

Building a Sustainable Socioeconomic System and Restructuring Economic Global Governance



The T20 summit meeting, May 2019, Tokyo. (Photo T20 Japan 2019)

Globalization has brought enormous wealth to the world as a whole, and the economic gap between developed and emerging countries has narrowed rapidly. On the other hand, the shift of the center of economic gravity to emerging economies has become more apparent since the global financial crisis, and dissatisfaction over intensifying competition with emerging economies, including the relocation of production bases overseas, has increased. In addition, the income gap has been widening in many countries due to the shock caused by the financial crisis in 2008 and the disparity of wage levels between skilled and unskilled workers driven by technological progress.

Today, due in part to the negative aspects of globalization, we witness unprecedented distrust in politics and increasingly eroding social cohesion, leading to the rise of populism, protectionism and unilateralism as global trends. In particular, the United States is changing its long-established role in supporting the post-World War II liberal international order, and this has disrupted global governance and multilateralism. Furthermore, the rise of China and other emerging countries as well as the development of the digital economy require reforms to existing frameworks for economic global governance such as the WTO to address new issues.

Despite slowing global economic growth, globalization and technological innovation are expected to make irreversible progress, and the structural risks posed by anti-globalism will continue to exist globally to a certain extent.

Widening disparities are inextricably linked to divisions caused by immigration, race, and culture, to name but a few factors. Growing demands for protection by the state from those alarmed at their loss of social status and for the right to self-determination by those left out of the rapid economic and social changes caused by globalization offer fertile ground for anti-global populism. There are at least two important conditions to be met at the domestic level in supporting globalization. The first is to mitigate the negative economic and social impacts of globalization by strengthening redistribution functions and expanding investment in human resources for education. Second, in order for domestic politics to function in a sound manner, it is necessary to ensure sound policy planning and execution through the participation of diverse stakeholders in policy formation, public diplomacy and other means of forming a consensus among the general public,

as well as strengthening institutional capacity.

There is mounting awareness around the world that balancing growth with economic and social development is necessary. The “Sustainable Development Goals (SDGs)” adopted by the United Nations emphasize an approach that addresses issues in an integrated manner, bearing in mind the relevance of social, economic, and environmental issues. In recent years, sustainable and inclusive growth has been an important issue for the G20, and there has been active discussion on the virtuous cycle of growth and distribution, human investment, responses to climate change, and pursuit of the SDGs. At the Osaka G20 Summit, leaders confirmed efforts to address the problem of ocean plastic waste and promote universal healthcare coverage (UHC). In recent years, environment, society and governance (ESG) investment and SDGs have been attracting increasing attention in the private sector. ESG investment is based on the practical reasoning that corporations upholding social responsibility initiatives involving the environment and employment can have positive effects on corporate and

shareholder value over the medium to long term. While there are reservations about the accuracy and correlation of data, high ESG scores tend to lead to high stock prices.

How to maintain multilateralism and promote international cooperation is another important issue. As mentioned above, without the resolution of issues such as widening income disparities and immigration, domestic politics tends to lean toward populism and protectionism, making it difficult to support multilateralism. It is essential that political and administrative institutions function soundly to address domestic challenges. Multilateralism works to empower domestic institutions (e.g., capacity building for developing countries), and thus it is important to strengthen core capacity through international cooperation. Even under the prevailing unilateralism, there are areas where multilateral cooperation is essential, among them such urgent global issues as climate change and global health. In the areas of climate change and global health, there is a degree of resilience despite the influence of unilateralism. In summary, (1) multilateralism with multiple layers (support from the United

Nations system, economic fora such as the G7/G20, international financial institutions, private corporations, and voluntary groups of countries), (2) a transnational network of private organizations, experts and local governments, and (3) the framing of securitization (recognition as a security issue leads to domestic political support) are important factors to enhance the resilience of multilateralism.

The US-China trade war between the world's two largest economies is intensifying. The United States is increasing its pressure on China by raising tariffs and by negotiating over China's unfair trade practices and industrial subsidies for high-tech industries under "Made in China 2025". Addressing the US-China trade war, which overshadows the global economy, is an urgent task. It is a matter of great concern for the multilateral trade system, which has the WTO at its core, that the United States disregards WTO procedures by unilaterally imposing tariffs or trade sanctions under Section 232 of the Trade Expansion Act of 1962 (security clause) and Section 301 of the US Trade Act of 1974 (sanction clause for unfair trade) and refusing to reappoint a member of the Appellate

Body for dispute settlement procedures. At the same time, China's economic activity cannot be fully addressed by existing WTO rules, and WTO reform is desperately needed. Therefore, it is essential that China undertake its own domestic structural reforms to break through this phase, especially by reviewing state-directed industrial subsidies and high-tech management policies and by further liberalizing trade and investment, creating a level playing field for foreign companies to expand their business in China, in order to hasten the transition from state capitalism to a market economy. However, due to the need to maintain its current domestic system, it is unrealistic to expect China to voluntarily implement such reforms. It is important for Japan to work closely with the United States, Europe, and other interested countries to encourage WTO reform and rule-making that will effectively convince China to implement market reforms.

From a constructive perspective, China's Belt and Road initiative (BRI) supports the development of infrastructure and the strengthening of connectivity in emerging economies, and accelerates the growth of the regional economy through trade and investment. However, there is

growing friction with recipient countries over geopolitical and military concerns, the behavior of Chinese companies on environmental, safety, and employment issues, and debt sustainability. In his speech at the 2nd BRI Summit Forum in April 2019, President Xi Jinping stated that BRI projects need to be operated in line with international standards and with respect for the laws and regulations of each country, and he also stressed the need to ensure debt sustainability. While the BRI's recalibrated approach is noteworthy and welcome, implementation should be verified. China should enhance transparency by disclosing data on debt by joining the Paris Club and also by making sure the projects are carried out in accordance with international standards, such as those set by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). To maintain positive relations with Japan, China needs to undertake BRI initiatives based on the values and principles set forth in the "Free and Open Indo-Pacific (FOIP)" initiative. Such efforts would include the promotion of "high-quality infrastructure". "The G20 Principles for High-Quality Infrastructure Investment" was adopted at a meeting

of the G20 finance ministers and central bank governors, and efforts to expand the high-quality infrastructure standards are being pursued in such contexts as the partnership between Japan and the European Union (EU). In addition, cooperation among multilateral financial institutions such as the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), and private-sector cooperation between Japan and China in third countries, should also be promoted. It is essential that these joint projects with China be guided by principles such as openness, transparency, economic viability, and fiscal sustainability.



The headquarters building of the Asian Infrastructure Investment Bank (AIIB), Beijing. (Photo Imaginechina/AFLO)

Based on the above discussions, the following policy recommendations are presented. First, Japan should continue to endorse discussions on redistribution, human capital investment, and

environmental policies that contribute to sustainable and inclusive growth at international economic fora such as the G7/G20. Japan should also support efforts to enhance corporate social roles by promoting discussions and policies on global corporate governance. Second, with a view to strengthen rules-based, free and open economic and global governance, Japan should step up its participation in the Trans-Pacific Partnership (CPTPP) and conclude negotiations for the Regional Comprehensive Partnership Agreement (RCEP) at an early date, maintain the WTO dispute settlement function and advance WTO reform, and promote rule-making such as digital trade governance and artificial intelligence principles through the G7/G20. Furthermore, Japan should advocate the setting of international standards by expanding partnerships in developing “high-quality infrastructure” and cooperating with China’s BRI within the framework of international standards. If China supports FOIP in this process, FOIP and BRI can be compatible to some extent, and a mutually beneficial Japan-China relationship will move forward.■