

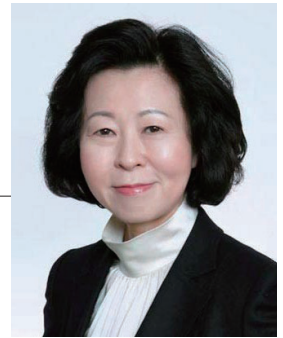
Asking the Principal Research Director

Research Project on Rebuilding Japan-Korea Relations

Outlook for Future of Japan-Korea relations

Yukiko Fukagawa

Professor, Faculty of Political Science and Economics, Waseda University
Principal Research Director, The 21st Century Public Policy Institute



As Japan and Korea progress toward healthy relations, the Japan Business Federation (Keidanren) has teamed up with the Federation of Korean Industries (FKI), a Korean economic organization, to form the Japan-Korea Future Partnership Fund and proceed with joint projects. With this, the 21st Century Public Policy Institute (21PPI) has newly launched the Research Project on Rebuilding Japan-Korea Relations this fiscal year. Here we ask Principal Research Director Yukiko Fukagawa, Professor at the Faculty of Political Science and Economics at Waseda University, about Korea's domestic challenges and the outlook for the future of Japan-Korea relations.

Japan and Korea have progressed toward healthy relations. Much can be attributed to a change of government to the Yoon Suk-yeol administration. How do you view this change and the future direction of the administration?

The Yoon administration has dramatically shifted the foundation of foreign policy, steering sharply away from the pro-North Korea and China rapprochement path of the previous administration toward a restoration of globalism and the Japan-US-Korea framework. This result marks a move toward the improvement of current Japan-Korea relations. However, this cannot be described as a Korean national consensus, so the political situation will continue to warrant attention. Korea currently has a split parliament with opposition parties comprising a majority and next April will bring a general election of national lawmakers that influences its fate. As Japan-Korea relations depend heavily on presidential leadership, those relations could be shaken again if the ruling parties lose, giving way to a lame duck administration. However, there is considerable ideological fragmentation, so a landslide victory for either the ruling or opposition parties appears inconceivable at this stage. That said, the election is still a half-year away and Korean politics are said to be capable of changing all at once with SNS, so the situation could remain unpredictable.

Korea's youth led a candle demonstration that gave rise to the Moon Jae-in administration, but disillusionment with the administration has partly been channeled into support for the

Yoon administration. Korea requires men to serve in the military and undergo severe training, but this stems from the existence of North Korea as an "enemy" to its security. At the same time, however, the previous administration was pro-North Korea. That administration also emphasized a "victim-centered approach" (VCA) and promoted policies appealing to vulnerable constituencies, obtaining the support of women as a result. However, women do not have military service, enabling them to continue with their studies while the men of the same generation are serving in the military. This leads to an inevitable disparity when finding employment that requires qualifications such as taking civil servant or lawyer exams. Men in their 20s felt a contradiction between these two realities and their backlash led to support for the rise of the current administration. This generation has come to feel trapped and hopeless under high unemployment and soaring real estate prices said to stem from the policy errors of the previous administration. As a result, the current administration is under pressure to bring future hope to this generation in particular. At the same time, this young generation has perceived Korea to be a developed nation since birth and does not have a complex about Japan, so there is significant hope within the administration that Japan-Korea relations can drastically improve if it can reach out to this generation.

So the current administration appears to have high expectations for this young generation. Likewise, "promoting exchange programs for young talent" and "enhancing Japan-Korea economic cooperation" have become two pillars of the joint project between Keidanren and FKI that you are leading. It sounds like these dovetail with the movements of the current administration. Next, I would like to ask about Japan-Korea economic cooperation, the second pillar. Mutual understanding would presumably be essential for promoting this, but first, I think Japan and Korea share various challenges – economic, social and otherwise – and I would like you to tell us about some of these.

Globally, Japan and Korea have many points in common. First, they are nations with limited resources and energy. Both need to buy resources from other countries, but can lose when they

compete with major powers such as China because they do not have as much demand. However, if Japan and Korea cooperate, they can make up for this handicap and share development risk as well. In fact, Korea has relatively poor energy efficiency, small reserves and limited expertise in procurement, making energy a source of inflation. As Korea Electric Power Company (KEPCO) and Korea Gas Technology Corporation (KOGAS-Tech) have kept utility rates low to date, a legacy of Korea's period as a developing country, they have now been forced to raise those rates due to large-scale debts. I think energy cooperation is a very important matter.

