

# CJK Cooperation Dialogue 2015

## Towards Mutual Understanding & Friendship Among Leading Thinkers on Track 1.5

### 2nd China-Japan-Korea Cooperation Dialogue Successfully Concluded

By *Japan SPOTLIGHT*

#### Introduction

The Japan Economic Foundation started a new communication channel between Japan and its neighbors China and South Korea in November 2014, as introduced in our March/April 2015 issue. In this first meeting, JEF and our counterparts in China and South Korea committed strongly to continue this dialogue and the second meeting was held in Changchun on Sept. 2, 2015 hosted by the China Foreign Affairs University.

The panelists and discussants at this meeting were all distinguished experts and leading thinkers on Track 1.5 diplomacy from each country. They were not official representatives of each government and so would not be bound by any official standpoint of each government. However, they are members of informal networks among the key policy advisors to each government and maintain a significant influence upon policy makers. What these Track 1.5 experts discuss or learn from each other at these meetings could have an influence on each government's policies. In particular, they are experts in the topics on our agenda, such as trade and structural reform and environment policy. Thus, they are free from biased nationalist views regarding each nation and able to see either bilateral or trilateral issues from a more neutral and broader perspective.

For all three nations, it is vital to achieve good foreign relations for their peace and prosperity, and both Asia and the rest of the world would benefit from improved relations among these three countries which have significant weight in the global economy. Under the current situation where the three nations are experiencing

political tensions over territorial or history issues, the Track 1.5 channel could work much better than official channels, since the participants are not bound by any official standpoint. Above all, such leading thinkers could promote an understanding among the three nations that they will be indispensable to each other in promoting peace and prosperity in East Asia.

Selection of relevant topics is also vital to the success of these trilateral talks. As in our first meeting in Seoul last year, this year we chose trade policy and structural reform of the economy under the session title "Economic Cooperation" and environmental policy under the session title "Environmental Cooperation". We assume both issues will need trilateral cooperation for full-fledged development of economic welfare regardless of political tensions.

A summary of the discussions in both sessions follows.

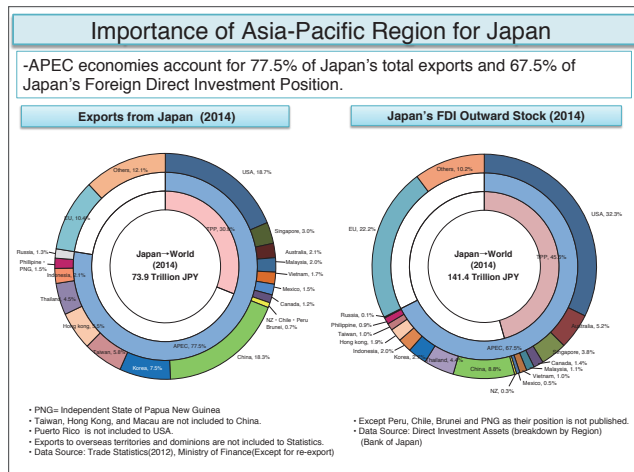
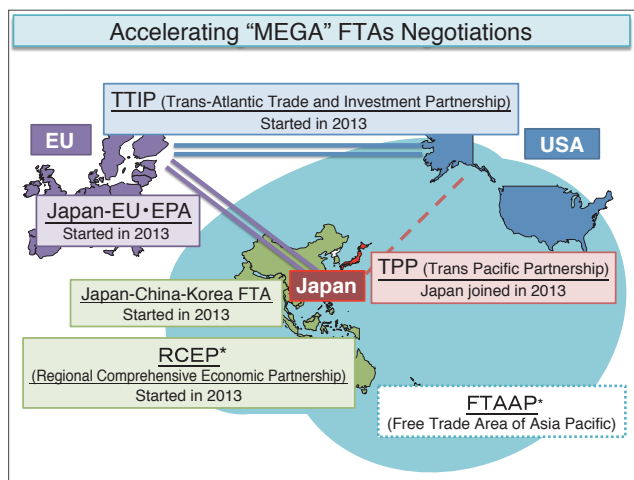
#### Economic Cooperation

The first session of the dialogue focused on the issue of trade policy and structural reform in each nation to maximize the benefits of trade liberalization. The principal component of trade policy to promote economic growth for each of the three countries would be a free trade agreement (FTA). The regional Asia-wide FTA network is expanding now with the ongoing negotiations for the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), the CJK partnership and other FTAs. These trade liberalization efforts will need a safety net for industrial sectors that could suffer as a result of free trade. Also, any structural economic reform urging industries and firms losing competitiveness to exit the market and rationalizing economic structures to enhance efficiency and growth will need diplomatic pressure from negotiators who would commit to trade liberalization by concluding an FTA. Thus, structural economic reform and trade liberalization, both being vehicles of a growth strategy, are closely interconnected and should form the basis of discussions on economic cooperation among the three nations.

