The ‘Fifth EU Asia Top Economist Round Table’ (TERT) - the ‘EU Japan Economic Forum’ took place on 14 November 2014 at Hitotsubashi University Hall in Tokyo. The initiative was co-organised with The EU Studies Institute in Japan, The EU Japan Centre for Industrial Cooperation, Keizai Doyukai, The European Business Council in Japan and JETRO.

Following on from the success of prior TERT events in Dublin and Tokyo, this flagship event brought together key stakeholders from top European and Asian companies as well as policy makers to discuss the latest economic developments impacting trade and investment relations between the EU and Japan.

The event focused on three key topics impacting EU Japan economic relations:

- Assessing Abenomics: The Lasting Impact for the Japanese Economy
- Concluding the Japan EU EPA - Challenges on the Path to 2015
- Focus on Foreign Direct Investment: Two way investment between Japan and the EU

The discussions from the event provided valuable insights from top business leaders and senior policy makers at a pivotal juncture in Japan EU relations.
Key Points
The conference provided valuable insights into the economic reforms taking place in both the EU and Japan, the potential that the Economic Partnership Agreement (EPA) holds, and the wider trends in the global economy with the networks of global trade agreements set to be major game changers.

The EU and Japan, as strategic partners, share many of the same values and goals. Both are economically interdependent, representing 31.3% of Global GDP (2012 levels), and are faced with an opportunity to overcome shared challenges and set shared goals for the future. The Round Table focused on the 3 key trends and challenges facing greater EU Japan economic relations.

• The role of Abenomics in reforming the Japanese economy for more sustainable growth. The three arrows of Abenomics aimed to bring Japan back on the path to growth. Of the fiscal, monetary and structural reforms planned, it is structural reforms - or the so called - ‘growth strategy’ that is subject to the most debate. Japan faces major demographic, fiscal and environmental sustainability challenges as it looks to adjust to a rapidly ageing population, overturn its debt (230%) and deficit (7.5%) to GDP ratios and deal with the rapid overhaul of the energy supply following the Fukushima Daiichi nuclear disaster. Economists and Business Leaders have called on the ‘growth strategy’ to be more local and privately funded in order to revitalise the economy citing Hometown Investment Trusts (HITS) which promote regional revitalisation and local ownership. Japan has marked 2020 as a landmark year with FDI targeted to be twice that of 2012 levels, SME exports to be twice that of 2010 levels and a 70% ratio of trade under FTAs by 2018. Finally, the 2020 Tokyo Olympics will bring major infrastructure development. On the EU side, major reforms have been implemented but a comprehensive ‘agenda of reform’ outlined by the new President of the European Commission, Jean-Claude Juncker has yet to be announced.

• Closing Japan EU EPA negotiations by the end of 2015. The EPA has raised many points to discuss for both sides following the completion of seven rounds of negotiation and a 2015 deadline. The potential of the EPA is evident for both sides with EU exports to Japan expected to increase by 33%, while Japanese exports would increase by 23%. Investment is also expected to increase considerably following the signing of the agreement. From an EU perspective, many challenges have been identified including Non-Tariff Measures (NTMs), greater harmonisation of standards in testing, labelling and regulation, public procurement (e.g. railways) and greater incentives for investment and M&As. EU businesses are also eager to address low penetration in areas such as financial services, communications services, transport and distribution. From a Japanese perspective, there is major interest in eliminating high EU tariffs on industrial products (currently at 10% for automobiles and 14% for electronic goods) and tackling regulatory issues for Japanese companies in the EU.

• Accessing Global Trade networks. The proliferation of regional and bilateral trade agreements from major economic powers and regions of growth has overtaken the faltering multilateral efforts at the WTO level. The Japan EU EPA is expected to be a key agreement in this new network. The IMF have projected Asian economies to account for 22% of global GDP by 2020, this trend is shaping the trade and investment landscape in the region with a major network of agreements planned to unlock the value of emerging Asian economies. These include the Trans-Pacific Partnership (TPP), the East Asia Agreement (Japan, China and the Republic of Korea) and the Regional Comprehensive Economic Partnership (RCEP) involving ASEAN + 6 (Australia, China, India, Japan, New Zealand and the Republic of Korea). At an EU level, the Trans-Atlantic Trade and Investment Partnership (TTIP) is under negotiation to further connect the EU and US. In Asia, the EU is engaged in a series of FTA negotiations with key partners with an agreement in force with the Republic of Korea and an FTA pending ratification with Singapore. It remains to be seen how the Japan EU EPA will integrate into the broader network of agreements but it has huge potential to help unlock global value chains.

The EU and Japan are faced with a huge opportunity to drive global, regional and national economic growth. Setting ambitious targets, dynamic reforms, innovative solutions and taking action to meet the 2015 deadline will be key elements to ensure the continued health of the Japan EU relationship.

