

Second Round of JEF's CJK Cooperation Dialogue Highlights Readiness to Contribute to Global Leadership



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Introduction

Readers may recall the articles on the JEF-initiated CJK (China, Japan, and South Korea) Cooperation Dialogue in our past issues. This is one on the fourth Dialogue. JEF started the Dialogue in collaboration with its counterparts in China and South Korea in 2014, when political tensions among the three countries over territorial disputes or history issues increased significantly. The goal of the Dialogue was then to allay tensions by promoting discussions on economy and environment in which the three nations would feel each other to be an indispensable partner in cooperation. The Dialogue brings together leading thinkers from the three nations who have a strong influence upon their governments' policy decisions, whether they are academics, politicians, or businessmen.

The first round began in Seoul hosted by South Korea's East Asia Foundation, and was followed by meetings in China and Japan in 2015 and 2016, respectively. On Oct. 20, 2017, the same Korean institute hosted the first meeting of the second round.

Trilateral political tensions were mitigated but still remain, and we see a variety of changes in the political as well as economic environments in the world surrounding the three nations. The drastic alterations in US economic and foreign policy after the election of Donald Trump as president, increased geopolitical risks such as North Korea's nuclear armament, and the Fourth Industrial Revolution in progress are among these changes.

Until the third Dialogue, discussions were focused upon the three nations' economic structural reforms, the prerequisites of trade liberalization such as the CJK FTA, and environmental cooperation to tackle air or water pollution. The fourth Dialogue contained a spillover from these discussions and also expanded to cover global issues.

The New US Economic & Foreign Policies

The new economic and foreign policies of the United States were among the most highlighted issues at this Dialogue. In the trade and economic policy arena, it is an inward-looking protectionist policy represented by the US withdrawal from the Trans-Pacific Partnership (TPP) agreement, a mega-regional FTA making a distinction from earlier FTAs in that it includes revolutionary items

such as harmonization of competition policies and an Investor-State Dispute Settlement, both dealing with a new trade policy agenda reflecting the reality of globalization. In the environmental policy arena, it is the US withdrawal from the Paris Agreement, a global accord on reduction of CO2 emissions for sustainable development in coping with climate change. The US government made this decision in order to prioritize the competitiveness of its own domestic industries over the global environment, on the assumption that the international obligations set by the Paris Agreement on CO2 reductions in each country would be a serious impediment to US industries.

These anti-globalization policies taken by the new US administration have encouraged the three countries to take responsibility for covering the leadership shortage in global governance. On the question of trade policy, all three have a trade surplus with the US and thus could be targeted by the US protectionism policy. All three nations' representatives agreed that they would be motivated in this regard to promote trade and investment liberalization and open capitalism in coping with US protectionism. Whether it is the TPP 11 (the TPP without US participation) or RCEP (Regional Cooperation for Economic Partnership), China, Japan and South Korea should promote trade and investment liberalization efforts in separation from politics. The three nations are all members of the RCEP and thus they could be good leaders promoting its negotiation, and as for the TPP 11, China and South Korea, not yet members, are welcome to join the negotiations.

This consensus among the three would be a good locomotive, they hoped, toward good global governance to counter US unilateralism and unpredictable policies. Some argued that the three nations should pursue further trade and investment liberalization efforts and those efforts should eventually lead to conclusion of the FTAAP (APEC FTA), the largest mega-regional FTA in the world. Regarding the little progress in CJK FTA negotiations due to political conflicts among the three, some argued that they should start whatever they could do first without political difficulties, such as rules on e-commerce, reflecting the increasing importance of FinTech and business-to-business cooperation through the Internet, rather than rules on tariffs, a traditional type of trade liberalization. Plurilateral agreements on some sectors at the WTO could be a



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good reference in starting such efforts. In particular, an Information Technology Agreement (ITA) could be a practical approach to achieving trade liberalization in the most important sector today.

On the question of environment, China, Japan and South Korea all have their own policy agenda to achieve the goals of the Paris Agreement and sustainable development goals which are supposed to meet not only the need for a clean global environment but also the need for food, water, human rights and social equity necessary for sustaining global socioeconomic systems. The question is how the three nations could achieve this in East Asia without US participation in the Paris Agreement. The transformation of our society into a low carbon society was already started with the declining cost of renewable energy through R&D and investment efforts in developing new energy sources, and the Paris Agreement is aimed at encouraging this movement.

