



# Essential Security Interests and the Future of the World Trade Order – Japan's Potential Role

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# Overview

- The Global Trade Order (GTO) has changed dramatically since 2016.
- Essential security interests dominate US policy.
- A self-centered US trade policy is emerging – largely shaped by challenges posed by China.
- Japan’s international economic policy interests require consequent adjustments in policy
  - Japan saved TPP as CPTPP; it champions the WTO e-commerce plurilateral (JSI)
  - It straddles the geo-economic divide: joining RCEP, a trilateral investment agreement (Korea, Japan, China) a US-Japan 2020 (USJTA); it joins in US sanctions and export controls.
- Japan is an important actor, working with others, to preserve an open and rules-based World Trade Order.

# The Global Trade Order Under Stress

- The leadership vacuum in the world trading system (WTO)
  - The US has signed out.
  - China has not yet signed in.
  - The gap remains unfilled by collective leadership from mid-level countries, others.
  - Japan has an important positive role to play
- Essential security interests are hampering cooperation between the US, EU and China, as well as deeper US economic engagement with its allies
- The WTO's disabilities are evident --
  - Members remain unable to deliberate and reach agreements on major issues,
  - WTO rules are no longer fully enforceable (while dispute settlement continues), and
  - No executive exists to drive progress, provide management.

# Stark change in the Global World Order (GTO), 2016 -2024

# The world trade order in 2016

- Multilateral
  - All WTO members continued to profess adherence to the multilateral trading system
  - The trading system had seemingly weathered the 2008 Financial Crisis
  - The WTO's record was not stellar but had substantial recent accomplishments –
    - Trade Facilitation Agreement (agreed 2013)
    - Information Technology Agreement (ITA – expansion agreed 2015)
    - a ban on agricultural export subsidies (agreed 2015).
- Regional
  - Transpacific Partnership Agreement (TPP) signed, ratification delayed, termination pledged by candidate Trump
  - The EU was negotiating a Comprehensive Agreement for Investment (CAI) with China
  - China was negotiating the Regional Comprehensive Economic Partnership (RCEP)

# The World Trade Order in 2016

- Geopolitical
  - The major powers were at peace
  - Russia's seizure of Crimea in 2014 was a fading memory in the West
  - Europe was heavily reliant on imports of Russian energy
  - China had not yet been named a "strategic competitor" in the US National Security Strategy (Dec. 2017) foreshadowing a change in US policy.
  - The Paris Agreement entered into force.

# The new normal for world trade - 2024

- Geopolitical – a surfeit of uncertainty
  - US – China rivalry, potential for armed conflict in the East China Sea
  - Russian cut-off of gas exports to the EU revealed supply chain vulnerability
  - A world divided into three camps over war in Ukraine
  - Concerns:
    - War in Europe can potentially spread to the Baltics
    - Risk of expansion of the war in the Middle East
    - China's designs on surrounding territory
    - US responses -- national security restrictions, sanctions

# The New U.S. International Economic Policy

- US policy is shaped primarily by the political and economic harms of domestic income inequality, a reaction to globalization, a wish to reduce the role of multinational corporations, while reacting to Russian aggression and China's economic statism, its expanding influence and the threat of potential conflict.
  - US measures: domestic industrial subsidies, high tariffs on Chinese goods, export controls and Russia sanctions.
- Essential security considerations driving policy is the new normal.
- Near-shoring is still largely seen by the US as the same as off-shoring.
- US policy unlikely to return to what it was, not for a long time.
- It will continue to be highly self-centered; US no longer guarantor of WTO.