All the participants agreed that economic interdependency among the three countries is today significantly increasing and thus the need for economic policy cooperation among the three is also increasing to the extent of a natural partnership. The CJK FTA is an attempt to reflect this natural partnership, but it is not institutionalized yet due to the lack of mutual trust and understanding provoked by political tensions over territorial claims

Photo: JEF





and issues of history. How to restore political trust will be key to resolving this "Asian paradox" — namely, cold political relations in spite of deep economic interdependency — and achieving true economic cooperation.

Economic cooperation covers a variety of issues, such as FTAs, macro policy coordination including currency adjustment, and encouraging structural reforms necessary to promote trade liberalization. But there is a consensus on the need to consider the international impact of each nation's economic policies. In a globalized world we cannot act only for our own national interests but must reflect upon the balance between national and regional or global interests in planning economic and trade policies.

A CJK FTA would be one of the most important venues for making common rules among the three nations. In particular, as the global economy is showing signs of turbulence today, a CJK FTA would be more important than ever in stimulating East Asian economic growth and eventually global growth. Given that FTAs are underdeveloped in East Asia, a CJK FTA would be key to accelerating such accords in East Asia and promoting East Asian economic integration. In this context, the mega FTAs such as the TPP and RCEP, whether led by the United States or China, would both have a positive role in strengthening economic partnerships among the East Asian nations.

Japan started negotiations on such mega regional FTAs in 2013 — the TPP, RCEP, CJK and Japan-EU FTA. (Chart shows a variety of

mega regional FTAs under negotiation surrounding Japan.) In order to conclude an FTA successfully, the countries participating must be ready to make concessions to the other parties that would lead to enhancement of the rate of liberalization. Only such mutual concessions would lead to a win-win situation. But to achieve this process we need structural reform of domestic economies to encourage sectors losing competitiveness to exit the market and achieve overall efficiency in national economies.

Mega regional FTAs are certainly good venues for discussing the international rule-making process on such issues as intellectual property rights, competition policy, government procurement, and investments. Plurilateral agreements by issue or sector could be another good venue for such rule making.

On the policy agenda of domestic economic reform, each nation is facing challenges. The slowing Chinese economy has a serious excess production facility problem, having pursued a supply-side growth-oriented policy for a long time. China will need to change one of its engines of growth from investment to personal consumption or from manufacturing to the service industry.

The conclusion of the TPP possibly in the near future would further push Japan's domestic structural economic reforms, as committed to under "Abenomics". To revitalize business, the government is now promoting labor market reforms to enhance labor mobility and attract more women and non-Japanese to the labor force, as well as raising new industries like health care, clean energy, and robotics.

South Korea, meanwhile, is now falling into low economic growth, less than the 3% needed to enhance its industrial competitiveness through education and financial market reforms. It is also noteworthy that aging populations were considered to be a common impediment to economic growth in all three nations in discussion on structural reforms.

Infrastructure development in Asia is another long-term policy issue that many participants mentioned as necessary to enhance the growth potential of the whole of Asia, and two recent Chinese initiatives to achieve it — the Asian Infrastructure Investment Bank (AIIB) and the "one belt one road" initiative — were discussed. On the question of the AIIB, its possible impact on existing financial institutions with a similar mission needs to be examined and it should be remembered that in infrastructure development not only hardware but also software project research and planning must be considered. In this regard, the AIIB and other Asian regional institute like the Economic Research Institute for ASEAN and East Asia (ERIA) could collaborate with each other. It would be useful in terms of clarifying the consistency between project finance and project planning as well. Common rules for national enterprises' participation in project finance, if they become key players in this infrastructure development initiative, should be set on the basis of fair competition among companies joining the project.

There were two additional points that attracted participants' attention in the discussions.

One was that as a national economy goes into recession or slows down, that nation tends to join the competition to enhance its own industrial competitiveness by devaluation of its currency, according to some participants, though it would be difficult to judge objectively whether a fall in a currency's value is an intentional export promotion policy — in other words, a beggar-thy-neighbour policy or not.

