GLOBAL ECONOMIC GOVERNANCE: A JAPANESE PERSPECTIVE

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Introduction

With the advent of the Trump administration and its departure from multilateralism and international co-operation, the global economic governance framework has been shaken. The rules-based, liberal international economic order that has been instrumental to long-term economic growth, development, and stability in the post-WWII era is on the verge of collapse.

President Trump has withdrawn his country from five significant international agreements since he assumed office in January 2017, has begun the process of withdrawing from one, and has threatened to leave another. He withdrew the United States from the Trans-Pacific Partnership (TPP), the Paris Agreement on climate change, the Iranian nuclear agreement, the United Nations (UN) Human Rights Council, and the United Nations Educational, Scientific and Cultural Organization (UNESCO). The decision to withdraw from the first two agreements was driven by his America First policy, while withdrawal from the last three was likely motivated by his intention to support Israel. In addition, President Trump has started the process of officially leaving the World Health Organization (WHO) and has been threatening to leave the World Trade Organization (WTO).

There are multiple underlying factors, both domestic and external, that contributed to the Trump administration's departure from multilateral co-operation. On the domestic front, appealing to his conservative constituencies was apparently an important factor, particularly on issues related to Israel. More importantly, there has been growing doubt over the benefit of globalization in the United States, reflecting widening income disparity and a shrinking middle class. People with digital and other technical skills needed for globalization have gained, while those without them have not. On the external front, the relative weight of the United States in the world economy has been declining, and the economies of China and other emerging and developing countries have been expanding rapidly. China in particular has grown remarkably within the liberal international economic order, which was shaped and has been supported by the United States and its allies in the post-WWII period. The Trump administration seems to view the liberal international economic order as unfairly benefiting China in building its own economic, technological, and military capabilities, thereby threatening the United States' global hegemonic dominance.

Several pillars support rules-based, liberal, multilateral economic governance. First is the presence of a leader country or a group of leading countries that supply international public goods. The United States has long been the traditional leader but now seems unwilling to remain so. Second is the presence of effective international forums, such as the G7 and the G20, which promote collective action for international economic management. The G7 used to be one of the most solid groups supporting the rules-based liberal economic order, but has been transformed into a "6+1" arrangement due to the lack of U.S. leadership under the Trump administration. Although the G20 is supposed to be the "premier forum for international economic co-operation," it has lost the steam it had in the post-Lehman period, again due to the diminishing U.S. leadership. Third is the role played by international organizations that support these countries and forums, such as the UN, Bretton Woods institutions (International Monetary Fund [IMF], World Bank, and WTO), and the WHO. The Trump administration has been attacking some of these organizations, such as the WTO and the WHO, for being ineffective, supporting China unfairly, and harming the United States' interests.

This paper asks the following questions: Why has the United States lost its leadership role in global economic governance? Is it possible to restore a rules-based, liberal, multilateral economic governance system? If yes, what needs to be done and what role can Japan play as a supporter of such a system? If not, can regional economic governance fill the slack left by dysfunctional global economic governance?

Structural Change in the World Economy and the Launch of the G20

One of the most fundamental structural changes in the world economy is the relative decline of the United States and other advanced economies (G7) and the rapid rise of China and other emerging and developing economies in the world, such as BRICS (Brazil, Russia, India, China, and South Africa). As a result, the latter economies have begun to demand greater voice for global economic management. In the face of the Lehman shock in the fall of 2008, major advanced economies decided to launch the G20 summit process to induce large emerging and developing economies to co-operate in sustaining global economic recovery.

Structural Shift in the World Economy

Emerging and developing economies had raised their voices for rule-making in global economic governance well before the global financial crisis (GFC). During negotiations for the WTO's Doha Development Round (DDR), they placed priorities on their own socio-economic development needs that were different from those of advanced economies, thereby complicating trade negotiations and finally leading to a collapse. They also wanted to have a greater voice in the IMF, but this took much longer to realize than expected. Eventually China launched the Belt and Road Initiative (BRI) and took leadership in establishing the Asian Infrastructure Investment Bank (AIIB). The United States views China as having "exploit(ed) the free and open rules-based order," supported by the WTO, IMF, and the World Bank, while attempting to "reshape the international system in its favor" through the BRI and other related frameworks.[2] The United States has begun to consider the rise of economic, technological, and military capabilities of China as a threat to its global hegemonic dominance.

