

Section 2 Striking the right balance between a free and fair trade order and economic security

1. Classification of economic security

The concept of “economic security” rapidly became popular as the Clinton administration of the United States used it immediately after the end of the Cold War in order to emphasize the importance of economics as the main U.S. policy challenge.⁵⁶ In the late 1930s, E.H. Carr (1939) criticized the idea of separating politics and economics as a “fantasy” and advocated “political economy.”⁵⁷ However, during the Cold War era, separating economics and security was regarded as a matter of course and security was considered exclusively from the military perspective. Under those circumstances, while the traditional security affairs, centering on military affairs in individual countries, receded into the background following the end of the Cold War, countries became more sensitive about other countries’ economic policies and the operation and management of international economic systems due to international mutual dependence. As a result, the tendency to express the impact of international developments on domestic economy in terms of “security” has grown. Moreover, the fact that the U.S. National Defense Authorization Act, enacted in August 2018, strengthened U.S. export controls and investment reviews conducted on security grounds underscored the close relationship between economics and security.

While the term “economic security” is used to mean various things,⁵⁸ under Japan’s National Security Strategy (Cabinet decision in December 2022), economic security was defined as “ensuring Japan’s national interests, such as peace, security, and economic prosperity, by carrying out economic measures.” This subsection will first introduce readers to several arguments that serve as a reference when considering “economic security.”

Suzuki (2022) has classified “economic security” into three categories, namely “supply security,” “technology nonproliferation security” and “security from foreign regulations.”⁵⁹ “Supply security” means the security of supply chains, and it is one of the four pillars of the Economic Security Promotion Act, enacted in May 2022. In other countries as well, there are prominent activities to reorganize supply chains. For example, in February 2021, the Biden administration of the United States signed Executive Order 14017, which is intended to strengthen domestic supply chains of critical products, and had a report compiled in June to identify risks associated with supply chains regarding critical products in four

⁵⁶ Nobayashi, T., R. Oshiba, M. Naya, A. Yamada, and S. Nagao (2007), *KOKUSAI SEIJIGAKU. NYUUMON DAI 3 PAN*, Yuhikaku ARMA.

⁵⁷ Edward Hallett Carr, *The Twenty Year’s Crisis, 1919-1939: An Introduction to the Study of International Relations*. (London: Macmillan, 1939), pp. 147, 149.

⁵⁸ For example, Nobayashi, T. et al. (2007) stated in *KOKUSAI SEIJIGAKU. NYUUMON DAI 3 PAN* as follows: “Generally speaking, economic security can be defined as an external economic policy adopted based on the recognition that the integrity, maintenance and development of the nation and the national economy supporting it is under threat, an act of using the economy (activities related to goods and trade in goods) as a “resource (means) of capabilities” in ways deviating from market rules, and interactions between such activities.” Hasegawa, M. (2013) arguing in *KEIZAI ANZEN HOSHOU* (Nihon Keizai Hyouronsha) made the following statement, which he described as a minimum consensus: “when economic factors are incorporated into goals, threats, or means, which are components of economic security, the situation is generally called economic security.”

⁵⁹ Suzuki, K., (2022) “JIYUU BOUEKI TAISEI NI OKERU KEIZAI ANZEN HOSHOU” (<http://ssdpaki.la.coocan.jp/proposals/102.html>).

sectors—semiconductor manufacturing, batteries, rare earths, and pharmaceuticals—and summarize measures to deal with those risks.⁶⁰ In addition, in February 2022, a report including a strategy for strengthening supply chains in six other sectors—transportation, agricultural products, food production, public health, information and communications technology and defense—was compiled.⁶¹

As for “technology nonproliferation security,” there are concerns that, because of leakage and proliferation of technology through trade, other countries’ military capabilities may grow, or Japan’s international competitiveness may decline. The conflict between the United States and China is, in many aspects, a competition for technological supremacy over emerging technologies. Therefore, for Japan, the importance of “technology nonproliferation security” is growing amid the global competition for technological supremacy.

With respect to “security from foreign regulations,” there are developments related to the Global Magnitsky Human Rights Accountability Act of the United States and China’s Anti-Foreign Sanctions Law, for example. It is difficult to control foreign laws and regulations like those, so Japanese companies are required to change their corporate behavior in accordance with them.

