

Part II Actions Japan Should Take in the Current Global Structural Change

Chapter 1 Maintaining and strengthening the rules-based international economic order and roles of Japan

Amid global structural change, the global economy is confronted with various difficulties and is at a crossroads on the path toward resuming stable growth. This chapter will provide an overview of the increasingly severe international economic circumstances and look at the situation of efforts made by countries to strengthen export and investment control policies and the impact of implementing proactive industrial policies on trade. On the other hand, Global South countries, led by Asia, are expected to increase their presence in terms of both economic size and trade activity. Therefore, this chapter will explain the importance of securing inclusive and sustainable growth of the global economy while making efforts to maintain and strengthen the rules-based international economic order in cooperation with those countries.

Section 1 Difficulties facing the world economic order

Amid growing global uncertainties, the international economic circumstances still continue to be severe, as exemplified by the continued dysfunction of the Appellate Body of the World Trade Organization (WTO) and heightened concerns over the use of economic coercion to weaponize economic dependencies. This section will provide an overview of the severe international economic circumstances and also discuss actions taken by countries in order to deal with this situation.

1. Growing global uncertainties

First, we will look at trends in various indexes of uncertainty (Figure II-1-1-1). Over the past several years, the World Uncertainty Index,²⁷ which is a measure of uncertainty at the global level, has risen rapidly due to the effects of factors such as the increased tension between the United States and China, the COVID-19 pandemic, and the Russian aggression against Ukraine, but for the moment, it has become somewhat stable. The World Trade Uncertainty Index,²⁸ which is a measure of uncertainty over trade, rose rapidly in 2018-2019 when the U.S.-China trade friction intensified but declined later. Although it rose temporarily in 2023, it has become stable for the moment. The Global Economic Policy Uncertainty Index,²⁹ which is a measure of uncertainty over economic policy, has declined to a low level compared with the first half of 2020, when it rose rapidly due to the COVID-19 pandemic, but it

²⁷ This index represents the percentage of the word “uncertain” and relevant words in the country reports of the Economic Intelligence Unit, which is the research division of the publisher of the Economist, a U.K. periodical. The higher the value of the index, the higher the level of uncertainty.

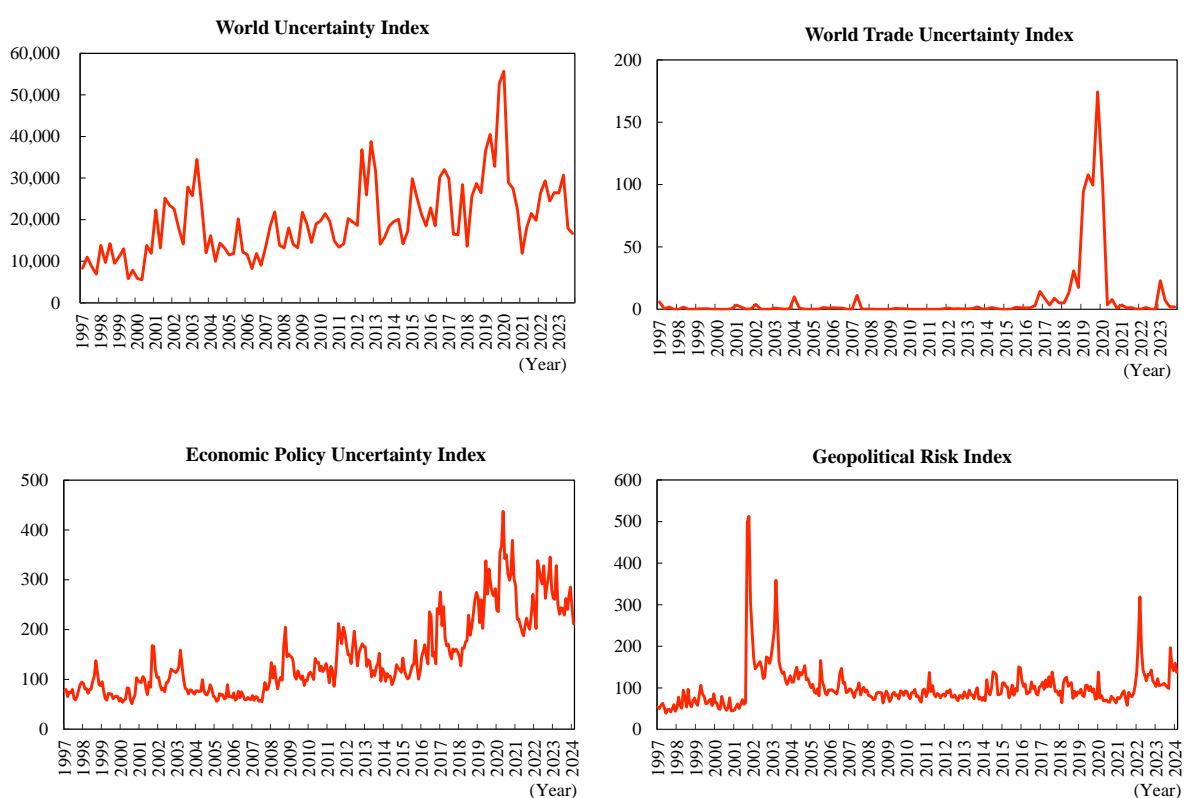
²⁸ This index represents the percentage of “uncertain” and relevant terms mentioned near words related to trade.

