

Roundtable with Prof. Naoyuki Yoshino, Prof. Mariko Watanabe, Prof. Shujiro Urata & Masakazu Toyoda

Key Strategies for Raising Sustainability of Asian Economic Growth in the Age of a Disrupted World Economy

By Japan SPOTLIGHT

Prof. Naoyuki Yoshino, professor emeritus at Keio University

Prof. Mariko Watanabe, professor at Gakushuin University

Prof. Shujiro Urata, professor emeritus at Waseda University

Moderator: Masakazu Toyoda, chairman & CEO of the Japan Economic Foundation (JEF)

(Roundtable on Sept. 4, 2023)

Participants



Prof. Naoyuki Yoshino



Prof. Mariko Watanabe



Prof. Shujiro Urata



Masakazu Toyoda

World Economic Outlook

Toyoda: The Covid pandemic that has damaged the world economy and human life so deeply seems to be calming down today, and expectations are high for the global economy to recover. But given the rise in fuel and food prices as a result of the Ukraine war, major economies' tightening monetary policy to curb inflation and the difficulties of the Chinese economy, most economists predict only modest growth for the world economy. According to the IMF World Economic Outlook published in July 2023, global growth is predicted to be around 3% both in 2023 and 2024. Since its average annual growth rate from 2000 until 2019 was 3.8%, this predicted growth indicates a considerable slowdown.

Meanwhile, expectations are focused on Asia. Looking at China, the ASEAN5 (Indonesia, Malaysia, the Philippines, Thailand and Singapore) and India, high economic growth is to be seen in India, China and ASEAN, in that order. Earlier this year, JEF completed research in collaboration with ERIA on "Asia-wide industrial policy" and METI published a White Paper on International Economy &

Trade 2023 in June. On both research outcomes, I would like to raise the following three issues for discussion.

First, on the issue of what the White Paper pointed out, namely, "the world is in transition to the age of disruption from the age of harmony achieved by free trade", what must Japan do as a nation that has been pursuing trade liberalization?

Secondly, on the question of declining Chinese economic growth, why is this happening and how serious is it?

And thirdly, what should Japan do to achieve resilience in global supply chains against the background of rising geopolitical risks? Is it reshoring or building up an Asia-wide supply chain through strengthened relations with ASEAN or India?

We have three distinguished Japanese economists for these discussions. Prof. Naoyuki Yoshino is a professor emeritus at Keio University, knowledgeable on the structural economic issues of the global economy. Prof. Mariko Watanabe is a professor at Gakushuin University, an expert on the Asian economy including China. And Prof. Shujiro Urata is a professor emeritus at Waseda University, a leading economist in Japan on issues of the international economy

including the WTO.

First, on the question of “transition to disruption”, the White Paper pointed out that we are entering an age where geopolitical risks and economic security risks are prevalent. In general, its background is the confrontation between the West and China, and also Russia, as revealed by the Ukraine crisis. In addition, the Global South, supporting neither of them, makes this situation more complex.

Prof. Yoshino, could you please express your view first on the current world economy and the role of Japan?

Yoshino: I think this White Paper covers all the key issues. One is the issue of restructuring of accumulated debt following a series of fiscal stimulus steps to cope with the pandemic. Global climate change, the rapid depreciation of the yen, whether temporary or structural, the direction of FDI and domestic investment, SMEs and start-ups, as well as the need to accept skilled foreign labor – all are mentioned in this White Paper. It is a very comprehensive and extremely good paper.

Among these issues, I would like to mention inflation in Japan, caused by rising oil and food prices, and touch upon the role of Japan in the world economy from my standpoint. Monetary policy in ordinary times is not effective in curbing inflation caused by rising import prices. This is because monetary policy in general is expected to control aggregate demand but the current inflation comes from the shock to aggregate supply. The best policy to deal with this is to raise aggregate supply by boosting total factor productivity. One big issue, in this regard, is why productivity growth or technological innovation encouraging it has been stagnant this past decade.