Looking to the world economy over the next 50 years or so, China's economy will continue to expand, exceeding the size of the U.S. or European Union (EU) economy (measured by nominal GDP at current exchange rates) in around 2030, and becoming by far the largest in the world in 2050 and beyond. This is a major concern for the United States. However, the sum of the U.S. and EU GDPs would remain larger than China's GDP for the next 50 years and beyond. This means that it would be in the interest of the United States to work with the EU and other like-minded advanced democracies (such as Australia, Canada, and Japan), if it wanted to maintain economic dominance and national security against a rising China, as the United States would remain the leader among these democracies. India will also grow rapidly and will likely work with Western democracies, making China's economic dominance more unlikely. The rise of China and India would also mean that the Indo-Pacific will be one of the most dynamic regions in the world.

Thus, multilateralism rather than the America First approach is the way to assure global leadership and national security for the United States, as economic size is a key determinant of military capabilities. At the same time, if China achieves a peaceful, harmonious rise and provides an increasing volume of international public goods, the country can legitimately claim greater voice in the high table of global economic governance.

Launch of the G20 Summit

The G20 summit was launched in the aftermath of the Lehman shock to address the GFC. Every member of the G20 was identified as a "systemically significant economy" that should be at the global table to help solve global economic problems for the benefit of all. This meant a major shift in global economic governance from the G7 to a larger group, with large emerging and developing economies assuming not only greater voice but also greater responsibilities for global economic management.

The G20 summit was launched because co-operation by the rising economic power of emerging and developing economies was considered necessary to tackle the severe negative impact of the GFC, as the G7's ability to manage the GFC by themselves would be limited. Indeed, emerging and developing economies grew much faster than the G7 economies and greatly contributed to world economic recovery.

In the first few years after its launch, the G20 summit focused on tackling the GFC jointly, strengthening the resource base and functions of the international financial institutions (particularly the IMF and the World Bank), and upgrading financial sector regulation to avoid another financial crisis. It was called "the premier forum for international economic co-operation" in Pittsburgh in September 2009. Once global economic recovery took hold, the summit shifted its focus to various macroeconomic, financial, structural, and developmental issues of global relevance, with support from major international organizations (such as the UN, IMF, World Bank, WTO, Organisation for Economic Co-operation and Development [OECD], and recently WHO) as an integral part of global economic governance.

Bretton Woods Institutions and the WHO

Bretton Woods institutions have payed critical roles in supporting the rules-based, liberal, multilateral economic order in the post-WWII era. Among these institutions, the IMF and the World Bank have responded to the negative impact of the GFC of 2008–2009 and the recent COVID-19 pandemic, while the WTO faces the most serious challenge as its function has been severely damaged in recent years. The WHO, though not one of the Bretton Woods institutions, has been attacked by the Trump administration in the midst of its response to the COVID-19 pandemic.

The IMF and the World Bank

The IMF began its significant reform to augment its crisis response capacity and streamline lending conditions following the Asian financial crisis of 1997–1998. The IMF was required to respond to the GFC of 2008–2009 with a quota increase and adjustment of voting shares in favour of emerging and developing economies (agreed in 2010 and implemented in 2016). Reflecting the rising importance of the Chinese yuan for global use, it was included in the Special Drawing Rights (SDR) basket in October 2016. However, it was decided that the quota that would accompany voting power shifts would not be increased until the end of 2023.

Facing the COVID-19 pandemic, the IMF has been responding to its negative impact on low-income developing countries, with high levels of debt, weak medical systems, and severely impacted commodity sectors, by providing emergency assistance to them. It has begun to disburse US$100B through its emergency facilities, such as the Rapid Financing Instrument, without the need to have a full-fledged program in place. It also approved immediate debt service relief to its poorest and most vulnerable members by providing grants to cover their IMF debt obligations for an initial phase over the next six months. The IMF together with the World Bank proposed to suspend debt service payments of official bilateral credit from low-income countries, and the G20 countries agreed to debt service suspension through the end of 2020.

Perhaps more financial assistance is needed for not only low-income countries, but also for emerging economies severely hit by the pandemic. The IMF has about US$1T available for new lending. Although this is sufficient at the moment, the institution needs to explore ways to expand resources to support its members. A new allocation of SDRs—as much as US$500B—proposed to provide flexibility to countries with a liquidity shortage has been opposed by the Trump administration as this would allow countries like China and Iran to receive billions of dollars in new resources with no conditions.