Iida (2023) classified economic security into two categories, namely (A) “cases where economic affairs affect military power” and (B) “cases where economic affairs affect negotiating capacity.”⁶² (A) includes export controls, investment review, transfer of weapons, and domestic production of weapons, while (B) includes economic sanctions/economic coercion, energy and food security, engagement policy, supply chain diversification and resilience.

2. Economic security under the free trade system

As mentioned in the previous subsection, the scope of security has expanded to cover economics and sensitive and emerging technologies. As sensitive and emerging technologies are critical to future national competitiveness, countries are implementing various measures, including strengthening export control systems, in order to ensure economic security by preventing technology leakage to countries and terrorist organizations that could pose threats to international peace. In recent years, because of an increase in inward foreign direct investments, including corporate acquisitions and mergers intended to acquire sensitive and emerging technologies, countries are also strengthening systems to control inward foreign direct investments. Moreover, as the COVID-19 pandemic and Russia’s aggression against Ukraine have exposed supply chains’ vulnerabilities, countries are strengthening domestic industrial policies while exploring cooperation with like-minded countries (see Part I, Chapter 1, Section 5 “Global economy facing fragmentation”).

This subsection will first provide a summary of industry policies, export controls, and controls of inward foreign direct investment as part of countries’ approaches to economic security and then describe

⁶⁰ Obtained from the White House’s website (<https://www.whitehouse.gov/wp-content/uploads/2021/06/100-day-supply-chain-review-report.pdf>).

⁶¹ Obtained from the White House’s website (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/02/24/the-biden-harris-plan-to-revitalize-american-manufacturing-and-secure-critical-supply-chains-in-2022/>).

⁶² Japan Institute of International Affairs, “KEIZAI.ANZEN HOSHOU RINKEIJI KENKYUKAI SAISHUU HOUKOKUSHO” (March 2023).

the role that Japan, which serves as the G7 president in 2023, should perform on behalf of the international community.

(1) Countries' approaches to economic security

(A) United States

Industrial policy

In April 2021, the Biden administration submitted the American Jobs Plan and the American Families Plan to Congress. The American Jobs Plan features increasing infrastructure investment and strengthening supply chains as its pillars, while the American Families Plan centers on human capital investment and climate change countermeasures. As for the American Jobs Plan, Congress focused on the infrastructure sector and submitted a bipartisan bill worth 1.2 trillion dollars (including 550 billion dollars in new expenditures over the next five years) that was targeted at that sector, and in November 2021, the bill was enacted as the Infrastructure Investment and Jobs Act.

On the other hand, following the submission of the American Families Plan, the Democratic Party prepared the Build Back Better Bill, which included climate change countermeasures and human capital investment. The bill, the budgetary size of which expanded to 1.85 trillion dollars, drew opposition even from within the Democratic Party on the grounds that the huge size of expenditure would increase government debt and aggravate inflation, and as a result, it failed to be enacted. Later, a revised version of the bill, which included provisions to reduce the expenditure size and to ensure financing revenue, was enacted in August 2022 as the Inflation Reduction Act (hereinafter the "IRA"). The IRA, which secures revenue sources of around 370 billion dollars for climate change countermeasures, represented the largest-ever spending bill to be enacted with respect to climate change countermeasures in U.S. history. Specifically, the IRA promotes infrastructure investments related to clean energy through measures such as tax credits for the introduction of clean energy, including capital investment for manufacturing solar panels and wind power turbines, and for the purchase of electric vehicles (hereinafter "EVs"). One factor behind the enactment of this law was the Biden administration's announcement at the Climate Change Summit in April 2021 of the goal of reducing greenhouse gas emissions 50-52% compared with 2005 by 2030 under the Paris Agreement. According to a report issued (in March 2023) by the Center for Strategic and International Studies (hereinafter "CSIS"), a U.S. think tank, since the enactment of the IRA, around 20 companies, including major European firms, have announced plans to build or expand clean energy production facilities, which are expected to create more than 100,000 new jobs.⁶³

Export control policy

Under the Export Control Reform Act (hereinafter "ECRA"), enacted in August 2018, export control of dual-use cargoes, which may be used for either military or civilian purposes, has been enforced. The ECRA, enacted as part of the National Defense Authorization Act for Fiscal Year 2019 (NDAA2019), which gives budgetary authority to the Department of Defense, has added "emerging technologies" and "foundational technologies" to the scope of export control. Furthermore, the Export Administration

⁶³ CSIS, "Getting Real on the Inflation Reduction Act" (<https://www.csis.org/analysis/getting-real-inflation-reduction-act>).