In Japan, where we face the challenge of an aging society, I believe we will need more labor participation by elderly people from now on. So we should promote innovation such as robots that can assist these older people in their labor participation. With nations such as South Korea, China, and Thailand in Asia and also the European Union where societies are rapidly aging, these robots would constitute a large export industry for Japan.

Secondly, I noted two points on my first visit to Southeast Asia in 1984 that indicated Japan’s supremacy in Asia. One was that, with four distinct seasons each year, Japan has a more favorable climate than any nation in Southeast Asia and this produces a greater working efficiency. The other was that, having visited libraries in universities in Southeast Asia, I found there were more books in Japanese university libraries than in Southeast Asian ones, where I found very few good books. So these things convinced me that Japan would never be surpassed by any Asian nation.

However, at this moment, with well-developed air conditioning and the Internet, all Asian people, if they understand English, can access a wide range of references without visiting a library. They can study or work almost anywhere in more comfortable circumstances, and I

think this is how Asian learning standards are rising. Also, there are many people with English abilities in places such as Singapore and Malaysia. The key to winning the competition in Asia is how rapidly people can understand English references, and it will be crucial, in this light, for Japan to maintain its educational standards.

Next, I think the weak yen will continue in the long run as a structural phenomenon. This will favor Japanese exports, but exports in quantity will not increase very much, since many Japanese firms have already shifted their production bases overseas. In terms of imports, the weak yen triggers inflation in the nation, but for foreign tourists, the cost of Japanese goods will drop and so the merits of tourism in Japan would rise.

Finally, on the future of the Chinese economy, the strength of China’s economy has come from controlled exchange rates to some extent, and that enabled China to sustain global export bases. But with the gradual liberalization of capital transfers, it seems to be getting more difficult for China to control its exchange rate. I mentioned in May 2019, in an article in a Hong Kong journal, that Chinese real estate prices had reached a bubble in terms of Chinese economic indicators. I mentioned the same thing in NHK World News highlights. In response, many Chinese said that the Japanese bubble economy was born after the end of the High Growth Era but that Chinese real estate price rises were not the outcome of a bubble economy as the Chinese economy was still in the midst of growth.

But I believe that excessive investment in real estate seriously affects China’s local public finances. The reason is that Chinese local governments with small tax revenues maintain their revenues by selling land owned by the public sector. So Chinese local public finances are now facing a challenge.

Toyoda: The next question is for Prof. Watanabe. On the issue of their relations with the Chinese economy, G7 leaders discussed whether they should pursue decoupling or de-risking. Eventually they agreed on de-risking as proposed by the European nations. The White Paper made an analysis on this question with two scenarios.

The first one involved 100% tariffs set mutually and non-tariff barriers, and that probably indicated decoupling, and the second one showed a division of the economies like the US-China trade war, seeming to imply de-risking. It warns that the first case’s impact on the world economy is considered to be a negative 7.9% and the second one’s is a negative 2.3%. I think it would like to say that the confrontation between the United States and China would result in no benefit to any country. However, if China attempts to reunite with Taiwan by military force, I am afraid we will have to go in the direction of decoupling. What do you think about the future of China-Taiwan relations and their economic impact?

Watanabe: If decoupling truly happens, there would undoubtedly be

significant economic damage to Chinese and the world economy. As Prof. Yoshino mentioned, what the world economy is facing is nothing but a supply-side shock. Decoupling of supply chains for political interests would exacerbate this shock. So by looking at China's policy stance carefully and addressing its challenges correctly, pursuing de-risking is needed. And the most crucial target of de-risking must be to raise to the maximum the cost of enforcing any change in the current situation through military force. The greater the economic benefits of maintaining a peaceful status quo, the bigger the lost benefits by military action would be, and these lost benefits would be the cost of military action.

In the case of Russia, it was originally reluctant to join globalization through manufacturing and it adopted a development strategy based on exporting commodities, and thus this opportunity cost was low and it decided to launch a military invasion. International trade rules have been constructed to manage and secure the cost of divergence from globalization. So it is necessary to use these rules at this moment. However, the existing rules are not well prepared for dealing with authoritarian nations' policies or business customs different from the free and democratic nations and so it will be necessary to upgrade them.

