EUI GLOBAL GOVERNANCE PROGRAMME

ROBERT SCHUMAN CENTRE

# POLICY BRIEF

## A Trade Regime Shift in East Asia: Free Trade, Economic Security, Decoupling or All Three?

### Introduction

The post-Covid recovery in East Asia started slowly in 2022 with a dramatic change in China to deregulate its outstandingly tight pandemic control (the so-called 'Zero Covid' policy) in December. China had maintained strong propaganda about the success in pandemic controls, but in fact, the success was achieved not by the policy, but by the herd immunity achieved out of the policy abandonment. Lack of accountability in this process has left distrust against the government, and the domestic demand recovery remains weaker than expected in 2023, together with the troubled property market and the arbitrary medical insurance changes. Global value chains (GVCs) in Asia were frequently disrupted during the time that Factory China followed the controls, including unpredictable production shut-downs and logistics delays. In the post-Covid process, the GVCs have been subject to other additional pressures: geopolitical risks and economic security risks, which are related if not complementing each other, especially for Western Multi National Enterprises (MNEs).

After reviewing strategic goods GVCs, the U.S. has taken intensive initiatives to compete with China, with the allies. The launch of the Indo-Pacific Economic Framework (IPEF) after the US-EU Trade and Technology Council (TTC) meeting was a symbolic event. However, besides Japan, Australia and South Korea, ASEAN and India have tried to remain neutral between the U.S. and China (or Russia) based on their different interests. If China is lucky in finding the way for attractively robust economic recovery, it will fight back using the logic

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of free trade. The criticism against "the Cold War thinking" against the U.S. has been intensified, while the calls for the "rule-based trade" becomes larger to pull EU apart from the U.S. This paper explores the recent complicating trade policies trends in East Asia to investigate the options to protect the resilience of the region's GVCs and growth.

## 1. Free trade: The deep-rooted trade optimism

### 1.1. Mega-FTAs and growing intra-regional trade

Unlike many mature economies facing anti-globalisation feelings or 'our-country-first' politics, East Asia has maintained its outward orientation, especially in trade and investment. After 'competitive liberalisation' through bi-lateral FTAs in the 2000s, a rapid growth in intra-regional trade encouraged policymakers to move towards multi-lateral integration with common rules throughout the region.

Having the biggest GVCs in the region, Japan took the lead in finalising the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) after the U.S. left the TPP in 2018. In 2019, Japan and the U.S. agreed a Japan-US Trade Agreement (JUSTA) and a Digital Trade Agreement (DTA), and the Japan-EU FTA was signed the same year.

