

## Section 5 Global economy facing fragmentation

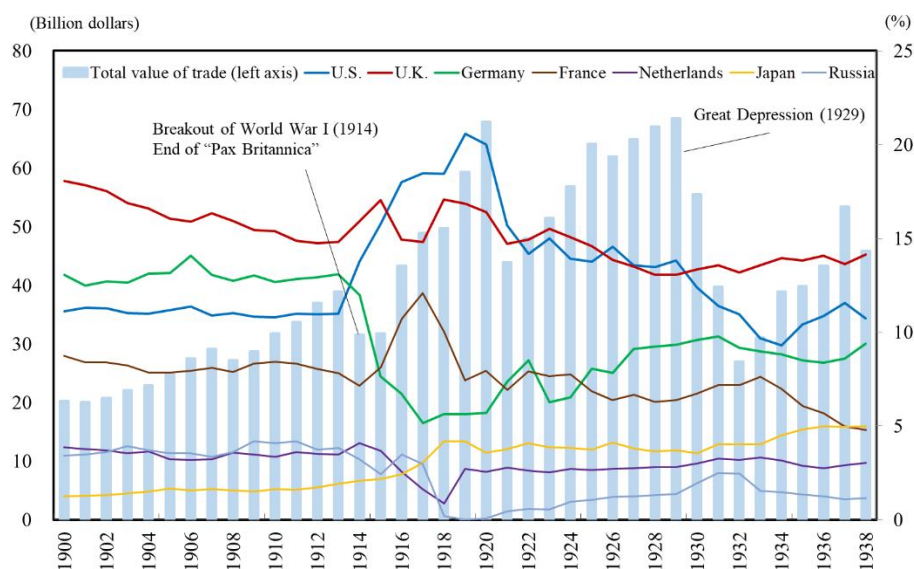
### 1. Change of major trade players and international collaboration since the 20th century

If we look back at history, we realize that since the early 20th century, free trade and protectionism have taken turns to prevail as the dominant trade policy every 20 years or so. As the global economy faces the risk of fragmentation at the moment once again, this section describes an overview of the cycles of protectionism and reaction—the rise of protectionist ideas, and then growing anxiety, followed by international collaborative actions to curb protectionism—that occurred in the period since the 20th century, with the change of major trade players as the underlying narrative. In the description, references are made to the White Paper on International Economy and Trade 2019.

At the beginning of the 20th century, the United Kingdom was rising as a superpower. Looking further back, after the U.K. Royal Navy defeated the so-called Invincible Armada of Spain in the Battle of Gravelines in 1588, the United Kingdom continued to expand its colonial territories and demonstrate national power while repeatedly engaging in war. In the 1760s, the United Kingdom became the first country in the world to successfully achieve an industrial revolution. The United Kingdom, with its flourishing domestic industries, amassed so much economic power that it came to be known as the “factory of the world.” In particular, in the period of around 100 years after the Congress of Vienna, held in 1814 and 1815, which is referred to as Pax Britannica, the United Kingdom prevailed as a global superpower and pursued globalization driven by imperialism. In 1900, the United Kingdom accounted for around 20% of overall global trade.

In 1929, as the Great Depression broke out, countries across the world resorted to protectionist measures to defend their domestic economies. The value of global trade plunged from approximately 68.4 billion dollars in 1929 to around 27.0 billion dollars in 1932 (Figure I-1-5-1). Major countries created exclusionary trade regimes using common currencies, leading to the division of the world into several blocs.

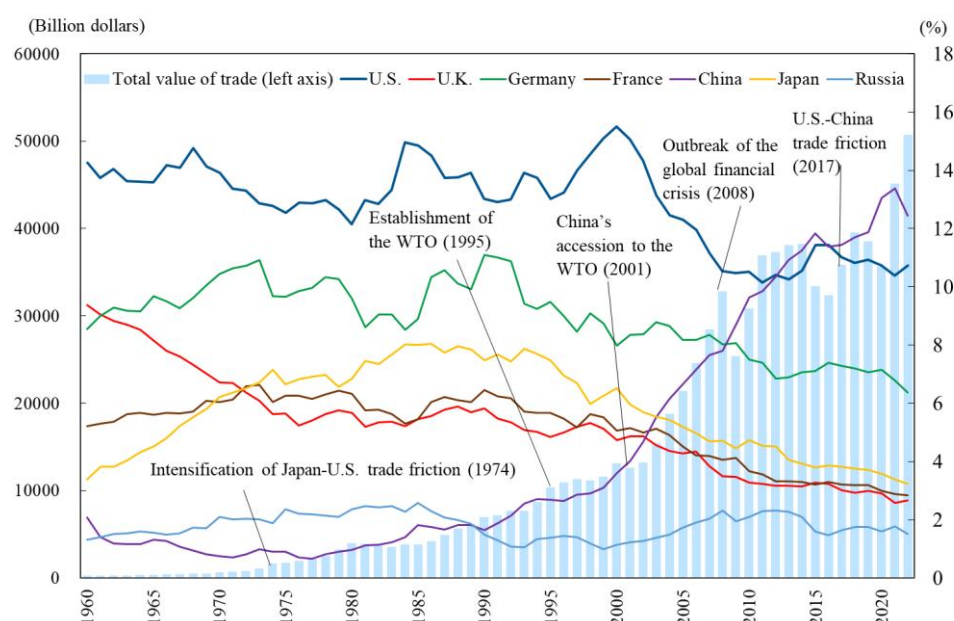
**Figure I-1-5-1. Changes in the total value of trade and major countries' shares (before World War II)**



Note: Calculated based on the total value of trade in terms of the current national borders.  
Source: Federico, G. and Tena-Junguito A. (2019), *World Trade*.

After the end of World War II, the United States surpassed the United Kingdom and became the world's No. 1 trade player. In 1948, the GATT regime was established, with the world's first multilateral trade agreement concluded, and trade liberalization proceeded through significant tariff reductions. In 1960, the value of global trade was around five times as high as the value in 1938. However, in the 1970s, the United States became involved in trade friction with various countries as a result of its huge trade deficits (Figure I-1-5-2).