We often see the "Taiwan Crisis" mentioned in the media now. China and Taiwan have been claiming sovereignty over the island for almost 70 years, during which time there has been permanent military tension between them. This tension is the basis of the "crisis" and we should take good note that any Chinese action to reunite with Taiwan through military force could topple the global economy, not just those of Taiwan and Japan. In such an event, many of the industries in Taiwan would move to the US, and I think it would be Japan that would be in the biggest trouble. In order to make this difficult to happen, I think it will be necessary to maximize the costs to China of any military action through rules and disciplines.

What are these points of discipline? The issues of state-owned companies or industrial policies are often mentioned with regard to China. I think we should set up international rules to tackle a type of industrial policy that allows some countries to monopolize profits unilaterally. Additionally, we should have rules that ensure the growing benefits are commonly shared by all players. While the US opposes this, I think Japan, the Global South or the EU can support it.

Meanwhile, a more critical issue in current rule-making is that there is no clear rule on how to define the exceptions to free-trade rules for a reason of national security. Russia, for example, showed no concern for rules when it launched its military invasion of Ukraine.

The CPTPP, which China has formally applied to join, has an article on the national security exceptions that says an exception is

endorsed only after a convincing explanation to the members is accepted by them. On the other hand, the RCEP, of which China is a member, says that exceptions for national security can be left to any member's own interpretation, effectively meaning that, in the RCEP, there is no rule on exceptions for national security.

Toyoda: The White Paper mentions that historical experience tells us that every 20 years free trade and protectionism emerge in turn. Prof. Urata, what do you think about this observation? If it is so, I believe we should keep supporting free trade as much as possible even though at this moment protectionism is temporarily dominating the world. What do you think we should advise the Japanese government to do with regard to policy? And could you also give your view on the role of Japan in promoting the CPTPP or RCEP, or even the restoration of the WTO dispute settlement mechanism?

Urata: I roughly agree with the idea that free trade and protectionism emerge in turn every 20 years, but we need to clarify whether it is exactly 20 years or not. Looking at the history of the 20th century, which began with free trade, World War I and the Great Depression followed it and caused significant damage to the world economy, and then protectionism took hold. This was then followed by World War II. Drawing lessons from the negative impact of protectionism, the General Agreement on Tariffs and Trade (GATT) was established and trade liberalization began. This resulted in expanded global trade and rapid growth of the world economy. Even though there were some countries that adopted protectionist policies, such as import substitution policies, in general trade liberalization was further promoted during this period.

This trade liberalization trend was then drastically changed with the global financial crisis in 2007. To counter the damage caused by this crisis, nations took policies to protect their own economies and industries. Now the US-China confrontation, the Covid pandemic and Russia's military invasion of Ukraine have all followed and the uncertainty of the business and economic environment has increased significantly. Many countries have been taking protectionist policies to cope with this situation. This is largely what has been happening recently.

To achieve stable growth of the world economy, expanded trade and investment must play a key role. To achieve expanded trade and investment, it is crucial to minimize the uncertainty surrounding them, and for this purpose it is important to build up a rules-based trade and investment system and take full advantage of it.

On the question of the role of Japan in this regard, it is true that Japan recently joined the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), an attempt to replace the WTO dispute settlement mechanism which has not been functioning for a while. But Japan did not join this at the early stage when it was established

by the EU, Canada, Australia and others. It was only in March 2023 that Japan joined it after many arguments. I believe that Japan should have not only collaborated with the EU and others and joined at the early stage but should also have achieved a leading role in creating this mechanism.

Among the many challenges faced by the WTO, besides dispute settlement, is the delayed build-up of trade rules and trade liberalization. There have been arguments about the creation of plurilateral trade agreements in specific areas like digital trade, investment facilitation, and micro, small and medium-sized enterprises (MSMEs), and I think Japan should be playing a role in leading these arguments. Furthermore, assuming that the CPTPP and RCEP play a key role in trade liberalization and the creation of trade rules, Japan should endeavor to help increase the members of those FTAs.

