



U.S. - Japan Economic Relations in an Era of Political Uncertainty, Sluggish Growth, and Shifting Demographics

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Summary of Cato-JEF Conference

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Keynote Address
Clayton Yeutter, Senior Advisor, Hogan Lovells

The title of this conference can apply as much to the United States as it does to Japan. Both have been seriously affected by the financial crisis and subsequent recession, and at the same time, both are trying to find ways to stimulate economic growth and prosperity to their respective nations.

Japan's challenges emanate from two key forces: domestic uncertainty and a lack of international presence. "By and large, Japan has had a single party democracy for quite some time, and it is still unclear whether the DPJ's success in the 2009 elections was a harbinger of change or just a blip on the radar screen." Will Japan move back to single party rule? Time will tell, but a more troublesome political dimension has been the enormous amount of turnover at the top levels of government. "It has been hard for Japan to maintain political consistency or stability, which leads Americans to ask who's really running the show in Japan? Furthermore, does this imply that power is being concentrated too much in the bureaucracy as the top levels of government so frequently change hands?" Prime Minister Abe will be put to task in showing whether he and his team will really be running Japan, or whether the bureaucracy will hold more sway.

Another area of concern is Japan's absence from leadership roles in international organizations in the last 75 years. This is something Japan will have to wrestle with as the future unfolds in determining its role on the global stage. Perhaps working through economic slowdown will provide the opportunity to lead. The U.S. needs to do this as well; in the realm of trade liberalization, the U.S. has been lagging behind, and needs to focus on successfully completing trade agreements currently on the agenda and not lose sight of multilateral options for trade liberalization as well. Ultimately, trade will be the key to both U.S. and Japanese economic growth.

Session I: Assessments of the Economic and Political Climates in the United States and Japan: Implications for the Bilateral Relationship

Discussion Facilitator: Amb. Terry Miller, Director, Center for International Trade and Economics, Heritage Foundation

Both Japan and the U.S. are successful societies, with high per capita GDP. Overall, the political situation of both has been stable. Despite Japan's seven changes in government in the last six years, it is important to note that this is not so different than what Italy has experienced in the past.

The key problem we face today, however, is no growth. We need to think about the extent to which this is a problem; maybe we want stability rather than change, maybe we do not want high growth? And perhaps President Obama is not trying to make the U.S. more like Europe, but more like Japan—high spending, focusing on the elderly—are

we seeing these countries going on parallel paths? If so, the U.S. could learn a lot by looking at Japan, and see how it adjusts to change.

Our relationship is currently characterized by neglect, which could be benign, or an indicator of an underlying problem that may boil over at some later date. How we deal with our current economic and political challenges may decide how our relationship will evolve in the future.

Makoto Utsumi, President & CEO, Japan Credit Rating Agency

Japan faces a number of structural challenges that Prime Minister Abe will have to address:

- Rapidly ageing population
- Future of energy policy after 2011 tsunami
- Manufacturing sector facing severe international competition
- Budget deficit and accumulated public debt (230% of GDP)
- Japan has no choice but ‘not so warm, but heavy tax state’.

Prime Minister Abe has been focusing on the short-term economic management in order to secure a strong government mandate, and we have yet to see how he will tackle the above issues. “We do, however, see a reemergence of the ‘magical triangle’—politics, business, and bureaucracy working together to craft efficient policy.”

Also, Japan still has a number of strengths: the innovative capacity of its private sector, a cash-rich corporate sector, healthy financial sector, abundant personal financial assets, abundant foreign currency reserves, and a cohesive and stable society. If Japan focuses on its strengths, and finds the right kind of political leadership, it has the ability to work through the structural challenges outlined above.

The U.S. has been going through a debate similar to Japan’s internally, primarily focusing on the role of government in society. Much of this has been the result of the sharply widening income and wealth gap in the U.S., which have caused social problems and political divisions. The income of the top 1% of households doubled from 10% in 1970 to over 20% in 2012, while the bottom 90% of households has seen almost no increase in average net income. How the U.S. addresses this is yet to be seen, as the debate over a heavy or light tax state is ongoing.

