

Roundtable with Dr. Satoshi Inomata, Masashi Kurose, Michitaka Nakatomi & Dr. Shujiro Urata

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By Japan SPOTLIGHT

The year 2019 will be remembered as a year of rising protectionism. The US-China tech cold war is at the center of the risks facing the global economy due to restrictions on trade. METI's White Paper on International Economy & Trade 2019 highlights the background and the demerits of protectionism as well as the need to recreate a new rules-based international trading system. This new rules-based system should be discussed with due regard to business interests, as businesses would be the primary actors affected by the rules. Thus, the White Paper is not a theoretical argument but is based on practical ideas and discussions with business people.

In this light, our roundtable discussion on the White Paper consists of leading thinkers in Japan knowledgeable in both theoretical thinking and real business practice. Dr. Satoshi Inomata, chief senior researcher at the Institute of Developing Economies (IDE-JETRO), is a distinguished trade economist who has devoted many years of research to the analysis of global value chains (GVCs). Masashi Kurose, a patent attorney and president of Kurose IP Management, is an expert on IP dispute settlements in Asia. Michitaka Nakatomi, vice chairman and senior executive director of the Japan Machinery Federation (JMF), is a former METI official who has engaged in many trade negotiations and also a distinguished trade policy researcher as consulting fellow of the Research Institute of Economy, Trade and Industry (RIETI). Finally, Dr. Shujiro Urata is professor of Economics at the Graduate School of Asia-Pacific Studies at Waseda University and a well-known economist with expertise in international trade.

The former director of the Policy Planning and Research Office of the Trade Policy Bureau and author of the White Paper, Mineko Ota, leads the discussion with the following introductory remarks. She is currently director of the APEC Office at METI's Trade Policy Bureau.

(Roundtable on July 11, 2019)

Participants



Satoshi Inomata



Masashi Kurose



Michitaka Nakatomi



Shujiro Urata



Mineko Ota

Introduction

Ota: I would like to mention three major points in this White Paper. First, our quantitative analysis shows that in our global economy all nations are closely interdependent through expanded trade and vertical division of labor in the manufacturing industry, so-called GVCs, which is also expanding. Rising trade friction between the United States and China would affect not only the two superpowers

but also Japan and the rest of the world because of this interdependency.

Second, we strongly warned readers that current trade tensions could be the most serious crisis for free trade since the establishment of the WTO. We pointed out rising economic disparity as the background to the crisis, in that expanding inequality has provoked the belief that trade is the main culprit of rising income gaps. We also focused on suspected market-distorting practices by

China such as low interest rate financing or subsidies, as well as international competition in high-tech areas, as the subjects of our analysis. In addition, we have done a number of analyses on how protectionist measures or trade restrictive measures would affect the global economy. Our conclusion is that those trade restrictive measures would affect extremely negatively not only the nations directly involved in trade wars but also third countries and eventually the overall global economy. Based on these analyses, we strongly recommended strengthening WTO functions as quickly as possible to roll back such protectionism.

Our third point is, against such a background, to recommend the Japanese business community enhance its overseas presence not only in the manufacturing industry but also in retail and service industries to avoid too heavily depending upon the manufacturing sector in the international arena or to move towards other growing markets rather than Asia, such as Africa or Latin America, where Japanese businesses are not yet fully active.

JS: Thank you for your introduction. I think a major point is how to respond to protectionism. The first issue is how protectionism is to be interpreted in the context of GVCs. Dr. Inomata, could you please start the discussion?

Current International Relations to Be Revisited in the Context of GVCs

Inomata: GVC studies have shown notable development in the last 10 years or so. They aim to capture the dynamics of global production systems evolving from the time of the Industrial Revolution. In the 19th century, a country exported products which were produced within its national borders using only domestic production factors. However, thanks to the rapid advancement in transportation modes and information and communication technology, production systems have undergone significant changes in recent years. Consider the case of producing a shirt; the production process can now be fragmented into designing by a Milanese designer, patterning by a tailor in London, and final mass-production at a factory in Dhaka, in a way that each task is transferred to the place where it can be performed most efficiently.

