

Global Management in the Face of War, Pandemic & Political Divisions – Report on JEF Forum Activities in FY 2022

By Naoyuki Haraoka

The Launch of Deglobalization?

In history books of the future, 2022 will be marked as the year when the Russia-Ukraine war began and posed the most serious geopolitical crisis for several decades. The war divided the world between the West and Russia, China, and their supporting developing countries. It is generally regarded as a confrontation between democracy and authoritarianism. Whether this is a legitimate categorization or not, the global economy now faces a crisis unprecedented since World War II. It goes without saying that we have benefitted greatly from a globalized world where goods, services and people move freely among nations regardless of their political regimes. Modern economics provided a theoretical background that this free trade and investment would achieve optimal outcomes for the economy, as price mechanisms work well and people can enjoy the merits of cheaper goods through efficient production. But politics would make it difficult for the economy to achieve the best outcomes. Even before the war, rising anti-globalization sentiment, symbolized by the administration of President Donald Trump in the United States or the US-China struggle for global hegemony, challenged these assumptions, and the war has exacerbated the situation.

One immediate effect of this geopolitical crisis is seen in the disruption of global supply chains. Under globalization, the division of labor in production among nations is a key feature of business. This has been built up on the seamless global economy where any disruption of business activity could hardly occur. But with political confrontations, business firms start “reshoring” (transferring their production bases overseas back home) or “friend-shoring” (transferring production sites to friendly nations). This could lower their production efficiency and raise costs and so they would not enjoy the benefits of globalization anymore.

Unfortunately, the world trade regime has ceased to function well, as symbolized in the malfunctioning WTO dispute settlement process, with the Appellate Body responsible for final judgements in disputes paralyzed. With regional FTAs occasionally considered as a means of political alliances in the geopolitical rivalry among nations, as well as a means of achieving rules-based free trade, the existing international trade regime will not work well enough to resolve the issue of disrupted global supply chains and restore global economic

efficiency.

The crisis had another detrimental impact on the global economy, that is inflation. Russia and Ukraine are big food materials suppliers and the war has seriously hindered them in exporting food. This has resulted in a significant rise in food prices. The tightened availability of Russian oil and natural gas has caused a global energy crisis, and especially in Europe. The significant food and energy price increases have brought the world economy into cost-push inflation. With the remaining inflationary impact of the major developed nations’ fiscal stimulus to cope with economic problems due to the Covid-19 pandemic, inflation is now increasing all over the world. The US and many European nations have had no option but to raise interest rates to mitigate inflation, which is now becoming a threat to developing countries suffering from cumulative debt. Higher interest rates will also increase the fiscal debt of each developed nation.

The growth of the total effective demand of those nations will be damaged by inflation and high interest rates. Without the sufficient wage hikes to absorb inflation, personal consumption growth will decline and private investment will be discouraged. Meanwhile, the long-term challenges to the world economy such as climate change and aging societies remain significant barriers to growth and prosperity.

In addition, rising geopolitical risks have changed the landscape of possible progress in efforts to mitigate climate change. The current price hikes in oil and natural gas will be further exacerbated by the global consensus to reduce energy dependency on fossil fuels issuing more CO₂, as nations have started to refrain from fossil fuel exploitation, hoping that fossil fuels will be replaced by renewable energy sources in the near future. If they increase fossil fuel consumption, their commitment to mitigating climate change will be difficult to achieve. If they do not increase fossil fuel production, the current energy crisis will get worse as the war continues. Thus the geopolitical crisis makes it more difficult to pursue a path toward a sustainable global environment.

It was against this background that we organized our JEF policy forums in FY 2022.

Common Issues of Our Policy Forums

Our policy forums in FY 2022 focused on the likely consequences



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of the current geopolitical crisis and how we can extract policy implications from them in terms of security and economy. We particularly examined trade policy implications and energy and environmental policy implications, regardless of the partners – Europe, Asia-Pacific, China & South Korea, and the United States. We thought it would be worth finding commonalities in responses to the three issues we consider to be major challenges worldwide. The consensus achieved among all the forum members in FY 2022 was as follows:

The US-China struggle for global hegemony and a competitive edge in the high-tech sectors was intensified by the Ukraine crisis, and the political divide between the West and Russia and China verged on an economic divide and thus trade policy issues and security issues cannot be separated anymore. For example, security-sensitive high-tech goods will not necessarily be eligible for free trade against this background, as free trade of such goods could prove a threat to a nation's security. Even interdependency among nations through trade and investment and global supply chains could be weaponized. Excessive dependency on a certain major power through these economic networks could easily make a country accept this major power's coercive requests. This would produce power-based international relations in which smaller nations' interests are neglected. All the forum members agreed that a rules-based international trade regime would excel over a power-based one, as the former is more transparent and predictable and would thus encourage competition which benefits smaller economies. All agreed that any attempt to change the current status quo by force such as Russia's in Ukraine must be abandoned and the rule of law should be restored.

