Summary

How to get out of the crisis? Different approaches in Japan and the EU towards growth

2nd JEF-DGAP International Symposium

Berlin, Tuesday, 3 June 2014

Welcome and Introduction

Amb. Paul Freiherr von Maltzahn

Ambassador von Maltzahn opened the 2nd DGAP-JEF International symposium and welcomed all speakers and guests. He recalled the first joint symposium in 2012 and emphasized the importance of the relationship between the two institutions and the great success of the last conference. Whereas the last symposium had focused on trade issues, energy mix changes after the nuclear disaster in Fukushima and common approaches to the global climate change, this year's symposium focused on growth strategies from "Abenomics" to European austerity plans, the importance of free trade agreements (FTAs) and the challenge of ageing societies.

Kazumasa Kusaka

Mr. Kusaka emphasized that this year's symposium would focus on new topics - mainly on macroeconomics policy issues in both Japan and the EU. JEF as a Japanese institution promoting economic exchange between Japan and many foreign countries had been organizing various international conferences and hoped to continue to maintain such strong ties to its partners.

As Prime Minister Abe had stated in his last visit to Germany: a friendly relationship between Germany and Japan was an important pillar for Japanese foreign policy. German corporations had the reputation of hard working craftsmen, quality and high-technology. A strong cooperation between Japanese and German small and medium sized enterprises (SMEs) could contribute greatly to the global economy. However, both economies needed to tackle the crisis and economic standstill. Hence, the symposium would focus on mechanisms to overcome the economic and financial crisis and on the different approaches towards growth.

The IMF had stated in its current World Economic Outlook that the world economy was expected to grow with a rate of 3.6%. The Eurozone growth would account for 1.2 % after two years of negative growth. Japan was expected to grow at a level of only 1.4%. Contents of strategies for economic recovery differed greatly as different symptoms required different treatments. In Japan, monetary easing and fiscal policies of the "Abenomics" had succeeded so far. Also the fiscal policy tightening in many southern European countries, like Greece, seemed to be working.

After touching upon different macroeconomic strategies, the symposium would also focus its discussions on growth strategies. Firstly, the debates would be dealing with the issue of enhancing productivity through FTAs, as both Japan and the EU were engaging in mega-FTA negotiations (Japan-EU FTA, TPP and TTIP). FTAs could speed up structural reform, increase productivity and competitiveness as well as reorganize domestic industries. Secondly, the symposium would be discussing the problems of ageing societies and decreasing populations for both economies. Demographic change was seen as a negative factor for economic growth. The challenge seemed to be finding ways to deal with this issue and maintain economic vitality in promoting economic and social development. For Japan, the main strategy to maintain growth in the face of decreasing population was the employment of more female workforce, whereas in Germany the employment of immigrants might be a possible solution.

Session I: MACRO-ECONOMIC POLICY
"Abenomics" and Austerity Policy as a way towards Growth

Naoyuki Haraoka (Moderator)

Germany and Japan were encountering similar economic situations: Globalization and business cycle synchronization was the key to describe the current economic environment. The EU and Japan were now both facing the same problem of deflation. However, the solutions were contradictory even though both shared the same goals of achieving sustainable economic growth. Economic success could be achieved through improving market mechanisms or pursuing social goals, like equal income distribution. There was widespread skepticism about the effectiveness of "Abenomics" in Europe. Nevertheless, Japan believed in its success. Economic policy making could be very contradictory.

Prof. Dr. Hiroshi Yoshikawa

Mr. Yoshikawa focused his presentation on the economic reforms undertaken by the Japanese Prime Minister Abe ("Abenomics") at the beginning of 2013. These economic reforms focused on: Firstly, monetary policy in form of quantitative easing, secondly, fiscal expansion and thirdly, growth policies in form of structural reforms.

Mr. Yoshikawa illustrated that Japan experienced long phases of extremely slow growth or even recession, where the bottom of the current business cycle was reached in November 2012. However, since Mr. Abe took office at the end of 2012 the Japanese economy had kept moderate healthy growth, making the last recession the shortest recession in post war records. Even though there had been a depreciation of the Yen, the contribution of exports on this current growth had been quite small. This was rather unusual, as previously the expansion of the economy in Japan was led by exports. Recently, the main contributor had been domestic consumption and business investment. Hence, consumption and investment were the main drivers of the current Japanese economic growth.