# US policy – onshoring made operational

- Trump
  - national security restrictions on steel and aluminum,
  - blanket tariffs on products from China
- Biden
  - Industrial policy: Infrastructure Act procurement; IRA and Chips Act subsidies for semiconductors, EVs, batteries.
  - IPEF: few binding obligations.
  - National security controls expanded: “a small yard, high wall”, TikTok banned by act of Congress, Trump-era China tariffs retained plus 100% tariffs on Chinese EVs; 50% on semiconductors; US does not seek to change China’s behavior.
  - Urging others to follow suit, aiming for supply resilience
- Trump -- “second term” tariff threats – 60% China/10% all other, bans, 200% EV tariff
- Departures from global trade rules become commonplace

# Current EU policy – new defensive policy tools

- American steel and aluminum measures declared a safeguard; retaliation, and truce
- Russia sanctions
- Member States and Commission seek a middle way (EVs antidumping case)
- Selective de-risking of trade with China
- Foreign Subsidies Regulation (FSR) implemented with dawn raids
- Investment screening
- Anti-coercion
- International procurement instrument
- Deforestation as part of green policies
- CBAM adopted unilaterally

## Current Chinese policies

- Self-sufficiency a major objective, but RCEP in its third year
- No retreat from state intervention (party control) in production and commerce
- De-escalation in tensions with US sought some time after the balloon is shot down
  - “Wolf-warrior approach” softened
  - Manufacturing 2025 soft-pedaled
- Trade retaliation and coercion remain on-tap
- Russia-China axis confirmed, plus North Korea and Iran
- Expanded trade with Russia

# Impact on Japanese international economic policy

- It will be increasingly difficult to navigate a middle path between the US and China.
- The national security policies of the US and Japan are, of necessity, aligned.
  - The US will expect of Japan an increasing degree of policy alignment.
- Japan has the opportunity with the US to:
  - Build on mutual economic interests
  - Foster deeper integration through investment and trade.
  - Add to IPEF, e.g., with a US-Japan essential goods & services supply chain agreement
  - Find mutually beneficial science and technology interests.
  - Support joint industrial efforts, e.g., in cutting edge products -- EVs, batteries
  - Take advantage of complementary demographics.

# Japan on the world economic stage

- Japan should take a leading role to foster multilateral (open plurilateral) cooperation to create global public goods in the fields of --
  - food security,
  - climate adaptation and cure,
  - pandemic preparedness and response,
  - economic insecurity,
  - economic development,
  - as well as WTO reforms.
- Other regional and bilateral arrangements (CPTPP, DEPA, J-EU, ASEAN, etc.) will require additional support from Japan as part of the Global Trade Order.

# And others with allied interests

- The EU has to punch at its economic weight, leading in improving the Global Trade Order.
- The forward-leaning must be more active as well
  - this includes Canada, Australia, New Zealand, Chile, Costa Rica, Singapore, Switzerland and others.
- A model to be followed: Australia, Singapore and Japan combined to press for the e-commerce initiative at the WTO.

# The state of the world trade

- It may be in the afterglow of the liberal international order, nevertheless most of world trade continues to be strong in a world American dominance made possible
  - World exports of goods are at ~ \$23 trillion/yr, following dips in 2008 and 2020.
  - World services trade are at ~ \$7.8 trillion, with strong growth annually
  - Digital commerce grows inexorably, amounting to 54% of total global services exports
  - AI applications multiply, growth becomes exponential
- But trade flows are being rearranged (China +1 and decoupling in slow motion).
- Risk: Will increasing trade restrictions slow global growth?

Epilogue:  
Is there a high road for  
global cooperation?



# Can the US and China, and others, find common ground?

- Trade remains essential for effective global responses to –
  - Food insecurity
  - Climate change
  - Future pandemics
  - Economic insecurity – through diversification in sourcing
  - The need for economic development through integration into the world economy
- To underwrite international cooperation, trade must function through agreed and honored rules.

# “Global essential trade” can provide a basis for cooperation

- Bringing food from areas of plenty to areas of want (self-sufficiency at acceptable cost is unattainable).
- Providing environmental goods and services to combat and adapt to extreme climate events and trends (while avoiding competitive harms)
- Providing personal protective equipment, medicines and vaccines in times of pandemic.
- 100% onshoring is impractical to assure supply resilience and cannot satisfy national or economic security objectives.
- Diversification is the only means to provide broad essential security.
- Solutions require, at a minimum, selective US-China cooperation.

