

English Summary drafted by The Chicago Council on Global Affairs  
(CCGA)



### **Summary**

**The Global Economy and the New International Economic Order: Perspectives from Japan  
and the US**

### **Virtual Conference**

**January 14, 2021 (Chicago time)**

**January 15, 2021 (Japan time)**

### **Opening Remarks**

#### **Dr. Michael Moskow**

The speaker begins by welcoming the speakers and attendees and thanking the Japan Economic Foundation (JEF) for their partnership on the event. He also outlines the structure of the Forum.

#### **Mr. Kazumasa Kusaka**

The speaker offers his welcome to the speakers and audience. He notes Chicago's importance in the United States related to the economy and commerce. He also notes the recent political transitions in both countries and the need to ask how to evaluate the past four years and move forward, and he expresses concern over recent political divisions and events in the United States. In his view Asia is

looking at how the United States will be involved in TPP-11 and RCEP while also observing what will happen to WTO reforms and Paris Agreement on climate change. He notes JEF has been hosting annual symposia with other think tanks, and he noted the partnership over the past 10 years with the Chicago Council on Global Affairs. Leaving no one behind is a key concept driving this work, and this drives discussions on what is a better globalization or inclusive growth. He hopes today's sessions will help to find solutions to shared challenges.

## **Panel 1**

### **Bettering the Global Economy During the COVID-19 Pandemic**

#### **Mr. Naoyuki Haraoka (moderator)**

The moderator notes the similarity between the panel's title and Mr. Kusaka's remarks on a better globalization. He also empathizes the need for a holistic approach noting the intersection between domestic political issues and foreign policy.

#### **Panellist A**

According to the panelist, bringing the COVID-19 pandemic under control is the best economic policy a government can undertake right now. In order to restore the free movement of people, capital, and goods, Japan and the US need to lead on COVID actions globally. Predictability in implementing policy and upholding the rule of law is also needed.

The private sector finds sudden and arbitrary policy changes as well as ambiguity on government policy very challenging. One example is with US-China relations.

There needs to be a clear set of rules, especially on technology issues, if partial decoupling from China is to be pursued. Arbitrary decoupling policy will only damage both Japanese and U.S. companies.

It will also be necessary to promote innovation and secure high-tech supply chains. Every high tech industry has a complex ecosystem, and one notable example is the semiconductor industry. Bilateral or multilateral alliances can help supply chain resiliency.

#### **Panellist B**

The panelist notes we need to be sensitive to the Japanese and American governments being preoccupied with domestic political challenges going into 2021. The American administration has to find its footing and reestablish credibility. Its work at home in America will have international

implications, particularly when restoring the credibility of American leadership after the past four years.

The panelist notes Prime Minister Suga's approval rating has been falling despite a positive start. If he remains at this level, this could be a bumpier year than Japan has had domestically in quite some time. The Olympics, if held, will also have political and economic implications. If Prime Minister Suga wins a three-year term it could be a bumpy road to get there. There may not be much domestic appetite for international initiatives in Japan with all taking place at home. In the past few years the US-Japan relationship has been in a holding pattern, and there was no bilateral or regional strategy.

There has been some cooperation on infrastructure development between the United States and Japan, and there is more room for growth in this area. Climate change could be a major area for cooperation as well as supply chain resiliency and better coordination between Washington and Tokyo on the global macro economy.

#### **Panellist C**

The panelist notes the Trump administration's image in Japan is quite different than in the United States and in other countries.

The panelist believes that economically engaging China has been an opportunity. But dependence on China's economy is worrisome. In politics and national security matters, China is a challenge. Therefore there is a consensus that America needs to be a resident power in the region.

The start of the Trump administration left Japan quite perplexed. Particularly concerning was the administration getting out of the TPP which is ultimately about the United States and others upholding a desirable regional order. Yet the Trump administration was hostile to international engagement that had previously been taken for granted of the United States.

Trump's skepticism of globalization was understandable to some extent. Japan was also surprised at Trump's attacks during the election, but ultimately believed they were manageable. Abe absorbed the Trump shock that other leaders couldn't, and this was because the two leaders had chemistry. The attitude was also to deal with America as it is because the election was an American domestic matter, and Trump was chosen by the American people. This was a very different approach from some European leaders.