**Figure I-1-5-2. Changes in the total value of trade and major countries' shares (since 1960)**

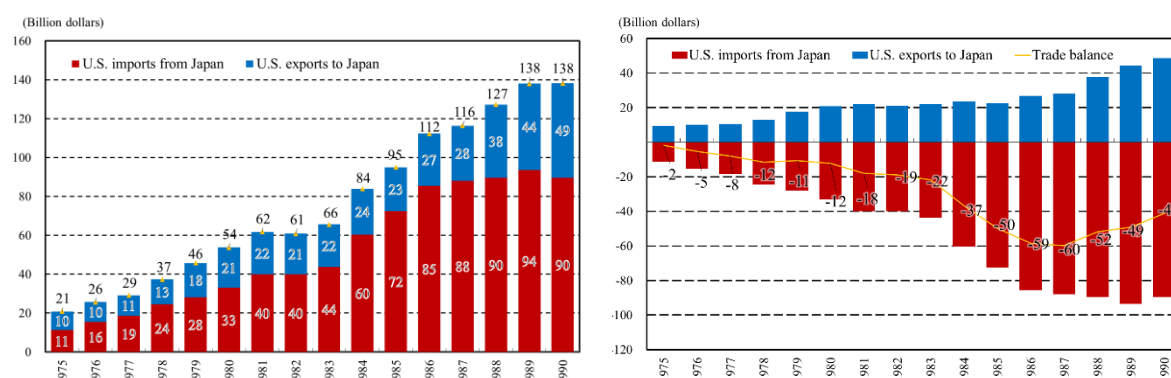


Note: The data concerning the Russian Federation in 1960-1991 are those for the USSR from Direction of Trade (DOTS). Other data are from the World Bank.  
Source: The Direction of Trade Statistics (DOTS) (IMF), World Bank.

After the Trade Act, with its famous Section 301 provisions, was enacted in 1974, the trade friction between Japan and the United States intensified, with the United States gradually expanding the scope of trade items covered by import restrictions. The European Community, Canada, and the Republic of Korea (ROK), among other countries and regions, in addition to Japan, were subjected to Section 301. As a result of rapid economic development in developed countries, the gap between those countries and developing countries, which were relatively slow to develop, widened. Consequently, many developing countries adopted industrial policies oriented toward import substitution and introduced protectionist measures, such as the imposition of high tariffs and quantitative restrictions. In this way, growing protectionist moves, mainly in the United States, exposed the limitations of the GATT regime, which did not provide for a strong regulatory authority regarding dispute settlement procedures. In the meantime, Germany and Japan emerged as major trade players, behind only the United States. The rise of Germany and Japan came against the backdrop of calls for taking new actions—as represented by the

“locomotive theory,” advocated in the latter half of the 1970s, and the Plaza Accord, concluded in 1985—after countries with trade surpluses repeatedly introduced voluntary import restrictions while trade imbalances were developing into serious international disputes, such as the Japan-U.S. trade friction. Among the actions called for were international coordination of macroeconomic policies and the implementation of measures to reduce international balance of payment surpluses (e.g., market opening and import promotion measures). Although Japan implemented policy measures to promote imports, market-opening deregulation, and the expansion of domestic consumption, it cannot be said that the results achieved were sufficient to correct current account imbalances. According to Japan-U.S. trade balance data, while the total value of exports and imports between the two countries followed an uptrend, Japan’s trade surplus with the United States continued to grow until 1987, when the surplus amounted to approximately 60 billion dollars<sup>37</sup> (Figure I-1-5-3).

**Figure I-1-5-3. Export and import trends in Japan-U.S. trade**



Source: *History of Japan's Trade and Industry Policy 2*.

In 1995, the world returned to the path of free trade due to the establishment of the WTO regime, which was intended to create a more advanced multilateral trade system by correcting problems like the flaws in the dispute settlement procedures under the GATT regime. In 2001, China acceded to the WTO. In 2010, China replaced the United States as the world’s No. 1 trade player in terms of the total value of trade. As a result, China’s share of global GDP expanded from only 4% in 2001 to 15% in 2017. On the other hand, the United States’ share of global GDP declined somewhat, from 31% in 2001 to 24% in 2017.

In 2017, the Trump administration started to impose trade restrictions as it viewed the U.S. deficit in U.S-China goods trade as a problem, bringing the trade friction between the two countries to the fore. Following a series of disruptions caused to rules-based international frameworks, including the United States’ withdrawal from the Trans-Pacific Partnership (TPP), the dysfunction of the WTO’s Appellate Body, and the United Kingdom’s exit from the European Union, concerns were raised about the rise of protectionism and increased tensions over trade friction in 2017 and later at various international forums and organizations, including the G20, the G7, the International Monetary Fund (IMF), and the WTO.

<sup>37</sup> Abe, T. (2013), *Tsusho Sangyo Seisakushi 2* (History of International Trade and Industry 2) (Research Institute of Economy, Trade and Industry).

Moreover, in 2020, the COVID-19 pandemic struck the world and exposed the self-centeredness that is typical of countries in crisis mode, and that worked to dissolve the momentum of international collaboration. On the other hand, however, at the national leader level and at the ministerial level, efforts were made to maintain the momentum of international collaboration. Under these circumstances, in February 2022, Russia launched an aggression against Ukraine, posing a serious challenge to the free, open, rules-based international order. In this situation, collaboration between like-minded countries, including member states of the G7, NATO and the EU, became prominent. In particular, the G7 held as many as six summits, including both on-line and in-person meetings, in 2022 alone, and the G7 leaders condemned Russia's "illegal, unjustifiable, and unprovoked war of aggression against Ukraine" and reaffirmed their support for Ukraine's independence, territorial integrity and sovereignty in its internationally recognized borders. The G7 leaders also reaffirmed their commitment to implementing economic sanctions against Russia, providing financial, humanitarian, and diplomatic support to Ukraine, and addressing the negative impact on global economic stability and food and energy security (for the details, see Part III, Chapter 1, Section 1).