A severe problem that Japan was facing was deflation. Even the EU was expecting a possible deflation and the ECB was speculating on the possibility of further quantitative easing. In Japan there was a big controversy on the value of quantitative easing at zero interest rate. If the interest rate had not been zero, the expansion of monetary supply would have let the interest rate to go down. However, with the interest rate already at an extremely low point, it was doubtful that a further decrease through the expansion of the money supply would really boost the economy. The key for Japans deflation were wages. Japan was an outlier compared to US or Eurozone when it came to the development of nominal wages. In 1997/98 when Japan had suffered from a serious financial crisis, Japan's nominal wages had started declining. This was the reason why Japan's deflation was so sticky. In comparison, countries like the US, UK, Germany and France, where the nominal wages had grown faster than the real GDP and the CPI, experienced inflation rather than deflation. In the EU and the United States, labor productivity kept rising rather mildly whereas nominal wages and prices kept increasing faster.

Mr. Yoshikawa touched upon the issue of Japan's fiscal deficit. Japan's fiscal situation was very difficult as Japan's debt-to-GDP ratio was above 200%. To emphasize the severity of the problem, he mentioned that the EU Maastricht criterion allowed less than 60%. To solve this issue, the government had created a target for 2020 to reach a primary balance. Japan even committed to this goal amongst the G7 and the G20. In order to achieve this goal, the Japanese government had raised the consumption tax from 5% to 8% and it would be raised again from 8% to 10%. In comparison, the EU minimum VAT was 15%; in Germany the tax went up to even 20%. Japan's increase of the VAT was still not sufficient to meet the 2020 target, but in Japanese politics the rise of the VAT was a very touchy issue. On the expenditure side, social security expenditure was rising steadily. The biggest part of social security expenditures was pension payment. This illustrated the need for a social security reform, a new pension program and a new medical insurance program.

Finally, Mr. Yoshikawa stated that in his view innovations and not demography was the ultimate driving force for economic growth. In advanced economies, the source of growth was product innovation. Firms that engaged in product innovation must be close to the market to be able to successfully place them. Hence, it was advantageous if advanced economies had strong ties and economic relations. Moreover, Japanese companies needed to increase their investments in order to trigger product innovation and productivity.

Dr. Reinhard Felke

Mr. Felke spoke about the reforms in the Eurozone. He emphasized that in 2014, the economy had regained its confidence. The convergence of risk was spreading, credit flows were stabilizing, there was a gradual normalization in financial markets and investment was picking up. This was mainly due to collective action by the EU member states. The EU pushed for structural reforms in the affected countries with adjustment projects guided by the IMF, the European Commission and the ECB (Troika). The ECB, the EU and the Euro group had initiated differentiated fiscal strategies, accommodative monetary policies and the banking union. Before the crisis there had been no tool available to support countries that had lost access to capital markets. The economic recovery was broadening. Except for Cyprus, all Euro area countries registered positive growth rates this year. The recovery was also widening in soft indicators across many sectors, like the corporate sector, households and improved consumer behavior. Moreover, this year important stress tests for Euro area banks were carried out to ensure the stability of the European banking system and to clear doubts about the health and robustness of the banking sector. Besides, the ECB had taken over the function as a single supervisor.

However, there were still challenges lying ahead. There was a need for change in the labor market and private household and corporate debt remained very high. The financial markets in the EU were still fragmented which created barriers to investments for SMEs in periphery countries. Moreover, many Euro area member states had a legacy of public debt, which was now around 20 % higher than before the crises. Unfortunately, the space for traditional macroeconomic policy was limited as interest rates were already on the relative rock bottom.

Mr. Felke also stressed the idiosyncrasy of the Euro area and hence, its distinct tasks in tackling the crisis. The Euro area was not a national state, it consisted of 18 members states which were highly integrated. These 18 countries shared a single monetary policy with rules-bound decentralized fiscal and economic policies. The common rules and institutions had helped in managing the adjustment path for the affected countries. However, Euro area member states faced different macro-financial starting points, including large external and macro-structural imbalances as well as deeply exposed banks.

