

# Straight Talk



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## Indo-Pacific trade and the economy: The view from Japan

With Tomoaki Ishigaki

Japan and Canada continue to share many interests in the Indo-Pacific, and leaders of both countries recently reiterated their shared vision for a free and open Indo-Pacific. To better understand the leadership role that Japan plays in the region, this Straight Talk features Tomoaki Ishigaki, Director of the Economic Policy Division at the Ministry of Foreign Affairs of Japan. The publication is based on a transcript of a recent discussion between MLI Senior Fellow and Director of the Indo-Pacific Program, Jonathan Berkshire Miller, and Tomoaki Ishigaki.



**Tomoaki Ishigaki** serves as Director of the Economic Policy Division at the Ministry of Foreign Affairs of Japan. Since joining the Ministry in 1994, he has covered various multilateral and bilateral negotiations ranging from international trade at the World Trade Organization (WTO), the International Criminal Court, and the Arms Trade Treaty, to climate change negotiations at COP22 and COP23.

**MLI:** Today, we will be looking at trade, economic governance, and other future challenges in the pivotal Indo-Pacific region. To discuss these issues, we are delighted to have as our guest from Tokyo, one of Japan's most seasoned diplomats, Mr. Tomoaki Ishigaki, who serves as Director of the Economic Policy Division at the Ministry of Foreign Affairs in Japan. Ishigaki-San, thanks so much for taking the time to join us.

To kick things off, I'd like to ask you about how Japan has been dealing with the different economic pressures from the global pandemic. We know, of course, that Japan is not alone in this regard. But the growing interconnectivity for states in the region, and the reliance on supply chains, must have presented Japan with particular economic challenges in its engagement with the region. Are there any early lessons that Japan has learned so far from this pandemic?

**Tomoaki Ishigaki:**

Thanks for that question. Just like any other state, Japan was hit hard by the pandemic, not just by the sudden economic downturn, but also through the shortage of goods and supplies. At the earlier stage in March and April 2020, you will recall that face masks were not available all around the world. Personal protective gear, such as gowns, face shields, which are essential for medical workers, were also in short supply. In recent months, there have also been reports that the supplies of semi-conductors used for automobiles are scarce, slowing down their assembly lines.

These examples have made policy-makers and industry leaders critically aware of the need to review the supply chain network. But, at the same time, this is not something new for Japan, given its history of fighting against all kinds of natural disasters. You will recall that Japan confronted the serious challenge of maintaining supplies of goods and materials during the 2011 earthquake and tsunami. The flooding of Thailand in October 2011 also had a major impact on Japanese industry.

After the COVID-19 outbreak, the Japanese government encouraged companies to diversify production capabilities in order to ensure the stable supply of goods and material. But, according to a number of industry people, the key takeaway from those previous natural disasters is not just to relocate the factories and sources of materials outside of disaster prone areas. We also need

to invent a better system, or inventory system, in order to create a digitalized network that can identify the location of goods and material that are essential for this global supply chain.

The electronic tagging system is one way of addressing that matter, and there are many other ways of doing so. When asked after the COVID-19 outbreak, many corporate representatives said it's just too simplistic to assume a Japanese company could simply relocate its assembly line from one place to another, especially from places like China. However, taking a more holistic approach by using digital technology and diverse supply chain networks seems to be the path that many companies are taking these days. I hope this answers your question.

**MLI:** That's really interesting, Ishigaka-San. Obviously, Japan has had a range of experiences through natural disasters, earthquakes, the tsunami obviously in 2011, but also the earlier Indonesian tsunami as well. I think many states in the region have had these experiences, making them re-think some of their supply chains. That's a good takeaway for Canada.

On international trade, it strikes me that Japan continues to play a central role in the overlapping trade architecture growing in the region. With the adoption of two mega free trade deals, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), I wanted to ask about the future of free trade in the region. How does Japan differentiate between these two deals, given that Japan is a key member in both of them? And what are your thoughts on the potential for the US to reengage, particularly with regard to CPTPP?