Meanwhile, as the G20 is a framework that includes Russia and emerging countries as well, how the group would deal with the Russian aggression became the focus of attention. At the G20 Bali summit, held in Indonesia in November 2022, thanks to President Joko's leadership, the leaders' declaration, which was issued after tough negotiations, stated: "Most members strongly condemned the war in Ukraine."<sup>38</sup>

## **2. Recent international developments**

Around 30 years after the end of the Cold War, the international community is at a turning point in history. Economic globalization has advanced and interdependency has grown, bringing about some degree of stability and economic growth to the international community because a free and open international economic order based on basic values such as freedom, democracy, human rights and the rule of law has spread worldwide. On the other hand, the rise of emerging and developing countries, including China, has in recent years brought about change to the balance of power in the international community, intensifying geopolitical competition between countries. Some countries are reinforcing military power rapidly without providing transparency, and based on their own perceptions of history and values, they are taking an increasingly provocative attitude toward the existing international order and are becoming more and more assertive.<sup>39</sup> Dividends of economic growth and the advance of technology have come to be used by superpowers to build up and modernize military forces, and economic coercion, a practice that exploits economic interdependence, has come to be used as a weapon of diplomacy and national security. Furthermore, the world has witnessed serious challenges to the international order, such as the Russian aggression against Ukraine.

Under these circumstances, governments have tightened export controls and investment regulations and adopted proactive industrial policies, as exemplified by the enactment of the Inflation Reduction Act in the United States and the formulation of the EU's Green Deal Industrial Plan.

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<sup>38</sup> Cited from *Diplomatic Bluebook 2023*, Ministry of Foreign Affairs (2023).

<sup>39</sup> See *Diplomatic Bluebook 2023*, Ministry of Foreign Affairs (2023).

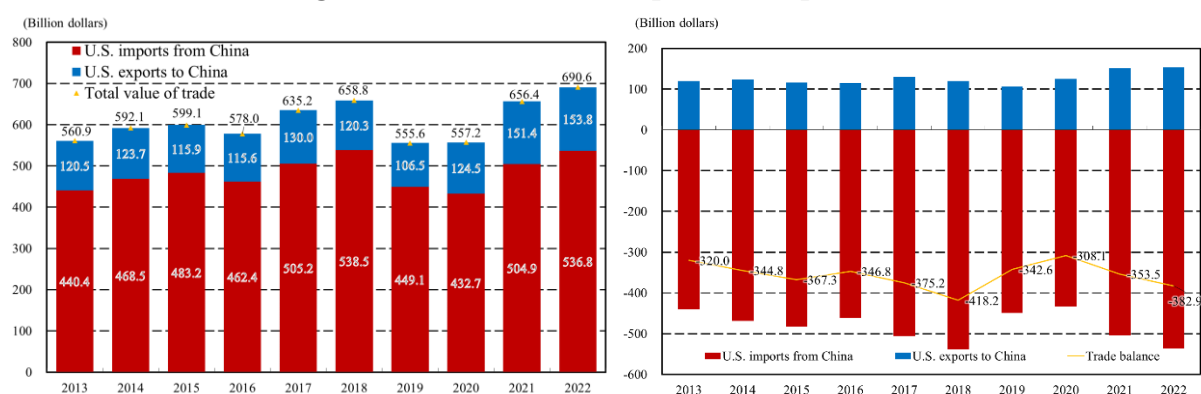
Meanwhile, as European Commission President von der Leyen has argued, a complete decoupling from authoritarian nations is infeasible, and if the decoupling is pursued further, that could pose a significant downside risk to global economic growth. As already mentioned, in 2022, there were prominent collaborative activities among like-minded countries. At the World Economic Forum Annual Meeting in Davos in January 2023, discussion was held on the theme “Cooperation in a Fragmented World.”

This subsection once again describes the difficulty for the United States and China to decouple from each other given the strength of their economic ties and cites an estimation of the impact of the decoupling on the global economy. Amid the dysfunction of the WTO, which previously acted as the rule-maker for the free trade system, efforts are underway, mainly in the EU, to reform the WTO and also complement the WTO in view of the limitations of the WTO-based system. As an example of international collaboration toward rebuilding a free, just and inclusive international economic order, this subsection looks at international collaborative activities and national efforts to deal with economic coercion.

### (1) U.S.-China economic ties and developments related to trade friction

In 2022, the total value of trade between the United States and China hit a record high of 690.6 billion dollars, an indication that the two countries’ economic ties have remained strong. In particular, the value of U.S. imports from China was 536.8 billion dollars, the highest level since 2018, and, the U.S. trade deficit has continued to expand since 2020 (Figure I-1-5-4).

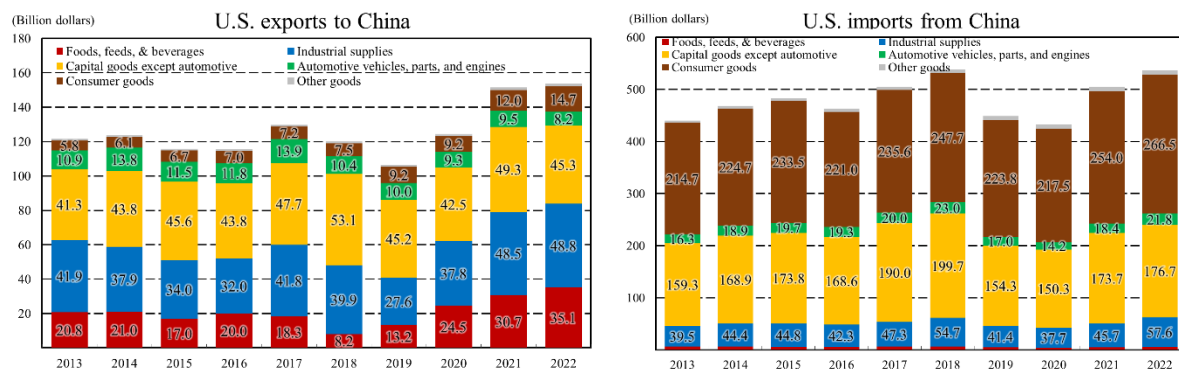
**Figure I-1-5-4. U.S.-China export and import trends**



Source: Global Trade Atlas.

By end-use commodity category, U.S. exports of “foods, feeds, & beverages,” such as soybeans, and “industrial supplies,” such as crude oil, increased in 2022. As for U.S. imports from China, imports of “consumer goods,” such as cell phones, toys, and apparel, and “capital goods except automotive,” such as electrical equipment and computer accessories, increased (Figure I-1-5-5 and Table I-1-5-6).

**Figure I-1-5-5. U.S.-China export and import trends (by end-use commodity category)**



Source: U.S. Census Bureau of the Department of Commerce.

