

JEF Forum 2017 — Examining Growth Strategy & Stimulants & Impediments to Growth Among Japan & Her Partners

By Naoyuki Haraoka

Introduction

2017 will be recalled as the year of global economic recovery. It is believed that most nations were emerging from the long-term economic stagnation that had continued since 2008, the year of global financial crisis. This might be contradictory given increasing concerns about domestic politics among some key global players that could cause a rise in nationalism or trade protectionism. The lessons of economic history tell us generally that when the economy is in bad shape, nationalism or protectionism increases and would be an impediment to growth. Now, however, we are seeing a steady economic expansion around the world against a backdrop of increasing nationalism and protectionism. The question is whether the economic growth we are enjoying at the moment is truly sustainable or not.

It is possible for national governments to boost stock prices and thus get their economies back into a recovery orbit over the short term by using provisional active fiscal policies and loose monetary policies, but whether such an expansion would continue in the long run is a different story. We would need growth strategies that could raise national industrial competitiveness by enhancing national economic productivity as well as growth potential on the supply side. Without them, economic growth would not be sustainable. Whether we can achieve sustainable long-term growth based on enhanced industrial productivity and competitiveness is a crucial issue not only for developing nations but also for developed ones. Needless to say, long-term sustainable growth is the sole solution for economic development for developing nations. In addition, for developed nations that would be the sole solution for achieving economic welfare against the background of aging societies. Governments would need stable tax revenues from stable economic growth for the necessary social welfare expenditure for elderly people under increasingly rigorous national budget constraints due to increasing government deficits.

Thus growth strategy is a common interest all over the world. Trade policy, industrial policy, fiscal policy and monetary policy altogether can be seen as a part of a nation's growth strategy. There are also possible stimulants to promote economic growth as well as possible impediments to growth. One of the most important energizers is innovation. Technology's contribution to economic



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growth can be considered as vital, since it would lead to significant efficiency in the economy by raising industrial productivity. The Fourth Industrial Revolution that is starting to affect our business and life should thus be examined in the context of the scrutiny of growth strategy.

Strengthened productivity would lead to strong industrial competitiveness. Competition to achieve higher competitiveness would itself create winners and losers in international trade. Fair and well-considered competition rules including free trade rules in the international community could be another stimulant to economic growth. Well-designed industrial policy and labor market policy could compliment these policies by encouraging resources, including human ones, to move smoothly from the losers to the winners in this competition.

One of the possible impediments to growth would be increasing income inequality which would discourage consumption growth due to the decline of the middle class. Increasing income gaps today partly explain the increasing divides in political opinions which cannot be easily bridged. These divides could be an impediment to stable growth as a significant unstable factor, as economic policies could widely differ between one administration and another in any given country depending upon election results.

The JEF Forum in 2017 targeted these issues as the main themes for discussion in all the venues: the Japan-Europe Forum in Berlin, the Japan-US Forum in Stanford and the Asia-Pacific Forum in Manila. Besides those three, JEF organized the CJK (China, Japan and South Korea) Cooperation Dialogue as usual in Seoul in 2017, the essence of the meeting was introduced earlier in our Jan./Feb. 2018 issue.

3rd JEF-DGAP International Symposium on “Charting Choppy Seas: The World Economy & the Future of Growth & Trade”

The JEF Forum in Europe was held in Berlin on Thursday, May 18, 2017. The collaborator in this forum was DGAP (Die Deutsche Gesellschaft für Auswärtige Politik e.V.), the German Council on Foreign Relations. This was the third occasion of JEF-DGAP collaboration.

The title of the symposium “Charting Choppy Seas” indicates

significantly increasing concern about the results of elections in 2016, such as the US presidential election, and the emergence of more protectionist or nationalist governments among key players in the world. In the first half of 2017 in particular, many thought this domestic political trend could cause an economic downturn immediately. The Agenda of the conference is available below and readers can identify the speakers on each topic. The symposium consisted of three parts organized in a roundtable. We noted a positive and friendly ambiance in the symposium, which is common among meetings with Europeans. Possibly this is due to the fact that Europeans and Japanese are facing similar challenges in their economies.