Without US participation, China, Japan and South Korea hope to fill the gap in leadership in this area. In order to do so, each nation must work on its own policy agenda. China must work on accommodating infrastructures including environment-related ones in developing Asia under the “One Belt, One Road” initiative. Japan is expected to work on new measures such as carbon pricing in order to let the market function well to resolve environmental issues by reflecting environmental costs in business or economic activities. South Korea’s task is to deepen green cooperation among Beijing, Tokyo and Seoul. One Korean representative believes this cooperation in particular to achieve an Asian Super Grid for expanding renewable energy-based electricity in Asia as well as the program for reducing fine dust spreading over the three nations could be linked to the Paris Agreement cooperation mechanism under its Article 6 defining “Internationally Transferred Mitigation Outcome”.

It was striking that all shared the perception that mitigation of global climate change would be a common interest and that this could encourage trilateral cooperation that is occasionally hampered by political conflicts.

North Korea’s Military Security Policy

Another crucial challenge for the three countries is North Korea. Their repeated nuclear weapons tests and missile launches regardless of UN economic sanctions are truly threats to the peace and prosperity of Northeast Asia. In October 2017, at the time of writing this piece, the threat of a US-North Korea conflict over the latter’s nuclear armament has increased significantly and concern about a possible war between the two is on the rise. The verbal conflict escalated drastically to the stage where North Korean leader Kim Jong Un’s provocative remarks on the possibility of attacking Guam and US President Trump’s “fire and fury” comments on possible retaliation were highlighted.

Our three countries’ representatives agreed that peace is an important component of their economic prosperity and that they should vociferously reiterate its importance as a prerequisite for economic stability to avoid any collision between North Korea and the US. War would be disastrous for the environment and environmental destruction could itself cause a war. International environmental cooperation would thus lead to peace building. The three nations must explicitly convey this to the rest of the world.

The Fourth Industrial Revolution

The third background factor in the Dialogue was the Fourth Industrial Revolution – the voluminous emergence of new technologies such as Big Data, Artificial Intelligence (AI) and the Internet of Things (IoT), etc. One of the most significant consequences of this large-scale and fundamental innovation will be a drastic change in the industrial structure of the three nations, in particular China. With the expansion of the use of IT, the weight of services in the industrial structure has been enhanced, pushed by the increase of IT-related software services. This has increased the weight of e-commerce as was previously mentioned and also more significantly affected the structure of energy consumption by achieving large-scale energy savings with the enlarged tertiary

sector. This drastic change of energy consumption has changed governance of the environment. Utilization of Big Data would also change governance of the environment by adoption of data management for energy consumption, including renewable energy sources such as solar energy.

Driverless cars could be another item of the Fourth Industrial Revolution, a significant innovation in our near future. If they become dominant, shared use of cars would be more common and thus we could raise the capacity utilization rate of automobiles and also the automobile industry's size could be somewhat reduced. If those cars are carbon free, their total impact upon the environment would be enormous.

As the weight of the service sector is increasing and the manufacturing industry's international competitiveness is becoming heavily dependent upon the cost effectiveness of its supporting software services, it is important to open a country's services market to the rest of the world in order to gain high-quality and cost-effective services. In the case of trade liberalization of services, we should promote free movement of human resources in addition to goods.

The progress of FinTech and e-commerce seems to have reduced the significance of FTAs or other traditional instruments of trade liberalization at first glance, since the mass of international transactions are taking place today through the Internet. However, FTAs and the WTO must be understood as vehicles for a nation's domestic economic structural reform, an important growth strategy for each nation, and so it is still important to maintain their momentum. In this regard, the recent general agreement on a Japan-EU FTA can be considered as an encouragement for other FTA negotiations such as the TPP 11 or RCEP. It was also noted that the WTO is still an important venue for trade liberalization for small countries whose national interests could be marginalized by mega-regional FTAs or FTAs between large countries.

A financial expert noted FinTech's impact upon financial markets. As Internet transactions and also investment money increase, this active flow of money will affect exchange rates and eventually financial markets. How to achieve stability in financial markets will be an issue to be resolved in the future.

Among the Chinese and Korean representatives, concern about a possible decline in employment caused by innovation did not seem to be necessarily shared in this Dialogue. But concern about its negative impact upon jobs is common among OECD countries, as is concern about trade liberalization's negative impact upon jobs. Which factor, innovation or free trade, would have a more negative impact upon jobs is an issue that will deserve further examination among the Dialogue's members.

