

## Asia-Pacific Forum 2023

### Day 1

#### **[Opening Remarks]**

##### **Masakazu Toyoda**

The speaker notes that this year's forum is hosted solely by the Japan Economic Foundation that has been watching and analyzing economic development in conjunction with trade and highlighting global challenges for more than 40 years. He notes that the world is now experiencing an unprecedented and complicated world situation, both politically and economically.

The speaker states geographical differences irrelevant because most issues are shared since countries struggle to overcome common global challenges caused by COVID-19. He states that issues such as climate change and energy security have appeared after its ease, as well as population aging that causes labor supply and social care problems. But most of all, he notes the uncertainty in the trade environment.

The speaker states that the OECD has forecast more than half of world economic growth from 2024 to 2025 will come from rising Asian economies, but in the short-term, there will be heightened downside risk arising from the increased uncertainties created by the conflict in the Middle East and the war in Ukraine.

He states that armed conflict has increased and intensified around the world, and that national conflicts are becoming international resulting in unstable multi-polarized world affecting commodity and energy supplies. The speaker points out the needs to find clean energy sources, establish trade systems that are based on rules, and build a firm value chain as a secure and stable development of Asia. This is essential for prosperity and peace as the Asia-Pacific is still the motive force for global economic growth that accounts for 2/3 of the world economic development.

Finally, he notes that countries' economies, populations, political systems, and major industries all differ, but that they should work together to strengthen their economies and eliminate geopolitical divides.

#### **[Keynote Speech]**

##### **Prof. Naoyuki Yoshino**

The keynote speech covers three points. The first is infrastructure investment, the second is climate change and the environment, and the third is fiscal sustainability and budget deficits.

##### **1. Infrastructure investment**

Infrastructure investment is very important in many Asian countries, and there is a need to bring private sector financing into this area.

There are two categories of capital; private capital and government capital. Government capital alone has its own impact on GDP, but infrastructure investment can stimulate private capital activity.

The resulting new employment and new industries will create huge increases in tax income, or “spillover tax revenues”. Infrastructure investment has two impacts; the direct effect of the infrastructure itself, and the indirect effect of bring new businesses and residential areas.

68% of the total impact comes from spillover. Spillover effects should be partly returned to infrastructure operators and investors. Public-private partnerships failed in many parts of the world including Asia and Latin America because of the conflicting interests of users and private investors.

54.5% of failed PPP were in Asia and 14.8% in Latin America. Some of the tax revenues from spillover must be provided to these private investors so that they can have better returns.

New highways in Manila tripled tax revenue, which is a huge spillover effect. In Uzbekistan, GDP in regions with new railways increased 2% over other regions. In Kyushu, total tax revenue doubled. The same can be said for the effects of digital infrastructure.

In terms of land acquisition, Japan has used land trusts for many years. Landowners keep land and lease it to building companies when buildings needed to be constructed to make it easier to transfer land.

In India, Pakistan, and Indonesia, land acquisition is very difficult. The use of land trusts so that landowners can keep the land would be desirable. Hong Kong uses 99-year leases and 999-year leases.

## **2. Climate change and the environment**

Infrastructure is very important but can result in massive CO<sub>2</sub> emissions, so how can this be handled?

In green finance and ESG, rating agencies have different definitions for how to measure ESG or environmental issues. Investors used to look at returns and risks, but now they also have to look at ESG or greenness. So the definition of ESG being different from one rating agency to another creates the problem of distortion in portfolio optimization.

## **3. Fiscal sustainability**

Lastly, how can portfolio distortion be remedied? The best way is net carbon taxation. Small businesses cause more than 50% of CO<sub>2</sub>. Large businesses have pressure from stock markets and the corporate bond market, but small businesses borrow money from banks and the informal market. A net carbon tax would be the best way to remedy and mitigate CO<sub>2</sub> emissions.

## [Session 1: Newly Emerging Trade Architecture in the Indo-Pacific Region]

### **Moderator**

The moderator notes that panelists will agree that free trade and trade liberalization can be an engine to promote economic growth, but that the question is: how? He states that this region has architecture including CPTPP, RCEP, and IPEF, and poses the question of how this new trade architecture could contribute to trade liberalization. He states that an international economy based on trade liberalization would initiate domestic economic reform and thus encourage economic growth through rationalization. (The moderator introduces the panelists and outlines the forum structure)

### **Panelist A**

The panelist asserts that the multilateral system has been constrained, so regional arrangements have played an important role, and points out that in Asia-Pacific, there are four major frameworks: APEC, CPTPP, IPEF and RCEP.

The panelist asserts that RCEP is the most important one, and is the world's largest regional framework arrangement and brings all the major economies together. The panelist states that is important because East Asia is still the key in the Asia-Pacific area. The panelist expresses the opinion that the main problem does not lie in trade blocs and trade constraints, but a general lack of dynamism, before noting that the Chinese economy is still recovering from COVID 19, there have been political and security interruptions to markets and supply chains, and political relations have a negative on regional economic growth.

The panelist asserts that regional cooperation frameworks have failed to play a major role like APEC to promote the integration, cooperation, and regional economic alliances, and that the challenge is to find a new approach to make the Asia-Pacific more dynamic and overcome the current trade obstacles.

### **Panelist B**

The panelist expresses the view that the Indo-Pacific has brought an urgency for regionalism, which is expected to be very different from the post-war regional economic architecture.

The panelist states that the real question is how much different this will be and what the role of ASEAN, India, and the Global South will be in this new architecture. It is known that supply chain and production networks in Southeast Asia and East Asia have been the reason for rising prosperity in several countries, but the pandemic revealed fault lines in these trade linkages, while supply chain resilience has also been tested. The panelist emphasizes that the implicit trust in efficiencies and returns has been questioned.

The panelist expresses the opinion that, the politics and welfare narrative have the upper hand in this dialogue, and China's centrality in the supply chains of Asia and even of Europe is also at the center of this dialogue.

The G20 and G7 were both held in Asia in 2023. Both groups emphasized resilient and trustworthy supply chains and have agreed to work with emerging and developing countries and to make them important players in the global supply chain. ASEAN and India will be very important players.

The panelist notes that ASEAN and India were the quickest to recover from the supply shocks of the pandemic, and met the high demand for goods, services and vaccines. The panelist states that this is how see things going forward; that this region will play the most important role and the emergent architecture will rely on India and ASEAN.

The panelist states that there is a narrative that the Indo-Pacific has an exclusionary policy and this architecture comes at the cost of excluding China, and that this is something which needs to be dispelled in this forum. The panelist proposes that the emerging Indo-Pacific economic architecture is actually a preparation for the economy of the future more than a reaction to China's centrality, and that the aim is to foresee future trading rules, the future of work in the region, and the future digital economy.

Geographical inclusiveness is a very important in this architecture. Smaller countries are new entrants in the regional supply chains and their inclusion is important.

On a positive note, the panelist asserts that the Indo-Pacific architecture will not just promote multilateralism and global governance for their own sake, and that it is a vehicle to bring back a rule-based system, perhaps offering a way forward to bring mutual trust and mutual growth back into the region.

### **Panelist C**

The panelist notes the importance of the current new growth. He notes that recent growth data is encouraging for India, exceeding expectations with 7.6% in Q2 and 7.4% in Q1. He points out that India has invested \$120 billion of its own domestic resources in addition to other efforts from multilateral development institutions, and has a credible growth story with manufacturing becoming established and becoming part of global value chain.

The panelist points out that TPP, CPTPP, and Transatlantic Trade and Investment Partnership (TTIP) have garnered attention in terms of how they are unfolding and the role they could have played.

He states that within the Indo-Pacific Region, 12 countries have come up with an Indo-Pacific Vision. He notes that with USA, Japan, and Australia on one side, the Indo Pacific interest has also multiplied with the European Union, and now the latest from the Western bloc is Canada to have issued a vision document. These countries have issued their Indo-Pacific Vision and action strategies and ASEAN and South Korea already have clearly set out their vision documents.

The panelist notes that the commonality is a rules-based inclusive order with a free, open, and inclusive approach.

He notes that the idea of Quad is part of the supply chain resilience initiative, which aims to provide predictability, and that with the surge in manufacturing in India and trade expansion in parts and components, this is very significant. The panelist notes that India is part of the IPEF and all four pillars, and this gels well with India's own Act East Policy and IPOI.

The panelist asserts that this provides bandwidth in terms of how the new trade architecture will depend not only on trade-facilitating measures but also on predictability of supply chains

**Panelist D**

The panelist expresses the opinion that it would be quite beneficial for us to look at first what kind of challenges this region is facing at the moment and how to respond.

