

R oundtable on “Is It Possible to Strengthen the Supply Chains?” (on May 30, 2025)

By Japan SPOTLIGHT

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Participants



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Abstracts of Discussion

China's Overproduction & Economic Coercion

China's large-scale industrial policies have led to market-distorting overproduction, harming smaller economies through surges in exports. Experts argue this could violate World Trade Organization (WTO) principles and call for international rules that regulate scale-based power and prevent economic coercion. Emphasis is placed on sharing those rules on economies of scale through trade agreements and enhancing cooperation among like-minded countries. Economic Partnership Agreements (EPAs) and Free Trade Agreements (FTAs) should maintain high standards while supporting economic security through diversification, particularly with the Global South. Responding to coercive tactics, including in disputes like Japan's seafood exports to China, requires a rules-based framework and coordinated actions among allies and trade partners.

Trump Administration's Tariff Hike Offensive

US President Donald Trump's tariffs, violating WTO rules, threaten industries around the world. Experts recommend a dual-track response: pursuing bilateral negotiations while preserving the option to appeal to the WTO, despite the United States not being a member of the Multi-Party Interim Appeal Arbitration Arrangement (MPIA). Multilateral platforms, such as the Asia-Pacific Economic Cooperation (APEC) forum, the Group of Seven (G7), and the Group of Twenty (G20), should share global concern, even without binding force. Economists stress that the US political shift reflects broad dissatisfaction with globalization, not just Trump's agenda. The solution lies in collaboration between academia and policy makers and rule reform, not isolationism or tariffs, to address both domestic inequality and international market failures constructively.

Can Japan Become a Champion of Rules-Based Free Trade?

With US leadership seemingly in decline, Japan is expected to take a leading role in promoting free, rules-based trade. Leveraging frameworks such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), and the MPIA, Japan can expand high-standard FTAs, especially with Mercosur, Gulf states, etc. and in addition to the European Union. Experts stress the importance of supporting countries like Indonesia and South Korea in joining the CPTPP, while

ensuring adherence to digital, investment, and environmental standards. Political initiative is necessary to establish new international rules when WTO mechanisms are ineffective. Cooperation with the EU and mid-sized powers such as Australia is critical for Japan to help shape global trade norms.

Physical Risks & Cyber Risks

Cyber threats pose increasing risks to national security and supply chains. Experts emphasize the need for stronger legal frameworks, advanced encryption technologies, and international rulemaking, including engagement with China. Cyberattacks on infrastructure, data theft, and election interference illustrate the urgency. Responses include deepening public-private collaboration, international cooperation, and cybersecurity training. While values may differ across nations, establishing minimum digital norms is vital. Protecting against coercion and disorderly data access requires both technical self-defense and multilateral rules to ensure a stable, secure digital economy.

Introduction – Risks Surrounding Supply Chains

Toyoda: The supply chains that are critical to manufacturing in Japan are currently facing significant disruption due to various factors. These include geopolitical risks, such as the restrictions on rare earth exports from China that began with the territorial dispute between Japan and China in 2010, and physical risks, such as the supply constraints on essential medical supplies and semiconductors caused by the novel coronavirus that persisted for several years starting in 2020. And in 2022, a ransomware attack on a certain automobile company forced all factory lines in Japan to shut down for an entire day, illustrating the risks posed by cyberattacks.

Geopolitical risks continue to persist, with the Russia-Ukraine war that began in 2022 and the Israel-Gaza conflict that erupted in 2023 still ongoing. Currently, the world is in turmoil due to the high tariff policy implemented by the administration of President Donald Trump, who took office in January 2025, and the retaliatory tariffs imposed by some countries in response. The Russia-Ukraine war began with Russia's invasion of Ukraine, which is clearly a violation of the United Nations Charter, and Trump's high-tariff policy is a violation of the WTO. However, neither the UN nor the WTO has been able to stop this.

In addition to physical and cyber risks, the escalating geopolitical risks in recent years seem to signal the clear end of the postwar *Pax Americana* led by the US. There is no time to lament. We must pool our wisdom to strengthen supply chains, not only for Japan's development but also for the growth of the global economy.

Today, we have gathered three experts to discuss geopolitical risks. First is Prof. Mariko Watanabe of Gakushuin University, who is knowledgeable about China and the WTO; second is Kiyotaka Morita, director of international affairs at Keidanren (Japan Business Federation); and third is Prof. Emeritus Shujiro Urata of Waseda University, who served as chair of our Supply Chain Resilience Study

Group.

