

From Sharing Information & Experiences to Creating Mutual Trust — the 3rd CJK Cooperation Dialogue in Tokyo



Author Naoyuki Haraoka

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Introduction

The 3rd CJK (China-Japan-Korea) Cooperation Dialogue was held at the International House of Japan in Roppongi, in Tokyo, on Oct. 20 and 21, 2016 through close collaboration between the Japan Economic Foundation, the China Foreign Affairs University and the East Asia Foundation of South Korea, the three co-sponsoring organizations. Whereas the preceding two dialogues mainly focused on sharing information about trade and economic policies and environmental policies, this dialogue tried to achieve mutual trust through more in-depth discussions of the domestic policy agendas for structural reform that all three nations share. The program, attached at the end of this article (*Program*), consisted of two parts: a public symposium in the morning and a closed roundtable discussion by the three countries' delegations in the afternoon on Oct. 21.

The three co-sponsoring organizations and the delegations enjoyed great comradeship in our preparations for the dialogue as well as in working on the logistics of the conference. Trust and friendship cannot be achieved in a day. The two preceding meetings and our efforts in preparing those meetings since 2013 must have contributed to building mutual understanding and trust, and I believe the meeting in 2016 can be regarded as an attempt to elevate this trust and friendship.

Discussions on Economy

I have been working for METI and JEF for nearly 40 years, with a strong focus on trade policy based upon free trade and investment principles. In my work experience I learned neoclassical economics, paying respect to the role of market mechanisms in international trade in achieving optimal allocation of resources. With this in mind, I would like to start my comments on the trade part of the discussions.

The *JETRO Report on International Trade 2016* pointed out the slow growth of global trade in 2015, namely a 12.7% decrease over the previous year, the first negative growth in the past six years. They call the phenomenon of global trade growth being lower than world GDP growth slow trade. Surprisingly, this trend of slow growth has been continuing consistently since 2012 and the ratio of global trade growth rate in real terms to world GDP growth in real terms has been

around 0.5. Looking at regions, we see significantly slow growth among the developing nations and the newly emerging economies. A cyclical factor causing this may be stagnant growth of private investment worldwide, reflected in the global stagnation of trade in capital goods or intermediary goods since 2012, while a structural factor of this slow growth is the increase in production capacity of parts and components among developing countries, including China. This could result in the slowdown of intraregional trade in Asia between company headquarters and their subsidiaries in host countries. Thus, what we call the global value chain process may have been significantly decelerated.

In our conference, we discussed trade issues mostly from the perspective of political economy, namely free trade and structural economic reform worldwide. First, it was noted that trade liberalization is an important vehicle to promote economic growth. Until today OECD countries have been achieving growth during this decade through increasing dependence upon exports. Asian countries, in particular China, Japan and South Korea, will need to promote their structural economic reforms to take full advantage of the merits of international trade.

Our CJK delegations all agree to promote regional FTAs. Which mega-regional FTA — the TPP or RCEP — should be the leading engine for Asian regional trade liberalization was a key question on trade promotion in this region. The consensus in our group was that regardless of who is leading each mega-regional FTA, the possible delay in ratification of the TPP would retard RCEP or CJK FTA negotiations, which would have a negative impact upon the Asian economy. In particular, delayed ratification of the TPP by the United States would be considered a negative sign for all three countries' trade and investment promotion aimed at expanding supply chains in this area.

What is going on with the US Congress ratification process for the TPP? How likely is it that it will be ratified by Congress during the so-called lame duck session after the US presidential election? How will the new US president treat the TPP? Those questions were put on the table. Though it is difficult to predict the future, if anti-globalization sentiment prevails in the US, then no matter who may be the next president, the TPP ratification process would be on a difficult path. The lame duck session would probably not be able to pass the ratification bill against this background in spite of the current US

administration's commitment to the TPP.

This discussion showed us how crucial the role of the US is in our region. Many of our participants in the panel discussion expressed concern about the future of US trade policy and the delayed mega-regional FTA negotiations and mentioned the need to quickly promote other sectoral multilateral trade agreements such as the Information Technology Agreement (ITA) with expanded coverage of trading items, or the agreement on trade of environmental products, since they would get a consensus much more easily than with the TPP or RCEP.