Next, there is the issue of food security. Both countries have globally low rates of food self-sufficiency. Korea is similar to Japan in that it has protected the agricultural industry, but that industry has seen considerable damage. This contrasts with Japan, which has moved early to revitalize agriculture by combining crop cultivation with processing and distribution/selling, and switched to domestic production with more young people actually becoming farmers. Also, domestic demand is large, enabling the industry to make it even amid JPY depreciation. As Korea has been unable to adapt to this extent, food prices quickly rise when the KRW depreciates. However, the picture is similar overall, so I think food is a major shared challenge.

In addition, both nations face the internal macroeconomic constraint of declining birthrates and population aging. In 2022, the total fertility rate (TFR) came to just 0.59 in Seoul and was only 0.79 as a national average. In Japan, even at 1.26, people are already describing the situation as a crisis of "another dimension." Although there is a difference in perception, potential growth is already declining in both nations. The momentum of domestic demand is weak in Japan, while Korea, too, is unable to rely on the external economic environment that has allowed its rapid export-led growth in the past. One idea would be to accelerate innovation, but here too there are constraints related to young human resources. There are several others as well, but I think it is these areas of homogeneity between the Japanese and Korean economies that stand out first.

Next, could you tell us not about homogeneity, but rather about areas of heterogeneity between Japan and Korea?

"Similar, but different" is an expression that applies here. Japanese and Korean people look exactly the same, but think differently and have different social values. Economically as well, there is much heterogeneity.

First, both nations have massive debts, but in Japan it is mainly in the form of government debt; in Korea, it is household debt. This household debt is a major issue for the Korean economy. As interest rate spreads with the US widen, the impact on emerging countries becomes larger, and if current account deficits continue and a slump in the real economy leads to employment adjustment, it could become entangled in the process. Korea's household debt is almost entirely in real estate and since much is

in the form of floating rate loans, rate hikes present a severe condition. Real estate prices have soared, especially in the Seoul economic zone, and if they should crash, the impact would likely be large.

Also, Korea's currency differs in that it is not a reserve currency. This explains Korea's treatment as an emerging economy on the financial side. For example, all of the G7 economies are able to settle their trade and investments in their own currencies. Korea still has some capital constraints and the government's continuation of monetary controls over a prolonged period has left a large negative legacy, with financial institutions late to boost their international competitiveness. As a result, it has not been easy for the KRW to become a reserve currency.

Next is in the area of balance of payments. While Japan itself continues to show a deficit in its trade account, Korea has a trade surplus that drives its entire current account, but still relatively little in the way of foreign assets accumulated overseas. One might say this structure makes it impossible to "live on a pension" that relies on the capital account, as in Japan.

Also, I just spoke of population constraints, but contrary to Japan, Korea is now set to enter the peak of its population aging. Korea's baby-boomers were born between 1955 and 1963 and while this generation has a pension system that enables it to scrape by, older generations lack adequate pension and medical coverage, so this baby-boomer generation is handling the long lives of their parents' generation while becoming part of the elderly generation themselves. Moreover, the drop in the birth rate is sharp, so the population is aging rapidly. This raises a related issue. While I just mentioned that much of the household debt is linked to real estate, another hidden household debt is the debt of the self-employed. Although the self-employed do not have a retirement age, many of the elderly self-employed face a difficult reality, on top of their debts, of not being able to survive on their pensions. As a result, Korea faces a severe phase of having to decide how extensively to take responsibility for the welfare of its people.

Now that you have told us about the homogeneity and heterogeneity between Japan and Korea, could you tell us what direction you think should be taken in rebuilding Japan-Korea economic cooperation? Could you kindly offer some examples from respective areas?

From growth to sustainability

I would venture to say that this is a "new dimension" for Japan-Korea cooperation, and one aspect of that involves a switch from "growth to sustainability." Korea still has dreams of growth. As a result of the rapid growth to date, public finances have been supported by growth in tax revenues and the shift from low cost, low welfare to medium cost, medium welfare has been a comfortable one. Hence, even policy makers themselves have this idea that they should be able to make a comeback to rapid growth at some point. However, the reality is that Korea's potential growth rate has already fallen below 2% and a return to such growth will not be simple. Growth through the exports of

the manufacturing sector raises questions around the supply chain environment and human rights considerations, and catching up with China and others has become difficult.

