

English Summary drafted by Komatsu Research & Advisory (KRA).

JEF-KRA Global Risk Symposium 2018

“How to tackle increasing geopolitical risks surrounding Japanese Companies”

20 September 2018

The Japan Economic Foundation (JEF) and Komatsu Research & Advisory (KRA) co-organised the second international symposium on Global Risk. The main theme was “How to tackle increasing geopolitical risks surrounding Japanese Companies” and the forum was held at the prestigious International House of Japan (IHJ), Tokyo, Japan on 20 September 2018. It was attended by over 100 participants from various fields; government officials, thinktanks, business persons, academics and media personnel.

The symposium was held under the Chatham House Rule. The following is a summary of the symposium produced with the permission of the speakers.

Opening Remarks

by Mr Kazumasa Kusaka, JEF Chairman and Chief Executive Officer

JEF was established in 1981 in order to increase international co-operation in the field of Economics and deepen understanding among Japan and other nations through its activities. JEF has been increasing annual dialogue between Japan-US, Japan-Europe, Japan-Asia Pacific, trilateral dialogue among Japan-China-Korea to encourage frank opinion-exchange in the hope of contributing towards sustainable economic development as well as maintaining and promoting free trade.

While economies and businesses globalise, Japanese businesses have also become part of the global supply chain and are strongly affected by geo-political risks abroad. It becomes critically important for businesses to notice these risks early, effectively avoiding and adapting to these risks.

Under the guidance of Dr. Keiichiro Komatsu, Principal of Komatsu Research & Advisory as the moderator, JEF is honoured to have distinguished guests from outside Japan to cover the geopolitical risks and opportunities in Europe, Africa and the Korean Peninsula.

In session one, Sir Graham Fry who was awarded Grand Cordon of the Order of the Rising Sun this Spring (2018) kindly arranged his schedule to make it to this symposium. He arrived at 5am in Haneda on the morning of the symposium.

Mr Raj Makoond is an opinion leader in Mauritius, a nation that is strategically critical in Japan's Indo-Pacific strategic context linking Africa to the Asia-Pacific through the Indian Ocean.

In Part 2, on the Korean peninsula, we have two eminent speakers on the subject from Asia and Europe. Dr. Dong Yong-seung, former member of Council of Policy Advisors to the President of the Republic of Korea and Dr. James Hoare who established the British Embassy in Pyongyang.

Concept of the Symposium

by Dr. Keiichiro Komatsu, Principal, Komatsu Research & Advisory

The event was held under Chatham House Rule to encourage open and frank discussions. Participants are therefore, "free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed".

Dr. Komatsu explained the background of Chatham House Rule, how it was created in the aftermath of the First World War, in the view of preventing future wars. It was a time when the Second World War had not happened yet. The sheer scale of the damages and suffering caused by the first ever world-wide war had led to the participants of the conference, former enemies, to believe that it was important to learn and share the lessons. What they learnt was the importance of

recognising different perceptions of the same event among various parties, between former enemies and even among allies, without fear of being identifying.

Dr. Komatsu explained that the purpose of this Global Risk Symposium was to get an overall birds-eye picture and not to go into detailed projects and interests of individual companies or industrial fields. These interests would not be explored in the presentations and were to be explored on the side line of the symposium directly with the speakers during coffee breaks. The presentations were to help share the different perspectives and understandings of what is happening in the world as facts, and not to be labelled with old-fashioned images from the cold-war, such as Pro-/ Anti- America, Pro-/ Anti-Russia, Pro-/Anti-China etc.

Because the symposium covers a wide range of topics, the event registration received a huge response and had to be closed earlier than expected. Sir Graham Fry would discuss the issues surrounding Brexit. There are many Japanese companies based in the UK and there are questions about the future of the Sterling Pound. The other theme is the threat posed by Russia, a neighbour for both Japan and Europe, that is often underestimated particularly in Japan.

Mr. Raj Makoond would discuss the potential of the Indian Ocean Region. With APEC, the Asia-Pacific region has reached a new level of economic integration with the Trans-Pacific Partnership (TPP) agreement and Japan is now recognising the importance of the Indian Ocean. Dr. Komatsu explained the importance of the Indian Ocean region for not only Japan but also for stable global trade and how it is in the interest for all nations to keep the region politically stable and peaceful.