In this regard, a reform of the United Nations is crucial, but in each of our forums in FY 2022 the issue fell outside the scope of our discussions. Instead of the UN, multilateral trade pacts, the WTO and regional FTAs such as the RCEP or CPTPP or Japan-EU FTA were discussed as possible ways of building up a rules-based global trade regime. It was notable that all agreed on the need to revitalize these venues for rule-making, in particular in the light of new issues reflecting geopolitical crises such as trade and security or rules on data flows (digital data are also security sensitive).

Energy security and the global environment should be pursued in a balanced way. Many noted that fossil fuels will be still important energy sources to modify constraints on energy security, particularly for those European nations heavily dependent on Russian oil and natural gas. To mitigate their energy security constraints, their fossil fuel imports must be diversified, meaning fossil fuel exploitation may be done elsewhere. On the other hand, renewable energy sources will be key to promoting "Green

Transformation" (GX) and this will be an important source of economic growth as well as "Digital Transformation" (DX) in the digital economy.

Besides our four policy forums, we organized our usual seminar on global risks for Japanese businesspeople interested in the business implications of these risks.

Brief Introduction of Each Forum

The specific features of each forum are outlined below.

- Europe-Japan Forum in collaboration with the Aspen Institute France in Paris, Oct. 21, 2022 – "Japan and Europe: Enduring Partnerships and Global Changes" (*Agenda 1*).
On geopolitics, Japan was asked to be more actively engaged in the development of the TICAD process to encourage the growth of African nations to achieve a global balance among geopolitical powers.
On climate change and energy, the strategic implications of nuclear power were noted in responding to climate change and energy security.
On international trade and economic systems, integrating the Japan-EU FTA and the CPTPP would contribute to the realization of a rules-based international trade system, given that the WTO is not functioning well.
- The China-Japan-Korea (CJK) Cooperation Dialogue in collaboration with the China Institute for Reform and Development and the East Asia Foundation of South Korea in Tokyo, Nov. 15, 2022, with the participation of Chinese members online – "Defining Common Issues Amid World Uncertainties and Risks for Building Mutual Understanding and Better CJK Cooperation" (*Agenda 2*).
On geopolitics, dialogue and exchange of views must be maintained to harmonize conflicting views and mitigate geopolitical instability. Based on this view, communication on a wide range of levels between political leaders and young people must be encouraged.
On energy and environment challenges, the three nations cooperation in technological development must be urgently implemented in areas like hydrogen, energy efficiency, alternative fuels and raw materials, and carbon dioxide capture, utilization and storage (CCUS) to achieve carbon neutral societies.
On a rules-based international trade system, the RCEP, the largest regional FTA so far achieved, must be utilized at maximum and China and Korea are expected to join the CPTPP, a higher quality FTA, which would encourage the achievement of an APEC FTA. This could be a good replacement for the WTO. Meanwhile, it was

Agenda 1

13th Europe-Japan Forum

The World Outlook in an Era of Uncertainties:

How Can Europe and Japan Cooperate on the Economy and Business by Tackling Geopolitical Risks?

Thursday, Oct. 20, 2022

Keynote Address

Olivier Becht, Minister Delegate for Foreign Trade, Economic Attractiveness and French Nationals Abroad, attached to the Minister for Europe and Foreign Affairs

Friday, Oct. 21, 2022

Welcoming Remarks & Introduction

-- Jean-Luc Allavena, Chairman of the Board, Institut Aspen France, and Philippe Manière, Member of the Executive Board, Institut Aspen France
-- Masakazu Toyoda, Chairman and CEO, Japan Economic Foundation

Keynote introduction

H.E. Junichi Ihara, Ambassador of Japan to France

Day Two: Thursday 30 September 2021

Session 1: Geopolitics Review

- Review present geopolitics such as the decoupling of Democracy vs Authoritarianism, EU, US & the Western allies with Ukraine vs Russia, China, and other hegemonic states to discuss how to handle the challenges we face in the international order.