In the panelist's opinion, there are four major issues faced by the countries and economies in the region. The first is rapid technological progress, including digital technology that will allow and facilitate swift and perhaps significant rearrangement of global and regional supply chains in the future.

The second is the increasing demand for more sustainable development that requires a lot of financing and also massive behavioral changes in society and a significant shift in business and economic strategy.

The third challenge is demographic change, which the panelist states will affect economies a lot as many economies will grow old before they are rich, and this will put pressure on the economy and society.

Those three challenges have all been made worse by increasing geopolitical tensions in this region. We have enjoyed 40 years of peace and stability and it has contributed a lot to development, supply chains, and value chains in the region. But the current major power rivalries threaten this stability.

The panelist states that the responses to these developments from most economists in the region are not helpful, saying there have been three types of response: creating unilateral policy and distancing from multilateral trading systems, weaponization of trade and economic policy, and protectionism. The panelist asserts countries in the region should cooperate and promote regional integration instead of drifting apart.

The panelist says that while the narrative of the Indo-Pacific actually originally comes from a security perspective rather than an economics initiative, it actually has evolved to include cooperation, and expresses a belief that the spirit of cooperation and economic integration should be amplified in discussions of the Indo-Pacific.

In the panelist's opinion, the basis of dialogue should also be to create inclusive and open regionalism, and new trade architectures should also discourage the increasing use of unilateral policy and prevent weaponization of trade policy, while also encouraging greater reforms to achieve more prosperity.

**Panelist E**

The panelist highlights that topic of the current IEA's World Congress is conflict, fragmentation, and divergence in the world economy, and that discussed on the first day was how to rebuild the trading system. The panelist notes the Asia-Pacific in particular has benefited from trade and investment, so it is very important to rebuild the system, and that two important initiatives, CPTPP and RCEP, are making progress, but there are still challenges: the implementation of commitments in these frameworks and the monitoring and enforcement of these commitments.

The panelist notes that another challenge is that IPEF negotiations have not been completed yet.

In terms of global agreements, the panelist asserts that the WTO is not functioning effectively and that plurilateral agreements can make up for this, but a serious problem the WTO has is its poorly-functioning dispute settlement mechanism, which is why many countries in the world have set up a multi-party interim appeal arbitration agreement called MPIA. The panelist believes countries who are not members of MPIA should consider joining it to complement the WTO.

Returning to RCEP and CPTPP, the panelist states that one of the problems may be national security exceptions, and while national security exceptions can be justified, the panelist believes that have also been abused. Thus, the panelist believes the meaning of national security exception should be clarified, but acknowledges that this is very difficult. He states that the so-called 'small yard, high fence' can be a good framework, but to deal with this ambiguity of national security exceptions, the countries, particularly the US and China, should keep talking and discuss what national security exceptions should be.

The panelist highlights that protectionism is increasing because of increasing geopolitical risks, increasing natural disaster risks, and climate change and so on, but that another important factor behind increasing protectionism is increasing domestic inequality resulting in disadvantaged group of people demanding protection, and many countries have experienced this.

Finally, the panelist states that in order to promote trade liberalization, which is connected to implementation of commitments under regional trade agreements, countries need to solve or reduce increasing inequality, and states that this is a domestic policy matter, although is very closely related to international trade policy.

#### **Panelist F**

The panelist states that Asia-Pacific economic architecture drove a lot of growth in the region for a several decades, and it was a case of location being driven by best economic competitiveness. The panelist notes that optimal trade areas were very well defined and were broadly following the David Ricardo win-win framework, and that the benefits from regional trade agreements were well defined and brought a huge number of people out of poverty and into the middle class.

The panelist asserts that now a lot of things have changed, and we are seeing the location of industry in the region being driven by security issues, risk avoidance, nationalism, and other populist issues, while the issues of where and how to produce and the form of supply chains are now very clouded by activist trade protection, distorting industry policy, and some distorting tax fiscal policies. The panelist highlights that the new trade architecture has uncertain public and private benefits and costs and reduces trust and results in a lot of uncertainty.

That panelist says that in reflection upon the emerging trade architecture in the Indo-Pacific Region, it is yet to be established that the Indo-Pacific is a region. Not very much trade flows from the Indian Ocean into the Pacific Ocean, and most of the trade is still with the Pacific Rim. The panelist also observes that there is a fracturing of existing trading groups, which could be viewed from various perspectives: the US led Washington Consensus built on the Bretton Woods after World War II, the Quad, AUKUS, the French arrangement, and IPEF. The panelist states that the US led the Indo-Pacific economic framework and had every opportunity to get an agreement at the APEC Seattle meeting last month, but failed to do that for domestic reasons, and that US policy is now causing

tension even for so-called allies. The panelist believes the direction of this grouping will depend on the roles of India and Japan.

The panelist observes that China's Belt and Road is increasingly prominent and emphasizing inland development, Central Asia, even Russia connections. The panelist points out that last year saw negative foreign direct investment in China, which is very significant, and that Chinese trade with the Global South is now bigger than with the West, which is also a big structural change.

In ASEAN, the panelist notes that supply chains have been rethought and reconfigured post-COVID to be more ASEAN-contained. The panelist states that while China has a different role, its large and growing trade surpluses into the ASEAN region remain a tension.

The panelist notes that in a recent meeting of BRICS, the group was enlarged to a sort of BRICS Plus. The panelist recalls that there was a non-aligned movement in the 50s and 60s, but we are now seeing some of the middle powers growing their economies and present strength in regional agreements and trade architecture. The panelist states that some of these might be quite non-traditional because in light of new strategic resources, like lithium required for electrification in the region, we see the powers in the Asia-Pacific may be as dispersed as Australia, Chile, and Myanmar. The panelist points out the possibility of the countries getting together in a sort of a post-OPEC resource controlling group.

As the panelist sees it, small countries are facing hard choices as they are under growing pressure to join one of the two bigger blocks. They are having to practice quite careful diplomacy and trade negotiation to maintain a balance as Chinese economic ties are important, but security and diplomatic ones remain important.

Finally, the panelist asserts that keep perspective needs to be maintained as there has been no major decoupling yet. US-China bilateral trade comes to nearly \$1 trillion - the biggest economic coupling in the world ever - and this is a long way from the old Cold War when there was little economic connection and trade between the two blocks.

## **[Discussion]**

### **Moderator**

The moderator starts the roundtable discussion with a focus on whether exchange rate mechanisms should be discussed in trade negotiations, while stating that exchange rates must be market-determined to avoid unfair product pricing and impacting product competitiveness.

### **Discussant A**

I used to be New Zealand Reserve Bank Governor at one stage, so I understand how important exchange rates are and how smaller countries can find themselves being pushed around by exchange rates or monetary policy in other countries. But we need to remember that exchange rate mechanisms have been a very important part of the trade regime. It would be good to see trade agreements with some confidence that exchange rates will be set by undistorted market mechanisms. But then again, the Flying Geese

Model sparked off a lot of the East Asian growth and seemed to rely temporarily on mis-valued exchange rates.

#### **Discussant B**

The US is very concerned about currency manipulation. I think this is included in the USMCA. The US is keen to include currency chapters or items with an eye on currency manipulation. But very few agreements have a currency chapter or currency item. Discussant C, is this correct?

#### **Discussant C**

I think Discussant B is right. During the TPP negotiations, exchange rate mechanisms was an issue that was raised by the US, but most of the central bank representatives discussing the financial chapter of the TPP were opposed. You cannot have an exchange rate mechanism established by a select group of countries, especially when negotiations involve 16 economies or fewer. This is a global issue and it is best left to financial institutions, so I don't think exchange rate mechanisms should be included in trade agreements.

#### **Moderator**

I would now like to talk about two points made by Discussant B; the implementation of commitments under regional FTAs, and the WTO. Regarding the first point, RCEP should have a secretariat for monitoring core commitments. Regarding the WTO, it is very important because middle and small powers' interests can be better handled by WTO, I believe. In particular, the dispute settlement mechanism is not functioning at all. Do you have any comments on those two points?

#### **Discussant D**

I think the implementation of agreements depends on various issues. Of course, the first one is the institutional setup under the agreements or facilitated by them. Many agreements, trade agreements, and trade arrangements are not really equipped with sufficient implementation mechanisms, so it might take some years for the agreements to be implemented fully or substantially.

The second factor is capacity to implement the agreements. Many countries or many economies in trade agreements still have difficulties in this respect, so I think technical cooperation and assistance is also important in order to provide help to these countries.