On the international front, President Obama’s “Pivot to Asia” seems to resonate with Prime Minister Abe’s “league of democracies in Asia” and the potential for strengthening of the relationship exists. A potential cause for concern, that may in fact solidify U.S.-Japan ties, is the growing security challenge of China and access to resources in the sea. Though the population of Japan is not ready to make over the current post-war security structure, it is inevitable that Japan will have to play a larger role in its own geopolitical challenges as tensions in East Asia mount.

Arthur Alexander, Adjunct Professor, Asia Studies Program, Georgetown University

Japan as a society and economy has been very successful; it is the third largest economy in the world and among the world's richest. It is true, however, that it has not been without problems, but its challenges may not be as onerous as they may seem. First, the labor force implication of its ageing populations is not as bad as proclaimed. The dependency ratio will be back to where it was in 1970 by 2050, and labor force participation can be further improved if more women join the workforce. If Japanese women experienced the same level of employment as Swedish women, the decline would not be as great as the figures show.

With regard to monetary and fiscal policy, it must be noted that the price-adjusted Yen shows that the currency was actually not doing so bad in 2011, and it was in fact in its long-term average, which is not particularly high or very low. The deficit, however, is particularly bad, and has been largely affected by the collapse of revenue and falling pricing. Outstanding central government bonds are about the same as central government net liability, which is not so good at about 134% of GDP. Despite these figures, the Japanese experience is not all that bad, but it certainly could do better. "The major political issue that the current government will have to face will be a choice between helping individuals or helping collectives (firms, industries, regions); Japan's experience has been to help the firms, which is costly to mobility, and costly to productivity."

Japan will also need to implement economic change faster than it has in the past, which in itself is a monumental challenge. This will consist of financial and other deregulation, corporate governance improvements, increasing competition in the marketplace, as well as attracting more foreign direct investment. With the right leadership, such reforms are possible, but Japan risks getting left behind if it remains slow to change.

Gary C. Hufbauer, Senior Fellow, Peterson Institute

In President Obama's State of the Union Address this week, the international economy emerged fairly late in the speech. Obama did not even talk about the service economy, which is currently very strong in the U.S., and instead focused on manufacturing, which continues to make up less and less of economic output overtime. Furthermore, the President did not mention Trade Promotion Authority to help with current trade negotiations, nor did he emphasize the importance of trade for the middle class, as well as the overall benefits of trade liberalization. "In fact, globalization was mentioned more as a challenge, not as a positive thing." His speech highlights some common myths held by the American public:

- Globalization is the principle driver of inequality
- International trade and investment is responsible for the flat wages in the U.S.
- Outward investment is bad for the U.S. (costs exports and jobs)

- High taxes on corporations are exactly equivalent to high taxes on rich people (there are countries more socialistic than the U.S. who understand that this is incorrect and have lower taxes on the corporate sector).

When looking at trade policy going forward, there are two possible routes President Obama can take. First, he can pursue the TPP and EU-U.S. FTA, coupled with a full defense of globalization and trade promotion authority. Or, he can simply continue quiet negotiations, get trade partners to put up some juicy concessions, then take that to Congress and ask for TPA. It is likely that the President will seek the latter approach, which is bad for the trade agenda.