Regulations (hereinafter “EARs”), which are subordinate to the ECRA, include a list of products designated by the U.S. government as dual-use items that may be converted to military use (Commerce Control List; hereinafter “CCL”) and the Entity List, and those lists are used to regulate exports and re-exports of products of U.S. origin.

In August 2019, based on the NDAA2019, regulations that prohibit procurements by government agencies from five Chinese high-tech companies, including HUAWEI and ZTE, were put into force. As a result, the procurement and use of communications equipment, video surveillance devices, and related services provided by those companies have been prohibited. In August 2020, the conclusion of contracts by government agencies with companies procuring products from HUAWEI and other companies of concern was prohibited.

In December 2022, the National Defense Authorization Act for Fiscal Year 2023 (NDAA2023) was enacted. As provisions related to China, the NDAA2023 included the establishment of the Countering Economic Coercion Task Force, which was mentioned earlier, military assistance worth a total of 10 billion dollars over the five years through 2027 to Taiwan; and the prohibition of government procurement of Chinese semiconductors (which applies to semiconductors designed or manufactured by Semiconductor Manufacturing International Corporation (SMIC), ChangXin Memory Technologies Corporation (CXMT), Yangtze Memory Technologies Corporation (YMTC) and their subsidiaries).

Policy for control of inward foreign direct investment

With respect to investment regulation, the Committee on Foreign Investment in the United States (CFIUS), acting as an inter-department/agency organization with the authority to review inward foreign direct investments, makes decisions on matters that may affect U.S. economic security. Under the Foreign Investment Risk Review Modernization Act of 2018, which constitutes part of the NDAA2019, the CFIUS’s investment review authority has been strengthened. Specifically, regarding inward foreign direct investments related to emerging technologies and critical infrastructure, a prior review has become mandatory in the case of investments that are made by investors who are under the influence of foreign governments and that may affect business management. In September 2022, an executive order that defines the sectors and factors on which the CFIUS should follow up as priority matters was issued.⁶⁴

Moreover, debate has been held not only on the regulation of inward foreign direct investments but also on the regulation of outward foreign direct investments. In June 2022, a bipartisan group of lawmakers from the Senate and the House of Representatives announced the National Critical Capabilities Defense Act of 2022. This includes provisions to establish the National Critical Capabilities Committee (NCCC), which is comprised of the heads of government agencies, and assign the responsibility for reviewing investments in China and other countries of concern to the NCCC. While the NCCC is regarded as an equivalent of the CFIUS specialized in outward foreign direct investments, there has been strong opposition from industries.

In addition, in June 2021, as a regulatory measure related to mobile service apps, the Biden administration revoked the executive orders issued by the Trump administration to prohibit the use of

⁶⁴ See the U.S. White House’s website (<https://www.whitehouse.gov/briefing-room/presidential-actions/2022/09/15/executive-order-on-ensuring-robust-consideration-of-evolving-national-security-risks-by-the-committee-on-foreign-investment-in-the-united-states/>).

TikTok and WeChat and to restrict the use of eight Chinese apps, including the Alipay electronic payment service, and issued an executive order to protect sensitive U.S. data. In February 2023, the guidance on the prohibition of use of TikTok on equipment owned by the federal government was announced. As a result, at all federal government agencies, the use of not only TikTok but also successor app services developed or provided by ByteDance, the parent company of TikTok, has been prohibited.⁶⁵ In March 2023, the House Foreign Affairs Committee passed the DATA ACT (Deterring America's Technological Adversaries Act), which effectively prohibits the use of TikTok and some other video apps in the United States. At the Senate Select Committee on Intelligence, a bipartisan group of lawmakers submitted the RESTRICT Act (Restricting the Emergence of Security Threats that Risk Information and Communications Technology Act), which is intended to introduce a similar prohibition.

