

English Summary drafted by DGAP.



Summary

A Brave New Economic World Order

4th JEF-DGAP International Symposium

Virtual Conference

October 7-8, 2020

Opening Remarks

The conference was opened by remarks from JEF Chairman Kazumasa Kusaka and DGAP Vice-President Ambassador Rolf Nickel. Both praised the initiative for the conference, the two institution's longstanding cooperation, and the possibility of coming together digitally during times shaped by the coronavirus.

Both commented on the timeliness of the conference: the aim to discuss sustainable and inclusive economic growth and to explore a new economic world order now additionally impacted by the coronavirus outbreak. Multilateralism is weakening, free trade is suffering, and Japan has just seen a change in leadership with former Prime Minister Shinzo Abe stepping down, while both Germany and the US are preparing for their scheduled elections.

Meanwhile, the rise of China is not only putting governments and diplomatic relations under pressure but also business cycles. As members of the G7, Germany and Japan have a shared responsibility to address these challenges. Additionally, both are export-oriented economies that have similar geopolitical and geo-economic interests that favor rules-based order and free

trade. Defending these values is especially relevant in times of growing global protectionism and skepticism toward the WTO.

It is necessary to reform international institutions, such as the WTO, by aligning their rules with the current reality and enabling it to deal with areas so far not covered such as the flow of data and investments. As businesses are naturally timid in an uncertain climate, it will be important to provide stability through rules in order to revitalize investment after the pandemic.

Panel 1

Recovering from a Global Pandemic

Restoring Growth in Global Trade and Investment after the Coronavirus Pandemic

Affected by the outbreak of the coronavirus, trade is declining at an unprecedented level, posing grave challenges, the panelists warned. But even before the pandemic the world saw a rise in populism, anti-globalism, and protectionism, which put multilateralism in a critical situation.

The panel discussed how the WTO can be restored as an effective institution and what role FTAs can play in restoring multilateralism. It further asked what the WTO's role in fighting the coronavirus and export restrictions that went with it could and should be. The debate also turned to the matter of how Germany and Japan can support global investment after the pandemic.

The crisis of multilateral trade can be traced back much further than the outbreak of the coronavirus, the panelists stressed. Milestones were—amongst others—the collapse of the Doha negotiations and the 2008 financial crisis and with it the rise of China. In an increasingly contentious context, the WTO is not in a position to find solutions.

One of the causes for the WTO's crisis is the rise of protectionism over the last decade, which has peaked during the coronavirus crisis. Furthermore, stakeholders such as the United States and China have badly damaged the organization through their unilateralist trade policies. And the WTO was further marginalized by its member states, in particular the G20, who did not even take the WTO into account in their emergency crisis meetings addressing the pandemic response.

The three main functions of the WTO—dispute settlement, liberalization of trade investment, and compliance with WTO rules—are all malfunctioning. This is due to the US blocking the appellate court and the difficulty of finding unanimous agreements among all member states, which is necessary according to WTO rules. Finally, the WTO relies on member states to provide transparency in order to fulfil its monitoring functions, something that has not been done by all.

One example for this weakened monitoring function were export bans put into place during the coronavirus outbreak: Export bans are in and of itself not against WTO rules, as they provide

exceptions and national security is one of these, even though there has been a trend to expand the definition of national security. The WTO merely requires export bans to be reported, in order to be able to provide transparency on global trade. However, this reporting was not carried out by many countries during the coronavirus outbreak.

While not contradicting WTO rules, export bans are contrary to global trade. No country can reach full economic autonomy especially with regards to the production of medical equipment. Export bans should be understood as a sign of a lack of trust in trade institutions so the focus should be on restoring trust in value and supply chains and ensuring that all countries receive the equipment they need.

Equally sanctions policies fall under national security issues and hence can't be intercepted by the WTO. At the same time, sanctions are an increasingly relevant factor affecting international business, which has to navigate a fragmented business environment. In the long term this should be addressed by the WTO especially since a continuation in the rise of sanctions will in the long term undermine the relevancy of the WTO.