In line with the fragmentation of production processes, many developing countries, notably China and Asian Newly Industrializing Economies (NIEs), have achieved remarkable economic growth. This is because GVCs allow individual countries to choose and specialize in particular segments of a production process as appropriate for their own technological levels, and hence enabling them to produce even a high-tech product such as a smartphone at the global scale.

At the same time, it also generated an intense competition over value chains between developed and developing countries. As seen in the US-China trade friction as a symbolic example, there is a growing disharmony of views on how production should be shared across borders. Developed countries fear that their domestic jobs, especially those using unskilled labor, will move out to developing countries in search of a cheap labor force, while developing countries are worried that their economies will be “locked in” to the

low value-added segments of supply chains. As a result, we observe a rise of protectionism in developed countries, on the one hand, and aggressive industrial promotion in developing countries, on the other. I would call this phenomenon the “New North-South Divide” in the age of globalization, which is indeed nothing but a battle for value chain dominance from the GVC perspective.

Urata: The critical question is the speed of such transformations. The drastic change in international division of labor has happened only in these last two or three decades. As Dr. Inomata mentioned, in developed nations the demand for unskilled labor is decreasing, while the demand for skilled labor or experts is increasing and thus the wages of the former will be lowered and the wages of the latter will rise. This results in increasing income gaps. I would also like to point out that some capitalists are earning tremendously high profits in this system. I think it would be better to think about them in referring to increasing income gaps caused by GVCs, in addition to the gap between skilled and unskilled labor.

Inomata: Returns on capital became extremely high. GVC-driven globalization is indeed a process in which capital factors of advanced countries coalesce with unskilled labor factors of developing countries. This has a rather ironic implication for the US government that, in the light of protecting the benefits of US global firms, the anti-China campaign is quite self-contradictory in the line of GVC logic.

Urata: In a situation where the US-China trade war is intensified and China finds it difficult to export its products to the US, will GVCs be reconstructed to exclude China? Or, in the case of goods being produced and sold only in Asia, would there be a regional value chain instead of GVCs to take advantage of the big market in China?

Inomata: I am not sure if supply chains will be continually reconfigured in a way that production bases are shifted among developing economies, from China to other Asian countries, for example. Rather, I am more concerned about reshoring (or near-shoring) of production capacities back to advanced economies, which is made possible by the introduction of new technologies such as automated robotics or additive manufacturing (3D printing).

Nakatomi: The big issue is that international rules and domestic regulations are not keeping up with the rapid progress of innovation. Without the relevant rules and regulations, business will not gain the full benefits of GVCs brought about by new technologies. In the digital economy, we have such issues as privacy and consumer protection, localization of data and IPR protection. We welcome the Osaka Track established by the G20 Summit in Osaka in 2019 where the G20 countries declared they would start a rule-making process for the digital economy. But it is still uncertain where we should resolve this question. If we cannot achieve it and fail to catch up with the reality of such rapidly progressing innovation, there would be a world without disciplines where the more powerful will dominate against the interests of the others.

Inomata: I share that concern. In particular, in relation to the competition over future digital platforms, 5G, between the US and China.

Kurose: There are products that only China can produce and not Vietnam or any other place. I think many Japanese manufacturing companies would have no way but to maintain their production in China or some companies may even invest more in China.

Urata: I think the growth rate of Japanese business investment in China is now lower than before. This is because of rapidly rising wages in China due to a labor shortage as well as US-China trade friction. I think there are many Japanese firms transferring their production bases from China to Vietnam or some other Southeast Asian countries.

Another question is the possibility of lost job opportunities increasing in developing countries as production bases would be returned to developed nations due to labor-saving technological innovation, as Dr. Inomata mentioned.

Inomata: While labor costs are rising in developing countries, Industry 4.0 (the Fourth Industrial Revolution) is under way in advanced countries, making a human labor force less attractive. Accordingly, lead firms in advanced countries will find it increasingly expensive to move their production bases to developing countries. This may bring an additional divide to a group of developing countries, between those which managed to dodge or get out of the middle-income trap by introducing new technologies and those which have failed to do so.