A symbol of the growth mindset is semiconductors, and this comes up as the first target of economic cooperation with Japan. While Korea is at the cutting edge globally in the mass production of memory semiconductors, it has a nationalistic stance that “there is a problem of dependence on imports from Japan for chip-making machinery and raw materials, so it is desirable to replace this through, for example, Japanese corporate investment in Korea or technology transfers to SMEs,” and under these conditions, cooperation between private-sector companies is unlikely to proceed smoothly. Korean firms have only limited experience in certain semiconductor businesses such as power semiconductors and some areas of logic and Japan is likewise targeting a semiconductor renaissance through the promotion of industry clusters, so it is important to achieve a framework for cooperation that private-sector companies on both sides can appreciate.

In the area of green transformation (GX), decent efforts are underway in both Japan and Korea, but the scale of ESG investment ranks behind that of China. Korea’s GX has proceeded mainly around the notion of reducing environment impact through digitalization, while Japan has engaged a bit more broadly, including in the area of environmentally friendly materials. I believe the two sides could tap their respective strengths and work together, starting with R&D, for example.

One item on the problem-solving agenda is coping with population aging. For example, contrary to Japan, Korea has started its digital transformation (DX) early and made progress with management under national identification numbers. As this is linked to medical care, Korea has large volumes of good quality data. Meanwhile, Japan has moved ahead in accumulating knowhow on elderly medical care, albeit on a paper basis. If the two sides can establish rules around data, then exchange and share data and have their experts conduct joint research, since social structures are similar, there would appear to be many possibilities related to, for example, administrative cost reduction and basic research for new drug development. Moreover, population aging is not limited to Japan and Korea; developing countries in Asia also have aging populations, so if the issue can be addressed under a Japan-Korea model, the market for application could spread to elsewhere in Asia.

Revitalization of urban areas is another area. Korea’s smart cities have largely revolved around an expectation for a rise in prices through real estate development. However, the population will shrink without a rapid increase in immigration, so there is already a need to think about sustainability. The regeneration of agriculture and maintenance of medical systems are also common challenges. For example, Japan’s food exports have reached the JPY1trn threshold and the nation is aiming to boost this to JPY5trn, but there are also some areas where Korean food exports can serve as reference. Riding the momentum of its

cultural exports, Korea’s marketing has also become sophisticated, and the latecomer Japanese companies are sort of following in those footsteps. Agriculture and food products are extremely diverse industries, and Japan and Korea have a mutually strong attachment to diverse diets. And since they are geographically close, even delicate food items can be covered through cold value chains. As food companies are also located outside of urban areas in order to procure raw materials, I think they can also be good for the revitalization and activation of these regions.

Meanwhile, the content industry and tourism already have markets in motion, so do not require any kind of major government initiative; instead, a spread to related industries may be the focal point.

From zero-sum competition to reform competition

On the second point, the mindset needs to shift from “zero-sum competition to reform competition.” The Korean media still carry lots of news about beating or losing to Japan and the people are affected by this. A competitive mindset is not a bad thing, but rather than a competition that drags the two sides down, I think it is important to change negative into positive energy. I think one way to do this is through the acceleration of innovation. Korean ventures are active, but face major constraints in the domestic market and an ecosystem has failed to take shape, apparently making it difficult to find an exit domestically in some cases. Meanwhile, Japan buys various products from Korean ventures. University hospital reservation systems are one example. With the incorporation of these Korean reservation systems, there are cases where hospital wait times have vanished, for example.

I think another area with great potential is social policy. In Korea, welfare has the reputation of being “unproductive government expenditure,” but this is unsustainable. Companies have had little involvement in addressing gender issues, birthrate reversal, diversity, inclusion, population aging and work style reform, so progress remains limited. However, there are substantial social needs, so instead citizen’s groups and NGOs assume the responsibility for various activities. I think it would be highly meaningful for the two countries to share their knowledge and nurture social enterprises.

There is also disaster response due to global warming. Japan always faces a massive potential risk of earthquakes, but Korea has almost none. Since Korea only has major earthquakes around once every 200 years, Japan should have relations with Korea that enable it to establish a back-up base in Korea as long as the right environment is in place, and actually make Korea a base in a worst-case scenario. The speed and focus of its response when something happens are Korean strengths. Both nations are expected to see an increase in abnormal weather such as torrential rains as well as disasters such as floods and droughts, so cooperation around backup stockpiles of necessary supplies is also conceivable.

