

Tentative Summary of the International Conference by Secretariat

The ESRI has held the International Conference annually that brings together economists mainly from Japan and the United States. This year's conference was held on August 1, discussing the theme of "Major Future Economic Challenges." The following is a summary of the discussions.

Keynote speech

Speaker: Kazumasa IWATA (Japan Center for Economic Research (JCER))

IWATA mainly discussed three major issues: (1) geo-economic fragmentation, (2) climate change and new industrial policy, and (3) demographic changes. (1) By discussing economic predictions made by the JCER in past years, he listed some key factors for long-term economic forecasts, including the US immigration and fiscal policy, China's policy regime changes and population development, as well as technological convergence and the quality of institutions. (2) He noted that there was severe competition among governments in climate policies, and stressed the need for international rule making. Regarding Japan's policy moves, he raised two issues: slow implementation and insufficiently low carbon price. (3) He noted that, due to the massive increase of non-regular/part time workers, output per worker has slowed down and real wages have been on a declining trend until today, suggesting that Japan's natural interest rate has been negative. This implies both the excess consumption eroding the sustainability of inclusive wealth and the existence of Krugman's deflationary equilibrium rather than the Friedman's.

Session 1: Role of economic measures such as carbon tax to tackle climate change

Chair: Alan AUERBACH (UC Berkeley)

Presenter: Hitoshi MATSUSHIMA (University of Tokyo)

Discussant: Catherine WOLFRAM (MIT Sloan)

MATSUSHIMA noted that the COP had been slow to form international agreements on CO2 emission reductions, whereas the climate club (CC) by voluntary participants caused the international community to worry about coercion, sanctions, and pressure. He then proposed an alternative, resilient approach to facilitate agreement formation without the aforementioned concerns about CC, which he called the New Climate Club (NCC). NCC consists of voluntary participant regions, as CC does, but incorporates a mechanism for setting regional carbon prices which leads to high carbon prices among members, is resilient to insufficient participation or engagement, and respects all regions' sovereignty. He remarked that the NCC must be complemented by sustainability education, a carbon border adjustment mechanism (CBAM), and other policies.

WOLFRAM emphasized the topic's importance, referring to some criticisms against the current international framework of the UNFCCC. She argued that the CBAM was a potentially useful approach by overcoming the prisoner's dilemma inherent in climate mitigation policy choices, and then suggested that combining it with the NCC could achieve the coordination outcome. She concluded her discussion by giving practical questions/comments on the NCC, such as the

incentives to set key parameters, the irrelevance of countries' carbon price levels below target, and where the NCC would gather.

Session 2: Geo-economic fragmentation and economic nationalism

Chair: Anil KASHYAP (University of Chicago)

Presenter: Adam POSEN (Peterson Institute for International Economics (PIIE))

Discussant: Keiko ITO (Chiba University)

POSEN mainly discussed, among other global economic themes, the US policy on trade, FDI, and migration. He noted that the US trade openness had not kept up with the increasing openness of the rest of the world, and that the immigrant population in the US had been growing more slowly than in most other advanced economies before the COVID period. As for the future of the US openness, he noted that the difference between the Trump and Harris administration on trade, FDI, and migration would be only in magnitude, and that Harris would be more aggressive on export controls and sanctions. Finally, he predicted that the US and EU brand would likely enter a secular decline in the other parts of the world, and that Japan would have a chance for growth in the global market.

ITO suggested, based on recent research findings, that tighter export controls and technology regulations by the US might not yield desired results, due to the limited scope of the policies' impacts, firms' responses by changing business practices or circumventing regulations, and/or innovation in China. Noting this, she suggested that the US government should be clear and transparent in its policy/regulatory content and should be aware of the negative consequences of disregarding the rule-based international trade order. Meanwhile, she suggested that Japan as a middle power should support a rule-based international trade order, and that developing human resources with understanding of international relations would be important.

Session 3: International mobility of people: Economic opportunities and political challenges

Chair: Alan AUERBACH (UC Berkeley)

Presenter: Giovanni PERI (UC Davis)

Discussant: Yu KOREKAWA (National Institute of Population and Social Security Research of Japan)

PERI first documented increasing trends in migration (especially from middle-income countries to high-income economies) and non-random sorting out of the origin countries and into the host countries. He next argued, via a macroeconomic framework and micro evidence, that immigrants were integrated in the host economy and contributed to the growth in innovation, productivity, and entrepreneurship, and later argued that immigrants would be especially beneficial in an aging society. Then, he pointed out that low-skilled immigrants increased populism and nationalism in the host countries, but that high-skilled immigrants reduced them, and that the degree of such responses depended on local conditions. Given these findings, he suggested that policies should plan for balanced and sustained immigration, by admitting the high skilled via college education and the low-skilled via jobs related to the "silver" economy.