The third is the capacity of the private sector in the countries or economies themselves. Maybe some agreements might be quite future-oriented, meaning some private sectors might find it too early for them to be involved and benefit from the agreements. So, technical cooperation and some assistance may accelerate the implementation of agreements.

#### **Discussant E**

I would like to pose a question to Discussant B regarding his remarks on Multi-Party Interim Appeal Arbitration Arrangement (MPIA). I would like to know why the membership is confined to very few countries. Is it because of resistance in terms of how the new agreements are being implemented and the fact there are already dispute settlement provisions in some of the forthcoming free trade agreements or trading arrangements? Is it because of the faith people have in rehashing in WTO reforms that has seen dispute settlement panel appointments become operational?



### **Discussant F**

RCEP is crucial for the region and China is seemingly not welcome to apply to join the CPTPP, so I think China will investigate strengthening the role of RCEP.

RCEP will help to restructure East Asia supply chains as we are experiencing a process of restriction and labor-intensive goods moving out of China. But East Asia will continue to play a major role in supporting Asia-Pacific. To make RCEP stronger, it needs better implementation, and I think we should have a review of implementation. The third year should have renegotiations to upgrade the RCEP, especially to expand its coverage.

### **Discussant B**

Regarding MPIA China is a member, and the EU, Canada, and Australia are the major members. Japan joined MPIA in March this year, but it was hesitant to join partly because of the US position on MPIA. If I understand correctly, for the US, MPIA will not solve the real problem of a dispute settlement mechanism.

So MPIA may discourage efforts to reshape the WTO. But an increasing number of countries are joining MPIA. In Japan, they thought it could complement the WTO and so I think that's why Japan joined MPIA.

I have a question for Discussant F. China is working hard to get Chinese companies to use RCEP, meaning there is a big campaign to explain the benefits of RCEP to Chinese companies. Do you think that's one reason that Chinese companies are very interested in RCEP?

### **Discussant F**

For two years, the Chinese government, through trade associations, has set up training classes on the provincial and city level, with state-owned and private sector participation. I have been invited to give lectures and to explain IPEF and RCEP. Companies now seem to understand how to use it and are exploring opportunities. Special attention is being given to restructuring and how to develop a new relation between China and RCEP.

### **Discussant G**

I have talked with policymakers, and there is a keenness to figure out what sort of RCEP utilization is taking place, particularly in India.

We are perhaps now in a position where we can start collating some data. **Discussant B**, this is perhaps a good time to start working on what sort of utilization is taking place in RCEP. The data may not be very encouraging, but the trends will help us understand the impact RCEP has had post-COVID.

Japan joined MPIA just prior to its G7 presidency, but MPIA is creating more problems than it solves as I see it. The supply chain for critical minerals is now a very important issue both within and outside Asia. There is at least one important issue that the US is tracking separately; Indonesia's nickel processing policies were challenged in the WTO and the decision favored the US. But the decision was taken to a basically non-existing Appellate Body. It was thrown into a void, and Indonesia is not a member of MPIA.

Membership status is being used to evade very important trade-related questions and practices. The whole process of the WTO reforms and the Appellate Body is getting either put on the sidelines or delayed in MPIA business, so a lot of trade practices are slipping under the radar.

**Discussant B**

Regarding Discussant G's point about the use of RCEP. For Japan, we have information about the number of certificates of origin issued for trade with RCEP countries. The largest number of certificates of origin has been issued for Japan's exports to China followed by Korea, China and Korea are the two countries Japan didn't have an agreement with until RCEP. So Japanese companies are benefiting a lot from RCEP in their exports to China and Korea.

For Japanese imports, we have information about use of RCEP and any other agreement in our imports from RTA members. I think China and Korea are using RCEP because these are two countries that Japan did not have an FTA or RTA with until RCEP. Again, the Japanese companies are benefiting from RCEP.

**Moderator**

Let's move on to a question from the audience. "Some say that globalization is dead and concurrently we see multilateralism, pluralism, militarism, and unilateralism of sorts. If we are serious about peace and prosperity in the rule-based architecture, how do we avoid the trap of military industrial academia media complex in the midst of geopolitical and geoeconomic tension and nurture mutual trust in the process? With or without the presence of the Global South, how do we build into the non-exclusive schemes in the long run?"

**Discussant F**

We have to understand we are living in a new age. People call the past 30 years a process of super globalization, and after such fast globalization there are many problems emerging. It is natural to slow down and to rethink and readjust.

Also emerging is strategic competition, especially between the US and China. COVID-19 has also made every country rethink their security concerns, supply chains, and other matters. Things may happen suddenly, so they have to have different policy arrangements and preparations. People also are thinking about whether opening up 100% is good or bad, and whether they can benefit from this super globalization.

So we are facing quite different conditions from the past. We used to think the globe was flat, so you can go anywhere, businesses shortened their supply chains and had a long division of production and so on. Now, we have to reconsider this and adjust ourselves.

In this complex and different age, we have to keep the world heading in a positive direction. So I think that's why we are discussing regional roles today. We are keeping a spirit of multilateralism and global integration, but focusing on Asia-Pacific and East Asia in particular.

I mentioned before that it's not a trade issue, it's about confidence and trust. So, we have to use many different regional architectures and to rebuild basic confidence and trust to improve our bilateral and trilateral relations. Like China, Japan, and Korea, it's not easy, but every side hopes to resume the leaders meeting. We can't think that we can go back.

**Discussant H**

Discussant B raised the issue of the weaponization of strategic materials and issues related to security and trade nexus.

With regard to trade and security, big powers employ very readily use the term "security sensitive" and deem that something should be subject to export controls. The question I

am raising is: how can a line be drawn? Take semiconductors for example. They are security sensitive, but at what level are semiconductors tradable for commercial use? A delineation needs to be agreed. I would like to hear your views on this.

Strategic materials are very often used as a means of protecting domestic industry to combat economic sanctions, and so forth. Is it possible to have any agreement? When you put limitations on the international flow of strategic materials, how we can mitigate this phenomenon? I would like to hear your views on this.

#### **Discussant A**

Has globalization peaked or is it over? No, but it's different now. We used to traditionally just measure border crosses of goods and services, but if we look at people movements, it's just huge flows going across borders now. So I think we need to rethink our definition of globalization.

On the question of weaponization and trade security, New Zealand has one small steel plant. It has been caught by US national security exemptions and pays a large tariff to get into the US. This is very hard to justify.

On Discussant H's points about technologies or semiconductors, if you go back to World War II, there was a big development of input-output mapping. The American forerunner of the CIA mapped the German economy on an input-output basis to identify which parts of the economy were most vulnerable to being turned off. One of the first things they identified was the ball bearing industry. There were two plants: one was in Cologne, which got bombed, and one was in Sweden, which the Swedes were pressured to close. Ball bearing plants are a little like semiconductors today. Identifying key bottlenecks in the economy has come back into business and teachers are under increasing pressure to educate our students on how to weaponize our economy against other economies.

#### **Discussant D**

In the past, we've seen that most tensions have to end or be resolved by conflict or open conflict. In the first wave of globalization in the 1870s to the early 20th century, tensions were increasing and it led to WWI. This led to the League of Nations. The same thing also happened in the 1930s when the tensions from the Great Depression also led to the open conflict of WWII.

Countries then realized that it is better to cooperate. We should not repeat history. I think there are two things that are very different now. First, now we have all instruments at the global level required in order to resolve problems and tensions more peacefully. The second one is that there are middle powers now. There are independent countries and economies that can voice their aspirations and interests, which might be a channel for more constructive dialogue at the global level.

The Global South is a middle power and an example of how the rest of the world can play an important role in preventing major power rivals falling into open conflict.

I need to highlight the rise of nationalism and right-wing domination in various countries. We need to address this in a democratic way with more public involvement at the domestic and national level.

Regarding Discussant H's questions, I agree with Discussant A on how weaponization of trade policy can be addressed in various forums.

We at least need to take security perspectives into account in various forums. We attempt to separate economic and geopolitical or security issues into different forums, but there's no communication between them. Perhaps we need to have more comprehensive way in order to address the problems at the same level. During hyper-globalization, economic issues tend to dominate security issues, but now it's the other way around. Perhaps we need to put them at the same level.

### **Discussant B**

The typical indicator that we use to measure globalization is trade to GDP ratio. And after the global financial crisis, it stopped growing and is now decreasing, partly because of COVID and partly because of geopolitical tensions. The trade to GDP ratio for China is in a sharp decline. China is a big trading country, and that is reflected in the slowing down of globalization. The IMF called this 'Slowbalization.'