On the question of China's joining the CPTPP, Japan should be positive in accepting its membership. Having said this, China's membership must be approved only if the requirements imposed by the CPTPP are met by China; otherwise, it will be considered premature if the conditions are not fulfilled.

Current Chinese Economy Development

Toyoda: Our second issue for discussion is the current state of the Chinese economy. Prof. Watanabe, it is often said these days that China suffers from the "Japanese disease", judging from its real estate recession, high youth unemployment, stagnant consumption growth, and so on, all leading to deflation. What do you think about this? What are the reasons for this stagnation and what is the outlook for the future Chinese economy?

Watanabe: I visited China in July 2023 after a long absence. Many people said the economy was malfunctioning, and many business activities had completely stopped due to the long lockdown from the pandemic. Around December 2022, the economy opened up again but failed to achieve an explosive restoration. This was largely due to smaller growth in domestic consumption as well as lower external demand than expected, implying that the economy had not yet recovered from the pandemic's impact. But more fundamentally, I think there has been a significant rise in uncertainty about domestic policies and this has been a body blow to the economy.

The low GDP growth rate, high youth unemployment and the possible bursting of the real estate bubble could be caused not only by the failure to reach a full restoration from the pandemic but also by individual policy mistakes. Youth unemployment has increased due to restrictive rules on digital companies.

Real estate works in China as a substitute for social security and people own real estate for survival. If people become unemployed,

their livelihood is less damaged if they own real estate. So everyone is working with the aim of buying property and suffers from real estate prices declining, everyone ranging from the communist party's leaders to ordinary people. The ratio of loans in stock to total GDP reached nearly 250%, exceeding the level in the Japanese bubble economy. To deal with this, the central government has provided limits to tighten credit for property purchases to avoid the bubble bursting, and this policy has resulted in a great shock all across the nation. It has not only damaged the revenues of real estate companies but has also negatively affected the banking sector's credit policies, as well as the steel industry as the main supplier of construction materials.

The people's confidence in the future and in government policies has shrunk. I think we can say that this situation is a result of the less careful policies of those in power to deal with the bubble economy. In addition, the US and European economies are not yet in full recovery, and so opening up the country will not lead to an increase in exports. The US-China confrontation could be working negatively for the economy, but more than that, the world economy is not in good shape and will basically prevent Chinese exports from growing quickly. I think this is why the Chinese economy is inevitably in bad shape now.

In 2024, the US and European economies will pick up to a certain extent and Chinese exports will pick up accordingly, so the Chinese economy should get better on the surface in 2024. But the more fundamental issue is the rapidly falling trust of the people and the private sector which has promoted innovation in government policies. The current Chinese leaders prioritized dealing with political struggles among themselves over economic policies before the replacement of the administration's leading members was fully completed in 2022.

Getting into 2023, the Chinese leaders communicated with foreign subsidiaries and private businesses in an effort to restore trust. Digital companies with great power and the seeds of innovation would have been the sources of success for the Chinese economy and they may still work well to maintain the economy, but there is enormous distrust among the people toward the government. I think this makes for a negative force against the economy.

Toyoda: According to the White Paper, the country that Japanese companies consider increasingly risky is China. Prof. Urata, do you think rising geopolitical and economic security risks are a cause for the Chinese economy's stagnancy? And why do you think Indian economic growth is higher than that of China or ASEAN, even though it has not joined RCEP?

Urata: China's economic problem has been largely caused by real estate depression, at least on the surface. But I believe that stagnant

inward FDI in China due to the US-China confrontation is another reason. A growing number of foreign companies have started investing in ASEAN rather than in China because of the high geopolitical risks.