**Table I-1-5-6. Top 10 items in U.S.-China trade**

**U.S. exports to China**

Item	End-use commodity category	Value (billion dollars)		Compared with the previous year	Contribution rate
		2021	2022		
Soybeans	Foods, feeds, & beverages	14.1	17.9	26.6	2.4
Semiconductors	Capital goods except automotive vehicles	13.5	10.7	-21.1	-1.9
Pharmaceutical preparations	Consumer goods	6.9	9.7	41.6	1.9
Other industrial machinery	Capital goods except automotive	10.1	8.6	-15.0	-1.0
Crude oil	Industrial supplies	6.0	7.0	15.3	0.6
Civilian aircraft, engines, parts	Capital goods except automotive	4.7	5.5	16.8	0.5
Passenger cars (new and used cars)	Automotive vehicles, etc.	6.6	5.5	-17.1	-0.7
Corn	Foods, feeds, & beverages	5.1	5.3	4.0	0.1
Medical equipment	Capital goods except automotive	4.8	4.8	-0.2	0.0
Plastic materials	Industrial supplies	4.0	4.8	20.3	0.5

**U.S. imports from China**

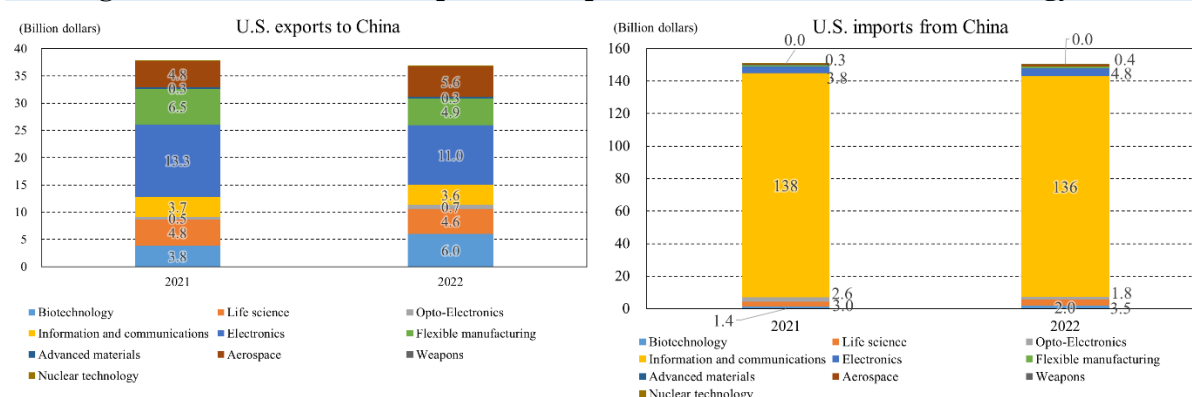
Item	End-use commodity category	Value (billion dollars)		Compared with the previous year	Contribution rate
		2021	2022		
Cell phones and other household goods	Consumer goods	75.1	78.8	4.9	0.7
Computers	Capital goods except automotive	59.2	52.6	-11.2	-1.3
Toys, games, and sporting goods	Consumer goods	39.6	41.3	4.3	0.3
Textile apparel (non-wool and cotton)	Consumer goods	24.3	24.7	1.9	0.1
Electrical equipment	Capital goods except automotive	15.5	21.5	38.8	1.2

Computer accesories	Capital goods except automotive	17.8	19.8	11.1	0.4
Household appliances	Consumer goods	19.1	17.1	-10.6	-0.4
Furniture, household goods, etc.	Consumer goods	17.4	16.8	-3.8	-0.1
Telecommunications equipment	Capital goods except automotive	16.9	15.9	-5.8	-0.2
Other automotive parts and accessories	Automotive vehicles, etc.	13.5	15.9	17.5	0.5

Source: U.S. Census Bureau of the Department of Commerce.

Next, let us look at U.S.-China trade in the advanced technology sector. The values of both exports and imports in the advanced technology sector between the two countries decreased slightly in the past two years (Figure I-1-5-7). A breakdown by item shows that “information and communications” accounts for around 90% of U.S. imports from China, while U.S. exports to China include a broad range of items, such as “electronics,” “biotechnology,” and “aerospace.” Among all export items, “electronics” recorded the largest decline, 18%, in 2022 compared with the previous year, and the decrease is presumably attributable in part to the U.S. semiconductor export control targeted at China (which will be discussed in detail later).

**Figure I-1-5-7. U.S.-China export and import trends in the advanced technology sector**



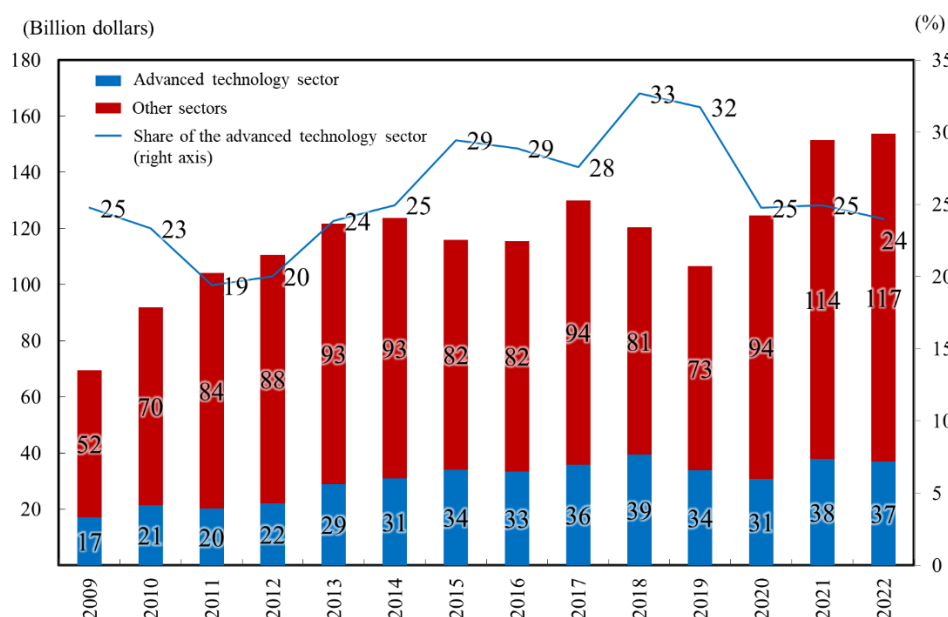
Note 1: The scope of items in each group of the advanced technology sector is realigned in some years, and as a result, strictly speaking, data connection is not seamless.