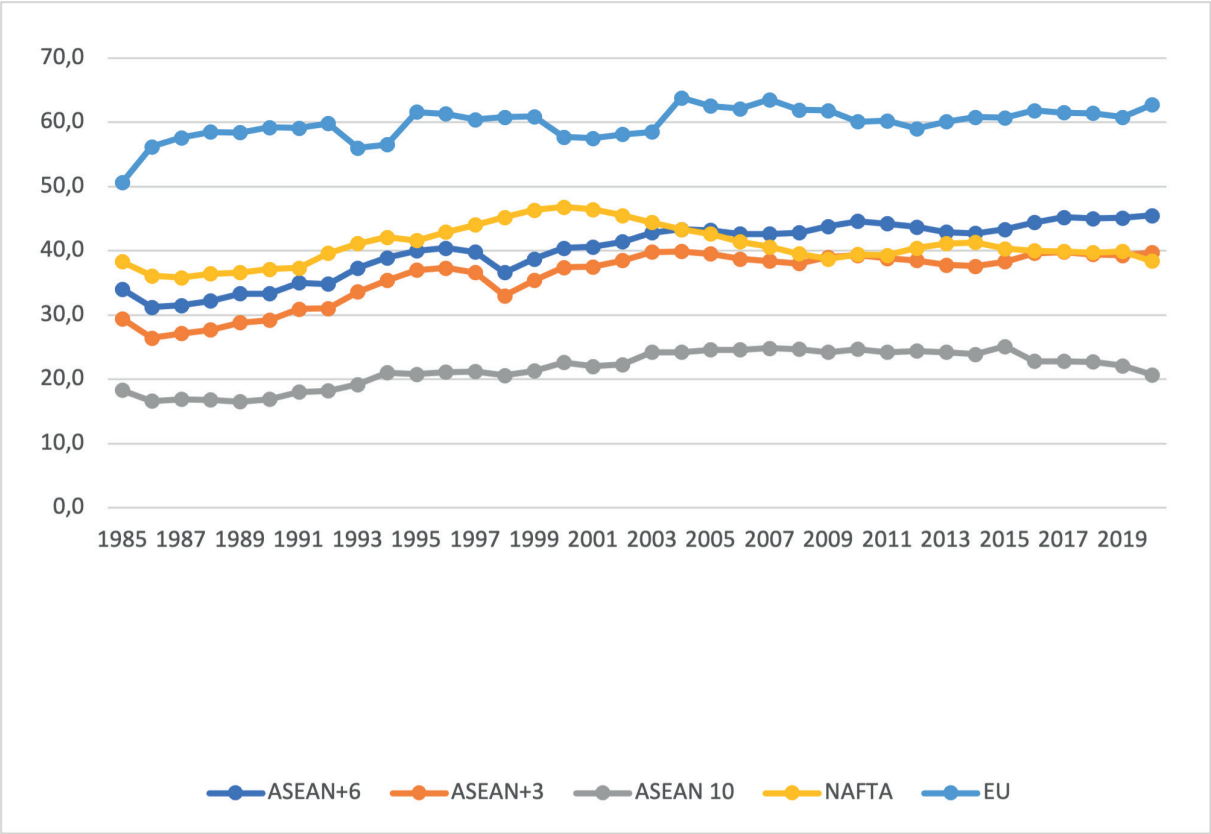
In 2020 a Regional Comprehensive Economic Partnership (RCEP) was agreed by the ten ASEAN members plus Japan, Korea, Australia and New Zealand, leaving India behind. The RCEP came into force in 2022, and finally Japan, China and Korea achieved free trade in this pluri-lateral framework for the first time. Although the standard of liberalisation in the RCEP is said not to be as high as in the CPTPP,[1] its comprehensive coverage is similar, and the economic impact is expected to be even greater, due to the higher growth potential of the emerging economies. Aiming to participate in the rule-making game, China officially applied to join the CPTPP, and was immediately followed by Taiwan and Korea in 2022.

While cross-border e-commerce is expanding and digital technology-based innovation is continuing, digital rule-making efforts have continued in East Asia too. The CPTPP contains important rules including free data flows, data localisation controls and source code opening restrictions, but RCEP has similar rules although with more reviews, security exemptions and legitimate public purpose exceptions. After the Japan-US DTA, a Digital Economic Partnership Agreement (DEPA) was signed in 2021 by Singapore, New Zealand and Chile, and in 2022 China and Korea also started negotiation to join this agreement.

Known as 'market driven integration' in the past, recent East Asia's intra-regional trade has been promoted better by these FTA trends in the 2010s. As Figure 1 shows, the intra-regional trade among ASEAN+6 countries (China, Japan, Korea, Australia, New Zealand and India) has grown powerfully, in contrast with NAFTA's, which is gradually declining to converge with the ASEAN+3 level. ASEAN 10's share seems to be stable, but if we only focus on exports, ASEAN market was the largest (21.4%) for the ASEAN 10 members in 2020, followed by Chi-na (19.8%), the U.S. (11.2%) and the EU (8.4%). ASEAN has emphasised its leadership as 'ASEAN centrality' in regional integration, and indeed its success has been sustained and even included the latecomers of Vietnam, Cambodia, Laos and Myanmar.

1 In terms of common rules, the RCEP has even failed to set common tariffs.

**Figure 1. Share of intra-regional trade (%)**




Source: White Paper on International Economy and Trade (2022), Ministry of Economy and Trade, Japan Notes: 1) Intra-regional trade is calculated as intra-regional exports and imports divided by total trade to the world. 2) The EU share is based on the different member countries.

## 1.2. The FDI-trade nexus and machinery GVCs

The rising intra-regional trade has been led by GVCs embodying the very complicated division of labour in manufacturing, especially in electronics. The region has successfully attracted FDI in exporting industries to mitigate the crowding-out effects on local firms, while trying to provide incentives for multi-national firms to shift to higher value-added exports constantly. Since the late 1980s Japan has taken the lead in production networks, but the GVC has extended to active local firm participants, including Korea, Taiwan, China and ASEAN.

In 2021, global FDI was still on the way to recovering to its pre-pandemic level. As Figure 2 shows, the U.S. has become the number one FDI destination globally, reflecting large-scale reshoring.