(B) China

Industrial policy

Under the 14th Five-Year Plan (2021-2025), China set forth a dual circulation policy, which seeks to attract foreign investments and technologies by means of the attractiveness of its huge domestic market while maintaining the policy of opening up to the outside world (international circulation) and expanding domestic demand (great domestic circulation). As a measure to strengthen the capacity of self-developed, controllable supply chains, the policy seeks to strengthen foreign companies' dependence on China by promoting the domestic development of advanced core technologies, for example by retaining the primary parts of supply chains in China and by requiring forcible technology transfer. It can also be said that by implementing this policy, China has succeeded in developing the capability to prevent supply chain disruptions. Regarding recent moves to attract foreign investments, in October 2022, the Catalogue of Encouraged Industries for Foreign Investment was revised, with more than 200 items added compared with the previous year. Of particular note is that the number of items related to the advanced manufacturing sector (e.g., energy, medicine, metals, and optical materials) has increased. Foreign companies can receive preferential tax treatment from the government when investing in industries included in this catalogue. In addition, in the same month, measures to promote foreign investment, mainly in the manufacturing sector, were announced. Among the sectors prioritized for attracting foreign investments are advanced manufacturing/high-tech, information communications/software/information technology, finance, real estate, business services, research and development including education/design, modern logistics, new energy, and innovations related to green and low carbon technologies.

China has also maintained the Made in China 2025 initiative, announced in 2015. Aiming to achieve the advancement of domestic industries in 10 strategic high-tech sectors, such as next-generation information technologies, including 5G, new materials, and biopharmaceuticals, the Chinese government is flexibly supporting a broad range of companies, including not only state-owned enterprises but also private enterprises in those priority sectors.⁶⁶ In March 2023, the reform plan for

⁶⁵ See JETRO's website (<https://www.jetro.go.jp/biznews/2023/03/b0f6ff29793ec8af.html>).

⁶⁶ METI (2022), *White Paper on International Economy and Trade 2022*, Part I, Chapter 2, Section 4 "Developments related to the Chinese economy."

party and state institutions was published. By establishing a new organization under the Chinese Communist Party, the reform plan would strengthen the party's centralized, unified leadership in the science and technology and financial sectors.⁶⁷

Export control policy

China is currently strengthening export controls. Export bans and restrictions on general technologies are managed based on the Catalogue of Technologies Prohibited and Restricted from Export. In August 2020, this catalogue underwent major revisions for the first time in 12 years, with technologies related to artificial intelligence (AI), cryptography/IT security, biotechnology, machine tools/plants, and aerospace added against the backdrop of China's recent technological advances and from the security perspective. In December 2022, a draft of the revised Catalogue of Technologies Prohibited and Restricted from Export prepared for public comments was published,⁶⁸ with technology items such as bio-research, rare earths, photovoltaic power generation, and smart cars added.

In September 2020, the Unreliable Entity List system was promulgated and put into force. It is said that this system has been introduced because foreign companies are implementing discriminatory measures, such as suspending transactions with particular Chinese companies and are undermining the legitimate interests of Chinese companies that are transaction counterparties in violation of the principles of normal market transactions.⁶⁹ The system was operated for the first time in February 2023, adding two companies—Lockheed Martin and Raytheon Missiles & Defense, both of the United States—to the list on the grounds that the companies undermined China's sovereignty and territorial integrity by repeatedly selling offensive weapons, such as missiles and fighter aircraft, to Taiwan. As a result, five measures, including the prohibition of export and import activities and investment related to China, were taken against the two companies.⁷⁰

In December 2020, the Export Control Law was put into force. Until then, although there were export regulations applied to dual-use items, military items, and nuclear-related items from the viewpoint of national security trade control, those regulations were considered to be inadequate because of a lack of systematic enforcement. Therefore, from the viewpoint of security trade control, the Export Control Law includes the following provisions: the development of a basic law that exercises comprehensive, overall export controls and regulations and a list of regulated products; introduction of a list of entities prohibited from exporting particular items; introduction of regulation of deemed exports and reexports; principles on extraterritorial application; and retaliatory measures.