I would like to discuss four main points. First, despite the intensifying US-China rivalry, China's overproduction and economic coercion sometimes cause a chill in Japan-China relations. How should we respond from the perspective of strengthening supply chains? Second, the Trump administration's tariff hike offensive is causing turmoil not only in US-China relations but also in relations with allies, including Japan. How should we respond? Third, the US that contributed so much to the stabilization of the postwar international order seems no longer to exist. Can Japan, which advocates rules-based free trade, become a champion of free trade? Fourth, from the perspective of supply chain resilience, in addition to geopolitical risks there are physical risks and cyber risks. I would appreciate it if you could select one risk that should not be overlooked from these two categories and discuss countermeasures.

China's Overproduction & Economic Coercion

Toyoda: First, I would like to ask Prof. Watanabe for her thoughts on the problem of overproduction caused by China's industrial policy. If the US-China rivalry results in a decline in Chinese exports to the US, Asian countries, including Japan, may suffer even more from the flood of cheap products resulting from China's overproduction. Prof. Watanabe, you have long argued that China's industrial policy requires regulations on scale and international agreements, so could you please elaborate on why this is necessary?

Watanabe: Effectively utilizing scale to improve efficiency is an excellent economic strategy, it would be unreasonable to criticize China's vigorous efforts in this area. However, concerns arise when economies of scale, achievable only by countries with large populations and extensive territories, become monopolized. When such countries leverage their price competitiveness aggressively in international markets, it disproportionately burdens smaller nations, raising fairness concerns.

“In particular, exporting surplus production abroad, resulting from intense domestic competition that leads to domestic losses, signifies a disruption of market mechanisms – essentially constituting a market failure. Therefore, it is necessary to establish appropriate regulatory frameworks to address this issue. In such cases, investigating subsidies as the cause is unnecessary; the mere existence of significant market share at a given production scale inherently confers power and warrants corresponding regulation.”

In domestic economies, competition laws typically recognize that engaging in loss-making production to drive out rivals constitutes an illegal practice. This reflects a shared understanding across many jurisdictions regarding the principles of fair competition. I believe it is time for such principles to be integrated into international trade rules as well.

Second, the abuse of economic scale as an instrument of political coercion directly contradicts the founding principles and institutional structure of the WTO. It is therefore imperative to establish proper disciplines to address such behavior. While there may not be a single, comprehensive solution at present, the international community must address these challenges incrementally, on a case-by-case basis.

As a starting point, if deficit-driven exports are taking place, they should be prohibited outright. Under the current WTO framework, it is difficult to regulate such practices unless subsidies are explicitly involved. However, when excessive production at the domestic level is systematically offloaded into foreign markets, there must be clear rules in place to manage such distortions.

Furthermore, economic coercion that results from converting scale into political power should be explicitly subject to regulatory oversight. Once such disciplines are established, it will be equally important to promote mechanisms – such as FTAs – that enable the shared use of scale economies across countries.

For example, following the semiconductor trade conflict between Japan and the US, the WTO’s Information Technology Agreement (ITA) was introduced. This agreement mandated tariff elimination on IT products among its signatories, facilitating the creation of robust global value chains. As a result, economies of scale in the IT sector have been shared globally, enabling countries both large and small to benefit from and participate in the industry’s growth.

In sectors where multilateral cooperation has enabled the sharing of scale-related benefits, economic frictions have largely been avoided. While certain technical constraints and sector-specific features must be considered, I believe this cooperative, rules-based approach offers the clearest path forward.

Toyota: Next, I would like to ask Mr. Morita. You have stated that values such as freedom and democracy should not be included in the

conditions for concluding EPAs/FTAs, but at the same time you have also said that cooperation among like-minded countries that share values is effective in achieving specific objectives, such as responding to economic coercion. Could you elaborate on this point? Regarding economic coercion, do you mean that special provisions should be included in EPAs/FTAs?

Morita: First, when considering the conclusion of an EPA/FTA, it is important to build cooperation beyond like-minded countries. As the chair of the G7 Hiroshima Summit in 2023, Japan proposed transparency, diversification, security, sustainability, trustworthiness and reliability as principles essential for building a robust global supply chain, which were adopted as the “G7 Leaders’ Statement on Economic Resilience and Economic Security”. Among these, “trustworthiness and reliability” in particular are not based on like-mindedness such as freedom and democracy, but rather on how well each party can adhere to the rules.