The symposium began with a discussion on the growth strategy of both Japan and Germany, which were enjoying economic recoveries but still with low growth. The title of the first part of the symposium was “Escaping the Low Growth Trap” expressing their common ambition to raise economic growth. 2017 was a year in which Japan hosted the G7 and Germany hosted the G20. This turned participants’ interest towards the roles of the G7 and G20 in global governance schemes to achieve sustainable economic growth. It was striking to see many agreed that one of the important missions of the G7 and G20 should be to stop either the US or China from disturbing the world trade order with nationalistic or protectionist policies. Those global governance schemes are expected in particular to mitigate the negative impact of the US withdrawing from international trade agreements or building up significant trade barriers. They highlighted also the issue of investment promotion for start-up companies or SMEs as a growth strategy. For example, the development of infrastructures would encourage the birth of new companies. Another point was concerning the nationality of newly emerging companies if they were merged into a large US or Chinese company. In a globalized world, nationality could be considered less important than the venues of their activities in terms of the impact on the economies. Sticking to nationality in discussing FDI’s impact upon a national economy could be detrimental to a nation’s economic growth under globalization.

The third important point of discussion in this part was on fiscal debt. While Japan has been suffering from enormous fiscal debt, reaching 250% of Japanese GDP in 2016, Germany is not. A consumption tax hike in Japan will be inevitable in the future in the light of its rapidly aging society where further increases in social welfare expenditure must be unavoidable. Another way to decrease fiscal debt could be high inflation, but this should be avoided for the health of the economy.

The title of Session 2 was “Populism, Protectionism, and the Future of Free Trade”. The session covered the issue of possible links between recent domestic political developments, such as the US presidential election, and trade protectionism. Dr. Sota Kato, a Japanese political scientist, offered his well-considered views on the



Photo: Dirk Enters

The 3rd JEF-DGAP International Symposium, Thursday, May 18, 2017 in Berlin

Agenda

The 3rd JEF-DGAP International Symposium

“Charting Choppy Seas: The World Economy and the Future of Growth and Trade”

Venue: Die Deutsche Gesellschaft für Auswärtige Politik e.V. (DGAP), Berlin, Germany

Date: Thursday, 18 May 2017

Session 1: Escaping the Low Growth Trap

Speakers:

- Prof. Mitsuhiro Fukao, Professor Emeritus, Keio University
- Alexander Schönfelder, Head of the Division 400 Basic Economic Issues, International Economic and Financial Policy, Federal Foreign Office
- Dr. Klaus Günter Deutsch, Head of Research and Economic Policy, Federation of German Industries (BDI)
- Moderator: Naoyuki Haraoka, Executive Managing Director, Japan Economic Foundation (JEF)

Session 2: Populism, Protectionism, and the Future of Free Trade

Speakers:

- Dr. Sota Kato, Executive Director, Tokyo Foundation; Professor, International University of Japan
- Tetsuro Fukunaga, Executive Director, Brussels Office, Japan Machinery Center for Trade and Investment (JMC)
- Dr. Claudia Schmucker, Head of Globalization and World Economy Program, DGAP
- Dr. Ilja Nothnagel, Head of Division Foreign Trade Policy and Law, Association of German Chambers of Commerce and Industry (DIHK)
- Moderator: Dr. Henning Hoff, Executive Editor Berlin Policy Journal, DGAP

Session 3: Staying Competitive Through Digitalization

Speakers:

- Toshiyuki Shiga, Vice Chairman, Nissan Motor Co., Ltd.
- Michael Bültmann, Managing Director, HERE Deutschland GmbH
- Dr. Andreas Rinke, Chief Political Correspondent, Reuters Berlin
- Moderator: Dr. Christian Mölling, Deputy Director of the Research Institute, DGAP

roots of protectionism. According to him, most protectionist movements originally stem from political movements among strong interest groups, and thus they are much more keen on their specific sectoral interests rather than a difference in principles, such as globalization or free trade and protectionism. In reality, as with Prime Minister Shinzo Abe's handling of opposition from agricultural interest groups to the TPP, a political leader popular with the masses could beat a strong interest group supporting protectionist measures for their own interest, like agriculture in Japan. Free trade principles could be supported by the majority of the people backing a popular politician, opposite to what is believed now about protectionism and political leaders with high support from the masses today. There was a discussion of US President Donald Trump's protectionist trade policies. While his policies have caused damage to world trade, Europeans found certain merits in that they have created closer ties among European nations without US leadership in the global trade regime.