When the crisis had struck, the impact had been severe; confidence had evaporated, default risk had risen, financing costs had soared, bank lending had reversed, unemployment had increased and consumption had fallen. Moreover, investment had stopped and public debt had jumped, feeding fears of debt sustainability. To tackle these widespread economic problems, the response had to be comprehensive and on three different levels: macro response at the Euro area level, country specific response and institutional response. The macro response at Euro area level had consisted of accommodative monetary policies as well as differentiated and time-consistent fiscal policy strategies. Country-specific adjustment programs were guided by the Troika. These programs included structural reforms to restore competitiveness and to build new foundations for sustainable growth and to support troubled banks. The institutional adjustments consisted of programs to stabilize Euro area banks and member states, like the European Financial Stability Facility (EFSF) as well as the European Stability Mechanism (ESM). Moreover, through economic governance reform, stronger fiscal rules, a new macro-imbalances tool (MIP) and better economic coordination via an enhanced European Semester were initiated.

The guiding principles of the crisis responses ranged widely from safeguarding the stability of the Euro area as a whole, restoring confidence via credible measures and sustainable solutions, addressing fundamental weaknesses via deep structural reforms to country-specific differentiation of special adjustment plans. However, there was still a challenge ahead: The Euro area needed to move from recovery to sustained growth. To enhance growth and competitiveness and to bring debts to a safe level the EU needed to maintain a twin-strategy of differentiated fiscal consolidation combined with structural reforms. The quality of public finances and consolidation needed to be improved. Additionally, the efficiency of social security systems and public administrations needed to be raised, the banking union fully implemented and the functioning of the EU internal market fostered.

Dr. Klaus-Günther Deutsch

Mr. Deutsch focused on a comparison of the European and Japanese economic reforms. He illustrated the lessons for both countries after the crises and their different adjustments programs. He explained that in Japan, "Abenomics" seemed to work well so far but the current growth was not sustainable or export-led. Moreover, Japan still faced a far too high level of public debt and a constant fall in nominal wages in line with widespread pessimism. Also the EU seemed not to be out of the woods yet and still had major challenges to overcome.

Japan had been suffering from a bad equilibrium for decades (1990-2013) and had only been entering a benign equilibrium from 2014 onwards. The real GDP growth had declined from above 4% on average in the 1980s, to 1.5% in the 1990s, 0.6% in the 2000s, but recovered to 1.4% in 2010-2014. In the next 2-3 years, growth and inflation might "overshoot". Real GDP growth would be 1.5% to 2% and the output gap would close while inflation might be above 1%. The policy of "Abenomics" had been performing well until now: The fiscal stimulus had worked initially in supporting demand, the monetary policy had broken the long-held deflation expectations of firms but households still held deflationary expectations due to the history of falling nominal wages. Hence, completing "Abenomics" would be important. However, consumption had picked up and wealth effects were kicking in. Investment was also likely to rise and productivity as well as wages might follow; but a brake in wage setting behaviour would be important. Fiscal policies would have to move from stimulus to lowering the public sector deficit gradually in order to achieve a balance. However, there was a big gap between the strength of corporate Japan and the troubles of Japan as production site which was similar to Germany. The political opposition to structural reform was well-established and hard to break.

In the Euro area, the key factors for adjustment were deflation and internal devaluation, bank and corporate deleveraging, reallocation of investment into tradables, turn-around in trade and current account balances, gradual fiscal adjustment and structural as well as institutional reforms. The financial repair in the Euro zone had taken too long, but it still had been much faster than in Japan. Financial, corporate and household balance sheet repair took much longer than cyclical improvement and limited growth. Hence, enhanced institutional and structural reforms were necessary even though fiscal policy was on a medium-term consolidation path in most countries. However, monetary policy faced a heterogeneous environment and aggressive monetary policy might become necessary.

Finally Mr. Deutsch illustrated eleven lessons from the recent policy changes:

(1) Dramatic economic situations required comprehensive and dramatic responses. "Abenomics" fulfilled this criterion, if it was fully implemented. Euro area adjustment policies were still incomplete.
(2) Growth-, productivity- and innovation-oriented policies were important in crisis times.
(3) Fiscal adjustment should follow financial stabilization and economic recovery.
(4) The Japanese crisis responses to the 1992-2001 financial crisis were not sufficient and had led to two decades of sub-standard economic performance on growth, inflation, income and public finance.
(5) The main factor for Japan had been tight monetary policy coupled with inappropriate banking policy leading to prolonged "deleveraging" and deflation. There had not been a sufficient amount of structural reforms.
(6) Euro area adjustment had gone through several phases: bank rescues, stabilization of financial markets, counter-cyclical policies, sovereign debt crisis management, fiscal adjustment and structural reforms, governance reforms as well as the creation of a banking union.
(7) There were monetary and banking policy problems for supporting the recovery through lending as long as the private sector kept repairing its balance sheet by

deleveraging.