Kurose: That is true. I think developing nations are today increasingly keen on promoting innovation by strengthened patent protection against such a background.

Background to Rising Protectionism – Chinese Market Distorting Policy Measures & Business Customs

Kurose: There is a research report issued by the USTR in March 2018 in accordance with the US Trade Act, Article 301. Among the four points mentioned in the report, there is a claim that the Chinese government is unfairly accessing through hacking US companies' computer networks to obtain confidential data including intellectual properties, technological data, trade secrets, etc. This has led to FDI restrictions but at this moment the restrictions are modified. There is also a claim that the US companies are forced to transfer their technology to Chinese companies if they are doing business in China. This is a matter of business customs and not a matter of regulation, as a few remaining regulatory problems were all eliminated by the Chinese government soon after the publication of the USTR report. So what the USTR pointed out as issues in the report do not exist anymore explicitly, though there could be some issues to be resolved in terms of business customs.

The largest issue for Japanese companies is that Chinese law

enables Chinese companies to improve the technology brought about by overseas companies. "Improvement" is not clearly defined and thus a mere change of design could be interpreted as improvement. One big issue was the Japanese Shinkansen. The Japanese initially thought they could win orders from China by teaching them the technology. But the Chinese improved it and got many patents for the improved technology, since the Japanese technology is basically just know-how that is not patented. They can sell these improved technologies even to the US or other nations.

There were also some regulations enforcing technology transfer, such as enabling a licensee to continue to use the borrowed technology even after the termination of a technology license contract. However, those were eliminated after the publication of the USTR report.

China, at the beginning of economic reform in the 1980s, pursued the import of technologies from overseas and digested and absorbed them. Around 2006 and 2007, they changed direction to recreation and improvement of the borrowed technologies. And thus we see a drastic increase in patent applications.

Another important issue is technical standards. We would have to apply Chinese domestic standards to our products manufactured in China for the big Chinese market. There was a case of a law suit a couple of years ago in which Sony Inc., being required to use a Chinese technology based on Chinese standards for selling their smartphones in China, lost to a Chinese company with a patent for a smartphone telecommunication system based on Chinese standards, and Sony had to pay them a license fee.

Finally, as the US often points out, China is promoting unification of military technology and private business technology as the latter has been well developed. Thus, today, private businesses in China are now working on military technology development. Patent applications for national defense-related technologies which should be received by the National Defense Patent Office are increasing. When the Chinese authorities assume a specific technology is a national defense-related one, it would be categorized as such.

In the case of those technologies, the patent applications are not open and thus for example in the case of 5G or other telecommunication systems, we would eventually find existing patents in China which are not known to us.

Chinese patent applications based upon the Patent Cooperation Treaty (PCT), those to be applied abroad, continue to increase every year. In particular, Huawei has so many patents based on PCT. Huawei could bring law suits in the US by using those patents.

I think what bothers Japanese businesses most today on this issue is that they would not be able to achieve joint research or other joint activities with a Chinese company if the US expels Huawei from global business or starts more serious economic sanctions against China. The case of development of a driverless car would be the one possibly most seriously affected by this. Without joint cooperation with Chinese companies, its development would be significantly retarded. Ultimately, we will need global rules to mitigate these concerns.

Nakatomi: On the question of global rule making, the Agreement on

Trade-Related Aspects of Intellectual Property Rights (TRIPS) is beyond the scope of the Doha Round negotiations. This was a decision strongly supported by the US, but it must have made the wrong decision. If there were loopholes in global rules then, WTO members should have initiated global rule making first, and it should have addressed its claims in accordance with those rules. I understand the US made a big mistake.

Kurose: TRIPS is annually reviewed by the WTO to see that members are observing the law. However, the technologies covered by the review are now rapidly changing and reaching much higher levels than before. Digital technology is one example. In this light, we should elaborate the rules on TRIPS, but many developing countries and recently the US are not ready to do so.

Nakatomi: This is probably because it thought it would be difficult to reach a consensus to further improve the agreement in the WTO. However, no matter how difficult it may be, all nations should do their best to revise the basic global rules on it. At this moment, without such efforts, we see great ambiguities concerning rules and their implementation. I think that is a big problem.