²⁹ This index represents the percentage of articles discussing economic policy uncertainty in newspapers published in individual countries. The higher the value of the index, the higher the level of policy uncertainty.

has still remained at a high level and shown a long-term uptrend. The Geopolitical Risk Index,³⁰ which is a measure of geopolitical uncertainty, rose steeply in March 2022 because of the effects of the Russian aggression against Ukraine and gradually declined thereafter. However, it rose once again in October 2023 due to the effects of the conflict between Israel and the Palestinian armed forces, and has remained at a high level since then.

The trends in those uncertainty indexes indicate that, although the level of uncertainty over the global economy has declined compared with the level during the pandemic or immediately after the Russian aggression against Ukraine, the situation is so precarious that uncertainty could rise once again at any moment.

Figure II-1-1-1. Changes in uncertainty indexes



Source: The data on the World Uncertainty Index and the World Trade Uncertainty Index is obtained from the World Uncertainty Index (<https://worlduncertaintyindex.com/>).

The data on the Economic Policy Uncertainty Index is obtained from the Economic Policy Uncertainty (https://www.policyuncertainty.com/global_monthly.html).

The data on the Geopolitical Risk Index is obtained from the Geopolitical Risk (GPR) Index (<https://www.matteoiacoviello.com/gpr.htm>).

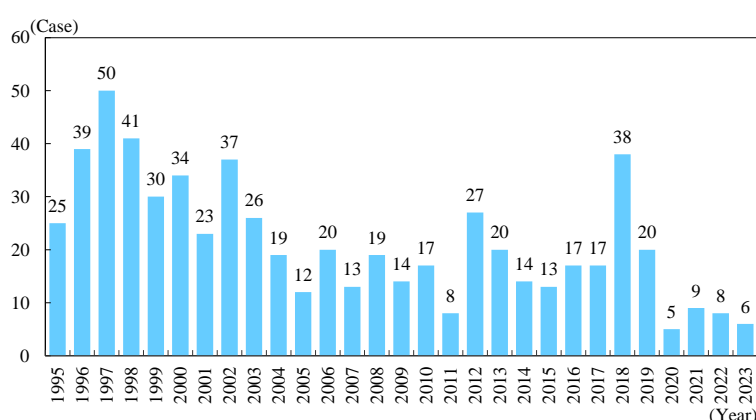
³⁰ This index represents the percentage of articles related to geopolitical events in newspapers. Searched words are organized in the following eight categories: war threats, peace threats, military buildups, nuclear threats, terror threats, beginning of war, escalation of war, and terror acts. The higher the value is, the higher the level of geopolitical risk is.

