

CJK Cooperation Dialogue – Thinking About Responses to New US Policies



Author Naoyuki Haraoka

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Introduction

Foreign policy issues among neighboring nations are particularly important with regard to their security and economy, since relations among neighbors tend to be deeper than with other countries and the impact of such policies more immediate. Trilateral dialogue among China, Japan and South Korea is particularly crucial, given the increases in political tensions and conflicts among them, in reminding leading thinkers from the three nations of the benefits of in-depth mutual learning in the face of the economic challenges confronting them and their policies to tackle them. The Japan Economic Foundation (JEF), which initiated the CJK Cooperation Dialogue to set up such a mutually beneficial learning process, held the 5th Dialogue on Dec. 8 in 2018 in Haikou, China, in partnership with the host, the China Institute for Reform and Development (CIRD).

Under the title “CJK Cooperation in a New Context”, this dialogue was set in completely different international circumstances from any of the previous meetings. A rise in protectionism signaled by the administration of President Donald Trump in the United States under the slogan of “America First” has collided with China’s “Made in China 2025” industrial policy. The US-China trade war that began with the US raising tariffs on Chinese aluminum and steel products has turned into a hegemonic war for technology security. Though Trump’s meeting with Chinese leader Xi Jinping on Dec. 1, 2018 in Buenos Aires succeeded in providing a 90-day truce in the trade war, on the same day Meng Wanzhou, CFO of Huawei, a Chinese high-tech telecommunications giant, was arrested in Canada at the US government’s request on suspicion of having violated economic sanctions against Iran. Some media have reported that this arrest is a warning to China, aimed at preventing the leakage of critical technology-related information from US high-tech products that could be caused by purchasing and using Huawei products in completing US or any other nation’s high-tech goods.

It was in this new context that our trilateral cooperation dialogue was held.

CIRD – an Independent Chinese Think Tank

Last year was the 40th anniversary of the introduction of an open economy and structural reform in China, initiated by Deng Xiaoping in 1978. The CIRD was established in 1991, based on Deng’s policy of attempting to introduce market mechanisms into the socialist economy of China to enrich the nation. The CIRD has dedicated itself to independent and forward-looking research on reform policy issues.

In his opening remarks at the dialogue, Professor Chi Fulin, president of the CIRD, after having explained about the CIRD’s mission, stressed the importance of CJK trilateral cooperation against the background of a rise in protectionism started by the US. His assessment of the current global economy was that the multilateral free trade system was exposed to a rising risk of US unilateralism under the “America First” policy and that would threaten the stable growth of the world economy and Asian economy. The risk would not be a major immediate risk limited to China only, exposed directly to American protectionism. Since the Chinese market is a major market for both South Korea and Japan, a possible decline of growth in this market would lead to the two nations’ economic slowdown. To avoid this, he thinks the three countries should cooperate in ensuring free trade. In particular, he pointed out that trade liberalization among CJK has been significantly delayed, compared with ASEAN countries, and should be accelerated.

He also mentioned the importance of services in trade, as the weight of services in the Chinese economy is increasing, though still lower than in South Korea and Japan, reflecting a lower urbanization rate than those two. Promoting services in trade would be crucial to take full advantage of the growing service economy among the three countries and the merits of economic globalization. China’s policy to promote an open economy would be encouraging for the service industry as well. He believes the three nations could conclude a high-standard free trade agreement among certain sectors related to IT, including software services, assuming that there would be few differences in views on trade in those sectors.