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1. The role of Abenomics in reforming Japan’s economy for more sustainable growth

**Fiscal Challenges**
- 7.5% Deficit to GDP
- 230% Debt to GDP

**Environmental Challenges**
- 88.3% Total Thermal Power

**Demographic Challenges**
- 40% of population will be over 65 by 2050

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**Growth Strategy: Targets for 2020**
- Double the FDI into Japan
- Double SME exports
- 70% of trade under FDIs
- Tokyo Olympics in 2020 will see major infrastructure development

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2. Closing Japan EU EPA negotiations by the end of 2015

**EU Japan Relationship 2013**
- 30% of Global GDP
- 25% of Global Trade
- The EU was Japan’s largest source of FDI

**Projected Impact of FTA**
- 33% increase in exports to Japan
- 23% increase in exports to EU

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3. Accessing Global Trade networks

Fourteen EPAs/FTAs mainly with ASEAN countries have entered into force or been signed, which covers about 23% of Japan’s overall trade. In its growth strategy “Japan Revitalization Strategy” (June 2013), Japan set a target of trading FTA ratio of 70% by 2018.

GCC: Gulf Cooperation Council
(UAE, Bahrain, Saudi Arabia, Oman, Qatar, Kuwait)

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About The EU Asia Top Economist Round Table

The ‘EU Asia Top Economist Round Table (TERT)’ is a flagship event series organised by Asia Matters in cities across Asia and Europe. The event brings together top economists, business leaders and policy makers from Asia and Europe to engage with one another on the latest developments in EU-Asia economic and trade relations.

With the EU on the path to recovery and Asian economies continuing to experience growth, the TERT conference series brings key stakeholders together at a pivotal point in EU Asia relations. Multiple trade, investment and partnership negotiations are underway between the EU and its partners across Asia, TERT aims to analyse the business implications of these agreements.

The fifth edition of the one-day C-summit style conference followed the success of previous TERTs in Dublin and Tokyo and featured top economists, key speakers from Nissan, Philips, BNP Paribas, as well as senior government officials from METI, MOFA, JETRO and the EU Delegation. The fifth TERT event was followed by the sixth TERT in Beijing, China on 17 November.

About Asia Matters

Asia Matters is an economic institute based in Dublin dedicated to developing Ireland Asia and EU Asia business relations.

It is an independent, not for profit organisation with a strong educational remit delivered through business briefings, conferences, policy research and publications.

Within Ireland, Asia Matters provides thought leadership and business connectivity through events such as the annual Asia Business Week Dublin summit and publications including the annual Ireland Asia Business Yearbook, the book of reference for bilateral trade relations.

Within Asia, Asia Matters host the EU Asia Top Economist Round Table (TERT) series in association with key stakeholders on the ground. In 2014, the TERT series takes place in Tokyo and Beijing.

Asia Matters works in close partnership with government, business and academic stakeholders in Ireland, the EU and across Asia. The Chairman of Asia Matters is Alan Dukes, the former Irish Minister for Finance.

Disclaimer

This document is a summary of the discussions from the “Fifth EU Asia Top Economist Round Table: EU Japan Economic Forum”. The insights shared by speakers at the event are summarised in this report in good faith and accurately reflect the key topics, quotes, facts, figures and charts presented during the conference. This is not investment advice or an offer or solicitation to sell or purchase any financial instruments shares or products. The author and partners to this publication expressly disclaim all liability to any person or corporation in respect of any losses or other claims, whether direct, indirect, incidental, and consequential or otherwise arising in relation to the use of this report as the basis for any investment or other decision or in connection with any advice given to third parties.
Opening Session

Martin Murray, Executive Director, Asia Matters, opened proceedings by welcoming the delegates, speakers and dignitaries. He outlined the extent of how ‘Asia Matters for Europe and in particular how Japan Matters for Europe’. Mr Murray likened the Japan EU relationship to the core philosophy of Asia Matters, ‘respect among equals’, and encouraged open dialogue on the basis of this principle.

Alan Dukes, Chairman, Asia Matters, & Conference Chairman opened his remarks by detailing the developments in the Japan EU economic relationship and the latest progress with the Japan EU Economic Partnership Agreement (EPA). He encouraged the delegates to use the event as an opportunity for open and frank discussion on some of the outstanding challenges facing the EU and Japan, as they both look to conclude negotiations in 2015.