What was particularly concerning was that the COVID-19 pandemic became a partisan issue, not a

medical issue. The partisan divide has become an irrational split. The Chicago Council on Global Affairs' polls show support among the American public for American global engagement, but this is not how the American public is always perceived.

The expectation toward a Biden administration in Japan is not that optimistic and there is recognition the new administration will be preoccupied dealing with the coronavirus. The Trump era had been difficult for Japan. The Biden era will be difficult too, and we are faced with a time where Japan will need to do more.

### **Panellist D**

The panelist notes she is a business scholar and examines the policies countries can adopt during these uncertain times to encourage resiliency. The effect of the pandemic is to accelerate everything, both good and bad. Japan is undergoing transformations of its old system of lifetime employment and is empowering employees to work at their own rhythms and pace. The pandemic further accelerated this.

Digital transformations, such as shops operating without clerks, also accelerated. Income inequality has also accelerated though, and there are trends toward industrial bifurcation. In a K-shaped recovery, or split recovery, there will be some sectors that gain and others that don't. Sectors such as technology, e-commerce, and software services are all poised to make gains. Yet the pandemic is also destroying businesses that are already marginal. This is not necessarily a bad thing, but steps need to be outlined on how to limit collateral damage to employees working in those sectors.

Governments must enable sectors to compete globally, especially the sectors doing well in the pandemic. Uncertainty is the big challenge for CEOs right now, so the first policy task for governments is to help sectors to grow. Governments also need to think about how to stabilize sectors that are not doing well and need to think of new ways to provide welfare functions from the state. Japan needs to find a way to address the K-style bifurcation with one part of policy enabling sectors that stand a chance in global competitiveness and other part supporting those that do not.

### **Q&A**

*How does the Japanese public think about the possibility that the American public may be substantially split?*

Japan is totally aware of the split in American politics right now. If America chooses a president as a

collective, Japan's position is that we will embrace that leader. Trump especially is not someone who understands nuance, so it was necessary to embrace him totally. Many leaders in Europe did not do this, which may be why Trump did not like some European leaders but liked Abe. Ultimately Abe's approach was a strategic decision to embrace Trump.

*With Biden's climate policy, is US-Japan green leadership a chance to weaken China and kickstart the post-COVID economy?*

There are questions about the role John Kerry will play as climate envoy. There are also concerns that the Biden administration may sacrifice other concerns in East Asia to seek climate cooperation with China.

A priority for the administration should be to find ways to cooperate with friends and allies first, then turn to China to see what sort of advances can be made. China has been doing enough work domestically, such as embracing renewables to some extent, so in a sense it's a race to catch up to China.

One domestic response to Prime Minister Suga's climate pledge is that Prime Minister Abe left low hanging fruit regarding climate. There is a significant amount of work to be done to carve out market space for Japan and US in this area though as there were many opportunities not pursued for several years.

In addition, Kurt Campbell as Asia Policy Coordinator is good news and shows concerns about Biden being soft on China are overblown. Yet in a Chicago Council public opinion poll with a list of threat perceptions, Republicans China foremost and Democrats listed global warming. China didn't even appear in the top list of Democrats' concerns, and that makes Japan concerned.

*If governments are not successful at reducing income inequality during and after the pandemic, what course do you expect domestic politics will take in Japan and the US? Will populist movements grow?*

This will further erode the political center and will sustain the Trump phenomena. Sanders and liberal wing of the Democratic party that uses "justice" to frame these issues such as with "economic justice" will also be energized. Ultimately populism on the left and right may be energized in the United States. However, there is not a strong populist resurgence in Japan right now.

There is also not a robust multiparty competition in Japan. The opposition has not been particularly

effective for a number of years. One lesson from rise of the DPJ about 15 years ago is that the growing perception of inequality was used effectively. In the hands of the right leader, the perception that inequality is growing and the government hasn't done enough about it can be used effectively. Japan may not have these politicians yet, but we should keep this in mind.

*Several panelists noted that Japan and the United States will be occupied in 2021 by domestic issues. Do you see this continuing throughout the Biden administration or is it more of a short-term view?*

This is not necessarily as true for Japan. Japan is so embedded by what's happening in East Asia by way of trade, Korea, China, the local market shrinking, and Japanese businesses expanding in SE Asia. Whatever Japan does is by way of it being embedded in Asia. Japan may not have a domestic focus per se but an Asian focus. Though the United Kingdom and Europe are also big topics in Japan right now, especially for Japanese business.