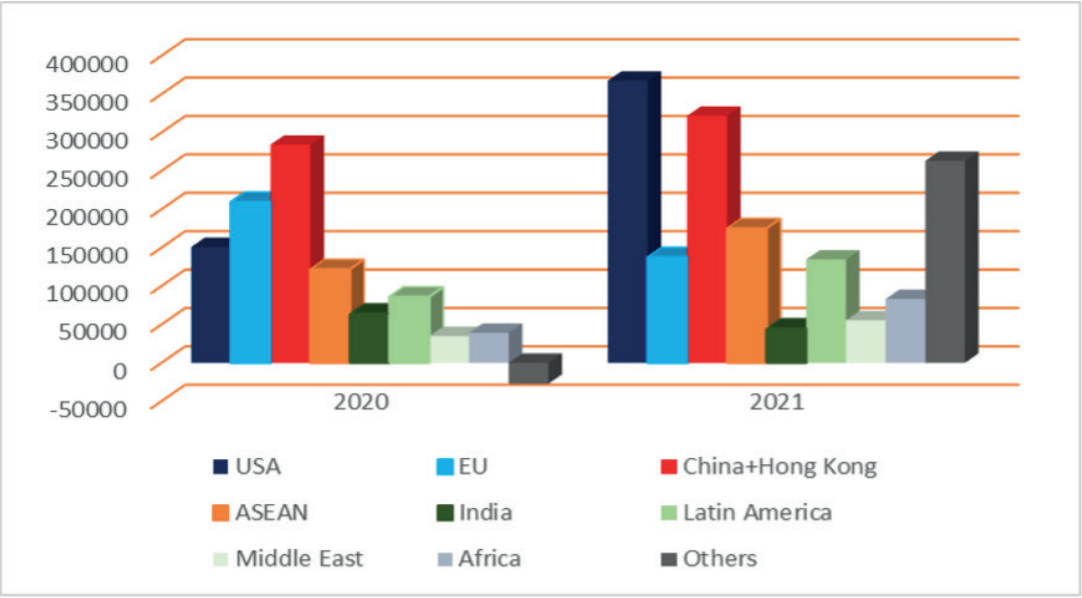
ASEAN was the third, following China and Hong Kong. Considering that FDI in China is dominated by Chinese firms listed in Hong Kong, really ASEAN should be regarded as the leading host. Seven of the ten members of ASEAN have joined the Indo-Pacific Economic Framework (IPEF) launched by the U.S. and are expecting to participate in its "Trusted Value Chains" (TVCs). Not having market access, the IPEF was really disappointing for ASEAN, in the short term, but it is expected to encourage FDI for TVCs.

Indeed, the region has established very complicated machinery GVCs in this FDI-trade nexus, especially in intermediate electronic goods, for which a free trade environment existed for many years, thanks to the Information Technology Agreement (ITA) under the WTO, not in FTAs. In competing with Factory China, the rest of East Asia has concentrated on intermediate goods, including machinery parts and materials. As Figure 3 shows, in 2020 China imported a large volume of intermediate goods from ASEAN and Korea, followed by Japan, the U.S. to export final goods to the EU, the U.S. and Japan. China also supplies intermediate goods to ASEAN and Korea, making the triangle a leader in global GVCs.

Therefore, a prolonged U.S.-China trade war will hurt not only China but also all the participants in these GVCs. Interestingly, unlike Korea, Japan and the U.S. participate in these GVCs through ASEAN, supporting the good reasons to invite ASEAN to become an IPEF member. On the other hand, India is