Policy on control of inward foreign direct investments

In January 2021, based on the National Security Law, the National Development and Reform Commission and the Ministry of Commerce put into force the Measures on National Security Review of Foreign Investment, which contain an explicit provision for prior review of investments that affect national security. The Foreign Investment Law, which was put into force in January 2020, stipulates that a foreign investment security review system should be established to conduct security reviews of foreign

⁶⁷ See JETRO's website (<https://www.jetro.go.jp/biznews/2023/03/1da9488b36d5a331.html>).

⁶⁸ See CISTEC's website (<https://www.cistec.or.jp/service/uschina/63-20230131.pdf>).

⁶⁹ See JETRO's website (https://www.jetro.go.jp/ext_images/_Reports/01/580a6448fa87f0bb/20210056_02.pdf).

⁷⁰ See JETRO's website (<https://www.jetro.go.jp/biznews/2023/02/ac9dbb6d2bab4f0d.html>).

investments that affect or may affect national security. While the abovementioned measures can be interpreted to be intended to clarify the scope of review and the application and review processes, it is necessary to keep a careful watch on how they will be enforced.⁷¹

A political report submitted to the National Congress of the Communist Party of China in October 2022 included a chapter on national security, which stated that national security is the foundation of national revival and is a prerequisite for national wealth and strength and expressed a resolve to steadfastly uphold the comprehensive national security concept.⁷²

(C) EU

Industrial policy

In February 2023, the EU announced the EU Green Deal Industrial Plan, which promotes investments in the EU region. The European Commission views the U.S. IRA as a threat to the EU's competitiveness with the net-zero industry in mind and has explicitly characterized the plan as a countermeasure against the IRA.⁷³ Specifically, in order to strengthen the competitiveness of Europe's net-zero industry, the plan will use funds totaling 270 billion euros, including existing funds, and the European Sovereignty Fund, which will be later announced. In addition, it aims to retain clean technology within the region by developing a regulatory environment in critical sectors, such as critical raw materials and hydrogen, by securing quick access to funds, by developing human resources, and by promoting trade through trade agreements and other means. As for policy measures, in March 2023, the EU announced the Temporary Crisis and Transition Framework (mitigation measures),⁷⁴ which is a national subsidy scheme, the Critical Raw Materials Act, and the Net-Zero Industry Act.

Export control policy

In September 2021, export control regulations were revised to strengthen controls of civilian-use products and technologies that may be used for military and security purposes (dual-use items), such as cyber surveillance technology, and introduce a licensing system regarding exports of cyber surveillance items that may be used to infringe human rights.⁷⁵

In March 2023, European Commission President von der Leyen delivered a speech on the "future of EU-China relations," in which she for the first time referred to a plan to develop an EU economic security strategy in the latter half of the year amid the need to avoid economic risks and announced that a policy document related to that strategy would be published in June.

⁷¹ See JETRO's website (<https://www.jetro.go.jp/biznews/2021/01/72daea1b41a678f9.html>).

⁷² This concept, which has been advocated by President Xi Jinping since 2014, maintains that the safety of the people should be pursued based on political security and economic security. The concept covers the following 11 sectors: politics, territories, military affairs, economics, cultures, society, science and technology, information, ecology, resources, and nuclear. In 2015, the National Security Law was enacted, with this concept embedded in it.

⁷³ See JETRO's website (<https://www.jetro.go.jp/biznews/2023/02/61fa6e9285deed7f.html>).

⁷⁴ In order to prevent the transfer of investments out of the region, subsidy rules were relaxed, with the upper limit on the subsidy amount raised, among other measures.

⁷⁵ See the European Commission's website (https://ec.europa.eu/commission/presscorner/detail/en/IP_21_4601).

