

English summary drafted by Aspen France



Japan-EU Forum 2019

12th Japan Economic Foundation - Aspen France Forum

Japan and Europe:

Enduring Partnerships Amid Global Changes

1-2 July 2019

Paris, France

Summary of the Forum

Context for the forum

Over the past several years, Japan and Europe have entered a world very different from that of the post-1945 era: Growth remains elusive despite heterodox and daring fiscal and monetary policies; representative democracy is increasingly questioned by voters; and the United States, once seen as the world sheriff of last resort, seems increasingly inward-looking, while China's rise commands central focus. With these timely topics at the center of global debates over contemporary political and economic trends, how should Europe and Japan contextualize their roles and partnerships? How can our countries understand and adjust to such unprecedented and unexpected changes?

Monday, 1 July 2019 Opening Dinner

Keynote Speaker

- François Villeroy de Galhau, Governor of the Banque de France

Summary of discussion

The global economy is undergoing dramatic transformations. In this context, it is crucial to combine three values and triggers that are often separated: innovation; public regulation; and sustainable finance, which must be more inclusive. With such a holistic view, fears can be reframed as opportunities. As climate change emerges as a decisive game-changer, it is worth taking some risks since global well-being is at stake.

The case of Europe provides a good example in this regard. Europe, too, is in a period of great complexity. We are in the process of choosing a new European Commission, and we need to solve Brexit and strengthen the Eurozone. These appear as enormous challenges. But at the

same time, political support for the Euro has never been higher. Support for populist parties in the recent elections was not as high as expected, with even a slight increase in support for pro-Europe parties. 75% of Euro-area citizens want to keep the common currency. And each time a crisis arises; the decision is ultimately made to support the Euro.

The policy solutions needed are apparent. First, we need active monetary policy at the European level. Second, national reforms are needed, because monetary policy cannot replace national structural reforms. France's labor market and its persistently high structural unemployment is a good example. Third, we need to strengthen the Eurozone in economic terms, including a banking union and an economic union. We should also consider WTO reform and the role of multilateralism. For example, the liberalization of services would bring in many US companies and be a consistent multilateral strategy. But industries still fall above services in creating wealth, since they bring specific value-additions: more market share for growth, and plants which bring employment to the countryside, meaning less concentration in urban centers.

We can also see similarities between the European and Japanese contexts. Both Europe and Japan have abundant private savings. Unlike the United States, we have a stronger belief in the government's role in assisting a functioning market. We need a long-term view regarding state intervention, especially in healthcare and finance. The response to populism, a symptom of larger problems, should show us how to contain and manage recent trends. We also share concerns about China and how to understand its rise. We are caught between Beijing and Washington. We should engage with China and exert pressure but not confront it on a strictly bilateral basis, underlining that China must change if it wants to be a global partner. Japan also holds 50% of negative-yielding debt, with much of the rest held in Europe and Switzerland. What are the implications for a failure to reinvent a post-crisis financial system? Japan and Europe both have to resist resigning themselves to situations of low inflation, using negative interest rates for as long as necessary, but cautiously, and with a consistent long-term objective of 2%. Europe and Japan are also dealing with the same rise in inequality.

At the same time, significant differences exist within Europe and between Europe and Japan's economic contexts. Growth in France is slow compared to Germany. Japan has moved a bit more towards Anglo-Saxon-style markets. There is significant contrast between the planned economy models of Japan and France. Japan is also at the forefront of demographic decline, low interest rates, and companies flush with cash, a strange situation from a textbook view, and perhaps not a 'new normal' but a tentative transition phase. Finally, while energy policies remain crucial in both countries, the energy mix and geographic distribution is different between countries, which could have different impacts on the foreign policy agenda.

Tuesday, 2 July 2019

Welcome Remarks and Introduction

- Jean-Luc Allavena, Chairman of the Board, Institut Aspen France

- Kazumasa Kusaka, Chairman and CEO, Japan Economic Foundation

Summary of discussion

The previous Aspen France-JEF forum was held in July 2016, right after the Brexit vote, and concerns were already raised then about populism, nationalism and anti-globalism. Three years later, and these concerns have become real issues. Global growth is still relatively high but it is slowing, and with other issues like the rise of populism and the role of China, we have to dig further into the relationship between a large country like Japan and the European countries. The economic relationship, symbolized by the trade pact which entered into force in February 2019, and the recent G20 in Osaka show how real and active this relationship is. We also face the Trump Administration in the US and its America First economic and trade policies, which have caused a decline in US leadership in global governance. China, the world's second-largest global economy and a state-capitalist country, has begun to take bold foreign actions to achieve the "China Dream" under Xi Jinping. These geopolitical changes have led to a power struggle. With the Chinese economy, which has thus far been contributing to global economic growth, facing a slowdown, there is reason for concern about the global economic outlook.