Kurose: The TPP covers the issue of Intellectual Property Rights (IPRs), but TPP11 fails to cover it. The RCEP does not have any binding rules on IPRs. Thus, unfortunately, the rule-making process for the IPRs does not seem to be working well.

Nakatomi: I was in charge of negotiations on the Anti-Counterfeiting Trade Agreement (ACTA) on behalf of the Japanese government. This was successfully concluded at the Quadrilateral Trade Ministers Meeting in October 2010 in Tokyo but due to opposition by European NGOs it could not be implemented. I share the view that the major nations should work together for global rule making to avoid a power game.

Urata: In China, is the issue of intellectual property rights now considered critical among Chinese companies? If so, we can be more optimistic in regarding China as rule abiding on intellectual property rights.

Kurose: Japanese businesses now believe that Chinese regulations on intellectual property rights protection are much improved and the US Bar Association also has the same evaluation. They are adapting well to rapid technological progress.

Inomata: Prof. Richard Baldwin, a distinguished trade economist, advocates for regulatory convergence and the establishment of common norms for 21st century global governance. Can China conform its own domestic rules to them?

Kurose: We do not have common rules now. China complements the incomplete WTO/TRIPS rules by its own domestic laws for digital technology.



Inomata: Without common global norms, there is a danger that two economic superpowers may pursue the entrenchment of their own specific rules, which would lead to system bifurcation and polarization.

Kurose: On the issue of patents, harmonization of rules is critical. Between China and Japan, their patent specialists have been closely working together to have common judging criteria for patent protection. Thus what is acknowledged as a patent in Japan will not be rejected by the Chinese.

Inomata: The number of China's patent applications is remarkable. However, in view of the "quality" of the patent applied for, can we still say that China has significantly accumulated technological capacity over time?

Kurose: It is certainly true that though they have so many patent application cases, there are many for applied technologies rather than basic ones. But against the background of an overwhelmingly large number of patent applications, the Chinese could win many law suits.

Nakatomi: Regulatory convergence is also an important issue. The WTO and Regional Trade Agreements (RTAs) cannot meet the needs of new rules reflecting the rapidly progressing technological innovation at this moment. In this situation, unless regulatory convergence is promoted sector by sector, business itself could be critically affected. We will need to utilize all the policy tools available and work together for a solution of this issue. On the issue of technology, I think we should eventually integrate the results of all those efforts into the WTO framework in the future.

Inomata: On regulatory convergence, strong leadership by advanced countries is the key for making common rules. For example, advanced countries may request developing countries to engage in domestic reforms in exchange for capital transfer (foreign direct investments (FDI)). Prof. Baldwin once described it as "my-factories-for-your-own-reform" strategy.

Now, such a strategy is effective only if there is a huge difference

in bargaining power, largely based on the amount of disposable capital, between developed and developing countries. In the near future, however, newly emerging superpowers such as China or India are likely to find the deal less attractive since these countries may have built up sufficient production capacities by then, so that they can afford *not* to give in to such a bargain. The terms of trade for advanced countries will rapidly deteriorate as time goes by. So how quickly we can realize common rules is an issue of particular importance.

Nakatomi: It is certainly true that regulatory convergence could be increasingly difficult to achieve today. But, first of all, it is indispensable to achieve collaboration among developed nations on this. At the same time, it will also be important for us to convince developing nations of the merits of regulatory convergence in promoting their own economy with the introduction of new technologies. Otherwise all of us would be losers. This must be understood by all.

Urata: I agree with you, but we should not forget that large market nations like India and China might have the illusion that their markets are sufficiently large to attract FDI even without regulatory convergence. These countries should realize that regulatory convergence would not only attract more FDI but also facilitate their companies to expand their business abroad.

Nakatomi: The WTO has failed to achieve a global consensus on making rules on such important issues as trade and investment, or trade and environment, both of which were initially adopted as part of the agenda of the Doha Round.

Consequences of Rising Protectionism Provoked by US

Nakatomi: Protectionism is contradictory to GVCs and nullifies the merits of international trade. It also damages the stability of international trade rules and the predictability of business. Protectionism can be simply defined as a violation of the international rules embodied in the WTO. Looking back at the history of the development of international trade rules, we can find the backgrounds and reasons for today's rising protectionism.

