

Can the Global Economy Be Isolated from Geopolitics?

– JEF Activities in FY 2023



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Politics Now Key to Determining the Global Economy

We have been noticing during these past few years the overwhelming influence of geopolitics on the global economy, such as the US-China struggle for global hegemony and consequent confrontation between democratic and authoritarian powers, the rise in anti-globalization sentiment in some developed nations, particularly under the administration of former President Donald Trump in the United States, the Ukraine crisis and emerging concerns about Taiwan, and the escalation in fighting between Hamas and Israel. These geopolitical challenges are so vital in determining the future prospects for the economy that even economists are now saying it will be almost impossible to predict the future of the macroeconomy without insightful observation of geopolitical movements.

This is why pundits in media are now referring to a situation in which politics and economics are closely intertwined and cannot be separated as chaos. A few decades ago, pundits were confidently stating that it must be the economy that determines political outcomes, such as national election results and the direction of foreign policies. So we are now witnessing an extraordinary reversal of the relationship between politics and the economy.

However, will this be sustainable? Whatever geopolitical developments or political beliefs may be dominant, the key point is whether business activities result in economic benefits and well-being for people. If geopolitical upheavals result in continued economic decline, this inverse relationship will not be sustainable. People have grown used to and dependent upon the economic benefits of globalization, no matter how unpopular globalization may currently be.

Even with the Ukraine war and other political upheavals, world trade is growing. (According to the WTO, world trade is predicted to grow by 0.8% in 2023 and 3.3% in 2024.) It is true that we are benefitting overall from global trade and this is crucial for political stability as well. Poverty is always a trigger for crimes and violence, whereas wealth is a good foundation for peace.

Can We Separate Economics from Geopolitics?

Thus, continued geopolitical instability is not conducive to peace and prosperity. So given that we will need to separate economics from politics at a certain point, how can we do this? I think this was a key question approached both implicitly and explicitly in our JEF Forums in FY 2023. How can we restore the WTO and other international rule-making institutions to ensure free trade against pressure from superpowers that use trade as a tool for coercing their trading partners – the so-called weaponization of interdependency? This will be indispensable to achieve the spillover benefits of globalization, as most nations will survive with these economic benefits whether or not wars or other political conflicts occur.

It was recently found that decoupling between different political regimes could be detrimental to all nations' welfare, but de-risking by diversifying trading partners or reshoring must be pursued to minimize the demerits of political risks to the economy. In this regard, the concept of economic security has emerged as key to achieving consistency between the economic benefits of international trade and national security, occasionally threatened by certain superpowers' arbitrary political actions. De-risking strategies are for achieving independence from the superpowers, though not a decoupling from them. This is a provisional way of minimizing the demerits of policies prioritizing security over economic benefits – until the world returns to its previous state in which the benefits of free trade would be taken for granted again.

The global environment and energy policies are another area where geopolitical risks and economic benefits can be contradictory. The Ukraine war has certainly affected energy and commodity prices, and we will see the impact of the Middle East crisis on energy as well. Fossil fuel price increases due to this crisis will hurt global economic growth, but dependency upon green energy may increase. However, the destructive effects of military activities on the global environment will be enormous. We need to have a fact-based and objective analysis of energy mixes to maintain consistency between care for the environment and economic growth.

The aging society is another big long-term issue for the majority of developed nations. This is not only an economic issue for a

nation's growth potential and competitiveness but also a security issue, as aging and a low fertility rate will lead to depopulation and thus a decline in a nation's military force or global presence.

These three issues were the key issues in the JEF Forums in FY 2023.

Coming back to my key point about the relationship between politics and economics, it has been considered important in our all activities how to separate the economy from geopolitics, but in considering this we needed an interdisciplinary approach with economics and political science and thus our expert panelists were from diverse backgrounds. In today's complex world, we always need a variety of knowledge and expertise to examine reality.