From a base layer society clash to global cooperation

The third and final point is “from base society clash to global cooperation”; that is, a direction of moving forward through a multilateral framework. In Korea, there is still a catch-up mentality focused on the nation’s ranking compared with Japan, but in a multilateral framework, it is possible to soften such a way of thinking. The quarantine system is one such example. If Korea entered the Trans-Pacific Partnership (TPP), it would need to show evidence if it ever wanted to ban an import because it thought it was dangerous. Even in the case of the current issue around Fukushima, for example, the submission of scientific data and expert opinions could be used to create a framework for preventing simplistic bans. Korea has numerous international-caliber experts, so I think it would also be good for these experts to have exchanges through multiple frameworks. Also, there are many professional posts at international institutions that Japan, unfortunately, is unable to fill, so one way to build trust would be through an arrangement where these are backed by a Japan-Korea group with benefits for Japan as well.

Next is about relations with the US. The US is basically putting America first, including through the Inflation Reduction Act, and China has always put its nation first. For example, lithium, a raw material for Korean batteries, is produced largely in China and this will have to be reconsidered when origin rules become stricter. Japanese companies are likely attractive as a partner to share this risk and since there is information that only Korea has through its alliance with the US, there should at least be some merits from information exchange.

Governments and related organization provide support for fragile states and conflict-torn states. Here as well, if competition and cooperation work, I think Japan-Korea groups could show their presence to the world. Korea did well during the Fall of Kabul in Afghanistan and also helped Japan at the time of political change in Sudan. Korea faces a constant threat from North Korea, so there is a high level of crisis management awareness. In terms of official development assistance (ODA) as well, the human

resources that Japan can allocate on its own are limited, presenting another opportunity to work together. Since many countries need help, there is no need to compete in this area.

There is also a role of providing public goods through basic research cooperation. For example, there is said to be a limited time until avian influenza passes on to humans. I think it is the role of developed nations like Japan and Korea to prepare vaccines and build a structure for distribution to Asia for such a contingency. Some lead time is needed, so acting after the fact is too late. I think it is one of those cases where steps need to be taken in preparation for the future.

Positive stories have an aspect of competition, making it is difficult for people with a “which side is on top” mentality to accept, but avoiding the negative is an approach relatively conducive to agreement based on the mutual interests of both nations. Japan and Korea can look to the future with a preemptive defense against the negative and free themselves from bilateral constraints under a global framework, so I think it is best to proceed from these three angles.

Finally, returning to the Japan-Korea bilateral relationship, the biggest concern for Korea is how the situation in the North will evolve. At the same time, for Japan, this means a potential revival of questions around how to think about economic cooperation and aid to Korea and how to deal with North Korea. This cannot be altered and requires a broad judgment on whether to approach changes in the North Korean situation with trust between Japan and Korea remaining in a state of collapse, or to promote market integration and advance relations of trust with Korea to an extent in the process. This is not a remote matter only involving distant governments, but rather a major geopolitical change in East Asia that has suddenly brought a big change to private enterprise as well, so I believe a big-picture perspective is absolutely necessary in economic cooperation with Korea.

(Yuko Chiba, Senior Fellow)

Capitalism and democracy

A dialogue and symposium held with Professor Markus Gabriel

On 8 May, the 21PPI welcomed University of Bonn Professor Markus Gabriel, who also serves as Academic Director of The New Institute (TNI) in Hamburg, Germany to the Keidanren Kaikan in Otemachi, Tokyo, where a dialogue with Japan Business Federation Chairman Masakazu Tokura and a symposium co-sponsored with the Japan Institute for Social and Economic Affairs (Keizai Koho Center, KKC) were held.

During the dialogue, with 21PPI Principal Research Director Takahiro Nakajima (Director of the East Asian Academy for

New Liberal Arts, The University of Tokyo) serving as coordinator, Chairman Tokura and Professor Gabriel exchanged opinions on topics including an analysis of the current state of the world, the ideal interface between capitalism and science and technology, and the ideal state of society in the future.

In the symposium that followed, there were keynote speeches by Professor Gabriel and University of Tokyo President Teruo Fujii and a panel discussion on the theme of “Toward a Sustainable



From left to right, Prof. Gabriel, Chairman Tokura

Capitalism.” More than 100 participants, including executives and employees of Japan Business Federation member companies and organizations and TNI members visiting Japan with Professor Gabriel, attended the event and engaged in a lively Q&A session around the opinions of the professors. In his keynote speech, Professor Gabriel outlined his thoughts on “ethical capitalism,” ie, that ethical contributions to society present the biggest business opportunities, then expanded the discussion to the ethical behavior methodology that companies should take and argued that this direction is closely linked to the realization of corporate behavior based on a “social point of view” as sought by the Japan Business Federation. President Fujii introduced various examples of the University of Tokyo’s initiatives, including the Ocean Monitoring Network Initiative (OMNI) that he is personally involved with, based on the concept of building a better future through dialogue with people



From left to right: President Fujii, Professor Gabriel, Principal Research Director Nakajima

from various backgrounds.