In Part 2, when trying to understand North Korea, it is not sufficient to just look at North Korea. It is important to understand how North Korea is linked with other countries and the viewpoint from North Korea. It is necessary to look at the key players, China and Russia, as well as the surrounding players, for instance, the US, South Korea, Japan, and even Europe and Africa. In fact, Dr. Dong will introduce the perspective from South Korea and Dr. Hoare will introduce the perspective from the UK.

The task as a moderator is to show how everything is interlinked. Looking only at risks would make businesses become cautious. What is important is to think of solutions. It will not be easy to come to conclusions but if this symposium can help in providing a hint, then we can say that the symposium has reached its objective.

Part 1 “Looking at Future Geopolitical Risks and Opportunities”

Presentation Title: “The European Battleground”

Speaker: Sir Graham Fry Awarded Grand Cordon of the Order of the Rising Sun (Spring 2018), British Ambassador to Japan (2004-2008), British High Commissioner to Malaysia (1998-2001)

Note: This presentation was made in Japanese for the primarily Japanese audience and simultaneously translated to English for the non-Japanese speaking audience.

Sir Graham Fry started off his presentation by noting that while it is difficult to predict next week's weather, it is said that we are better at predicting the climate in a decade's time. Today's talk will be about the climate of what is happening in international affairs. The main global undercurrent is the competition between China and the US. Within Europe, until recently, China was primarily seen as a business opportunity, but there are increasingly cautious views among policy-makers. One example of this more cautious approach is the tightening of rules concerning M&A, particularly for technology firms, in Germany and potentially the UK.

China's One Belt, One Road Initiative is intended to cover the whole Eurasian continent, but western European countries have shown caution in their response. In Eastern Europe, however, increased investment towards infrastructure is attractive, and there is now a structure for Cooperation between China and Central and Eastern European Countries (often known as the 16 plus 1).

The main issue that is concerning the EU, however, is not China: it is the emergence of a new nationalism within Europe, which is, typically:-

- 1) anti-immigration,
- 2) opposed to multi-culturalism,
- 3) Eurosceptic, and
- 4) Anti-elite.

For example, Viktor Orban, the Prime Minister of Hungary is quoted as saying: “If Europe allows a competition of cultures, then the Christians will lose. These are the facts”.

He has also spoken of an “illiberal democracy”, and his government has taken action to restrict the media, civil society and academic institutions. This is highly problematic for the EU since it calls into question core EU values, and recently the EU Parliament passed a strongly critical resolution about Hungary by a large margin. Similar issues have arisen in Poland, and recent judicial “reforms” have led to the EU Commission taking legal action against Poland for undermining the independence of its courts.

Why is this new nationalism so popular? There are many analyses, but the surge in support coincides with a rise in anxiety about immigration. In particular, the crisis of 2015 when a million people surged into Europe mainly as refugees from the war in Syria, provoked strong reactions. The EU Commission’s attempts to share the burden among EU countries was firmly resisted by a number of central European countries, and the Commission has ended up suing Poland, Hungary and the Czech Republic at the European Court of Justice (ECJ) for refusing to take in asylum seekers.

But at its heart this is not a legal issue. It is a political issue, and it affects western as well as central European countries. In Germany, Alternative für Deutschland has gained popularity (from 4.7% in 2013 with no members elected to 12.6%, 94 seats in Bundestag in 2017). In Italy the Northern League led by Matteo Salvini has entered government after elections this year. The Austrian government also includes a nationalist party.

One interesting characteristic of the leaders of this new nationalism is that, with the notable exception of Poland, they tend to admire the Russian President Putin. They have clear similarities of ideology with him. They can say, and there is much truth in this, that Russia is an important country and a neighbour of Europe, a provider of gas and oil, and that Europe should have a positive, strategic relationship with its neighbour. But Russia's behaviour over the last decade or so has unfortunately made that virtually impossible.

The Russo-Georgian War in 2008 was followed by the war in Ukraine that has continued since 2014. The annexation of Crimea by Russia was the first case of taking land by military means in Europe since WWII, and Crimea is still being occupied by Russia. In addition, a conflict continues in eastern Ukraine where it seems virtually certain that Russian troops have taken part in the hostilities.