On the question of India, its economy has been experiencing high growth and I think there are several reasons. From a short-term perspective, recovery from the pandemic unleashed pent-up demand, activating private consumption and eventually private investment. This is the principal reason for current high economic growth. From a longer-run perspective, the demographic situation with a growing younger population, structural economic reforms and digitalization bode well for the future. A rise in the ratio of the working-age population to the total raises economic growth, and in the case of India both the working-age population and the ratio to the total are increasing. According to a UN estimate, India's working-age population will peak in 2044 and the ratio to the total will peak in 2029, so in terms of demography India's high growth will continue for some while.

Incidentally, China's working-age population peaked in 2011 and its ratio to the total peaked in 2007. So demography will play a key role in the economic growth of both India and China.

In India, a number of economic reforms have been implemented by the administration of Prime Minister Narendra Modi. The most important one was the introduction of a common tax on goods and services all over the nation in 2017. Up until then, the tax on goods and services had varied from state to state. This tax reform has helped to greatly improve the business environment and shows that economic system reform can encourage growth.

Digitalization is another factor behind India's economic growth. Modi implemented a "digital India" initiative – a policy to drive digitalization of the Indian economy – and this resulted in turning informal sectors with significant weight in the economy into formal ones. In particular, financial digitalization has made rapid progress, and that has encouraged a variety of business transactions to be formalized.

A specific example of this digitalization is the introduction of the United Payments Interface (UPI) which has dramatically activated the economy. UPI provides many private businesses with electronic settlement services and promotes cashless transactions. It also makes it possible to have immediate transfers among bank accounts by smartphones. It makes it easy to pay for shopping with QR codes. Personal consumption and private investment have both expanded with the introduction of this system. The development and practice of UPI has not been achieved yet on such a large scale in developed nations, but India, a developing nation, has implemented this policy to maximize the use of new technology. I think that such economic policy outcomes have made the outlook for the Indian economy very positive.

Toyoda: There seem to be a growing number of economists saying that Chinese GDP cannot overtake the US one, or even if that happens it would be temporary. I think there are two possibilities: one is that Chinese global hegemony is achieved 20 years from now, and the other is that Chinese hegemony is not achieved but the US and its allies establish joint hegemony. This came to my mind in reading the White Paper's observation that the ages of free trade and of protectionism alternate. Prof. Yoshino, what do you think about these possibilities?

Yoshino: China has been growing with communism driving politics and the market economy driving the economy. If the power of communism becomes too great, the market economy will stagnate under this political influence. Unless China achieves a balance between the two, it could fail to achieve real high economic growth, though it could achieve growth to some extent. Russia's case is, I believe, a good example. In either China or Russia, if private businesses cannot work well, they would move to other nations. So it is possible that the liberalization of the market economy in China could face a turning point under the current political system.

Another point to be noted is that the Chinese economy's strength comes from the government's control over exchange rates. With this grip on capital movements, China can monitor the flows of funds through all the financial institutions. This means that it can regulate capital movements and continue to control exchange rates. This is the source of China's strength. So another key issue is whether China can continue to control exchange rates while allowing capital liberalization to a certain extent. If China's exchange rate control which also leads to control of exports and imports is gradually weakened, it would weaken the Chinese economy as well. I think in this light it may be difficult for China to continue to expand very considerably. But I do think it will maintain the strength to transplant other nations' industries or technologies to itself.

Finally on the question of real estate, there are three indicators telling us whether the economy is facing a bubble and I think all three show that in China a bubble economy is emerging. The first is the ratio of loans for real estate construction business to the total. This has been significantly increasing recently.

The second is an indicator calculated by dividing house prices by income. Though some IT companies can afford to buy housing even at high prices with their growing revenues, people on average incomes cannot buy real estate, as this indicator is growing too much.

The third one is the ratio of the rate of increase in loans for real estate construction to the GDP growth rate, and this too has been rising these past few years in China.

An additional challenge stemming from all this is the impact on local governments' public finances. The fiscal situation of local

Chinese governments has been in good health in spite of their small tax revenues because they can gain further revenues by selling their owned real estate. From now on, however, they will need income from the central government to cope with the depression in real estate. This would negatively affect the whole nation's public finances.