With this encouraging sign of China’s strong commitment to an open economy and free trade system, discussions began. In my

Agenda

The 5th CJK Cooperation Dialogue “CJK Cooperation in the New Context”

Date: Dec. 8 (Saturday), 2018

Venue: Multifunctional Hall, 1st Floor, CIRD Conference Building

Session 1: CJK Economic Cooperation in the New Context: Opportunities & Prospects

Moderator: Haraoka Naoyuki, Executive Managing Director, Japan Economic Foundation (JEF)

1. Keynote Speeches (10 minutes each)

- Zhang Yunling, Director-General, Department of International Studies, Chinese Academy of Social Sciences
- Urata Shujiro, Dean and Professor, Graduate School of Asia-Pacific Studies, Waseda University, Japan
- Ahn Choong Yong, Distinguished Professor, Graduate School of International Studies, Chung-Ang University; former Chairman, Korea Commission for Corporate Partnership (KCCP)

2. High-end Talks (70 minutes)

- Song Xiaowu, former Chairman, China Society of Economic Reform
- Fukagawa Yukiko, Professor, School of Political Science and Economics, Waseda University, Japan
- Wei Wei, Vice President, Chinese People's Institute of Foreign Affairs
- Chae Wook, Honorary Distinguished Professor at the Graduate School of Pan-Pacific International Studies of Kyung Hee University, Korea
- Iida Hirobumi, Counsellor, Embassy of Japan in China

Session 2: Potentials & Breakthroughs of CJK Industrial Cooperation

Moderator: Ahn Choong Yong, Distinguished Professor, Graduate School of International Studies, Chung-Ang University; former Chairman, Korea Commission for Corporate Partnership (KCCP)

1. Keynote Speeches (10 minutes each)

- Zheng Xinli, Vice President, China Center for International Economic Exchanges
- Kim DoHoon, Honorary Distinguished Professor, Kyung Hee University; former President, Korea Institute for Industrial Economics and Trade (KIET)

- Song Xiaowu, former Chairman, China Society of Economic Reform
- Yoshino Naoyuki, Dean, Asian Development Bank Institute, Japan

2. High-end Talks (70 minutes)

- Tchoe Byongho, Professor and Dean, Graduate School of Urban Public Health, University of Seoul, Korea; former President, Korea Institute for Health & Social Affairs (KIHASA)
- Fukagawa Yukiko, Professor, School of Political Science and Economics, Waseda University, Japan
- Gu Shuzhong, Vice Director, Institute of Resources and Environmental Policy, Development Research Center of the State Council
- Kim Sang-Hyup, Director, Center for Sustainable Development; Visiting Professor, Graduate School of Green Growth, KAIST
- Matsushita Kazuo, Professor Emeritus, Kyoto University; Senior Fellow, Institute for Global Environmental Strategies (IGES), Japan

Session 3: Cooperation on the Local Level in the Framework of CJK Cooperation

Moderator: Zhang Yunling, Director-General, Department of International Studies, Chinese Academy of Social Sciences

1. Keynote Speeches (10 minutes each)

- Hirai Akira, Managing Director, Chief Secretary, Kyushu Economic Federation (Kyukeiren), Japan
- Zhao Jinping, former Director-general, Research Department of Foreign Economic Relations, Development Research Center of the State Council
- Kim Seok-Hwan, Visiting Professor, Hankuk University of Foreign Studies

2. High-level Talks (70 minutes)

- Jiang Ruiping, Vice President, China Foreign Affairs University
- Kusaka Kazumasa, Chairman, Japan Economic Foundation (JEF)
- Du Benwei, former Secretary of the Party Committee, Dongbei University of Finance & Economics
- Lim Kang-Taeg, Senior Research Fellow, Korea Institute for National Unification (KINU)
- Li Kai, Vice President, China Academy of Northeast Revitalization

personal view, it was an historical moment that we had such an encouraging opening speech confirming commitment to trilateral cooperation and free trade.

The dialogue consisted of three sessions ([Agenda](#)).

Opportunities & Prospects for CJK Economic Cooperation

Session 1 was a kind of overview session looking at the main issues emerging in this new context. It was encouraging to see all agreed that the three countries will need to consolidate their efforts for economic cooperation to mitigate the impact of US protectionism, assuming that their economic growth would be hampered by it. All agreed that the best growth strategy in this new context would be to pursue free trade among themselves as well as with the other Asian nations or globally. The total of the three

nations' GDPs is 96% of US GDP and thus their firm commitment to free trade would work well as a warning to the US.

