and Industry (METI) released the 2024 version of its annual “White Paper on International Economy and Trade” in July. It contains various interesting analyses and proposes three pillars as the “ideal trade policy” for Japan.

The first is to “contribute to the maintenance of a rules-based international economic order”. The dispute settlement function of the WTO is based on a second trial system, but the panel is dysfunctional because no member has been appointed to the Appellate Body, the higher-level tribunal, and even if the first panel's decision is finalized, there will be no second-instance panel decision, resulting in “appeals into the void” without any final decision. In addition, while there are more and more cases in which economic dependence is used as a weapon, trade restrictions based on security are also increasingly used, and it seems that we are in a state of lawlessness, even if only partially. Japan has always insisted on the importance of the “rule of law”, and it is a plausible argument that Japan, as a country, should contribute to it.

The second is “building resilient supply chains”. Japan has been analyzed as a prominent country in terms of import dependence on specific countries. As was made clear during the Covid-19 pandemic, dependence on specific countries naturally poses many risks in terms of stable supply. If the US-China relationship becomes even more strained in the future, the risks will become even greater, and I think it is essential to build well-balanced supply chains.

The third is “building win-win relationships with other countries, including those in the Global South”. If the world is divided into three groups – the G7 group of advanced nations, the China-Russia centered group, and the Global South, which includes ASEAN and India as well as Latin America and Africa – how should Japan build relationships of trust with each country? In particular, the importance of relations with the Global South, which has been growing remarkably in recent years, goes without saying.

Today, we have gathered three experts to discuss these three proposals in this year's White Paper: Prof. Tsuyoshi Kawase of the Faculty of Law at Sophia University, who specializes in international rules, including the WTO, Prof. Mie Oba of the Faculty of Law at

Kanagawa University, who is an international political scientist specializing in Asia and the Global South, and Dr. Satoshi Inomata, chief senior researcher at IDE-JETRO, who has been studying supply chain vulnerabilities.

Let me begin with the proposal to “contribute to the maintenance of a rules-based international economic order”. I would like to ask Prof. Kawase, what is your assessment of the current state of the international order? We cannot deny the malfunctioning of the WTO. Do you think the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) or plurilateral agreements or Regional Trade Agreements (RTAs) are successful in supplementing the WTO? There are various ways to secure members of the WTO Appellate Body, but what do you think is the most realistic way? If it will take time to restore the functions of the WTO Appellate Body, what do you think should be prioritized in terms of Japan’s contribution to a rules-based international order? You have said that we should focus on reviewing the CPTPP, but what exactly do you mean by that? Why should we give it priority?

## **Maintaining a Rules-Based International Economic Order**

**Kawase:** As you say, it is true that the rules-based multilateral trade regime is in decline. There are three key terms that explain the current situation: securitization of the multilateral trade regime, fragmentation, and de-legalization. The word “de-legalized” is hard to understand, but it really means “less legalized”.

Securitization has been brought about primarily by a series of US measures since the Donald Trump administration, namely the additional tariffs on steel and aluminum products under the Trade Expansion Act of 1962 and the subsequent introduction of export controls on semiconductors and various security-based trade and investment restrictions. Japan and the EU have also followed some of these developments, although not to the same extent as the United States, by promoting economic security strategies and decoupling from China.

Fragmentation means that while the WTO is functioning less well, the establishment of mega-regional agreements such as the CPTPP and RCEP, economic partnership agreements between major economies, such as the EU-Japan and the US-Japan FTAs, or large-scale partnership frameworks for friendshoring as represented by the IPEF, are flourishing.

Finally, there is de-legalization. The WTO dispute settlement procedures used to provide for judicial resolution of trade disputes, but since the suspension of the Appellate Body, the rule of law has been declining. In addition, as a result of the recent US reluctance to conclude legally binding trade agreements with market access commitments, cooperation-based trade frameworks with no or weak binding force, such as the IPEF and the US-EU Trade and Technology

Council (TTC), are being actively established.

To answer your individual questions, first of all, it is obvious that the MPIA, plurilateral agreements, and RTAs are not sufficient complements to the WTO in terms of the number of participating countries. There is no FTA that covers Japan, the US, the EU, and other major countries such as India and Brazil, and looking at the US, for example, there are no trade agreements with these countries except for Japan. Looking at plurilateral agreements, in the ongoing Joint Statement Initiative (JSI), even the most popular Investment Facilitation Agreement does not cover even two-thirds of all WTO members. On the MPIA, even though it is to be taken for granted that the US is not joining, the other major trade players like the United Kingdom, India, South Korea and ASEAN nations are not members yet.

Nevertheless, since the US is not taking the leadership and the WTO is limited in what it can do on a consensus and single-undertaking basis, there is no other option but these arrangements. They can take advantage of their members being fewer and all like-minded and thus they can be more mobile and active.

On RTAs, in areas like digital trade, investment and state-owned enterprises or issues like trade and the environment, or trade and labor, the CPTPP and USMCA or the other advanced FTAs have started rulemaking prior to the WTO. In the wake of the suspension of the WTO Appellate Body, the dispute settlement procedures of the USMCA and CPTPP are also beginning to be utilized.