Policy for control of inward foreign direct investment

Until now, there have not been EU-wide rules on the enforcement of regulation on inward foreign direct investments from the viewpoint of security, but in October 2020, the investment screening rules regarding inward foreign direct investments were fully applied. Under the rules, direct investments in the EU from outside the region are screened for approval or disapproval in order to ensure security and protect public order. While decisions on whether or not to introduce investment regulations and the specifics thereof are left to member countries, major member countries, including Germany, France and Italy, have strengthened their own investment screening systems in accordance with those rules.⁷⁶ The rules present examples of factors that should be considered when screening foreign investments. For example, the critical technologies that should be covered by the screening include artificial intelligence, robotics, semiconductors, cybersecurity, aerospace, defense, energy storage, quantum/nuclear technologies, nanotechnology and biotechnology.

(2) Japan's role in maintaining the free trade system

Looking back at history, although liberalism and protectionism have continuously taken turns to rise, there is no doubt that free trade has promoted the growth of the global economy. Since the second oil crisis, when protectionism became endemic amid the decline of the economic power of the United States, which had until then promoted the free trade system, Japan has exercised leadership in maintaining the global free trade system by consistently promoting import liberalization and by playing a major role in the successful conclusion of the Tokyo Round of multilateral trade negotiations.⁷⁷ In 2023, as Japan serves as the G7 president, it upholds the banner of free trade, exercises leadership in developing a free, fair and inclusive economic order, and strives to reduce risks associated with free trade in cooperation with like-minded countries. First, Japan will use frameworks comprised of like-minded countries, such as the Indo-Pacific Economic Framework for Prosperity (IPEF), the Supply Chain Resilience Initiative (SCRI), the Quad framework of Japan, the United States, Australia and India, and economic partnership agreements (EPAs), such as the CPTPP and the Japan-EU EPA, and develop resilient and reliable supply chains while taking into consideration the viewpoint of economic security. In the G7 Leaders' Statement on Economic Resilience and Economic Security (May 2023), the leaders recognized that transparency, diversification, security, sustainability, and trustworthiness and reliability are essential principles on which to build and strengthen resilient supply-chain networks among trusted partner countries both within and outside the G7 (the principles on resilient and reliable supply chains) and called for supporting the principles. For Japan, another major challenge is diversifying the supply sources of mineral resources, so the country has established a new support system to significantly mitigate resource development risks faced by the private sector while promoting further cooperation with like-minded countries.⁷⁸

⁷⁶ See JETRO's website (<https://www.jetro.go.jp/biznews/2020/10/9d4da3edbc8c7938.html>).

⁷⁷ See the Cabinet Office (1981), *Fiscal 1981 Annual Economic Report*.

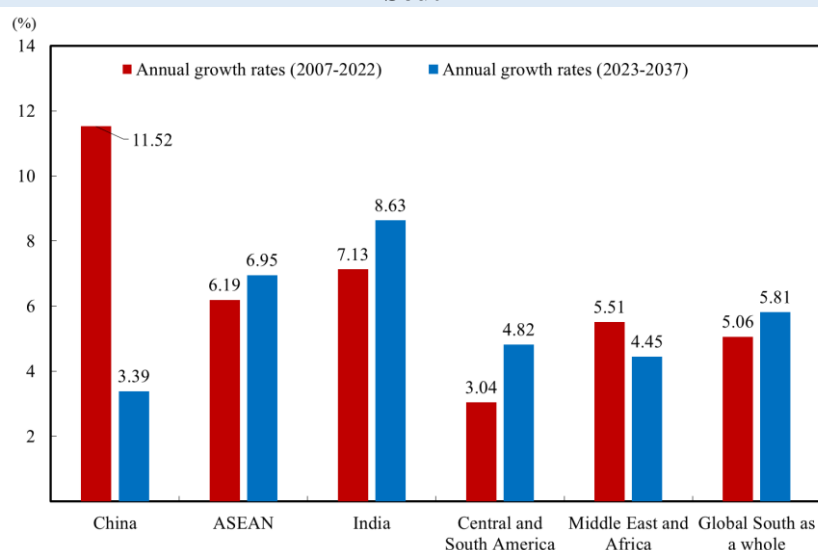
⁷⁸ As the Project to Support Resilience of Supply Chains of Critical Goods in Accordance with Changes in the Economic Environment, support is provided for private-sector companies' activities related to exploration feasibility studies, mine development, separation and refining, and technology development in the battery metals and rare earths sectors.