New Issues for Discussion

The fourth Dialogue was successful in developing new issues for future discussion. Some are related to "the aging society", a big common challenge for the three countries and the rest of Asia. The

three nations are expected to create a model of an aging society for the rest of Asia.

One issue related to aging is the increasing consumption of health care and health-promoting goods and services. In particular, China, believed to be an industrial production and investment-oriented economy so far, will transform its economy into a personal consumption-oriented one towards 2020, pushed by this increase in health-related consumption. The consumption of health-promoting goods and services would even exceed expenditure on medical care and thus there would be an enormous market for well-being. How to meet the rising need for well-being among the three nations could be a potential issue for future discussion, including model building to define common standards. For example, "obesity" may be regarded as different from country to country.

Health-related industries including one combining home security business and healthcare systems to protect elderly people living alone will be introduced in the three nations as well as national health insurance schemes. It will be important for the countries to examine the aging society's impact upon finance and fiscal policies, as we have seen heated discussions on this issue among OECD countries.

In the domain of the environment, how the community could help aged people getting physically weaker to carry waste to a disposal venue or smoothly separate their trash between flammable and non-flammable would be an issue to be resolved to achieve an environmentally friendly city by promotion of reducing, recycling and reusing waste. In this regard, it would be important for the three countries to introduce their best practices in waste disposal.

Raising entrepreneurship is another important new issue that has emerged in our discussions. This is one of the key issues for growth strategy in the three nations. The Fourth Industrial Revolution and green investment to protect the environment would give birth to a variety of new seeds of technologies, which could be a great stimulus to the economy. Since new ventures would contribute to job creation, policies for raising entrepreneurship would lead to inclusive economic growth as well. The three nations would significantly benefit from the exchange of information on these policies.

In addition, some representatives mentioned the importance of cooperation and exchange of policy-related information among regional governments. On the issue of trade liberalization, a special economic zone in a specific region where free trade can be conducted by many participating nations could convince people of the utility of free trade in a visible way and boost support for it.

On the environmental policy side, long-distance monitoring of air pollution would naturally need inter-regional cooperation among the cities in different nations. As already mentioned, we would need a community's help for aged people in waste disposal, another important environmental policy, so in this regard as well cooperation and exchange of policy information at a regional government level would be highly recommendable.

Other candidate topics for discussion include tourism

development and currency internationalization.

It is noteworthy that the issues on the agenda are becoming close to those in the policy dialogue among OECD nations. Thus the economy in Northeast Asia is becoming similar to that among Western nations, sharing the same challenges. Whatever issues we may pick, some representatives strongly advocated for producing an action program and not merely thinking. In this regard, these issues could be implementable. However, we need to keep discussions as informal as possible, otherwise, as with other policy dialogues in the world, they could become too formal and small confrontations over details could emerge, losing a bird's eye view on the issue. At this moment, I think starting some research on issues like the three nations' aging society or the impact of trade liberalization and innovation on employment would be relevant for such action program items.

Conclusion

What was most encouraging for us in this Dialogue was that all agreed that pursuing only national interests would result in disaster and that we should continue to contribute to Asian and global economic prosperity. This is particularly so given the current status of the global economy, which has started to pick up finally from the financial crisis in 2008 but still remains stagnant. In particular, in thinking about the global environment, we will need to achieve a greater scale of innovation and social reform as well as reform of lifestyles over the long term. In this regard, we should stop blaming each other for what is happening to the global environment and instead call for international cooperation.

We all also agreed to strengthen cooperation among the think tanks of the three nations. As all the challenges that we face over the long term are intertwined with each other, we will need a holistic approach to resolve these issues simultaneously, and we need the analytical capacity of the think tanks.

Finally, one important question was raised among the audience at the Dialogue. How have we been able to achieve a two-track approach in the Dialogue, one on economics and the other on politics, but strategically separated from each other and excluding interaction? Our dialogue intended exactly what this question raised, the separation of economics from politics, including territorial disputes or history issues.

This was exactly what we originally intended to do from the beginning of the first round. Continuing our discussions will lead to an effective separation between politics and economy. In the light of our experience so far, discussing long-term issues would have more benefits in terms of separation of economics from politics. Thus, the aging society, global climate change or accommodation of infrastructures could be more relevant issues.

With this conclusion, our Trilateral Dialogue will next be held in Hainan, China, in 2018.

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CJK Cooperation Dialogue 2017 in Seoul

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