At the panel discussion, with Principal Research Director Nakajima serving as MC, a variety of discussions took place on such topics as strategies for companies and universities to offer new value to society and the possibility that liberal arts, including fine arts, will become important at that time.

21PPI has earnestly conducted research on the impact of changes in the international situation, technological innovation, the spread of infectious diseases and other such developments on capitalism and democracy. Going forward, the institute is planning to promote joint research with the members of TNI led by Professor Gabriel. The knowledge obtained through the latest dialogue and symposium will be utilized as part of that.

(Natsuki Sakai, Fellow)

US

A conference on “New Energy Realities” is held

On 23 May, 21PPI’s US research project (Principal Research Director: Fumiaki Kubo, President, National Defense Academy) invited Paul Sanders, representative of the US Energy Innovation Reform Project, for a conference on New Energy Realities. Following his speech, a panel discussion on the theme of “Energy Issues Around the Russia-Ukraine Conflict and Implications for International Order” was held with Principal Research Director Fumiaki Kubo serving as moderator and Research Fellow Junko Sugino (Associate Professor, Musashino University; Visiting Fellow, The Institute of Energy Economics) participating as a panelist. Below is a summary of the speech by Mr. Sanders and the panel discussions by the three panelists.

Speech of Paul Sanders

Energy transformation is a major theme, but there are issues in the areas of geopolitics, politics, economics and resources that



make it challenging, so progress has been slower than expected and also costly, making the transformation difficult to achieve. In particular, the deterioration of US-China relations and Russia’s invasion of Ukraine impede with the transformation.

Annual CO2 emissions in China are increasing at double the pace in the US and many Americans are asking why their country has to suffer despite such an increase in China. Also, there is a dilemma of needing to invest more into fossil fuel energy to secure an energy supply, but also needing to invest into clean energy in order to accelerate the energy transition.

In terms of the outlook, while decarbonization is a goal for the American economy and the importance of energy transformation remains unchanged, measures and legislation focused on boosting competitiveness could see a further push. Even if such developments are strongly focused on China, close trade partners and allies can get entangled in practice, making it necessary for governments consult closely in order to minimize any damage.

Panel discussion

(Ayako Sugino, Research Fellow)

At the time of the shale revolution some 10 years ago, there was a view that the era of energy deficiency had ended with a shift to an era of energy sufficiency, but due to the rush to decarbonize, a shortage of battery and rare mineral materials has emerged and investment into fossil fuels has become inadequate. An era of energy shortages now appears set to begin. This ultimately left me wondering what the shale revolution was. Meanwhile, the Mineral Security Partnership was launched last year and will now start operating. This is said to target a resilient supply chain from mine development to smelting, processing and recycling, but the focus is on what kind of leadership the US is planning to

demonstrate.

(Fumiaki Kubo, Principal Research Director)

The international order is in danger with an inadequate stance on the part of China, Russia's invasion of Ukraine and America's weakening will to protect that order. The focus going forward will be the Biden administration's and Republican Party's views on Russia and China or how the US will once again assume the role of supporting the international community. The term "flat world" was coined at the start of this century, an era of globalization took hold, and it was said that the age of free-flowing capital, information and people had arrived, but now things are moving in quite the opposite direction. Energy is an extreme example. Some countries are even using it as a weapon, so there are other countries that have to confront this head-on and Japan is also getting caught in the mix. One might say the era of globalization is over, but in some areas it still continues. Each nation must decide where its government will intervene and impose restrictions to an extent and what areas it will leave to free market mechanisms. Things can no longer be resolved simply based on a single principle. In terms of the Ukraine issue, the will of the Western G7 nations, Central and Eastern European nations excluding Hungary and Baltic nations to support Ukraine has proven stronger than expected and this remains unwavering. If this lasts, there is a view that Russia could increasingly be at a disadvantage going forward.

(Hiroyasu Hatayama, Senior Fellow)

China

Symposium on "China's Strategy to Build a Strong Nation"

On 3 July, 21PPI's China research project (Principal Research Director: Shin Kawashima, Professor, University of Tokyo, Graduate School of Arts and Sciences) held a symposium on "China's Strategy to Build a Strong Nation" with around 200 participants from member companies in attendance. Amid a global situation shaken by US-China conflict and the Ukraine invasion, China's strategy as a global power was interpreted and the purpose and background analyzed. Below is an overview.