In 1995, with the establishment of the WTO, the prohibition of unilateral measures and an enforced dispute settlement mechanism were introduced. The adoption of panel reports by negative consensus (meaning a report will be adopted unless all member nations unanimously oppose it), and clarification of retaliation procedures against violations of WTO rules were also introduced and all member nations must generally observe the same rules, except for "special and differential treatment" for developing nations. Rule making in the WTO peaked around 1997, as shown in the achieved agreements on information technology (ITA) in 1996 and telecommunication and financial services in 1997. Since then, the only multilateral agreement was an agreement on trade facilitation in 2017.

Consensus in principle, an enforced dispute settlement mechanism, single undertaking (meaning all member nations in principle are obliged to follow the same rules), and definition of a developing country by its own announcement – these WTO principles have made it extremely difficult to carry out rule making in the WTO. The possibility of a free ride for developing nations, Special and Differential treatment for developing nations, and institutionalized retaliation against violations of WTO rules have all made it difficult for the WTO to do decision making and rule making.

Since around 2000, regional trade agreements (RTAs) have become the main tools for trade liberalization and rule making. In recent years, mega-FTAs such as TPP11 and the Japan-EU FTA, have contributed to rule making and trade liberalization. WTO rules have been basically on border measures and have not been able to keep up with the changing reality of international trade and business after 1993 when the Uruguay Round reached a consensus in substance.

For example, revisions of the General Agreement on Trade in Services (GATS) or TRIPS rules or in-depth exploratory studies of those agreements in the light of reality have not made good progress and new rules could not be adopted on important new issues such as trade and investment, trade and environment and e-commerce. The issue of IPRs that the US considers critical in US-China trade friction was even beyond the scope of Doha Round negotiations that started in 2001. Such an unfortunate historical background has generated significant energy for an explosion of protectionist measures today.

It is extremely difficult to try to respond to today's complex trade issues only with the interpretation of the principles adopted by the WTO in 1995. It is true that judicial processes cannot work without appropriately functioning legislative processes. Thus, it was foreseen in advance that the WTO dispute settlement mechanism would be paralyzed, assuming that the details of the rules were not clarified and developed.

Therefore, I believe that restoring and strengthening the function of international trade rule making is indispensable to mitigate rising protectionism. The best venue for this must be the WTO and if it is not possible, we should try to do it in plurilateral agreements or RTAs. Of course, we must commit to preventing proliferation of protectionist measures and avoid using the paralysis of the WTO's rule making functions as an excuse. In this regard, the G20's message of doing its best to realize a "free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment" and keeping markets open is crucial, though not enough. In particular, proliferation of protectionist measures, using national security as a blanket exclusion clause, will be critically dangerous to the global trading system.

For Japanese industries that have achieved progress based on free trade and GVCs, proliferation of protectionist measures will have a serious impact. Decoupling of supply chains and rules of international trade would create a difficulty in responding to the crisis. Decoupling of supply chains would be a disaster for all nations' industries. I think the White Paper's analysis of the impacts of protectionist measures is very significant.

Urata: I would like to point out that protectionist measures are increasing not only in the US but also elsewhere. For example, at the global level, anti-dumping measures considered to be Non-Tariff Barriers (NTBs) are increasing. The reason for this increase at the global level is that more and more people are suffering from the demerits of globalization, such as those working in the Rust Belt in the US who have been robbed of job opportunities by globalization. There is research done by a group of distinguished economists proving several million jobs have been lost in the US due to imports from China. This finding has been used to justify protectionist measures. However, the researchers recommended raising mobility in the US labor market rather than protectionist measures so that the damage to labor due to the imports would be mitigated. Trade Adjustment Assistance, expected to encourage such labor mobility, should be effectively employed.

I believe, the demerits of globalization may as well be resolved not by protectionism but by a more flexible labor market or better functioning of market mechanisms. However, there are of course political issues behind protectionism, as advocates could win political support from those workers exposed to immediate threats from imports.

