

Japan-Europe Forum 2021: The post-pandemic Outlook in Japan and Europe

By Vanxay Sayavong¹, an observer

Introduction

The Japan-Europe forum held on 29-30 September 2021 and co-organized by Chatham House and Japan Economic Foundation (JEF) provided a meaningful event for the celebration of the 40th anniversary of its establishment. Like early this year of Japan-US forum, this forum was carried out online due to the spread of COVID-19. Nevertheless, the forum still gave a fruitful discussion on the challenges of sustainable development for Japan and Europe which is currently threatened by uncertainties and global change such as the impact of COVID-19, rising of geographic political players, new Japanese prime minister, and so on. This forum brought out the prominent experts from Japan as well as Europe not only from the fields of academic or public but also the private sector to discuss and exchange their ideas on the challenges and give their perspectives on various issues including climate change, institution, the role of the central bank, small and medium enterprises (SMEs), productivity, and fiscal policy to find out a way for improvement for sustainable development as well as to strengthen the cooperation between Japan and Europe under the new Japanese government.

This year's Japan-Europe forum gave three specific topics for discussion under the current situation of COVID-19 into three sessions during 2 days which I think are very interesting. The first session is the topic of the post-pandemic outlook in Japan and Europe: Macroeconomic perspective. Session 2 is about the post-pandemic outlook in Japan and Europe: Digitalization and green growth, and session 3 is related to Trade policy and enhancement for inclusive growth. Overall, based on my observation, most of the participants and guest speakers raised the issues of the spread of the pandemic coronavirus disease and environment especially climate change as the major global challenges. To address these challenges, it suggests that it should have a global cooperation mechanism not only among developed countries but also developing countries to define and implement the future climate target. At the same time, private firms supported by the government should play a key role to learn, adapt, and address the issue of pandemics and climate change.

It is a good opportunity for me to attend this forum and receive updated information on the macroeconomic policies in response to the problems of pandemics and climate change from experts and other participants. Also, the discussion on inequality is interesting which reflects the recent trend in Japan where the new Japanese prime minister Fumio Kishida tries to address by encouraging private firms to raise the wages for employees/workers and will be compensated in terms of lower corporate tax by the government². Though the forum gave constructive discussion, the views are dominantly by academia and government. Therefore, having more private sector and practitioners for discussion in the forum is expected to provide more diverse perspectives and potential ways for improvement. Furthermore, as the context in

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² According to NHK news on 12th October 2021, the source is from https://www3.nhk.or.jp/nhkworld/en/news/20211012_06/

Japan but less in Europe is largely deliberated in the forum, balancing the dialogue in the context of Japan and Europe should be better for a lesson learned from each other. Since this forum provides useful information and discussion, I have tried to summarize the key messages for each session as much as possible. The details of the three sessions are summarized as follows.

Session 1: The post-pandemic outlook in Japan and Europe: Macroeconomic perspective

Several disasters had appeared in history damaging the economy and leading to a crisis such as the food crisis in the 1990s, however; the spread of pandemic coronavirus (COVID-19) lasts longer for years and months than expected. One of the impacts of this pandemic is on the labor productivity in Japan. Due to the spread of the pandemic, the conventional working behavior changes from working in the workplace or office to remote working or working from home. Under this circumstance, the productivity in Japan is likely to be lower compared with Europe because the facility at home is better and more flexible in Europe. Meanwhile, the wage gap is high in Japan which deteriorates the income inequality based on the Gini index posing a challenge for the new administration of the Japanese government.

The implementation of macroeconomic policies such as fiscal and monetary policy seems to be so far in effect to contain the destructive impact of the pandemic on the global economy as the world economic growth is still robust and stable with a forecast of 5-6% this year and 3-4% for next year although there might be some countries affected severely. However, the major concerns are rising such as high public debt and inflation. Besides, the introduction of policies such as low-interest rates and subsidies could lead to the inefficiency of the economy which consequently deteriorates the inequality, environment, infrastructure, and productivity.

Though several governments introduced a massive economic stimulus package to recover the economy, it generates higher inflation, inequality, and the use of cryptocurrencies. Fortunately, the work of preserving the environment is impressively in progress as the global community has well adapted the energy and climate change policies such as introducing the net-zero carbon in previous years. To push more effort for further progress, the central bank can play some role through the financial mechanism or financial portfolio to finance green business and infrastructure. Practically, the central bank can influence the behavior of commercial banks and provides the initiatives such as introducing the environmental standard on corporate bonds or cheap loans for environmentally friendly investment. One example is in Europe where the European Union recently issued a green bond of more than 13 billion dollars at the financial market to finance green investments such as wind power plants and digitalization³. On the other hand, the central bank should try to modify the practice of their traditional economic forecast from short term (3-4 years) to long term forecast of 20-30 years by including climate change or environmental projection. Yet, it is still questionable to the central bank how to compromise the monetary policy such as inflation targeting of 2%, for instance, while addressing the climate change issue at the same time.

³ According to NHK news on 13th October 2021. The source is from https://www3.nhk.or.jp/nhkworld/en/news/20211013_24/

For the fiscal policy under the pandemic situation since early 2020, the Ministry of Finance in Japan would like to improve the fiscal balance by cutting its spending on pandemics such as the payment to affected restaurants. On the other hand, the Ministry of Health wants to shut down restaurants for as long as possible to prevent the spread of coronavirus but can't pay for the compensation to those restaurants due to the limited budget restricted by the Ministry of Finance. As a result, the number of infections appeared to be increased again which increased the economic cost and impair the fiscal balance consequently. This result is generated by a coordination failure between the health and other public agencies to deal with the pandemic in Japan. This failure is called compartmentalized thinking or no care about others. With this regard, there is also a concern that the government will fail again to address the issue of climate change especially under the new Japanese prime minister who has the initial public support lower than the previous prime minister, according to the a Nikkei-TV Tokyo poll⁴. Therefore, it would be better to find a way to address the coordination failure not only between domestic agencies but also among international agencies for climate change as it is an international issue and concern with multi-sectors across time as well probably next 100 years.