Another issue was the impact of a digital economy. It was pointed out that smart networks brought about by the digital revolution would have a significant positive impact on the economy and this would increase the weight of trade in services, in particular software services. To encourage this trend, new trade rules for a digital economy would be necessary. A possible trade deal among the three nations for zero tariffs on digital products such as telecommunication equipment or other IT products could be one way to achieve it. Such sectoral trade liberalization could be easier to achieve and also have an immediate promotional impact on the digital economy, a new engine of growth among the three nations.

The third issue discussed in this session was how to attract the US back into a multilateral free trade system by reminding it of the demerits of protectionism or of ignoring multilateral trade rules

under the spread of globalization. One way might be to wait and see the worsening impact of protectionism on the US economy itself. It may take longer to see the impact of a shrinking global economy resulting from retaliatory measures by China or other nations.

Another way would be for the rest of the world to collaborate in achieving comprehensive and high-quality regional free trade agreements, such as the Regional Comprehensive Economic Partnership (RCEP) or a CJK FTA. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the formal name for the TPP11, will be put into effect on Dec. 30, 2018. There would be room, however, for potential members like South Korea or China to join it and thus it could be expanded, or in the future both the CPTPP and RCEP could be merged as an APEC FTA. The conclusion or implementation of such regional FTAs would put US industries at a competitive disadvantage, since the US would be excluded from them. US industries would then pressure Washington to go back to multilateral FTAs. In particular, China's joining the CPTPP could work most effectively to attract the US to come back. The key to success with this strategy would be how quickly these nations could conclude negotiations for such FTAs.

The third point discussed in this regard was reform of the WTO to make it more efficient. Apart from institutional aspects such as reform of the voting system from unanimity to majority rule to save time in decision making, the discussion was focused on how to reflect recent economic developments such as the digital economy in WTO rules so that the WTO would be a more attractive venue for trade negotiations. International harmonization of domestic policies or rules could be further examined in the WTO, such as competition policy, Intellectual Property Rights, and e-commerce.

The last point on this issue was how quickly we could prompt the US to return to multilateral free trade deals. China, Japan and South Korea would not have much time to survive a trade war resulting from US protectionism. The three countries industries are closely connected through supply value chains expanding in East Asia and

Southeast Asia and export their goods completed by these supply chains to the US. A US-China trade war could destroy or at least seriously damage these supply chains and thus the decline in exports of these nations would put their economies into stagnancy. Time is precious. How can we shorten the process of building up a free trade area on our own to attract the US to come back?

There would be two ways. One is to try to conclude the RCEP or CJK FTA, which are not concluded yet, with more flexibility – giving up a more ambitious FTA and instead being satisfied with accords on the fundamental issues to save time. The other would be to start negotiations by sectors or on issues that are much less sensitive than others, and try to get early harvest conclusions. Another five to 10 years should be spent on concluding more comprehensive agreements.

Potential Areas for CJK Industrial Cooperation

In addition to trade policy, the three nations could benefit from other microscopic policy cooperation. Cooperation in the domain of environment policy remains important. Development of green industries or the green economy, such as electric vehicles, recycled agriculture, and clean energy like power generated by incinerators, could be accelerated in China in particular by such cooperation. The utilization of market mechanisms could be promoted to raise these industries. In the context of the digital economy today, we could take advantage of the Fourth Industrial Revolution to achieve the goals defined by the Paris Agreement for mitigation of global warming. Digital technology could be used for investment in renewable energy sources such as in smart cities where the efficient use of energy is maximized. Knowledge of technology to achieve such environmental goals could be shared by the three nations.

Healthcare is another potential area for trilateral cooperation in light of the rapid aging of societies in the three nations. The Japanese healthcare service and caregiving service would have high



Kazumasa Kusaka, Chairman and CEO, Japan Economic Foundation (JEF)



Chi Fuling, President, China Institute for Reform and Development (CIRD)

potential for economic cooperation with China, in particular. In this area as well, the three nations would benefit from digital technology in terms of effective use of big data on medical consultations, or in analyzing the behavior of elderly persons. Dementia, in particular, is a serious disease for the aged and the number of patients suffering from it is rapidly increasing. Trilateral cooperation in digital technology in this regard would be productive in caring for those people. Biotechnology and pharmaceuticals would be another high-tech area of potential cooperation which could enhance productivity in the healthcare industry.

