

Recent JEF Activity

Europe & Japan Share Agenda for Growth

By Mayumi Inoue

A Europe-Japan forum was held on July 11-12, 2013, at the Paris Ile-de-France Chamber of Commerce and Industry, co-hosted by the Japan Economic Foundation and Institut Aspen France. Mayumi Inoue, a JEF staff member involved in organizing the conference, offers some reflections on the event.

Key Phrase at Forum: Structural Reform

The synchronization of economic and social developments is, I believe, a key characteristic of today's globalized world. This is partly a result of the growing interdependency among economies all over the world through trade and investment, and of the rapid spread of phenomena such as the Arab Spring (a symbol of people's increasing demand for equality and liberty). The European Union and Japan are no exceptions, and have become increasingly interdependent through globalization.

In particular, they share many socioeconomic issues which are vital in pursuing growth and development, such as concerns about expanding fiscal debts due to a wide range of factors, including the aging of society and energy supply constraints.

Our Europe-Japan forum highlighted such commonalities and aimed to promote better mutual understanding between the two economies. We found that "structural reform" could be a key phrase to describe a major problem facing both partners. Structural reform, whether in France or Japan, causes pain in society since it involves institutional reforms (like the French Revolution itself) and thus produces both winners and losers.

I am personally interested in this issue, not only because I like the history of revolutionary France but also because I sometimes feel it necessary to change the structure of my daily life, in terms of my diet, for example, or other habits. So I would like to focus on this aspect of the forum's discussions.

"Abenomics" vs EU Macroeconomics

The first common policy agenda issue was how to restore macroeconomic conditions following the global economic crisis, which still continues to weigh on business recovery in both

regions. Forum participants compared Japan's recent macropolicies with EU macropolicies, both aimed at achieving higher economic growth in the wake of the Lehman Shock. In both, monetary policy played the role of a medicine to stimulate and maintain an appetite for business and consumption. More specifically, while the European Central Bank (ECB) consistently eased refinancing conditions to restore calm to the financial markets, thereby providing Eurozone member states with extra time to undertake reforms, the administration of Japanese Prime Minister Shinzo Abe chose a new monetary policy based on targeting inflation at 2%, backed by a drastic quantitative and qualitative easing policy. This was the first of the three arrows of Abenomics.

But although both regions' monetary policies are moving in similar directions, their fiscal policies are different. European fiscal policy focuses primarily on fiscal consolidation, mainly to stabilize the value of the euro, while Abenomics pursues short-term stimulus as its second arrow to restore the economy of the regions hit by the earthquake and tsunami disaster of March 2011.

In terms of mid-term policy goals, however, their thinking is identical; their budget deficits are considered an unstable factor for sustainable economic growth and must therefore be reduced as much as possible. Otherwise, for Japan, Abenomics would not be successful in gaining the world's confidence. This view was shared by all the participants. In order to achieve its goal, structural reform of government expenditure will be necessary for both regions. Slimming the size of government will be necessary in Japan as well as in Europe, but will also be painful for any beneficiary of government expenditure, just as for a person on a diet. In the case of Japan, we would need, in addition, a rise in the consumption tax rate. Assuming that a tax rise will provoke political concerns about its negative impact on the business recovery process, the process of realizing sustainable economic growth could be harder in Japan than in Europe. It will be difficult to achieve any consensus on tax hikes as well as on rationalization of budget expenditures.

The European participants in the forum seem to have been more concerned about the fiscal deficit and expressed doubts and skepticism over the efficacy of Abenomics. It was pointed out that the depreciating value of the yen and the rise in stock prices, which had a positive impact on the Japanese economy following the drastic change in Japanese monetary policy, would not be maintained unless a fiscal balance is somewhat restored in the long run.

In this regard, I believe the Europeans are more strongly committed to a balanced budget, which they believe will bring stabilization of the euro.

New Trade Negotiations as Growth Strategy

Against the background of the stalled Doha Round negotiations, Japan and Europe revived bilateral and plurilateral trade talks and initiated new ones, trying to move towards trade

liberalization at a faster pace than through the World Trade Organization (WTO). They assumed that trade liberalization would be an engine for economic growth through trade and investment expansion. To achieve this as effectively as possible, they attempted to conclude more region-wide free trade agreements (FTA), such as the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the United States, and in the Asia-Pacific area the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the China-Japan-Korea FTA.

These are considered particularly ambitious and comprehensive, and have been described as “mega-FTAs” which could have a larger impact on trade liberalization than bilateral ones. Mega-FTAs is a trend of worldwide trade policy today, but it should not be ignored that diverging mega-FTA agreements could result in a fragmentation of trade rules and thus hamper their global harmonization. In this light, trade negotiators should bear in mind that collaboration towards global solutions will be necessary to make FTAs compatible with WTO rules to consolidate them.

The forum participants also discussed China’s growing assertiveness in Asia and how to cope with it. It is considered important to encourage China to be a stakeholder in the global system to avoid its isolation from the rest of the world. In this respect, the RCEP and CJK FTA should be promoted to pave the way for the integration of China as a real stakeholder in the global trade system. This implies that today FTAs can be a tool in diplomatic policy as well as a tool in economic policy.

I believe that structural reform of domestic economies will be necessary to achieve trade liberalization, since lifting tariff and non-tariff barriers will encourage competition in the domestic markets of each FTA member country.

Challenge of Global Energy Situation & Aging Society

Among recent developments in the global energy situation, the most important is the surge in unconventional oil and gas production in the US, which is now a producer of energy sources as much as a consumer. Its shrinking geo-economic interest in the Middle East, the largest oil-producing region in the world, could have a fundamental effect on global geopolitics.

With economic and environmental concerns in mind, the EU and Japan must promote energy efficiency in industries and for households in order to reduce their energy bills. These energy challenges are likely to create new business and market opportunities, and we will need Euro-Japanese cooperation in this context.



The aging of society is another challenge in common for Europe and Japan, but this can also be considered an opportunity for both. We should start thinking about how to modify the increasing fiscal burden due to the potentially drastic increases in pension costs for elderly people.

Raising the retirement age could be one solution. On the other hand, aging-related industries such as health care and pharmaceuticals will gain new business opportunities.

Finally, the participants noted that innovation and education should be key growth drivers in mature economies like Europe and Japan, since new technologies and human capital would be the only locomotive for enhancing our growth potential.

Concluding Remarks

As I mentioned at the beginning of this short essay, structural reform will be a key factor for both economies in balancing their fiscal budgets, liberalizing trade, pursuing energy efficiency and dealing successfully with their aging societies.

It will not be easy for either to achieve sustainable growth, since structural reform is always easy to talk about but difficult to realize, just like sticking to a diet. But without it our economic health will get worse. We should keep this in mind and strongly commit to structural reform.

I would personally add another important issue that should be earnestly discussed in future meetings by both parties: job security. Without sufficient growth, we will not be able to create enough jobs and the number of unemployed will increase, which could seriously threaten social cohesion and stability. Keeping this specter in view may help us strengthen our determination to implement structural reform.

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