Given the current situation where companies are globalizing and supply chains are spread worldwide, it is important to promote free trade and investment based on rules, overcoming differing values. While like-mindedness is indeed important, I do not think enclosing access to critical materials among countries that share the same values would be the optimal solution in achieving energy, resource, or food security. In this unstable international environment, we must recognize the risks of excessive dependence on like-minded countries or allies. Rather, diversifying supply sources through free trade and investment, is the key to ensuring economic security.

As you mentioned, I believe that EPAs/FTAs are crucial for diversifying trade and investment. Of course, the WTO, which comprises 166 countries and regions with diverse values, remains important for promoting multilateral free trade. However, regrettably, the WTO is not currently functioning effectively, and achieving consensus among 166 countries is a challenging reality. In such circumstances, I believe conclusion and utilization of EPAs/FTAs is the most practical approach. EPAs/FTAs with the Global South are particularly important from the perspective of achieving free trade and investment alongside economic security.

However, does this mean that we should merely increase the number of EPA/FTA partner countries? Not necessarily. If we conclude agreements but fail to achieve high standards, this could affect other EPA negotiations. This may also dampen motivation for free trade. For example, discussions are currently underway to expand the CPTPP. Several countries/regions have already applied to join, and Indonesia is one of them. As a resource-rich country with significant trade volume with Japan, Indonesia’s accession to the CPTPP is very much appreciated. But it is essential to at least maintain the original standards of the CPTPP. This includes the

liberalization of “substantially all trade” as well as the removal of foreign investment restrictions and the prohibition of local content requirements in the investment sector. Additionally, the removal of export restrictions on energy and natural resources is also necessary.

Next, I would like to address the issue of economic coercion. While the definition of economic coercion is not clear, when countries in geopolitical opposition restrict trade and investment, this not only undermines free trade but also poses a threat to national security. It is necessary to coordinate responses to such actions, and in this regard I believe that cooperation with like-minded countries is important. This issue was also discussed at the G7 Hiroshima Summit in 2023, where it was agreed to establish an “Coordination Platform on Economic Coercion” and to promote cooperation with partners beyond the G7. I believe it is important to materialize these initiatives moving forward.

Discussions on the general review of the CPTPP are now under way. Among these discussions, there is a plan to further explore measures to address economic coercion. If one CPTPP member country is subject to coercion by a specific country, such as having the supply of goods halted, one possible approach could be for the CPTPP member countries to collaborate to provide the necessary goods to the affected country. Alternatively, if a member country is unable to export their goods to a specific country, CPTPP member countries could volunteer to purchase those goods from the affected country.

Furthermore, although this may not necessarily be related to EPAs/FTAs, it is also important to consider what is necessary to avoid economic coercion. For example, by collaborating with like-minded countries to maintain technological superiority over countries that have the potential to exert economic coercion, coercive behavior can be prevented before it occurs.

Toyoda: Prof. Urata, I would like to ask you about the handling of treated water from the Fukushima nuclear power plant. China agreed in September 2024 to resume imports of Japanese seafood products that meet its own food safety standards, but it has yet to approve imports of seafood from Japan. Other countries are not discriminating against Japan. Many argue that there is a strong risk of violating WTO rules in this Chinese policy, but why doesn't Japan file a complaint with the WTO? China is a member of the MPIA, so even if there is no appellate body at this moment, wouldn't it be sufficient to await the MPIA's decision if Japan wins in the WTO panel?

Urata: I agree with your opinion that, given other countries are allowing imports, China's decision to completely ban imports of

seafood from Japan over the issue of treated water from the Fukushima nuclear power plant is likely to be in violation of WTO rules. In response to the release of treated water from the Fukushima Daiichi Nuclear Power Plant into the ocean, China announced in August 2023 a complete ban on imports of Japanese seafood products. This measure was taken by China despite the Japanese government's release of the water in strict accordance with International Atomic Energy Agency (IAEA) standards, including rigorous management of tritium concentrations, citing “safety concerns”.

On the other hand, many countries, including the US, the EU member states, Australia, and South Korea, have determined that Japan's plan to release treated water is “scientifically sound” based on the IAEA's assessment and have eased or lifted import restrictions. In this context, China's continued imposition of a complete ban is likely to violate the WTO agreement.