The ratio between trade in goods and GDP is declining significantly, but trade in services to GDP ratio is not declining. Looking at different indicators gives a different impression about globalization.

It is difficult to define products and technologies that are national security sensitive or national security non-sensitive. But this is an important issue that needs discussion in many forums. I think transparency is important when discussing national security sensitive products and technology.

### **Moderator**

The moderator expresses that this was a very good discussion on trade issues, and states that confidence-building and trust-building are very important certainly in this area and maybe all over the world. The moderator believes that a starting point might be to build up common understanding of globalization or the merits of international free trade, and also economic security is a very important issue to be tackled. Political science and economics should be combined to pursue the best outcome, a good balance between security and economy.

The moderator asserts that cooperation should be pursued and that the spirit of cooperation is very important, so an interdisciplinary approach towards this complex issue should be discussed next time.

## Asia-Pacific Forum 2023

### Day 2

#### [Session 2: Demographic Challenges in the Indo-Pacific Region]

##### **Moderator**

The moderator sets out the first issue as being the demographic issue of aging before becoming rich in the Indo-Pacific region, and notes that Japan is the only country that has a super-aging population, but China and Thailand have a population that's aging while their per capita GDP is close to or below world average.

He states that other issues to be looked at in this session are societal aging posing labor supply problems and the availability of resources for social services. The moderator expresses the opinion that policymakers must consider the effects of population aging on the macro economy and macroeconomic policy an issue that has been analyzed by the keynote speaker Professor Naoyuki Yoshino. The moderator notes that population aging reduces the efficacy of fiscal policy, requiring more fiscal resources to replicate the effects of previous stimulus packages, and that there are also the issues of developing an elderly care system which is important for Japan, China and Korea, and urban health investments to benefit a growing urban and aging population.

The moderator states that the final issue to be looked at is the issue of population in the Republic of Korea. He cites a December 2, 2023 article from the New York Times titled "Is South Korea Disappearing?" that underscores the serious problem confronting the country.

##### **Panelist A**

The panelist states that most Asia-Pacific countries are facing demographic challenges, and statistics reveal why this is a concern: 60% of all persons aged 60 years and above reside in the Asia-Pacific region. The panelist notes that the percentage of the population aged 65 and above in some Asia Pacific countries has risen from 7% to 14% in the last 20 to 25 years, compared to 50 years in Europe.

The panelist notes that the number of elderly persons in the Asia-Pacific region will double from 630 million in 2020 to 1.3 billion by 2050, pointing out that in 2020, 13.6% of the population was 65 or older, but by 2050, this will be 25%. This is coupled with a rapid decline in fertility rate and a decline in mortality and increased life expectancy. The panelists states that this could be considered a success, but the phenomenon of an aging is a huge challenge for most countries.

The panelist states that in Malaysia, more than 7.5% of the population is 65 or more, and by 2030, Malaysia will be an aging nation.

The panelist states that the first two issues to be dealt with are age-related health issues requiring specialized care and support, and social isolation and loneliness. In the case of the latter, the panelists asserts that it's not just the role of governments, and that the private sector and NGOs need to chip in to make sure social isolation and loneliness are addressed in a holistic way.

The third issue is financial dependence, and the panelist says statistics show that only 48% of EPF contributors under 55 years of age will have sufficient funds to live comfortably when they retire.

The fourth issue is the lack of physical infrastructure and facilities for a sustainable lifestyle for the elderly population. The panelist asserts that there is a lack of proper retirement homes, and as more and more children live on their own and do not take care of their aging parents, the elderly have to find a home on their own.

The panelist notes that in the past, children always took care of their parents in old age in Malaysia, but that this has changed drastically as many now move out of their parents' homes when they marry. The panelist states that this has become a serious issue as there are no sustainable retirement homes, only "old folks homes" with deplorable conditions and abuses taking place in some.

Finally, the panelist asserts that caregivers need to be enabled to provide better care for senior citizens.

The panelist expresses a desire to look at opportunities. He notes the huge need for physical infrastructure and facilities provides an opportunity for investors, and there will be a new demand for goods that will need to be met by the business community. The panelist asserts that in terms of services, caregivers are needed, and this provides an opportunity for service providers, and that there will also be opportunities for insurance or mutual funds.

### **Panelist B**

The panelist notes that Singapore is aging rapidly, and that its old age support ratio will plunge in the next few years from 3.2 this year to 2.4 by 2030, which presents a significant challenge.

The panelist explains that Singapore has been trying to address this issue really for 40 years since the former Prime Minister Lee Kuan Yew first identified the demographic challenge in 1984, and the failure to fully resolve these issues shows how intractable this challenge is. He explains that there were multiple efforts to combat this aging, with a lot of emphasis from the early years to the present on policies to encourage marriage and having children. The panelists says there was a lot of emphasis on cash incentives, but the effects have been very marginal. These incentives are considered to have rewarded people who would have had children anyway, rather than actually making a difference to the fertility rate. Today it is at 1.04, one of the lowest fertility rates in the world.

The panelist states that the Singaporean government has also tried to subsidize maternity leave for mothers and to encourage private companies to award paternity leave for fathers, and that there have also been more recent efforts to subsidize childcare and infant care, and to expand preschool options for children.

But realizing that the problem is intractable, he states that the government has embarked on another strategy in the early 2000s to ramp up immigration.

The panelist explains that this has helped to maintain the pace of economic growth, but it caused strain on public infrastructure such as hospitals, mass transit, and so on, but it provoked a backlash which forced the government to slow down immigration. He notes that this experience made a discourse on the optimal level of immigration difficult for

the government to pursue. Another line of policy direction has been to focus on funding. The government has introduced schemes to help support retirement incomes. We have a similar system to Malaysia's EPF called the Central Provident Fund. There's something called CPF Life, which gives an annuity payment to all those who are aged 65 and above. Other schemes have focused on supplementing the incomes of the very poor so they can save enough for retirement.

The panelist asserts that this shows cash incentives alone don't work, and that the underlying issues of why young parents don't want to have children now need to be tackled.

The panelist expresses the opinion that it will be difficult to bring fertility back to replacement level, and it seems inevitable immigration will be needed, so the pace needs to be aligned to social tolerance. He states that there's also a need for long range planning to create the fiscal space to address the increase in funding costs for retirement, elder care, and related infrastructure improvements.

Finally, the panelist states that productivity will be important, and Singapore's experience shows it is difficult to accelerate productivity growth.

### **Panelist C**

The panelist states that Korea faces serious demographic challenges: it is one of the fastest aging populations with, at 0.78, the lowest birth rate in the world (Japan's is 1.26), meaning Korea will be a super aged society by 2025 when the proportion of people aged 65 and over will reach 20%. The panelist notes that in 2020, for the first time, South Korea saw a net population decline and that economically, the low fertility rate has already had serious consequences for South Korea, most obviously a decline in the economically active population from 37 million in 2015 that will be only 20 million in 2065.

The panelist states that South Korea will likely suffer diminishing consumption, waning investment, and budget imbalance, and so should consider opening the domestic labor market systematically to foreign workers who can become permanent residents and to introduce a foreign immigration policy to resolve the ongoing demographic crisis.

The panelist explains that in 2004, South Korea began accepting low skilled foreign workers numbering 49,000, but this had increased to 2.5 million by the end of 2019, making up almost 5% of the population. About 40% are Chinese, mostly of Korean descent. Long-staying foreign nationals have voting rights, so migrant can influence Korea's domestic sociopolitical scenery.

The panelist asserts that South Korea's homogeneous ethnic identity is no longer sustainable and that Japan has started to adopt a similar foreign workers policy so the countries should learn from each other. The panelist asserts that South Korea needs to collaborate with Asia-Pacific economies that have a labor surplus. In addressing the super-aged society, the panelist states that South Korea will face rising social welfare costs, so a critical issue is to revamp national pension system to ensure long-term sustainability.

The panelist points out that South Korea's demographic challenges are also impacting greatly South Korea's sociopolitical future, and there are now four distinct age cohort groups in Korea with very different views on South Korea's political socioeconomic system. He notes that while South Koreans over all ages support democracy in principle,

the four groups respond very differently to emerging international conflict and the inter-Korean relationship. He asserts that given these ideological differences, it is a critical challenge for South Korea to ensure a consensus based robust democracy in case of a serious inter-Korean conflict.