Discussion Highlights

- What is the point of giving TPA to a president that does not believe in trade?
 - One reason may be that he has hedged a commitment in his pivot to Asia, especially with the TPP, and TPA would assist in showing he is serious about these goals
- Japan needs good political leadership to increase economic growth back to 2-3%
- Japanese companies are going overseas not just for cheaper production, but also to sell to those markets as well
- FDI is also growing to historical highs in Japan, but it still very small compared to other rich countries
 - Japan is facing a shrinking internal market, but Japanese people still do not like to depend on foreign importers
- PM Abe needs to recognize that he needs to represent the broader interests of society, and not just narrow interests ('magic triangle')
- Has not been enough pressure on Japanese companies to adapt hiring practices (increasing women in workforce) because labor demand has not increased throughout the economy
 - Social infrastructure has not been invested in; women still taking care of ageing family members; work culture still requires long hours, making it hard for young families to have both couples working

Session II: Global Macroeconomic and Other External Influences Likely to Impact the U.S.-Japan Relationship

Discussion Facilitator: Sallie James, Trade Policy Analyst, Cato Institute

There are a number of macroeconomic and other external influences that could significantly impact not only the Japan-U.S. relationship, but the global economic recovery as well. These include, but are not limited to: the rise of China and other geopolitical issues; the growth of global supply chains; monetary policy and currency wars; the global subsidies race; spats over natural resources; and negative growth forecasts for Europe, which is troubling because the European economy is so embedded in the global system. For Japan, the best way forward is through economic reforms, and the TPP may be a good start, but it needs to act quickly before the opportunity passes. How these challenges are addressed in the next few years may determine the shape and rate of future growth.

Takashi Shiraishi, President, National Graduate Institute for Policy Studies

Prime Minister Abe is confronted with a number of major challenges after six years of policy drift. Territorial issues with China and South Korea are a growing problem. He must find a way to contain the dispute and to prevent it from affecting the bilateral relations of Japan, China and Korea. It is possible to use the International Court of Justice to settle this territorial dispute, especially if China continues to provoke Japan to enhance its Coast Guard and Maritime Self-Defense Force, which could lead to the possibility of accidental conflicts arising. It is doubtful that China will heed any ICJ decision, but it may still help Japan by easing China's sabre rattling in the face of international pressure.

Japan's own domestic security debate is another issue Prime Minister Abe will have to address. First, it will be imperative to rebuild the trust of people in Okinawa with regard to the military base issue. This is increasingly important because the strategic importance of Okinawa has increased due to the tensions with China. However, despite rising friction, Japan has not been conducting many joint military exercises with its allies. "It is essential for Japan to do more networking and security collaboration with its neighboring countries to help maintain equilibrium in the region."

In fact, greater regional cooperation is essential not only for stability, but also for economic growth. For more than two decades ASEAN has struggled as the center of East Asian integration, and regional cooperation needs to be revitalized. It is vital that China become a stakeholder in the rule-making process to foster greater cooperation and joint problem solving of shared challenges. The TPP is also a means to achieve economic growth, but Prime Minister Abe should not lose the opportunity to act fast in support of the TPP.

***Phil Levy, Associate Professor for Business Administration, University of Virginia,
Darden Graduate School of Business***

Economic growth forecasts have been generally dim: the Eurozone economy shrank by 0.6% in the fourth quarter of 2012, and Japan's GDP in that same quarter fell by 0.4%, its third straight quarter of decline. These poor growth performances have in turn led to a discussion over the role of macroeconomic policy in correcting the current global economic slump.

If you look at the G-7 and G-20 meetings this week, currency wars are hot topics. The main concerns are competitive devaluation and beggar-thy-neighbor policies to promote one country's growth at the expense of others, as well as inflation or deflation, which will each have different impacts. If deflation is the worry, reciprocal interventions are not so bad, as they would just expand the global money supply. If inflation is the worry, macroeconomic intervention is possibly more troubling.

The current global macroeconomic environment is characterized by:

- Slow growth

- Structural change meeting political obstacles
- Conventional measures pushed to extremes
 - Fiscal expansion (rumors of austerity)
 - Monetary policy hits zero lower bound, quantitative easing
- Heightened sensitivity.

Policy measures to address these issues are available, but they must be approached with diplomacy and caution. The sweet spot will lie between addressing deflation and raging inflation, though it will be difficult to do this.

