



Recent JEF Activity

JEF Forum — Discussions on Structural Reform Key to Achieving Economic Growth in the Post- Financial Crisis Era

By Japan SPOTLIGHT

As the end of the fiscal year approaches, we here present as usual the key features of JEF Forum for FY 2015. As in the previous year, JEF organized four international fora: the Asia-Pacific Forum, the US-Japan Forum, the Europe-Japan Forum and the China-Japan-Korea Cooperation Dialogue. We provide details of the structure and the venue of each forum at the end of this article. Here we offer an informal assessment of these fora and the key issues discussed through an internal discussion with our JEF colleagues Ms. Asuka Niwa and Ms. Mayumi Inoue moderated by the *Japan SPOTLIGHT* editorial department.

Principal Changes in the Nature of JEF International Forum Discussions

JS: I believe the nature of JEF Forum discussions crucially changed last year and this new trend was reinforced this year. What do you think was the key change evolving this year?

Niwa: While our discussions up until 2014 were focused on FTAs, in particular their trade liberalization features, a concept directly related to tariffs, the main focus of our discussions at each forum in fiscal 2015 switched to domestic issues. In particular, structural reform of the economy was the key concept replacing trade liberalization.

I think there are two important aspects of structural reform that were discussed in each forum. First, discussions on promoting free trade today have moved towards maximized exploitation of the merits of trade liberalization from merely lowering trade barriers such as tariffs. To maximize the merits of free trade, we would need to reduce domestic impediments that could be non-tariff trade barriers as much as possible. Such

impediments are sometimes domestic regulatory barriers, sometimes business customs and sometimes domestic institutions. This elimination process that is embodied in industrial adjustment policy, competition policy or regulatory policy could be called structural reform. In this regard, I guess structural reform is an extension of trade liberalization.

Second, the need to promote such structural reform stems not only from the need to further promote trade liberalization but also from the need to revitalize our economic growth. Most developed nations today are facing a serious shortage of effective macroeconomic policies, such as fiscal and monetary policies. The hands of these nations' governments are all tied by serious cumulative public debt and zero or very low interest rates. In this situation, their finance ministries and central banks cannot push up a nation's economic growth by policy means. They have no choice but to pursue structural reform to raise their growth potential on the supply side. In other words, structural reform is the only feasible growth strategy among the major economies of the world today.

Inoue: I agree. Our basic purpose with these four international fora must be to think about how we can achieve global economic growth while the world economy is still struggling to exit from the financial crisis in 2008. We have noticed through all the fora we organized this year that all the key players in the world economy — the United States, Europe and Asia-Pacific countries — are still suffering from the lingering damage of the Lehman Shock. How we can better cope with this was, I believe, an important topic for us.

Trade liberalization, in this context, was considered one of the key growth strategies, since it could fully take advantage of mutual benefits among trading partners. It was amazing to me to see all the participants in our fora agree on this win-win nature of international trade, though it would be hard to understand from a short-term perspective. As Niwa-san said, structural reform will be necessary to exploit fully the benefits of trade liberalization, a possible engine for growth.

Another thing I noticed was that everybody in our fora implicitly or explicitly agreed on the political difficulties of achieving structural reform. Agricultural reform necessary in Japan and some other countries in promoting the Trans-Pacific Partnership (TPP) is a typical example of such political difficulties, as vested interests likely to be affected by reform would oppose it strongly, and occasionally these voices will be bigger in domestic politics and hinder reasonable and relevant reforms from being achieved. I think it is a notable achievement

that all the participants shared an awareness of these political difficulties among nations. With this awareness as a starting point, in future meetings we can promote an exchange of views and information on experiences of structural reform and what political obstacles have been encountered in promoting structural reform and how they could be overcome.

Lastly, I would add that geopolitical discussions seem to have increased in our fora this year. Economic issues cannot be solved well without addressing political questions. The typical example is how the future regional integration regime can evolve from the current progress in mega regional FTAs like the TPP, led by the US, or the Regional Comprehensive Economic Partnership (RCEP), led by China. FTAs cannot be discussed without addressing their possible impact upon regional geopolitics today.