Moderator: Naoyuki Haraoka, Executive Managing Director, JEF

Speakers:

-- Prof. Chisako T. Masuo, Faculty of Social and Cultural Studies, Kyushu University
-- Muriel Penicaud, Ambassador, Permanent Representative of France to the OECD, Former Minister of Labour
-- Louis Schweitzer, Honorary Chairman, Renault, Former Special Representative of the French Government for Japan

Session 2: Climate Change & Energy

- Analyze the issues raised in the COP meetings and draw out possible energy transformations to produce a cost revolution to tackle global climate change and the environment.

Moderator: Philippe Manière, Member of the Executive Board, Institut Aspen France

Speakers:

-- Hideo Suzuki, Executive Advisor, Nippon Steel Corporation
-- Cécile Cabanis, Deputy CEO, Tikehau Capital
-- Philippe Boisseau, Former Member of TotalEnergies Executive Board, Former CEO and Board Member of CEPESA

Guiding questions:

• Would efforts for climate change be influenced by the Ukraine Crisis? How should we develop alternatives?

Session 3: International Trade & Economic System: How We Apply This When Doing Business Between Europe & Japan

• Discuss the impact of the challenges we face in Europe/Japan business circles to learn how we should develop business between Japan and Europe.

Moderator: Philippe Manière, Member of the Executive Board, Institut Aspen France

Speakers:

-- Prof. Mariko Watanabe, Department of Economics, Gakushuin University
-- Yasuo Hirano, Executive General Manager, Government Relations Office, Hitachi Europe GmbH
-- Jean-Louis Girodolle, CEO, Lazard Investment Banking France
-- Ludovic Subran, Chief Economist, Allianz

Guiding questions:

• How to strengthen a rules-based system for counter anti-globalism movements and encourage a healthier business environment between Europe and Japan?

Closing Remarks

-- Masakazu Toyoda, Chairman and CEO, Japan Economic Foundation
-- Jean-Luc Allavena, Chairman of the Board, Institut Aspen and France
Philippe Manière, Member of the Executive Board, Institut Aspen France

recommended that Korea and Japan join the MPIA (Multi-Party Interim Appeal Arbitration Arrangement), a provisional dispute settlement mechanism to replace the non-functioning Appellate Body of the WTO, to avoid “appealing to a void”.

- Asia-Pacific Forum online in collaboration with Australian National University, Dec. 1 and 2, 2022 – “Global Fractures & the Asia-Pacific Economy” ([Agenda 3](#)).
On geopolitics, to prevent further fragmentation of the global

economy, the role of middle powers must be seen as important, as they will be the largest victims of the divide in the world economy. Plurilateralism should be pursued not only in the context of trade rule-making but also security rule-making.

On a rules-based economic recovery, plurilateral agreements on certain sectors should be considered a practical solution, while the WTO is not functioning well. A typical example could be the Digital Economic Partnership Agreement (DEPA) among New Zealand,

Agenda 2

The 9th CJK Cooperation Dialogue Agenda

“Defining Common Issues Amid World Uncertainties and Risks for Building Mutual Understanding and Better CJK Cooperation”

Nov. 15 (Tues), 2022

Opening Remarks

- [Japan] **Masakazu TOYODA**, Chairman & CEO, Japan Economic Foundation (JEF)
[China] **CHI Fulin**, President, China Institute for Reform and Development (CIRD) (Haikou, online)
[ROK] **KIM Sung-Hwan**, Chairman, East Asia Foundation (EAF)

Special Welcoming Remarks

OU Boqian, Secretary-General, Trilateral Cooperation Secretariat

Keynote Address

Shujiro URATA, Professor Emeritus, Waseda University

Session 1

Topic: Geopolitics

Moderator:

- [ROK] **AHN Choong-Yong**, Distinguished Professor, Graduate School of International Studies at Chung-Ang University

Presentation

Speakers:

- [Japan] **Keiichiro KOMATSU**, Founder and Principal, Komatsu Research and Advisory
[China] **CHEN Yuming**, Vice President, China Public Diplomacy Association (Beijing online)
[ROK] **YI Insill**, Chairwoman of Board of Institute for Sustainable Economy and Society / President of the Korean Peninsula Population Institute for Future

Discussion

Main Discussants:

- [Japan] **Shingo ITO**, Senior Economist, Institute for International Economic Studies
[China] **QIU Guohong**, Former Chinese Ambassador to the ROK (Beijing, online)

Session 2

Topic: Global Common Challenges

Moderator:

- [Japan] **Naoyuki YOSHINO**, Professor Emeritus, Keio University

Presentation

Speakers:

- [China] **CAO Yuanzheng**, Chairman, Research Corporation of BOC International (Beijing online)
[ROK] **LIM Jeakyu**, Senior Research Fellow, Korea Energy Economics Institute (KEEI)
[Japan] **Yukari NIWA YAMASHITA**, Managing Director, Institute of Energy Economics