Session 3 "Staying Competitive Through Digitalization" concentrated on innovation and in particular the Fourth Industrial Revolution, a strong stimulus to growth but a concern regarding employment. While digital innovation would enhance labor productivity significantly, many human jobs would be replaced by automation and artificial intelligence (AI). In order to avoid a possible drastic rise in unemployment, a national government would need to promote labor market reform including retraining programs to enhance labor mobility and help unemployed people find another job easily. Another point of discussion concerned transparency of data. On the question of the use of a wide range of data in the progress of digitalization, there was a consensus that how data would be used should be open to the public in advance.

US-Japan Forum on "Economic Policy Challenges in the US & Japan"

The JEF US-Japan Forum 2017 was held at Stanford University on Friday, June 2 in collaboration with the Asia-Pacific Research Center (APARC), Stanford University. The Agenda is available below. This roundtable discussion consisted of three parts: "Growth Strategies of the US and Japan", "Globalization and Inequality" and "Is Technology the Answer?" The conference thus covered many crucial policy questions that present common challenges today. There were a number of distinguished scholars from Stanford University participating in this event as speakers who provided academic arguments on real economic issues.

Session 1 highlighted two scenarios for future economic growth: one was pessimistic, namely all innovations were products of the past and there is no positive outlook for future growth; the other was optimistic, assuming that new technology will be the key to future growth. It is noteworthy that they discussed the relationship between demography and entrepreneurship. It was pointed out that

in a country with more young people, there would probably be more start-up opportunities, as young people may be more creative than elderly people and may not have been given good business opportunities in a large company. There were also arguments pointing out the slow progress of Japanese structural economic reform, noting that such delay would lead to a failure to raise labor productivity and capital. It was suggested that Japanese political institutions, including regulators, must be not in favor of structural reform.

Meanwhile, many pointed out that US President Trump has not achieved any significant political goals yet, despite such challenging issues as budget deficit reduction and tax reform deregulation.

It is also noteworthy that large enterprises were considered to discourage entrepreneurship due to their bureaucratic nature and that more support to enhance SMEs' business performance was considered more important for revitalization of the economy. This is probably a viewpoint well supported by Silicon Valley, the heartland of entrepreneurship, where Stanford University is playing a central role.

Session 2 highlighted the relationship between globalization and inequality. In the manufacturing industry, there is a possibility that developed nations' non-skilled workers' jobs would be taken by low-wage workers in developing countries if companies in developed nations relocate their production facilities there in pursuit of cheap labor. However, even in such cases, there would be benefits accruing to the business management or device engineers of those companies. It was also argued that technological innovation and a failure of education policy to adjust to the advancement of technology would be more responsible for such loss of jobs and not globalization.

The conclusion of Session 3 was largely affirmative in stating that technology should be the answer to economic growth, enhancement of declining productivity, mitigation of income inequality, and sustainable rises in real wages. In order to take advantage of the merits of new technology, business and society must be ready to create a culture more friendly to innovative people and minds. In this context, the difference between Silicon Valley and Japan was discussed. Although Japanese businesses are keen on learning about new ideas from Silicon Valley, they have not yet been successful in transforming Japanese business culture into one that is accepting of more failed attempts by entrepreneurs. It will be necessary for Japan to create a more entrepreneur-friendly business culture.

In the end, on the question of concerns about human jobs being replaced by AI, it was pointed out that low-skilled labor could be engaged in high-skilled jobs with the help of intelligence augmentation provided by the public sector or business, and thus human jobs would not be so easily replaced by AI.



The US-Japan Forum, Friday, June 2, 2017 at Stanford University in the US

Agenda

The US-Japan Forum

“Economic Policy Challenges in the US and Japan”

Venue: Bechtel Conference Center, Encina Hall, Stanford University

Date: Friday, June 2, 2017

Session 1: Growth Strategies of the US and Japan

Moderator: Takeo Hoshi (Stanford University)

Presenters: Nick Bloom (Stanford University)
Takatoshi Ito (Columbia University)
Keiichiro Kobayashi (Keio University)
Kathryn Shaw (Stanford University)

Session 2: Globalization and Inequality

Moderator: Naoyuki Haraoka (Japan Economic Foundation)

Presenters: Brad DeLong (UC, Berkeley)
Francis Fukuyama (Stanford University)
Hideichi Okada (Japan Petroleum Exploration Co., Ltd)

Session 3: Is Technology the Answer? (or Will Silicon Valley Save the World?)

