

Section 6 Maintaining and strengthening the rules-based international economic order and roles of Japan

As explained so far, the global economy is facing various challenges and is at a crossroads as to whether it can get back on the path of stable growth. Recently, lurking in the global economy has been the risk that uncertainties may grow due to countries' economic policies and geopolitical risks, and there has been an increasing number of possible acts of coercion exploiting economic dependencies. In this situation, the Appellate Body of the WTO, which previously performed the function of resolving trade disputes, has continued to be in a state of dysfunction. In this harsh economic security environment, it is true that there are moves that could lead to the division of the global economy into blocs, such as the strengthening of export and investment control policies and the pursuit of industrial policies based on the self-centered principle. On the other hand, Global South countries, led by Asia, are expected to increase their presence in terms of both economic size and trade, so it is necessary to ensure inclusive and sustainable growth of the global economy in cooperation with those countries.

To put the global economy confronted with challenges back on the path of growth, it is necessary to pursue the following three lines of initiative in an integrated manner.

First, even while the global economy is facing the crisis of fragmentation, Japan should keep the stance of placing emphasis on rules and contribute to maintaining the rules-based international economic order. When doing that, it is important for Japan to engage in the development of rules in a manner that suits its own interests as well. For example, Japan should strengthen supply chains through trade diversification, recognize the effectiveness of EPAs as a counterweight against protectionism, and promote negotiations on EPAs and investment treaties. It should also promote the reform of the WTO and prevent and correct unfair trade measures by using the WTO and EPAs. Moreover, while appropriately dealing with non-trade concerns, in which interest has been growing in recent years, Japan should be involved in the development and enforcement of rules in order to prevent fair trade from being distorted. Secondly, Japan should prepare for the risk of supply disruption by building resilient and sustainable supply chains. It is essential to diversify procurement and supply sources of critical goods while taking into consideration the viewpoint of economic security. When doing that, Japan should strengthen dialogue and cooperation and pursue policy coordination with like-minded countries so that protectionism can be averted and a level playing field can be secured. Thirdly, it is necessary to build mutually beneficial relationships with various countries, including Global South countries, mainly on the industry front and explore new markets for Japanese industries.

As part of this Japanese initiative to maintain the rules-based international economic order, first, it is necessary to promote the reform of the WTO's three functions (dispute settlement, negotiation, and monitoring/screening) in order to enable that organization to resume performing those functions. Regarding the dispute settlement function, under the two-tier settlement system comprised of Panels and the Appellate Body, the Appellate Body has continued to be unable to conduct deliberation on new cases since the end of 2019 due to unfilled vacancies following the retirement of members of the body. In response, at a WTO Ministerial Conference, agreement has been reached on realizing a fully and well-functioning dispute settlement system accessible to all member countries by the end of 2024, and discussions are ongoing. Until the dispute settlement function is restored, it is necessary to ensure the

secure enforcement of the rules while using the following means: the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), which acts as a provisional substitute for the Appellate Body and provides for the settlement of disputes through arbitration instead of appeal to the Appellate Body; the dispute settlement arrangements under EPAs; and various committees of the WTO. As for the negotiation function, as a new rule-making activity, Japan, together with like-minded countries, has launched Joint Statement Initiatives in new areas of activity, such as e-commerce, facilitation of cross-border investment, promotion of trade by micro, small, and medium-size enterprises, which tend to be put in a weak position in international trade compared with large companies, and domestic regulation of services, which is intended to facilitate companies' overseas expansion in services sectors, and it has conducted activities to improve the negotiation function. In particular, with respect to the negotiation on e-commerce transactions, which aims to develop international rules concerning digital trade, Japan has been exercising leadership as co-chair. Regarding the examination /monitoring function, Japan has proposed launching a discussion forum with a view to improving transparency and strengthening discipline in the future with respect to industrial policy measures that may affect trade, such as industrial subsidies and forcible technology transfer. Regarding industrial subsidies in particular, although WTO member countries are obligated to report to the WTO on industrial subsidies with certain characteristics under the Agreement on Subsidies and Countervailing Measures, member countries fail to fulfill the reporting obligation in many cases, so it is necessary to consider ways to thoroughly enforce the obligation and strengthen discipline.