These developments have sparked fears about Russia's possible next moves, and specifically about the security of the three Baltic states which have large Russian-speaking minorities and which are members of NATO. Nato has had to take counter-measures to protect them and to think about deterrence of a potential Russian threat more broadly. This is not purely a matter of military forces. Russia engages in a "hybrid" or "non-linear" warfare, with the deployment of "conventional and irregular military forces in conjunction with psychological, economic, political, and cyber assaults."

The head of GCHQ Jeremy Fleming commented on Russian cyber activity recently: "They're not playing to the same rules... they're blurring the boundaries between criminal and state activity." It is now well attested that Russia intervened in the US Presidential Election of 2016, and there are suggestions that they have been active in European elections also.

Their criminal activity extends to murder. Litvinenko was murdered in London in 2006 with radioactive polonium. In 2018 Sergei and Yulia Skripal were poisoned in the UK by a rare nerve agent called novichok - the first time a nerve agent has been deployed in Europe since WWII. Novichok was developed by Soviet Union R&D (Research & Development). In response, many countries and organisations expelled Russian diplomats though unfortunately, Japan did not do so. Japan needs to take full account of this background in its own dealings with Putin.

It should also not under-estimate the closeness of the relationship between Russia and China. Xi Jinping has said that Putin is my “best, most intimate friend”. Russia is the number one provider of crude oil to China. They have had a series of joint naval exercises, and China participated in Russia’s latest large-scale exercises in eastern Russia. Russia now provides its latest military technologies to China.

In the past, the Soviet Union used to be strong and China weak, but now it is the other way around. The basis of the cooperation between the two governments is that they have common aims:- to challenge the US-dominated international order, to undermine its alliances, to reduce international support for democracy and human rights, and to protect their own internal positions of power.

Returning to Europe, Sir Graham said that he has highlighted some worrying developments, but there are solid grounds for relative optimism. No country, other than the UK wishes to leave the EU. The nationalists have tended to tone down their euro-scepticism because it has not won them supporters. The issue of immigration is difficult and complex, but it has proved possible to limit the flows of people coming through both Turkey and Libya. In the major western countries, the nationalists have gained more votes but continue to be opposed by the majority of people. In those cases where they do enter government, they will find, and people will see, that their simplistic solutions are not effective.

Nevertheless, this is a time when Europe, confronted by both internal and external challenges, would normally rely on the support of its greatest ally, the United States, the beacon for global democracy and the guarantor of its security. Unfortunately, however, at present, President Trump is not providing that kind of reassurance.

Meanwhile Sir Graham’s own country has decided to leave the EU. He believes that Brexit is a strategic error and contrary to the UK’s best interests, but it is important not to exaggerate the impact. The UK will leave the EU, but it will still be part of Europe. “Last summer, the British people voted to leave the EU, but they did not vote to leave Europe or in any way to step back from the world.” This is what even the Brexiteers say and what Prime Minister May is saying too. However Brexit turns out, the UK will still have a close and special relationship with its

European neighbours. In addition, it will continue to be a key member of NATO, a permanent member of the UN Security Council, a member of the G7, a member of the Commonwealth, and so on.

In his concluding remarks, Sir Graham explained how, in international rankings, the UK is 5-6th in the world in terms of GDP. In terms of services exports it is second only to the US; London and New York are the top two financial centres in the world. There are four UK universities in the top 10, according to the QS world rankings. UK defence spending used to be 3rd or 4th in the world but is now 7th. The UK's overseas development aid is 3rd in the world. It has won more Nobel Prizes than any country other than the US. For all these reasons and more, the UK is going to survive Brexit and will still be a good partner for Japan.

Presentation Title: “The Indian Ocean Region: A region for the effective rapprochement between Asia/Pacific and Africa - A *private sector perspective*”

Speaker: Mr Raj Makoond Chairman of Business Mauritius Regional Energy Working Group, CEO of Business Mauritius (2015-2018), Senior Economist at the Ministry of Economic Planning & Development and was seconded to the Ministry of Commerce and Deputy Prime Minister's Office and Ministry of Tourism

Note: This presentation was made in English and simultaneously translated to Japanese for the Japanese speaking audience.