Moderator: Ken Singleton (Stanford University)

Presenters: Shai Bernstein (Stanford University)
Kenji Kushida (Stanford University)
Masaaki Tanaka (PricewaterhouseCoopers International Limited)
Tsunehiko Yanagihara (Mitsubishi Corporation)

Asia-Pacific Forum 2017 on “Integration & Inclusiveness in a Digital Society”

The JEF Asia-Pacific Forum 2017 was held in Manila on Thursday, Nov. 23, only a couple of weeks after the successful conclusion of an agreement in principle by the TPP11 (TPP without the United States) at a TPP Ministerial Meeting on Nov. 9 in Da Nang in Vietnam. A series of important meetings aimed at pursuing regional economic integration in Asia also happened to be held in Manila following the TPP Ministerial Meeting. One was the Japan-ASEAN

economic ministers meeting on Nov. 12, having officially agreed to conclude an agreement on trade and investment in services as a part of the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), and another was the RCEP ministerial meeting also on Nov. 12, followed by the RCEP leaders meeting on Nov. 14, having confirmed to step up negotiations to conclude the RCEP (Regional Comprehensive Economic Partnership consisting of ASEAN plus Japan, China, South Korea, India, Australia and New Zealand) in 2018.

It was noteworthy that the JEF Forum benefitted from these positive recent developments in regional economic integration and trade liberalization. The participants were all enthusiastic about promoting and encouraging free trade against the tide of protectionism, in particular provoked by the new US administration, and they believed that Asia-Pacific countries should play a leading role in this.

The forum was held over two days as usual, one devoted to a symposium open to the public (the Agenda is below) and the other featuring a roundtable among the panelists and moderators to supplement their remarks in the symposium. Both consisted of three sessions: “Emerging Populism: Contributing Factors, Impacts and Countermeasures”, “Innovation as a Catalyst for Deepening Inclusiveness and Regional Integration” and “People-centered ASEAN as a Way Forward to the Wider Regional Integration”. The Philippine Institute for Development Studies (PIDS) was JEF’s partner in this forum.

In Panel Session 1, the emerging consensus seemed to be the need to highlight the role of think tanks as providers of knowledge and objective analysis to voters. It was emphasized that well-informed voters would not be manipulated by political propaganda. Regional cooperation was also considered a good tool to achieve good governance, since peer pressure would work in meetings on regional cooperation among member countries to exchange information and views on public policies. APEC is regarded as such a venue for achieving good governance on a voluntary base rather than on a legal obligation basis such as the WTO.

In Panel Session 2, though for most Asia-Pacific people innovation seems to be considered to have only positive aspects such as enhancing productivity or encouraging growth, the participants largely shared the view that innovation could have a negative impact upon employment, as technology could take human jobs. Thus, innovation could create income inequality, though its positive impact on growth could also lead to greater inclusiveness in the long run. In this regard, globalization and innovation have similar impacts on the economy, as in the short term both could produce unemployment but over the longer term both could contribute to inclusive growth. In order to minimize this short-term negative impact on employment, all agreed on the importance of education and training. In the structural reform triggered either by globalization or innovation, enhanced labor mobility would be a key

Agenda

The Asia-Pacific Forum 2017**“Integration and Inclusiveness in a Digital Society”**

Venue: Ballroom A, 7th Floor, Marco Polo Ortigas Manila

Public Symposium Date: Thursday, Nov. 23, 2017

13:00 – 13:15 Welcome remarks

Kazumasa Kusaka, Chairman and CEO, Japan Economic Foundation (JEF)
 Dr. Roehlano Briones, Senior Research Fellow, Philippine Institute for Development Studies (PIDS)

13:15 – 13:35 Keynote address

Dr. Ernesto Pernia, Socioeconomic Planning Secretary, NEDA; Director-General, and Chairman of the PIDS Board of Trustees

13:40 – 14:50 **Panel Session 1: Emerging Populism:****Contributing Factors, Impacts, and Countermeasures**