**Tomoaki Ishigaki:**

If this pandemic has taught us anything in terms of global trade, I think the biggest lesson is to make sure we keep international trade free and open, and, of course, flowing. In addition to the two agreements that you mentioned, the CPTPP and the RCEP, we should not overlook the significance of the most recent agreement that Japan has signed with the UK, as well as Japan's economic partnership agreement with the European Union, which celebrated its second anniversary on February 1.

I wanted to draw attention to the agreement with the UK, because it was negotiated in only four months in the midst of the pandemic, and almost all negotiations, with the exception of two ministerial meetings, took place online. Of course, we all know that there was a sense of urgency on both sides to get this done before Brexit kicked in at the end of last year. Both sides had a strong

sense that they really needed to make this trade deal, especially in the very difficult times of the pandemic.

With regard to the RCEP and the CPTPP, I think the timing of the agreements, and also the way that they're now functioning, cannot be underestimated. There is certainly a difference between the two agreements, besides the membership. The CPTPP, in my view, has set one of the highest standards in the economic partnership agreements signed by Japan so far. We also know RCEP has brought in China to the regional framework, and brings benefits not only to Japan, but all other Asian countries that have strong trade ties with China. Also, China has expressed its interest to join the CPTPP and, of course, the UK has made the official application to join the CPTPP as well.

For both countries, and, of course, any other states, it is essential to see if they can meet the CPTPP's high level of standards – that would be the key criteria for going forward. When it comes to the United States, of course, it is encouraging to see that the new Biden administration is keen to engage in multilateral talks on key global issues, like climate change and global health. We very much look forward to working with the new administration in the area of global trade and investment, but it might be a little too early to tell what might be the best way to move forward.

**MLI:** I wanted to keep with the topic of trade for one moment, before switching gears. It does strike me that one of the reasons for the CPTPP and RCEP is the failure of the international trade regime to articulate new rules. I'm thinking particularly of the stagnation at the World Trade Organization (WTO). How central is a functioning WTO as a complement to the growing trade integration happening in the region through agreements such as the CPTPP and RCEP? Is WTO reform possible in the coming years or do you think that states will increasingly be looking beyond it?

**Tomoaki Ishigaki:**

That's a very tough question, but also something that I hold very dear to my heart. The WTO is one of the first negotiations that I got involved in and I was there at the beginning of the Doha negotiations, so I'm a strong believer in multilateralism and I definitely believe WTO has a role to play. Indeed, its relevance has become even greater during this global pandemic. Of course, the WTO needs to be updated. We may not have seen any tangible results in the trade liberalization talks, but at the same time, we should also note the WTO has created a number of key agreements on trade facilitations and so forth. It's very important for all members to show the WTO's relevance in the global trade and investment fields.

In this regard, Japan has been strongly advocating negotiations on electronic commerce, together with co-conveners, Australia and Singapore, and I think it is particularly important when everything has become more digitalized and the world has become much closer. Of course, when it comes to institutional reform, we hope things can be strengthened with stronger engagement by the United States and other key countries. Just to summarize, WTO should definitely remain central, despite the increased number of regional and bilateral trade agreements.

**MLI:** I think you made some really good points there. I would like to ask you about Japan's view and Japan's economic policy interests in the region. As you know, Canada is also working on developing its approach with the Indo-Pacific region, and I think we can learn a lot from Japan's Free and Open Indo-Pacific (FOIP) vision. From a trade and economic perspective, can you briefly outline what this looks like? What is Japan prioritizing in economic terms in the region, and who are its key partners? Are there other areas to expand to in terms of trade agreements, or has Japan already covered this through RCEP, CPTPP, and some of the bilateral deals that we have talked about earlier? Finally, how does this connect with Japan's development approach to the region? Are there key synergies?