An essay on Xi Jinping's leadership based on management knowledge and "internal documents" (Takashi Suzuki, Professor, Daito Bunka University, Institute for Oriental Studies)

President Xi Jinping is currently the most powerful person in China. He was able to become a strong leader through connections from his clan (organized by children of former high-ranking Communist Party officials) and provincial leadership



At the back right, Principal Research Director Kawashima, From right to left in the front, Research Fellow Hirono, Research Fellow Ding, Research Fellow Suzuki

days, his successful anti-corruption campaign that purged political opponents and his appeal to sub-leaders. At democratic life meetings held for two days each year, sub-leaders are assembled for criticism of their work and themselves. Through this and other means, Xi institutionalizes opportunities to

convince others to obey him through psychological pressure and time-consuming persuasion.

China’s industrial advancement and global value chain reorganization (Ding Ke, Senior Research Fellow, Institute of Developing Economies, Japan External Trade Organization)

In the 2010s, China promoted industrial advancement involving a shift from labor-intensive assembly industries to more technology- and capital-intensive intermediate goods industries and is establishing a new global chain with Vietnam and Thailand importing intermediate goods from China and assembling final goods. At the same time, foreign firms remain highly dependent on China. For example, Apple has more than 95% of its suppliers’ production bases in China and it is estimated that it would take eight years to shift a mere 10% of its production capacity from China to other nations. US semiconductor regulations are becoming stricter, but China is expanding its investment into non-advanced semiconductors and promoting initiatives for next-generation semiconductor technology.

China’s programs and actions related to global governance (Miwa Hirono, Professor, College of Global Liberal Arts, Ritsumeikan University)

As the international order enters a period of change, how China thinks of global governance is a major issue. I analyze this issue through two programs: the Belt and Road Initiative and the Global Development Initiative (GDI) proposed by President Xi Jinping at the United Nations General Assembly in September 2021. While the Belt and Road Initiative puts an emphasis on hard infrastructure that creates win-win bilateral relations, the GDI is multilateral with an emphasis on soft infrastructure such as capacity building, education, the environment and SDGs. The two programs are in a relationship of coexistence. However,

developing nations are not interested in China’s ideology and instead foster a view of China based on their own interests.

The future of the situation in Taiwan (Principal Research Director Kawashima)

In terms of issues around the “Taiwan conflict,” there is a tendency to focus on developments in the US and China, but it is also important to understand the situation inside Taiwan. In a survey of domestic views in Taiwan around the question of independence or unification, 80% of the respondents favored either the status quo or slight independence. Almost no one sought unification and there was a deep-rooted view that China will not conduct a military invasion. The policy of Taiwanese unification under China involves the threat of military force, gray zone tactics (eg, fake news cyber attacks) and economic sanctions. At the general election scheduled for 2024, Lai Ching-te of the Democratic Progressive Party is currently favored. The issues are varied, including not only Taiwan’s distance from China, but also the economy, social life and population decline.

Panel discussion

Next, a panel discussion among the three speakers was held with Principal Research Director Kawashima serving as the moderator. In an overview of the speeches, Principal Research Director Kawashima emphasized that 1) the general view of China differs somewhat from reality and that 2) it is important to carefully look at the whole picture assuming a diverse range of actors. There was in-depth discussion with the speakers on such matters as “the destabilizing factor of a decline in Xi Jinping’s influence,” “the social issues of unemployment and disparity and economic growth,” “the future of the Belt and Road Initiative” and the “domestic assessment of the Belt and Road Initiative”

(Yuko Chiba, Senior Fellow).

International situation

Seminar held on the “Current Status and Outlook for the G7 and the Indo-Pacific”

On 5 July, 21PPI held a seminar at the Keidanren Kaikan in Otemachi, Tokyo. Ryo Sahashi, Associate Professor of the University of Tokyo’s Institute for Advanced Studies on Asia, who serves as a visiting research fellow at 21PPI, delivered a speech on the “Current Status and Outlook for the G7 and the Indo-Pacific.”

During the speech, Professor Sahashi noted that a conciliatory atmosphere had spread in relations between the US and China, but speculated that conflict would continue over the medium to long term. Under such conditions, he pointed out the necessary actions for Japanese companies. Below are the key points of this speech.



Visiting Research Fellow Ryo Sahashi

Near-term path of reconciliation

The G7 joint statement sent a message of reconciliation, using constructive language unseen in recent years such as “we call on China to engage with us” and “China also seeks our engagement.” China reciprocated along this path by, for example, accepting US Secretary of State Blinken’s visit to China. This came from a superficial coincidence of intentions with, for example, the Biden administration not wanting a near-term crisis and China concerned about the current economy.