Session Chair and Moderator: Dr. Roehlano Briones, Senior Research Fellow, PIDS

Panelists:

1. Dr. Yose Rizal Damuri, Head, Department of Economics, Center for Strategic and International Studies (CSIS)
2. Dr. Nonarit Bisonsyabut, Research Fellow, Thailand Development Research Institute (TDRI)
3. Dr. Ahn Choong-Yong, Chairman, Korea Commission for Corporate Partnership (KCCP)
4. Dr. Thomas Aquino, Chairman of the Board, NOW Corporation
5. Dr. Prabir De, Professor, Research and Information System for Developing Countries (RIS), New Delhi

15:00 – 16:10 **Panel Session 2: Innovation as a Catalyst for Deepening Inclusiveness and Regional Integration?**

Session Chair and Moderator: Naoyuki Haraoka, Executive Managing Director, JEF

Panelists:

1. Dr. Josef Yap, Professorial Lecturer, UP School of Economics (UPSE)
2. Dr. Vo Tri Thanh, Economist, Central Institute for Economic Management (CIEM)
3. Dr. Mignonne Man-jung Chan, Chair and CEO, Out-of-the-Box Consultancy
4. Prof. Zhang Yunling, Academy Member, Director of International Studies, Chinese Academy of Social Science (CASS)
5. Dr. Jose Ramon Albert, Senior Research Fellow, PIDS

16:10 – 17:50 **Panel Session 3: People-centered ASEAN as a Way Forward to the Wider Regional Integration**

Session Chair and Moderator: Dr. Josef Yap, Professorial Lecturer, UPSE

Panelists:

1. Dr. Hank Lim, Senior Research Fellow, Singapore Institute of International Affairs (SIIA)
2. Datuk Seri Jayasiri Jayasena, Secretary General, Ministry of International Trade and Industry (MITI), Malaysia
3. Dr. Ponciano Intal, Jr., Senior Economist, Economic Research Institute for ASEAN and East Asia (ERIA)
4. Prof. Shujiro Urata, Dean and Professor of Economics, Graduate School of Asia-Pacific Studies, Waseda University
5. Amb. Murray McLean AO, Chairman, Dunmore McLean Pty Ltd.
6. Dr. Min Ye Paing Hein, Executive Director, Myanmar Development Institute (MDI)
7. Tadayuki Nagashima, Chief Senior Researcher, Overseas Research Department, Japan External Trade Organization (JETRO)

17:50 – 18:05 Closing Remarks

Assistant Secretary Ma. Hellen B. De La Vega, Office of ASEAN Affairs, Department of Foreign Affairs, Philippines



The Asia-Pacific Forum 2017, Thursday, Nov. 23, 2017 in Manila

to maximizing the benefits of both and minimizing the demerits of both. A well-educated labor force could be transferred easily from one sector losing its competitiveness either due to globalization or innovation to another promising one taking advantage of their merits. The “Middle Income Trap” is a serious impediment to some Asian countries’ economic growth. Increasing income inequality is the background factor preventing the growth of the middle-income class and thus discouraging consumption-led economic growth, as a large part of consumption, a principal engine of growth in major economies, is dependent upon the growth of the middle-income class. Whether innovation can mitigate the “Middle Income Trap” or not will be dependent upon education.

Panel Session 3 highlighted the recent positive development of TPP11 and many touched upon the possibility of expanding it, since TPP11 is now renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), meaning the new agreement is open to any non-member country. If the CPTPP is successful in its expansion and the RCEP is concluded in 2018, there would be an increased possibility of a combined regional FTA of the CPTPP and the RCEP, which would be close to the APEC FTA without the US. If this competitive trade liberalization reaches such a stage, the US would have no choice but to come back to free trade, since US industries would lose their competitiveness in the whole Asia-Pacific area as a nation outside any regional FTA. A people-centered ASEAN, having played a key role in major Asian regional FTAs and thinking highly of good human relations as the core of economic integration, would thus play a pivotal role in Asian regional integration and achieving free trade globally, convincing the US of the utility of free trade.

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Naoyuki Haraoka is editor-in-chief of *Japan SPOTLIGHT* & executive managing director of the Japan Economic Foundation (JEF).