On the issue of the impact of a trade war on the global economy, increased uncertainty will definitely discourage trade and investment, slowing down economic growth. A number of quantitative analyses using a general equilibrium model show a negative impact on the nations waging a trade war, in this case the US and China, but a positive impact on the rest of the world due to trade diversion effects. For example, with the decline of Chinese exports to the US, Japan could enhance its export opportunities to the US, partly replacing that decline.

On the other hand, a macroeconomic analysis like the IMF's World Economic Outlook shows that global GDP growth will slow down due to further intensification of the US-China trade war. This would negatively affect Japanese business as well. I think while the general equilibrium model is only static and does not take account of uncertainties due to the trade war, the macro approach shows an important aspect of the conflict, namely a negative impact overall upon the global economy.

In order to cope with protectionism, first of all, I think Japan should clearly explain to the US and China that all nations would be damaged by a trade war. Second, assuming that US protectionist measures would be adopted against unfair Chinese trade practices, the US should work with Japan and European nations together to correct Chinese practices and not alone. That would, I guess, lead to a WTO rule-making process. Japan should convince the US of the utility of this approach and should advise China to observe international rules and understand well that observing them would have an extremely favorable outcome in the long run.

Lastly, I would like to stress the importance of maintaining and expanding a rules-based trade and investment environment to achieve global economic growth. Specifically, for Japan it is necessary to expand membership of TPP11 founded under Japanese leadership. It is also important to conclude other Asian-based mega-regional FTAs such as the RCEP or the China-Japan-South Korea FTA

as promptly as possible.

Inomata: The research paper that Dr. Urata mentioned demonstrates only a negative impact of China's exports on US employment. Apparently, there is also a positive impact from supplying low-cost intermediate inputs to US firms, which raises their productivity. The aforementioned research does not shed light on this point.

Urata: Yes, I agree with Dr. Inomata. Another factor that is often missed in the analysis is positive impacts on US exports to China. Though US imports from China are five times as large as US exports to China, the growing Chinese market could be part of the reason for growth in US jobs and production. Thus it would be misleading if we analyze only the impact of Chinese exports to the US. On the economic impact of Chinese exports, I am now conducting research on the impact of Chinese exports to Japan on the Japanese economy. My preliminary research reveals that the damage is seen as a decline of jobs in Japanese small and medium-sized enterprises (SMEs).

How to Revitalize Multilateral Trading System & What Would Be Japan's Role?

Urata: In the WTO, rule-making negotiations have not been working at all and the existing rules are outdated, and the dispute settlement mechanism is not working well due to the outdated rules. But no country has ever started an action towards WTO reform, even though all nations mention the importance of WTO reform.

Its unanimous consensus-based decision making has made it impossible for the WTO to initiate any flexible action for fixing trade frictions. To make a breakthrough on this, as Mr. Nakatomi mentioned, there are two alternatives: one is plurilateral agreements on rules on specific issues to be decided by a voluntary group of nations, and the other is RTAs and FTAs, in which fewer nations than in the case of plurilateral agreements get together and create a framework of comprehensive agreements such as the CPTPP. It is important to expand the membership of such RTAs or FTAs. With these two categories of agreements expanded, we would eventually upgrade and modernize the WTO. To carry out such an approach, the four important players – the US, China, Japan, and the EU – have to come to an agreement.

Nakatomi: I think the WTO's comprehensive regime for supporting free trade and its dispute settlement mechanism are unique and cannot be replaced. Nobody could stop rapid technological developments and resulting changes in international trade. The world without the WTO would be a world without rules and only the winner of the power game could dominate, and thus a variety of disharmonies and inconsistencies would proliferate. Until the WTO is back in the driver's seat, it is necessary for the time being to promote simultaneously plurilateral agreements, RTAs, regulatory cooperation, and strengthened alliances with other international organizations. It would, however, be critical to secure the WTO as the basic venue of multilateral trading systems. In this regard, it is

important for the G20 to perceive the need for WTO reform. It will be indispensable for the reform to tackle its decision-making mechanism to restore its legislative function.