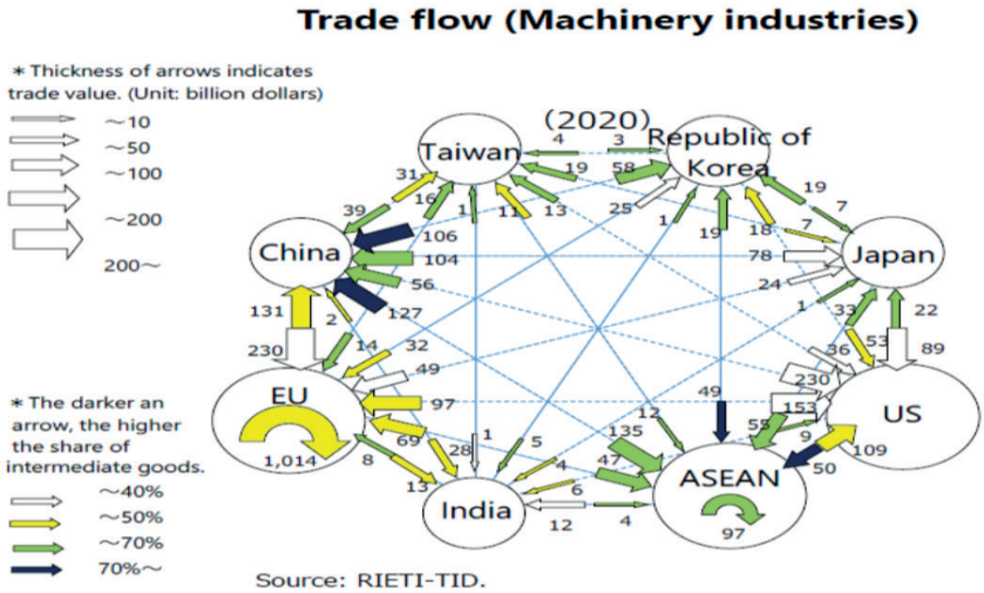
not fully integrated in this network. The EU's position remains relatively weaker in these intermediate goods GVCs, but Chinese diversification strategies may change the pattern of participation. A dynamic division of labour in intermediate goods is based on wage and technology level differences, contributing to economic interdependence without imports of final goods, negatively affecting jobs at home, as is popularly assumed in the Western countries. Intermediate goods also enjoy the benefit of a duty refund system in export, while final goods have plenty of space for free trade with tariffs in the RCEP and other FTA pacts in the region. The FDI and trade nexus has been the very foundation of economic success, sustaining the region's optimism on trade.

**Figure 2. FDI inflows by regions (Balance of payments and net)**




Source: World Investment Report (2022)
https://unctad.org/webflyer/world-investment-report-2022

**Figure 3. Intra-regional trade in machinery**




Source: White Paper on International Economy and Trade (2022), Ministry of Economy and Trade, Japan.

## 2. Economic security: Rule distorting pressures

### 2.1 The U.S. strategies

The region's free trade tradition has recently been challenged by the pressure from the U.S. The U.S. used to keep a distance between trade and security rules, typically respecting the security exceptions in GATT article 21 and other export control measures such as the Wassenaar Arrangement. However, the Trump administration finished this decency by introducing tariffs on some steel and alumini-um products in 2018 for national security reasons. Additional tariffs were also imposed against China on various items in retaliation for economic state-craft, including coercive technology opening and intellectual property theft. Restrictive packages followed one after the other, including Export Administration Regulations (EARs) for dual-use items in the revised Export Control Reform Act (ECRA), the National Defence Authorisation Act (NDAA) for the use of specific goods and services, and the International Emergency Economic Powers Act (IEEPA) for financial sanctions.

Apart from some tariff reviews for allies, the Biden administration has maintained most of these controls and has even introduced stronger measures for 1) supply chain resilience, 2) infrastructure and data protection, 3) critical technology security and 4) the development of new technologies. In its first 100 days it conducted intensive reviews of supply chains, including ones for semiconductors, large capacity batteries, medicines, rare earth elements and other strategic goods. It is seeking better resilience for these strategic goods through active reshoring, including inward FDI by pressuring foreign firms and by establishing reliable supply chains outside the U.S.

In the last two decades, even in high-tech industries U.S. firms have aggressively outsourced the production process to concentrate on more profitable research and design. This has given East Asia a great chance to upgrade its production capability and to emerge as the major supplier in high-tech industries, while the U.S. has lost its production capacity. On the other hand, resilient and efficient supply chains outside the U.S., namely 'Trusted Value Chains' (TVCs) was another option and paved the way to the IPEF. However, whether the IPEF will merely focus on resilience or expand to trusting technology allies is not yet very clear as of 2023.

As the technology rivalry with China intensifies, technology controls on particular entities have been tightened further. The EARs have a Denied Person List (DPL), an Entity List (EL) and an Unverified List (UVL) of firms which are virtually banned or their trade with the U.S. is severely restricted, and the numbers of firms on the EL and UVL have grown rapidly, with Chinese firms dominating. In response to geopolitical risks, the EARs also impose stricter controls on Russia and Belarus by means of Foreign Direct Product (FDP) rules, with the restrictions applying to goods produced with U.S. technologies or software even if they are produced outside the U.S.