Therefore, I think the Japanese government should file a complaint against China under the WTO's dispute settlement mechanism. Indeed, while the Appellate Body of the WTO (the final review body) is currently suspended, making a ruling unlikely, both Japan and China have joined the MPIA, an alternative mechanism to the Appellate Body, so it is possible to refer the matter to that body for a ruling. In fact, based on past experience, China has generally respected WTO rulings.

However, I believe the Japanese government has not filed a lawsuit against China due to diplomatic considerations regarding bilateral relations. Filing a lawsuit with the WTO would be seen as a clear countervailing action against China, and the Japanese government is likely concerned about the risk of the adverse effects of this action on other areas such as the economy and national security. So it is reasonable to assume that the Japanese government is first seeking a resolution through dialogue.

Additionally, while this is a different issue from the current treated water dispute, Japan's previous experience of losing a WTO case against South Korea over import restrictions on Japanese seafood following the 2011 Fukushima Daiichi nuclear disaster may also be a factor contributing to Japan's caution in this matter. In this case, Japan won the initial ruling (panel decision) at the WTO, but South Korea won the appeal at the Appellate Body. This was because the legitimacy of the regulations was assessed not only based on “scientific safety” but also on “consumer concerns” and “public sentiment”, which were recognized to some extent. The Japanese government may be mindful of this precedent.

Trump Administration's Tariff Hike Offensive

Toyoda: Let's move on to the second topic. This is about the Trump administration's tariff hike offensive. I would like to hear your thoughts, Mr. Morita. These tariff hikes have caused turmoil in the industrial sector. While Japan and the US appear to be prioritizing their bilateral relations, is there a possibility that Japan might be treated as an exception? Given the high likelihood of WTO violations, if negotiations fail to lead to tariff removal, should Japan not file a complaint with the WTO while also coordinating with the G7 and G20 to negotiate with the US to avoid a futile appeal? How does the industrial sector view the current situation?

Morita: The Trump tariff is currently set at a flat rate of 10%, but there are concerns that when the 90-day grace period ends on July 9 and the planned 24% reciprocal tariff is imposed on Japan, this will have a significant impact on our business. As pointed out, this US measure violates WTO rules. Under the Most-Favored-Nation (MFN) principle of the WTO, tariffs must be applied equally to all the WTO members. Therefore, the concept of reciprocal tariffs itself is outrageous and finds no place under the WTO framework. You cannot even think of imposing a 24% tariff on Japan, 10% on Singapore, and 145% on China for like products under the WTO.

First and foremost, Japan's national interests are important, and Minister Ryosei Akazawa is currently working hard, so we should first convince the US through bilateral negotiations that the reciprocal tariff must be withdrawn. Meanwhile, the option of having recourse to the WTO Dispute Settlement should not be ruled out. Since the US has not joined the MPIA, it can "appeal into the void". Nevertheless, it is worthwhile bringing this case to the WTO and having the Panel Report addressing this issue published. In doing so, it is important to collaborate with the international community such as the G7 and G20.

Toyoda: Prof. Urata, you also emphasized the role of APEC, so I would like to hear your thoughts on that as well. Can APEC serve as an effective forum for resolving issues? What about the OECD, G7, and G20?

Urata: APEC is a forum that voluntarily promotes economic cooperation and trade liberalization based on agreements among member economies, and it does not have legally binding rules or dispute resolution mechanisms. Therefore, it does not function as a "legal countermeasure" against unilateral tariff measures such as those taken by Trump.

In fact, during the first Trump administration in 2018, the APEC

Leaders Meeting held in Papua New Guinea saw escalating tensions between the US and China over free trade, having resulted in the unprecedented situation where the Leaders Declaration was not adopted for the first time in APEC history. Instead, Peter O'Neill, prime minister of Papua New Guinea, the host economy, issued a "Chair's Statement" that clearly expressed concerns about protectionism and unilateral trade measures, and emphasized the importance of a free and open trading system. While that statement does not have legal binding force, it reflects the views of the majority of APEC member economies and clearly expresses concerns over unilateral trade measures by specific economies. In this sense, it holds significant weight as an outcome of consultations among member economies.

In other frameworks such as the OECD, G7, and G20, it is difficult for the organizations as a whole to issue statements condemning the unilateral measures of the US or take countermeasures, as the US itself is a participating country. But I think it is very important to record the concerns of many countries other than the US within international frameworks such as APEC, OECD, G7, and G20 as an expression of international opinion.