Discussion

Main Discussants:

- [China] **TIAN Xueyuan**, Academician of Chinese Academy of Social Sciences (CASS) (Haikou, online)
[ROK] **KIM Sang-hyup**, Chairman, 2050 Carbon Neutrality and Green Growth Commission

Session 3 (70 minutes)

Topic: Rules-Based International Trade System

Moderator:

- [China] **GUO Yanjun**, Director, Institute of Asian Studies, China Foreign Affairs University (Beijing online)

Presentation

Speakers:

- [ROK] **CHUNG Chul**, Senior Research Fellow, Korea Institute for International Economic Policy
[Japan] **Yukiko FUKAGAWA**, Dean and Professor, School of Political Science and Economics, Waseda University
[China] **ZHANG Yunling**, Academician, Chinese Academy of Social Sciences (Weihai, online)

Discussion

Main Discussants:

- [ROK] **AHN Choong-Yong**, Distinguished Professor, Graduate School of International Studies at Chung-Ang University
[Japan] **Takaaki ASANO**, General Manager, Senior Analyst, Sumitomo Corporation Global Research

Summary of the Discussion

- [Japan] **Naoyuki HARAOKA**, Executive Managing Director, JEF
[China] **CHI Fulin**, President, China Institute for Reform and Development (Haikou, online)
[ROK] **KIM Sung-Hwan**, Chairman, East Asia Foundation (EAF)

Closing Remarks

Naoyuki HARAOKA, Executive Managing Director, JEF

Agenda 3

ASIA-PACIFIC FORUM 2022 Global Fractures & the Asia-Pacific Economy

Day One, Dec. 1, 2022

Welcoming Remarks

Masakazu Toyoda, Chairman & CEO, Japan Economic Foundation (JEF)
Shiro Armstrong, Director, Australia-Japan Research Centre, The Australian National University

Keynote Address

Dr Craig Emerson, Managing Director, Emerson Economics Former Australian Minister for Trade and Competitiveness Director, Australian APEC Study Centre, RMIT Visiting Fellow, The Australian National University Adjunct Professor, College of Business, Victoria University

Session 1: Geopolitics & the Global Economic System Post-Ukraine Conflict

Murray McLean AO, Chair, Foundation of Australian and Japanese Studies (NPO) Fellow, Australian Institute for International Affairs (since 2018), Chairman, Dunmore McLean Pty Ltd. [Australia]
Choong-yong Ahn, Distinguished Professor, Graduate School of International Studies, Chung-Ang University [Korea]
Datuk Seri Jayasiri Jayasena, Former Secretary General, Ministry of International Trade and Industry [Malaysia]
Somkiat Tangkitvanich, Chairman, Thailand Development Research Institute [Thailand]
Anita Prakash, Senior Policy Advisor, Economic Research Institute for ASEAN and East Asia [ERIA]
Shujiro Urata, Professor Emeritus, Waseda University [Japan]

Moderator

Dr Lauren Richardson, Director, ANU Japan Institute

Day Two, Dec. 2, 2022

Session 2: Rules-Based Economic Recovery

Yunling Zhang, Director, Institute of International Studies, Shandong University [China]
Yose Rizal Damuri, Executive Director, Centre for Strategic and International Studies [Indonesia]
Gary Hawke, Emeritus Professor, Victoria University of Wellington [New Zealand]
Man-Jung Mignonne Chan, Research Fellow & Professor, Taiwan Center for Strategic Studies, National Chengchi University [Taiwan]
Sachin Chaturvedi, Director General, Research and Information System for Developing Countries [India]

Moderator

Naoyuki Haraoka, Executive Managing Director, JEF

Session 3: Implications of Climate Change & Energy

Daw Khine Khine Nwe (Rosaline), Secretary General, Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry [Myanmar]
Josef T. Yap, Senior Research Fellow, Ateneo School of Government [Philippines] Tri Thanh Vo, Chairman, Vietnam National Committee for Pacific Economic Cooperation [Vietnam]

Moderator

Frank Jotzo, Director, Centre for Climate Change & Energy Policy, Australian National University

Closing Remarks

Masakazu Toyoda, Chairman & CEO, JEF
Shiro Armstrong, Australia-Japan Research Centre, Australian National University

Chile and Singapore signed in June 2020, and in August 2022 China started negotiations to enter into this agreement. This is aimed at making rules and standards in AI and Big Data, the high-technology sector of our time.