Note 2: The classification of advanced technology groups conforms to the Advanced Technology Product (ATP) code classification of the Census Bureau of the U.S. Department of Commerce.

Source: U.S. Census Bureau of the Department of Commerce.

Looking at the trend in U.S. exports to China in the advanced technology sector, a factor closely related to U.S.-China competition for technological supremacy, we can see that in recent years, those sectors currently account for around 25% of the total value of exports to China and that the share has been declining since 2020 (Figure I-1-5-8).

**Figure I-1-5-8. Trend in U.S. exports to China (in the advanced technology and other sectors)**

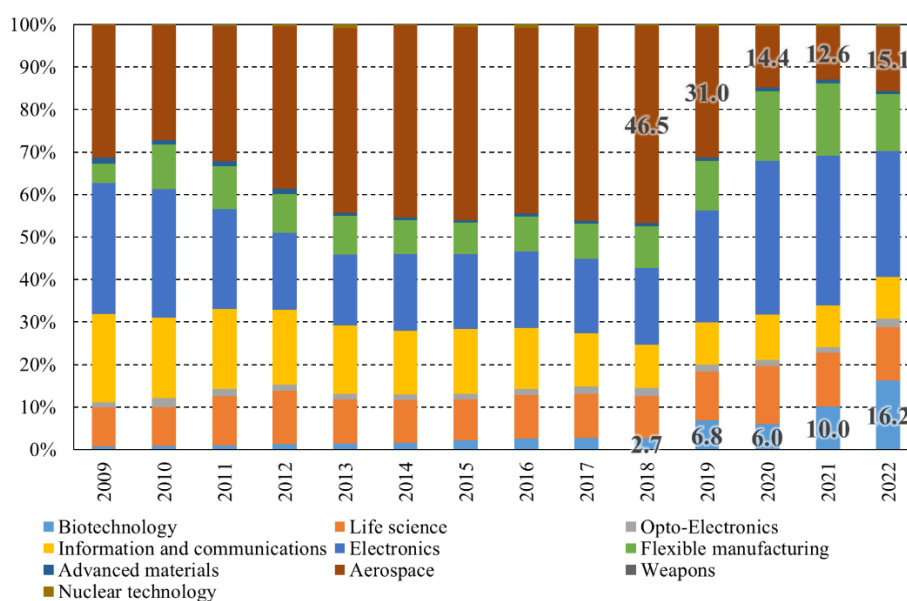


Note: The scope of items in each group of the advanced technology sector is realigned in some years, and as a result, strictly speaking, data connection is not seamless.

Source: U.S. Census Bureau of the Department of Commerce.

By technology group, the share of “aerospace,” which was around 47% in 2018, has fallen to around 13-15% since 2020, while the share of “biotechnology” has been on an uptrend. As any item may become subject to U.S. export control in the future, a close watch needs to be kept (Figure I-1-5-9).

**Figure I-1-5-9. Trend in the shares of the advanced technology sector in U.S. exports to China (by technology group)**



Note 1: The scope of items in each group of the advanced technology sector is realigned in some years, and as a result, strictly speaking, data connection is not seamless.

Note 2: The classification of advanced technology groups conforms to the Advanced Technology Product (ATP) codes of the Census Bureau of the U.S. Department of Commerce.

Source: U.S. Census Bureau of the Department of Commerce.

As described above, whereas the shares of the advanced technology sector in U.S. exports to China trended downward, U.S. imports from China, particularly consumer goods, showed a significant increase, bringing up the value of U.S. trade with China in 2022 to a record high for the first time in four years.

According to the IMF (2023),<sup>40</sup> in terms of foreign direct investment (FDI) in strategic sectors, such as semiconductors, the decoupling trend is strengthening. The flow of strategic FDI into Asian countries started to decline in 2019, and although a slight recovery was observed around the middle of 2020, the flow into China has yet to pick up. In the past 10 years, the share of FDI among countries that are geopolitically aligned has increased more than the share of FDI among countries geographically close. If the decoupling proceeds further in terms of investment flow, the IMF estimates that GDP will be lowered by about 2% in the long term.

In the United States, there is a sense of crisis about the marked decline in the U.S. share of semiconductor manufacturing capacity,<sup>41</sup> and as a result, the CHIPS and Science Act (hereinafter “CHIPS Plus Act”) was enacted in the country in August 2022. The CHIPS Plus Act allocates 52.7 billion dollars in budgetary funds over a five-year period to the CHIPS (Creating Helpful Incentives to Produce Semiconductors) program to provide incentives for the semiconductor industry, which was enacted in January 2021. Of that amount, 39 billion dollars is scheduled to be set aside as a subsidy fund to provide financial assistance for companies making domestic semiconductor-related investment. In February 2023, the Department of Commerce disclosed the goals to be achieved by 2030 and the specifics of the subsidy. The Department of Commerce opened the application process for the first tranche of CHIPS funding with respect to facilities for the fabrication of leading-edge, current-generation, mature-node semiconductors (including back-end fabrication facilities).<sup>42</sup> According to the U.S. Semiconductor Industry Association, around 210 billion dollars’ worth of private investments (the total for the period between May 2020 and December 2022) spurred by the CHIPS Plus Act have been announced, with 44,000 new jobs expected to be created.<sup>43</sup> In China, the China Integrated Circuit Industry Investment Fund was established in 2014 with a fund quota of 139 billion yuan to support semiconductor manufacturers, and in 2019, the second fund quota of 204 billion yuan was set.

In the United States, export restrictions against China under the Trump administration were mostly targeted at individual companies, but under the Biden administration, the scope of restrictions has been expanded to cover Chinese companies in general. Based on the Export Administration Regulations (EAR), the Bureau of Industry and Security (hereinafter “BIS”) of the U.S. Department of Commerce

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<sup>40</sup> WEO (April 2023) (IMF).

<sup>41</sup> See “China’s share of global wafer capacity continues to climb” (<https://knometaresearch.com/news/?post=china-039-s-share-of-global-wafer-capacity-continues-to-climb&tag=global-wafer-capacity>), Knometa Research.

<sup>42</sup> Sourced from the Strategy for Semiconductors and the Digital Industry (draft revision) (Ministry of Economy, Trade and Industry).