In plurilateral agreements as well, in the WTO’s JSI, they reached an agreement on a final draft, called the Stabilization Text, for digital trade in July 2023, following last year’s Investment Facilitation Agreement. Since India and South Africa are strongly opposed to the JSI framework of creating minority country agreements within the WTO framework itself, it is likely to be difficult to incorporate these agreements into the WTO Agreement by consensus in the future, but I see this as an indication that rule formation will continue to progress in the WTO on a voluntary basis.

As for the MPIA, the only decision so far is the anti-dumping case of frozen French fries in Colombia, but in many ongoing disputes the parties have agreed in advance to refer the dispute to MPIA arbitration in the event of an appeal by the parties, and we see the MPIA potentially contributing to dispute resolution. For example, in the case concerning China’s anti-dumping duties on stainless steel products, Japan’s membership of the MPIA prevented China from filing an appeal into the void and forced China to accept the loss of the case at the panel stage.

Australia has also referred a dispute over China’s economic coercion measures over the origin of Covid-19 to the WTO, but one of the factors that led to the settlement of the dispute over the anti-dumping duties on wine and barley was that both countries joined the MPIA and thus China had no option for an appeal into the void, I think.

I think finding a practical solution to the Appellate Body's reform is difficult. Looking at the current state of discussions in Geneva, the US is skeptical about the two-tier system of the panel and Appellate Body itself, and it is also difficult to find a consensus or compromise on the role required of the members of the Appellate Body. So the dispute on this issue seems to have become a fundamental philosophical debate. Sadly, I can't think of any realistic compromise.

Finally, regarding Japan's contribution, I have previously stated that a general review and expansion of the CPTPP should be a priority. It is for the following reasons: (1) the CPTPP is a regional, near-global, broad-based partnership, (2) the US and China are not participating and confrontation will not be introduced, (3) many members of the WTO's so-called Ottawa Group – a group of wise and influential middle powers keen to reform the WTO, including the UK, Canada, Australia, New Zealand, Chile, Mexico and Singapore – have joined the CPTPP, (4) unlike with the RCEP, ASEAN members such as Laos, Cambodia, and Myanmar, which are pro-China and underdeveloped countries, are not included in the CPTPP, making it relatively easy to get a consensus among members on the level of trade liberalization, and (5) although slightly outdated, it still comprehensively maintains a relatively high level of rules that are ahead of the WTO.

Of course, I did not mean to suggest that WTO reform should be disregarded, but rather that it should be pursued as a Plan B. Specifically, for example, since the USMCA already stipulates digital trade, which is ahead of the CPTPP, then we will adjust to that level. Although there may be opposition from Malaysia and Vietnam, if we still aspire to the return of the US to the CPTPP, we should align our labor and environmental rules with those of the USMCA. If we have in our mind negotiations with China on its membership of the CPTPP, we will strengthen the rules for state-owned enterprises. Also, if we are anxious about strengthening supply chains, we can make greater efforts on the regulatory integrity rules, which currently have little substance.

**Toyoda:** I would like to ask Prof. Oba the same question: how do you evaluate the current state of the international economic order? You have said that the RCEP agreement is a sign of risk hedging by each country and an expression of East Asian countries' commitment to maintain and further develop a free and open international economic order. Do you think that East Asian countries are seeking the "rule of rules"? China, too, has spoken of the RCEP as a symbol of the "rule of rules", so is it correct to assume that the same is true of China? It is unfortunate that India did not join the RCEP at the last stage. Why do you think this happened? Does it mean that India does not value the rule of rules? How do you evaluate the RCEP and CPTPP when you compare them?

**Oba:** I also believe, as does Prof. Kawase, that the current state of the rules-based international economic order is very shaky and in retreat. After the end of the Cold War, when the severe confrontation between the major powers had eased, an international order based on the principle of cooperation continued and the relatively stable international circumstances encouraged globalization and brought growth to the world. Asia has particularly benefited from this, but the international order itself, which provided such an environment, is now under threat. Here are some specific phenomena.

First, the nexus of political security and the economy has increased as strategic competition among the major powers has intensified. Under these circumstances, the belief that a free and open economy is not necessarily desirable becomes widespread. Indeed, globalization is being reversed by the impact of export control competition among major powers. And the dysfunction of the WTO's dispute settlement mechanism is actually hindering a free and open international order based on rules.

Furthermore, the possibility of the occurrence of armed conflicts is increasing. In fact, there is now war involving one of the "P5" of the United Nations in Ukraine, the Middle East is at war again, and in Asia there is talk of a possible crisis over the Taiwan Strait. A world where there is a heightened possibility of armed conflict does not provide a desirable basis for cross-border business. A free and open economic order should be based on a stable international order. However, the foundations of that order are shaking.

In parallel with this, the content of the rules governing cross-border economic activities is changing. In other words, norms such as environmental protection and human rights should be considered more than before. Moreover, when setting rules, it has become impossible to ignore the demands of emerging and developing countries. In past cases, such as the Uruguay Round of the GATT, only developed countries discussed and reached some kind of compromise, and then forced emerging and developing countries to accept the content of that compromise. But now, the intentions and demands of emerging and developing countries tend to be more directly reflected in the process.