The World Bank has been transforming itself from a Washington Consensus-based institution to the one that respects members' ownership and country-driven institutional and governance reforms to improve the business climate. As in the case of the IMF, China is now the number three shareholding member in the International Bank for Reconstruction and Development (IBRD) after the U.S. and Japan, but the country is only the number 10 shareholder in the International Development Association (IDA).

The World Bank has maintained relatively good relations with China by supporting its economic reform and market opening, although reforms have stalled under the Xi Jinping administration. The Bank has also co-operated with China on the BRI and jointly financed several projects. With David Malpass, a China hawk and a critic of the BRI, as the new head of the Bank from April 2019, the Bank's lending to China and its support for the BRI were expected to be cut drastically. Instead, the Bank will provide US$1B to US$1.5B per year until 2025 and has maintained joint projects with AIIB.

In response to the COVID-19 pandemic, the World Bank announced in May 2020 it would provide up to US$160B to possibly more than 100 countries over the next 15 months in grants and concessional loans through the fast-track facility to address their health, economic, and social difficulties. This includes funding of US$50B from the IDA.

The IMF and the World Bank are often criticized for having failed to respond to the needs of the vulnerable part of society when intervening in crisis-affected countries to restore fiscal discipline. Austerity measures introduced in reform packages often reduced public spending on health, education, livelihood assistance, and other social protection programs, thereby endangering the social and economic conditions of people who needed such social programs most. These financial institutions are increasingly required to pay greater attention to how their interventions can protect the socially vulnerable, while pursuing fiscal and debt sustainability.

The Trump administration seems to trust the IMF and the World Bank and does not treat them lightly given that the United States is the number one shareholder for both institutions with veto power and that the institutions are located in Washington, DC. Although the managing director (MD) of the IMF has always been a European, the United States has played a key role by ensuring that the first deputy MD is always an American. The president of the World Bank has always been an American.

The WTO

The world trading system under the General Agreement on Tariffs and Trade (GATT) and the subsequent WTO worked well until the turn of the millennium. Under the GATT, the three principles of (i) trade liberalization via tariff reductions, (ii) non-discrimination through most-favoured nation (MFN) clauses, and (iii) multilateralism based on multilateral negotiations for tariff concessions were established, and eight rounds of multilateral trade negotiations were held to reduce tariffs on goods, particularly manufactured products. The WTO, established in 1995, was expected to strengthen the global trading system by stepping up existing trade rules, introducing new trade rules, and upgrading the dispute settlement procedure.

However, the failure of the DDR to deliver comprehensive agreements, the unilateral trade policies undertaken by the Trump administration, and the U.S.-China trade war have put the WTO in a crisis situation in all three of its functions: providing a forum to negotiate new trade agreements, monitoring member economies' trade policies, and resolving trade disputes among members.

First, it is difficult for WTO members to reach agreements on new trade liberalization and rules and changes in member obligations because such agreements require full consensus among members. This was evident with the DDR negotiations, where the interests of developed and developing members collided, and, as a result, comprehensive agreements were not reached. The WTO has not been capable of providing an adequate response to the expansion of 21st-century global supply chains, which would require the reduction of not only tariffs, but also non-tariff barriers to trade, the liberalization and protection of foreign investment, the liberalization of supporting services (finance, legal, accountancy, logistics, etc.), the strengthening of competition policy and intellectual property rights (IPR) protection, new rule-making on e-commerce, and the harmonization of standards and regulations.

Second, many developing countries, including China and India, have not complied with notification and transparency obligations with regard to changes in government trade policies, including subsidies and regulations. Although the U.S., the EU, and Japan have called for rules that would punish members for not complying with their notification obligations, such rules will unlikely be agreed by all members given the opposition views expressed by a group of developing countries.

Third, the United States has criticized the function of the Appellate Body (AB), a standing body that hears appeals from reports issued by panels in disputes brought by WTO members, for its excessively interpretative decisions and overreach.[3] That is, the AB is claimed to have repeatedly exercised its authority beyond its original mandate by adding to or diminishing members' rights or obligations by reinterpreting WTO agreements. Also, the United States argues that treating AB reports as precedent is not consistent with the provisions of the Understanding on Rules and Procedures Governing the Settlement of Disputes (or the Dispute Settlement Understanding [DSU]). The Trump administration has blocked new appointments of judges to fill vacancies and refused the reappointment of judges after their terms, leaving the body with only one judge in December 2019. With a minimum of three judges required for it to function, the WTO became unable to fully resolve trade disputes among members.