The panelist states that in addressing worsening income inequality and the related social welfare programs, politicians unfortunately tend to take an advantage of the generation gaps to win support by adopting populist policies at the expense of future generations. He asserts that it is a big challenge for South Korea to implement an effective mechanism for intergeneration dialogue to reach a national consensus. On the low fertility rate, he states that South Korean mother's average age at their first birth was 33 in 2022, compared to an OECD average of 28-29.

The panelist notes that all adults in South Korea are fully aware of the health of the country's education system, which needs urgent reform.

The panelist finishes by saying most of South Korea's policy responses to complex demographic challenges offer valuable lessons to other Asia-Pacific economies, while South Korea should also learn lessons from other Asia Pacific economies.

#### **Panelist D**

The panelist notes that In Thailand, people of 60 years or older are defined as elderly. Under such definition, the number of elderly persons in Thailand has already overtaken the number of children. He points out that Thailand is aging rapidly, and has become old before getting rich, with the new phenomenon of an increasing number of centenarians. The panelist points out that in Japan there are currently 90,000 centenarians, whereas in Thailand, five years ago there were already around 10,000 and there are many more people between 90 and 99 years old who may become centenarians soon.

The panelist mentions some of the challenges faced by Thailand, starting with the problems of productivity-driven growth. Statistics on how people of different ages perform in terms of their productivity shows that productivity peaks between 40 to 45 years old, and then rapidly decreases, meaning an aging population leads to a less productive economy.

The panelist points out expenditure as another challenge, asserting that pensions and healthcare will be a big problem. In Thailand, the accumulated pension fund will peak in around five years, and will then rapidly decline until it is gone in 20 years from now unless the government takes drastic action.

The panelist next looks at policy recommendations, with a focus on two points; how to maintain growth, and how to reform social security funds. For growth, the panelist asserts that the growth equation related to labor capital and total factor productivity must be considered, and that with a declining and less productive population a lot of migrant laborers need to be brought in, and early retirement reduced. He notes that there are many people in Thailand who retire around 55 years old, partly due to the pension system allowing withdrawal at 55 years old, and that the workforce needs to be reskilled, with a particular focus on upskilling the elderly population, to be productive.

He states that a quick but politically difficult action would be to reduce the number of military conscripts. Around 100,000 men aged 21 are currently conscripted every year, but there are no external enemies, so reducing the number of conscripts would be a big



win. He adds that in terms of capital, Thailand needs more automation, AI, robotics, and other such things.

Finally, the panelist states that Thailand has to increase its total factor productivity by investing in research and development, and by deregulation to speed things up and increase productivity. To reform the social security fund, the panelist suggests that it would be easy to raise the current low contribution cap that means people don't save enough. He also believes that the fund's governance must be improved, as it has been spending carelessly and has seen a number of scandals.

## **[Discussion]**

### **Moderator**

The moderator starts the discussion.

### **Discussant A**

I would like to ask you all if you think population decline is a good thing. The global population is too high, and that's why CO2 emissions are increasing. However, we have to do something about aging and retired people. As Discussant B said, a retirement age of 55 is too low.

What do you think about a later retirement age? In Europe, many people are opposed to working significantly longer. What do you think about your country?

Accumulated social pension funds and asset management are very important. I'd like to know about their performance in other countries.

### **Discussant B**

I think retraining is really important. Without it, the productivity of the whole workforce will decline. In Thailand, our retirement age is 55 years as per the pension law. This is low compared to other countries.

In Europe and developed countries, the retirement age is 60 or 65. Thailand has plenty of room to do the same. Regarding pension funds, in the case of Thailand, employees, employers and the government should chip in with the same proportion of 5% of the worker's wage. But in practice, the government has consistently contributed only half of the amount they promised to. That's another reason that the pension fund in Thailand is so weak.

### **Discussant C**

In Singapore, the government's savings are managed by three entities: the Government of Singapore Investment Corporation, GIC, Temasek, and the Monetary Authority of Singapore. Most savings for supporting long-term needs like retirement are managed by GIC. Performance has been good in terms of the mandate given to them. The average nominal return over the last 30 years is close to 6%, which implies that the real rate of return was comfortably positive.

Accumulated savings have increased, but the actual payout to retirees is low and fixed by the CPF law. A lot of money then accumulates as surpluses on the government account,

and the government is increasingly returning that to citizens in the form of fiscal transfers. The net investment return contribution is the inflow of revenue from the investment management account, and it is now the largest source of revenue for the Singapore Government.

The long-term accumulation of savings and good management and governance has produced extra fiscal space that other countries lack. But we still need to look at how that accumulated savings is actually returned to the people who need it. We now have a lot of old people retiring whose CPF contributions were very low because they were working when salaries were low, and so their retirement incomes are insufficient.

#### **Discussant D**

Malaysia's retirement age was 55 and was then extended to 58. It is now 60, which is too low when life expectancy is already 70-75. Raising it is better than introducing immigration. In Malaysia, it's not easy to have an immigration policy to bring people in as Discussant E suggested. I think there is a very productive workforce among retirees who should be brought back to the workforce.

On the pension scheme, we are in a situation where more than 48% have got very little savings to fend for themselves in later years. That is for the private sector, but one of the biggest components of our aging population is ex-civil servants. As expectations to reach a higher stage grow, the pressure on the government will be to continue to pay pensions until death. I think the financial stress for the Malaysian Government will be whether it can maintain a pension scheme that can be sustained.

#### **Discussant E**

In Korea, the retirement age for a college professor is 65. Government officials retire at 60, and company workers at 62. Given the labor shortage, all the retirement ages could be increased. But new job opportunities for the retired people should not interfere with those for youngsters. We need to protect work for youngsters, so the government should be concerned about how to provide the elderly proper job opportunities. Also, the government can create a lot of community work which is very critical for security.

For the pension fund program, in Korea we should employ the principle of more contribution but less payment.

#### **Moderator**

What's the policy of Thailand with respect to immigration?

#### **Discussant B**

We have an ad hoc policy to accept Myanmar workers with a quota, but the quota is increased every few years. So that there are around 5 million people immigrants working in Thailand.

#### **Moderator**

I just want to mention that Discussant A made the remark that social integration of immigrants and their families into the host countries is important.

#### **Discussant G**

Obviously, Australia is in a very fortunate position as it is a wealthy country, but back in the 1990s, the superannuation scheme that Australia now has was established and it was required that each worker submit 10% of their salary. This was done by the employer.

We have nearly \$4 trillion of assets under management which are available for policy holders in the superannuation scheme. If there is not enough there and they pass a means test, they are eligible for an age pension from the government. And that has risen from a basis of 65 for men and 60 for women, up to 67 now for eligibility for men.

In terms of migration, this year is close to 700,000, which is too much for the social tolerance in Australia.

#### **Discussant D**

We have already discussed financial stress and gaps in the workforce. But in an aging population people will grow old, so how do we maintain a lifestyle for them that puts less pressure on the government and their families if we do not take care of their health. We should encourage a healthy lifestyle, and that way we can also put less stress financially on governments and families in an aging population.

#### **Discussant E**

In Korea, the more serious problem is population decline. I think this is a truly urgent issue. We have to establish effective immigration policy so migrants can easily integrate into Korean society, and work together with labor exporting countries to ensure very smooth transition.

I think for Korea, this is the most important issue. In rural areas, if there were no migrant workers, the Korean economy will just collapse

#### **Discussant F**

I have a question to the panelists. Do you think we need some kind of regional key principles or arrangement for immigration or just bilateral?

#### **Moderator**

Discussant F raised the issue of original arrangements for immigration and harmonization of policies in the region. Would any of the panelists like to respond to that?

#### **Discussant C**

I think the suggestion is very good because now we have a mix of legal and illegal immigration. A lack of proper coordination and planning, highlights the downsides of immigration. But if we do something like that, it should be in the context of an ASEAN-wide economic integration framework, perhaps added to the existing framework to ensure consistency with other issues.

#### **Moderator**

We also have the mutual recognition of standards and education and qualifications. From the Philippines' perspective, we are heavily dependent on overseas foreign worker remittances. Working overseas has been facilitated by the fact that our medium of instruction is in English. We do have language electives. But for the past years, they have been European centric. I would recommend to our government that we shift to Asian centric elective languages.

There have been many interesting proposals in this session: increase the retirement age, manage pension funds more effectively and efficiently, immigration and healthcare, and regional arrangement for immigration.

We have to make efforts to address demographic problems in our region.

**Discussant A**

I would like to ask each panelist if the immigration policy in their country works well. When I looked at Europe, the first generations are very good because they have their own skills, but the problems start with the second generation. If immigration policy is not working well, what are the key points for a remedy?