KOREKAWA offered a complementary discussion by explaining the immigration trend in Japan. He noted that Japan was the largest destination country in the international labor market in Asia. He predicted that Japan would integrate manual workers via the new Specified Skilled Worker Program, and it would integrate non-manual workers via study in Japan. He also noted that such international labor migration from Asia would greatly impact the demographics (slow population decline) and the labor market of Japan (as well as the pension system).

Panel discussion: How to deal with the future economic challenges in the time of geo-economic fragmentation?

Chair: Kazumasa IWATA (JCER)

Presenter: Hiroshi NOMURA (ESRI)

Panelists: Caroline FREUND (UC San Diego)

Adam POSEN (PIIE)

Barry EICHENGREEN (UC Berkeley)

NOMURA introduced the simulation results on the future outlook of the Japanese economy up to 2100, using a system dynamic AI model tailored to the Japanese setting. Some predictions of the model were as follows: by 2100, (1) the total population of Japan was estimated to be between 40-130 million compared to the current 120 million, (2) Japan's GDP was estimated to be between \$3.0-20.0 trillion compared to the current \$4.4 trillion, and (3) the well-being in Japan was estimated to be between 0.2-4.0 compared to the current 1.0. The key determinants identified were income distribution to young people, accepting foreigners, domestic production of renewable energy, and expansion of trade with the Global South.

FREUND talked about (de)globalization and decoupling, resulting risks to the global economy, and what we could do to reduce the risks. She pointed out that although people had started talking about deglobalization since COVID, it had not occurred, as trade had actually surged during that period. However, she noted that decoupling had happened, driven by the US policy such as tariffs, though dependence on China in the supply chain was not shrinking. She was cautious about using industrial policies to achieve self-sufficiency in industries (e.g., semiconductors) without clear competitive advantages, and instead suggested that the US should work more closely with its allies to enjoy the benefits of globalization without risks of excessive dependence on one country.

POSEN first mentioned regime switching as a factor reinforcing certain behavior. He then argued that, with a potential regime switch coming, the decoupling parties could deepen the relationship with the third nations (nations other than the US and China) to compensate for the loss from decoupling. He argued that Japan, as the foremost of the third nations, could engage in "principled plurilateralism," whereby voluntary members could set standard behavior and any nation willing to live up to it could be admitted. He concluded by emphasizing Japan's potential leadership role in stopping the undesirable regime switching.

EICHENGREEN began by posing two questions about the simulation exercise presented by **NOMURA**: (1) What was the role of AI in the model? (2) Was 75 years the right time horizon for policy analysis? He also commented on industrial policies, arguing that they were likely less effective in frontier economies with technological uncertainty, compared to catch-up economies. He then moved on to discussing the effect of decoupling on dollar dominance. He argued that, despite some evidence for decoupling for the US (but not yet clear for China), there was no evidence for financial decoupling overall. He found some evidence of financial decoupling between China and the rest of the world (decreasing FDI to China), and some evidence for diversification from the dollar (in terms of foreign exchange reserves). However, the diversification from the dollar was not captured by the Euro, and very little was captured by the renminbi. He concluded that the world would be moving to a multipolar international monetary system, but very slowly, and that the present configuration would likely persist.

IWATA then asked each panelist a question. To **FREUND**, he asked her to comment on two approaches to restoring the liberal international order, namely WTO reform and an expansion of regional integration (CPTPP). She answered that the WTO would not be an option and that regional integration would be a way to move forward, but that the US would then need to be perceived as a reliable partner. The question to **POSEN** was about the effectiveness of new industrial policy (e.g., for AI) on the US and Japan. He answered that implementing industrial policies in the current way could make other problems serious, because the amount of money spent on other important things would be reduced, because of corruption, and because of the failure to think about the rest of the world (in terms of competition, etc.). The question to **EICHENGREEN** was about the effect of Trump's re-election on the dollar dominance. He answered that the current debt outstanding of the US would not be an immediate threat, but that Trump's ideas such as a capital inflow tax would be a threat to the dollar's standing.

Closing speech

Yutaka MURAYAMA (ESRI) shared his thoughts: (1) the importance of addressing the issues from systematic perspectives, whereby we could find a link between seemingly different (and uncertain/complex/ambiguous) issues, (2) the potential of interdisciplinary research, exemplified by the discussion of the environmental policy using game theory, and (3) the importance of international discussions.