We should not expect any major trade action anytime soon from the United States. This is forcing Japanese firms to look to Asia even more.

## **Panel 2**

### **The New International Economic Order: The Post-Pandemic Global Economy**

#### **Dr. Michael Moskow (moderator)**

This panel focuses on what to expect from the global economy after the COVID-19 pandemic.

#### **Panellist A**

The panelist agrees with the previous panel's skepticism about rejoining the TPP. Time is not on the side of the Biden administration with trade promotion authority expiring in the summer. Trade is also a politically charged issue within the Democratic party. For example, Bernie Sanders liked parts of Trump's trade policy. In the Obama administration as we learned with TPP it takes a long time to get a trade agreement through the United States now. And there are all kinds of dangers doing it in an election year.

We can expect a sincere desire to engage with allies in the Biden administration, but also worries about China and national security, especially with trade concerns.

Through the pandemic there have been many discussions on whether supply chains have failed and is there a movement toward nearshoring or reshoring. The panelist thinks this is overblown, though lots of businesses have explored these options. Ultimately the same pressures that drew the businesses to global supply chains still exist: the desire to lower costs and be closer to markets. With the onset of the trade war and during pandemic if firms were looking to move out of China, some of that trend may have been accelerated. We are still going to have globalization though.

### **Panellist B**

When the panelist visited Beijing in 2019, he was asked by Chinese media what was the change to Asia while he was President of the Asian Development Bank. He answered there were a continued rise of Asian countries, an impact of technologies on business, commerce, and trade, and the rise of China as a global power.

Asia's growth has been supported by the market and foreign direct investment but also favorable international conditions. Yet this is now being challenged by the rise of China and attitude of America toward China. As such, Japan is now paying much more attention to international conditions needed for successful and sustainable growth in the Asian region.

As noted by previous speakers, globalization will continue after COVID. Multilateralism is important, and increasing inequality should be addressed. We also need to sustain liberal political system and market economies even if there can be some adjustments.

Decoupling from China is not in the interests of anyone. The panelist wants to believe that what China wants is not to dominate the world but to make China great again from the humiliation since the Opium War and keep the core interests of China. But there is a serious difference between how China views itself and explains itself and how others view China. To many outsiders, China is trying to change the existing order.

The United States should continue efforts to keep Pax Americana, moderate type (not too intrusive). But we need the one that can be supported by allies and through having a stronger America itself in terms of democracy and avoiding social divide. Japan can play an important role in keeping stable and peaceful international order as Japan has been close nation to China historically and respecting its culture and civilization, and at the same time, a trusted ally of the United States. We all need to make efforts for cooperation.

### **Panellist C**

Inequality is a global issue that will receive much attention in the Biden administration. While Biden's proposed COVID relief plan is a short term package, the package itself is heavily weighted toward support for households and individuals. Balance is divided between public health responses and in particular a national vaccination program.

Recovery all starts with getting the health piece of COVID under control. It is clear that this is the priority of the Biden administration. The medium term outlook will depend on progress on structural issues highlighted by transition team: pandemic, economic recovery, inequality, and climate change.

It is clear climate will be a theme cutting across domestic and international issues for the Biden administration. The degree of uncertainty that characterized the Trump administration on economic policy will be significantly reduced with the Biden administration. The approach of Biden will be to emphasize multilateral cooperation, and this was a clear signal with Tony Blinken's nomination as Secretary of State as well as the senior advisors for the National Security Council. There will be multilateral approaches to nearly every aspect of international economic policy.

The emphasis on multilateral approaches is clearly consistent with what we can anticipate from the Biden administration on China. There is clear recognition that the United States needs to engage in the region, and the US must work with allies and partners on economic and security issues. The administration did not nominate a point person on China policy; instead the focus on Indo-Pacific shows a desire to work with allies and partners.

We should not think there will be a pre-2017 era with China. That moment has passed. There is considerable concern and skepticism about engaging China and the ability to shape practices that have long been sticking points on economic issues. Therefore the approach will be strategic and with a shared understanding of the objectives of engagement. This approach will be taken across government agencies and will be understood by the private sector. The new administration will inherit tariffs, measures on the potential for delisting Chinese companies trading in the US and restricting activities focused on data flows. It will take time to establish objectives and strategies on these issues and then work with allies and partners.