In addition, the Trump administration has argued that the WTO has benefited China and other emerging economies while harming the interest of the U.S. The United States has been expressing concerns over non-market policies and practices adopted particularly by China and the issues of "developing country" status and special and differential (S&D) treatment for China and other large emerging economies. The United States, together with the EU and Japan, says that non-market-oriented policies and practices create unfair competitive advantages and undermine the proper functioning of international trade, and urges non-market economies such as China to move toward greater market openness and competition by reforming state-owned enterprises (SOEs) and eliminating state subsidies. The United States has also argued that entitlement to S&D treatment should not be granted to countries classified as "high income" by the World Bank, OECD members or its acceding members, G20 member countries, or any country accounting for 0.5 percent or more of world trade.[4]

WTO Director-General (DG) Roberto Azevedo announced in May 2020 that he would step down from his position effective at the end of August, a year before his second term ends. His early resignation comes at a time when the COVID-19 pandemic has pushed the global economy and trade downward in a way not seen since the Great Depression. It is unfortunate that trade ministers have to spend time selecting the next DG when they are required to focus on trade policy responses to the pandemic in addition to WTO reform agendas.

The U.S. agendas for WTO reform are ambitious and fundamental and would require members to agree on rules on non-market economy distortions, definitions of a “developing country,” higher compliance with notification and transparency obligations, and a more restrictive role for the AB for dispute resolution. Under consensus requirement, however, all of these fundamental reforms are not likely to be realized soon even though most members believe some reform is necessary.

The WHO

The WHO is a UN specialized agency that promotes global health and fights communicable and non-communicable diseases around the world. It is a health organization, but its function is highly intertwined with the economy as health can affect economic activity and performance, as is evident with the immense economic impact of the COVID-19 pandemic. It is co-ordinating the global fight against COVID-19. The WHO notified all member states of the outbreak on January 5, 2020, declared a Public Health Emergency of International Concern on January 30, and called the outbreak a pandemic on March 11.

In response to the rapid spread of COVID-19 in the United States, President Trump pledged in April 2020 to cut U.S. funding for the WHO while reviewing its role in “severely mismanaging and covering up the spread of the coronavirus.” He viewed the body and its DG Tedros Adhanom Ghebreyesus as being too trusting of China’s assertions that it had been transparent in handling the virus and put it under control. The president’s action was believed to be a temporary cut. But in May, he escalated his threats against the organization, saying he would permanently terminate all U.S. funding to the WHO and consider ending U.S. membership if it did not “commit to major substantive improvements in the next 30 days.” Then, in early July, the Trump administration informed the UN and Congress that the United States has officially started the process of withdrawing from the WHO, which would take effect a year later.

President Trump’s decision to leave the WHO follows his skepticism of international organizations in general that began well before the outbreak of COVID-19. He has questioned the value of U.S. funding to the organization, claiming it has been benefiting China and others while ripping off the United States. Since the virus outbreak in the United States, he has criticized the WHO for being too “China-centric” and failing to objectively assess the situation on the ground and to call out China’s lack of transparency. The president has argued that had the WHO done its job to get accurate information on human-to-human transmissions, to declare a public health emergency without delay, and send its medical experts earlier to China for objective assessment, the outbreak could have been contained at its source, with very little death in the United States and globally.

The Trump administration seems to have sought WHO reform in three areas. In the short run, the United States wanted Taiwan to be reinstated as an observer at the WHO. Taiwan was once allowed to attend WHO meetings and events as an observer (2009–2016) but was barred due to pressure from China when Margaret Chan, a Chinese-Canadian, was the head of the WHO. China resisted giving it back observer status, while the United States believed that the WHO's DG could decide to do so if he wished. Second, the United States wanted the WHO to be a neutral, independent, international organization. This implied that the DG of the organization should come from a country that was not too dependent on China economically and politically. Third, the United States wanted the WHO to mandate member countries to disclose information about outbreaks as soon as they occur. Although members are required to share information with the WHO in accordance with the International Health Regulations, there is no mechanism to enforce compliance. A U.S.-driven reform would introduce a credible enforcement mechanism and improve the WHO's capacity to respond to global health emergencies.