# Can the US and China compartmentalize to reach some crucial areas of cooperation?

- It is a given that there will be serious strains in US-China relations
- This should not paralyze international cooperation where it is possible
- The two need to find areas of cooperation
- Japan, the EU and mid-sized countries need to play stronger role
- They can initiate deliberations towards solving global challenges.
  - The E commerce WTO Joint Statement Initiative provides an example

# Necessary repairs to the global trading system

- The legitimacy of negotiated results among coalitions of the willing (open plurilateral agreements) must be accepted
  - Where there is critical mass and agreements are consistent with WTO objectives
  - Non-participants cannot be allowed to have a veto.
- Binding dispute settlement must remain a cornerstone of the multilateral trade order (GTO)
  - Rules are to be lived up to (*pacta sunt servanda*) as a matter of national honor
  - The rules must be enforceable through effective dispute settlement
- A strong executive function must be included
  - For transparency, analysis, leadership and strategic foresight

# WTO reform is a realistic objective

- For concluding agreements, either consensus will be “responsible” or it will no longer be required for open plurilateral agreements.
- Binding dispute settlement including the United States can probably be achieved provided that -
  - an unaccountable court structure is not revived,
  - the balance with trade remedies is respected
  - actions in furtherance of essential security interests are permitted provided the balance of concessions is respected
  - the system does not seek to dictate management of the US-China rivalry.
- An effective executive role should be delegated to the Director-General and Secretariat.

# The default option: obstacles are not overcome

- The hegemon remains signed out.
- The rising power does not sign in.
- No group is able to fill the leadership gap.
- *Sauve qui peut* is the rule. Each country acts on major issues in line with its currently perceived interests, without much room to working for the common good.
- Requirements for essential security grow in size and importance.
- The US - China rivalry creates damage that cannot be contained; the two cannot cooperate even selectively
- The GATT-WTO rulebook remains without new energy. It is an imbedded memory, a habit.

# Conclusion

For the benefit of the world economy, nations serving their deemed economic security interests must seek to preserve, to the extent possible, an open, rules-based trading system.

The demands of economic efficiency will ultimately be reasserted, moderated by considerations of welfare and sustainability

# Appendix: Essential Security

Some detailed suggestions



# GATT Article XXI – Essential security (ES)

- It was understandable to allow an ES exception from obligations during times of war and other emergency in international relations.
- The ES exception remained logical defensible as long as it was almost never invoked, and then almost never applied.
- Its respectability eroded when the US chose to use it to justify import restrictions on allies' shipments of steel and aluminum and did not accept a dispute settlement panel's ruling.
- Its respectability evaporated when Russia invaded Ukraine and its claim of proper use of Art. XXI was upheld because it was at war, which condition it created.

# What is the cure?

- It would be satisfying for legal scholars and political scientists if expert panels could detect inappropriate use and condemn it, but not all governments will accept an external review of what each deems to be in its essential security interest.
- The available penalty for inappropriate ES use is to rebalance concessions either through trade compensation or retaliation.
- Wolff and Maruyama suggest that the only practical option is to skip litigation entirely and move to rebalancing of concessions as provided for in GATT Art. XXVIII. [www.piiie.com/sites/default/files/2023-05/wp23-2.pdf](http://www.piiie.com/sites/default/files/2023-05/wp23-2.pdf)
- Paying a price for claiming essential security is the most practical option.

# Today's essential security concerns

- Were the provision redrafted at present, it would deal with
  - National security export restrictions – e.g. semiconductors, AI
  - National security import protection, – e.g. TikTok, Huawei
  - Protection and discrimination providing supply chain resilience for essential goods
  - Additional export restrictions in times of food scarcity
  - Additional export restrictions to preserve for domestic use supplies of medicine, essential goods, and vaccines during pandemics.
  - Any trade measures to deal with other international emergencies
- CAVEAT: The negotiation of terms of a new GATT Essential Security exception can cause more harm to the trading system than leaving the conditions for its use unspecified.