While global uncertainties grow as mentioned above, the fragmentation of the world is starting to impact trade as well. For example, an analysis³¹ by the IMF’s World Economic Outlook (WEO), published in April 2024, divided countries into two groups—one comprising Australia, Canada, the EU, New Zealand, and the United States and the other comprising China, Russia and other countries that opposed a resolution condemning the Russian aggression against Ukraine at the United Nations General Assembly on March 2, 2022—and calculated the rate of change in flows of trade within the two groups (trade between politically close countries) and between the two groups (trade between politically distant countries) in the periods before and after the start of the Russian aggression against Ukraine. As a result, it was found that trade between the groups declined steeply compared with trade within the groups. Regarding trade in strategic sectors in particular, while trade within the groups decreased only slightly, trade between the groups declined steeply.

2. Challenges confronting the WTO

Next, we will look at international trade challenges confronting the world. At the WTO, which functioned as the pillar of the multilateral trade system, the Appellate Body, which is responsible for dispute settlement, has continued to be in a state of dysfunction since December 2019 because vacancies due to the expiry of the term and retirement of members have remained unfilled. The annual number of cases of use of the WTO’s dispute settlement system has been reduced to less than half the level before the Appellate Body fell into the state of dysfunction (the number declined from the annual average of around 20 cases to nine cases in 2021, eight cases in 2022, and six cases in 2023) (Figure II-1-1-2). Moreover, as the de facto absence of the Appellate Body has been prolonging, the number of cases of “appeal into the void,” which attempts to effectively put dispute cases on hold, has already grown to 24 cases (as of December 2023).

Figure II-1-1-2. Number of cases of use of the WTO’s dispute settlement system



Note: As of December 2023.

Source: WTO.

³¹ For detailed information, see IMF *WEO* (April 2024), Chapter 1, Box 1.1 (<https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024>).

Under these circumstances, at the 12th Ministerial Conference (MC12), held in June 2022, WTO member countries agreed to “conduct discussions with the view to having a fully and well-functioning dispute settlement system accessible to all Members by 2024,” and at the 13th Ministerial Conference (MC13), held in February 2024, they reaffirmed the agreement reached at the MC12 and agreed to accelerate discussions toward achieving objectives by building on the progress already made as the basis of future discussion.

In April 2020, some WTO member countries launched the Multi-party Interim Appeal Arbitration Arrangement (MPIA) as a provisional measure to deal with the dysfunction of the Appellate Body. The MPIA is a gentlemen’s agreement on resolving disputes through arbitration, rather than by making an appeal to the dysfunctional Appellate Body, when member countries are not satisfied with the judgement of a panel. The agreement will be effective only until the Appellate Body resume functioning fully. Japan joined the MPIA in March 2023 (the total number of participants are 53 countries and regions, including Japan).

3. Economic Coercion

It has been reported that acts of economic coercion have frequently occurred in recent years.³² While there is no internationally established definition of economic coercion, the Anti-Coercion Instrument, introduced by the European Union (EU), for example, lays down that “economic coercion” exists where a third country applies or threatens to apply a measure affecting trade or investment in order to prevent or obtain the cessation, modification or adoption of a particular act by the EU or an EU member state, thereby interfering in the legitimate sovereign choices of the EU or an EU member state. Meanwhile, the bill for the U.S. Countering Economic Coercion Act (introduced in the U.S. Senate in February 2023) defines economic coercion as actions, practices or threats undertaken by a foreign adversary to restrain or obstruct trade, foreign aid, or investment through asymmetrical, arbitrary, or opaque means with the intent to cause economic harm or influence sovereign political actions. Economic coercion is not necessarily a newly conceived concept. For some time, there have already been concerns over attempts by countries to influence other countries’ policy decisions by implementing trade or other measures or by threatening to do so, as acts that have been recognized as the weaponization of trade measures, for example.³³ Amid the advance of globalization and the deepening of supply chain interdependencies in recent years, a situation is emerging where supply chains and markets depend excessively on some