With regard to India, I think it could achieve robust growth if all goes well. First, digitalization is making progress all over the nation. Until several years ago, broadband networks were only available in large cities, but now the government is trying to introduce them to local regions.

Second, their local economies have started growing little by little with such digitalization, realizing sales and promotion of a variety of goods and services through the Internet. And third, there are Indian Institutes of Technology (IITs) in each region. These have produced extremely talented engineers. There is an increasing number of high-skilled human resources in India, and in this light, I think it would be rather difficult for China to achieve total hegemony.

Asia-Wide Industrial Policy

Toyoda: There is a debate today about Asia-wide industrial policy or policies to strengthen the resilience of supply chains. According to the White Paper, Japanese companies consider ASEAN5 or ASEAN6 the most important venues for their FDI and their expectation about India is also rising. Meanwhile, their expectation about China seems to be decreasing. At JEF, we have been collaborating with ERIA in working on research on “Asia-wide industrial policy” since 2022 and found these nations engaged in “Digitalization”, “Supporting start-ups” and “Decarbonization of the economy” extremely ambitious, and their policies would be useful for Japan to learn as well. Prof. Urata, can we expect ASEAN or India to be a good partner for Japan, and can they be considered a crucial part of a stable supply chain for Japan? What should Japan do to strengthen the resilience of supply chains?

Urata: It is certainly true that India is becoming increasingly popular as a destination for Japanese companies' FDI. According to a survey by the Japan Bank for International Cooperation (JBIC) of Japanese companies in summer 2022, the largest number of firms chose India as the most promising destination for their FDI over the next three years, while China was the second largest. The third was the US. This means that although its attractiveness is less than before, China is still considered one of the most promising destinations for Japanese FDI.

Among the top 10 nations in this survey, five ASEAN countries were included. Vietnam was fourth, Thailand was fifth, Indonesia sixth, Malaysia seventh and the Philippines eighth. We can see from

this survey that India and ASEAN are attractive venues for Japanese companies, and the main reason is their market's growth potential.

Having participated in JEF-ERIA joint research as well, what impressed me most was that ASEAN and India have made enormous efforts to promote a digital economy. Digitalization of the financial sector is also making progress in ASEAN. In starting up businesses, they progressively use a digitalized financial sector for their funding. Traditional financial institutions have not been very well developed in these countries, and this has facilitated the creation of a new business system and environment, contrary to what is commonly believed.

It is also true that many ASEAN nations such as its founding members like Indonesia, Malaysia, the Philippines, Singapore, Thailand and one of the latecomers, Vietnam, have been integrated into not only Japanese companies' supply chains but also those of many other nations around the world. Unlike these ASEAN nations, India is not sufficiently involved in supply chains. One of the reasons is that it still continues with protectionist policies. These delays in opening up trade while attracting FDI make for inconsistent policies, and seem to make it difficult for India to be integrated into supply chains.

To enhance the resilience of supply chains, I think technological support from Japanese subsidiaries for the host country's companies to improve their competency or human resource development would be very important. The Japanese government's official development assistance (ODA) would also be helpful in achieving this objective.

Toyoda: What do you think about the future potential of ASEAN5 or ASEAN6 and India in addition to China, Prof. Yoshino, as a former president of the ADB Research Institute? India is not a member of the RCEP, so could this be negative for India's competitiveness?

Yoshino: The Indian economy's connection with the rest of the Asia is becoming much stronger. In particular, relations between Singapore and India have been greatly strengthened. There are three main ethnic groups in Singapore – Indians, Malays and Chinese – and the Indian group is contributing to stronger ASEAN-India relations. The people in this Indians group are competent in mathematics and are becoming prominent in the IT sector.

In the area of trade, since ancient times in Africa, Indians have been working on intermediary trade and this tradition is still contributing to a variety of relations among Asia, Africa and India.