(8) The reallocation into tradables worked well and fast but did not pull the sluggish domestic economies along as domestic demand kept constrained.

(9) Continued economic divergence created problems in monetary and fiscal policy fields for the Euro area.

(10) Governance issues had real consequences - positively and negatively. A credible fiscal and banking framework was crucial.

(11) Due to the incomplete and partly delayed policy responses to the governance, economic, monetary and banking issues in the Euro area, the return of the Euro area to acceptable paths of output and employment growth was very slow.

Session I Q&A

The discussion focused on the different reforms and responses to the crisis in the two economies. A participant questioned the point of a panelist that the problem of demography was overrated. This might miss the point that the rise of social expenditures also included pension expenditures which were a clear linkage between demographics and the fiscal situation in Japan. The panelist clarified that in his opinion, demography was not the main problem for the persistent sluggish growth in Japan but rather the lack of innovation. He stressed that the key for growth in Japan were innovations and corporate investments.

In response to another participant's question concerning the structure of the Japanese debt problems and revenue/expenditure imbalances a panelist stated that a reduction of government debt through an increase of the consumption tax might be difficult. Japan was a tax sensitive economy. It was clear that to reduce debt a tax rise to up to 15% needed to be the goal. However, this target would be very difficult or even impossible to achieve on a political level. Moreover, to reduce the government debt, expenditure side adjustments were needed and should include structural reforms and reforms in social security expenditures. The administration of Prime Minister Abe had already reacted and was tackling these issues.

Another participant stressed that EU-reforms and adjustment programs might not be fulfilled as various member states were not able to achieve their targets in the adjustment plans. For example in the case of Spain and Slovenia, the Macroeconomic Imbalances Procedure (MIP) had revealed that the two countries were having excessive balances. Hence, the question arose of how deep the government reforms really went and if they could produce the desired results. In response, a panelist clarified that there was founded evidence of the positive effects of the reforms and their implementation. Countries were following their multi-annual adjustment paths and the governments were taking their tasks seriously.

The deficit of Euro area countries had been at around 7% and would now be down to around 3% in the course of this year. Moreover, Spain and Slovenia had taken special action together with the ECB to correct there imbalances and to implement a review mechanism for their developments. However, there was unfinished business and room for improvements. There was also need for adjustments on the way of how the EU set out their reform recommendations as they needed to be different for different states and economies and flexible in nature.

Lastly, the issue of a fall in wages in Japan was being discussed. In other countries which had been affected by the crisis like the United States and various Euro zone countries the wages had been increasing during the last years. However, wages could only increase if the growth was productivity driven. However, in Japan jobs were mainly created in the service sector, which was not a productive sector, while jobs in manufacturing or other productive sectors were decreasing. In comparison, Germany had always managed to maintain its level of jobs in the manufacturing sector which inter alia made increasing productivity-driven wages possible. Japan could learn from the German labor market reforms but these would be complex and timely issues because the German model could not be applied one to one. Japan needed reforms in unemployment laws, insolvency issues and a more flexible labor market.

<u>Session II:</u> GROWTH STRATEGIES
Part 1: Increasing Productivity and Competitiveness through Trade (EU-Japan FTA, TTIP, TPP)

The second session focused on the topic of growth strategies. In the first part of the session, trade agreements and their importance for both economies were discussed.

Toshiyuki Shiga

Mr. Shiga stressed the importance of free trade agreements (FTAs) as they could be a motor for growth and increased productivity. He especially saw great potential in FTAs for the automotive industry where there was a pressing need for a harmonization of standards and a reduction of technical barriers to trade. Japan saw great demand for increasing synchronization of technical standards. Especially in the automotive industry, great efficiency gains would be produced.