Regarding investment controls, the Trump administration introduced a Foreign Investment Risk Review Modernisation Act (FIRRMA) to screen FDI for strategic technology and basic infrastructure, but under the Biden administration cases of disapproval have not been observed. On the other hand, an Entity List of Chinese military-industrial complexes exists to control American portfolio investments and the coverage has been expanded to cover AI and drone producers in China.

### 2.2. China's strategies

Given the U.S-China rivalry, since 2020 China introduced a so-called 'Dual Circulation Strategy' with economic security policies within its framework. This strategy aims for growth driven by a positive interaction between domestic and external demand, gradually shifting from the tradition of FDI- and export-driven growth. It encourages GVC dependence on China, and aims to maintain China's supply chain resilience backed up by leveraging power. China had been slower to prepare a well-organised economic security regime like that of the U.S., but in a tit-for-tat reactions against the Trump administration, the regime introduced sophisticated economic security measures and to some extent has converged with the U.S. regime, as Table 1 shows.

Indeed, as Factory China has served as the centre of the GVC for many goods, especially consumer goods, China is still in a dominant position in manufacturing in GVCs. In addition, China has not experienced a massive supply chain disruption as the U.S. has and is on the way to a rapid business recovery. Therefore, unlike the U.S., which is seeking supply chain resilience for a broad range of goods, the supply chain priority for China is only the strategic goods, typically semiconductor- and chip-making machinery, highly functional material etc. It is trying to increase its self-sufficiency by following an import-substitution type of approach. The 'Dual Circulation Strategy' aims to achieve this

purpose by leveraging GVCs for next generation telecoms, rare earth elements, high-speed railways and others, which is a different approach to the U.S. friend-shoring idea.

Regarding data security, while the U.S. has intensively used its EL, China has not responded the same way. However, this merely reflects its asymmetric openness to telecom and other services by foreign firms in China compared with the American market before economic security was tightened. In response, China has tightened the movement of data across its borders, both critical infrastructure data and personal information. Its strict data controls are regarded as the reason for China's difficulty in relying on friend-shoring-based resilience, and in joining high-standard FTAs like the CPTPP, to which China has applied.

The same applies to critical technology security. While export restrictions have become tighter with a combination of items, end-uses and users, including deemed exports, China has not added an investment-screening system like the U.S.'s FIRRMA. However, originally China's FDI controls had been tighter, especially regarding security, and even China has added her EL in this category and retaliatory measures against foreign firms. In innovation for future technologies, the targets are very similar except for China's service digitalisation. For this pur-pose, the preservation of data at home should also have higher priority for China than for the U.S. and this may imply that the risk for foreign firms in China may come from their data preservation duties.

The U.S.-China rivalry is expected to continue longer, and the incentives to use economic security as an excuse to challenge each other's free trade will grow. This is partly because of the complicated position of technology platforms in globalisation, no longer only in simple trade and FDI but also regard-ing data and personal contact, and partly because of the nature of cutting edge technologies that allow dual use of a broader range of goods. Without a sound and realistic recovery of a multilateral mechanism like the WTO, the rivalry in which each party imposes advantageous rules may create a destructive environment for the global economy, typically with an emerging use of ELs and rules binding GVCs across borders.