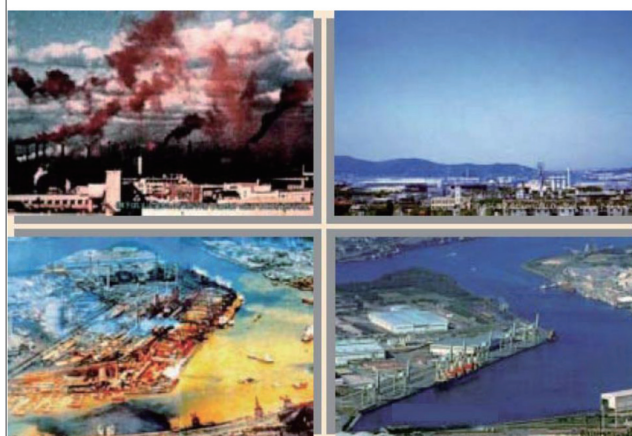
## PHOTO

Automobile pollution in Tokyo



Source: *White Paper on the Environment*, GOJ, 1973

Kitakyushu city: serious environmental pollution → modern-day appearance



Source: *Kitakyushu city*

The other was about the US presence in the Asian region. Whether the current US government's rebalancing policy towards Asia would be welcome or not seems to depend on how one assesses the increasing political influence of the US in this region. Some participants seem to be concerned that a possible interest rate hike by the Federal Reserve Bank could trigger a capital flight from Asian countries. Whether this argument is a legitimate concern or not, it was noted that the US presence in this region is certainly not negligible.

Finally, the good news about this session was that all agreed on the positive aspects of trade liberalization and the need to convince the public of its utility. Also, all agreed on the need for a more institutionalized cooperation mechanism among the three nations instead of emergency response cooperation, such as the Chiang Mai Initiative on the occasion of the Asian currency crisis to stabilize the values of Asian currencies.

## Environmental Cooperation

All the participants expressed interest in sharing their successful experiences of environmental policies to achieve a clean environment and economic growth at the same time. Clean air and water are important public goods that the three nations can share.

Without an economy in good health, a nation cannot achieve a good environment, and a without sound environment, economic development cannot be expected. We must pursue harmony between these two important policy goals.

Japan's experience in environmental policies could offer lessons for achieving these two goals simultaneously (see [Photo](#) showing a dramatic change in the appearance of Kitakyushu city from the period of serious environmental pollution to the modern day). As an OECD report on Japanese environmental policies mentions, between 1970 and 1990 Japan's GDP expanded by 2.5 times and its fossil fuel consumption increased by 1.5 times. But pollutants like sulphur oxides (SO<sub>x</sub>) and nitrogen oxides (NO<sub>x</sub>) declined very significantly. The main factors that enable such a good performance in terms of economy and environment are changes in the industrial structure, progress in energy consumption, and diversification of fuel resources.

The government's environmental policies also worked very well. The Basic Law of Countermeasures against Pollution was adopted and the polluter-pay principle became considered as the most important rule in dealing with pollution. The national government, local governments and private business were all engaged as a team in the reduction of pollution. R&D for clean technology was encouraged by government subsidies, while severe restrictions on automobile exhaust gas were imposed. With these regulations on pollution and well-managed environmental policies, Japanese industries achieved success in enhancing their competitiveness by creating new technologies to achieve both lower pollution and better cost effectiveness in production. Thus, during that period, any company issuing too many pollutants would not have survived in Japan.

The possible lessons from this Japanese experience must be that industrial competitiveness and strengthened environmental regulations can co-exist; each nation should strengthen its regulations on air pollution and regulatory systems in East Asia should be harmonized to avoid market distortion.

Energy saving technology is one of the key environment-friendly technologies. Japan's steel industry invested \$30 billion in saving energy consumption from 1971 to 1980 and succeeded in reducing energy consumption by 20%; it invested \$18 billion from 1990 to 2012 and ultimately achieved another 10% reduction in energy consumption. Thus at this moment, Japan's steel industry enjoys the highest efficiency in energy saving in the world and the potential for further reduction in energy consumption is limited. Japan's steel industry could contribute to global energy saving by providing its technologies to other countries through international cooperation.

The Asia-Pacific Partnership on Clean Development and Climate (APP) Steel Task Force is now leading such energy saving international cooperation in the steel sector. In such an international commitment to cooperation, the joint efforts of the government and the private sector will be key to achieving success. In this context, Japan's steel industry has been engaged in assessing the energy saving performance of steel factories in other Asian countries, like China and India, and based upon its assessments is proposing the introduction of appropriate clean technology for those countries.

Regarding relations between FTAs and the environment, today most FTAs have environment chapters that need to be agreed upon. Thus in FTA negotiations, trade and environment are not considered contradictory but to be in harmony.



The three countries should also share a low carbon growth strategy. They should establish an environmental cooperation framework to achieve this, since the weight of the three countries' possible contribution to green growth is significant. In addition, assuming that air pollution in China, such as PM2.5, could have a serious impact upon South Korea and Japan and also that Oceanic pollution is naturally expanding beyond borders, the importance of such a trilateral environmental cooperation cannot be emphasized too greatly. China needs help from Japan and South Korea in establishing institutions for environmental protection, such as regulations and capacity building for developing clean energy technology or institutional frameworks to cope with environmental issues. Such environmental cooperation could help mitigate existing political tensions. Trilateral environmental cooperation must be promoted with the participation of both governments and private sectors. We see such a cooperation mechanism in the European Union as a successful example, but we should not just copy the EU but create a new paradigm. Even North Korea could be welcomed to join such a cooperation mechanism.