The West stays its ground

At the same time, the G7 joint statement also incorporated a response to China’s economic coercion and sought to boost supply chain resilience, and after the G7, the EU newly announced an economic and security strategy, suggesting the West has not altered its stance.

What both sides really want is the economic benefits beyond dialogue. Unless there is something to gain in the long run, structural problems will result and US-China conflict will continue.

A conflict structure that creates mutual distrust

A key word surrounding the current world is distrust. Mutual distrust between superpowers complicates matters. As a result, even where there would ordinarily be reasonable solutions, nations are beset by a structure of conflict not only militarily, but also economically and have fallen into a dilemma of not understanding the true nature of one another.

There were numerous questions from the participants following the speech, reflecting the high level of interest in the theme. For example, one participant asked what kind of strategy Japanese companies should take given that China remains an attractive market. On this, Professor Sahashi remarked that, first of all, there is a need to understanding the situation in the US. There are US companies that can hold their own even amid US-Chinese conflict because they understand the information that their country holds, saying it is important for Japanese companies to know the US like their US counterparts do.

On how the balance of power among the US, China and related nations evolves, he answered that it depends on the extent to which China can expand its partnership diplomacy.

(Kota Aono, Senior Fellow)

International order

Symposium held on the “Future of International Order”

On 7 August, 21PPI’s International Order Research Project (Principal Research Director: Masayuki Tadokoro, Specially Appointed Professor, International University of Japan; Honorary Professor, Keio University) held a symposium on the “Future of International Order” at the Keidanren Kaikan in Otemachi, Tokyo. The institute has long conducted research on the direction of international order from multiple perspectives such as the political economy and science and technology. Reporting on that research, the institute gave a broad presentation at the symposium on potential future scenarios around science and technology, China and America, looking out to the period from 2050 onward. Below is an overview.

Research project overview – Why make a projection about the future (that will miss the mark)? (Principal Research Director Tadokoro)

This project is a kind of thought experiment that takes a slightly broader perspective and asks us to think about several visions for the future. It also seeks to challenge the bias toward the present when thinking about the future. Thinking about future possibilities even without knowing what is in store also has value when engaging in business activity.



Speech 1: The “Future of Science and Technology and the International Order” (Kazuto Suzuki, Professor, Graduate School of Public Policy, The University of Tokyo)

Science and technology has a destructive nature and changes greatly into the future, so it is important to think about its impact on society. Technological innovation in such areas as artificial intelligence, communications, transport and space development brings great benefits, but can also widen disparities and deepen political turmoil. In an optimistic scenario, countries control innovative technology through a shared code of conduct, resulting in the emergence of a society where many people receive the benefits and the formation of an order in the

international community based on peaceful coexistence and rules – it is possible to imagine such a scenario. In reality, however, we must think about a scenario where differences in science and technology lead to large disparities between nations and there is a decline into an unstable state where rules fail to take hold and the potential for military conflict and industrial dominance persists.

Speech 2: The “Future of China and the International Order” (Shino Watanabe, Professor, Faculty of Global Studies, Sophia University)

When thinking about the future of the international order, China is an extremely important actor in light of its ambitions. It has set goals, made plans and persistently continued to execute on them. However, unexpected things routinely occur day to day. For this reason, it is more difficult to project the future in the case of China than it is with other nations. It is essential to look at China’s security and economy as well as its internal affairs and foreign relations with this in mind. Global South (developing country) initiatives are an area of strength for China, so the direction here could become a key to the future. In a future world revolving around China, one can imagine 1) US-China polarization; 2) Chinese hegemony; or 3) fragmentation into a “rivalry of warlords.” It is important to think about what will happen to Japan and how companies will respond in the event that such developments materialize.

Speech 3: The “Future of America and the International

Order (Satoru Mori, Professor, Faculty of Law, Keio University)

The future of 1) US-China relations, 2) global issues and 3) third countries are factors acting on the future direction of the international order. In addition, I would like to emphasize that “black swans,” or unexpected, events occur and that the flow of the world changes greatly around such events. The US and China are in a state of extremely multifaceted competition around military arms, industrial technology, international rules and influence on third countries. Also, the cooperation, policy making and action of major powers that should ordinarily be addressing global issues represented by the climate crisis continue to lack momentum. With US leadership in a relative decline, there is a question around how Japan can develop 1) a re-expansion of the international economic activity space and 2) diplomacy contributing to the spread of rules-based international order.