For the three nations, the weight of digital trade is increasing and thus we will need rules on e-commerce as quickly as possible. This is important for the interests of SMEs in particular, to encourage them to join in the international or intraregional trade between the three countries.

Political Economy of TPP, RCEP & AIIB

The discussion of the global economy expanded further into geopolitical questions in Asia, where the US and China are competing to increase their political influence. On the issue of FTA negotiations, the TPP is often considered a US initiative in leading the region, while the RCEP is often looked upon as a Chinese initiative. The nature of these two regional FTAs with regard to their contents is quite different: while the TPP is a subset of the WTO, the RCEP is not and aims at regional economic cooperation rather than trade liberalization. The Chinese delegation mentioned that the RCEP would be open to US participation, but China would not be ready to join the TPP, since this would be pursuing a different kind of globalization based upon nearly perfect trade liberalization. This can be interpreted as a view from the perspective of economics and not political rivalry. Whether China is ready to respond to the existing shadow invitation to join the TPP positively or not could clarify what

it aims at in the future — increasing its political influence or enjoying more economic benefits?

The same logic can be applied to the discussions on the Asian Infrastructure Investment Bank (AIIB) as well. The AIIB is, according to China, open to the US and Japan, since the goal of the AIIB is to consolidate infrastructure to achieve economic development in Asia and not to squeeze the US out of Asia. However, if it is true, China must be ready to let the US as well as Japan participate in designing the funding and the coverage of the infrastructure projects of the AIIB to enhance the quality of investment, if they join it. It was noteworthy that the Korean delegation considers Japan and the US being a member of AIIB as crucial to achieve its economic objectives.

New Issues in Discussions of Growth Strategy

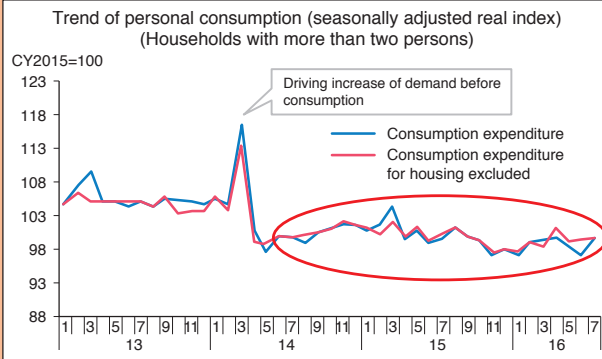
The three nations' economic growth is slowing down (*Presentation Paper 1, 2 & 3*) and whether or not their trade liberalization efforts will need structural reforms to their domestic economies to maximize the benefits of free trade, they will have to proceed with structural reforms to achieve robust economic growth for their welfare and prosperity. It was noteworthy in our discussions that all three nations had no doubts about the need for growth, which is somewhat different from similar policy discussions in Europe where they make a distinction between economic growth and social welfare. They assume that the latter should be the ultimate goal of economic policy, and so the former would not be absolutely necessary to achieve this.

All three nations now face structural impediments to growth and so need to eliminate them to achieve it. Japan will need to stimulate innovation to raise its labor productivity, which would also respond to the declining labor force due to aging and depopulation. It will have to eliminate so-called bedrock regulations to stimulate

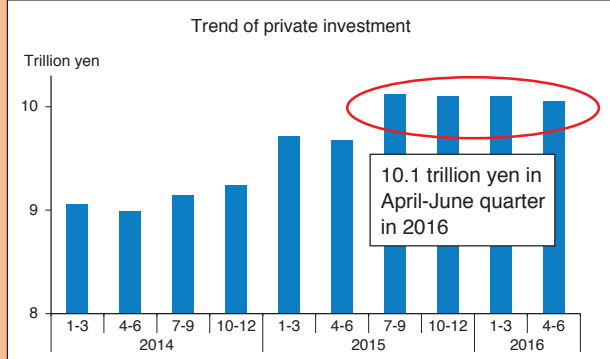
PRESENTATION PAPER 1

Future issues — Japan

Feeble growth of personal consumption



Private investment: some delay in picking up observed



✓ Japanese domestic economy still lacks strength

Source: Family Income and Expenditure Survey, Ministry of Internal Affairs and Communications

Chinese growth is slowing down



Source: Institute of World Economics and Politics (IWEP)
Chinese Academy of Social Sciences (CASS)

innovation and entrepreneurship. China will need to rationalize its state enterprises to eliminate its over-production capacity and orient its economy towards a more consumption-led one. Shipbuilding and some other heavy industries in South Korea which used to have a strong edge in international trade are now losing their competitiveness. The government has just started a smooth industrial adjustment policy to eliminate inefficient companies in those sectors losing competitiveness and achieve a transition of industrial structure from heavy industries to high technology-oriented ones.