³² According to a report by the Australian Strategic Policy Institute (ASPI), in 2020-2022, 73 cases of economic coercion by China (including cyberattacks) were observed. See Fergus Hunter, Daria Impiombato, Yvonne Lau and Adam Triggs with Albert Zhang and Urmika Deb (2023), “Countering China’s coercive diplomacy: prioritising economic security, sovereignty and the rules-based order,” Policy Brief Report No. 68/2023, ASPI (<https://www.aspi.org.au/index.php/report/countering-chinas-coercive-diplomacy>).

According to a report by the Mercator Institute for China Studies (MERICS), the number of confirmed cases of economic coercion by China between February 2010 and March 2022 is 123. See Aya Adachi, Alexander Brown, Max J. Zenglein (2022), “Fasten your seatbelts: How to manage China’s economic coercion,” Mercator Institute for China Studies (<https://merics.org/en/report/fasten-your-seatbelts-how-manage-chinas-economic-coercion>).

³³ See Ministry of Economy, Trade and Industry (2023), *Report on Compliance by Major Trading Partners with Trade Agreements* (<https://www.meti.go.jp/english/report/data/2023WTO/pdf/03.pdf>).

particular countries because of the combination of huge market power and state control that enables massive policy support and economic coercion. This situation is presumably fomenting economic coercion.

Allied and like-minded countries have expressed concerns over economic coercion in G7 leaders' statements and other documents and are strengthening cooperation to address it. At the G7 Hiroshima Summit in May 2023, the G7 leaders issued "G7 Leaders' Statement on Economic Resilience and Economic Security," in which they vowed to launch the "Coordination Platform on Economic Coercion" and strengthen cooperation in order to increase their collective assessment, preparedness, deterrence and response to economic coercion and to further promote cooperation with partners beyond the G7. At the G7 Trade Ministers' Meeting in October of the same year, the ministers reaffirmed that they would continue joint efforts to address economic coercion and enhance business preparedness against economic coercion (Table II-1-1-3).

Regarding measures suspected to be intended for economic coercion, countries have called for abolishing or correcting those measures at the bilateral level and have also taken other measures, such as applying for the dispute settlement procedures at the World Trade Organization (WTO). In addition, some countries are developing relevant legal systems and strategies in order to address and counter economic coercion. As for the EU, in December 2021, the European Commission announced the bill for the Anti-Coercion Instrument (ACI), which makes it possible to implement countermeasures, such as the imposition of restrictions on trade and investment, as a last resort against non-EU countries that exercise economic coercion against the EU or an EU member state. The ACI went into force in December 2023 after being adopted by the European Parliament and the Council of the EU.³⁴ The ACI aims to deter unilateral coercive measures by third countries. It is designed to induce the discontinuation of such measures through dialogue as a first step and to implement countermeasures as a last resort. Possible countermeasures include tariff hikes, restrictions on exports and imports, and restrictions on trade in services and access to foreign direct investment and public procurement.

In the United States, in February 2023, the bill for the Countering Economic Coercion Act was introduced in the Senate. The bill provides for economic assistance for allied and like-minded countries subjected to economic coercion and countermeasures against countries that have engaged in coercion.

In Japan, the Action Plan for Strengthening Industrial and Technological Infrastructure Related to Economic Security,³⁵ announced by the Ministry of Economy, Trade and Industry in October 2023, indicated that the government will appropriately consider, in accordance with international law, specific measures necessary in normal times or when Japan has been subjected to economic coercion—such as resolving the excessive dependence on some particular countries by creating resilient supply chains in the former case and providing relief to companies hurt by coercion and strengthening assistance by the

³⁴ See the website of the European Commission (https://ec.europa.eu/commission/presscorner/detail/en/ip_23_6804).