In his presentation, Mr Makoond shared a perspective from the Indian Ocean, what is happening in the contours and chemistry within the region. There are a number of major players actively moving in the Indian Ocean, particularly China and India. Europe has always been present through Africa, Caribbean Pacific (ACP) Cooperation, and there is increasing interest from Japan.

The Indian Ocean region (essentially, Mauritius, Madagascar, Seychelles, Comoros island, Reunion, France) has been Eurocentric up to now, with major exports going to Europe. There has been an Indian-Ocean-Europe relationship in history, as past colonies, and through non-reciprocal arrangements through the

Lomé Convention, the Cotonou agreement, and now through the regional Economic Partnership Agreement.

The Indian Ocean Commission (IOC) includes Mauritius, Madagascar, Seychelles, Comoros and Reunion, France. Until recently, economic co-operation within the region was not very active except between Mauritius and Madagascar. Today there are major investments from Mauritian companies in Madagascar, in textile, finance, banking and insurance. The Indian Ocean Commission has been an accelerator of co-operation between Mauritius and Madagascar.

In the late 90s, the Indian Ocean Rim Association (IORA) emerged. It includes Asia, Africa, Middle East and Indian Ocean. Oman and Iran were the first to move in the late 90s to connect the Indian Ocean with Africa and Asia, but because there were major divergences within the Indian Ocean Rim region, the Indian Ocean Rim has not been very active. It was around 2010, with the relationship changing between the West and India, the growing interest between Asia and Africa and the appetite for Indian Ocean countries in the blue economy, that significant development in Indian Ocean region really started to pick up.

Australia, India, South Africa, and the islands are now looking seriously at the potential of the Ocean Economy. Indian Ocean Rim remains a zone in which some of the major players can work together including Japan and France through Reunion Island.

The Indian Ocean countries are in various arrangements with these African groups and smaller groups are active and playing an extremely important role.

The Accelerated Program for Economic Integration (APEI) is a group of like-minded countries trying to collaborate at a faster pace than some of the larger economic co-operation under COMESA or SADC. Movement of business people and professionals are quite difficult within Africa and Indian Ocean and APEI is trying to improve this.

COMESA is an economic zone that is better known. It is a large group and Indian Ocean countries are included. Kenya is an extremely active player. South Africa is not included because of history's legacy. South Africa is part of SADC along with Mozambique, Malawi, Tanzania and Zambia. They have strong interactions among themselves.

The Indian Ocean countries are not included in the Eastern Africa Community (EAC) but it is important to recognise EAC as it is an effective platform for economic co-operation. Rwanda is doing extremely well in ease of doing business, although Mauritius is first by the World Bank ranking in terms of business facilitation.

In terms of the bigger picture in Africa, there is the tripartite FTA, between COMESA, SADC, and EAC. There is an appetite for these 3 groups to work together.

The countries of the Indian Ocean are small countries and regional co-operation is high on the agenda. Among the top 100 companies of Mauritius, about 90% of them are investing in the region, and are present in 23 countries of Africa. There is a deliberate policy of supporting Mauritian companies to go in the region, and within that tripartite FTA, work has been done and there are some interesting results.

The continental FTA was signed in March (2018) and 23 countries have ratified the FTA. It will take time but again there is appetite within Africa to move forward. This is the bigger picture.

Mr Makoond focused on these contours to highlight the important fact that there is political appetite for more integration within Africa.

Following the Global Financial Crisis, when Mauritius had problems to export to Europe, it focused on export to South Africa and within 6 years, today 18% of our export of textile goes to South Africa and the region. There is an increasing appetite for different countries to move forward now that the non-tariff barriers have been reduced. There is also a real emergence of purchasing power within some of

the African region as well as reduction in tariff. BRICS also offers a platform to discuss Indian Ocean among some of the big players within this region.

Mr Makoond then explained the political economy, some of the geopolitical issues and how this is being seen in the Indian Ocean.

India is discussing within certain platform with Africa, at the level of India-Africa Forum Summit (IAFS). India is extremely active in the IORA. India is negotiating a CECPA (Comprehensive Economic Cooperation Partnership Agreement) with Mauritius. There have been 5 rounds up to now and the next round will be held next week in Delhi. It is expected that full CECPA would be signed before the end of the year. India has signed 6 MoUs with Seychelles on economic co-operation. The President of India visited Madagascar in March this year (2018) and there is growing interest by India in the Indian Ocean, in Ocean Economy, in infrastructure and maritime security.