In this context, it is certainly important to establish high-level rules regarding trade and other cross-border business, and from that perspective the CPTPP is a significant framework. On the other hand, the RCEP would be more suitable for the realities in Asia. Northeast Asian and Southeast Asian countries are looking for an order that is conducive to economic development, along with the maintenance of peace and stability. And they are well aware that free economic activity across borders has supported their development, and common rules to accommodate the environment for this are important to them.

Indeed, with WTO rulemaking stalled, alternatives are being sought. At such a time, the RCEP, although at a lower level than the CPTPP, is a framework that underpins and facilitates the global value

chains that extend to East Asia. The RCEP member countries are so diverse regarding their level of economic development and industrial structure, they cannot easily reach agreements on the various topics regarding setting common rules on cross-border business. So it will be difficult for them to land on a high-level agreement like the CPTPP in the process of revising the contents of the RCEP in ministerial meetings, joint committee meetings, and other meetings hereafter.

But a future trade order will not be viable without including emerging and developing countries and it should address their demands, and the significance of the RCEP framework, which includes not only developed countries but emerging and developing countries, should be emphasized.

China, too, has taken the basic stance of respecting the rule of rules. However, it may be more assertive and seems to think that the content of the rules can and should be transformed in ways that favor it. In particular, it may think that the RCEP is more likely to reflect its intentions. So we should watch China's behavior regarding revising rules in the RCEP. It should be noted, however, that the RCEP is a multilateral framework, and members have to reach an agreement to change rules through multilateral negotiations and therefore China cannot always modify its rules to its own preference. India has withdrawn from the RCEP negotiations. Naturally, India is also very interested in its own economic development like other Asian countries and seeks an order that is conducive to the development of its manufacturing sector in particular. From this perspective, India's excessive dependence on China and fear of a widening trade deficit with China were probably the reasons for its withdrawal from the RCEP. While India may not be a rule-abiding country, it is one of the largest emerging economies, and while it is self-righteous, it does not have an economy as large as China's. Moreover, India is trying to develop its domestic manufacturing industry through its "Make in India" and other programs, but many issues remain to be addressed. The agricultural sector also accounts for a high percentage of the domestic economy.

Under these circumstances, rather than being a rule maker who create the rules, it must have felt concerned about how great the impact of joining the RCEP would be on its own manufacturing industry, and if there would be a negative impact, it would have to protect its industries against it. So, though we can assume that India understands that international rules have supported and developed the international order to some extent, it is questionable to what extent it understands its own role in rulemaking in order to support the international order.

As to how to evaluate the RCEP compared to the CPTPP, I believe that each has its own role to play. Due to the diversity of its members, it may not be possible to formulate very sophisticated rules, but the RCEP is very influential because it is the first FTA that includes China, Japan, and South Korea, and because of its size, covering about 30% of the world's GDP. It will be a framework that

would enable the maintenance of economic linkages among countries with a view to the distant future.

The development of rules of origin is an important point in the RCEP, and we have also introduced an advanced display system for customs procedures and trade facilitation. Only two of the three principles of the CPTPP are included in the area of e-commerce, but it is very meaningful that the members have reached an agreement on e-commerce in the first place. In the field of intellectual property protection, the rules are set to exceed those of the WTO's TRIPS agreement.

The CPTPP is very small in GDP size, at 13% of global GDP, due to the non-participation of the US. However, it can serve as a model for high-level rule-building that supports a free and open rules-based international order, as it brings together countries that have agreed to formulate advanced and comprehensive rules and are capable of doing so to some extent. In this sense, it has a vital role to play. Also, chapters on state-owned enterprises, labor, and the environment are not in the RCEP but are included in the CPTPP. In this sense, it is crucial as a model, but it is difficult to evaluate the fact that the US is not included, and that has reduced its centripetal force.

**Toyoda:** Dr. Inomata, I would first like to ask you also about your own assessment of the current state of the international economic order. In the context of geopolitical risks, you have said that while the protection of supply chains is important, we should be actively aware of the need to acquire a dominant position in the global production networks. You have also said that we should be involved in international standardization and rule formation, and lead supply chain configuration from the institutional side. How would you evaluate Japan's current position from this perspective? In particular, what do you think of the fact that there are few Japanese working in international organizations? Furthermore, you have advocated for the establishment of an international framework to keep the US-China decoupling processes under control, and you have made a very interesting proposal to make this a part of the APEC policy agenda. I would like to know what kind of framework you have in mind in concrete terms, and I would also like to know how you evaluate ERIA.

**Inomata:** In May 2024, the security clearance system was introduced in Japan, and hereby the government has completed the first-round development cycle of laws and regulations related to economic security. By contrast, the EU formulated its economic security strategy last year, yet the member countries are still in the process of aligning domestic laws with the strategy. The US has not even come up with a grand vision of economic security.

