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RULES-BASED GLOBAL ECONOMIC GOVERNANCE AT RISK: CHALLENGES OF US UNILATERALISM AND CHINA'S STATE CAPITALISM

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- Global economic governance faces a crisis today due to US unilateral action—particularly through tariff use—in economic negotiations and China's state capitalism.
- The WTO is no longer able to effectively play its role as the primary promoter and arbiter of international trade, creating uncertainty for world trade, investment and growth.
- Reinvigorating global rules and norms will require a US return to multilateralism and Chinese domestic economic reform, coupled with an overhaul of the WTO by the international community.

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Rules-based global economic governance is at unprecedented risk due to the US's departure from multilateralism and global cooperation, its unilateral use of higher tariffs as threats to gain concessions from its trading partners, and its intensifying competition with China to maintain economic and technological supremacy in the face of its rapid rise combined with its deep-rooted state capitalism. The Donald Trump Administration has unilaterally raised tariffs on imports of steel and aluminum and threatens to do the same on imports of automobiles for "national security" reasons. It has also raised tariffs on imports from China in three steps for reasons of China's "unfair trade practices" such as the infringement of intellectual property rights (IPR), industrial subsidies for "Made in China 2025," and use of state-owned enterprises (SOEs). It now threatens to resort to the fourth step by raising tariffs on the rest of imports from China if the Xi Jinping Administration does not address US concerns. Through these measures the US believes that it can correct the behavior of its trade partners, particularly China, the EU, and Japan, so as to reduce its bilateral trade deficits with them. Mexico and Canada had to agree with the US on the new United States-Mexico-Canada Trade Agreement (USMCTA) which gave more advantages for the US.

While criticizing China's "unfair trade practices," the US also perceives China as challenging the US's global dominance in the economic, technological and military arenas and is determined to deter China's ambition. The US-China bilateral talks that were suspended in May 2019 may restart and result in a short-run resolution of conflict by China's promise to expand its imports from the US, strengthen IPR protection and address some of its policies deemed as trade-distorting by the US. However, bilateral competition for economic and high-tech supremacy will not be resolved in the short run and will likely be a lingering issue for a long time to come.

As the key promoter of free, nondiscriminatory, and multilateral trade, the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) served well for the growth of the world economy in the post-World War II period but is now facing the challenge of transformation to remain effective and relevant. The WTO's primary function to advance global trade liberalization and

set trade rules has stalled, as indicated by the failure of the Doha Development Round. Its role of monitoring member countries' trade policies has been hampered by the lack of notification to the WTO by many developing countries of policy measures affecting trade, hurting transparency. Finally, its dispute settlement system will likely cease to have a binding Appellate Body by the end of 2019. Only the minimum number of three judges remain, and two of them will end their terms by December this year. The Trump Administration has called the WTO's existing rules inadequate to respond to the practices of non-market economies like China, including areas like IPR infringement, industrial subsidies, and market distortions from SOEs. Developing countries are often exempted from strict WTO disciplines due to the special and differential treatment (SDT) given to them. Washington's concerns over the Appellate Body's excessively interpretative decisions and overreach directly led to the blockage of new judicial appointments to the body.

Japan has continued to actively promote globalization and multilateralism in its attempt to restore rules-based global economic governance. Despite being one of the closest US allies in terms of security, Japan has been critical of the US departure from multilateralism and its unilateral approach to bilateral trade deals. Japan took the lead in negotiating, concluding and implementing the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) after US withdrawal. It has also implemented the Japan-EU Economic Partnership Agreement (EPA) and is actively negotiating on the Regional Comprehensive Economic Partnership (RCEP). Japan has been balancing risks and opportunities posed by the economic rise of China by engaging China in several economic cooperation processes, such as joint projects in third countries, environmental cooperation, and financial cooperation. In addition, PM Shinzo Abe has been supporting WTO reform.

Restoring global economic governance based on rules and norms will require changes on the part of both the US and China. The US must return to multilateralism and global cooperation while addressing its own domestic imbalances such as rising inequality, hollowing out of the middle class, and savings-investment deficits. China must transform its economic model

characterized by state capitalism into one based on market principles by redefining the role of the state, further opening its economy, ending major state subsidies, and privatizing its SOEs. The two countries must resolve or at least manage their bilateral conflict, with the aim to avoid decoupling their economies while establishing a consultation process to address domestic structural issues by both sides.

Finally, the international community must substantially overhaul the WTO so that it regains its central place as a global overseer of 21st-century international trade and trade-related rules. This should include the restoration of a fully operational Appellate Body for dispute settlement; stricter compliance with notification obligations for transparency; greater protection of IPR; and objectively defining developing country status for using SDT. It is also essential to make the positive outcomes of the US-China bilateral talks (such as China's market-opening measures, IPR reform, reduction of industrial subsidies, and SOE reform) available to third countries by embedding them into the WTO's new disciplines. 

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