Brief Summary of Interesting Points Discussed in Each Forum

1. Asia-Pacific Forum 2023 online, hosted by JEF, Dec. 12-13, 2023

New Horizon for Asia-Pacific Region's Sustainable Growth Beyond Challenges & Impediments

It was noteworthy that there was a unanimous consensus achieved on the need for trade liberalization as an engine of economic growth in this region, showing a significant contrast with our talks with Europe and the US. This reflects the economic reality of this region, an engine of global growth promoted by rules-based international trade supported by the WTO and regional FTAs such as the RCEP and CPTPP. This whole region is the biggest beneficiary of rules-based free trade. However, there are of course divergences among the member economies. Some can meet the high-standard trade liberalization requirements, while some cannot. The CPTPP, for example, is often considered to embody high-standard free trade rules and this could discriminate against underdeveloped nations whose economies are not yet mature enough to meet these

standards. Thus it cannot include all nations in this region.

However, efforts to join such a high-level FTA would work as an incentive to promote domestic structural reforms, possibly the biggest benefit of trade liberalization, as structural reforms could enhance a nation's economic growth potential. Free trade could also allow for temporary aid to sectors or people struggling under the keen competition encouraged by free trade itself. These aid measures should be used within a restricted timeframe, otherwise they could be permanent protectionist policies hindering the full function of market mechanisms and resulting in economic inefficiency.

Meanwhile, FTAs should be considered as promoting purely economic benefits and not as a means to promoting political alliances in a geopolitical crisis. Open regionalism without any exclusions must be pursued, while geopolitical confrontations must be modified so as not to intervene in trade and economic policies.

On the issue of demographic challenges, with some nations experiencing depopulation due to aging and low fertility rates and others seeing stable growth of their population, there would be a greater possibility of collaboration among them through immigration from the latter to the former. Nobody disagreed that population growth will be a staple factor in economic growth and thus policies to boost it would be an important strategy in this region.

On the issue of energy security and climate change, it is important for this region's economy to maintain fossil fuels as one source of energy and not abandon them permanently, as it will be necessary to realize climate change goals via a realistic path that balances growth and the environment.

2. US-Japan Forum 2023 co-hosted by Brookings Institution in Washington D.C., Nov. 13, 2023

APEC Summit 2023: the Future of Climate & Trade Policies in a World of Geopolitical Divides

On the day right after the APEC summit meeting was hosted by the US in San Francisco on Nov. 12, the US-Japan forum focused particularly on supply chain resilience as an important vehicle of globalization. Supply chain resilience should be maintained through proper risk management and a de-risking approach among friends. Restoring a rules-based international trade order would be crucial for maintaining supply chain resilience as well, but the future direction of US trade policy will depend upon the result of the 2024 presidential election. This is difficult to predict as anti-globalization sentiment remains robust among US voters. However, it is

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Asia-Pacific Forum 2023

Photo: JEF



US-Japan Forum 2023

somewhat encouraging to see signs of the perception of the need to restore the WTO Appellate Body and put its dispute settlement functions back onto a normal track.

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3. Europe-Japan Forum 2023 online, co-hosted by Chatham House, Nov. 30, 2023

De-risking & Diversification in Tough Geopolitical Times: How Can Japan & Europe Cooperate More Effectively?

Europe is currently in the midst of great geopolitical turmoil, with the Ukraine war having contributed to an energy and economic crisis. European trade policies do seem to have changed somewhat from pursuing free trade and economic efficiency to focusing on security. However, the United Kingdom in particular, having joined the CPTPP as the first nation outside the Asia-Pacific area,

Photo: JEF



Europe-Japan Forum 2023

maintains its interest in involvement with Asia as a source of growth. European nations are exploring their position in this region by examining the impact of the emerging trade architecture in the Indo-Pacific, such as the CPTPP, the RCEP, the IPEF (Indo-Pacific Economic Framework) and the EU-India Trade and Technology Council, on Europe's economic potential and geopolitics.

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4. CJK Cooperation Dialogue 2023 in Seoul co-hosted by East Asia Foundation and China Institute for Reform and Development, Oct. 12, 2023

“Navigating a Sustainable & Prosperous Future of CJK Cooperation” in Commemoration of the 10th Anniversary of the CJK Cooperation Dialogue

In this 10th Anniversary Dialogue, the three nations agreed to keep pursuing future-oriented discussions without being caught up in the past. To achieve firm friendship among the three nations, they need to promote a sustainable model for trilateral exchanges and cooperation among the young generations. In their aging societies, which is a notable distinction of the three nations, it is important to take advantage of young people's passions and competencies. They could help to restore the international trade regime, as the Millennial generation wish for peace and prosperity on the basis of globalization.

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Photo: JEF



CJK Cooperation Dialogue 2023

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