Perhaps Japan has already moved from the stage of institutionalizing economic security to the next phase of

disseminating the systems to the private sector. For example, ECONOSEC JAPAN, a conference and exhibition event related to economic security, has been organized since last year. Meanwhile, it seems that the main focus of debate among academic circles has now shifted to the issue of industrial policies, especially subsidy competition. Of course, the root of the problem lies in China's production over-capacity, but even the US, which is the biggest critic of China's practices, has introduced a series of domestic laws that are questionable in terms of their consistency with the WTO, such as the Infrastructure Investment and Employment Act of 2021, the Inflation Reduction Act of 2010, and the CHIPS and Science Act. This is precisely the reason why it is imperative to rebuild a trading system based on international rules and norms.

As for Japan's involvement in the effort for international standardization, this year's White Paper on International Trade seems to suggest that the Japanese government is doing good practice. In the publication, there is a section titled "The Role of Standardization in Creating International Markets: Toward the Realization of a Japanese-Style Accelerated Standards Model". Here, I also want to refer to the work of Prof. Saori Katada of the University of Southern California who has analyzed in detail the development of the Japanese government's regional policy. According to Prof. Katada, it has progressively undergone a major transformation from its former bilateral and informal approach to a more region-wide, rule-prone strategy, as exemplified by Japan's contribution to the formation of the CPTPP.

About the small number of Japanese staff in international organizations, it has been an issue for ages, and also I often hear that young workers or university students these days are losing their interest in overseas postings or studying abroad. I do not think that the issue can be solved easily. Rather than trying to increase the total number of Japanese staff, it is more practical to aim to enhance Japan's presence by acquiring key positions in international organizations; it is a question of the diplomatic capability of the Japanese government.

Regarding the "international framework" to keep the US-China decoupling process under control, I am now more attentive to the ASEAN Regional Forum (ARF) than APEC. There are four reasons. First, I am expecting ASEAN to be a key player in the regional security, and the ARF is indeed the organization with ASEAN in its core. Second, the ARF has explicit missions on security issues, including trust-building and preventive diplomacy. Third, the ARF has multi-track systems, such as the Experts and Wise Leaders Meeting and the Asia-Pacific Security Cooperation Council. And fourth, India, a regional power, is a member.

Regarding ERIA, it should be able to make policy recommendations on regional economic security as inputs to, say, the aforementioned multi-track process of the ARF.

## Building Resilient Supply Chains

**Toyoda:** I would like to move on to the second recommendation, "building resilient supply chains". The White Paper warns that "excessive dependence on imports from specific countries is a supply-chain risk that needs to be diversified." Among these countries, Japan's dependence on China is particularly high, with a share four times the G7 average, three times that of the US, and seven times that of Germany. Although this is not surprising since they are neighboring countries, Japan has recently been facing economic coercion from China in many cases.

Prof. Oba, how do you view Japan's high level of dependence on China? Do you think it is natural because it is a neighboring country, or do you think that excessive dependence is dangerous? You once stated that "building a supply chain to break away from dependence on China goes hand in hand with the shift to a bloc economy." The idea of resilient supply chains is intended to reduce over-dependence on specific countries, and it seems that Japanese companies are now trying to reduce their investment in China and increase their investment in ASEAN and India. How do you perceive this trend?

**Oba:** I probably made that statement when the term "de-risking" was not yet widespread. From my point of view, to use the keyword de-risking is more politically appropriate rather than to clearly say "decoupling". So I am not rejecting the concept of de-risking itself. As for the Japanese economy's dependence on the Chinese economy, I do not think Japan is dependent on China just because of geographical proximity. In addition, the changes in the degree of economic interdependence between the two should also be taken into account. As noted in the White Paper, the relationship between the Chinese and Japanese economies rapidly grew closer in the 2000s from the perspective of business activities, but since the 2010s there has been a slight swing back, and similar phenomena can also be seen between the economies of other countries and the Chinese economy. During this period, there may have been some new Japanese companies entering the Chinese market, but some companies also decided to withdraw from it. The degree of dependence on China still depends on the activities of the companies.

Of course, it is possible to control companies' economic activities to some extent by setting certain rules and requiring them to comply with those rules. However, as long as companies' decisions still support their business deployment in China, it would be tough to restrain them excessively.

Related to this, there should be a practical limit to how much East Asia can reduce its dependence on China from a long-term perspective. I am wondering whether any country, not just Japan, can easily reduce the dependence of its own economy on the Chinese economy. We must be realistic and consider that China will

continue to be dominant in the East Asian and global economic order.

In particular, compared to the relationship between China and the US, Europe, and other countries, the first major difference between Japan and China is that the physical distance between the two countries is very close. As mentioned before, the fact of mere geographical proximity does not determine the relationship between countries. However, proximity's impact on security and economics cannot be ignored. We must construct an order with China's presence as a given and recognize that a two-step approach is necessary. China's weaponization of exports of strategic materials such as rare earths and gallium is very annoying, and it is absolutely necessary for our country to respond to such moves by stockpiling or securing new sources of supply to diversify the so-called risks. And I think it is true in the current short-to-medium term that we should keep our distance from China, especially in the area of advanced technology.