<sup>43</sup> See “The CHIPS Act Has Already Sparked \$200 Billion in Private Investments for U.S. Semiconductor Production” (<https://www.semiconductors.org/the-chips-act-has-already-sparked-200-billion-in-private-investments-for-u-s-semiconductor-production/>), Semiconductor Industry Association.

has published the Entity List (hereinafter “EL”), which enumerates companies designated as entities about which national security or foreign policy concerns have been raised. Exporting goods, software, technologies necessary for production and development to companies listed on the EL requires an export license from BIS. In recent years, major Chinese semiconductor companies have been added to the EL one after another—JHICC was added in October 2018, followed by the addition of Huawei and affiliated companies in May 2019 and August 2020 and SMIC in December 2020. Meanwhile, under the Foreign Direct Product Rules (FDPR), which is a kind of reexport regulation, the exporting of products which have been manufactured outside the United States but which use U.S. technology or software is subject to the EAR and requires a prior application for license from BIS. The FDPR was put into effect in May and August 2020, and the first case of its application involved Huawei and group companies. In October 2022, new export controls concerning semiconductors used for AI processing and supercomputers and advanced semiconductor manufacturing equipment, among other items, that are exported to China were announced under the Biden administration. The scope of those regulations is broad, subjecting to export controls some types of semiconductors used for supercomputers with a higher performance than a certain level and all types of semiconductor manufacturing equipment used to manufacture semiconductors with a higher performance than a certain level. The CHIPS Act includes a so-called guardrail provision, which prohibits fund recipients from building new or additional advanced semiconductor manufacturing infrastructure facilities in countries of concern, such as China, and also from engaging in joint research with or providing technology to companies of concern. Before the finalization of the guardrail provision, public comments were invited for a 60-day period from March 2023.

Regarding developments of the U.S.-China trade friction in recent years, following then-President Trump’s signing of the presidential executive order to impose sanctions against China in March 2018 based on Section 301 of the Trade Act of 1974, tit-for-tat rounds of tariff hikes implemented by the two countries against each other intensified from around July 2018. However, the U.S.-China trade friction appeared to have subsided as a result of the signing of the Phase One trade deal in January 2020.<sup>44 45</sup> While the Biden administration, which was inaugurated in January 2021 under those circumstances, has advocated collaboration with allied countries, it has maintained or tightened additional tariffs imposed against China and export controls related to economic security. In September 2022, the Biden administration announced that it would maintain additional tariffs on products of Chinese origin based on Section 301 of the Trade Act and invited public comments with respect to possible revisions of the tariff measures from November 2022 through January 2023.<sup>46</sup>

In October 2022, the Biden administration announced the National Security Strategy, characterizing China as “the only country with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it.” Furthermore, in order to enhance policy coordination toward China and information sharing, the Department of State established the

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<sup>44</sup> The timeline of the Japan-U.S. trade friction is described in Ministry of Economy, Trade and Industry (2020), Table II-1-5-7 in Part II, Chapter 1, Section 5 of the *White Paper on International Economy and Trade 2020*.

<sup>45</sup> China’s commitment to increasing imports of goods and services from United States from the 2017 level by more than 200 billion dollars remained unfulfilled as of the end of 2021.

<sup>46</sup> See JETRO’s website (<https://www.jetro.go.jp/biznews/2022/10/878f166b31c8c505.html>).

Office of China Coordination in December 2022. Even though it is said to be difficult to enact bills in the divided U.S. Congress—the Democratic Party holds a majority control of the Senate and the Republican Party controls the House of Representatives—brisk bipartisan legislative activity is expected to continue with respect to policy toward China. In January 2023, the House of Representatives passed a resolution to establish the Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party.<sup>47</sup>

One factor behind the U.S.-China conflict that has come to the fore since the period of the Trump administration is competition between the two countries for supremacy in the field of economic security, including technological competition. In September 2022, U.S. Presidential National Security Advisor Jake Sullivan delivered a speech concerning national security policy concerning export controls and investment screening and pointed out the importance for the United States to maintain superiority in science and technology fields. Sullivan cited the following four pillars of U.S. strategy: (i) investing in the U.S. science and technology ecosystem; (ii) nurturing top STEM (science, technology, engineering, and mathematics) talent; (iii) protecting U.S. technology advantages; and (iv) deepening and integrating alliances and partnerships.<sup>48</sup>

If decoupling<sup>49</sup> occurred on a global scale between the Western bloc, which comprises the United States and countries strongly aligned with it in terms of foreign policy, and the Eastern bloc, which comprises countries subjected to U.S. economic sanctions, it would reduce global GDP in 2030 by 2.3% if the decoupling were similar to the one during the U.S.-China trade war (imposition of additional non-tariff barriers: Scenario 1) and by 7.9% if the two countries had mutually imposed non-tariff barriers equivalent to 100% tariffs (Scenario 2), according to an estimate by Kumagai et al. (2022).<sup>50</sup> By region, the East-West decoupling would have a significant negative impact on the GDP of Europe, the United States, and East Asian countries, which would be directly affected by the decoupling, while neutral countries, such as Global South countries, would benefit from the East-West conflict (Figure I-1-5-10). In other words, whereas the decoupling would deal a huge blow to both the Eastern and Western blocs, neither bloc would be able to completely isolate the other side from the rest of the world as it is difficult to win over to its own side the Global South, which is in a position to benefit from trading with both blocs by maintaining neutrality.

