

Multilateral Rule-based Liberal Trading Order and Supply Chains

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RIETI-CEPR Symposium



A portrait of Tsuyoshi Kawase, a middle-aged man with dark hair, looking slightly to the left. He is wearing a dark blue sweater over a grey collared shirt. The background is a blurred indoor setting with light-colored walls and a window with a patterned curtain.

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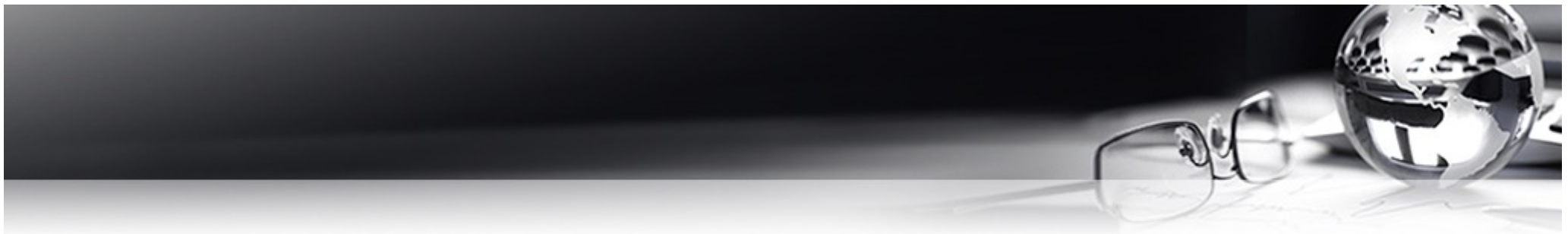
Recent GSC Crisis

- Pandemics
 - Covid-19
- Geopolitical risks
 - Ukraine War and related sanctions against Russia
 - U.S.-China trade war
 - Economic coercion by China
- Natural disaster
 - Tohoku earthquake (東日本大震災) and Thailand flood (2011)
 - Earthquake in Hualien (花蓮), Taiwan (2024)



Threats to National Security

- Dual-use technologies, especially semiconductors
 - Supply shortages negatively impact military and defense capabilities
 - ex. Russian invasion against Ukraine/ US export restraint against China
 - Technology leakage to adversaries in GSC
- Shortages of essential commodities and critical inputs
 - Foods
 - Energy and natural resources including critical minerals
 - Pharmaceuticals and other medical supplies
- Political risks of weaponizing economic dependence or economic coercion



Growing Awareness of GSC Resilience

- Strengthen domestic production capacity
- Diversify sources and markets, and manufacturing activities (ex. "China + 1")
- Increase transparency in the GSC
- Promote international cooperation in the event of GSC shocks and resulting disruptions



Policy for Friend-shoring and Reshoring (U.S.)

- Executive Order 14017 reports (2021-22)
 - Cover 10 sectors: semiconductor, critical minerals, large-capacity batteries, pharmaceuticals, defense, public health, ICT, energy, transportation, and agricultural commodities and food production
 - Policy recommendations therein include
 - rebuilding domestic production and innovation capacities,
 - exercising the government power as a purchaser (ex. Buy-American), and
 - working with allies to ensure resilient GSCs



Policy for Friend-shoring and Reshoring (U.S.)

- Janet Yellen@Atlantic Council (Apr. 2022)

“[F]riend-shoring means...that we have a group of countries that have strong adherence to a set of norms and values about how to operate in the global economy and about how to run the global economic system, and we need to deepen our ties with those partners and to work together to make sure that we can supply our needs of critical materials.”

- Specific measures to promote friend-shoring
 - Chips & Science Act (“Guardrails”) and export control on semiconductors and related technologies
 - IRA critical mineral requirement for EV battery and Mineral Security Partnership (MSP)
 - International frameworks such as IPEF, APEP, TTC