In order to prevent a further loss in relevancy, the performance of the WTO in the coming months will be important. If the WTO, as a member state organization, manages to send out relevant signals on how to address the pandemic, that will also underscore its relevancy in the future. It therefore needs to find answers to questions such as how to deal with climate policy, exports bans, giving assurances that global value chains will not be disrupted, getting member states to agree to end tariffs on drugs and medical equipment, and establishing global rules for non-discriminatory digital trade. It is likely that particularly on climate change and e-commerce plurilateral agreements currently being negotiated will lead the way before a WTO-wide approach can be found.

For business though the relevancy of the WTO and reforming its rules-based framework should be stressed since SMEs in particular depend on this global system: Two thirds of German trade relies only on WTO rules, without additional FTAs playing into the transactions. It is beyond the capacities of particularly small firms to navigate a multitude of agreements and rules that are constantly changing. It would therefore be preferable to have one set of global rules from within the WTO.

Addressing what the EU and Japan can do to further the reform of the WTO, a first point is dispute settlement: Since 2019 the appellate body has ceased to function due to the blockage by the US. Therefore, the EU's commitment to create a multi-party interim appeals system is a very promising one, even if temporary. Japan has not yet joined this initiative but there are high hopes that it will do so. In the long term, the appellate body will require more comprehensive reform, but this will only be possible under a new US administration.

Furthermore, a WTO reform needs to be strengthened by an EU-Japan leadership and a stronger secretariate. As the WTO only operates with consensus and is a member-driven organization, this poses many problems and leads to inaction. A strengthened secretariate would make the WTO more effective.

Turning to decoupling, the panelists pointed out the importance for all countries to realize that this is a macro trend that will continue to happen and hence they need to adapt to it. It is in the interest of business for the EU to stay open and not be put into one of the camps as growing protectionism trends can be seen even within the EU. An important term in this context is “Open Strategic Autonomy.”

Panel 2

Recovering from a Global Pandemic

New Rules for New Technologies: Industry 4.0 and Beyond

This panel discussed new rules for digital trade and the use of technologies and particularly how this relates to data protection systems and the free exchange of data. A relevant factor in this context is the question of data security as well as the dominance of the “big five” US technology firms in the field of digital data. The speakers presented their opinions on where Japan and the EU should position themselves in this field.

The industrial leadership that Japan, the US, and the EU have long enjoyed has been eroding due to China’s advances—a well-known development. The Chinese dominance in, for example, 5G poses a threat to national security and defense and there is much need for a trusted 5G network. Concerns about the security of 5G particularly for the governments in the EU, the US, and Japan are heightened in comparison to its predecessors since 5G will be used in more mission-critical areas such as mobility, medical, and infrastructure related to national security. Therefore, there are three factors relevant to securing the reliability of 5G networks: Device security, stable supply chains with trusted vendors, and transparency of governments about their policies and requirements applied to vendors. Governments should not depend on single vendors but rather create a competitive market. In this way it would be possible for Japan and the EU to establish a secure digital space relying on a trusted 5G supplier.

Furthermore, the increasing mass social surveillance, practiced by China and exported into the world, poses a challenge to democracy and human rights—it should therefore be highlighted that China’s rise in the ICT world isn’t only a commercial threat, but also a threat to nations’ values. It also threatens to erode historic diplomatic relationships as can be seen for example in South-East Asia, where Japan’s traditionally strong alliances have been weakened by China’s stronger presence.

Turning to the US-China technology war, the panel pointed out that there are three different perspectives about the role of Japan and the EU in it: The first one is to see the EU and Japan as victims of this war, which can then lead to either a passive approach, working towards more supply chain and production independence, or an active approach, seeking to strengthen the countries' competitiveness against the threat stemming from the US and China. The second perspective is, rather than being a by-stander, taking an active role to calm the conflict's waves caused by, for example, ad-hoc sanctions, and focusing on a rules-based system. This is a shared point of interest and strength of the EU and Japan. Thirdly, the EU and Japan could perceive themselves as being aligned with the United States and look at the three actors' shared challenges caused by China's rise—especially in the ICT sector.

As a result of the confrontation between the US and China, the panel stressed that it is not surprising that the EU and Japan are seeking to become more self-assertive in order to tackle the tech war's repercussions. In this context two terms that are often mentioned are digital sovereignty and autonomy—though both terms remain as yet ill-defined. It is important to differentiate between digital autarchy, which is nearly impossible to achieve, even for the US and China, and digital sovereignty. The latter should be understood as a country's capacity to act in the digital realm. This encompasses—amongst others—trusted industrial and technological supply and value chains, the capacity to innovate, the availability of institutional instruments to manage dependencies, and the ability to regulate tech advancements and shape digital-related debates.

