

Japan as the Chair of the G20 – Implications for South Asia

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Summary

Japan has become the Chair of the G20 for 2019. The G20 has no permanent secretariat and has no specific mandate beyond discussing the most critical issues facing the global economy. As such, it has now become standard practice for the chair country to set the agenda for the year of its chairmanship. Japan has set an ambitious agenda, including free trade, infrastructure for development, climate change and the impact of ageing populations. The headway that Japan makes in securing global cooperation in addressing these compelling challenges will have profound implications for South Asia.

Introduction

Japan has become the Chair of the G20 for 2019 under the established system of annual rotation of chairmanship among member countries. Since its phenomenal success in securing global cooperation that prevented the global financial system from spinning out of control in the wake of the subprime meltdown in 2008, the G20 has become the premiere international platform to discuss and manage global challenges.

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Japan's priorities for 2019 are consistent with its avowed intent, as indicated by Prime Minister Shinzo Abe in his address to the United Nations (UN) General Assembly last September, of leading the debate on global challenges in pursuit of the UN's sustainable development goals. Predictably, topping Japan's list is free trade where Japan will champion the cause of a multilateral rules-based trading order by stressing that the rising tide of protectionism is hurting the global economy and that global current account imbalances should be settled via multilateral policy coordination rather than bilateral trade deals, much less trade wars. The other priorities listed by Japan are infrastructure for development, climate change and sustainable development, impact of ageing populations, and health as an international public good.

Can Japan Resurrect Free Trade?

What Japan achieves in terms of furthering this agenda, particularly on trade, will be of critical interest to South Asia. Although less integrated into the global system than other developing regions such as East Asia or Latin America, South Asia has a vital stake in preserving and promoting the rules-based multilateral system since global trade and finance are vital

avenues for the growth and development of the poor and populous countries across the sub-continent.

Free trade has all along been a regular item on the G20 agenda either explicitly or implicitly. Notably, at the height of the global financial crisis in 2008, there were fears around the world that countries would adopt beggar thy neighbour mercantilist policies to fight recession at home which would be individually defeatist and collectively disastrous. It was the explicit resolution at the Washington meeting of the G20 in November 2008 that *“we will not repeat the historic mistakes of protectionism of previous eras”* that saved the global economy from slipping into another Great Depression.

With the advent of United States (US) President Donald Trump on the global scene, the G20 commitment to free trade is under threat. At the end of their previous summit in Buenos Aires in December last year, the G20 leaders, ostensibly at the insistence of the US, shied away from incorporating the traditionally used phrase “fight protectionism” in their communiqué.

How the ongoing trade wars will unfold in the run up to the G20 summit in Japan in June is uncertain. Even as the US is locked in tough high stake negotiations with China to reach a truce on a trade war which saw punishing tariffs exchanged between Beijing and Washington, Trump is threatening to open another battle front with Europe by slapping tariffs on European auto imports, a move that Brussels has vowed to parry with its own set of counter-tariffs.

Trump’s assault on free trade risks undoing much of what the G20 accomplished since the global financial crisis a decade ago. It is now widely agreed that, abstracting from all the proximate causes, at the root of the 2008/09 global financial crisis was the unsustainable global imbalances. Quite unsurprisingly, in several meetings following the crisis, the G20 was engaged in reaching an agreement on preventing a repeat of such imbalances.

The G20 deliberations were informed by two tenets. First, that what matters for global financial stability is not just trade flows but current account flows which include flow of both goods and services. Second, that in an integrated global trading system, it is inevitable that some countries run deficits mirrored by other countries running surpluses.

The G20 agreed action plan was that the current account balances of countries must reflect their economic fundamentals and countries must desist from gaining unfair advantage by policy manipulation. This was to be enforced through a mutual surveillance of external sustainability of systemically important countries. Trump has disrupted this approach with his “America First” credo and the US-China trade.

In championing free trade, Japan has a three-fold challenge. It will need to convince Trump that the US’ attempt to balance trade on a bilateral basis is self-defeating, that US’ interests as indeed those of every country, will be better served in a multilateral framework and that trade imbalances should be corrected through domestic structural reforms rather than protectionist policies. Japan will have to convince China that it has to fall in line with internationally accepted policies regarding intellectual property and investor protection.

Finally, Japan will have to persuade other countries, notably the European Union (EU), to stay committed to the multilateral order.

Can Japan make a meaningful headway in managing this three-fold challenge? It certainly has impressive credentials as a champion of multilateralism. After Trump's shocking withdrawal from the Trans-Pacific Partnership (TPP), Japan quickly took the lead to conclude the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, also known as TPP-11, with the remaining countries. Again, Japan is leading the negotiations on the Regional Comprehensive Economic Partnership (RCEP) involving the 10 members of ASEAN, Japan, China, South Korea, Australia, New Zealand and India. Accounting for nearly 30 per cent of global trade, the RCEP has the potential to rival the EU in its economic heft and global clout.