### **Panellist D**



The panelist notes the pandemic was not recognized as a realistic risk a year ago. Instead, in annual forecasting issues like climate change, a cyber attack, US-China tensions, and the rise of populism prevailed as risks.

The stability of the economy is predicated on stability of society so a sense of fairness is needed. Growing inequality was already a problem before the pandemic. But low income households are suffering most in the pandemic. Society has to tilt the balance from efficiency to fairness without provoking anti-globalization sentiment. More equitable distribution is not possible without internationally coordinated tax reform.

It is an urgent matter to face up to what is already happening with declining productive growth. A reset is not easy and might not be without some turbulence, but it is a necessity. We have to think seriously about how to reset.

#### **Panellist E**

The speaker notes that the COVID-19 pandemic has changed our way of life, our way of diplomacy, and our way of trade negotiations. China has been the main discussion point between American and Japanese officials, and after Trump the countries should still focus on challenges posed by rise of China.

There is a battle for seeking free and fair economic order, and it is necessary strengthen resilience of global supply chain. Resilience is tricky, and diversification can be needed, but 100 percent reshoring is unrealistic. Ultimately the Indo-Pacific will be the main battlefield for free and fair trade.

There is also a struggle for technological hegemony between the United States and China. We should assume that US-China tensions will continue in this area. Global supply chains can be a hostage to the economic statecraft of nations. If so, countries must draw clear lines what are sensitive items for national security.

#### **Q&A**

*What specific steps can Japan and the US take to work together to combat climate change?*

There is an obvious domestic-international linkage here. On domestic side it will be hard to make

progress on a carbon tax. On the financial regulatory front progress can be made but it has to be done in a way not to disadvantage any single country from acting first.

Coordination with multilateral development banks is possible given the leadership roles played by the United States and Japan in the Asian Development Bank and World Bank.

US and Japan have already been coordinating in the areas of energy policy where all the carbon and re-useable energy related agencies in Japan and financial agencies of both countries are members. Continuation of this is also effective.

The effort to combat climate change is one possible way to constructively engage China. Japan and the United States should also work together on measures for a greener economy which is a shorter goal, rather than a distant goal. Free trade on environmental goods will in a way support WTO measures.

Finally, central bankers are recently taking issues of climate change more seriously, though it seems they are striking a delicate balance.

*Do you feel competition both economic and otherwise will be the norm with China for the foreseeable future? What steps can the United States and Japan take to be more competitive with China?*

Clear competition will be the frame not just for US-China engagement but also with China's engagement with the European Union. Up until now the approach of the United States has been a defensive one such as trying to restrict China because it is not competing fairly. Yet during this time China made wise investments and built substantial human capital allowing them to innovate. Japan has also done well with this; the United States has not. The best thing countries can do to compete is make these kinds of investments.

The dominance of the dollar is also critical. This enables the United States has leverage in imposing financial sanctions. This is a strategically important area, and three conditions have to be met to have an international key currency: good macroeconomic policy, good regulation and supervision, and good corporate culture of financial institutions. Which country, the US or China, succeeds in having such financial structure will ultimately determine who wins the status of international key currency.

Some adjustments based on security considerations may be necessary for trade and investment. But I believe without freedom of speech and information flows within countries, it will be difficult to grow industries in long term. If China wants to achieve sustainable and inclusive growth based on

developments in technology, it needs more liberal system to promote technology. On the other hand, Japan and the United States can take more proactive policies on technology development by increasing funding for research and development. Both countries also need policies to promote collection and use of data without compromising privacy. Otherwise, China will have an advantage.

*How can countries increase their potential and actual growth?*

The issue of rapid ageing is recently discussed intensively but the issue of declining population itself is not discussed as much as it should be. The size of an economy and size of a population determines a country's influence over the global economy. Faster growth will help address the inequality problem. We need to innovate and incubate in addition to having a defensive policy on China.

### **Closing Remarks**

**Dr. Michael Moskow**

The speaker reiterated his thanks to the Japan Economic Foundation for their partnership on this event and thanked the distinguished panelists for their comments.

**End of event**