China has its China-Africa Agenda and the Belt and Road Initiative (BRI). It has signed an MoU with Madagascar. China is pushing its FOCAC. China-Mauritius has signed an FTA (Free Trade Agreement) on 2 September and it will be operational in two years. It has been signed and agreed in exchange of goods and services. This happened quickly within a year and this should be recognised. There is co-operation between China and Seychelles and this will clearly have an impact in the region.

Japan is in Africa through TICAD. There is growing co-operation between Japan on the Blue Economy interests within Mauritius, Seychelles and Madagascar. Japan has been supporting Madagascar for a port and we see some growing interest on Blue Economy which is going to be extremely important. Japan has a major competitive edge in Ocean Economy, in Ocean research. Infrastructure is another area where there are opportunities. The Africa infrastructure market is worth billions of dollars. There are also opportunities in financial services and Mauritius has positioned itself as a financial services centre. There will be more challenges within Africa for financial compliances. As major banks are moving out of Africa, investors will need to use more reliable platforms, and that could be done within the Indian Ocean region. Mauritius has a competitive edge in this area. Security, maritime security, piracy, energy, these are potential areas for co-operation.

Mauritius has signed with West Africa, Special Economic Zone in Senegal, in Dakar, in Ivory Coast, in Ghana.

In his concluding remarks, Mr Makoond mentioned that there are a number of synergies and changes happening within the Indian Ocean region that are not fully grasped. For example, the first generation of Chinese investment in the late 1990s, the SOEs (State owned enterprises) had been investing in the Africa region while displacing private investment. Given the debt issue in China and the fact that some of the countries in Africa have started asking questions, there is now a second generation of investment to Africa which will probably become opportunities for countries that will be private-sector led.

Understanding the context is extremely important. There are opportunities, for rapprochement. Asia will be investing in the Indian Ocean countries connecting Asia and Africa. There are major opportunities provided that those players move together and final geopolitical convergence to optimise their interests.

Part 2 “Looking at Rapidly Changing North Korea: Background and Prospects”

Presentation Title: “Kim Jong Eun’s North Korea, What has changed?”

Speaker: Dr. Dong Yong sueng Former member of Council of Policy Advisors to the President of the Republic of Korea

Note1: This presentation was made in Korean and simultaneously translated to English and Japanese for the non-Korean speaking audience.

Note2: To keep the authenticity, the Korean spelling of Kim Jong Eun was used throughout Dr Dong’s presentation.

Dr. Dong highlighted the reality that there is little understanding of North Korea and of Kim Jong Eun. North Korea is going through significant change under the new leadership of Kim Jong Eun. The Kim Dynasty is now in its third phase. The first phase under Kim Il-Sung was aimed at building the country, second phase under Kim Jong-il fortified the country, and in the third phase, Kim Jong Eun is defending the country with an active military strategy.

Dr. Dong explored the key developments since 1998 before the establishment of Kim Jong Eun’s government, the key declarations since the Kim Jong Eun era, the key points of Kim Jong Eun’s internal efforts for an active military strategy and external efforts in terms of North-Korea-US relationships. Dr. Dong mentioned the importance of understanding Kim Jong Eun’s upbringing, environment in which he grew up as well as how he handles fundamental problems.

The bigger picture is that the struggle for supremacy between the US and China will change the geopolitical environment of Northeast Asia and the Korean Peninsula. Kim Jong Eun is looking at the Korean Peninsula with a vision for at least 20-30 years into the future, with a Strategic Nation Theory to become a normalised nation in the global community.

Presentation Title: “North Korea: some lessons from the past and how they might be applied today”

Speaker: Dr. James Hoare

Associate Fellow, Asia Pacific Programme, Royal Institute of International Affairs (Chatham House), Chargé d'Affaires and Consul General, British Embassy, Pyongyang, Democratic People's Republic of Korea (at the time of establishment of the Embassy)

Note: This presentation was made in English and simultaneously translated to Japanese for the Japanese speaking audience.