Looking at options to advance e-commerce negotiations at a global level, global and plurilateral rule in the field should be weighted. The digital economy has become central to how business is done in the 21st century and this trend will only increase. But unlike for goods and services, there are few international rules to control cross-border digital trade, prevent discrimination, and align standards. In the absence of such rules, we have seen fragmentation and unilateral action threatening the sector.

Existing WTO rules have not been updated since the organization's foundation and therefore don't reflect the reality of modern trade anymore. There are no rules provided that are particular to digital trade. The so-called "Joint Statement Initiatives," founded at the ministerial conference in 2017, present a major break-through in this area, as they negotiate on e-commerce regulations. Right now, this initiative is the best way to move forward and create non-discriminatory rules for e-commerce. The initiative, under the leadership of Japan, China, and Australia, has introduced a consolidated text on new rules for digital trade, which can be seen as a great success.

In addition, Japan launched the Osaka track during its G20 presidency in 2019, and this overarching framework also helped to spur the negotiations aiming to enhance protection for cross-border data flow.

Reaching a consolidated agreement soon would be an important step for digital trade but would also be an important way for the WTO to demonstrate its ability to regulate modern trade. The negotiations should remain at the WTO level to maintain legitimacy and geographic coverage, which is very important for digital trade. It is suggested that the EU and Japan could use the upcoming ministerial conference in 2021 to present specific outcomes of the negotiations on e-commerce regulation. A general stocktaking or roadmap during this conference would not be enough.

In formulating regulations, especially in the fast-developing digital realm, the panelists emphasized the importance of the cooperation and exchange of information and interests between public and private actors. While rule-making is in the hand of governments, in doing so, they are highly dependent on business to learn about arising problems, sensitivities, and needs. Non-government organizations such as the Business20 are important as they formulate their interests and advise governments. Furthermore, business communities can accelerate government negotiations on, for example, digital trade by putting constructive pressure on the negotiations as the WTO will lose relevancy if it is not able to act in a timely manner in the rapidly evolving digital realm. The digital sector is a particularly interesting case in terms of regulations as there is such a need for speed that many established rules have been developed by the private sector rather than by governments. This might be favorable, as the industry's own soft rules are more adaptable to changing realities.

Europe is often perceived as having fallen far behind in the digital realm, though the situation is not as grim as often perceived. Europe is indeed trailing in, for example, the semi-conductor industry, AI innovation, and the cloud computing market. Nevertheless, the EU has started to take some counter measures, for example by issuing a data protection strategy, an AI white paper, and promising projects such as Gaia-X. The EU should, furthermore, focus on its strength: regulation. At the same time, it should move away from mainly inward-looking regulations and tackle, for instance, the issue of global mass surveillance.

Finally, the panelists identified three main areas of shared interests between the EU and Japan: Both actors should share best practices on how to deal with the US-China technology war and, for example, how to react to US-imposed sanctions and thereby the diversification of production lines. Secondly, both parties should promote the idea of a global tech innovation network to counter the trend of decoupling. Finally, the EU and Japan share democratic values and should work together to address the threat of AI surveillance and digital authoritarianism, which so far is vastly underestimated in the EU.

Panel 3

Countering the Coronavirus Crisis

Toward Sustainable Global Growth and Geopolitical Stability: The Role of Connectivity

Connectivity, as former Japanese Prime Minister Abe has highlighted, is an expression of being intertwined and depending on each other, which comes with positive implications, such as strengthened trade, as well as negative ones, such as implicating national security. The coronavirus pandemic has once again demonstrated the importance of diversified and resilient value chains and reliable trade connections, the panel agreed. It has accelerated trends that had been present since the 2008 economic crisis. Nevertheless, the BRI and the EU-Japanese connectivity strategy will be affected by the coronavirus: A significant nationalization of production is unlikely but rather a near-shoring and diversification of supply chains is to be expected.