**Discussant C**

I think immigration policy is always sensitive and is difficult to optimize. As in Singapore's case, we've gone through iterations. In the early 2000s, there was a very aggressive policy of large-scale immigration inflows, and that didn't end very well. It generated growth, but also a lot of costs. We have a more calibrated approach now, and what is happening is that the government is now trying to wean SMEs off low-cost foreign workers, but this is proving difficult. There are big costs involved, and the burden of such adjustment is borne by SMEs.

Singapore ensures longer-term stimulation by being selective in terms of the countries from which we allow resident migration flows. Typically, this is professional workers from countries that are similar in culture and ethnicity to Singapore. Although there have been some downsides, generally, it has worked.

**Discussant E**

Recently, Korean newspapers had headlines claiming that Japan had adopted a free college education system for families with three children. I think that this is a very persuasive and effective program, and that the Korean Government should adopt that policy immediately. Can you share the background?

**Discussant A**

I have taught in Germany, Sweden, and France, where tuition fees are very low or zero. I think this equality is important in a society: whatever your income and wherever you're from, you have the opportunity to go to a good university. This is the best way to harmonize a society. The government decided to encourage people to have more children, so if they have more than three, they will pay no tuition. This is a very good policy to get families to have many more children

**Discussant E**

Another thing South Korea should look at is Japan amazingly succeeding in raising the fertility rate to 1.3. South Korea's is now 0.78. South Korea should learn how Japan has achieved such high fertility rate in a relatively short period of time.

**Discussant A**

At 0.78, the country will disappear in time, so it's important to maintain the number of children in Korea. I think various policies will be needed, but a good policy is to scrap tuition fees for families with three or more children.

**Discussant E**

We should talk it over either in Tokyo or Seoul in depth, and Korea should learn from Japanese experience.

## [Session 3: Energy Security and Climate Change]

### **Moderator**

The moderator notes that COP28 ended on December 12, and that COP27 was the first “global stock take” to see how each country is progressing towards net zero carbon, and also to stay within the 1.5-degree limit. He states that this stock take is a very important accountability and acceleration exercise to achieve the goals decided in the Paris Agreement of 2015.

The moderator invites Panelist A to share the Government of Australia's opinion and public opinion on this critical global matter.

### **Panelist A**

The panelist asserts that climate change is certainly the most challenging global issue today, and notes that 2023 was the hottest year in recorded history with disastrous storms, floods, destructive wildfires, and droughts occurring much more frequently and with far greater ferocity.

He states that continued prosperity is directly threatened, as is the very survival of the global community, and that maintaining a global consensus on moving forward to achieve the ultimate target of net zero emissions by the year 2050 is hugely important.

The panelist notes that each country's specific pathway forward through this transition is shaped by its own national circumstances, and that sustaining economic growth at the same time as undertaking the important work of reducing carbon emissions as fast as possible is also critical. He notes that as fossil fuels contribute as much as 80% of total emissions, energy security is central to the climate change debate, before going on to state that if combat global warming is to be combated and net zero emissions achieved by 2050, it means transitioning away from dependence on carbon-emitting fossil fuels in the energy mix and replacing them gradually, adopting technologies, providing cheaper renewable energy.

The panelist notes the wide spectrum of opinion about how to realize this transition, with climate change purists calling for immediate cessation of mining and production of fossil fuels and the shutdown of all fossil fuel burning power plants, and climate change skeptics rejecting the overwhelming science about global warming and calling for the opening of new power plants and unlimited use of fossil fuels. The panelist observes that most countries fall somewhere between those two extremes.

He states that the transition will take time because governments must cater for expectations for dependable, sufficient, and affordable energy at the same time as transitioning away from reliance on fossil fuels.

Speak briefly as a layman about Australia's policies and efforts in response to climate change, the panelist states that as one of the world's largest energy producers and exporters, Australia faces particularly difficult challenges in reducing emissions and transitioning to renewables. It needs to ensure energy security domestically, while working closely with major importers that depend on Australia's exports of the coal and gas. He notes that the current Australian Government was elected in part because voters believed that the previous government had been lagging in its responsibility to reduce emissions and transition to renewable energy at a fast pace.

The panelist believes that the Australian government was also motivated to respond to the views of a significant majority demanding more advances be made in addressing global warming, especially by greater use of renewables. It has promised to address the dramatic increase in domestic energy prices due to political issues such as Russia's invasion of Ukraine, and the aftermath of COVID-19. The new government was deeply concerned about the impact of global warming on small island countries in the South Pacific and committed to mitigating it. Due to the high level of carbon emissions involved in fossil fuel mining, production, and export activities, the government has accelerated the process already underway to strongly discourage any new coal mines opening, and to gradually phase out coal-fired power plants. To address potential shortages due to the planned closure of some 24 coal fired power plants, the government has promised to underwrite 22 gigawatts of new investment in solar, wind, and battery technologies. This is in addition to the extensive wind farms already in operation and the high rate of Australian homes already collecting solar power from their rooftops. Per capita, Australia has the highest rate of solar energy use in the world, and it is also keen to explore green hydrogen production.

The panelist admits that gas remains an important part of the domestic energy mix in Australia. He notes that in mid-2023, the government announced new regulations to reduce greenhouse emissions from gas fields by requiring upstream gas producers to achieve carbon neutrality, but some have suggested this might impact the energy relationship between Australia and Japan. However, Australian and Japanese Government ministers have publicly addressed such concerns about Australia's reliability as a major supplier of gas and other energy resources, making it clear Australia is committed to remain a reliable long-term supplier contributing significantly to Japan's energy security.

In the context of the climate change debate, the panelist states that this episode between Australia and Japan illustrates the importance of sustaining long trusted relationships and when contemplating policy changes, consulting appropriately.

#### **Moderator**

The moderator states that he would like to explore further the Australia relationship with Japan in terms of the energy and security, and whether it could be extended to other Asia-Pacific economies.

He then invites Panelist B to talk about how Myanmar has energy distortion problems and serious adaptation issues.

#### **Panelist B**

The panelist notes that regarding climate change, Asia Pacific is one of the regions to be greatly impacted by El Niño in 2023-2024. She states that Myanmar has already experienced severe flooding and extreme swings and is widely considered to be one of the most vulnerable countries to the impacts of climate change. Cyclone Nargis and Cyclone Mocha in May 2008 and May 2023 respectively killed many people and caused heavy economic damage. The commercial capital Yangon contributes a quarter of the country's GDP and it is also the fourth fastest sinking coastal city in the world. Climate change is putting energy security at risk, affecting fuel supply, energy production, resilience of current and future energy infrastructure and energy demand.

The panelist observes that the power sector in Myanmar has faced various headwinds in recent years. Fiscal constructions, economic challenges, conflict and political factors have

impacted the stability of the entire generation and transmission system. Changing climate conditions and energy mix calibrations due to local and global developments caused more water resources to be utilized for hydroelectric power generation during the monsoon seasons, causing sharp drops in water available for irrigation.

The panelist explains that Myanmar has a number of power projects but most are on hold for now or still in the exploratory phase. She adds that an intergovernmental agreement was signed with Russia in end-2022 to collaborate in the installation of small civilian nuclear power plants; two MoUs were also signed with Russia's NovaWind in June 2023 to install over 300 megawatts of wind power and that Myanmar recently signed an agreement with China for purchasing 90 megawatts from three solar projects in Central Myanmar.

International sanctions in response to domestic developments are also affecting aspects of the power sector. In February 2022, the European Union imposed new sanctions on Myanmar including on the state-owned Myanmar Oil and Gas Enterprise (MOGE). The United States also imposed a ban on financial transactions to MOGE starting from December 2022. One of the impacts of the sanctions is that it is now harder to maintain and repair gas power plants feeding the national grid.

The panelist states that multilateral financial institutions have also halted loans and grants, having strong knock-on effects on the power sector. The political situation has also dampened interest in the exploration of gas fields and power generation investments. Official statistics show that Myanmar produced around 8% less electricity year-on-year from April 2022 to March 2023, with other estimates placing it higher.

The panelist explains that energy shortages are affecting all aspects of life across Myanmar. She explains that unstable power supplies are affecting the storage of essential medicines and samples. Most factories and commercial buildings now use diesel generators and increased reliance on diesel is exacerbating the impact of high fuel prices that also affect agricultural productivity, as farmers cannot afford to run irrigation pumps. Few enterprises know of financially viable renewable alternatives. The government has emphasized solar energy and electric vehicles as key components for energy security and self-sufficiency but banking challenges, highly subsidized utility rates, trade issues and the security situation are affecting investor interest.