Following the speeches, a panel discussion involving the three speakers was held with Principal Research Director Tadokoro serving as the moderator. A multifaceted debate took place on the future of the Global South and issues of internal governance as seen from each perspective, with an effort to involve participants in the discussion through, for example, a show of hands on four possible future scenarios centered around the US and China (US supremacy, Chinese supremacy, mutual antagonization, mutual destruction), bringing the event to a successful close. (Yasuhiro Iwasaki, Senior Fellow)

Reports published

The full reports can be found here:

<http://www.21ppi.org/theme/report/index.html>



Report of “Review Committee on Startup-Friendly Scoring”

The Review Committee on Startup-Friendly Scoring (Akie Iriyama, Executive Research Fellow and Professor, Graduate School of Business and Finance, Waseda Business School) compiled a report on its FY22 research results.

The report discusses the background, thinking, implementation methods and results of start-up friendly scoring, an effort to give visibility to the start-up friendliness of major companies.

Writers (random order)

Tomoko Namba (Vice Chair, Keidanren/Chair, Committee on Startups, Keidanren)

Makoto Takahashi (Chair, Committee on Startups, Keidanren)

Mitsuru Izumo (Vice Chair, Board of Councillors, Keidanren/Chair, Committee on Startups, Keidanren)

Akie Iriyama (Executive Research Fellow, The 21st Century Public Policy Institute/Professor, Waseda Business School (Graduate School of Business and Finance), Waseda University)

Kazuhiko Chuman (Deputy Head, Business Exploration and Development Division, KDDI Corporation)

Toshio Taki (Executive Officer, CoPA (Chief of Public Affairs), Money Forward, Inc.)

Nobutaka Yasui (Manager (Capacity Unleash, Public Policy), Mercari, Inc.)

Susumu Nishimura (Deloitte Tohmatsu Venture Support Co., Ltd.)

Koichi Hayashida (Deloitte Tohmatsu Venture Support Co., Ltd.)

Megumi Komata (Deloitte Tohmatsu Venture Support Co., Ltd.)

(Titles as of March 2023)

Report on “EU and the New Capitalism/Democracy”

The European Research Project (Principal Research Director: Takao Suami, Professor, Faculty of Law, Waseda Law School) compiled its FY21 and FY22 research results in a report titled “EU and the New Capitalism/Democracy.” In the report, the nine

experts involved in the project debate the outlook for a new capitalism and new democracy in the EU and its implications for Japan.

Writers (random order)

Takao Suami (Professor, Waseda Law School, Waseda University)

Ryosuke Amiya-Nakada (Professor, College of Liberal Arts, Tsuda University)

Sayuri Ito (Director, Economic Research Department, NLI Research Institute)

Mikiko Ohta (Associate Professor, College of Economics, Nihon University)

Tomoya Kuroda (Associate Professor, School of Law, Senshu University)

Shunsuke Sato (Associate Professor, Faculty of Law, Kokugakuin University)

Hitoshi Suzuki (Visiting Senior Research Fellow, Institute of Geoeconomics (IOG), The International House of Japan, Inc.)

Yumiko Nakanishi (Professor, Graduate School of Law, Hitotsubashi University)

Yorizumi Watanabe (Dean, School of Global Communication, Kansai University of International Studies/Professor Emeritus, Keio University)

(Titles as of March 2023)

Report on “The Compass of the Xi Jinping Administration

The “China Situation Research Project” (Principal Research Director: Shin Kawashima, Professor, The University of Tokyo, Graduate School of Arts and Sciences) compiled its FY21 research results in a report.

and foreign policy perspectives how the Communist Party of China dealt with the issues of the post-COVID and with-COVID era. Ten leading China researchers commented on their respective areas of expertise, with Professor Kawashima summarizing their studies and discussing the implications for the Japanese economic community.

The report analyzes from social, economic, constitutional state

Writers (random order)

Shin Kawashima (Professor, Graduate School of Arts and Sciences, The University of Tokyo)

Kazuko Kojima (Professor, Keio University)

Kai Kajitani (Professor, Graduate School of Economics, Kobe University)

Ding Ke (Senior Research Fellow, Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO))

Jin Ishizuka (Associate Professor, Faculty of Life and Environmental Sciences, University of Yamanashi)

Wakako Ito (Director of Research, The Japan Forum on International Relations, Inc. (JFIR))

Shinji Yamaguchi (Senior Research Fellow, The National Institute for Defense Studies)

Chisako T. Masuo (Associate Professor, Faculty of Social and Cultural Studies, Kyushu University)

Jun Kumakura (Associate Professor, Faculty of Law, Hosei University)

Toru Kurata (Professor, Rikkyo University)

(Titles as of July 2022)