At the virtual World Health Assembly held in mid-May, member states, led by the EU and Australia and joined by China, the United States, and others, resolved to launch an "impartial, independent and comprehensive evaluation" of the WHO-co-ordinated response to COVID-19 "at the earliest appropriate moment." This was a welcome resolution and such an investigation should be made as soon as the pandemic is contained globally. World leaders and global health experts largely criticized President Trump's decision to leave the WHO, and Washington should seriously consider the implications of U.S. withdrawal. It would prove to be a blow to U.S. leadership in global health management and a great disadvantage to the United States, as its withdrawal would make the WHO more China-centric than before. Democratic presidential candidate Joe Biden said he would rejoin the WHO and restore U.S. leadership on global health on his first day as president.

Possible Solutions

As the weakest part of global economic governance is the multilateral trading system and the WTO that supports it, we first focus on WTO reform and then turn to the role of regional economic governance.

A Strategy Toward WTO Reform

Among the WTO reform agendas, the most urgent priority should be to restore an effectively functioning AB for dispute settlement. The United States has not agreed to simply return to the old-style AB and demanded the correction of substantive and procedural issues. The U.S. position is that no amendment to the DSU is necessary and that only the AB's adherence to the provisions of the DSU is needed without overreach, excessive interpretations, and treatment of its decisions as precedent. There may not be strong resistance on the part of other members in accepting the U.S. position and restarting the AB process. However, if any revision to the DSU is desirable to make the AB even more effective, the United States and all other members should consider possible changes.[5]

It will be more difficult for WTO members to come to consensus agreements on other contentious issues, such as new trade rules on non-market policies and practices, notification and transparency obligations, and "developing country" status and S&D treatment. Given the wide division between developed and developing members—not just between the United States and China—a long-term approach is advised to narrow the gap between the two. On the first issue, the United States and China should reach some bilateral agreements on the fundamental role of the WTO, that is, whether the institution should promote market economy, openness, and competition by helping to reduce members' anti-competitive policies and practices (including non-market ones such as state subsidies and SOEs). Wider membership can then discuss the appropriateness of such agreements and, if appropriate, introduce new trade disciplines governing them. On the second and third issues, developed and developing countries should begin discussions to move forward, recognizing the importance of S&D treatment for countries truly in need of it and in justifiable areas. Such discussions should include the role of technical assistance and capacity development programs to support developing countries, particularly low-income countries, in improving notification and transparency obligations and implementing agreed obligations.

While WTO reform discussions are held, members are encouraged to expand negotiations on issues-based plurilateral agreements under the WTO auspices. Plurilateral agreements can be an important tool for liberalization and rule-making among like-minded members given the requirement of consensus-based decision-making at the WTO and the difficulties of "single undertaking" principles that failed during the DDR negotiations. Such agreements allow a group of WTO members, including developing members, to address specific issues and areas responding to changing private-sector needs with flexibility and are implemented on an MFN-basis, benefiting non-signatories as well. So, they can be a step toward WTO-wide rule-making in the future, thereby supporting the multilateral trading system.

The most prominent examples are the Information Technology Agreement (ITA, July 1997; expanded in July 2014) and the Fourth and Fifth Protocols under the General Agreement on Trade in Services (GATS, 1998) on basic telecommunications and financial services, respectively. Other negotiations are also underway for the Environmental Goods Agreement (EGA), Trade in Services Agreement (TiSA), and more recently an agreement on e-commerce.

Regional Economic Governance

Regional economic governance can complement global economic governance, particularly when the latter is weakened. In the area of international macroeconomic policy co-operation, Asia has created the Chiang Mai Initiative Multilateralization (CMIM) and the ASEAN+3 Macroeconomic Research Office (AMRO), which are supported by ASEAN+3 finance ministers and central bank governors. In the area of development finance, Asia now has the ADB and AIIB. In the area of trade liberalization, Asia hosts two mega-regional FTAs—the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), which has yet to be signed and implemented—and has the vision to forge a Free Trade Area for the Asia Pacific among the Asia-Pacific Economic Cooperation (APEC) member economies.