From a political perspective too, Japan has a unique advantage in leading the charge for international cooperation. Prime Minister Abe is in a politically strong position and enjoys wide popularity. Although a rich world country, Japan has not witnessed either the left-wing populism or the right-wing anti-establishment moves sweeping across industrialized countries, and even some middle-income ones such as Brazil. Japan's recent indication that it is ready to accept more foreign workers is at best only a small concession.

Infrastructure for Development

An appalling infrastructure gap is among the many challenges facing the South Asian countries in accelerating their growth rates. In virtually all South Asian countries, external aid from bilateral and multilateral donors has been a major source of finance for infrastructure. With its high profile Belt and Road Initiative (BRI), China has markedly changed the rules of the game relating to infrastructure financing.

Right from the beginning, there were concerns that in pushing through projects under the BRI, China will subordinate the host country's development needs to its own political and security interests. Also that China will compromise on loan standards as it is not obliged to adhere to the Official Development Assistance norms that lay down a code of conduct for bilateral and multilateral donors. In fact, some major countries like the US, Japan and India stayed out of the BRI Summit that Beijing held in May 2017 precisely to highlight these concerns.

It now looks like these fears and concerns were not unfounded. There is a growing backlash across much of the developing world, including notably South Asia, about China's aggressive lending, the terms of the loans and Beijing's use of the BRI as a means to spread its hegemony.

This backlash against China has triggered several counter initiatives. The US has drawn up a new Africa strategy, positioning itself as a more sustainable alternative to what it termed "predatory" lending to promote Chinese and Russia interests in Africa. Leveraging India's long historical links with Africa and Japan's financial muscle, the two countries have got together to launch the Asia-Africa Growth Corridor which seeks to enlarge and strengthen economic ties

with Africa. Japan has also been propagating its “Partnership for Quality Infrastructure” initiative.¹

Whatever might be Japan’s motivation for putting infrastructure for development on the G20 agenda, it is a topic of vital interest to South Asia. As the Chair of the G20, if Japan gets international agreement on increasing the quantum and improving the terms of financing for infrastructure, it will be a big boost to the development potential of South Asia.

Impact of Ageing Populations

Saddled as it is with a rapidly ageing population and the industrial world’s heaviest public debt burden, it is not surprising that the impact of demographic decline figures on the G20 agenda under the Japanese chairmanship. Despite unprecedented fiscal and monetary stimulus, including negative interest rates, Japan has not been able to ward off a structural recession largely because the demographic decline has undercut the economy’s growth potential.

Paradoxically, developing countries, especially in South Asia, are confronting a mirror problem – heavy population burden and demand constantly exceeding the economy’s production capacity. In other words, while the rich world is demand constrained, South Asia is supply-constrained. This complementarity itself suggests the obvious solution to the problem of demographic decline – relax regulations on migration, from poor to rich countries. How far Japan will push this agenda will therefore have significant long-term implications for South Asia.

Climate Change and Sustainable Development

Japan should be lauded for putting climate change on the G20 agenda since this is an issue which has consistently eluded a consensus at several high-level UN summits. Climate change is by far the most quintessential international public good since what happens anywhere affects countries everywhere, making global cooperation necessary and urgent.

There are two major battle lines. The first is between climate change sceptics who believe that market forces will take care of combating climate change and climate change activists. The other major battle line is between developed countries which want developing countries to accept mandates at par with them and developing countries which argue that climate mitigating policies militate against their growth aspirations and that industrialized countries have the obligation of bearing a higher share of the cost of climate change mitigation.

Even as it battles rich countries for just sharing of the costs of climate mitigation at global forums, South Asia is aware that it is the region most urgently and most disastrously at risk from climate change. Environmental pressures are mounting from several sides - rising sea levels, the pressures of huge populations, depleting forests, dying rivers and heavily polluted air and water.

¹ Ministry of Foreign Affairs, Japan, Announcement of “Partnership for Quality Infrastructure: Investment for Asia’s Future” available at https://www.mofa.go.jp/policy/oda/page18_000076.html. Accessed on 17 February 2019.

For South Asia, climate change mitigation is not a quality of life issue, but one of its very survival.

The debate on climate change has so far been a dialogue of the deaf. If Japan can get minds and hearts to meet, it will be a crowning glory of Japan's chairmanship of G20.

Global Cooperation

The daunting challenges confronting the world today cannot be managed without global cooperation. Yet, in a world divided by nation states, there is no voice for the global optimal. As the G20 Chair, can Japan be the voice for reason and cooperation? Needless to say, Japan's success means a lot to South Asia.

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