Session 2: The post-pandemic outlook in Japan and Europe: Digitalization and green growth

Due to the global pandemic, firms are encouraged to adjust their business towards the way of more sustainability than before and they should understand more about the impact of the pandemic on the supply chain. As climate change deteriorates the environment, it should have more discussion of being sustainable economy cutting the carbon emission by 40% by 2030 at the upcoming COP26 meeting that is going to be held in the UK from 31st October-12th November this year. This target will be certainly implemented in European countries and Japan as leading actors. In particular, the use of coal should be reduced in Japan. However, since there is currently less adaptation in the financial sector for green business and investment, this would make the progress of reducing the use of coal energy slow not only in Japan but also in other developed countries. As a result, natural disasters such as fire and flooding occurred in developed countries such as flooding in Western Germany in July this year. The impact of climate change also affects food, energy security, and others which is difficult to predict while the effect of the pandemic on the economy is still ongoing, everyone in the world should work together to mitigate the impact while encouraging green growth via the use of innovation and technology which is essential for the modern society 5.0. The private sector can play a role in green growth. For instance, there is a private company, which is one of the leading providers of Industrial Automation and Test and Measurement solutions, considers the environmental issue into its business model and vision. Under the company's vision, 4 steps are identified to address the climate issue, namely, (1) identify the opportunities to contribute positively to the systemic risks & transformation, (2) set clear targets for climate, nature, and equality, (3) identify innovation opportunities for the organization, and (4) adapt the governance model to integrate

⁴ According to NIKKEI Asia news on 5th October 2021. The source is from <https://asia.nikkei.com/Politics/Kishida-approval-rating-starts-at-59-below-Abe-and-Suga-Nikkei-poll>

into performance management and disclosure. Thereafter, based on this evidence, it shows that private firms can play an important role in reducing climate change and sustainable development. If so, there should be a potential shift within the industries from fossil energy to renewable energy industry or chemical energy to bioenergy industry. More importantly, the private sector should be driven by the market demand sustainably while receiving support from the government. On the other hand, the media can also play an important role to investigate and disseminate information on the release of pollution by private firms. This implies that the participation of all sectors including public, private, media, and among others is the most effective way to reduce climate change.

In Asia, securing the energy market is challenging as it is largely influenced by the competition among major power countries especially China and India to access renewable energy to secure their energy market to feed their consumption of industries and households. Therefore, the energy market could be highly fluctuated because of such competition which leads to the shortage of electricity during the winter in many countries such as China. Sometimes, the political conflict could make the energy market insecure. The supply of gas to Europe, for instance, is used to be limited by Russia many times such as in 2006 and 2008-2009⁵. Recently this year, a high price of gas in Europe is claimed because of Russia holding the supply⁶ which demonstrates the influence of politics on energy and climate change.

Session 3: Trade policy and enhancement for inclusive growth

Japan implements the trade policy bases on the growth strategy by enhancing its effort to protect the intangible sector including Research and Development (R&D), advanced biotechnologies, semi-conductor industry, and among others to strengthen the technological innovation and the stability of the supply chain. Besides, the growth strategy also involves green, digitalization, and inclusive growth. Principally, Japanese trade policy is free trade policy especially open indo-pacific, rulemaking, and enforcement is rather important. The practice of subsidies and anti-measure is considered inappropriate policies. Under the circumstance of the pandemic, Japan concerns about the issue of inequality rather than about trade. This is because Japan doesn't worry much as it trades a lot with China where the growth of the Chinese economy is still robust. However, if dependent too much on China, there might be a concern on the resilience of the economy as in the case of political conflict. Therefore, it suggests that Japan should diversify its global value chain (GVC). When thinking about China joining the free trade agreement such as the Trans-Pacific Partnership (TPP), UK is encouraged to join as a member of free trade to balance the bargaining power with China as the UK is interested in economics and security. This is because there is a unilateral action between the US and China after the Trump's administration such as imposing the export sanction and new export control

⁵ According to BBC news on 31st October 2014. The source is from <https://www.bbc.com/news/world-europe-29521564>

⁶ According to NHK news on 14th October 2021. The source is from https://www3.nhk.or.jp/nhkworld/en/news/20211014_09/

law which hurt private firms. Nevertheless, free trade should be enhanced since the freer trade is, the more economy can grow, the free market can be created resulting in free movement of capital and more economic freedom is a way to stabilize the politics and peace.

The challenge for Japan and Europe is not only climate change but also the demography where the wealth of the young population is in the downward trend putting pressure on the national pension scheme. Japan should learn the good practice and cooperate with Europe on human resource development especially the investment in education or how to encourage young people to take tertiary education since Japan has a shortage of graduates.

Biography

Vanxay Sayavong

Vanxay Sayavong is currently a PhD candidate at the Graduate School of Economics, Waseda University. His research is mainly related to economic integration such as the Belt and Road Initiative (BRI), poverty, technical inefficiency, and illicit financial flows (IFFs) in the context of Laos. Before his PhD study, he used to work as a researcher at the National Institute for Economic Research (NIER) in Vientiane, Laos.