Japan will also promote the rebuilding of the rules-based international trade order. At a time when the WTO's Appellate Body, which was supposed to act as the rules-maker under the free trade system, has become dysfunctional, as already mentioned, efforts are underway, mainly in the EU, to reform the WTO and also to complement the organization, bearing in mind the limitations of the WTO system. In Japan in March 2023, a Cabinet approval was given to participation in the MPIA. While building an independent system is beneficial for the rules-based international trade order and for countries and regions with large markets, such as the United States and the EU, there are concerns that doing so could prove to be a double-edged sword for other countries.

Furthermore, Japan will also strongly promote cooperation with the Global South. In 2023-2037, very high growth rates are expected for the Global South, as ASEAN and India are projected to maintain annual average growth rates of 7% and slightly under 9%, respectively (Figure I-2-2-1). As for the demographic outlook as well, as the population is expected to continue growing in the Middle East, Africa and Central and South America, the population in the Global South as a whole is projected to continue growing until 2100 (Figure I-2-2-2). In particular, India has upheld the principle of non-alignment and exercised leadership in keeping the unity of emerging countries for many years, and it holds the presidency of the G20 Summit in 2023. In January this year, India hosted the Voice of Global South Summit, in which the leaders and ministers of 125 developing countries, mainly from the southern hemisphere, participated in the online format and held in-depth discussions on the challenges faced by developing countries. As described above, India is further increasing its presence in the international community by exercising leadership within the Global South, whose presence is growing in terms of both economic power and population size. Japan views India as an important partner with shared values and is further deepening cooperation with it in many aspects, including cooperation through the Quad framework of Japan, the United States, Australia and India, the Indo-Pacific Economic Framework for Prosperity (IPEF) and the Japan-Australia-India Supply Chain Resilience Initiative (SCRI). Japan will further strengthen cooperation with India, for example by striving to achieve the 5-trillion-yen target for investments in India, on which the two countries' leaders agreed in 2022.⁷⁹

⁷⁹ See the Ministry of Foreign Affairs' material (<https://www.mofa.go.jp/mofaj/files/100407780.pdf>).

Figure I-2-2-1. Changes in average annual nominal GDP growth rates in China and the Global South

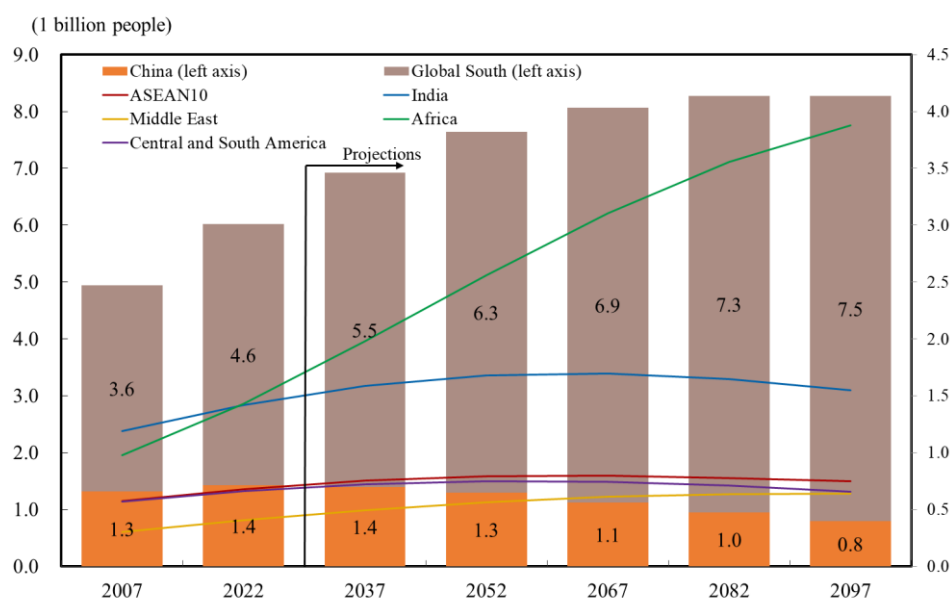


Note 1: The Global South refers here to the ASEAN 10, India, Central and South America, Middle East, and Africa.