These regional institutions and mechanisms can play critical roles when global institutions do not function well. If the IMF does not respond to the needs of Asian countries in the case of a liquidity shortage, the CMIM and AMRO can provide financial safety nets together with surveillance services. If the World Bank does not provide sufficient financial resources for Asia's development needs, the ADB and AIIB can fill the financing gap. The China-led AIIB, which started operations in January 2016, has been performing better than initially expected as it has avoided projects with low environmental and social standards and potential debt distress as it has been co-financing certain projects with the existing multilateral development banks, such as the World Bank and ADB.

As the WTO has become dysfunctional, Asia can rely on the CPTPP and RCEP for trade and investment liberalization and new rule-making to support expanding supply chains. At the same time, Asia is also exploring strengthening trade and investment ties with the EU and other parts of the world. To be effective, these regional arrangements need to be consistent with the WTO's agreements.

The WHO has six semi-autonomous regional offices globally. Each regional office focuses on health issues for members in the region while closely co-ordinating with headquarters. In this sense, the WHO maintains greater coherence and consistency across the globe than the Bretton Woods institutions. The organization may consider providing greater autonomy to regional offices; for example, the Regional Office for the Western Pacific, in which China and many East Asian countries are members, could have issued a public health emergency alert at the regional level at least one week or 10 days earlier than the announcement from headquarters.

Japan's Approach

Japan strongly supports the Bretton Woods institutions and the WTO-led multilateral trading system because the country has benefited enormously from a rules-based liberal international economic order. The country delivered productive outcomes at the Osaka G20 summit in June 2019. Japan adopts a two-track approach of supporting global co-operation and promoting regional arrangements. It now pushes forward the Free and Open Indo-Pacific (FOIP) vision to forge a rules-based, free, and open Indo-Pacific, which can have positive implications for global economic governance.

Osaka G20 Presidency

The Osaka G20 summit was a success assisted by several ministerial processes, particularly those by finance ministers and central bank governors, foreign affairs ministers, and trade and digital economy ministers, among others, which provided key inputs to the leaders.

On the trade and investment agenda, the leaders strove to realize a free, fair, non-discriminatory, transparent, predictable, and stable trade and investment environment, and to keep their markets open. In addition, they supported the necessary reform of the WTO and recognized the complementary roles of bilateral and regional free trade agreements that are WTO-consistent. On the innovation agenda for economic digitalization, the leaders declared that cross-border flow of data, information, ideas and knowledge would generate higher productivity, greater innovation, and improved sustainable development, while raising challenges related to privacy, data protection, IPR protection, and security, and recommended "data free flow with trust." The leaders also endorsed the "G20 Principles for Quality Infrastructure Investment" as their common strategic direction and high aspiration.

Support for Bretton Woods Institutions

Japan actively supports the IMF and the World Bank as their number two shareholder. Following the Lehman shock, Japan provided US$100B to the IMF—which had only US$200B available for lending—thereby inducing other member countries to provide similar additional funding. In response to the COVID-19 pandemic, in April 2020 Japan provided an additional US$100M to the IMF's Catastrophe Containment and Relief Trust as immediately available resources to support grant-based debt service relief for the poorest and most vulnerable countries, and also announced it would double its contribution to the Poverty Reduction and Growth Trust from the current SDR 3.6B, with the first SDR 1.8B immediately available.

While supporting these institutions, Japan has helped develop regional arrangements, such as the ADB for providing regional public goods and the CMIM and AMRO for improving regional financial stability. Japan, with the U.S., encourages the World Bank and ADB to work with the AIIB to encourage it to follow international standards on environmental and social safeguards, avoid economically non-viable projects, and maintain debt sustainability of borrowing countries. In addition, Japan promotes "quality infrastructure investment" and attempts to help improve the quality of the BRI through joint projects with China in third countries under the four conditions of openness, transparency, economic viability, and debt sustainability of borrowing countries.

Japan is an active defender of the WTO and works with the U.S., EU, and other like-minded countries on WTO reform to introduce and/or strengthen disciplines on IPR protection and non-market policies and practices, improve notification and transparency obligations, clarify "developing country" status, and restore an effective dispute settlement mechanism. Japan's view of dispute settlement is similar to that of the United States; that is, the AB should avoid overreach and delivery delay, considering its experience with dispute with the Republic of Korea, which imposed an import ban on fishery products after the Great East Japan Earthquake, tsunami, and nuclear power plant accidents.