Mr. Shiga also stressed the importance of addressing global issues on a global level. The challenges that were lying ahead needed to be tackled collectively on issues like global warming, zero emissions and zero fatality of vehicles, improved electrification and vehicle intelligence. Moreover, there was a need for sustainable mobility on a global basis and advanced technologies had to be made accessible to emerging economies. The automotive markets in both the EU and Japan were already strongly connected but further integration of common rules were needed. Mr. Shiga emphasized that from an automotive industry perspective, EU and Japan should take the lead and accelerate harmonization activities within the framework of the EU-Japan EPA. EU and Japan had a strong relationship in the automotive business. For example, Japanese automakers had a lot of production and R&D facilities in the EU. Taking advantage of the close ties between the European and the Japanese would help to accelerate more harmonization of regulations.

Jun Arima

Mr. Arima focused on the importance of increased productivity and competitiveness through an enhanced trade environment for both Japan and the EU. He stressed that export and investment were crucial for Japan as it was currently experiencing a trade deficit. The companies that were investing overseas could benefit greatly from an economic partnership agreement (EPA) through free remittances, a transparent investment regime, smoother supply chains, open government procurement as well as liberalized services and investment. Companies that were operating in Japan could benefit through the elimination or reduction of tariffs and trade remedies.

As part of the third arrow of the "Abenomics", the Japanese government was promoting the "Global Outreach Strategy" where it tried to promote economic partnerships through raising the FTA ratio from 19% to 70% by 2018 and accelerating regulatory reforms. The government would also try to further tap into global markets and increase domestic globalization. Japan was playing an important role in the creation of many regional and bilateral FTAs. The benefits of mega-FTAs were significant. Mega FTAs were building a precursor of a new international trade order. They covered comprehensive rule making and not only trade but also investment, service and government procurement. These FTAs included WTO Plus rules with a wider coverage in e.g. environment and labor standards. Mega-FTAs facilitated the global value chains through improved market access and clear rules for trade. There was also the domino effect of FTAs as they might stimulate each other.

The negotiations for the EU-Japan EPA/FTA had started in April 2013 and there had been five negotiation rounds Japan was interested in the elimination of high tariffs on industrial products and regulatory issues that Japanese companies were facing in Europe. The EU's interests were mainly in the elimination of non-tariff barriers, open government procurement and the elimination of tariffs on the main export products to Japan. However, Japan would also want to address non-tariff measures in the EU in areas like the automotive industry, the pharmaceutical industry and food safety.

Japan was also engaged in the negotiations for the Trans-Pacific-Partnership (TPP) where it tried to negotiate a comprehensive agreement with the United States and other trans-Pacific countries like Australia, Mexico, Singapore, etc. Together with the Transatlantic Trade and Investment Partnership (TTIP), TPP and EPA could form a triangle of mega-FTAs sharing common values and promoting rule making for a new global trade and investment order.

MinDirig Christian Berger

Mr. Berger focused on the German perspective and advantages of FTAs. Considering that the share of German exports on the GDP was more that 30%, the gains of free trade were significant and undoubtable. German companies wanted to engage in foreign markets and German quality was internationally recognized and an important driver of German exports.

The focus of the WTO negotiations were not only about market access but rather achieving a set of standardized rules for all. For Germany, the main focus of achieving greater access to international markets was still within the WTO negotiations. However, Germany or rather the EU, as it held the negotiating mandate, also engaged in bilateral and plurilateral negotiations. FTAs might build stepping stones for global solutions. The negotiations on TTIP and TPP had shown that there was a shift in negotiating topics as core tariffs played an inferior role. A much larger impact lied in the harmonization of standards as well as less bureaucratic borders. Liberalization in these areas would help to achieve greater efficiency and could serve as a stimulus for the economies. It would also have a major impact on R&D activities.

Mr. Berger illustrated the gains of liberalized trade and a harmonization of technical standards within an EU-Japan FTA with an example of German exports to Japanese railway industries. The Japanese railway system consisted of three different groups which were all having different standards and product requirements. German companies producing for the Japanese railway market had to bear high costs in meeting all these different standards. A differentiation in areas like these was costly as Germany could not deliver to a single market. A harmonization could reduce costs drastically but achieve similar levels of quality and safety. Moreover, public procurement in areas like these needed to be liberalized to ensure fair competition for all producing companies.

Jens Nagel

Mr. Nagel as a representative of the BGA (Federation of German Wholesale) focused on the benefits of liberalized trade and FTAs for German SMEs. He stressed the importance of SMEs for the German market as they represented the whole value chain as well as both importers and exporters. He saw the importance of removing barriers to trade on both sides, not only for German exporters but also for German importers as both were equally important for the German market and would benefit from liberalized trade. The concept of global trade was changing rapidly. The current international market was consisting of highly integrated global value chains. A new concept of global trade was needed to cope with current challenges and developments.