Policy Questions

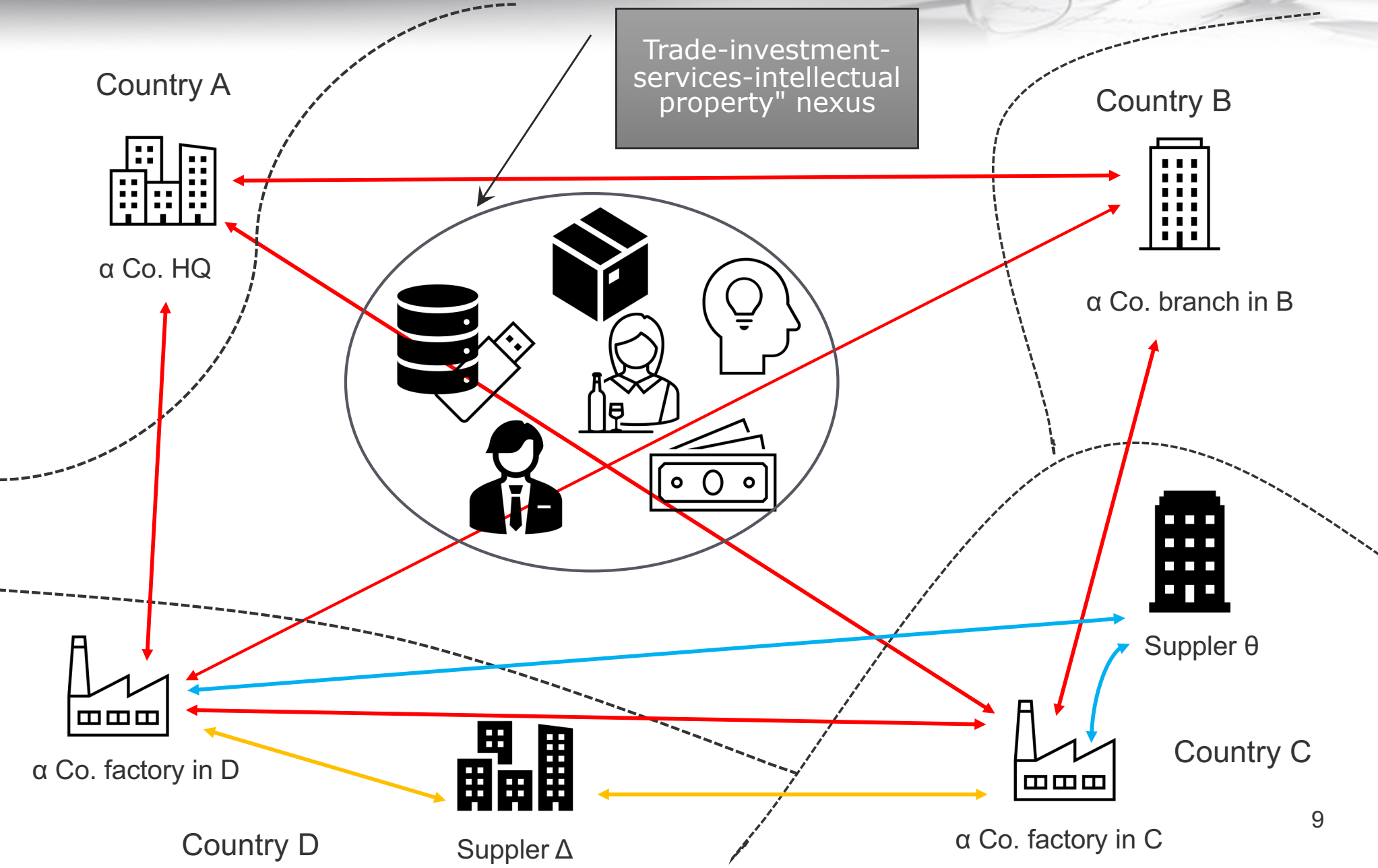
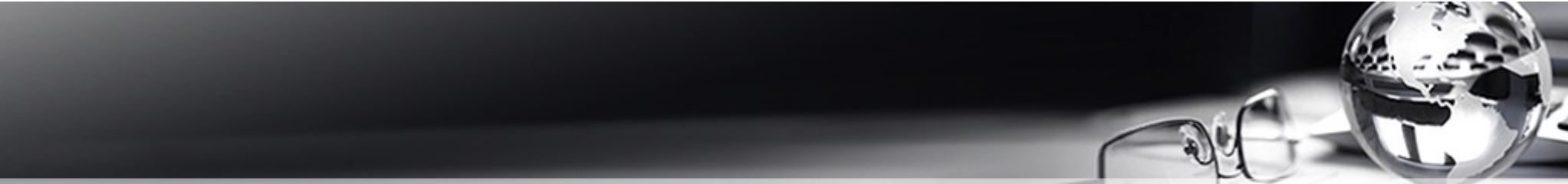
How can we develop resilient friend-shoring in the Indo-Pacific region?

How can trade agreements (TAs) contribute to this goal?



Formation of Modern GSCs (Baldwin 2016)

- The second unbundling (1990s–)
 - Separation of production stages by combination of outsourcing and offshoring
- “Trade-investment-services-intellectual property” nexus
 - Trade in parts and components in production process, as well as final products
 - Direct investment for oversea establishment
 - Cross-border trade of service to coordinate the dispersed production
 - Intangibles including intellectual properties, data, know-how,
 - Business persons including managerial personnel





Trade Agreements Facilitate GSC

- TAs reduce trade cost in GSC
 - Elimination of tariffs and non-tariff barriers at the boarder
 - Market access in services
 - Free movement of capital
 - Free flow of data
 - Free movement of business persons
 - Eliminate “behind the boarder” barriers
 - Ensure regulatory coherence among the contracting parties
- TAs reduce risks and increase predictability in GSC
 - Bound tariff rates and transparency in tariffs
 - Non-discrimination (MFN/national treatment)
 - Trade facilitation
 - Investment Protection (expropriation, FET, full protection and security)
 - Level competitive environment
 - Dispute settlement and enforcement