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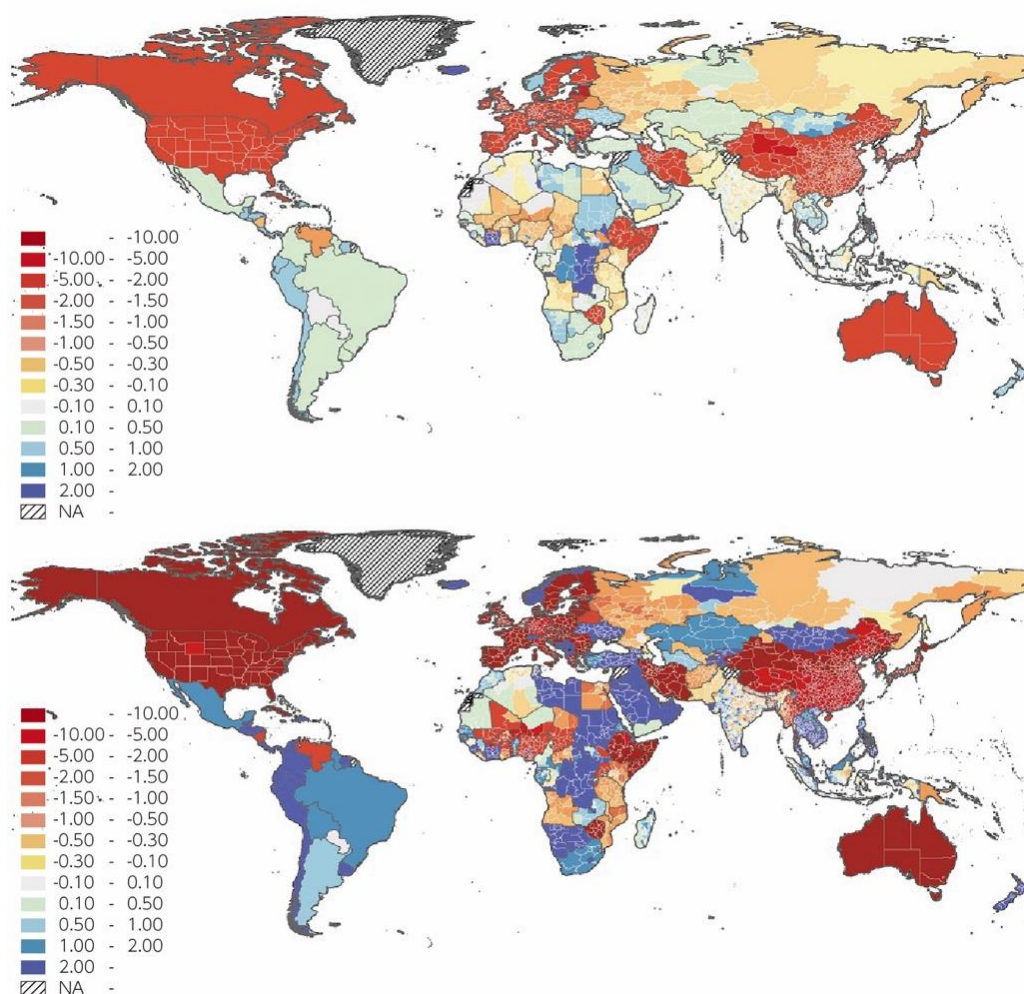
<sup>47</sup> See JETRO's website (<https://www.jetro.go.jp/biznews/2023/01/5535e470d89c1944.html>).

<sup>48</sup> See JETRO's website (<https://www.jetro.go.jp/biznews/2022/09/7233677f51420994.html>).

<sup>49</sup> The decoupling was assumed to occur in the form of the division of the world into the U.S.-led bloc (Western bloc) and the China/Russia-led bloc (Eastern bloc). The Western bloc comprises the United States and 33 other countries and regions that are strongly aligned with it in terms of foreign policy positions, specifically the United Kingdom, the 27 EU member states, Canada, Japan, the Republic of Korea, Taiwan, and Australia. The Eastern bloc comprises the following 16 countries, which were subject to some form of U.S. economic sanctions as of January 2023 and which are also covered by the IDE-GSM: China (including Hong Kong and Macau), Russia, Belarus, Cuba, Venezuela, Nicaragua, Iran, Iraq, Yemen, Lebanon, Myanmar, Lybia, Sudan, the Democratic Republic of Congo, Zimbabwe, and Somalia.

<sup>50</sup> Kumagai, S., Hayakawa, K., et al. (February 2023), "GLOBALU NA 'DEKAPPURINGU' GA SEKAI KEIZAI NI ATAERU EIKYOU - IDE-GSM NIYORU BUNSEKI" (IDE Policy Brief No.174).

**Figure I-1-5-10. Impact of “decoupling” on the global economy  
(upper figure: Scenario 1; lower figure: Scenario 2)**



Note: In Scenario 1, which assumes a decoupling similar to the one during the U.S.-China trade war (imposition of additional non-tariff barriers), the impact on GDP in 2030 is a reduction of 2.3% (approx. 2.7 trillion U.S. dollars). In Scenario 2, which assumes the mutual imposition of non-tariff barriers equivalent to 100% tariffs, the impact is a reduction of 7.9% (approx. 8.7 trillion U.S. dollars).

Source: *GLOBALU NA 'DEKAPPURINGU' GA SEKAI KEIZAI NI ATAERU EIKYOU - IDE-GSM NIYORU BUNSEKI* (IDE Policy Brief No.174).

## **(2) International collaboration and national efforts to deal with economic coercion**

In recent years, acts of so-called economic coercion have frequently been perpetrated. There is no internationally established definition of economic coercion, but coercion is generally considered to refer to activities attempting to undermine other countries' foreign and domestic policies and positions by exploiting economic vulnerabilities and economic dependencies. According to a U.S. think tank, there

have been as many as 131 major cases of economic coercion by China and Russia.<sup>51</sup> On economic coercion, allied and like-minded countries have expressed concerns, including in G7 leaders' statements, and are exploring how to cooperate in dealing with the problem. The G7 Leaders' Statement on Economic Resilience and Economic Security (May 2023), issued at the G7 Hiroshima Summit, mentioned a plan to enhance collaboration by launching the Coordination Platform on Economic Coercion in order to increase collective assessment, preparedness, deterrence and response to economic coercion and to further promote cooperation with partners beyond the G7 (Table I-1-5-11). As described above, among like-minded countries that share basic values, efforts are underway to take effective actions in terms of both promoting resilience against and deterring economic coercion.