Niwa: Even in our previous fora until 2013, we addressed geopolitical issues in the context of FTA discussions. The most important thing is that we really got a sense of in-depth globalization in progress through our forum discussions. The increasing need to address domestic issues in the context of structural reform discussed in our fora clearly proves it.

Major Observations of Each Forum

JS: Could you tell us what other key points impressed you most in each forum?

Inoue: I worked on the CJK Cooperation Dialogue 2015 that was organized in China. This is the second dialogue involving the three countries since its foundation in 2014 and an introduction of the details of the discussion was available in the Nov./Dec. 2015 issue of *Japan SPOTLIGHT*. The part on environmental cooperation between the three countries in this forum was, I believe, crucial in improving their relations. China, in particular, badly needs help from Japan and South Korea, which have achieved both economic growth and a clean environment simultaneously, in order to mitigate its significantly growing pollution. Japanese panelists discussed Japan's experience of tackling pollution by technology as well as policy efforts, and the sharing of such knowledge was much appreciated by the Chinese delegation.

We also discussed Chinese initiatives in fulfilling the need for infrastructure in developing Asian countries — namely the Asian



CJK Cooperation Dialogue 2015 in Changchun, China

Infrastructure Investment Bank (AIIB) and the “one belt one road” initiative. I think these initiatives are closely related to the question of regional governance or global governance. How other Asian countries face or cope with the growing importance of China as a geopolitical power in the region will be a crucial question. Assuming that Asia is key to achieving peace and prosperity in the world given the increasing importance of its economy, this question is also one of global governance.

Niwa: The question of regional governance was also addressed at the Asia-Pacific Forum 2015 in Jakarta, “ASEAN Community Building and Regional Economic Integration in East Asia: Looking Beyond 2015”, organized in collaboration with the Economic Research Institute for ASEAN and East Asia (ERIA) and Center for Strategic and International Studies (CSIS), Indonesia. I worked on this forum and found it very successful in stimulating the audience's enthusiasm for discussions on regional integration in East Asia. The foundation of the ASEAN Economic Community (AEC) officially endorsed by an ASEAN leaders meeting in November 2015 also raised the question of regional governance in Asia, and whether the AEC could work as a driver of regional integration in East Asia. ASEAN centrality in regional governance in East Asia was one of the key issues emerging at the forum. Since the TPP negotiations were concluded in October 2015, the discussions highlighted what impact the conclusion of the TPP would have on other mega regional FTAs, the RCEP, or more generally the future scheme of East Asian regional integration.

In my understanding, as we discussed in our previous forum, the TPP has been considered as a start to “competitive liberalization”. In this light, I agreed with the speakers at this

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Asia-Pacific Forum 2015 in Jakarta

forum who said that the TPP is expected to promote the negotiation process of the RCEP (now expected to be concluded in 2016) and eventually both are expected to merge into the Free Trade Area of the Asia-Pacific (FTAAP). There were some other views, though, that it would not be so easy to conclude the RCEP since the TPP is assuring a higher trade liberalization rate than the RCEP is and there could be less incentive for some members of the RCEP to promote it, while joining the TPP as a new member could provide those nations with greater benefits of free trade. In either of these cases, the TPP-RCEP rivalry argument in determining the future shape of East Asian regional integration is a matter of US-China rivalry, I believe. I think this question leads to how we should think about the presence and possible leadership role of the US in this area. Should we welcome the US or not in our region in terms of geopolitics? This is a big question to be resolved in the future.

In the discussion on structural reform of domestic economies to promote economic growth by taking full advantage of the benefits of trade liberalization, our primary growth strategy option, I took note that the inclusiveness of growth must be a focal point for our Asian colleagues. In particular, inclusion of small and medium enterprises with development gaps with large companies in any growth was the most highlighted issue in this discussion.

Inoue: I would like to say a few words about our EU-Japan Forum in 2015 organized in London with Chatham House, one of the best European think tanks. The title of the forum was “The Political Economy of Japan and the EU: Challenges and Strategies”. Niwa-san mentioned the possible impact of the TPP on other FTAs, and there were similar

discussions in this forum on the TPP and a Japan-EU FTA. I recall one speaker mentioned that the TPP could inject new dynamism into Japan-EU FTA negotiations, but that the terms of the TPP deal cannot simply be copied and pasted into the EU-Japan agreement. This means that an EU-Japan FTA would aim at enhancing the quality of the deal by raising the rate of trade liberalization adopted by the TPP, allegedly highly ambitious. I hope this will not retard the conclusion of an EU-Japan FTA.