In discussing these issues related to growth strategy, other socioeconomic issues came up, such as aging and depopulation, rising income inequality, and how to promote and take full advantage of the fourth industrial revolution, in other words data-driven innovation such as AI and robots. These new issues were outside the scope of our two preceding dialogues, but without discussing them now we cannot gain a full picture of growth strategy over the long term. In this regard, it was very encouraging for us to get into discussions on these new issues at this stage, and we can continue to deepen our thoughts on them at future meetings. Aging and depopulation will enhance the need to raise our labor productivity in order to maintain growth, and income inequality will hamper our personal consumption, as the less wealthy middle class would consume more than most wealthy people do. Data-driven innovation will be, needless to say, a good potential source of future growth.

The second part of the dialogue was devoted to discussions on the environment. Whereas the preceding two dialogues focused on the exchange of information on past experience of environmental policies, this one highlighted the future, in particular how to achieve green growth, assuming that economic growth and the environment are compatible. This discussion also saw a striking difference from what dominates policy discussions among OECD countries, namely that pursuing growth is not a relevant goal anymore.

All three nations agreed that green innovation, environment-friendly technological innovation, should offset the cost of strengthened environmental regulations and could enhance industrial competitiveness. They also agreed that increased demand for environmental amenities could create new business opportunities. On the question of environmental regulations, what we call the Michael Porter hypothesis was mentioned in the discussions — that is that well-designed environmental regulations could stimulate technological innovation. The Japanese regulation on automobiles' CO2 emissions was mentioned as a good example of how this principle can work well in reality.

Carbon pricing is perceived by all as an effective means of CO2 reduction, assuming that market mechanisms function well in the carbon market to minimize the cost to the environment, since such costs need to be counted in any industrial activity and if they are not minimized, an industry could lose its competitiveness. Possible differences in pricing among nations could provoke arguments over international competition, and therefore international harmonization of carbon pricing would be necessary to avoid them.

On a different note, the low-carbon infrastructure we will need from now on is very costly and how to finance it should be a crucial policy agenda issue. In this light, it would be important to recalculate

Trend of South Korean economy — GDP growth rate

- ◆ Korean economy gradually picking up since the bottom in 2012
- ◆ It maintains higher growth than Japan

<Real GDP Growth Rate (including forecast)>

2012	2013	2014	2015	2016 Q1	2016 Q2	2016 (forecast)				2017 (forecast)
2.0%	3.0%	3.3%	2.6%	0.5% * over the quarter one year ago	0.8% * over the quarter one year ago	3.2% * predicted in Oct. 2015	3.0% * predicted in Jan. 2016	2.8% * predicted in April 2016	2.7% * predicted in July 2016	2.9% * predicted in July 2016

Source: Bank of Korea

* (Note) IMF Economic Outlook (published in July 2016, () is a comparison with the forecast announced in April 2016.)

	World	USA	Euro zone	Japan	Korea	China
Forecast for 2016	3.1% (▲0.1%)	2.2% (▲0.2%)	1.6% (+0.2%)	0.3% (▲0.2%)	2.7% (*▲0.5%)	6.6% (+0.1%)

* comparison with the outlook published in Oct. 2015.

Source: IMF

The Paris Agreement
Nations Unies
Conférence sur les Changements Climatiques 2015
COP21/CMP11
Paris-France

Limiting global warming to "well below" 2 degrees Celsius	Net-zero emissions of greenhouse gases by mid-21st century	National emission targets regularly reviewed and tightened	Developed countries provide \$100 billion per year between 2020-2025
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Source: <https://www.wmo.int/medial>

the green value of economic growth which is expected to be bigger than the cost of CO2 emission reductions. In achieving a green environment consistent with economic growth, one business representative highlighted the role of local communities. We will need a broader scale of cooperation among businesses, universities and policy practitioners in order to reduce air pollution or water pollution. In addition, we will need a local community's perspective to create amenities for the local residents' welfare.