**Tomoaki Ishigaki:**

It is truly encouraging to see many partners like Canada and, in recent months, Germany and the UK paying closer attention to the Indo-Pacific region. I think what is most important in discussing this concept of the Free and Open Indo-Pacific is to not lose sight of the key underlying ideas, the fundamental principles of international society. These are democracy and human rights, economic prosperity through enhanced connectivity, and of course, global peace and stability achieved through maritime security and other means.

Advancing global free trade and multilateral institutions can go hand in hand with the concept of FOIP. To say it a little differently, promoting free and fair trade cannot possibly contradict the concept of FOIP. In looking at Japan's economic and trade policy, we had some intention to find agreements across the Indo-Pacific. It is not like there is a map of the FOIP and we are just putting all the colours in with the free trade agreements. A better way to look at this issue is to see what we would like to achieve through this concept of FOIP and free trade agreements. For example, what would countries like Japan and Canada like to achieve through, say, a CPTPP and how can they find better connectivity among their regions? In other words, we should start off by finding the

overlap between FOIP and free trade agreements.

In that sense, it might be useful to draw attention to Japan's ongoing discussion with the European Union. Foreign Minister Toshimitsu Motegi was invited to the Foreign Affairs Council of the European Union earlier this year, and he laid out the ways that Japan and Europe can cooperate by advancing their agenda on FOIP as well the European concept of Asian connectivity – by finding the synergy between these two ideas. I think that might be the way to better understand how this can be achieved.

On your last point about Japan's development assistance policy, I do think connectivity is one way to understand this policy – as things like improved infrastructure and digital connectivity help to enhance the coherence or the interdependency of the region.

**MLI:** Well, thank you so much Ishigaki-San. For a final question on the digital trade side, I wanted to scan the horizon a bit and ask you about how Japan is currently positioning itself to take advantage of, as well as mitigate risks from, the newer trends in trade and economic governance in the region.

First, I would like to ask about the growth of the digital economy, which has been a boon to the region, and the globe more broadly, but also seems still undefined adequately in terms of rules. As we discussed earlier, there are two relatively new multilateral trade agreements, RCEP and CPTPP, and Japan is a member of both. There are also still important deliberations for the purpose of the WTO, despite its shortcomings. How are these new agreements evolving rules on digital trade, and what more needs to be done?

**Tomoaki Ishigaki:**

Digital trade, or the strengthening of the digital economy worldwide, is definitely a key priority of the Japanese government. Prime Minister Suga has made two points clear: That his priority is to make Japan, and also the world, more digitalized and greener in terms of carbon neutrality. We are very much hoping to strengthen the global rules and promote the digitalized economy, and I think the WTO negotiations – which I just mentioned in response to your previous question – is certainly high on our priority list.

Japan has advocated the concept of Data Free Flow with Trust (DFFT) at the Osaka G20 summit in 2019. This encompasses many of the ways in which a digitalized economy can benefit from global economic growth – not just in e-commerce, but also in the use of big data in areas like smart cities to help them use energy better, and for medical and other purposes. So, when it comes to DFFT,

concept one is to make sure that the data flows freely, and there is no protectionism or self-centred monopolization of data. That ensures the flow of data would be done in a much more reliable way, so that privacy would be protected, there won't be any use that would only benefit a particular regime, and so forth.

Japan is very keen to advance regional discussions among countries with shared interests and goals on this issue. There is much under internal discussion, and we are also finding ways to discuss this further with key partners. Let's see how fast and how much we can advance, especially in the midst of the pandemic. I think everyone knows that enhanced connectivity and using information in a digitalized format has become even more relevant.

**MLI:**

I would agree with you that the Data Free Flow with Trust is a really important initiative. I think the discussion internationally on trying to find rules and guidelines for data management for e-commerce, for digital trade, is going to be crucial going forward.

Thank you so much, Ishigaki-San, for joining us today. I look forward to having the chance to do this in person and I hope to see you in Tokyo or elsewhere in person in the coming months.

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