We also discussed three other long-term issues that both Europe and Japan face: the challenge of demographics, energy and the environment, and the role of local governments. On the demographic challenge, namely depopulation, and the idea of migration being a possible solution for that, I noted that many agreed migration would involve costs as well as a number of opportunities. More importantly, one speaker mentioned that it could have a negative impact on female labor force participation, since employers may prefer migrant men to women.

On the question of energy and the environment, the Japanese government's recent initiative in establishing the Innovation Cool Earth Forum was highly appreciated. This was founded for the purpose of contributing to tackling global warming by developing widely available innovative technologies for increasing energy efficiency, for example with regard to steel production or coal plants.

As for the role of local governments, while in Europe local and regional governments aim to influence policy-making at the national and international level, Japan is a highly centralized state with very few arguing for greater power for local politics. However, the current depopulation trend will seriously affect the public and social services provided by local governments due to



Japan-EU Forum 2015 in London

a faster and sharper decline in tax revenues than in urban areas. Decentralization and devolution would be a solution in addressing this issue.

Niwa: We organized our US-Japan Forum in 2015 in collaboration with another prestigious think tank, Brookings Institution in Washington, D.C. The title of this forum was “Uncertain Prospects and Policy Challenges for the Global Economy”, covering the macroeconomic prospects of developed nations and emerging markets, and the challenges of climate change and energy as long-term constraints on economic growth. Based on the perception that the global economy is still suffering from the lingering effect of the financial crisis, we discussed the appropriate pace of monetary normalization, namely exiting from quantitative easing and a zero interest rate policy, and the role of fiscal policy in sustaining economic growth in addition to structural reform policies, a common issue at all our fora in 2015. This macropolicy challenge is being faced by all major developed nations.

I noted that discussions on the growth strategy of the US and Japan touched upon Japanese corporate governance reform as well, which is regarded as encouraging innovation by Japanese corporations to enhance their competitiveness, as a result of return on equity being considered a key indicator of corporate performance. Prospects for the BRIC nations and other emerging economies are also surrounded by uncertainties, as they face a synchronized growth slowdown. Global governance in 2016 will need to deal with such a decline appropriately.

Discussions on such macropolicy issues are likely to become more complicated due to the continuing increase in income inequality. Governments will need to address not only growth performance but also this spread in income inequality which could lead to political and social instability.

On the question of climate change and energy, many expected COP21 in December 2015 to provide an effective framework for concerted actions by countries to reorient their growth strategies and enhance international cooperation, including in finance and technology. I assume their expectations were met by the successful COP21 gathering in Paris.

Meetings in 2016

JS: Thank you for your remarks on the specific key characteristics of each forum's discussions. Finally, do you have any suggestion for common subjects of



Japan-US Forum 2015 in Washington, DC

discussion at all the JEF fora in 2016?

Niwa: Yes. Both the US-Japan Forum and Asia-Pacific Forum on which I am working suggested in 2015 that inclusiveness of growth should be a key feature of growth strategy from now on. Increasing income inequality would be an impediment to sustainable growth and political stability. In striving for peace and prosperity during a declining global economy and increasing geopolitical risks in 2016, I believe our fora should tackle this issue of inclusive growth.

Inoue: Yes, I agree. In addition, I think it would be interesting to discuss the issue of introducing more equal working opportunities among all kinds of groups of people into the labor force and in particular management, as this is one of the key growth strategies proposed by Abenomics.

We should do our best to make our discussions as understandable as possible for non-policy experts, since anyway in a democratic society it is ultimately the public that makes key decisions on all crucial policy issues.

Niwa: I agree on the question of the importance of equal job opportunity among the variety of people in a growth strategy, but I do not agree on the second point. Our fora are for the interest of experts and each expert who participates in them could convey what they have learned from our discussions to the public.

JS: Thank you both very much for sparing the time to contribute to this review. We at the JEF will do our best to produce even more valuable results in the year ahead.

JS