Derek Scissors, Senior Research Fellow, Asia Studies, Heritage Foundation

High levels of public debt and slow growth has been a major problem for both the U.S. and the EU. The troubling component of the current debate, however, is the belief that deficit spending will stimulate the economy. This approach has been employed by Japan, and has resulted in the failure of its fiscal policy. The world, in turn, has been imitating Japan without learning from its mistakes, but this is not a good idea.

Japan's economy is currently suffering from the implementation of Keynesian policies that have simply not delivered in terms of long-term growth. In fact, in 2010, Japan's economy was about the same size it was in 1992. This stagnant growth is the result of a low return on capital from enormous, low-yield government borrowing. This practice must stop; Japan must cut spending by reducing subsidies, transfers to local governments, and pensions for individuals who can still work.

Tackling these reforms will be difficult, but without them, Japan will be threatened by the possibility of default. There will inevitably be a period of weak growth, but fiscal reform will ensure that in the long-run the deficit will be substantially reduced, and growth will be restored to positive figures. The U.S. should learn from Japan's economic struggle and be wary of excessive domestic spending that may lead to stagflation.

Discussion Highlights

- If you can get things moving with a modest fiscal policy, can the deficit problem go away?
 - Politics is problematic, because politicians are doing easy stuff first and leaving the hard decisions for later (or for the next administration—in all countries), making it hard to correct long-standing fiscal mistakes
- U.S. will maintain military presence in region for its own interests—growing economic region and increasing competition with China
 - Don't know for sure where China will be in the long-term however, may lead to rethinking of security calculations
- Growing intolerance for foreign military bases in Japan among public, particularly because of negative press coverage; especially difficult for people in Okinawa, where most bases are
 - As long as the Japanese government can manage the Okinawa issue, there will be no major political fallout over U.S. bases in the country
- Need to ask whether Japan should be spending more than 1% of its GDP on defense when it claims recent security problems as a major threat (the U.S. spends 4% of its GDP on defense and it is questionable whether this level of spending will be sustainable in the long-term)
 - Problem for Japan with regard to military spending is purely political

Luncheon Address

*Jim Kolbe, Senior Advisor, McClarty Associates, and Senior Transatlantic Fellow,
German Marshall Fund of the United States*

This has been an important week when it comes to trade, with the announcement to begin talks on a U.S.-EU FTA. We're not talking about just another bilateral trade agreement here, and the facts and figures can demonstrate that. The U.S. investment relationship with Europe is fourteen times the amount of investment we have with all the BRIC countries combined, and what's more, 7.5 million U.S. jobs are dependent on trade we have with Europe. This agreement would make the U.S. and EU the largest trading bloc in the world. "But this new deal is not just primarily about reducing tariffs; non-tariff barriers are really the difficult part to deal with, and regulatory divergence on both sides of the Atlantic is what we need to change to simplify trade on both sides."

As talk of trade heats up, there are a number of issues before Congress that are worth noting. First, on trade promotion authority, it has been almost six years since the President last had TPA—this length of time without the authority to negotiate agreements is simply startling. "Furthermore, President Obama has not said that he's going to seek TPA, but he's going to need to seek it if he wants to move forward on trade issues." Not only will he require basic negotiating authority that deals with tariffs, services and investment measures, but he will also need the ability to address newer trade issues related to supply chains, rules of origin, and other behind the border barriers. If he does not take action on this soon, it will not bode well for the agreements currently on the table.

Some issues that will be particularly challenging for the U.S. and Europe are: genetically modified organisms, which are an emotional issue for a lot of people; environmental issues, such as carbon emissions; and agricultural subsidies. "We should not underestimate the difficulties of this agreement going forward, but it is worth mentioning that this is first time that we actually see labor unions really in support of a trade initiative." The main reason is that worker protection would not be an issue here, as both the U.S. and EU are highly industrialized states.