Finally, the panelist states that the impact of sanctions on the authorities falls mainly on ordinary citizens and businesses, and while some are trying their best to adapt in the face of manmade and climate change-linked challenges, more needs to be done by all concerned stakeholders. She asserts that the government needs to address issues such as supply, reliability, greater accessibility and affordability.

#### **Moderator**

The moderator states his opinion that Myanmar requires international technical assistance as well as financial support, but that it has very good wind resources.

#### **Panelist C**

The panelist notes that the International Renewable Agency says that energy transition is key to tackling the global energy and climate crisis, but it is not a smooth process and may adversely affect energy security.

He states that a key example is the transition risk of climate change coming from efforts to build a green economy. He asserts that it can be too fast or haphazard, so transition risk materializes when changes in technology, standards, taxation and other policies turn carbon intensive assets into stranded assets and amplify losses through financial interconnectedness. The panelist explains that if the move towards renewable energy and reduced carbon emissions is too fast, the supply might actually be less and lead to financial losses for some firms and it could affect energy security. In this case, there will be a possible conflict which results in an energy trilemma; the conflict between energy security, energy equity, and sustainability.

The panelist argues that if the move towards trying to protect the environment is too fast, then it will affect access to energy and it may increase the cost for lower income households, so it affects energy equality and energy security. This is essentially the energy trilemma. The panelist suggests some policy responses to avoid this: Enhance energy efficiency, green building codes, more efficient appliances, electric vehicles and other such things. He notes that the Philippines has facilitated investment in renewable energy technology through legislation.

The panelist states that it is important that we allow enough time to retire existing coal power plants, so there are no stranded assets. He explains that the Philippines is constrained by the relatively slow expansion of its power grid, and thus not able to effectively incorporate renewable energy resources – a problem that needs to be addressed.

Finally, he states his belief that nuclear energy is something that requires serious consideration, particularly in the Philippines.

#### **Moderator**

The moderator invites Panelist D to discuss the Taiwanese experience and global perspective.

#### **Panelist D**

The panelist points out that over 75% of global climate pollution comes from burning fossil fuel, which releases the two largest pollutants: carbon dioxide and methane, and that methane is behind nearly 45% of global warming. She adds that methane from the energy industry comes mainly from leaking gas pipe, wafts out of coal mines, and microbes in rice paddies. She notes that in the past three decades, nations have had no consensus on how and when to reduce fossil fuel emissions and whether ending reliance on fossil fuels is necessary. The Paris Agreement aims to limit the global temperature rise to 1.5 Celsius and requires the international community to assess the adequacy of climate action every five years. She points out that scientists agree this is too slow and too little to avoid potentially unmanageable and catastrophic climate change, and that the UNFCCC report stresses the need to expand the introduction of renewable energy and to phase out fossil fuels,

The panelist highlights a remarkable breakthrough from COP28: 50 hydrocarbon firms totaling 40% of oil production pledged to eliminate methane emissions from fossil fuel exploration and production by 2030. She adds that the process will be independently verified by third parties, and that debates on international climate finance are also taking place. However, she notes that only 23% goes to local communities for climate adaptation and resilience, with most going to donors for emission mitigation.



The panelist points out that tariff barriers and non-tariff barriers are meant to balance economic efficiency and geopolitical resilience and to elevate net zero industrial competitiveness by reshoring or friend-shoring.

In conclusion, the panelist states that decision-makers often suspect that climate friendly policy will undermine energy security and thereby cause GHG emission to plateau rather than decline, and that global climate leadership and good governance are required to continue making possible a sustainable green earth.

### **Panelist E**

The panelist asserts that Vietnam made a very ambitious commitment at COP26, to achieve net zero emissions by 2050, and also issued its National Green Growth Strategy, while it also approved an action plan to implement that strategy.

For energy transformation and transition, the panelist states that Vietnam has many master plans, but that three or more years are needed to have a so-called Power Development Master Plan.

He notes that there is a lot of debate about how we can achieve the monthly targets, and adds that a sufficient and reliable energy supply needs to be ensured, energy made cleaner, competitiveness promoted, and an inclusive transition plan formulated.

The panelist states that transformation in energy sector will be tremendous. He states that in 2020, more than 50% of Vietnam's energy came from coal, but by 2050, it will be only 5%. In this transition, the panelist claims that Vietnam will rely so on biomass, ammonia, and gas, but after 2035, the emphasis will be on hydrogen and ammonia. During the transition, the panelist asserts that renewable energy will grow tremendously, and by 2030, renewable energy will contribute more than a third of the country's electricity, and nearly 70% by 2050.

The panelist notes that Vietnam is in a good position for an energy and electricity transition, and has the political will and policy direction as well as huge potential, especially in solar and wind energy. He asserts that Vietnam can be a hub for energy transformation.

However, the panelist admits the challenges are huge. Firstly, he admits that while Vietnam has set many targets, its electricity market is not competitive as the price is heavily regulated by the State. Secondly, regarding the implementation process, he explains that Vietnam has only six years to achieve its target for 2030, so cannot rely on traditional mechanisms to implement the master plan.

In addition, the panelist states that Vietnam needs international support and cooperation, and a lot of money. For new power plants, the country needs at least \$134 billion. According to the World Bank, to achieve its green growth strategy by 2040, Vietnam will need \$368 billion. The panelist notes that getting the money is important, but how that money is spent is perhaps more so.

The panelist notes that Vietnam is also a member of the Just Energy Transformation Partnership, and without the JETP, it may be more difficult for Vietnam to implement its master plan. He notes that the master plan and even the green growth strategy formulated in the context of many challenges and risks have already been mentioned by many speakers. The panelist states that when he asks international donors and Vietnamese experts if they think Vietnam can achieve its ambitious goals, they mostly

say yes, but only with steadfast commitment, creativity, innovation, international support and cooperation. Finally, he asserts that a more effective enforcement mechanism is needed.

## **[Discussion]**

### **Moderator**

The Paris Agreement set two goals: to achieve net zero target by 2050 and to achieve the 1.5-degree target down the road. At the COP28, the UN Secretary General urged that each country should move beyond arbitrary red lines, entrenched positions and blocking tactics. Every nation agrees on the basic goal of the Paris Agreement but disagree on how to achieve it. So, how we can ensure a smooth transition from the different perspectives of each country depending upon the degree of development, technology and so forth. What is Australia's position?

### **Discussant A**

Australia takes the challenge of climate change very seriously. However, it's complicated because we are a major producer and exporter of fossil fuels. But we are doing a great deal to try to achieve the carbon neutral goals and could achieve 43% by 2030. The government is actively seeking to encourage investment in renewables, underwriting new renewables under the capacity investment scheme, which is expected to triple renewables by the year 2030.

To control emissions, there is a safeguard mechanism whereby carbon capture, utilization, and storage can be increased so that producers and operators can earn carbon credits against their emissions.

### **Moderator**

Because of that policy was Australia's exporting of coal affected? How is traditional export policy affected by the renewable energy drive?

### **Discussant A**

There were concerns that Australia was disrupting established relationships in terms of export of LNG to Japan, which takes about 40% of Australia's LNG exports. We have made it very clear at the government level that we are committed to remaining a supplier of LNG to Japan, as well as to Korea, Taiwan and China, while at the same time clearly closing down coal plants and reducing exports of dirtier emissions, namely coal.

We also hope to become a net exporter of renewables such as hydrogen. We are a repository of critical minerals essential in battery manufacture. We've noted that China has threatened to protect its graphite exports. Australia has significant graphite deposits, so we could step into the bridge. There will be adaptation, but right now I think Australia for the foreseeable future will continue being a very significant gas exporter while making other mitigation efforts.

### **Moderator**

You specifically mentioned that Australia and Japan have established a close collaboration mechanism to deal with energy issues. I would like to see energy technology

be deemed to be international public goods, and to see this technology shared among Asia Pacific economies. So I hope Australia can display leadership on this front.

### **Discussant B**

My observation in the case of Taiwan is that during the past eight years, we've been having a debate between so-called Technocrats and Democrats. Some people took to the street and demanded a 'No Nuke' landscape in Taiwan. Nuclear power plants currently account for about 9900-megawatt of our capacity, or only 8% of our primary energy consumption and 19% of our electricity. We have a mixture of solar and wind power, but this is dependent on nature.