We also discussed some specific issues related to the environment. Many expressed satisfaction at the smooth ratification of the Paris Convention for Global Climate Change which was agreed upon in 2015. This was a significant difference from the usual FTA ratification process today (Presentation Paper 4). The Paris Convention will bring huge business opportunities for technological and social innovation for green growth.

On possible collaboration among the three countries in the energy and environment area for achieving green growth, the Asian super

Rising agenda: Asia super grid

Asia super grid based upon clean and green energy sources is currently being revealed to the public at last as a feasible way to achieve national emission targets and transform towards a green economy. (Tokyo Conference in August 2016)

New Climate-Energy Era
After Paris Agreement, global communities explicitly and implicitly agreed to reduce CO2 emissions and end the fossil fuel era.

4-Party MOU to promote ASG
SoftBank (Japan), State Grid (China), KEPCO (Korea), Rosseti (Russia) signed 4-party MOU to proceed with a feasibility study of an Asia super grid in March 2016.

Source: Shigeki Miwa (2016), "SoftBank's Energy Business and Asia Super Grid".

The plan of 1st Asia super grid project

At the World Knowledge Forum in October 2016, the plan of the first Asia super grid project was revealed to link a 2GW electricity grid from Mongolia to Japan via China and Korea.

2GW
¥7 trillion (\$6.2 billion)

Legend:
— ±800 kV DC Line
— ±500 kV Cable

Source: Yuxiang Yuan (2016). "Building Global Energy Interconnection and Accelerating Construction of Green Asia"

grid aimed at achieving interconnections in electric power supply from renewable energy sources among Asian countries, proposed by Softbank CEO Son Masayoshi in June 2016, was mentioned as a mutually beneficial idea (Presentation Paper 5 & 6) and on the issue of PM2.5, air pollution from rapidly industrializing China affecting neighboring nations, China will need to learn about environmental protection mechanisms from Japan in order to reduce it.

In concluding, all supported a holistic approach to the global environment by balancing all interests of economy, energy, environment and society, and we should rely on an interdisciplinary approach rather than a segmented one.

Photo: Japan Economic Foundation



The 3rd CJK Cooperation Dialogue

Conclusion

We have been successful in expanding the common agenda at our dialogues. In our earlier dialogues, discussions focused on sharing information and experiences on trade and economic policies and environmental policies, but in this dialogue we expanded our topics towards growth strategy overall, including the concept of green growth. We will now discuss any issue related to our economic growth and prosperity, or even happiness, if achieving income equality and a green environment can be considered a way to happiness. In discussing this broader range of issues, we can deepen our understanding of each other's culture, values and way of thinking. So I believe that we can transform our dialogues from simple exchanges of information into discussions for creating mutual trust and friendship.

Asia, at this moment seemingly one of the largest beneficiaries of globalization, should play a more pivotal role in maximizing the benefits of globalization that would exceed its cost and thus show the rest of the world that globalization can work well for their benefit. China, Japan and South Korea are responsible for promoting this role.

We will continue our dialogues to enhance the three nations' contribution to global peace and prosperity. We will also continue to adopt a holistic and balanced approach to all issues, not only the environment but also trade and economy, since I believe that today all economic, social and political issues are connected and we cannot separate them in pursuing the best solutions.

Meanwhile, I took a note of one Korean delegate's opinion about our future dialogues. He said to me at our dinner table that we should have more lawyers in our dialogues. Given that lawyers may be in a better position to provide an institutional perspective on policy issues, this certainly deserves attention. Institutional comparisons between the three nations on economic and environmental policy issues could be another way to strengthen mutual trust and friendship.

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PROGRAM

The 3rd CJK Cooperation Dialogue

Envisioning a deepening & evolving China-Japan-Korea Partnership:
from sharing information & experiences to creating mutual trust