Turning to the TPP, the inclusion of Canada and Mexico has made it a larger and more complex negotiation process, but one that could yield vast benefits. As for Japan's involvement, it is important to ask what kind of structural changes Japan will have to make domestically to become part of this agreement. "How much, in fact, will it need to accommodate to meet the high standards of this agreement?" If President Obama asks for TPA from Congress for the TPP, we will then get a good sense of what some of the problems may be during the negotiation process, as it still remains in its early stages.

As for global trade liberalization, it must be kept in mind that a lot has changed since the Doha round was launched. However, the global economic downturn poses a good opportunity, but also big challenges, for getting the WTO back on track and building an agenda to deal with these issues. In the U.S., we are beginning to see a break in the ice and some movement on trade, largely because the constituent groups are

starting to get behind it, but President Obama needs to act on this and ask for TPA before the opportunity fades. Now simply is not the time to shy away from action on this issue.

Session III: Prospects for and Impediments to Trade Agreements and Other Bilateral or Regional Forms of Cooperation

Discussion Facilitator: Dan Ikenson, Director, Herbert A. Stiefel Center for Trade Policy Studies, Cato Institute

In looking for ways to spur economic growth, trade has not really been on the agenda of the current administration. The recent “Pivot to Asia” may provide a test to see how serious President Obama is about trade. However, without trade promotion authority it is doubtful that agreements such as the TPP and EU-US FTA will be completed in the ambitious time frames that have been outlined. Also, if these agreements are laced with waivers and special concessions, the goal of meaningful and real trade liberalization will not be achieved. Without a serious commitment to trade, global economic growth will continue to stagnate.

Kazumasa Kusaka, Adviser, Mitsubishi Electric Corporation & Former Vice Minister for International Affairs, METI

The relative decline of the Japanese economy is a cause for concern, but Prime Minister Abe has adopted a three-pronged strategy that he hopes can change this: bold monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment. Trade could play a key part in this overall strategy if Abe decides to opt-in to the TPP negotiations.

In terms of Japan’s FTA coverage in trade volume, it is a little behind other countries of similar levels of development. However, this is improving over time; by 2015 Japan’s agreements with other countries will cover 30% of its trade volume, and in 2030 it is projected to reach 80%.

Further growth will be threatened if there is no commitment to trade liberalization on the part of the government. In December 2012, Prime Minister Abe made clear that the LDP would oppose the TPP if the precondition for joining did not allow any tariff lines to be off limits. In the end, it seems that Abe is primarily concerned with Japan’s national interests, though he has stated that he aims to make Japan the most business friendly country in the region. He will be hard-pressed to do this if he does not embrace the TPP.

Domestically, the debate over TPP is divided into pros and cons as follows:

<p>Pros:</p> <ul style="list-style-type: none"> • Regional growth, supply chain, FDI • Common rules, equal footing among competitors • Accelerate other FTAs • Enhanced competitiveness in agriculture and service industry • SMEs benefit from lower transaction costs • IPR protection 	<p>Cons:</p> <ul style="list-style-type: none"> • Too much competition in following sectors: <ul style="list-style-type: none"> ○ Agriculture ○ Food safety standards ○ Services: public health insurance, pharmaceuticals, legal services ○ Unskilled labor
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The question really is whether the above concerns are valid as the scope of the negotiations is yet unknown. Japan’s current window-shopping is also not very likely to reveal the real price of entering—it needs to make a decision based on its current economic conditions. “Public awareness of the benefits of the agreement has been increasing, but Abe needs to jump on the opportunity to join the negotiations before the mindset changes.” Also, he should not sideline East Asian economic integration, and ensure that ASEAN remains central to this process to ensure that gains can be widespread.

Wendy Cutler, Assistant U.S. Trade Representative for Japan, Korea and APEC Affairs, U.S. Office of the Trade Representative

Not a day goes by in Japan without the TPP being on the front pages of the newspapers, nor does the coverage portray the U.S. as pressuring Japan to join, which is especially important. The U.S. learned this lesson during FTA talks with Korea, where Korea made a clear decision on its own that its economy and its role in the region would be better served through the completion of the agreement. Therefore, joining the TPP is really Japan’s decision to make as it looks towards the future.