On the other hand, China will not disappear in the long run, and there is a limit to how much we can reduce our dependence. So we must have a long-term strategy for how to involve China in the creation of an international rules-based order. The idea of resilient supply chains encompasses the intention to reduce excessive dependence on specific countries. And, as I mentioned, I understand this trend and the idea itself, but I am not sure that stronger relations with ASEAN countries and India can be a sufficient substitute for economic ties with China.

I am also quite skeptical about whether India could really provide an appropriate environment in many ways to develop business centering on manufacturing in light of its domestic politics or an India-centered foreign policy, although this may be different from the current direction of the Japanese government. I think we should not hold too high an expectation of India as an alternative to China.

**Toyoda:** Dr. Inomata, you have pointed out that “the efficient organization of production activities has resulted in the extreme concentration of production bases in certain countries and regions,” and that “partial decoupling focused on security domains should be implemented as a temporary measure to avoid unintended escalation of security risks.” By “partial decoupling” do you mean de-risking? Also, I would like to know what your thoughts are on the IPEF and the Quad. How can we ensure a balance between “efficiency” and “safety and stability”?

**Inomata:** The term de-risking in the context of economic security was first delivered by Ursula von der Leyen, the European Commission president. Since then, its conceptual difference from “decoupling” has been discussed here and there, but I do not think there have been any visible policy changes in the US, the EU, or Japan that match the slogan of “de-risking, not decoupling”. I myself

believe that de-risking is merely political rhetoric. Rather, the concept of “partial decoupling” is akin to the idea of “small yard, high fence”, as put by Jake Sullivan, the US national security advisor to the president. The question of “how small the yard should be”, however, is difficult to define, especially due to the presence of dual-use technologies. If such a gray zone of economic security is abused for protectionist motives, the escalation risk of economic decoupling arises.

So, fidelity to the principle of “small yard, high fence” is important. We have to detect and eliminate in advance any factors that may deviate from the principle. We may have to devise WTO-like functions that specialize in the US-China decoupling issue, say, monitoring and evaluating the trade and industrial policies of both countries, as well as setting an agenda and arena for policy dialogue. This is what I envisage in the multi-track mechanism of the ASEAN Regional Forum, as an aforementioned “international framework” to keep the decoupling process under control.

As for the IPEF, I have repeatedly pointed out the possibility that the US may use it as a decoupling instrument, so I will not reiterate it here. Note that this is only a possibility; the participating countries should keep up checks and balances to ensure that the IPEF is not used for narrow purposes. Indeed, we may recall that US President Barack Obama once characterized the TPP as a part of the US regional strategy *vis-à-vis* China when the negotiations started. But now, perhaps partly because of the US withdrawal, I don't think many would see the CPTPP as a tool to contain China.

Regarding “efficiency” and “security”, there can be trade-off between them, as implied by contrasting terms “just-in-time” and “just-in-case”. However, they do not necessarily contradict each other. The solution may lie in digital technology. Digital transformation (DX) does not only make production systems more efficient, but also increases supply chain security by means of encryption formulae, distributed processing, or smart contracts based on blockchain technology. So the establishment of international rules for data security as well as the free flow of data is important. There are a lot of areas that Japan can contribute to, following the spirit of Data Free Flow with Trust (DFFT).

**Toyoda:** Now, Prof. Kawase, how do you position economic security in the international economic order? Do you reject frameworks such as de-risking, the IPEF or the Quad? One of the reasons for the WTO's dysfunction seems to be its handling of security clauses. If the concept of economic security is added to the WTO, I have a feeling that it will become even more difficult to restore its dispute settlement function.

**Kawase:** It depends on what you mean by economic security and de-risking, but they are not inconsistent with free trade in the sense of diversifying sourcing and export markets, for example, as part of

supply chain resilience. As noted in the WTO's World Trade Report 2023 published last year, when trade is disrupted by exogenous shocks such as the pandemic or economic coercion, it would be the free trade regime that ensures that alternative markets and sources can be easily found to respond to these shocks.

On the other hand, friendshoring frameworks such as the IPEF and the Quad may degenerate into discriminatory mini-lateralism, depending on the institutional design. That said, I believe that attempts to reduce supply chain risks among trustworthy countries are welcome in themselves. The IPEF's Supply Chain Agreement falls within such attempts, which clearly states that it should operate consistent with the WTO Agreement.

However, if derisking or economic security extends to sanctioned trade restrictions as geopolitical economic statecraft or even hostile trade relations, it will be difficult to ensure consistency with the WTO Agreement. In addition, WTO panel precedents tend to interpret "essential security interests" in the security exception clauses in force including GATT Article 21, quite narrowly, limiting them primarily to interests related to defense and military affairs and the maintenance of national order. Therefore, it is also debatable whether or not it can cover measures that have medium-to-long term industrial policy aspects for dual-use goods, such as the US semiconductor export controls to China.