Toyoda: Prof. Watanabe, as an economist and an expert on the WTO, how do you view the current situation? Some believe that stagflation will affect the US and that MAGA ("Make America Great Again") will not happen. What are your thoughts on this?

Watanabe: From a political economy perspective, I believe it is important to recognize that the current course of action, when viewed from within American society, possesses a certain internal logic. Specifically, when Trump speaks of restoring the American middle class and securing its interests – alongside the broader goals of reducing domestic inequality and ensuring equal opportunity – these are not merely personal views. Rather, they reflect a collective choice emerging from within American society. This is not about Trump's personal preferences, but a political position that a substantial portion of the American public may legitimately support.

Although much of today's media coverage focuses on Trump's individual performance and rhetorical style, behind this visible front lies a broader political movement focused on the post-Trump era – one that emphasizes middle-class renewal and community reconstruction. Figures such as Vice President J. D. Vance and Secretary of State Marco Rubio appear to be key proponents of this agenda, suggesting a more structured political base.

Moreover, if we consider the fate of those who lost jobs in deindustrialized regions such as the Rust Belt, many have found employment in the US military. These individuals now form a significant segment of the population supporting America's defense

institutions.

Against this backdrop, the current sentiment – expressed by many Americans – that they are “exhausted by globalization” should be taken seriously. While many of Trump’s actions may appear irrational or performative, the underlying political current reflects a desire to pause, reassess, and reconstruct the foundations of globalization. I believe this desire should be engaged with directly and constructively.

In this context, the action by academics may not work as supposed in light of the deep political divisions in the US. The ideological split between American academia and Trump-era politics is stark. Rather than pursuing political action in opposition, scholars should return to their primary role: generating ideas and proposing reforms that address the underlying structural issues within American society. In particular, it is incumbent upon academics and policy researchers from Europe and Japan to collaborate and offer constructive proposals for how international rules might be revised to respond to these challenges. This, I believe, is the more appropriate and effective path forward.

Toyoda: I would like to add something related to that. I understand that we need to save the losers of free trade, but I feel this is something the US government should do. For example, Japan’s agriculture faces similar problems, and I think there are various things the Japanese government could do, such as providing subsidies, but do you still think this is something that should be done internationally?

Watanabe: This is precisely where the issue of scale comes into play. China has implemented industrial policies, and in fact other Asian countries have done the same, to nurture their own industries. As a result, both developing countries and China are reaping the benefits. Under the current rules, there is no robust filter in place to prevent advanced countries’ competitors from being forced out of business. While the US also faces the issue of addressing domestic inequality, there is also a clear “international market failure” at play. In economics, the wisdom is that market failures should be addressed through rules, not tariffs or prices. Therefore, I believe we should work toward establishing rules that address this issue.

Toyoda: So rather than doing nothing or imposing tariffs, you are arguing that the issue should be dealt with through rules. I understand.

Can Japan Become a Champion of Rules-Based Free Trade?

Toyoda: I would like to move on to the third question. Can Japan become a leader in rules-based free trade, although it seems China is proclaiming itself as the champion of free trade? I would like to first ask Prof. Urata for his opinion from his perspective. The era of the US as the standard-bearer for maintaining the international order has come to an end. There are many voices calling for Japan to take on this role. What are your thoughts on this? Based on the CPTPP, should we seek to expand the number of participating countries, quickly invite the EU to join, or conclude cooperation agreements to build a larger rules-based world? Prof. Urata, what are your thoughts on this?

Urata: In response to the Great Depression of the 1930s, countries raised tariffs and adopted discriminatory trade policies that favored their colonies in order to protect their own economies. This led to a contraction in world trade and a major downturn in the global economy, which some believe was one of the triggers for World War II. In response to these lessons, the General Agreement on Tariffs and Trade (GATT) was signed in 1947, establishing an international trade system based on the principle of free and non-discriminatory trade.

Until it was replaced by the WTO in 1995, GATT played a central role in the international trade system. The multilateral trade negotiations conducted under GATT significantly reduced tariffs among countries, contributing greatly to the expansion of world trade and the high growth of the global economy. Of course, Japan was one of the countries that benefited greatly from this. It is clear that a rules-based, free, open, and stable global trade regime plays a crucial role in the growth of global trade and the global economy.

With the establishment of the WTO, the foundation of the trade system has been further strengthened, and its scope has expanded beyond trade in goods to include trade in services, intellectual property rights, and others. The dispute settlement system has also been improved. However, it cannot be said that the WTO is fully achieving the expected outcomes – the establishment of trade rules, the promotion of liberalization, and the strengthening of dispute settlement functions.