Friday, 21 October

09:00-12:05	PUBLIC SYMPOSIUM	Venue: Iwasaki Koyata Memorial Hall, B1F
09:00-09:10	OPENING REMARKS	
	- KUSAKA Kazumasa , Chairman & CEO, JEF	
	- CHAI Xi , Director, Center for Asia-Pacific Studies, China Foundation of International Studies / Former Chinese Ambassador to the Republic of Malaysia	
	- GONG Ro-Myung , Chairman, East Asia Foundation (EAF) / Former Korean Foreign Minister	
09:10-09:30	KEYNOTE SPEECH	UEDA Takayuki , Former Vice-Minister for Intl. Affairs, METI
09:30-10:30	PRESENTATION *10 min. each	Moderator: HARAOKA Naoyuki , Executive Managing Director, JEF
	ECONOMIC SESSION	
	Speakers:	
	- GAO Haihong , Senior Fellow & Professor, Institute of World Economics & Politics, China Academy of Social Sciences (CASS)	
	- TAKEMOTO Naokazu , Member of the House of Representatives of Japan	
	- AHN Choong-Yong , Chairman, Korea Commission for Corporate Partnership (KCCP)	
	ENVIRONMENT SESSION	
	Speakers:	
	- WANG Xuedong , Associate Professor, Deputy Dean, Inst. of Advanced Intl. Studies, Sun Yat-Sen University	
	- MATSUSHITA Kazuo , Professor Emeritus, Kyoto Univ. / Senior Fellow, Inst. for Global Environmental Strategies (IGES) / Examiner, Environmental & Social Guidelines, JICA	
	- KIM Sang-Hyup , Visiting Professor, Graduate School of Green Growth, College of Business, KAIST / Chairman, Coalition for Our Common Future	
10:30-10:50	COFFEE BREAK	
10:50-11:50	Q&A	
11:50-12:00	SPECIAL SPEECH	
	FUKUDA Yasuo , Former Prime Minister of Japan	
12:00-12:05	CLOSING REMARKS	
	KUSAKA Kazumasa , Chairman & CEO, JEF	
12:15-13:30	LUNCHEON	Venue: Kabayama Room, B1F
	LUNCHEON SPEECH	
	KOJIMA Akira , Chairman, World Trade Center Tokyo, Inc.	
14:00-18:10	CLOSED ROUNDTABLE DISCUSSION	
14:00-14:05	OPENING REMARKS	
	KUSAKA Kazumasa , Chairman & CEO, JEF	
14:05-15:55	ECONOMIC SESSION *free discussion	
	Moderator: AHN Se-Young , Chairman, National Research Council for Economics, Humanities and Social Sciences (Governor of the 23 National Think Tanks) / Professor, Sogang University	
	- AHN Choong-Yong , Chairman, Korea Commission for Corporate Partnership (KCCP)	
	- FUKAGAWA Yukiko , Professor, School of Political Science & Economics, Waseda University	
	- GAO Haihong , Senior Fellow & Professor, Inst. of World Economics & Politics, CASS	
	- KIM Jung-Sik , Professor of Economics, Yonsei University	
	- TAKEMOTO Naokazu , Member of the House of Representatives of Japan	
	- URATA Shujiro , Dean & Professor of Economics, Graduate School of Asia-Pacific Studies, Waseda University	
15:55-16:15	COFFEE BREAK	
16:15-18:05	ENVIRONMENT SESSION *free discussion	
	Moderator: WANG Xuedong , Associate Professor, Deputy Dean, Inst. of Advanced Intl. Studies, Sun Yat-Sen University	
	- AKIMOTO Keigo , Chief Researcher, Leader of Systems Analysis Group, Research Institute of Innovative Technology for the Earth (RITE)	
	- CHO Hong-Sik , Professor, Environmental Law, Administrative Law, & General Theory of Law & Policy, Seoul National University School of Law	
	- HARUYAMA Yutaka , Executive Director, Japan Chemical Industry Association (JICA)	
	- KIM Sang-Hyup , Visiting Professor, Graduate School of Green Growth, College of Business, KAIST / Chairman, Coalition for Our Common Future	
	- MATSUSHITA Kazuo , Professor Emeritus, Kyoto University / Senior Fellow, Institute for Global Environmental Strategies (IGES) / Examiner, Environmental & Social Guidelines, JICA	
	- MOON Seung-II , Professor, Dept. of Electrical & Computer Engineering, Seoul National University / President, Korea Electrical Engineering & Science Research Institute (KESRI)	
18:05-18:10	CLOSING REMARKS	
	KUSAKA Kazumasa , Chairman & CEO, JEF	
18:40-20:00	FAREWELL DINNER	

Naoyuki Haraoka is executive managing director and editor-in-chief of Japan SPOTLIGHT.