In the 2013 Global Competitiveness Report Germany had ranked 4th, illustrating that German businesses and the German market seemed to be functioning well. This success was due to Germany's flexible labor laws, the infrastructure of the labor market, skilled labor and relatively low labor cost. German companies were strong in exports and open to many markets. Germany had a strong position in nearly all world markets. However, there was a need for innovative value chains. Industries like the wholesale sector, the retail sector, service providers, etc. were always a hub for value creation chain.

Germany was benefiting from increased demand from emerging countries. Germany offered solutions for global mega trends like green technologies, products contributing to environment and climate protection, energy solution etc. Germany's economy was based on a wide range of sectors and the backbone of the German market were SMEs. Many SMEs were market leaders in their niche market. However, there was still a huge potential as only 15% to 18% of the SMEs were exporting or importing. For them to engage in trade might tap this potential but in the current trade order this might be too complicated and costly.

The first best option for new trade policies for the BGA would be a comprehensive framework within the WTO. Trade rules were much easier to understand for SMEs on a global level than in various regional trade agreements. However, currently the EU had no other option but to engage in negotiations for regional trade agreements. The look at mega FTAs illustrated the great gains for companies when engaging in international markets. However, the current public discussion surrounding mega-FTAs like TTIP were rather controversial. Even though this agreement might not have as many advantages for SMEs as for big industries, the importance of TTIP for Europe as an engine for growth and an opportunity after the crisis was evident. Moreover, there was a strategic interest for European companies to set industrial standards for the next decade.

The BGA had been promoting the bilateral trade agreement with Japan as Japan was an interesting market for German SMEs. Unfortunately, trade barriers were high and the Japanese market was complicated. For the EPA with Japan, the EU- Korea FTA could be taken as a blueprint. Korea had a similar market environment to Japan and this FTA seemed to produce positive outcomes for both markets.

Session II Part 1 Q&A

A participant commented on Mr. Shiga's statement that the trade balance between Japan and Germany in automotives was equal. This figure needed to be amended by the fact that many Japanese companies had their production sides within Germany or the EU. Hence, a large number of imports or export to Japan was intra-company trade and did not account for the real trade balance.

A panelist answered the question of a participant concerning the tariff schedules within the TPP. The TPP was consisting of different tariff schedules as it was not one agreement with a uniform tariff schedule but rather a collection of many different bilateral agreements between participating countries. TPP was aimed to be a free trade area and the different agreements were stepping stones to a uniform tariff schedule for all in the FTAAP (Free Trade Area in Asia Pacific). The panelist also addressed the question of resistance in the Japanese agricultural sector towards liberalization in FTAs like TPP. The panelist outlined that Japan was determined to agree on TPP as it was fundamental for not only an economic but also a political alliance with the United States. Moreover, the Japanese government had already agreed upon openings of former "sacred" agricultural sectors. The Abe administration had already decided to abolish a protectionist regulation on rice illustrating its seriousness about structural reforms. The agricultural sector needed to increase its competitiveness as a lot of export potential lied in within it. The panelist also focused on the topic of the openness of FTA negotiations in Japan. The Japanese government had held public consultations about the impact of such agreements and had been very open about the relevant topics of such agreements. However, of course the actual negotiations were held in secret as this was the standard rule for all trade negotiations.

A participant emphasized the resentments that had to be overcome when publically addressing issues like the impact of FTAs. The current debate in Germany surrounding TTIP was clouded rather negatively. FTAs could deliver growth and there were many strong economic arguments for such agreements but these did not always deliver strong political arguments. Today, there was a new focus on trade negotiations. Earlier, these negotiations were about cutting tariffs now they focused on harmonization of standards and rules. Companies did not like tariff cuts in their home markets as increased competition was feared but for consumers this meant cheaper products. Now this had switched as companies liked standardized rules across all markets but people feared a loss of their existing standards on health, hygiene, safety etc. Hence, to improve the political argument it might be advisable to focus the negotiations as well as the public debate on setting new global standards on green growth and environment.