For example, the Doha Round, the first multilateral trade negotiation under the WTO, stalled due to disagreements among member countries and made little progress despite its launch in 2001. Furthermore, the dispute settlement function has also faced serious issues, with the Appellate Body totally paralyzed due to a shortage of members.

Now, under the second Trump administration, unilateral measures

such as the introduction of reciprocal tariffs, which violate the WTO's fundamental principles of "market openness" and "non-discrimination", have placed the WTO in a crisis situation. Underlying this dysfunction is the WTO's decision-making method of "unanimous consent". Currently, the WTO has 166 member countries and regions, and achieving unanimous consent is extremely difficult given the significant differences in their stages of economic development and industrial structures.

In light of this situation, and given the difficulty of reaching agreement within the WTO as a whole, there has been increased activity to establish frameworks for cooperation among countries that share the same values. With regard to the establishment of trade rules and liberalization, regional trade agreements (RTAs) and plurilateral agreements (PAs) are being promoted, and the MPIA was established for dispute settlement.

RTAs include FTAs and "customs unions" (CUs). Both eliminate tariffs between member countries and fully open their markets to imports from other member countries. However, under FTAs, each country can maintain its own tariff system for imports from non-member countries, whereas under CUs all member countries apply a common tariff rate. Approximately 90% of RTAs notified to the GATT/WTO are FTAs, and in the Asia-Pacific region almost all are FTAs.

Japan currently has 21 FTAs in effect or signed with 24 countries and regions, and trade with these countries accounts for approximately 80% of Japan's total trade. Among these, the CPTPP and RCEP have made significant contributions to the establishment of international trade rules.

The Trans-Pacific Partnership (TPP) was negotiated and concluded under the leadership of the US, with some APEC economies as members. But it did not come into effect after the US withdrew under Trump. Japan then took the lead in renegotiating with remaining members such as Australia and Singapore, resulting in the CPTPP, which did come into effect. The United Kingdom has also joined the agreement. This agreement covers a wide range of areas, including investment, intellectual property, e-commerce, state-owned enterprises, labor, and the environment, and is characterized by a high level of liberalization. Regarding tariffs, the agreement requires that basically all tariffs on imports from all member countries be eliminated after a certain period of time.

On the other hand, the RCEP is an FTA involving 15 countries, namely the 10 ASEAN countries, Japan, China, South Korea, Australia, and New Zealand. India also participated in the negotiations but withdrew at the final stage. The RCEP member countries account for approximately 30% of the world's population, GDP, and trade, forming a massive framework. However, compared to the CPTPP, there are challenges in terms of the scope of coverage

and the degree of liberalization, and upgrades are required in the future.

While RTAs establish comprehensive rules among a relatively small number of members, PAs are concluded when many countries share an interest in specific themes. In 2017, like-minded WTO member countries launched the Joint Statement Initiative (JSI). This initiative is open to all WTO member countries, and currently about 100 countries are participating in JSIs focused on themes such as e-commerce, investment facilitation, domestic regulation of services, and support for small and medium-sized enterprises. These initiatives would evolve into PAs if the negotiations are successfully concluded.

Furthermore, amid the dysfunction of the WTO dispute settlement system, the EU, Canada, Australia, and other countries established the MPIA in 2020. Under this framework, it has been agreed that disputes between member countries will be resolved through arbitration. Currently, 56 countries, including Japan and China, have joined the MPIA, but the US and South Korea have not.

Going forward, Japan is expected to play a leading role in rebuilding a free, open, and stable trade regime based on trade rules through the promotion of FTAs, particularly the expansion and upgrading of the CPTPP and RCEP, the promotion of PAs, and the utilization of the MPIA and the expansion of participating countries. In doing so, cooperation with middle-power countries such as the EU member states, Australia, South Korea, and Indonesia will be important.

Toyoda: I would like to ask Prof. Watanabe about the issue mentioned earlier regarding the international rules on scale economy in China's industrial policy. Given the significant risk of the US violating WTO rules through unilateral tariff impositions, what should be done when the WTO is dysfunctional? Would it be appropriate to address the issue at the G7 or G20? The question is how to establish new regulations in the absence of a functioning WTO.