**Table 1. Economic security measures in the U.S. and China**

| | U.S. | China |
|---|---|---|
| Supply chain resilience | Public-Private consortium for localization | Promoting global dependence on China (5G telecom, Rare earth, |
| | Reshoring and inbound FDI by lead firms. | high speed railway…) |
| | Investment/Subsidies for the next technologies | Public-Private consortium for localization and import substitution |
| | Cooperation for secure supply chains based on | Investment/Subsidies for the next technologies |
| | QUAD, G7 and other like minded countries | "The 14th 5 Year Plan (2021~25) R&D investment, Upgrading |
| | | domestic value added and service (design, test, logistics…) |
| Data protection | Excluding concerned telecom firms out of public | Security control based on data grade for national |
| | procurement (Huawei, ZTE, Hytera, Hikvision, Dahua) | security/public benefit |
| | Opening the list of products and services by threatening firms | Cross-border data trade and export controls |
| | to stop authentication procedure (China mobile, China telecom, | Data preservation duty and Security clearance duty |
| | Kaspersky) | for key infrastructure managers and personal data managers |
| Critical technology security | EAR to cover (1) products in the U.S., (2) originated in the U.S. | Export control for dual-use products, military |
| | (3) products containing designated goods originated in the U.S. | goods and nuclear related technologies |
| | EAR for exports, deemed exports (Circumvention, transaction | Export control for exports, deemed exports |
| | with foreigners: nationality based control) | (nationality based) |
| | EAR to control (1)Commerce Control List (14 emerging technologies) | Export control for Destination, End use and End user |
| | (2)Ultimate destination (3) End use and End user | Entity List (Unreliable Entity List) |
| | Entity List | Anti Foreign Sanction to cover firms and individual |
| | Investment screening by FIRRMA | Expanded Technology export ban/control list |
| | | (2020, 3D printer, Drone, AI, Encrypted chip design |
| | | quantum cryptography related tech. ) |
| Innovation and development | National strategies on Critical and Emerging technologies (C ET) | "The 14th 5 Year Plan (2021~25) Semiconductor, 5G, AI, |
| | (20 technologies) | Quantum information science, Aviation/Space, Deep sea…) |
| | The America COMPETES Act of 2022 | Digital China |
| | (Semiconductor, energy, cyber security, AI, Quantum information | |
| | science, Biotechnology) | |

Source: Author's summary of various government announcements

## 2.3. Japan, Korea, Taiwan and ASEAN: Diverging interests

GVCs in East Asia suffer and will suffer the most from U.S.-China rivalry. As is confirmed by Figure 3, Japan, Korea, Taiwan, ASEAN and even the U.S. are all suppliers of intermediate machinery goods for China, and the U.S. and the EU have been absorbing final goods from China. In fact, even the share of intermediate goods in intra-ASEAN trade has already become bigger than intra-EU trade. There should be good reasons for the region to work together to maintain a free trade environment. Rationally, Japan should be in a good position to take the lead, given that her GVCs in the region are critically and deeply connected with the Japanese economy. However, looking at the details, the interests of other parties differs substantially, making common initiatives difficult, just leaving agreement on the free trade principles.

The main reason for Japan, Korea and China lies in their positions in machinery GVCs. Japan still maintains the largest FDI stock in the region and a spread of GVCs, but its GVC participation is dominantly forward, supplying R&D intensive machinery and materials downstream. On the other hand, Korea and Taiwan have very successfully climbed up the value-added ladder by concentrating on production by participating backwards in GVCs. Therefore, Japan still has a dominant market share in critical materials and parts in industrial machinery as the supplier for Korea and Taiwan. If China tries to follow their paths, the immediate competitor will be Korea or Taiwan, not necessarily Japan. Korea and Taiwan are very major suppliers of intermediate goods to China, making their direct dependence greater than Japan's. On the other hand, due to its GVC position Japan faces more pressure from economic security controls by the U.S., which is desperately trying to dampen China's technological capabilities.

In addition, the drop in Japan's global market share in electronics has been mostly substituted by a rise in those of Korea and Taiwan. Japan has a history of intellectual property rights disputes with Korea and Taiwan, and recently with China, which complicates the relationship that once Japan saw as an intensive effort for economic security. In fact, Japan has lagged in updating its measures for economic security. For example, before the Economic Security Promotion Bill in 2022, Japan was the only country other than Mexico in the OECD without non-publication in its patent application system for security reasons. Technology transmission by engineers (especially retired ones) was virtually without any controls and the chances of industrial espionage were not limited. Overall, the new bill follows the U.S. framework and includes resilient supply chains for critical goods, secures basic infrastructure such as electricity, gas, telecoms and finance, and exports control and support for critical technologies.

By passing the bill, Japan tightened the export control procedures for Korea in semiconductor-related materials, hydrogen fluoride, fluorinated polyimide and photoresists. Korea interpreted this as an economic security threat and made urgent plans to promote localization. Japan claimed that the measures were required because of the uncertainty in the security dialogue system with Korea, but the event was seen as economic statecraft by Japan and dampened its potential role as a free trade defender, at least from Korea's point of view.

As section 3 discusses, for Korea and Taiwan, which are heavily dependent on the Chinese market for both trade and FDI, a major interest is in how decoupling between the U.S. and Chinese markets develops. Japan still shares this interest, but since anti-Japanese riots in China in 2012 many Japanese multinational firms have shifted from China already, mostly to ASEAN members. Therefore, inviting these members to join the IPEF was more important for Japan than for Korea or Taiwan.