Dr. Hoare explained that the day of the presentation (20 September 2018) was a special day for him as it was exactly 52 years ago when he first came to Japan as a PhD student loosely attached to Todai (University of Tokyo). And the International House of Japan was the first place he ever stayed in Japan.

The first time he visited DPRK was as a delegation of the EU to find out humanitarian needs. On that first occasion, he was allowed to take photographs and has always been allowed to take them ever since. He shared some of his original pictures during his presentation. The UK established diplomatic relations with North Korea in December 2000 when he was Charge d’Affaires. He has returned there twice since, in 2004 and 2011, and his third visit was to take place next week. The North Korean side says he can visit North Korea at any time but it is expensive travelling there. They read what he writes, and they say they do not always agree but he is being honest.

The first and perhaps the most important lesson is from the late leader, Kim Jong - il. He told a visiting group of ROK journalists back in 2000 that anybody who said they were an expert on the DPRK was a fool. Dr. Hoare tends to agree. It is a difficult country to understand.

DPRK is careful to hide its policies and purposes. If it shows something, it wants you to see it. But most things are hidden away from prying eyes. That means you need to look more carefully than you might normally – this applies to texts as much as it does to buildings and places.

The old science of Kremlinology¹ is useful. Look very carefully to find what is really being said or done. If you look carefully at the pictures presented by North Korea, you can tell if it is for domestic or foreign consumption. Most North Korean pictures and texts are for a domestic audience that will be less sophisticated than a foreign one.

The trouble is that most countries do not have staff focusing on North Korea. The British FCO desk that dealt with North Korea used to cover three other countries. Now there is a separate Department dealing with North Korea alone. That is good but the staff are largely unfamiliar with North Korea so they have a lot to learn.

Dr. Hoare's theme is what is the reality of North Korea.

First item of reality is that the DPRK is not going to disappear suddenly. Its end has been predicted since it started. It has survived a savage war – with Chinese help, true, but the ROK only survived with UN and especially UN help. It has survived the longest known regime of sanctions. It has survived a huge economic downturn. Some of the causes for that were its own making – systems of heavy industry and collectivised farms that it learnt from the Soviet Union and Japan in Manchuria. It has survived the collapse of its trading system with the end of COMECON. It has survived famine, drought, floods etc.

Sanctions will not bring down North Korea. It has been sanctioned since July 1950. Some of the sanctions imposed by the US then remain, though some were lifted under President Clinton. North Korea is well-experienced at evading and others help them to evade.

What is the alternative? Like East Germany, there is no going it alone once the system collapses. There was another Germany waiting and ready to takeover. The DPRK elite know what happened elsewhere so they hang together or they hang separately – and they know that. North Korea may appear cut off from the outside world, but not everyone is cut off. They have access to the outside. Unless you go

¹ Note: originally a word play of Kremlin and criminology, meaning the careful study of the politics and policies of the Kremlin. The term is also used to analyse the politics and policies of North Korea

back to Kim Dae Jung's approach, which was to put off reunification to the distant future, many in the elite know what they face: loss of status, jobs, even of life. They do not look South and see friendship and peace – they hear the voices calling for revenge, for transitional justice and they mostly conclude that it offers them nothing. They will keep going. Civil war leaves nasty legacies. Perhaps when the last remnants of the Korean War are gone, things will change but they will not do so before then.

The other reality is what really is the threat from the DPRK? As former US Republican Secretary of Defence William Perry put it: it has 23 or 24 million impoverished people. It is surrounded by large neighbours. Even the ROK, its nearest neighbour, has double the population and hugely outranks it in economic terms. It may produce rockets and nuclear weapons, but as Iran found during the Iran-Iraq war, its weapons are unreliable. It has a tiny nuclear arsenal and if it used any of it, it would be subject to an immense attack that would probably be the end of it. The idea that it poses a real threat to the existence of the US is nonsensical.

North Korea still has huge requirements for rebuilding and reconstruction. If Japan chose to, there are also opportunities for Japan. The problem of the abductee issue is emotional and political. However, there are openings and needs. It is more effective to stop sanctions and educate them, bring them out and provide alternatives at home.

Q&A

Active discussions with the audience were held covering topics from cyber security, financial colonialism, the future of the EU, the scale of Eurosceptic movement, to education of global personnel.