Japan will have some major challenges in joining the TPP, and will have some specific issues that it will need to work through. There are three key sectors of concern: beef (on Feb. 1 Japan announced it would allow imports of cattle over 30 months of age—significant progress, but more work to do here); automotives, non-tariff measures of particular concern (both automakers & autoworkers are watching this); and insurance (Japan Post, state-owned enterprises should compete on equal footing with all private sector companies).

To date, Japan has made some progress in these areas, but there is still significant work to conclude. The U.S. will continue to work on the TPP negotiations and would certainly welcome Japan if it decides to join.

William Brooks, Adjunct Professor, Japan Studies, SAIS, Johns Hopkins University

The TPP, if concluded, would become the largest regional trading bloc with the inclusion of Canada, Mexico and Japan. The potential is even greater if China and Korea join somewhere down the line, but if Japan chooses not to join the agreement will turn out to be very small since the largest trading partners within it already have free trade agreements among themselves.

Joining the negotiations will be a tough decision for Abe as there is an extreme amount of enmity over the agreement. However, public support has grown overtime. The main opposition has come from the agricultural co-ops which have strongly lobbied against it. “This opposition may lead to Japan asking for a waiver on the zero tariff goal on rice, butter, sugar, wheat and beef; if Prime Minister Abe can get these products exempted Japan’s entry can most definitely be assured.” In the long-term, however, Japan will undoubtedly need to reform its agricultural sector as a growth strategy for the country.

In the end, the positive reasons to join the TPP far outweigh the negative ones, and it would be beneficial for Japan not to miss the opportunity to get involved while the negotiations are still at their early stages.

Discussion Highlights

- How would TPP 2.0 work—if Japan signs on later as opposed to being an original negotiator
 - Accession provision within the agreement, Japan would have to live up to negotiated rules, and would not be allowed to open up the text of the agreement
 - Japan would still need to negotiate market access (this is where much of the sensitivities lie)
- Japan-EU FTA is also an important initiative that may be easier for Japan to accept because it may not cover agriculture (as extensively if at all)
- Perhaps Japan could look at what Korea has done in terms of market opening with effective subsidies to farmers (trade adjustment assistance), because it won’t be able to just hang the farmers out to dry
 - For agricultural reform, might want to get METI involved to assist with developing a business run operation of the agricultural sector
 - Need to come to terms with fact that most of Japan will have to change if it wants to keep this industry going
- The debate in Japan more recently has been about what the TPP isn’t rather than what it is, especially due to misconceptions about the agreement itself

Session IV: New and Heterodox Ideas for Cooperation and Economic Growth

Discussion Facilitator: Claude Barfield, Resident Scholar, American Enterprise Institute

Having discussed the standard indicators for assessing the economic prospects and challenges for Japan and the U.S., it is worthwhile to also turn to heterodox ideas for cooperation and economic growth. The speakers will explore both international and domestic reforms in ways that may broaden our perspective and approach to these issues.

Noboru Hatakeyama, Chairman & CEO, Japan Economic Foundation

In assessing ideas to enhance global economic growth, one option is to look towards our institutions and see whether they are effectively assisting in attaining this goal. One proposal is to create a new index to establish G10 to realize justice in global governance. This new objective criteria would be composed of 50% of a country's GDP global weight plus 50% of the population global weight of the country.

Important point is, in order to take non-economic considerations into account, the criteria of population weight is introduced. Thus, the criteria would take both economic power and democracy into consideration—economic power represented by GDP weight, and democracy by population weight.

The criteria would determine the membership on the basis of annual reviews, which at first glance might prompt fears of rapid change, however, based on this criteria, members would remain relatively unchanged over the years. The purpose of these objective criteria is not to establish the G10 in competition with the G20, but rather to provide a forum that can address the needs of the leading economies.