How should we thus understand our current world? In August 1990, University of Chicago's John Mearsheimer observed that we may begin to miss the Cold War Order if we instead revert back to a Hobbesian state of all-against-all. The Cold War centered on national security. In the ensuing 30 years, with various religious, ethnic and geopolitical conflicts, new players have also emerged in the economic, technical and cyberspace realms. The business world must recognize that in the high-tech, cyber, and finance worlds, these weapons are things that neither government nor military can monopolize, and that numerous private sector actors have a major role to play. This will create a world of cooperation and competition by involving businesses within market economies. For sustainable economic growth, the world needs to prepare for a space where capital, which tends to be careful and fearful, is able to conduct optimal investment. In other words, order and rules must be prepared and put in place. Conflict cannot always be avoided, but rules can help manage and contain conflicts.

What vision should guide a 'better globalization' and a new international economic order and global governance? This question hinges on addressing sources of domestic divisions and instability. These include populism and anti-globalization tied to growing income disparities, and the impacts of the Fourth Industrial Revolution and digital revolution. Domestic risks can cause a global chain reaction, weakening global governance. Controlling these tensions and conflicts is the biggest challenge for global governance. There is an immediate need for rules-based solutions to the security and data-protection risks posed by high-level technology, which is key to economic activities. Japan and Europe have a large responsibility in ensuring that the values of democracy, rule of law, free trade and globalization are respected.

Session 1

Strategies for growth amid world economic slowdown

Key questions

- Is it possible for demographically “shrinking” countries to achieve GDP growth? How should countries adjust economically to demographic decline and an ageing workforce?
- Will the digital age kill industrial employment? How might the benefits of robotics be combined with the maintenance of a significant industrial workforce?
- When deficits and public debts are at record highs and interest rates at record lows, what tools are left to policy-makers seeking stimulus measures? Can we rely on permanent “artificial” stimuli to achieve robust and needed growth?

Moderator

Philippe Manière, Member of the Executive Committee, Institut Aspen France

Lead Speakers

- Takatoshi Ito, Ph.D., Professor, Columbia University; Senior Professor, National Graduate Institute for Policy Studies, Japan
- Jean Lemierre, Chairman of the Board, BNP Paribas

Summary of discussion

When discussing growth, Japan offers a unique model. It is experiencing a graying of society, but still increasing GDP per capita. Strategies for growth despite population decline will offer lessons for other countries. Discussions frequently center on narratives of declining growth, and in this respect we must be careful. In the short term, the corporate sector is not so negative, but they are concerned by one question: global trade. This is not because of limits or tariffs, but because they are working on changing their supply chains. If the world becomes more regional, this changes decision-making in the 10-15-year time frame. Whether this is positive or negative is another discussion. It could, for example, mean elements of the supply chain might return to Europe. This is a controversial but important question.

On a monetary level, we were confident in early 2018 that the period of quantitative easing could come to an end, but now we know that we will be operating under this monetary system for several years to come. In order for Europeans to know what this might mean, they should learn from Japan, which has been under this model for 25 years. The impact of this policy is often underestimated, especially on savings. The whole banking sector may have to be restructured, as in Japan. There will be a negative impact on the allocation of capital, thus creating bubbles and tensions. If a slowdown occurs, options will be limited. How much importance should be put on the question of debt, and what this means for government decisions on allocation of resources and investment?

The question of aging is central and poses many challenges. Monetary policy today offers no rewards for savings. Italy is a worrisome example, as its over-65 population is increasing

sharply. An aging population is a blow to growth, and the IMF presents a difficult outlook for Japan. Growth will be slower with lower labor input. There will be less investment as companies forecast shrinking domestic markets. Japan's pay-as-you-go pension system will be unsustainable, and public pension benefits may not be sufficient for a comfortable retired life, while younger generations are treated unfairly by low wages in the current system. 'Good jobs' are disappearing. Consumer demand will shift from durables to health care services. The impact on government budgets will be substantial, as increasing public debt would remove resources from productive use. There may be industrial disruption as some industries find it hard to adapt to fewer passengers, infants, or students. Infrastructure needs, including railways, highways, schools and hospitals will shift. Scale economies in providing civil services at the local level will be lost.