A panelist addressed the question on the impact of the EU-Japan FTA for SMEs. In such agreements there would always be companies that would win and some that might lose. However, the overall feeling in Germany and from the side of German SMEs was a rather positive one as Japan seemed to be a promising market especially for those SMEs that were not yet exporting. There was an important strategic focus to inspire more SMEs to export. Hence, from a German perspective there would be great gains also for SMEs rather than negative effects.

Session II: GROWTH STRATEGIES
Part 2: The Challenge of ageing Societies

In the third panel, the three speakers illustrated the challenges that were arising from the demographic changes in Germany and Japan – the problems for the growth outlook in both economies as well as solutions to deal with these issues and ensure productivity.

Kazuhiko Toyama

Mr. Toyama focused his illustrations on the demographic change Japan was facing and the impact of this change on the society, the economy and government actions. Japan was encountering an ageing society – people were growing old and lived longer than they did decades ago while fertility rates were low. This was a long-term and structural problem for Japan. From the 1950s, the productive labor force (15 to 64 years) in Japan had undergone a rollercoaster shift from historical surplus over past sufficiency to a recent lack. Forecasts showed that the average life span of Japanese people (both male and female) was continuously increasing. Therefore the population of people of 65 years of age and older was gradually rising. Additionally, over the last 20 years, there had been a significant increase of first time marriages over 30 years of age coupled with low fertility rates. The migration of young people to large population clusters further stimulated the overall population decrease.

The recent sense of labor shortage was not a temporary phenomenon but rather a chronic and structural issue. Now, all depended on the young female population (20 – 39 years of age) as they built a key variable for the working population as well as a factor for higher fertility rates. In 2040, if the young female population decreased by more 50%, there was a high potential especially in rural areas that population might cease completely. To achieve sustainable economic growth a favorable cycle of promotion of corporate metabolism and innovation, improvement of competitiveness and productivity and an increase of workers' wages was needed. Moreover, countering negative growth labor market reforms were needed – labor productivity needed to increase. Even though labor productivity was high in many sectors, over 80% of all Japanese SMEs were in the service industries where productivity was generally lower.

Mr. Toyama emphasized the fact that a more dynamic labor market was needed as this would be the key to further sustained growth in Japan while the exchange rate and other macroeconomic denominators only played an inferior role.

Dr. Steffen Angenendt

Mr. Angenendt focused on the challenges of demographic change for the German society and economy as well as the better integration of immigrants as a solution for sustaining the productivity of the German labor market. The topic of demographic change was a difficult one as negative growth seemed a distant topic in Germany. However, demographically Germany was facing the same problems as Japan in having more deaths than newborns and thus a decreasing population. While the population was decreasing, the life expectancy was growing. This phenomenon was increasing the young-old-age-dependency ratio and social expenditures. The German workforce was shrinking. The main labor market shortages that would occur until 2025 would be in health care workers, IT experts, engineers, sales managers and financial experts. Moreover, there was an unequal population development across Germany. In comparison, in the rest of the world the population was rising which was contributing to a decreasing competitiveness in Germany. There was also a change in global income distribution. In 2050, 80% of the global economic growth would be produced from outside Europe and North America, new middles classes would arise mainly from developing and newly industrialized countries like Brazil, China, India, Indonesia, Mexico and Turkey.

To sustain productivity and growth the solution for Germany lied in migration and better integration of foreign workers. The long-term development of the foreign labour force in Germany showed that throughout the last four decades there had been a structural change in the foreign population. This seemed to be the main integration challenge. In the early 1960s, the foreign population was nearly entirely gainfully employed. This had dramatically changed over time. Today, only one fourth of the foreigners living in Germany were participating in the labour market. In total, the foreign population became more and more "normal" in a demographic sense as the share of non-working persons had steadily grown and had come close to that of the non-immigrant part of the German society.

Unfortunately, the economic, social and political implications of demographic change were not seriously addressed in Germany. There were still no adequate political and administrative structures on the federal level. The existing strategies were short-term, limited in scope and based on the assumption that demographic risks would be managed. The German government was not officially promoting migration as a solution but de facto opened up for more foreign workers. However, this strategy could backfire as fostering migration without a serious public debate on risks and benefits might only give rise to anti-foreigner sentiments and populist drawbacks. There was a broad political debate needed on mid- and long-term demographic risks, on growing disparities between growing and shrinking regions and on the options and limitations of public policies.