As for that security exception, the US requires that the exceptional conformity of its measures be left entirely to the self-determination of member countries. That would eventually lead the WTO regime back to the "rules of the jungle" again, as the Trump administration's steel and aluminum case clearly shows. However, if, on the other hand, conformity with the security exception continues to be left to the judgment of the panel and the Appellate Body, they will continue to be forced to decide what is each member's essential security interests. I am seriously concerned that this will impose an excessive political burden on the dispute settlement process and jeopardize the sustainability and legitimacy of the system.

In that case, we would need a more political and less legalized approach. For example, one idea under discussion is that if a WTO member takes a trade-restrictive measure on security grounds, that member would be allowed self-judgement of its own compatibility with the security exception, but if another member's trade interests are impaired by it, the latter member would automatically be allowed to take countermeasures. Another idea is to strengthen multilateral monitoring of trade measures for security purposes by establishing specialized committees. At any rate, we believe that these non-judicial solutions will have to be introduced.

**Toyota:** What do you think about the IPEF and the Quad, Prof. Oba?

**Oba:** Indeed, the IPEF has not been entirely without achievements. It functions as a framework for establishing rules in its own way as

Supply Chain Agreements have been concluded within this framework. However, the IPEF's significance is more symbolic, such as a framework for maintaining relations with the US or ensuring that the US remains engaged in Asia. The IPEF framework itself has a weak centripetal force. The biggest reason is the lack of market access. In addition, the outcome of the US presidential election will determine the IPEF's future. It is highly doubtful that the IPEF will survive if Trump wins the election and comes to power.

As for the Quad, they are already pursuing cooperation in various areas, such as critical technologies and supply chains, which are related to security but are differentiated from traditional security cooperation. However, there are advantages and disadvantages to the inclusion of India. Of course, India is a significant player in world politics now, and the Quad is useful for Japan to have regular discussions with India. However, as I mentioned before, the US and Japan seem to overestimate India because they see it as an essential partner to counter China. A dispassionate evaluation of India is necessary. "The spirit of the Quad", agreed by the four leaders of Quad member countries, supports a free, open, and rules-based order. It is questionable whether we really share with India the values that are essential for such an order.

## Win-Win Relationships with Other Countries, Including in the Global South

**Toyota:** Let me move on to the third item, "building win-win relationships with other countries, including those in the Global South". First, I would like to start with Dr. Inomata, who has been studying ASEAN and India from the perspective of global value chains (GVCs). These countries are achieving high growth and are not part of the G7 group of developed countries nor the China-Russia group. From the perspective of stable GVCs, is this a desirable situation? If they were to ally with one side or the other, might they face some security dilemmas? How do you see the Global South, and how do you think Japan should try to build a win-win relationship with it? China and Russia are trying to make the Global South their friends, so what should Japan do in response?

**Inomata:** Frankly, I am not a great fan of the term "Global South". There was once the term "Third World" during the Cold War, but developing countries nowadays are much more diverse than before. If we bundle them together under one label such as the Global South, we may face a risk of misjudging our delicate relations with them. Also, both China and India are claiming to be the "leader" of the Global South, and hence it is not a practical concept either.

So rather than relying on such vague terminology, it is better to look at existing establishments. For example, the Gulf countries have the Gulf Cooperation Council (GCC) and West Africa has the Economic Community of West African States (ECOWAS). Of course,

the biggest counterpart for Japan is ASEAN, whose economic and security contribution to East Asia region goes without saying. If Japan provides substantial back-ups for maintaining and strengthening ASEAN centrality and inclusiveness, this will weave a regional, or even global, win-win relationship.

**Toyoda:** I would like to ask Prof. Kawase how the Global South is positioned in terms of the WTO and RTAs. Conversely, how do these countries view the WTO and RTAs? Can we assume that they respect the rule of rules, as Prof. Oba says? I would like to know more about the Global South from the perspective of the WTO.

**Kawase:** This is a difficult question. The Global South is too broad, since it includes large countries like China and India on the one hand, and failed states in Africa on the other. It is often annotated in studies of international politics and development economics as a concept that changes depending upon a person's position and context, so what it means cannot be simply defined. These nations are by no means monolithic, and it is more natural for individual stances to differ from issue to issue. For example, on the crisis of the WTO's Appellate Body, a significant number of developing countries have endorsed a resolution calling for a prompt initiation of the process of nominating its senior members. Also, China and Brazil have joined the MPIA and interestingly, for some reason, Benin has also joined. On the other hand, India and Indonesia have not joined the MPIA and have not hesitated to file an appeal into the void. As for their response to the JSI as well, it is divided into two: while India and South Africa strongly oppose such rule making by like-minded members, a large number of developing members are actively joining the initiative.

However, ASEAN and Latin American countries have traditionally tended to actively conclude and utilize RTAs, and many of these countries are also major players in the WTO in terms of negotiations and use of the dispute settlements procedure. Africa also has a tradition of regional integration, including the ECOWAS and Southern African Development Community (SADC), and in addition the African Continental Free Trade Area (AfCFTA) is in effect, and negotiations on issues remaining to be fixed are underway for its full-scale operation. Developing countries were also keen to continue the Doha Round. In this sense, I agree with Prof. Oba's assessment that the Global South respects the rule of rules.