As to what can be done immediately, I think strengthening notification procedures and securing transparency including stronger penalties for violations, utilization of regular committees and confirming implementation of existing rules and strengthening them, including in particular the rules on subsidies covering State-Owned Enterprises (SOEs), is important.

As for the role of Japan, it is important to lead WTO reform on restoring legislative functions and securing judicial functions, including solutions to the issue of the Appellate Body which has played a key role in dispute settlements at the WTO. Japan should also work to promote plurilateral initiatives and RTAs to maintain free trade and GVCs. Possible plurilateral initiatives can include those on digital trade and rules on subsidies. As for RTAs, expansion of membership of TPP11 and conclusion of the RCEP should be accelerated by Japanese initiatives.

The WTO is a lighthouse leading global trade. We must not turn off the light. I believe the role of Japan is significant in the midst of the trade war between the two superpowers.

Kurose: In the domain of technology, international standardization is the most crucial issue. For example, without having global standards for chargers, electric cars cannot be exported. In the case of driverless cars, we would have to decide on a global standard on telecommunications. There is what we call standard-essential patent claiming, meaning that an invention must fulfil some specific technical standards. In some cases we must use it. We would need to set up license rules as well. We will not be able to wait for a WTO decision under rapid technological progress. Developed nations have already started discussions on these matters. Thus, I think rule-making efforts are making good progress in the domain of technology.

Urata: In order to encourage the US to return to free trade, the integration of the CPTPP and the EU-Japan FTA could be a good idea for Japan to promote. Another point is to restore the WTO's credibility, and the WTO's secretariat functions such as research need to be expanded.

Final Comments on Global Economy & Free Trade

Inomata: I pay close attention to the issue of how new technologies will impact globalization. As I mentioned earlier, some sorts of technological innovation are causing a shift of production capacities back to advanced countries away from developing countries, giving a poorer prospect for economic development of the latter. The technological progress in this direction may dampen the globalization momentum.

On the other hand, the digitalization of production processes, such as e-commerce, FinTech, or "virtual presence", can offer huge opportunities to firms/individuals in developing countries for joining

GVCs through advanced communication networks. This gives a further leverage to GVC expansion. Whether or not GVCs will continue to develop depends on the net impact of these opposing forces. The issue of inequality, domestic or international, is then up to how technologies work for GVCs.

Kurose: About China, it is such a vast country and there are huge gaps in development among the regions. In terms of intellectual property, Shenzhen, the most advanced place, has 47% of international PCT patent applications in China, while there are some underdeveloped regions with no PCT patent applications at all. Inequality of wealth has been rapidly increasing among the regions. The Chinese government has carefully addressed the existence of regional disparities in the country. At the same time, in order to strengthen international competitiveness, the government is promoting policies to promote further development of advanced regions. Most Chinese seem to support the current policies of the administration.

Nakatomi: We can stop neither globalization nor innovation. But we must be aware, for example, that digital technology can introduce such problems as privacy and consumer protection, competition issues and digital divide, while it can bring enormous benefits to all users and countries. We will need to find solutions to these consistent with globalization. Development of GVCs means that no single country will find solutions on its own, so we will need to continue our best efforts for international rule making without falling into protectionism. Japan has a responsibility to pursue this and that would protect Japanese industries' interests.

Urata: We would have to think about mitigating the income gap and how all people could benefit from economic growth and globalization. One way to achieve it is redistribution of income and assets. However, redistribution policy could hamper economic vitality and dynamism. A better policy would be to support disadvantaged people or groups, in order for them to be able to benefit from globalization and economic growth. For example, SMEs may be given technical assistance so that they can effectively use IT to be engaged in GVCs, while women could be given appropriate job opportunities to maximize the use of their talent and skills.

Kurose: I would like to add one more thing. In the domain of IPRs, it is highly critical to create new international rules. It will be necessary to elaborate TRIPS. I sincerely hope that international rule-making efforts to meet the present levels of technology will be promoted without fail. Otherwise, we will see disastrous confusion.

JS: We must ask Ms. Ota, who is now in charge of METI's APEC Office, to help activate the international rule-making process to achieve what her White Paper envisaged.

JS

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