Watanabe: When existing rules cease to function effectively, political initiative becomes the only viable option. In this regard, the most effective initiative may, in fact, come from the G7. The G20, by contrast, may be too large and diverse to serve as a forum for developing new rules. Moreover, with the US and China themselves being the primary parties to the current conflict, it is difficult to expect either of them to take the lead in creating new frameworks.

That being the case, responsibility will likely fall to countries that are neither directly involved in the confrontation nor lacking the analytical and institutional capacity to design and propose effective rules. In this respect, European nations, Japan, Australia, and Canada are best positioned to assume this role.

These countries, therefore, have a responsibility – not only to pursue their own national interests, but also to contribute constructively to the development of a fairer international rules-based order. They must engage in the difficult task of devising proposals and bringing both the US and China to the negotiating table. If Japan does not take on this responsibility, no one else will. Even if it seems daunting, I believe this is a task that must be undertaken.

Toyoda: I understand. Now, Mr. Morita, I understand that Keidanren's view is to overcome geopolitical risks by concluding various FTAs and RTAs. While the US is in turmoil, what are your thoughts on prioritizing the conclusion of FTAs and RTAs with, for example, Mercosur, the Gulf countries, and Africa?

Morita: First, regarding whether Japan can become a champion of free trade, as Prof. Watanabe said, Japan must become the champion. To do so, the CPTPP is an important tool. After the US withdrew from the TPP, Japan took the lead in negotiations, and the CPTPP is truly Japan's diplomatic asset. Therefore, I believe that striving to enhance the quality of the CPTPP and expand its membership is essential for Japan to become a leader in free trade. Earlier, I mentioned Indonesia's accession. In addition, although they have not yet expressed interest, we anticipate the accession of South Korea, our neighbor. The business community of Thailand also hopes to join the CPTPP. It is important for us to support these countries in their efforts to join the CPTPP at a high level.

I also believe that concluding EPAs with Mercosur and the Gulf Cooperation Council (GCC) countries is important. As is clear from looking at a world map, Mercosur and the GCC countries are currently blank spots on Japan's EPA/FTA map, and it is important to fill in those blanks.

First, regarding Mercosur, cooperation is important from the perspective of food security and securing supply of mineral resources such as iron ore. From the perspective of promoting investment in mineral resource development and agriculture, I believe that liberalization and protection of investment through an EPA is necessary. Brazil, in particular, has many restrictions in the investment area, such as foreign investment ceilings, local content requirements, and remittance regulations. By eliminating these barriers through the future EPA, I think investment from Japan to Brazil will increase. For example, Japanese companies could invest in the agricultural sector or related infrastructure in Brazil and then produce biofuels from soybeans or sugarcane in Brazil. This would also contribute to the spread of hybrid vehicles, which Japan excels in. Not only trade and investment, but also cooperation in the green transition can be enhanced in this manner.

The GCC countries are important for Japan from the perspective of securing supply of energy resources. On the other hand, the GCC countries are prioritizing attracting investment from the viewpoint of reducing their dependence on oil. Therefore, I believe concluding a Japan-GCC FTA opens the door to investment opportunities in those countries, in sectors such as green and digital. The GCC countries have already concluded an FTA with South Korea. It is important for Japan not to fall too far behind.

Last but not least, Africa. Given its relative distance from Japan and the fact that the business environment is still not ideal, I think it is more important to first conclude investment agreements with core countries rather than immediately pursuing EPAs/FTAs. Currently, Japan is engaged in investment agreement negotiations with African countries such as Ethiopia, Tanzania, Nigeria, and Senegal, and those should be concluded. If we were to conclude an EPA/FTA, potential candidate countries would include South Africa, where Japanese companies have a strong presence, and Morocco, which has good access to Europe. Negotiations should be initiated soon.

Toyoda: I agree with you that the CPTPP is Japan's diplomatic legacy. Regarding how to proceed, when it comes to making specific statements to China and the US, it may be difficult for Japan to get them to listen if we were to speak alone. Rather, we should work as a team and get the EU to cooperate with the CPTPP in some form, so that we can form a large bloc and persuade China, which is trying to join, to meet the membership requirements. While the US has not yet stated its intention to join, creating something so attractive that it cannot afford not to join – expanding the CPTPP as a diplomatic legacy – seems like a realistic approach. What are your thoughts on this point?

Morita: Cooperation with the EU is absolutely essential. Until now, it seemed that the EU did not have much appetite towards involvement in the CPTPP, but it has recently shown considerable interest. European Commission President Ursula von der Leyen has clearly mentioned cooperation with the CPTPP, and among EU member states, I understand Denmark is quite enthusiastic. I think the chance is too good to lose.