However, the attitude of developing countries toward the rule of rules over the past quarter century or so has been a revisionist approach from a development perspective. For example, these countries got all WTO members to rename the Doha Round the "Doha Development Agenda" and successfully persuaded them to include in the negotiating agenda the reduction of commitments for developing countries in the current agreements, the so-called implementation issues. In addition, the underdeveloped cotton-

producing African nations like Burkina Faso have won the elimination of subsidies on cotton exports by developed countries and tariff-free imports of cotton products from the least developed countries. The revision of the TRIPS agreement regarding the compulsory enforcement of patents on HIV virus drugs is also in response to the demands of developing countries.

As the Global South strengthens its presence, this kind of inclusiveness-based revisionist demand for a liberal economic order is likely to continue to grow. This past January, it was reported that at the Group of 77 summit in Uganda, China proposed revisions to the Western-centered Bretton Woods order, including the WTO, and received a broad range of support from the participating countries.

As for RTAs, when it comes to Africa, FTAs with developed countries other than European ones with former colonial and suzerainty relations are still limited. The US has concluded trade and investment cooperation frameworks with African countries, but no FTAs yet. In view of the potential growth of the African market, I am interested to see if there will be more RTAs between developed countries and African countries in the future.

**Toyoda:** Prof. Oba, you have said that you do not agree with the idea of incorporating ASEAN into our side in the US-China confrontation. I would be grateful if you could elaborate on what you mean by that. In addition, is there really a position of not standing on the side of China and Russia and also not standing with the G7, which includes the US and Europe? Are you saying that it is important for Japan to be a proactive partner in creating a "desirable order in the world" rather than a "framework that leans toward the US"? If so, then Japan should be very vocal with the US. Is that correct?

**Oba:** Before I answer this question, let me say a few words about the Global South. I do not consider it to be a cohesive group in reality. But I am interested in why the term Global South has just emerged and in what context it has been used. I conclude that there are three main types of usage of the "Global South".

The first type of the Global South is the countries and/or peoples which are subject to deprivation in the context of globalization. This usage of the Global South began to be used in part in the 1990s. It is partly the remnant of the dependency theory. And the Global South, in this meaning, not only refers to developing countries but also refers to the middle class and the urban poor who have fallen in the wave of globalization in developed countries.

The second type of Global South refers to the emerging powers, against backdrops such as the growing presence of emerging powers like China and India after the global economic crisis.

And now the third type of Global South is used to compile developing and emerging countries as a third-party group that are holding the casting board in a world that is becoming more and more divided following the Russia-Ukraine war. This type of usage



activates the debate as to which camp, the Western “liberal” camp or the Russo-China “authoritarian” camp, will attract the Global South.

However, as both Prof. Kawase and Dr. Inomata mentioned, the attitudes of emerging and developing countries are diverse and never monolithic. Some countries, as developing countries or as small and medium-sized ones, value rules and try to maintain their position and national interests by complying with them. Some other countries choose not to accept such rules or to try to change them. We need to note the diversity among emerging and developing countries in this way. Using the term Global South often makes the differentiated individual responses invisible.

For emerging and developing countries, it would be possible to have a position that is not on the side either of the Sino-Russian camp or of the Western camp, and actually, they take such attitudes. Let me give you an example. Most countries, even emerging and developing countries, do not support Russian aggression against Ukraine. Yet many countries have not made a decision to sever relations or confront Russia completely. Maintaining ties with Russia is a risk hedge for them, as they are not major powers. Therefore, they do not join the economic sanctions led by the Western countries.

As far as Southeast Asia is concerned, economic ties with Russia are not that strong, apart from Vietnam and Laos. However, except for Singapore, they see no need to be hostile toward Russia by engaging in economic sanctions. Furthermore, China’s economic ties with Southeast Asian countries are becoming closer, both in terms of trade and investment, and the so-called China-ASEAN Economic Zone is already a given. Therefore, they do not want to see any extreme deterioration of relations with China, either at the national level or, of course, at the level of business activities.

On the other hand, at least among policy elites in Southeast Asian countries, there are concerns about China’s expansion of its influence, even in Cambodia and Laos. The need to hedge against this is being considered by policy elites in all countries. The US and European markets are important to them, as is the attraction of Western investment. Moreover, from a security perspective, there is a pragmatic recognition that US engagement in East Asia underpins order in the region.

Moreover, they are not allergic to the increasing engagement of the UK and other European countries in Asian affairs and the development of their own Indo-Pacific strategies, despite the fact that they ruled Southeast Asia as colonial empires. Instead, they would like to have more countries interested in them as partners, if not deterrents, in balancing their power with that of China.

More to the point, Thailand and Indonesia are moving toward membership in the OECD, and meanwhile aiming to join the BRIC nations. While ASEAN is important, each member country is also trying to become more involved in frameworks beyond it. It is very important to note that they are not necessarily biased toward China

alone or the US alone. They are actually taking their own actions, not standing on the side of China and Russia and not standing on the side of the Western countries.