Jim Fatheree, Senior Director, Japan & Korea, President, U.S.-Japan Business Council, U.S. Chamber of Commerce

Structural reform hasn't been a priority for Japan in many years—Koizumi came closest to this goal. Prime Minister Abe currently has a real opportunity to put Japan on the path for more sustainable growth if certain steps are taken. He seems to have learned his lesson from his first round as PM, by focusing on economic growth, but the next 4-5 months will be significant in seeing whether he implements needed reforms.

The three arrows of Abenomics are: large fiscal stimulus, significant monetary easing, and measures to increase investment and growth. So far, Abe has only focused on the first two, while the key to success is really the third—Japan needs an economy driven by private sector growth.

Currently, Japan is very export dependent, and needs to be integrated into the regional Asian economy, as well as the global economy, and the TPP is the best way to begin this process. A parallel agreement that will also be important for Japan is the

International Trade in Services Agreement, which will help Japan increase productivity and efficiency of its service sector.

With regard to current fiscal measures in place, Japan will need to:

- Give targeted income support to *full-time* farmers
- Implement regulatory reform and adopt international standards (Japan has made progress in the last 15 years, but in some areas lacks transparency)
- Tax and financial reform (corporate and consumption tax), need to make capital markets work better, not public-private partnerships or subsidies
- Enforcement of competition rules, increased transparency
- Labor market—1/3 of workers are part-time, contract, or temporary, because it is hard to lay people off when you need to; also need more women in the workforce
- In near-term must establish certainty on direction of energy policy.

“Aversion to risk is a major factor that is holding back the Japanese economy. FDI is under 5% of GDP, a low figure among OECD countries.” Furthermore, it is very challenging for U.S. companies to acquire Japanese companies, even if they are struggling, these companies will resist acquisition. Overall, this has led to Japan’s FDI performance ranking being quite low, though its potential places it in the top ten. Japan must get rid of the disincentives to investment, not just for foreign companies, but domestic ones as well.

Adam Posen, President, Peterson Institute

Japan can undertake reforms in a few areas that would assist in providing greater economic growth.

One major problem in the country is the absence of women in the workforce. This is both a political and economic issue, but not one that is beyond solving. Employment opportunities are also anti-youth, which makes it difficult for young people to enter the workforce and attain good levels of experience. Here, Japan can import an approach from Denmark by implementing a labor market policy with a temporary window that allows youth and women to get placement in positions that they otherwise would not have a chance at. As such, this would make the cost of employment discrimination high, and lead to change in employment practices over time.

Second, Japan’s land prices have stagnated over the last 20 years, and improvements to land have also tailed off. “The government needs to go after capital gains and inheritance provisions for the transfer of land; there needs to be a one-time tax holiday for transfers, then move on from there for a rational reallocation of land, which may drive down prices temporarily.”

Contrary to the rhetoric, increasing trade through an FTA will not necessarily guarantee positive outcomes unless it is implemented properly. What we need for Japan, therefore, is not so much a trade deal, but really a large opening up of inward FDI. This

process can be undertaken at the international level and not just be autonomous economic reform. “A major challenge here is changing the mindset and thinking towards inward FDI; inward FDI is not about doing other countries a favor, but rather thinking of it as natural resources to which you have restricted foreign access.” If Japan can switch its approach to this, it will yield great benefits, as the biggest short-term challenge to the global economy is getting private capital off the sidelines and into investment.

Furthermore, Japan cannot continue its old policies of spending a lot of time chasing incremental efficiency gains. The steps it takes to bring itself out of economic stagnation must deal with difficult structural and political issues that have long since been avoided.

Discussion Highlights

- Economic reforms in Japan will not be easy to accomplish, uncertainty that PM Abe will be able to deliver on effective reforms
- Labor market issue not just one of placing women in workforce (see discussion highlights from first session) need labor demand to exist
- Inward FDI key to increasing economic growth in Japan
- TPP may not be enough—Japan needs real structural economic reforms
- Role of international institutions, such as G7 and G20, to solve economic problems less useful than symbolic