On the other hand, China is already the largest economic partner of most ASEAN members, but unlike Korea and Taiwan the supply chain is not dominated by high-tech industrial goods and includes commodities and resources. As in the case of Indonesia's palm oil export controls, its resilience is relatively free from critical technology defences. In addition, dependence on intra-ASEAN trade has mitigated the bilateral relationship between China and the U.S. and emphasised 'ASEAN centrality' in allowing autonomous decisions among the members in terms of their distances from the powers. Seven of the ten members joined the IPEF hoping to achieve better participation in GVCs with higher labour and environmental standards, digital rules, cross-border data flows and carbon-neutral commitments. ASEAN can benefit if many multinational firms try to find 'somewhere other than China,' as in the case of Malaysia's semiconductor investment strategy. However, while the IPEF is without market access to the U.S. market, ASEAN has established an FTA with China and many of its members have joined the Belt and Road Initiative and the Asian Infrastructure Investment Bank. After all, the powers identify 'ASEAN centrality' as 'ASEAN neutrality,' which is in their unique interests. Therefore, whether the IPEF may serve real TVCs for the U.S. is never certain if the ASEAN countries are to fully follow the U.S. economic security rules.

## 3. Decoupling: Rising uncertainties for GVCs

### 3.1 The case of semiconductors

While the U.S. and China continue to compete, the level and speed of their decoupling has become a recent concern. In reality, U.S.-China trade continues to grow. In 2021, China's exports reached $577 billion with a 27.6% increase over the previous year, and its imports increased even faster than its exports by 32.9% to $179 billion. Integrated circuits are China's second largest imports from the U.S. and these imports grew by 7.1% despite all the controls. Optimists expect security controls in practice to remain within the established principles, after all for such highly segmented goods they only apply to the latest chips. Even for chips, large U.S. firms concentrate on equipment manufacturing, and tightened controls against China directly mean gigantic losses even if government subsidies compensate some companies by means of the $52 billion provided by the 2022 CHIPS and Science Act. After experiencing global chip shortages, not only the U.S. but also many other countries have started to seek diversified supplies for resilience, and some countries like Malaysia which specialise in chip post-processing are already trying to gain from the tightened controls. However, it looks unlikely that the new investment demand will compensate the expected loss in China.

Nevertheless, two aspects of a new announcement in October 2022 by the Bureau of Industry and Security (BIS) (Commerce Department) were shocking, especially for East Asian GVCs. First, the targets remain for directly security-related technologies but their scope was expanded by adding an "unverified list" system. High-end semiconductors had already been subject to the multiple controls shown in Table 1, with lists of end-uses, end-users and deemed exports covering all supply chains, manufacturing equipment, chips, materials, software and technical data, but this announcement aimed at wider coverage of AI, supercomputers and data centres in China. Under the 'Foreign Direct Product rule,' even production processes outside the U.S. of products using American technologies or software require U.S. licences. Supplies to China from the region will be subject to a huge compliance cost to check the long value chains in detail.

Second, the new announcement introduced controls on engineers. For the first time 'Americans' face restrictions on working for private companies in China, and the definition of 'Americans' includes not only those with U.S. nationality or green cards but also people who are simply living in the U.S. or working for companies registered in the U.S. Many equipment firms have dispatched engineers to chipmakers in China, but the new rule now aims to shut down technology flows by means of engineers. With this announcement, the semiconductor industry is virtually controlled no differently to military industries. However, it is difficult for the U.S. authorities to intensively monitor information on talents, and how other manufacturing equipment producers in the chokepoints of supply chains mostly in Japan or the EU will follow and comply with the new rules is not certain.

### 3.2. Scepticism about decoupling

Scepticism about U.S. policies has been rising, with suspicions that ideas of reshoring and TVCs may turn out to end up just like "America first," and decoupling may not leave enough space for efficient and dynamic GVCs in the region well connected with the decoupled markets. As allies of the U.S. with advantages in R&D-intensive electronics and automobile industries, Japan, Korea and Taiwan are directly affected by U.S. economic security policies while at the same time having established GVCs with China. Japan has passed its market share in many industrial goods to Korea and Taiwan, which have integrated themselves and grown in globalisation faster than Japan. After a series of Yen appreciations, Japan accelerated outsourcing from other Asian producers, especially of final goods, while maintaining manufacturing of equipment and segmented materials only at home, and Korea and Taiwan have continued to expand their global market shares in the downstream. This structure applies not only to semiconductors but also to large-capacity batteries and many other R&D-intensive products.