However, when it comes to actual cooperation, we may face some challenges, because there are some differences in approach between CPTPP members and the EU. In the digital sector, for example, while the CPTPP emphasizes "Data Free Flow with Trust" (DFFT), the EU places greater emphasis on the protection of personal data under the General Data Protection Regulation (GDPR). Regarding investment, the CPTPP upholds the principle of free investment and provides Investor-State Dispute Settlement (ISDS) for investment dispute resolution. In contrast, while the EU also supports free investment, it

appears to place greater emphasis on investment screening, likely influenced by China and Russia. Furthermore, the EU is against the introduction of ISDS. Those differences in approach will inevitably emerge, however, both the CPTPP members and the EU share the goal of promoting free trade and investment, and therefore we must not miss this opportunity and should envisage working together.

Physical Risks & Cyber Risks

Toyoda: I would like to move on to the final question. It concerns physical risks and cyber risks, which both also pose serious risks to the supply chain. Could each of you select one risk that you believe should not be overlooked and share your thoughts on it? I would also appreciate it if you could discuss countermeasures. Let's start with Prof. Watanabe.

Watanabe: Although I am not a specialist in either area in the strict sense, and I am somewhat uncertain as to how constructively I can contribute, it is clear that rules governing the digital domain – including cyberattacks – are still under development in virtually every country.

The question of how far to allow the free flow of data, and how to balance that with the protection of individual privacy, remains a matter of ongoing exploration and debate worldwide. In this context, it is essential to engage in proactive discussions, including how to regulate and deter deliberate criminal acts such as cyberattacks.

In doing so, it will be crucial to ensure that China is fully included in these negotiations. China itself is in the process of developing its own digital governance framework, and there has been increasing public demand within China for the protection of personal data, resulting in some institutional progress on that front.

These shared concerns provide an opportunity for alignment. By identifying areas of mutual interest and compromise, it should be possible to establish rules that can both accommodate differing domestic systems and prevent politically motivated coercive behavior in the digital realm. Rule-making, in this sense, can serve as a foundation for constructive communication and confidence-building among key actors.

Toyoda: How about Mr. Morita?

Morita: I would like to focus on cyber risks. Let's suppose a case in which a national information authorities gain direct access to servers located in another country through cyberspace and obtain information. If the authorities of one country infiltrate the servers of another country and completely extract the data stored there, or destroy that data, this constitutes a violation of national sovereignty

and an illegal act under international law. The “Tallinn Manual” explicitly prohibits such actions. However, the reality is that there are many cases where the national authorities infiltrate servers located in another country to obtain information, but do not destroy it and it is even unclear whether they accessed the data or not. In such cases, each country must protect itself. I think it is important to develop technologies for self-defense, such as improving encryption technology.

On the one hand, it is never good to leave the issue of direct access unchecked, and establishing some set of rules is necessary. Even with countries that are not necessarily like-minded, minimum rules are essential. However, if you ask a country that is not like-minded, “You extracted our data, didn't you?” they will never say “yes”. Therefore, while minimum rules are necessary, the ultimate solution is to improve encryption technology to prevent data extraction and protect oneself.

Urata: Like you both, I am very interested in cyber risks. Cyber risks affect a wide range of entities, including countries, companies, and individuals, and cause serious problems for each of them. Among these, cyberattacks targeting countries are a serious threat that has a significant impact on the economy, society, and national security.

Examples of cyberattacks targeting nations include attacks on critical infrastructure such as power, gas, transportation, healthcare, and communications; theft of government-related information containing defense secrets, diplomatic documents, and personal information such as My Number IDs; interference with elections and democracy through intrusion into election systems or manipulation of public opinion via social media; and disruption of supply chains through backdoors or malware embedded in IT devices or software. Among these, a recent example that comes to mind is the cyberattack on an airline company that caused disruptions in its reservation and flight operations systems, leading to significant chaos.

To address these cyber risks, it is essential to strengthen legal frameworks related to cybersecurity, promote international cooperation, and establish cooperative frameworks with allies such as the US, including information sharing. Additionally, enhancing public-private collaboration and conducting training to respond to cyberattacks are important. Furthermore, cultivating specialized talent in cybersecurity is an urgent priority.

Toyoda: Thank you very much for your wide-ranging discussion. **JS**

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