Given the constrained role of the WTO, Japan has been engaged in negotiations for plurilateral agreements (GPA, ITA, EGA, TiSA, and more recently an agreement on e-commerce). Japan also uses regional trade arrangements such as the CPTPP, Japan-EU EPA, and RCEP to pursue trade and investment liberalization and set high-standard rules to complement the role of the WTO. Membership expansion for the CPTPP is an important agenda and the UK is a promising candidate for this, once a Japan-UK EPA is agreed. On the basis of agreements embedded in RCEP, Japan is trying to achieve a high-standard China-Japan-ROK (CJK) FTA, which if successful would open the door to discussions of China's possible participation in the CPTPP.

Promotion of a Free and Open Indo-Pacific

Japan's FOIP vision is now shared by the United States, Australia, India, and ASEAN and has attracted the interest of Canada, France, the UK, and other countries. The FOIP vision includes both security and economic pillars. The economic pillar includes trade and investment as well as infrastructure connectivity, and it should also address sustainable economic development. The RCEP and CPTPP are key arrangements for trade and investment, and participation by India and the United States in the respective arrangements would strengthen the initiative. High-quality infrastructure connectivity in transport, energy, and digital sectors, guided by the G20 Principles for Quality Infrastructure Investment, is another important area, and Japan co-operates with the United States, Australia, and more recently the EU.

Conclusion

The global structural shift, that is, the relative decline in the United States and other advanced economies and the rapid rise of China and other emerging and developing economies, will continue in the decades to come. This means that global economic governance must accommodate such a structural shift if it is to be sustained for a long time. Even though China will become the number one economy in the world in around 2030, the United States can still preserve its global leadership and security by closely co-operating with the EU, Japan, the UK, Australia, Canada, and other like-minded democracies. By uniting democracies and retaining a rules-based liberal economic order, the United States would be able to deter China's ambition (if any) to challenge and replace it as the next global hegemon. Thus, the United States' return to multilateralism and international co-operation is essential to global peace and stability. Then the United States and its friends can craft a strategy of how to get China and other emerging and developing economies involved more deeply in the existing international order. Their challenge is to design a framework to accommodate the global structural shift, allow coexistence of different systems, and induce convergence toward a rules-based market economy, openness, and transparency.

To retain a rules-based, liberal, multilateral economic order, global forums (such as the G7 and G20) and Bretton Woods institutions need to be more effective. The G7 and G20 are not as unified as before, and require the revived leadership of the United States and other major economies. The IMF and the World Bank function well assisting developing countries affected by COVID-19, although more efforts will be needed. The international community faces the grave task of reforming the WTO and putting it back on the centre stage of global rule-making for 21st-century trade and investment. Supporting the WHO in fighting the pandemic is also critical, although investigation of its effectiveness in responding to COVID-

19 will have to be conducted with a view to improving the global capacity for pandemic prevention, preparedness, and response.

At the same time, making regional arrangements effective is another challenge in reinforcing global economic governance. Implementing high-standard FTAs, such as the CPTPP, Japan-EU EPA, and a prospective Japan-UK EPA, would help preserve a liberal trading system given the constrained role of the WTO today. Japan's approach of promoting the FOIP vision and encouraging domestic and external reforms in China through a high-quality BRI and a high-standard CJK FTA would contribute to stronger global economic governance.

Notes

[1] This is a revised version of the paper prepared for the International Workshop, “Japan’s Leadership in the Liberal International Order,” organized by the Centre for Japanese Research (and SPPGA and IAR), University of British Columbia, held in Vancouver on January 24–25, 2020.

[2] U.S. National Security Council, *United States Strategic Approach to the People’s Republic of China* (May 20, 2020), https://www.whitehouse.gov/wp-content/uploads/2020/05/U.S.-Strategic-Approach-to-The-Peoples-Republic-of-China-Report-5.20.20.pdf.

[3] The Office of the United States Trade Representative, *2020 Trade Policy Agenda and 2019 Annual Report* (February 2020), https://ustr.gov/sites/default/files/2020_Trade_Policy_Agenda_and_2019_Annual_Report.pdf.

[4] See WTO communication, WT/GC/W/764/Rev.1 (November 25, 2019).

[5] A draft decision paper, WT/GC/W/791, circulated at the WTO in November 2019 by Ambassador David Walker of New Zealand, who is the Facilitator of the Informal Process on Matters Related to the Functioning of the Appellate Body, was a good starting point for agreement but was reportedly rejected by the United States.