In terms of sophisticated technology, it is not sufficient to meet our energy demand. If next year's election results in a change of government then we will have a different nuclear policy. But our private sector is ahead of the government. Due to insufficient power, the incentive to keep manufacturing in Taiwan is insufficient. The industry sector is more advanced in terms of thinking about carbon price, carbon tax, and carbon exchange and the like. In the energy sector, I think we are facing the challenge of how to get PPP to work best, because investors always want to charge a high price for carbon tax, but consumers do not like the idea. This PPP is something for us to think about in the future.

### **Moderator**

I think the Paris Agreement really aims to triple renewable energy and double energy efficiency. It also has a single focused policy orientation away from fossil fuel-based traditional energy schemes. Korea's previous government wanted to move away from nuclear power generation, which used to be about 30% of our total energy mix. After the Fukushima disaster, the previous government was very worried about the potential consequences of the nuclear energy.

However, nuclear energy is regarded as clean renewable energy according to the new energy taxonomy adopted by the European Union. I would like to hear more about the position on this Philippines as well as in Vietnam.

What is your government's position on the energy mix and how do you view nuclear energy as part of an ideal energy mix?

### **Discussant C**

I will first provide some background. I did research on the Bataan Nuclear Power Plant that was mothballed in 1986. I found this was largely a political decision, and not grounded on technical issues. So the Philippines really missed a golden opportunity to integrate nuclear power in 1986.

The current administration is interested in reviving nuclear energy. I am actually part of a team that will look into how to effectively involve the private sector in adopting nuclear energy. But based on our initial discussions, it will take 10 to 15 years before we are able to incorporate nuclear energy.

I personally want to avoid a situation like the one in Korea where one president scrapped nuclear, and then the next president revived it. In the Philippines, if we decide to incorporate nuclear energy, the policy should last for 20 years, otherwise, a new administration might disrupt the program, and we will be back to square one.

**Moderator**

I opposed the previous government's policy drastically reducing nuclear energy. As a result, Korea's electric power companies incurred a lot of the managerial losses and caused a burden on the Korean economy. The new government is starting to resume ready-to-go power plants and will perhaps expand a couple of more. The Philippines and perhaps Vietnam are much better in terms of generating wind power and solar power, but Korea is not that well-positioned geographically.

**Discussant D**

So far, Vietnam's electricity very much relies on two sources: hydroelectricity and coal-fired plants. That's why in transition, gas power plays a very significant role. It is not dirty like coal, but not clean like solar or wind, and, importantly, is very stable. But the problem is that the price of the gas is very volatile, and we need to import. So in the long-term, solar and wind and hydroelectricity will play a key role, and then gas will be phased out.

Regarding nuclear power, 15 years ago we had a plan to develop two nuclear plants in the center of Vietnam, but because people are thinking about the risk of nuclear power, particularly after what happened with Japan in 2011, our nation assembly temporarily stopped development of nuclear power. With the new power master plan, we focus on how we replace coal development with solar wind, and other renewable energy as well as gas in the transition up to 2050.

At the moment, many experts would like Vietnam to return to developing nuclear power, because nuclear power is very clean, stable, and has other advantages. Right now, we have an R&D center for nuclear power study, but everything is decided by the parliament in the end.

**Moderator**

It was mentioned that Myanmar has electricity blackouts and many issues with the grid power system and so forth. Is Myanmar planning to look for financial or technical support immediately from neighbors plus Asia-Pacific economies?

**Discussant E**

At the moment, sourcing funds is very difficult for Myanmar, even from within ASEAN. Myanmar has signed an agreement with Russia in 2022 for a small civilian nuclear power plant but that has not started yet. Myanmar also signed two MOUs with Russia's NovaWind for two wind power projects. We also signed power purchasing agreements with China last month, though they are on a small scale of a total of 90 megawatts. The project with China involves work between Chinese state-owned companies and the Myanmar Ministry of Electricity, and the private sector is also involved.

In Myanmar, we actually need 10,000 megawatts of electricity for the whole country, but three, four years back we had a maximum of 4,500-5,000 megawatts. But security and economic headwinds mean that we are only producing around 2,000-2,500 megawatts. If the projects on hold work out, they will add around 2,500 megawatts. So I would like to request for help from everyone here in terms of technology and financing. We have a lot of hilly regions and long coastal regions for wind power plants. But we need technology to find and develop suitable place where we can invest.

At the moment, no investor is coming due to political situation as well as the highly subsidized electricity cost. For households, it is around 1 to 3.5 cents per unit, and for

the industry, it is 4 to 6-7 cents per unit. Power purchasing agreements are a problem for investors. The private sector has been pushing the government to review the price and to increase it to a certain level to attract investment and improve reliability. If you can help to bring funding and technology to Myanmar, you can help the people, communities and businesses, so I would like to request such help.

#### **Moderator**

There are two basic issues for smooth transitioning to decarbonization: how to ensure the transparency, and how can we find a compromise between the conflicting public and private profit-making views and attitudes?

#### **Discussant C**

Regional cooperation in Asia Pacific would be important in tackling the issues that you mentioned, the conflict between public and private interests. I think we have the mechanisms to do so. Our vast experience with regard to regional cooperation can be very useful in this regard as well.

#### **Discussant B**

It is a good start that the international community has begun a dialogue about ESG and what is good governance in the economic and social governance area. In these panels and forums, we have to think of ways not only to build capacity building in the domestic realm, but also international collaboration. How do we move forward not to initiate more green protectionism in this regard?

#### **Discussant D**

The process of greening the economy should not just rely on political commitment. Political will is important, a top-down process is important, but, right now, we can observe that process is very much market driven.

Many financial institutions now comply with the Equator Principles, and if you cannot satisfy ESG criteria, it is very hard for you to get access to the capital. So this is a very market-centric approach.

To minimize the wastage and achieve a circular economy, a market bottom-up approach is equally as a top-down approach.

There's coordination among international donors, particularly among the developed countries. Developed countries have two approaches. One is technology for dealing with the output. For example, you can keep a coal-fired plant with CO2 storage technology. The other a technology approach from the input. For even Vietnam, what kind of technology and approach is more important than the capital cost.

#### **Discussant F**

This was a very interesting discussion on various issues. I would like to ask you how we should treat fossil fuel as there is seemingly no agreement yet at COP28. The question is whether or not fossil fuel can be abolished or use of them reduced. The final outcome is unclear, but the Japanese position is that if we could eliminate CO2 from fossil fuel using CCS or other technology, then we should be able to continue to utilize them. So the Japanese position is to reduce the use of fossil fuel and not necessarily abolish them. I would like to hear your views on this critical COP28 issue.

### **Discussant G**

In each country, what kind of policy instrument will be used in order to cope with the reduction of CO<sub>2</sub>? Is there any tax policy or green bond financial policy? I'd like to know what kind of policies have been adopted in each country. Which were successful? Which are not doing so well?

### **Discussant C**

I will attempt to combine Discussant F and Discussant G's points of view. Let me first state that fossil fuels also are limited in supply, and at some point they will run out. My colleagues in the renewable energy sector are very confident that a market mechanism will dominate and lead to a larger share for renewable energy, and this would also include nuclear power. The key at this point is battery storage, the cost of which is coming down and will reach a point where the market mechanism will lead to reduction in the use of fossil fuels. So policy intervention will not be necessary anymore.

### **Moderator**

I would like to conclude our session by making some remarks. First, I think the Paris Agreement to achieve global net zero target by 2050 and achieve a 1.5-degree target must be adhered to no matter what. It requires international collaboration. We should recognize that a smooth transition to decarbonization will create millions of decent jobs.

Given the diverse and transient positions from countries in terms of differential economic development and per capita income, the global community must assist fossil fuel-dependent developing countries. Issues relating to smooth transition in developing countries must be addressed in close coordination with advanced economies.

We really need to work out how to very carefully and effectively phase out all fossil fuel on a timeframe consistent with the 1.5-degree limit. We need to operationalize the loss and damage fund and further replenish the Green Climate Fund to ensure financial support for a smooth energy transition for decarbonization.

I believe we will enter a global burning era, not global warming. Unless we take immediate and effective collective action, we are likely to face a global burning issue which would be detrimental to all of humankind.

## **[Closing Session]**

### **Masakazu Toyoda**

The speaker thanks participants for their enthusiastic and constructive discussion over the last two days as panelists or as moderators, and expresses optimism about the world development and the future of the countries before going on to recap the three sessions that took place in the forum.

### **Dr. Josef T. Yap**

The speaker notes that he will be active in helping PIDS to co-organize the 2024 Asia Pacific Forum, and is honored to invite everyone to travel to Manila for the forum next year.