Note 2: The nominal GDP (actual value) of the countries included in each region is summed per year to calculate the annual growth rates between 2007 and 2022 and those between 2023 and 2037.

Source: *WEO* (IMF) for achievements, and *World Economic League Table 2023* (CEBR) and *The Long-Term Growth Prospects of the People's Republic of China* (ADB) for prospects.

Figure I-2-2-2. Demographic projections for China and the Global South



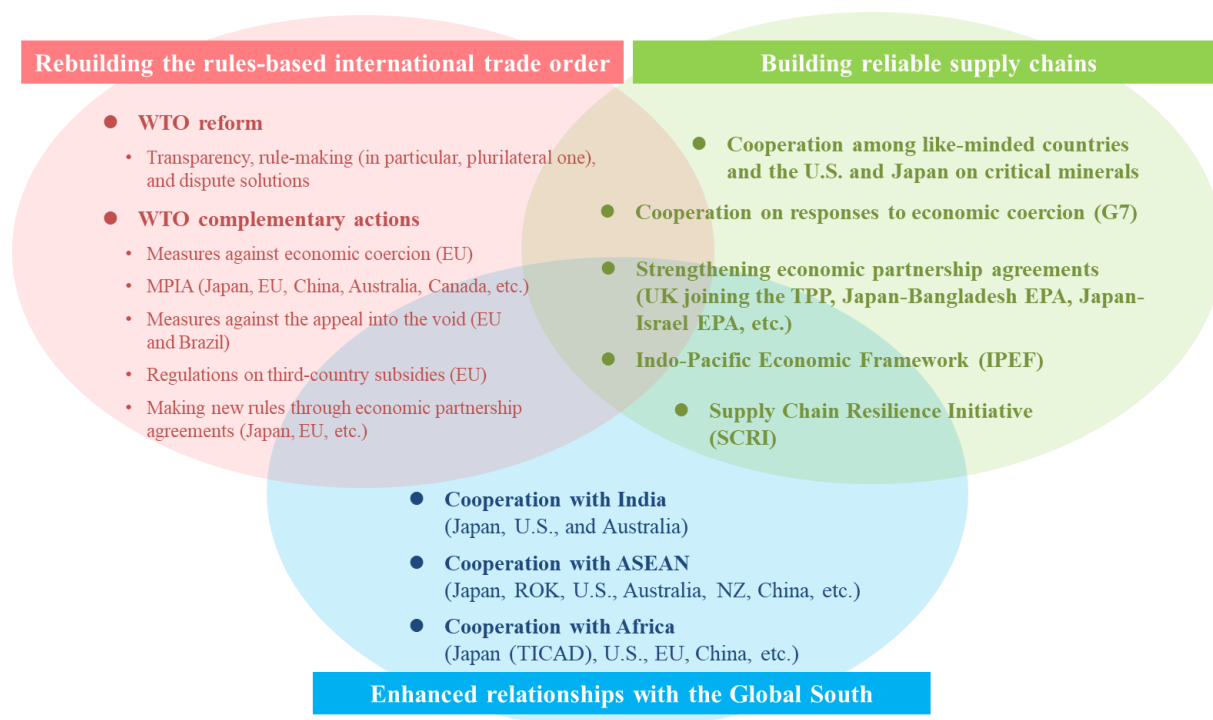
Note: The Global South refers here to the ASEAN 10, India, Central and South America, Middle East, and Africa.

Source: *World Population Prospects 2022* (UN).

As described above, major countries and regions, such as the EU, are developing their own measures to complement the WTO using industrial policy as a leverage. Countries are starting to forge consensus on building reliable supply chains among like-minded countries. In light of those activities, Japan will

simultaneously rebuild the rules-based international trade order, build reliable supply chains with like-minded countries, and strengthen cooperation with the Global South.

Figure I-2-2-3. Efforts for striking the balance between a free trade regime and economic security



Source: Materials distributed at the “Tenth meeting of the Trade Committee under the Industrial Structure Council” (METI).