I believe that the keys to achieving closer relations between Japan and India or ASEAN in the future are in areas like SME finance, infrastructure and telecommunications. Japanese SME finance or start-up finance could be used in this regard. In particular, in selecting finance for SMEs in developing nations like India, the Credit

Risk Database (CRD) Association collects data and calculates the probability of bankruptcy based on it and uses it to select destinations for finance. This business model of financing SMEs with high growth potential based on data analysis using a scoring model supported by daily business data has been used uniquely by Japan. The CRD Association has concluded an agreement with the Philippines and now the Philippines has also started a scoring model for financing SMEs. This Japanese method of SME data analysis could be a kind of know-how for use across Asia, including India and Southeast Asia.

On start-up finance, what we call crowd funding has begun in Vietnam, the Philippines and Mongolia. Funding availability for start-up businesses in the banking sector is particularly limited, so encouraging their growth with crowd funding instead in local areas would be one possible funding method to be used in India and ASEAN.

Toyoda: India, ASEAN5 or ASEAN6 are nations of the Global South and could strengthen their political influence in the world as a group by maintaining neutrality in the confrontations between the US, Europe and China, Russia. Prof. Watanabe, what do you think would be the international political or economic implications of Japanese companies' developing supply chains among Asian Global South nations? Could Japan work as a bridge between the Global South and the US and Europe?

Watanabe: For the past two decades, Japan has expanded its supply chains of several industries such as textiles and electronics across countries, creating jobs and benefiting both Japan and the host nations. This success was due to stable trade rules, including consistent tariffs and transaction regulations, even when production moved overseas. For example, the electronics sector enjoys zero tariffs. These trade practices have been highly beneficial for the Global South, and extensive data analysis supports this. As the European Union and Japan hold significant negotiating leverage against China and the US, they can enhance trade and investment rules to ensure stability amid growing geopolitical risks. This can benefit the Global South and is one way Japan can support Asian economic growth.

It is also important for Japan to support the Global South nations by making their industrial structure more progressive with higher value-added. Specifically, with the rise of technology focusing on digitalization, Japan should support these nations in this transition. Additionally, policies should be implemented to promote a data market after the initial push for digital technology. Currently, data is dominated by platform giants like Google and Microsoft. By establishing a data market, small and medium-sized enterprises (SMEs) can access the data they need. The World Development

Report 2021 by the World Bank emphasized the significance of data and its governing institutions for everyone's better livelihood. The report highlighted the nature of data as goods, and that its value is realized only through use, making it hard to treat like typical market goods. This uniqueness, combined with its non-standardized nature, suggests that establishing a data market is challenging.

However, China is attempting just that. A major focus of China's 14th Five-Year Economic Policy Plan in 2021 was to develop a data market. The Chinese Communist Party aims to disrupt data monopolies held by tech giants like Alibaba and Tencent, enabling SMEs to access this data. Their approach involves setting data standards and evaluating data based on these standards, hoping this could lead to manageable pricing. If successful, China's standards might become the global norm for data transactions.

Introducing a workable set-up for a data market would greatly benefit ASEAN SMEs, using these standards as a valuable reference. Therefore, as digitalization surges, we need a policy framework guiding its rules. This would be advantageous for both Japan and the Global South.

Toyoda: Wouldn't encouraging data distribution contradict protection of private information? Developed nations, in particular Japan, tend to be very concerned about privacy protection, which does seem to discourage data distribution.

Watanabe: In China, the framework for the protection of personal data is now well-established. The effectiveness of this system hinges on the enforcement of various laws. Transferring data from China to another country requires strict adherence to privacy protection, with legal penalties for non-compliance. The Chinese public's awareness of this issue has significantly increased, making it nearly impossible to conduct data transactions without privacy safeguards. In my opinion, the overall structure of privacy protection in China is comparable to that of developed countries now, except for the inappropriately wide range of potential state intervention. This exception would become a focus of tension between some authoritarian countries including China and countries under democracy and constitutions.

Final Remarks

Toyoda: Could all of you please give us your final remarks on the main theme of raising the Asian economy's sustainability in development? If possible, any remarks on the CPTPP would be appreciated.