These changes also offer some possible advantages and space for new policy solutions. Japan is very receptive to labor-saving technologies. More women can enter the workforce, offsetting population decline, although major cultural and social barriers still keep women from realizing their full potential in the workplace. Raising the VAT, relatively lower in Japan than in Europe, could help provide the funds to further increase R&D funding. Japan can lower barriers to foreign tourists and workers. The government remains committed to free trade and free markets and strengthening corporate governance reform. The education and medical systems are strong but require more focus on English training. Europe has responded by changing hours worked, incorporating women into the workforce, or encouraging migration, as in Germany, which raises social questions even as easing labor shortages. But education is insufficient, and Europe also needs structural reforms to encourage foreign investment.

Technology should be seen as a blessing, not a curse, especially in terms of long term growth, productivity gains, and effects on public finance. It is not a zero-sum game. But this does not mean that digital revolutions will not have a major impact on society, especially the middle class and service jobs that can be challenged by AI. Economic research also shows that ageing leads to more automatization. China is very eager to introduce new automatized technologies, as well as invest in Africa, a continent which should not be overlooked by Europe and Japan. This can help countries avoid the binary choice between the United States or China. Workers will be displaced by machines and massive adjustments will be required to help the challenged workers. The main source of tomorrow's populism will be robotization. Even while remaining optimistic in the short-term, policies must be shaped with these medium-term challenges in mind.

Session 2

The rise of populism and its impact on domestic political options, social stability, and globalization

Key questions

- To what extent are Japan and EU countries facing the same rejection of traditional politics? How should we compare and contrast such manifestations of populism and anti-globalization?
- Populist and anti-elite movements first targeted globalization, and now criticize representative democracy as a whole. Will this be a lasting phenomenon? How should democracies defend themselves against anti-democratic ideas propagated in the name of “the people”?
- How should policy-makers take new demands into account without abandoning core democratic values? What types of policies are prohibited or perhaps facilitated by the populist wave?

Moderator

Naoyuki Haraoka, Executive Managing Director, Japan Economic Foundation

Lead speakers

- **Sota Kato**, Ph.D., Executive Director and Research Director, Tokyo Foundation for Policy Research; Professor, International University of Japan
- **Anne Lauvergeon**, Former CEO, Areva; President, ALP SA

Summary of discussion

The situation of populism in Japan presents a core paradox. On one hand, as John Ikenberry claimed, if the liberal international order is to endure, “much will rest on the shoulders of Prime Minister Shinzo Abe of Japan and Chancellor Angela Merkel of Germany, the only two leaders of consequence left standing who support it.” But on the other hand, former Trump advisor Steve Bannon claimed that “Prime Minister Abe is Trump before Trump.”

Populism is an often slippery concept, but different manifestations often share several common attributes: claims to be for the people and against elites; denial of cultural, racial and religious diversity; authoritarian tastes and aspirations for strong leaders; anti-globalization sentiments; myopic tendencies on economic policies; and frequent political polarization. In recent Japanese history, political culture in the late 1990s to 2000s exhibited anti-elite sentiments, authoritarian leanings, and economic myopia. The current second Abe Administration continues to exhibit these economic policy preferences.

Japan experienced populist movements in advance of other Western democracies. The collapse of the bubble economy in 1990 and the 1997-98 financial crises predate the subprime crisis that triggered populist movements in Europe. It created public resentment against bureaucrats and bankers for mismanagement of the economy and business, leading to the decline of the LDP and the rise of the left-wing DPJ. Strong leaders using short, strong words rose to prominence on the local and national levels. The government continued to implement

expansionary policy, resulting in increased public debt. The populist movement peaked in 2009 when the LDP failed to become the leading party in the Lower House for the first time since its founding in 1950. The subsequent economic mismanagement created disillusionment and apathy, leading to the demise of the DPJ and unenthusiastic landslide victories for the LDP.