³⁵ Ministry of Economy, Trade and Industry, "Action Plan for Strengthening Industrial and Technological Infrastructure Related to Economic Security (as of October 31)" (https://www.meti.go.jp/policy/economy/economic_security/231031actionplan.pdf).

Japan External Trade Organization (JETRO) and Nippon Export and Investment Insurance (NEXI), among other organizations, in the latter case.

Moreover, international organizations have conducted analyses regarding economic coercion. For example, according to a report³⁶ by the Organization for Economic Cooperation and Development (OECD) (published in May 2024) that analyzed the impact of economic coercion on trade, while it is difficult to identify or examine instances of economic coercion, it has been found through the analysis of trade data related to past instances that there are recurring patterns, such as sudden drops in export and import volumes of some products important for targeted countries in trade with countries engaging in economic coercion in particular. It has also been found that economic coercion can result in economic losses in targeted countries, including via changes in import and export destinations and export volumes and in prices. On the other hand, in some cases, targeted countries have been able to find alternative markets or suppliers, mitigating the impacts of coercion, and this confirms that open global markets are useful. The report also pointed out that the rules-based trading system, including the dispute settlement system, and the WTO are being used in addressing economic coercion and that international cooperation will be important for deterring economic coercion and supporting targeted countries.

Table II-1-1-3. Outlines of major meetings at which references to economic coercion were made (meetings held since 2022)

Time	Name of meeting	Content
2022	June G7 Summit (Elmau)	The G7 leaders vowed to: - increase vigilance to threats, including economic coercion, that are meant to undermine global security and stability. - work together to develop coordinated action to ensure a level playing field for businesses and workers, to foster diversification and resilience to economic coercion, and to reduce strategic dependencies.
	July The Japan-U.S. Economic Policy Consultative Committee (the Economic “2+2”)	- The Japanese and U.S. Ministers 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.” - 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.
	September G-7 Trade Ministers’ Meeting (Neuhardenberg)	- The G7 Trade Ministers expressed serious concerns over 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. - In order to fight attempts at economic coercion, the G7 Trade Ministers, reaffirming the G7 Leaders’ commitment, vowed to enhance cooperation and explore coordinated approaches to address economic coercion both within and beyond the G7 in relevant forums to improve assessment, preparedness, deterrence, and response to such actions.

³⁶ OECD, *Trade impacts of economic coercion* (<https://www.oecd.org/publications/trade-impacts-of-economic-coercion-d4ab39b9-en.html>).