**Table I-1-5-11. Overview of conferences, speeches, etc. in which references to economic coercion were made (since 2022)**

Date		Conferences, speeches, etc.	Specific references
2022	June	G7 summit (Elmau)	<ul style="list-style-type: none"> <li>- "We will increase our vigilance to threats, including economic coercion, that are meant to undermine global security and stability."</li> <li>- "We will...work together to develop coordinated action to ensure a level playing field for our businesses and workers, to foster diversification and resilience to economic coercion, and to reduce strategic dependencies."</li> </ul>
	July	Japan-U.S. Economic Policy Consultative Committee Meeting (the Economic "2+2")	<ul style="list-style-type: none"> <li>- The two countries "committed to advancing policies that support a multilateral trading system based on free and fair trade and that counter economic coercion... emphasizing the importance of offering workers, businesses, and countries around the world a level playing field."</li> <li>- "The Ministers expressed grave concern about, and opposition to harmful uses of economic influence, including economic coercion..., in ways that threaten the legitimate interests of sovereign nations, as well as those of individuals and industries."</li> </ul>
	September	G7 trade ministers' meeting (Neuhardenberg)	<ul style="list-style-type: none"> <li>- "We are seriously concerned by the use of trade-related economic coercion, which undermines economic security, free and fair trade in the multilateral trading system, global security and stability and aggravates international tension."</li> <li>- "In order to fight attempts at economic coercion, reaffirming the G7 Leaders' commitment, we will enhance cooperation and explore coordinated approaches to address economic coercion both within and beyond the G7 in relevant fora to improve assessment, preparedness, deterrence, and response to such actions."</li> </ul>
2023	January	Japan-U.S. summit	"We will build resilience in our societies and supply chains among like-minded partners against threats such as economic coercion, non-market policies and practices and natural disasters, accelerate global efforts to tackle the climate crisis, and advance data free flow with trust."

<sup>51</sup> See the "Tool: Economic Coercion" section of the website of the German Marshall Fund ([https://securingdemocracy.gmfus.org/asd\\_tools/strategic-economic-coercion/](https://securingdemocracy.gmfus.org/asd_tools/strategic-economic-coercion/)). The number of cases is as of April 2023.

	March	Speech on China policy (European Commission President von der Leyen)	The speech referred to the need to actively implement the Anti-Coercion Instrument, depending on the circumstances, amid the increase in acts of economic coercion by China.
	April	G7 trade ministers' meeting (online)	<ul style="list-style-type: none"> <li>- “We express serious concern with economic coercion that interferes with legitimate choices of another government. We strongly oppose any unilateral attempt to change the status quo by economic coercion.”</li> <li>- Economic coercion “is often imposed via trade and investment-related measures, and it undermines economic security and a free, fair and rules-based international order. We will utilize our respective existing tools and develop new ones as needed to deter and counter the use of economic coercive measures.”</li> <li>- Recognizing the importance of strengthening “coordination with each other and other likeminded partners beyond the G7 to increase our collective preparedness, resilience and deterrence to economic coercion,” we will “collectively explore responses, as appropriate, to counter coercive economic measures and to mitigate their harm.”</li> </ul>
	May	G7 summit (Hiroshima)	<ul style="list-style-type: none"> <li>- “We will work together to ensure that attempts to weaponize economic dependencies by forcing G7 members and our partners including small economies to comply and conform will fail and face consequences.”</li> <li>- “We express serious concern over economic coercion and call on all countries to refrain from its use, which not only undermines the functioning of and trust in the multilateral trading system, but also infringes upon the international order centered on respect for sovereignty and the rule of law, and ultimately undermines global security and stability.”</li> <li>- “At our respective domestic levels, we will use our existing tools, review their effectiveness and develop new ones as needed to deter and counter the use of coercive economic measures.”</li> <li>- “Recognizing the importance of existing joint efforts including at the WTO, we will enhance collaboration by launching the Coordination Platform on Economic Coercion to increase our collective assessment, preparedness, deterrence and response to economic coercion, and further promote cooperation with partners beyond the G7.”</li> <li>- “Within this Coordination Platform, we will use early warning and rapid information sharing, regularly consult each other, collaboratively assess situations, explore coordinated responses, deter and, where appropriate, counter economic coercion, in accordance with our respective legal systems. We will also coordinate, as appropriate, to support targeted states, economies and entities as a demonstration of solidarity and resolve to uphold the rule of law.”</li> </ul>

Source: MOFA website, METI website, JETRO website.

Some countries are developing relevant legal frameworks and strategies in order to respond to and counter economic coercion in addition to expressing protest and implementing the WTO dispute settlement procedures.

The EU has announced a series of measures to counter acts of economic coercion and market-distorting measures on its own, and those measures have been gradually implemented based on the European Commission's proposals after deliberations by the European Council (Council of the European Union) and the European Parliament. In December 2021, the European Commission proposed the draft Anti-Coercion Instrument (ACI), which would make it possible to promptly counter economic coercion exercised on the EU or its member states by non-EU countries by imposing restrictions on trade and investment. In 2022, the European Parliament and the European Council determined their positions on this proposal in October and November, respectively, and the two institutions reached a provisional political agreement on it in March 2023. The countermeasures provided for by the ACI include increased customs duties, import or export licenses, and restrictions in the field of services or public procurement.<sup>52</sup>

In the United States, the Countering Economic Coercion Task Force, comprised of officials from relevant departments and agencies, will be established by late June 2023 to develop and implement an integrated strategy for responding to Chinese coercive economic practices under the National Defense Authorization Act for Fiscal Year 2023 (NDAA2023), which was enacted in December 2022. Specifically, the task force's activities include evaluating the costs that such practices have on U.S. businesses and economic performance, facilitating interdepartmental/interagency coordination, and forming policy recommendations.

In Japan, the National Security Strategy of Japan (authorized by a Cabinet decision made in December 2022) stipulated as follows: "In the field of international trade and economic cooperation, which in principle should be mutually beneficial, some nations are trying to expand their own influence by economically coercing other nations through such means as restricting the exports of mineral resources, food, and industrial and medical supplies, as well as providing loans to other nations in a manner that ignores their debt sustainability." It also stated that "while maintaining and strengthening the multilateral trading system with the World Trade Organization (WTO) at its core, Japan will enhance its own measures to counter against unfair trade practices and economic coercion, including through working to solidify international norms in cooperation with its ally and like-minded countries." This chapter showed that the global economy is now at a crossroads by describing the current status of the global economy, which is increasingly slowing down because of factors such as increased uncertainties and growing global inflation due to Russia's aggression against Ukraine and also by explaining that the global economy is facing the risk of fragmentation due to the rise of authoritarian nations. At a time when the global economy has fallen into a state of dysfunction, the next chapter explains the challenges that stand in the way of making it function once again.

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<sup>52</sup> See JETRO's website (<https://www.jetro.go.jp/biznews/2023/04/4eb32219bb2a435f.html>).