Agriculture and tourism services are other areas of potential cooperation. The former could enhance its productivity by the introduction of digital technology and the latter could be expanded by a new policy to promote borderless tourism services among the three nations.

With regard to financial services, how to finance increasing infrastructure projects in Asia, how to finance small and medium-sized enterprises (SMEs), liberalization of capital and exchange rates in China, and development of FinTech were issues for discussion and reflection. China's initiative for infrastructure building in Asia and other developing areas called "One Belt, One Road" would need private money as well, and thus will need Public and Private Partnerships (PPPs) as a method of financing. With private money, such infrastructure projects' profit ratio could be raised and thus tax revenues in the areas surrounding these infrastructures would rise and enhance the public sector's financing capacity.

This virtuous cycle would be made feasible by the creation of a bond market for getting private money in China. The introduction of market mechanisms in capital and exchange rates in China would be the best policy for enhancing China's responsibility in the global economy as well as the Asian economy. It is well known that SMEs have great employment potential and thus it would be worth analyzing big data about them for efficient financing, and this could be another matter for trilateral cooperation.

It was also noted that promoting gender equality in jobs would be the most effective way of overcoming the shortage of labor due to the lower birth rate among the three nations, given that they share the common weakness of being heavily dependent upon working middle-aged men.

Cooperation at the Local Level

The 5th CJK Cooperation Dialogue highlighted local-level cooperation for the first time, as it has been expanding in the context of private business cooperation as well as institutional cooperation. This is partly due to expanded connectivity through consolidated infrastructure. Building up a borderless community based on such local-level cooperation would be instrumental in promoting friendship among the residents in those areas. In the

case of private business cooperation among different regions, interaction through business matching events is often seen as the beginning of spontaneous private business cooperation, leading to local-level cooperation.

A change in national policy could also trigger local-level cooperation. For example, the opening up of airports to the rest of the world would promote local-level cooperation, and if there was cooperation between Special Economic Zones promoting structural reform among the different nations, that could result in local-level mutual learning about each other's structural reforms as well as enhanced business cooperation. In order to maximize the merits of such a national policy for local areas, it would need to be linked to the region's development strategy.

The core of local-level cooperation is human exchange based on a region's passion for interaction. We would need to understand our history of more than 1,000 years of human interaction among the three nations. Kyushu, the main island of southern Japan, has been at the center of such human exchange since the 5th century. Dazaifu Tenmangu Shrine in Fukuoka city still attracts a large number of tourists from China and South Korea. The Yellow Sea Rim Economic and Technological Conference aimed at achieving an open economy in the Yellow Sea Economic Zone and initiated by the Kyushu Economic Federation, an association of business people in Kyushu, has been focusing on agricultural trade, in particular between Shandong Province in China and Fukuoka in Japan. Weihai in China, Incheon in South Korea and Fukuoka now engage in local-level economic cooperation. The labor shortage in Kyushu could be resolved today by an increase in young workers coming from South Korea. The Economic Research Institute for North East Asia in Niigata city, a think tank specializing in regional studies of Northeast Asia including North Korea, is another example of local-level knowledge-based cooperation. In addition, Kitakyushu city and Dalian in China have been promoting environmental cooperation. Tourism and caregiving services for the elderly are also potential sectors for local-level cooperation, and Liaoning Province in China is now open to importing these services from Japan.

Lastly, it should also be noted that a possible mitigation of geopolitical risk in North Korea through meetings between Trump and North Korean leader Kim Jong Un would enhance the possibility of further local-level cooperation in the future, providing the three nations with a good growth opportunity.

Overall, I would reiterate that the 5th CJK Cooperation Dialogue was organized with an unprecedentedly keen interest in closer cooperation among the three nations, possibly sparked by the "America First" policy. I hope this keen interest continues for our future meetings.

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