Again, reflecting their positions, the scepticism differs between Japan and Korea and Taiwan. Japan shares similar interests with the U.S. in how to recover supply chain resilience by trying to regain production capabilities in strategic goods. However, Japan's scepticism is based on her own experience that once production is completely stopped restarting is never easy. It is experimenting with a project to invite dominant chip producer TSMC to Japan to cooperate with Toyota, Denso and other chip users, but the generation of chips is not the latest one as TSMC is committed in the U.S. For Korea and Taiwan, their scepticism arises over both the business feasibility and unpredictability of U.S. industrial policies. The latest chip technology requires huge investments, like $7 billion for 5nm nodes, $10 billion

for 3 nm and $13 billion for 2nm in leading-edge chips. Skilled labour and engineers are far less expensive in Korea and in Taiwan, in addition to the compliance cost for security clearance. As results of new packages in 2022, although their factories in China only produce relatively mature chips, they are facing problems as they are unable to use U.S. technologies and experienced engineers. The huge investment in reshoring may provide them with bargains from decoupling, but the potential loss may be too large, at least in the short term.

Collectively negotiating with the U.S. also remains difficult for Japan, Korea and Taiwan. Japan has maintained competitive production capabilities for a limited range of chips, and its relations with the other parties are more competitive than those of the U.S., while its bargaining based on the home market is limited. In addition, Japan's strengthening of procedures for chip materials from Korea to exert diplomatic pressure in 2020[2] made the Koreans furious and started localisation programmes, which added negative pressure for the private firms on both sides to respond. Japan' relations with Taiwan are generally better than with Korea, but there are also bitter memories of technology flows by means of Japanese engineers recruited by Taiwan that Japan could not stop as it did not have a proper security regime at the time. Japan faces different and even severer pressures from the U.S. to comply with technology flows to China from equipment suppliers, making it more similar to the Netherlands and Germany, and the U.S. suppliers, which is a differ-ent reason for scepticism about the development of real decoupling.

## Concluding remarks: What can be done?

East Asia has benefitted from globalisation for decades, and the region still maintains a strong commitment to free trade and still has the ability to make the best use of it through faster and full implementation of the RCEP and expansion of the CPTPP. If China is serious about the CPTPP it may take the lead in earlier and unilateral liberalisation based on the RCEP to compete with the IPEF without market access. In addition, the members may open a dialogue with India to encourage it to come back to the RCEP, as India is already a QUAD and IPEF member and has constantly expressed interest in service liberalisation and digital technologies. The size of the CPTPP is equivalent to that of the EU, if the U.K. joins, and its interest originates from a commitment to rule-based trade. The CPTPP may serve as a group for free trade to cooperate well with the EU in the U.S.-China trade war.

Despite efforts to the contrary, the U.S.-China rivalry continues to add new trade and investment controls citing the legitimacy of economic security. The rivalry is expected to continue unless any epoch-making political deal is made, and while dispute settlement by the WTO virtually does not function, retaliatory measures by trading powers may distort GVCs rather than defend their resilience. Entity lists may risk abuse to cover broader transactions, and trade in critical technologies may be limited by arbitrary boundaries. The IPEF was set up for GVC resilience based on information-sharing among the participants. The members may be able to improve traceability by including dual use information and users for better traceability to make the TVC successful. However, this requires enough incentives to bear the huge compliance cost.

Finally, there may be a chance of high-level decoupling, but how it can be achieved is never certain yet. In semiconductors, the U.S. tries to deter China's catch-up in sophisticated chips by every means, but the Chinese market is simply too huge to be separated from innovation. Leading American firms are producing chips inside China for relatively mature products, but if the competition with local firms intensifies they will naturally upgrade their production in cooperation with equipment and other input suppliers. This means there is always scepticism about the TVC approach together with allies. Even the Semiconductor Industry Association (SIA) has estimated that total decoupling will reduce the sales of American firms by 37%. After all, what deterrence can do is earn a little time for the U.S. and China to find out where they contribute to shaping the new economic order. A mixed free trade regime, security controls and decoupling are painfully complicated for East Asia, and this is why autonomous efforts supporting free trade are inevitable in the region.

2 The Korean supreme court claimed compensation for forced workers during the colonial period, which was interpreted as a collapse of the post-colonial bilateral regime in Japan.

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