What Japan should do is to become a proactive partner in creating a “desirable global order” rather than supporting a “framework of the US side”. It is crucial for Japan to cooperate with the US in dealing with various issues, but Japan should be proactive and autonomous to determine its own interests. Furthermore, it should be considered that not only China or some developing countries are upsetting the free and open rules-based economic order. US protectionism and unilateralist actions are also clearly undermining the current economic order. It would be unwise not to speak out against the US at such a time.

At the very least, Japan should proactively consider what its preferred situation and order is, and then consider the US as a partner, in that order. It is not appropriate to think in terms of a framework that is pro-US or anti-US from the outset, but rather to consider what kind of world order is desirable for the world and Japan. I repeat, protectionist moves by the US are shaking up the current international order. As Dr. Inomata mentioned, so-called de-risking or partial decoupling at an appropriate level is necessary, but when it exceeds a certain level, decoupling runs out of control, and this is associated with protectionism, and I agree with him. In the case of the US, there is some ambiguity as to whether it is protectionism or de-risking. It is Japan’s role to stop the US from running into protectionism rather than de-risking.

And, with the objective observation that unfortunately the level and extent of US engagement in East Asia may not last forever at the current level, it will be vital for Japan to try to prevent the US from being less engaged in East Asia as much as possible, while preparing for what to do when that time comes.

Japan is the only Asian country in the G7 and an ally of the US. It is in a position where it must speak out to curb the self-righteousness and unilateralism of the US, while deepening cooperation with the ASEAN countries, which have particularly close relations with Japan. We also have a role to provide our observations on Asia to European countries, which have their own Indo-Pacific strategies and are taking an increasing interest in the region, with sufficient information sharing. Asian countries can and do try to have their own direct communication channels to the US and European countries, of course. Japan is in a position to support them.

ASEAN is a significant framework enabling Southeast Asian countries to continue to speak in one voice. Japan should not only talk about ASEAN strengthening intra-regional cooperation, but also encourage it to leverage its unity and enhance its voice in the global arena.

In fact, Japan has played a role in linking the OECD and ASEAN, for example, through the OECD Southeast Asia Regional Program. Japan has a role to play in paving the way for both developed

countries and developing or emerging countries to work together to create rules that support a free and open economic order in various ways.

Indeed, as Prof. Kawase said, some of their revisionist demands must be met to some extent, which may be a setback from the traditional free and open economic order. But I do not think that the world in the future can be managed adequately only in the way developed countries think. We are now entering a phase in which we need to consider inclusively the position of those who challenge the existing order.

## Conclusion

**Toyoda:** Lastly, I would like to conclude today's roundtable discussion by asking you all to choose one point in the recommendations of METI's White Paper that you think is most important for Japan, and at the same time give your reasons.

**Kawase:** As a legal scholar, I would recommend "contributing to the maintenance of a rules-based international economic order". For Japan, the realization of trade benefits through force, as in the case of the US and China, is definitely not an option, given the scale of its economy, its interdependence with each of the US and China, and its diplomatic stance to date. Japan is also one of the countries that has benefited the most from the WTO and other rules-based international economic orders, so there is no reason to deny this. More to the point, there is no alternative model for a new international system to replace the WTO, and Japan has no choice but to continue to support this path.

If the US-China confrontation remains unchanged for the time being, I believe that Japan's mission will be to take the middle-power leadership in WTO reform, the CPTPP, and the RCEP revision and expansion, in cooperation with the EU, the UK, Canada, Australia, South Korea, and ASEAN countries that support a rules-based international economic order.

**Oba:** I would choose both "contributing to the maintenance of a rules-based international economic order" and "win-win relationships with other countries, including those in the Global South". Rather than simply maintaining the existing order, I would focus on the latter pillar and on how to build an inclusive international order.

As Prof. Kawase mentioned, I do not believe either that it is possible to construct an order that can completely replace the current international economic order. The existing international economic order will be the foundation, but change is required in many ways. As I mentioned earlier, along with revisionist demands from some emerging and developing countries, a new order is needed to consider norms such as environmental protection and

human rights. It is not only developed nations with which Japan should work.

In any case, Japan is the only non-Western G7 country in Asia, as has long been said. Although the meaning is nuanced from that of bridging East and West as in the past, Japan needs to make the most of this unique position to build win-win relationships, including with emerging and developing countries, and to link them to appropriate changes in the international economic order.

**Inomata:** I also recommend the third pillar, "building win-win relationships with other countries, including those in competitive positions against us, or even those of our "security concerns". Trust building will reduce geopolitical risks, and hence positively affect the second pillar, "building strong international supply chains". Likewise, the development of international cooperation on climate change reduces risk of natural disasters, which will also contribute to guarding supply chains.

Furthermore, building win-win relationships will facilitate international rulemaking at the global level. What will come out of the current tense rivalry between superpowers may be rule fragmentation rather than rule integration. We should first build up win-win relationships with as many countries as possible in order to make most comprehensive and inclusive rules. In other words, win-win relationships are the pre-requisite of good rulemaking and supply chain security.

**Toyoda:** We've had a very insightful discussion. Thank you very much.

JS

Written and translated by Naoyuki Haraoka, editor-in-chief of *Japan SPOTLIGHT*, with the cooperation of Tape Rewrite Co.