Nicola Brüning

Mrs. Brüning illustrated the practical company-based response to the demographic change in the workforce for BMW. Firstly, Mrs. Brüning stressed that BMW was trying to preserve and increase the performance and innovation potential with an aging workforce. The aim was to promote health, and to increase performance and competencies of employees, manage the demographic change proactively with a holistic and preventive approach to form an efficient and innovative workforce, create the environment for young employees to age in a healthy way and for older employees to bring in their unique strengths. Older employees had unique potentials as they were highly experienced and ensured company-specific know-how, decision-making abilities, quality awareness, discipline, reliability and loyalty. The physical ability of older associates did not necessarily decrease over time. It could be stabilized and improved with effective counter-measures. BMW tried to promote individual health care, nutrition and exercise, qualification and leadership behavior as well as ergonomics and individual working time flexibility.

Secondly, Mrs. Brüning also saw a chance in immigration for the German economy. The economic crisis had led to a dramatic increase in immigration to Germany. The German economy profited from increased levels of immigrants because immigrants from Southern and Western Europe were comparatively well educated. The shortage of highly-skilled workers could be addressed through immigration. The potential of highly-skilled immigrants should be harnessed in order to combat the growing shortage of highly-skilled workers in Germany. The recognition of foreign diplomas must be streamlined and more German-language programs for foreign workers were needed.

Session II Part 2 Q&A

A panelist addressed the question of refugees and their possible positive impact on the labor market. The number of refugees entering into the EU and seeking asylum in countries like Germany was growing steadily. However, the current refugee policy was very much misguided not with regard to the procedures but rather how these refugees were treated and recognized in the German society. There was no record of what kind of qualifications these people could bring into the country. There might be great potential and these people might be very useful for the labor market especially considering current shortages. There was a need for a systemized overview of the skills that refugees or asylum seekers possessed not only with regard to their formal qualifications.

A participant stressed that for Japan, the idea of an increased female workforce was clear and very much accepted, whereas the integration of foreign workers was very much controversial. The current shortage in the Japanese labor market was mainly occurring in construction and basics service industries. There was a clear shortage of simple workers, in jobs many immigrants could fulfill. Unfortunately, Japan was observing that the untied movement of foreign workers came with a lot of public and political resentment. The question of how to cope with these resentments arose.

Another suggestion of a participant on the potential of the use of robots and intelligent technologies was not substantial as their technologies were providing solutions for some kind of very special production methods. To this date, these technologies could not replace most routines hence there they built no real solution for any labor market shortage.

A panelist proposed that another solution might lie in a better education and utilization of the current population in order increase the number of skilled workers internally. To achieve this goal, the number of school and university dropouts needed to be reduced. By doing so, about 300,000 jobs could be created until 2025 in Germany. Moreover, a greater participation of female workforce might also increase the German working population by around one million until 2025. An increase in the pension age to 67 or 68 would bring another million. However, it became clear that the largest potential lied with immigration. Immigration would be Germany's single most important tool as the other solutions also had their weaknesses. For example, there could be a conflict of increased female workforce and raising fertility rates if social structures were not really adequate. Moreover, there was no empirical evidence for any political incentive to raise fertility rates as this was a highly complex decision. There was no industrialized country with high female participation and high fertility.

Closing Ceremony

Amb. Paul Freiherr von Maltzahn

In his closing remarks, Ambassador von Maltzahn thanked all participants for this year's return of the Japanese experts to the DGAP and the interesting talks and discussions. The symposium had focused on many relevant and current issues. Both Japan and Germany shared a slight optimism and confidence about their economic developments even though there were still challenges to be overcome as the discussions in the first session had outlined. The debates on FTAs had changed compared to the debate during the last symposium. Since then, FTAs were on their way in a global fight against protectionism. Multilateral agreements were still the main goal but could only be achieved step by step. Both Japan and the EU wanted to be part of a new global trade order and both were negotiating with the United States. In the third panel however, it had become clear that there was a division between global and local trends as both Japan and Germany were facing a change in demography. The panel had given an insight into the structures and challenges of demographic change, the need for public debate on immigration and the already practiced measures to tackle the problem.

Kazumasa Kusaka

Mr. Kusaka thanked all participants for the rich and deep discussions of the symposium. Many similar opinions on the discussed issues had been illustrated but also different approaches and problem solutions to current challenges. Moreover, participants were able to learn from each other and understand different opinions. However, there was still room for more exchange and future cooperation between JEF and the DGAP.

End of Symposium