The EU's vision on sustainable connectivity follows a 4-3-2-1 approach: Its four pillars are digital, transport, energy, and human connectivity. Its three working standards are building physical networks, working on partnerships with shared goals and values, and acknowledging the important role of the private sector. Its two key underlying principles are a comprehensive approach to sustainability, which includes environmental and fiscal aspects and aims to avoid overdependency on single actors, and having a level playing field for businesses, which also includes reaching an agreement with China. Finally, the one overarching philosophy is to achieve a more sustainable and green growth around the world.

Reflecting on the EU-Japan partnership in connectivity, there has been close cooperation and communication between the EU and the Japanese ministry of foreign affairs, that has resulted in a number of agreements including, for example, an air safety agreement and identifying five key regions for the combined global engagement: the Western Balkans, the Eastern Neighborhood, South-East Asia, the Indo-Pacific region and Africa.

Since the fruits born from the EU-Japan partnership so far have been meagre, eight points were suggested on how to deliver results from the EU-Japan infrastructure cooperation: First, communication between the EU and Japan on specific projects rather than strategic aspects should be accelerated and become more direct. Second, it is important to provide assistance and educate countries about the risks and possible lifecycle costs of infrastructure development by, for example, Chinese investors. To support that education process, it would be important to gather information about the economic and ecological impacts that already existing projects have had within specific regions. Third, the EU and Japan should provide financing mechanisms that are competitive with the Chinese ones. Fourth, the private sector should be more involved as a source of sustainable investment for quality infrastructure. Here a challenge is that an attractive investment climate for private sector actors must be created as, in contrast to China,

project procurement within the EU works on the basis of being financially attractive to the private sector. Fifth, emerging markets should receive help in developing their indigenous financing systems, as they cannot rely on outside financing permanently. Sixth, the EU as a member of the Asian Infrastructure Development Bank (AIIB) should encourage the institution to focus more investment on quality infrastructure projects, though the possible effect of this is debated. Seventh, the EU should focus on ensuring China's compliance with the WTO rules on transparent government procurement and, on the same note, eighth, China should be urged to respect the OECD export credit guidelines to enable fair competition. Though, looking at market competition, the different incentive structured mentioned with regards to investment, must again be considered.

One particular challenge caused by the coronavirus outbreak is that many infrastructure projects are likely to face severe difficulties and possibly fail. Yet, there are no financing mechanisms for restructuring projects. These are necessary though to ensure that the failing projects don't end up falling into Chinese ownership by default.

From Japan's point of view when it comes to connectivity, the Indo-Pacific strategy is a top priority of its diplomatic strategy, while at the same time remaining rather vague and undefined. Launched in 2016 it acknowledges that the Pacific and Indian Ocean rim countries are, in the view of the Japanese foreign ministry, the next center of economic development, together with East Africa. They should, therefore, be better connected. The Japanese Indo-Pacific Vision builds on three pillars: Freedom of navigation and the rule of law, connectivity, and capacity building.

Connecting this Japanese strategy to the BRI is important while also ambivalent: Within the Japanese government some have focused on the significant trade advantage of cooperating with China, while others are focused on skepticism and the country's potential threat to Japan's national security. In 2015 it came as a big surprise to many, especially in the US, when former Prime Minister Abe announced that Japan's connectivity strategy should be harmonious with BRI projects if they are consistent with Quality Infrastructure Principles. This is argued to have been necessary to defend Japan's economic prosperity.

Throughout the coronavirus outbreak, the Japanese view of the BRI has become more critical and Japan is moving closer to the US in its stance toward China, while balancing this with acknowledging the ASEAN countries' interest in maintaining a close relationship with China for economic reasons.

Closing Remarks

After two days of fruitful and substantial discussions the conference once again proved the many similarities in views between Japan and the EU. The conference's title, "A Brave New

World Economic Order,” seemed to project a much grimmer outlook than the one being faced. Nevertheless, there is a multitude of challenges that should be confronted together.

The symposium’s speakers explored a variety of possible paths to summit the challenges ahead and to work towards the shared objective of better globalization and building resilience within the existing rules and institutions that need to be adapted to new realities.

Both, JEF Chairman Kazumasa Kusaka, and DGAP Vice-President Ambassador Rolf Nickel, expressed their gratitude to the speakers, participants, and organizers and praised the longstanding cooperation between the DGAP and the JEF and hope to continue in the friendly vein of this partnership.

End of Symposium