Yoshino: Japanese companies or research institutes should now purchase a wide range of data on finance for their analysis. They

have to buy software for analysis from other countries. Japan seems to be considerably behind the rest of the world in the area of data and software for analysis. However, as I have said, in the area of finance for SMEs I believe that we Japanese can support India and ASEAN in the analytical methods for a host country's business data.

The aging population in Asia provides another main stream of economic development. South Korea, Thailand and Vietnam are all moving towards aging societies, as well as Japan. If Japan can promote development of robots and other tools to help elderly people continue to work, these products would become a large Japanese exporting industry to India and ASEAN.

Japan can also continue to support India and ASEAN in accommodation of telecommunication infrastructures. It is only Japan that provides training for the engineers working on maintenance and repair of these infrastructures in addition to support for their construction. High-quality infrastructure development, particularly in the field of nationwide telecommunication networks, would make it possible for India and ASEAN to achieve sustainable growth. With Japan's support for telecommunications, farmers could sell their food products through the Internet and with developed transportation infrastructures the smooth movement of goods and people could be achieved. So I believe that people living in local areas in India and ASEAN will become richer and this would lead to political stability and enable governments to achieve long-term economic policies.

Watanabe: Japan should confidently voice its concerns to China. While smaller countries might not be able to do so, Japan has the capacity to both challenge and address unilateral actions by authoritarian nations that act non-cooperatively. It's vital for Japan to defend and enhance the international order. Japan should not hesitate to invest time and effort into this crucial role. The EU and Japan stand in a similar position in terms of relations with China and the US. Europeans are more experienced in the prevailing rules, but their knowledge about China is perhaps limited and they are not as close as Japan to the geopolitics of Asia. So I think Japan has to act to maintain a rules-based international order while considering effective ways to speak to China.

Both the EU and Japan have comparable stances concerning their relations with China and the US. While Europeans might have a deeper understanding of the prevailing rules, their knowledge about China and proximity to Asian geopolitics might not match Japan's. Therefore, Japan should lead in upholding a rules-based international order and find effective ways to communicate with China.

Regarding the treated wastewater from the Fukushima nuclear plant, China appears to be using it as a tool for economic coercion. Japan should explicitly state that China isn't adhering to the rules in this matter. China is responsible to show the scientific evidence on

the (potential) contamination of marine products if it would ban on importing Japanese marine products. Japan should swiftly address this infringement. By outlining what's permissible under international standards, Japan needs to demonstrate its commitment to voicing concerns about such issues consistently.

Urata: India-Japan relations are not very well developed compared to ASEAN-Japan. In order to make relations with both India and ASEAN mutually beneficial, Japan must help these nations, mostly in "the middle-income trap", to become high-income nations with enhanced competitiveness or productivity. Specifically, they need human resource development and improvement of institutions such as legal and education systems. Japan can contribute to their development in this regard. Japan should do it with like-minded nations such as the US, Australia, Singapore and European countries.

On the issue of human resource development, we should increase the number of students coming from India to Japan, since there are only around 500 currently, compared to many more from Nepal. There are also few students from Japan going to India. I think that deepening the relations between Indian and Japanese universities would contribute to the further progress of the bilateral relations.

On the question of FTAs, the RCEP and CPTPP have now been ratified by all the member countries and are functioning. I think it important to monitor them to see whether each member nation's commitments are being fully implemented and the accepted rules are being followed. To achieve these objectives, FTAs' secretariats play an effective role. I would like Japan to take more positive action to establish these secretariats as a country that made a great contribution to the conclusion of the agreements. The economic benefits of these FTAs will increase as the number of member nations grows, and Japan should play an active role in expanding their membership.

Toyoda: Japan's relations with ASEAN and India are very important, as well as relations with China. We should spare no effort to create a world that benefits Japan and all Asian nations. **JS**

Written and translated by Naoyuki Haraoka, editor-in-chief of *Japan SPOTLIGHT*, with the cooperation of Tape Rewrite Co.