The key feature of the environmental issue for each nation could be that the creation of a trilateral environmental cooperation framework would increasingly raise the possibility of each country's using this issue as a last resort in promoting good relations among the three. China's recent positive engagement in environmental issues is very encouraging in promoting such a cooperation framework and thus the three countries could make a good contribution to COP21 in negotiating common rules to be adopted by all nations, planned in Paris in December 2015.

### Next Step

It was reconfirmed in this dialogue that our Track 1.5 approach defined at the beginning of the article, on relevant topics such as trade policy and economic structural reform as well as environmental cooperation to achieve a greener East Asia, would play an important role in mitigating the political tensions in East Asia.

We will continue our dialogue in Tokyo next autumn in the expectation of deepening the friendship between the participants from the three countries and above all the friendship between the three co-sponsors — the China Foreign Affairs Academy, the East Asia Foundation of Korea and JEF.

[Appendix]

List of participants at the CJK Cooperation Dialogue 2015

#### The 2nd CJK Cooperation Dialogue

Date: Sept. 2, 2015

Venue: South Lake Hotel

#### Chinese Participants

##### Guo Yanjin

Associate Professor and Deputy Director of Institute of Asian Studies, China Foreign Affairs University (CFAU)

##### HUAN Qingzhi (Panelist of Session 2)

Professor of Environmental Politics, School of Marxism, Peking University

##### JIANG Ruiping (Panelist of Session 1)

Vice President, China Foreign Affairs University (CFAU)

##### LI Guanghui (Panelist of Session 1)

Vice President, Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce

##### LI Liping (Panelist of Session 2)

Deputy Director, Institute of International Environmental Policy, Policy Research Center for Environment and Economy, Ministry of Environmental Protection, PRC

##### LI Xiao (Panelist of Session 1)

Professor, Economics School of Jilin University / Director, Sino-Japanese Center for Economic Studies, Jilin University

##### ZHANG Haibin (Panelist of Session 2)

Professor, School of International Studies, Peking University

#### Japanese Participants

##### FUJIMOTO Kenichiro (Panelist of Session 2)

General Manager, Head of Global Environmental Affairs Department, Environment Division, Nippon Steel and Sumitomo Metal Corporation

##### FUKAGAWA Yukiko (Panelist of Session 1)

Professor, School of Political Science and Economics, Waseda University / Visiting Fellow, Yonsei University

##### HARAOKA Naoyuki

Executive Managing Director, Japan Economic Foundation (JEF)

##### KIMURA Fukunari (Panelist of Session 1)

Professor, Faculty of Economics, Keio University / Chief Economist, Economic Research Institute for ASEAN and East Asia (ERIA)

##### KUSAKA Kazumasa (Moderator of Session 1)

Chairman and CEO, Japan Economic Foundation (JEF)

##### MATSUSHITA Kazuo (Panelist of Session 2)

Professor Emeritus, Kyoto University / Senior Fellow, Institute for Global Environmental Strategies (IGES)

##### SASAKI Nobuhiko (Panelist of Session 1)

Adviser, Tokio Marine and Nichido Fire Insurance Co., Ltd. / Former Vice Minister for International Affairs Ministry of Economy, Trade and Industry (METI)

#### Korean Participants

##### AHN Choong-yong (Panelist of Session 1)

Chairman, Korean Commission on Corporate Partnership / Distinguished Professor of Economics, Chung-Ang University

##### AHN Se Young (Panelist of Session 1)

Chairman, National Research Council for Economics, Humanities and Social Sciences / Professor, GSIS, Sogang University

##### CHUNG Suh-Yong (Panelist of Session 2)

Professor, Division of International Studies, Korea University

##### HONG Hyung Taek

Secretary General, East Asia Foundation; Associate Managing Editor, Global Asia

##### GONG Ro-myung

Chairman, East Asia Foundation / Former Minister of Foreign Affairs, ROK

##### KIL Jeong-Woo (Panelist of Session 1)

Member of the National Assembly, Saenuri Party, 1st term / Trade, Industry, and Energy Committee

##### KIM Sang-Hyup (Moderator of Session 2)

Visiting Professor, Graduate School of Green Growth, College of Business, KAIST / Former Senior Secretary to the President

##### YOON Deok Ryong (Panelist of Session 1)

Senior Research Fellow, Korea Institute for International Economic Policy

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