With respect to the challenges that should be addressed jointly with like-minded countries or on a bilateral basis, such as increasing the resilience of supply chains through the enhancement of trade and investment relationships and countering protectionist policies, Japan should first promote the development of rules using EPAs/FTAs and new multilateral frameworks. Regarding bilateral activities, Japan agreed with the Gulf Cooperation Council (GCC)—an association of countries that are important as import sources of energy resources, such as crude oil and natural gas, and where investments are being actively made in new industries for the purposes of economic diversification and decarbonization by governmental funds based on oil revenue—to restart by the end of 2024 the negotiation on a Japan-GCC FTA, which had been suspended for an extended period of time, during Prime Minister Kishida's visit to Saudi Arabia in July 2023. With Turkey, which is attracting attention as a production and supply hub for Europe and neighboring countries, Japan has agreed to continue negotiation toward an early conclusion of an EPA and is accelerating it. Japan has been strengthening the economic relationship with Bangladesh in recent years due to increases in imports of Bangladeshi textiles and exports of Japanese steel, vehicles and other items. In March 2024, Japan announced that the two countries would start EPA negotiation following around one year of joint research. With respect to the possibility of starting negotiation on investment treaties that set rules for the facilitation of mutual direct investment with countries that have potential as future investment destinations, Japan has decided to consider negotiating mainly with Central and South America and Africa, which are attracting attention as part of the Global

South group and for which Japanese companies have a growing investment appetite.²⁰⁶ As for the revision of the existing EPAs/FTAs, in December 2023, Japan reached an agreement-in-principle with Indonesia to include additional rules for facilitating e-commerce transactions, such as the prohibition of cross-border data transfer, in the Japan-Indonesia EPA. Regarding the Japan-EU EPA, in January 2024, Japan signed the Protocol amending the Japan-EU EPA with respect to the inclusion of the provisions on free flows of data. As for multilateral activities, Japan will securely implement the Supply Chain Agreement, which was put into force in February 2024, under the IPEF, which is a framework of economic cooperation in the free and open Indo-Pacific region, and engage in cooperation toward increasing the resilience of supply chains as prescribed under the agreement. Under the CPTPP, which is a framework for developing new rules on economic integration in a broad range of sectors, Japan will hold discussions on how to deal with market-distorting practices and economic coercion as part of the process of a general review of the pact. Furthermore, under the RCEP, which is an agreement on economic cooperation in East Asia, which is the growth center of the global economy, Japan will ensure transparent implementation of the agreement in order to realize free economic activity based on fair rules among the signatory countries.

In addition to conducting the abovementioned activities, Japan will not merely enforce existing rules but also consider developing and applying new regulations, including “soft laws,” which do not have binding power but which encourage voluntary compliance, in areas where countries’ policy moves are quick or where prompt rule-making is required because the advance of technology is rapid. For example, from the viewpoint of promoting the efficient and transparent management of state-owned enterprises and securing a level playing field in the international market, the OECD Guidelines on Corporate Governance of State-Owned Enterprises were revised, and in May 2024, the revised version was adopted at the OECD Ministerial Council Meeting, at which Japan served as chair. Regarding generative AI, which has made remarkable technological progress and for which appropriate and safe development and dissemination are required, relevant international guidelines and a code of conduct were worked out as the Hiroshima AI Process Comprehensive Policy Framework²⁰⁷ based on the results of the G7 Hiroshima Summit, which was held in May 2023 with Japan as president, and the policy framework was approved by the G7 in December of the same year. Later, at the OECD Ministerial Council Meeting in May 2024, Prime Minister Kishida announced the launch of the Hiroshima AI Process Friends Group, a voluntary framework of countries supporting the spirit of the Hiroshima AI Process in which 49 countries/regions participated. It is expected that in the future, more and more countries and stakeholders will become supporters of the Hiroshima AI Process and that the development of inclusive international governance concerning generative AI will be promoted.

²⁰⁶ See the website of the Ministry of Economy, Trade and Industry (https://www.meti.go.jp/policy/trade_policy/epa/investment/actionplun-kensho.pdf).

²⁰⁷ See the website of the Ministry of Internal Affairs and Communications (<https://www.soumu.go.jp/hiroshimaaiprocess/documents.html>).