2023	January	Japan-U.S. summit	<ul style="list-style-type: none"> - The Japanese and U.S. leaders vowed to build resilience in 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 (DEFT).
	April	G7 Trade Ministers' Meeting (Online)	<ul style="list-style-type: none"> - The G7 Trade Ministers expressed serious concern over economic coercion that interferes with the legitimate choices of another government. They also voiced strong opposition to any unilateral attempt to change the status quo by economic coercion. - The G7 Trade Ministers pointed out that economic coercion is often imposed via trade and investment-related measures and that it undermines economic security and a free, fair and rules-based international order. They vowed to utilize their existing tools and develop new ones as needed to deter and counter the use of economic coercion. - The G7 Trade Ministers recognized the importance of strengthening coordination with each other and other like-minded partners beyond the G7 to increase their collective preparedness, resilience and deterrence to economic coercion, and vowed to collectively explore responses, as appropriate, to counter coercive economic measures and to mitigate their harm.
	May	G7 Summit (Hiroshima)	<ul style="list-style-type: none"> - The G7 leaders vowed to work together to ensure that attempts to weaponize economic dependencies by forcing G7 members and their partners, including small economies, to comply and conform will fail and face consequences. - The G7 leaders expressed serious concern over economic coercion and called on countries to refrain from the use of economic coercion, 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. - The G7 leaders vowed to use existing tools, review their effectiveness and develop new ones at their respective domestic levels as needed to deter and counter the use of coercive economic measures. - Recognizing the importance of existing joint efforts, including at the WTO, the G7 leaders vowed to enhance collaboration by launching the "Coordination Platform on Economic Coercion" to increase their collective assessment, preparedness, deterrence and response to economic coercion, and further promote cooperation with partners beyond the G7. - The G7 leaders vowed to use early warning and rapid information sharing, regularly consult with each other, collaboratively assess situations, explore coordinated responses, deter and, where appropriate, counter economic coercion under this platform in accordance with their respective legal systems. They also vowed to cooperate, as appropriate, to support targeted states, economies and entities as a demonstration of solidarity and resolve to uphold the rule of law.
	June	Joint Declaration Against Trade-Related Economic Coercion and Non-Market Policies and Practices (Australia, Canada, Japan, New Zealand, the U.K., and the U.S.)	<ul style="list-style-type: none"> - The participating countries expressed serious concern over trade-related economic coercion and non-market policies and practices that undermine the functioning of and confidence in the rules-based multilateral trading system by distorting trade, investment, and competition, and harming relations between countries.
	August	Japan-U.S.-ROK summit	<ul style="list-style-type: none"> - The Japanese, U.S. and ROK leaders expressed their countries' commitment to working closely together to launch early warning system pilots to expand information sharing and enhance policy coordination on possible disruptions to global supply chains as well as to better prepare to confront and overcome economic coercion.
	October	G7 Trade Ministers' Meeting (Osaka-Sakai)	<ul style="list-style-type: none"> - The G7 Trade Ministers reiterated their shared concerns over coercive economic measures and threats thereof, which interfere with the legitimate sovereign choices of another government and expressed distress at the growing recurrence of such measures. - The G7 Trade Ministers welcomed the ongoing work by their trade officials that contributes to the Coordination Platform on Economic Coercion. They expressed their commitment to continuing to support the work of the Platform and making further progress on this issue pursuant to the commitment made by the G7 leaders at the Hiroshima Summit. - The G7 Trade Ministers vowed to continue their joint efforts, including at the WTO, to address economic coercion, ensure rapid information sharing, and collectively explore responses, as appropriate and in line with their respective legal systems and in conformity with international law. They pointed out that the efforts include further examining their tools and levers, analyzing supply chains, and seeking to cooperate in deterring and countering economic coercion, as well as exploring ways to mitigate its harm, with a view to supporting each other and partners beyond the G7. - The G7 expressed their firm commitment to upholding the free, fair, open and transparent economy driven by market principles. They vowed to enhance their collective efforts in communication to enhance business preparedness against economic coercion.
	November	The Japan-U.S. Economic Policy Consultative Committee (the Economic "2+2")	<ul style="list-style-type: none"> - The Japanese and U.S. Ministers affirmed their bilateral information sharing and coordination on deterring and countering economic coercion, as well as their work with other like-minded partners, including through the G7 Coordination Platform on Economic Coercion. - The Japanese and U.S. Ministers vowed to continue engaging partners in the Indo-Pacific region to help them identify and reduce economic vulnerabilities in order to support their economic development, resilience, and prosperity. - The Japanese and U.S. Ministers vowed to continue to assess the potential impacts of export restrictions on critical minerals.
	April	Japan-U.S.-Philippines Summit	<ul style="list-style-type: none"> - The Japanese, U.S., and Philippines leaders expressed concern over and strong opposition to economic coercion and underscored the need for close coordination in dealing with economic coercion.
2024	May	OECD Ministerial Council Meeting	<ul style="list-style-type: none"> - The Ministers expressed serious concern over economic coercion, and called on all countries to refrain from its use, which infringes upon the international order centered on respect for sovereignty and the rule of law. - The Ministers welcomed OECD work that contributes to building fact-based awareness on supply chain resilience and economic coercion and expressed expectations for further analytical work.

Source: Based on the METI and MOFA websites.