CPTPP's Contribution to GSC

Function	Chapter
Cost Reduction	Development
Both	NT&MA, ROO, Textile, Trade Remedies, SPS, TBT, Investment, Cross-border Services, Financial Services, Telecommunications, E-commerce, Government Procurement, Cooperation, Competitiveness & Business Facilitation, SME, Dispute Settlement
Predictability	Competition, SOE, IP, Labor, Environment, Transparency and Anti-Corruption, Exception



Emergence of GSP-focused Frameworks of Friend-shoring

- Plurilateral
 - IPEF
 - APEP
 - Australia-India-Japan-US (Quad) etc.
- Bilateral
 - EU-US TTC
 - US-Japan "Economic 2+2", JUCIP
 - US-Taiwan Initiative on 21st Century Trade etc.
- Sectoral
 - Chips Four Alliance
 - Mineral Security Partnership (MSP) etc.



Are GSP-focused Frameworks Sufficient to Encourage Friend-shoring?

- IPEF Pillar I (Trade)
 - “[R]ules that then apply to how we modulate government policies that create an environment for economic actors, traders, logistics people to operate in. We're creating a system of incentives and disincentives....”
 - (USTR hopes to encourage companies to) “make decisions about how they design their supply chains” so the partner countries can ensure the development of chains that are “more flexible, have more give in them – have both the Plan B and the Plan C and create resilience that way...”
- IPEF Pillar II (Supply Chains)
 - “[M]ore focused on the transparency and operational aspects of supply chains” to address questions such as “what happens when supply chains get snarled?” or “what happens when you have got a bottleneck?”

(“Tai: IPEF trade negotiators are like ‘tax-code writers’,”
Inside US Trade, Oct. 20, 2023)



Are GSP-focused Frameworks Sufficient to Encourage Friend-shoring?

- Implications of Tai's comments
 - A GSC-focused framework provides stability to an existing GSC, while a traditional TA provides incentives for GSC formation by reducing costs and increasing predictability
 - A GSC-focused framework and a traditional TA complement each other
- But the parties failed to conclude a Pillar I agreement in SF in Nov. 2023
- Deficiencies and limitations of GSP-focused frameworks
 - No liberalization of trade in goods and services and capital movements
 - Lack of robust rules and enforcement mechanisms




Response to GSC Shocks: Experience in Economic Coercion

- Australia
 - Background: China opposed to Australian PM's call for international investigation into the origin of COVID-19
 - Coercive measures
 - AD/CVD on wine and barley
 - Import ban on coal
 - SPS/TBT measures on beef, lobster and timber
 - Australia's responses
 - Explore new markets alternative to China
 - Resort to the WTO dispute settlement (cf. MPIA)
 - Consequence
 - Australia-China Summit (Nov. 2023)
 - Mutually agreed solutions in the WTO Disputes regarding barley and wine (DS598, DS602)



Response to GSC Shocks: Experience in Economic Coercion

- Lithuania
 - Background: China opposed to Taiwan's establishment of its representative office in Vilnius, Lithuania
 - Coercive measures
 - Import ban on Lithuanian products
 - Secondary sanction on non-Lithuanian firms procuring inputs from Lithuania
 - Solution:
 - Support package from EU
 - Resort to the WTO dispute settlement (DS610)
- G7 Trade Ministers' Statement@Osaka-Sakai
 - "seeking to cooperate in deterring and countering economic coercion, as well as exploring ways to mitigate its harm.... "
- World Trade Report 2023
 - Under the open and multilateral trading system, an economy can easily find alternative sources of supply and alternative markets in the face of the recent emergencies or external shocks



Policy Options for Promoting Friend-Shoring in the Indo-Pacific

- Expand and update the CPTPP is essential to promoting friend-shoring in the region
- Accelerate IPEF Pillar I negotiations and ensure full implementation of Pillar II Agreement
- Consider possibilities to link CPTPP to other mega-RTAs for greater flexibility and resilience of GSC
 - Mega FTAs as stepping stones to a multilateral trade order
 - UK ⇨ EU
 - Uruguay ⇨ MERCOSUR



Policy Options for Promoting Friend-Shoring in the Indo-Pacific

- Ensure that the WTO remains the bedrock of the liberal trading order, providing "air and water"
 - Restore the dispute settlement mechanism and multilateral surveillance function
 - Expeditiously address outstanding issues in MC 13
- Prevent national security from being abused and undermining the free trade regimes
 - Keep "small yard, high fence"

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Thank you for your attention.