In Europe, populist movements vary enormously according to local and national context. Leaders need to be close to the ground to understand issues that create frustration; such as rising bureaucratization of the health care system, decreasing availability of services, and the hopelessness and desperation that increase susceptibility to conspiracy thinking and fake news. A running theme throughout such movements is the role of technology. Across Europe, many voice fears of insecurity, that tomorrow will not be better than today. Populism can provide an answer to loneliness and loss of community.

The consequences of the rise and fall of the populist movement can serve as a lesson. First, it has created a democracy without meaningful opposition, where the LDP dominates without enthusiastic support, and opposition parties are weak and divided. This represents Japan's biggest contemporary challenge. Second, voters are increasingly apathetic. The 2014 general election registered the lowest turnout in the postwar era. In 2017, almost 40% of voters expressed no support for a particular party. Third, a weakened system of checks and balances has reduced political accountability. Whether this "populism disillusion" proves short-lived or endures will be a lesson for other countries.

Populism in Japan nevertheless differs in contrast to EU countries on several fronts. There has been very little anti-globalism sentiment. Japan runs a constant current account surplus. The number of immigrants has remained low. The unemployment rate is much lower in Japan than in certain EU countries. On trade issues, the majority of voters supported TPP and TPPII. Under these conditions, Japanese populism might in fact diverge from Europe towards trade liberalization rather than protectionist impulses, overcoming special interest oppositions from traditional LDP constituencies, a case which helps explain Japan's leadership role in concluding TPPII. To ease anti-globalization sentiments and mitigate political polarization, Europe should redistribute to spread the fruits of free trade. In Europe, the arguments of the business community against Brexit may in fact have been counterproductive, while in Japan business and governments have stronger connections. Japan succeeded in lessening political polarization by focusing more on economic rather than more-divisive national security issues. In the case of the LDP, this was achieved through expansionary macroeconomic policies and pork-barreling. The memory of World War II has also prevented the resurgence of extreme-right movements. The mounting public debt along with an aging population, however, could result in increasing polarization between generations.

What does the populist moment portend for representative democracy? Several populist

parties and leaders explicitly criticize liberal democracy, and some have abandoned it altogether. A 2017 Pew Research Poll including Japan and the EU showed that publics worldwide strongly support representative democracy, but the key is providing sufficient information to make sound decisions. Yet in advanced democracies, average voters are ‘rationally ignorant’ and have limited political information. The role of parties, media and local communities as information mediators are therefore critical for democratic success.

Session 3

The emerging new order in a globalized world

Key questions

- How have the EU and Japan approached China’s rise and what should be the strategy for future cooperation?
- To what extent does “Trump diplomacy” change the geopolitical environment of Japan and the EU?
- Are we entering a new “bipolar” world with the US and China as the global superpowers and, if so, how do we adjust?
- How does the EU-Japan FTA contribute to mitigating protectionism? Can such cooperation serve as a model for future challenges in global trade? Can the EU and Japan help the world remain open in spite of a mounting protectionism from the US and elsewhere?

Moderator

Philippe Manière, Member of the Executive Committee, Institut Aspen France

Lead speakers

- Maurice Gourdault-Montagne, Secretary General, Ministry of Europe and Foreign Affairs, France
- Hideo Suzuki, Managing Executive Officer, Nippon Steel Corporation
- Masahiko Yamamoto, Acting General Manager, Global Research Team Leader, Global Strategy and Regional Management Department, Mitsubishi Corporation

Summary of discussion

Three decades after the collapse of the Berlin Wall and the advent of the Pax Americana, ten years after the 2008 global financial crisis and with the rise of America First unilateralism, and with China having become the world’s second largest economy with ambitions for global dominance, the global economic and political order has undergone enormous changes. Major points of tension include the collision between globalization and sovereignty, between democracy and one-party rule, and the economic and security risks posed by both China and western Big Tech companies. Nationalism is rising as people feel ill at ease with globalization. The increasing power games between the USA and China risk damaging the integration and interdependence of the global economy and challenging the model of economic growth based on free trade and global investment. Technology and the Big Tech superpowers are integral

to this changing context. For example, digital trade increased 45-fold between 2005 and 2015, and 12% of consumer goods trade is by e-commerce. Cyber capability is also crucial to military capabilities and increases the risk of a clash. The digitalization of the global economy is tied to the decline of the middle class and the polarization of society.