While the binding hard-law approach typically adopted by the WTO does not work, APEC's peer review approach, which is voluntary, non-binding and non-discriminatory in nature, may deserve consideration, though a binding approach is the only way to ensure rules actually function.

On climate change and energy, the Carbon Border Adjustment Mechanism (CBAM) advocated by the EU obliging its member importers to pay an additional price on goods imported from non-EU members whose carbon emission regulations are less strict

than the EU Carbon Emission Standard was noted. This has attracted the attention of industries issuing more carbon emissions. The aim is to avoid carbon leakages to achieve global commitments to reducing the rise in global temperatures. However, this could be implemented as disguised protectionism and it must be watched with prudence to avoid inconsistency with WTO rules.

- US-Japan Forum in collaboration with CSIS (Center for Strategic & International Studies) in Washington D.C., Jan. 11, 2023 – “Disrupted Global Order: Implications for US-Japan Cooperation” ([Agenda 4](#)).

On geopolitical implications and economic responses to the Ukraine crisis, Japan's recent commitment to increase its self-

Agenda 4

Disrupted Global Order: Implications for US-Japan Cooperation

Jan. 11, 2023

Opening Remarks

Dr. John Hamre, CSIS President and CEO
Mr. Masakazu Toyoda, JEF Chairman and CEO

Panel 1: Geopolitical Implications & Economic Responses to the Ukraine Crisis

Moderator

Ms. Erin Murphy, Senior Fellow and Deputy Director, Economics Program, CSIS

Speakers

Mr. Bonji Ohara, Senior Fellow, The Sasakawa Peace Foundation
Mr. Gerard DiPippo, Senior Fellow, CSIS
Dr. Kori Schake, Director of Foreign and Defense Policy Studies, American Enterprise Institute

Panel 2: Strengthening the Rules-based International Economic System

Moderator

Mr. Naoyuki Haraoka, Executive Managing Director, JEF

Speakers

Mr. Kiyotaka Morita, Deputy Director of the International Affairs Bureau, Keidanren (Japan Business Federation)
Mr. Matthew Goodman, Senior Vice President and Simon Chair in Political Economy, CSIS
Dr. Mary Lovely, Anthony M. Solomon Senior Fellow, Peterson Institute for International Economics

Panel 3: Impact of the Ukraine Crisis on Energy & Climate Change Policies

Moderator

Ms. Jane Nakano, Senior Fellow, CSIS

Speakers

Dr. Naoko Doi, Group Manager and Senior Economist, The Institute of Energy Economics, Japan (IEEJ)
Mr. Ben Cahill, Senior Fellow, CSIS
Dr. Jennifer Gordon, Director, Nuclear Energy Policy Initiative, Atlantic Council

12:30 PM Concluding Remarks

Mr. Masakazu Toyoda
Mr. Matthew Goodman

defense capacity was well accepted by the US, the most important ally for Japan. This could contribute to a closer alliance between the two nations, in particular in the event of a Taiwan crisis provoked by China.

On strengthening a rules-based international economic system, although there is still a large gap between the US and Japan on the need to promote multilateral trade rule-making and the US is still reluctant to promote utilization of the WTO by fixing its Appellate Body or rejoining the TPP, there is an argument among US trade policy practitioners about the merits of rejoining the TPP, as it has enhanced geopolitical influence in East Asia where the geopolitical crisis is most significant.

On energy and climate change policies, the importance of a more balanced approach to achieve the goals of a cleaner global environment and energy security simultaneously was emphasized, based on the belief that rapid decarbonization would cause underinvestment in fossil fuels and green inflation through greater demand for decarbonization technology, and given that energy price hikes have been accelerated by Russia's invasion of Ukraine and Western nations' economic sanctions on Russia, one of the

largest oil and natural gas suppliers in the world.

- Global Risk Seminar in collaboration with Komatsu Research & Advisory in Tokyo, Nov. 16, 2022 – “How to Secure Business Resilience During Geopolitical Crises?”
Dr. Keiichiro Komatsu, President of Komatsu Research & Advisory, gave a presentation for an audience of Japanese businesspeople. He emphasized the strategic importance of a “Free and Open Indo-Pacific” in deterring China's aggressive foreign and military policy. A strengthened US-Japan alliance must be the key to achieve this, and in this regard the US initiative in organizing the Indo-Pacific Economic Framework (IPEF) is welcome. Japanese businesses must consider it crucial for them to support the Japanese government in taking leadership of this framework for Japan's national interests.

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Naoyuki Haraoka is editor-in-chief of *Japan SPOTLIGHT* & executive managing director of Japan Economic Foundation (JEF).