Powers such as the EU and Japan, which seek to offer a third way between the two superpowers, should seek to learn from the respective US and Chinese global strategies regarding these changes. The December 2017 US National Security Strategy identified China and Russia as revisionist challenges to American power, and urged a rethinking of the assumption that engagement with such rivals and their inclusion into international institutions and global commerce will transform them into benign and trustworthy partners. The US also insists on fair and reciprocal economic relations to address trade imbalances with the EU, Japan, and China. The US has acted on these assertions by imposing high tariffs on steel and aluminum imports from China and other trade partners, imposing foreign investment control on key technologies and export controls on fourteen emerging technologies, placing individual sanctions on Chinese high-tech companies, and increasing its defense budget. The result within Japan has already been a change of global strategy on production in China and supply chains, which could lead to a possible decoupling of ITC technologies. It remains to be seen if these policies will increase or weaken domestic Chinese R&D.

The Chinese Manufacture 2025 strategy includes fostering development of eight targeted import industries in order to become the most powerful manufacturing country in 2049, the integration of manufacturing industries and the internet, including crowd computing, big data, and AI to become global leaders by 2030, and the enclosure of ITC technologies in China under government surveillance. China's ambition is to create a new world order including infrastructure, finance, energy, and human exchanges, to be achieved through the Belt & Road Initiative by using the ADBI, Silk Road Fund, Shanghai Cooperation Organization, and China-Africa Summit. China has emphasized its commitment to international standards, respect of recipient countries' laws, and transparency.

The recent G20 meeting was not effective enough ineffective in tackling these new global challenges, even as it strives to realize a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment. In particular, there is a need to strengthen international rules on industrial subsidies. WTO reform is also urgent, including increasing transparency and strengthening the activities of the WTO regular committees and functioning of the dispute settlement system. The G20 Chair's Statement stated that many ministers expressed serious concerns about current trade tensions, with the majority of members recognizing the need to reduce excess steelmaking capacity and calling for the extension of the GFSEC's duration beyond its current term and continuation of its work.

What sort of strategy should be employed, faced with these changes to the global order? WTO

reform would ensure a more effective monitoring system with transparency and notifications, a functioning dispute settlement system, and a rule-setting mechanism through plurilateral initiatives. Cooperation between the EU and Japan on creating active multilateral rules is crucial to control US unilateralism. This could also be deepened through the creation of 21st Century Trade and Investment Rules, with wide scope covering industrial subsidies, SOE disciplines, technology transfers, non-market economies, and e-commerce. Negotiations could begin under the Joint Statement initiative on e-commerce, then addressing platform providers, application producers, and hardware manufacturers under different disciplines. The promotion of regional integration could occur alongside the creation of new rules for intellectual property protection, SOE, and e-commerce, and expand CPTPP to Asia and Europe.

Japan's strategy on China can serve as a model going forward. The health and stable growth of China is vital to Japan. China and Hong Kong consist of 24% of Japanese exports, compared to 19% for the USA. Japan is the largest direct investor in China. The strategy towards China therefore rests on three pillars: strengthening the Japan-US security relationship; creating new trade and investment rules to restrict Chinese abuse of subsidies, SOEs, and technology transfer; and deepening further cooperation with China, all while cooperating with the EU and US on rule-making. Government policies include concluding the RCEP negotiations and expanding CPTPP members, including the possibility of Chinese participation in the CPTPP and OECD, cooperation on future solutions to the problem of an aging society, reform of the social welfare system to contribute to stable Chinese economic development, cooperation on mutually complementary innovation, and case-by-case cooperation on projects instead of directly joining the BRI. Japanese industry is also reevaluating its global strategy, shifting production sites and reviewing supply chains as China's role in world manufacturing evolves. In the medium to long term, the Chinese economy will slow due to less innovation and an aging labor force, which will have a larger effect on Japanese as well as European economies. Amidst these momentous shifts in global economic and political trends, we should be wary, however, of relying too closely on visions of a previous, stable order. The composition of the UN Security Council, for example, no longer reflects the global balance of power and appears unfair to many, while climate challenges are a global existential threat. The challenge is not to conservatively preserve the status quo, but to ensure that an existing order is more accountable, just, and representative. Both Europe and Japan have an important role to play, working together to adapt and exert influence as normative and rule-making powers.

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