Professor Sasumu Yamauchi, President, Hitotsubashi University, welcomed the speakers, delegates and diplomats in attendance at the event. He outlined a short history of Hitotsubashi University and its involvement in the network of European Union Studies Institutes (EUSI). The EUSI is a centre for academic education and research and outreach activities on EU related issues in Japan. It is managed by a consortium comprised of three universities in Tokyo, Hitotsubashi University, Tsuda College and Keio University. EUSI was established initially in 2009 for a 4 year period, in 2013 EUSI successfully entered into the second stage of its activities. EUSI focuses primarily on improving outreach, education and research to build a better understanding of the EU in Japan. Professor Yamauchi closed his remarks by citing the importance and relevance of the event to improving EU Japan relations at this pivotal juncture for both sides.

H.E. Viorel Budura, Ambassador Designate of the European Union to Japan, the new Ambassador designate and head of the European Union delegation in Japan, comprehensively ran through the latest developments in Japan EU relations. Ambassador Budura highlighted the fascination globally with Abenomics and drew comparisons between the third arrow of Abenomics, structural reform, and the changes underway in EU economies. He also cited the need to stave off ‘prolonged low inflation’ that the EU faces also.

Ambassador Budura focused attention on the EU Japan Strategic Partnership Agreement, as he was leading negotiations on this from Brussels before leaving for Tokyo. He highlighted the importance of Abenomics and the reform agenda to the EU Japan EPA, as well as taking measures to increase two way FDI. He expressed his sincere hope to see the barriers to investment addressed in order to open the door for companies from both sides to continue to increase investment between the two economies.

“The recovery that started in Europe in 2013 is ongoing but still remains fragile, with momentum in many EU member states still weak”, according to Ambassador Budura, who shared the latest on the economic realities in the EU. On the positive side, bond yields are lowering and exports are rising in many countries in Europe. Although, the legacy of the crisis is still having a major impact on EU economies, this legacy includes high unemployment high debt and low capacity utilisation. Inflation remains low but should rise gradually.

Mirroring some of the key elements of Abenomics, the ECB have taken some monetary easing measures of their own and many national governments are engaged in key structural reforms, though according to Ambassador Budura, more are needed.
Trade has been a key driver in the EUs recovery and push towards growth. The recovery has seen some landmark achievements to date, with 3 of the 5 bailout countries exiting their respective programmes and the establishment of key infrastructure such as the single supervisory mechanism. Trade liberalisation is key to the EUs strategy for creating real growth and employment across the union.

Ambassador Budura expressed his support for the Japan EU EPA and its role in tapping into the untold potential of the Japan EU relationship to spur growth. He cited that once the agreement comes into effect, EU exports to Japan are projected to rise by 33%, while Japanese exports are expected to rise by 23%.

Following the completion of seven rounds of negotiation, the EPA looks set to contribute considerably to growth in the EU and Japanese economies, as well as global value chains. Ambassador Budura outlined some of the key areas for the EU in the negotiations, these included low penetration for EU companies in financial services, communication services, business services, transport and distribution. Another key issue is tackling non-tariff barriers in “sectors ranging from automobiles to food, medical devices to pharmaceuticals”. Regulatory harmonisation was also cited as a key element of the agreement according to Ambassador Budura.

Ambassador Budura concluded his remarks by outlining the importance of the EPA as a part of a wider framework of agreements such as the Trans Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) set to boost global trade.

Mr Soichi Yoshimura, Executive Vice President, JETRO, gave his keynote address during the opening session and provided some excellent insights from the Japanese perspective on EU Japan engagement. Mr Yoshimura introduced the work of JETRO, as the trade and investment promotion agency of the Japanese government and outlined some key economic trends shaping future growth strategies for Japan.

Mr Yoshimura cited 2020 as a key year for the Japanese economy. According to the IMF World Economic Outlook Report for 2020, the share of global GDP by emerging economies is expected to grow to 43% by 2020, 22% of that from Asian emerging economies. Japan and the EU are making strides to account for this change in the global economy. While Japan is attempting to revatilise its economy through the process of Abenomics, as Mr Yoshimura highlighted, Jean Claude Junker - the new President of the European Commission - looks set to outline measures to drive growth across the EU. For both countries, FTAs are essential elements of the growth agenda. Japan is setting itself ambitious targets to up its global outreach by 2020 as it sets out to double 2012 levels of FDI by 2020, double SME exports (2010 levels) by 2020 and by 2018 Japan expects the FTA ratio of trade to reach 70%. In addition, the 2020 Tokyo Olympics will further revitalise the economy through infrastructure spending.

The Japan EU EPA will see 3 main positive outcomes to increase trade, according to Mr Yoshimura. The EPA will play an important role in co-ordinating systems in both economies, further expanding EU and Japanese companies growth in Asia and harmonising systems in both economies to reach out to third countries. The EPA will address key issues such as intellectual property, technology standards, environmental standards leading to greater innovation among EU and Japanese companies.

The work of JETRO will be pivotal during the implementation stages and when the agreement comes into force. JETRO provides support services to foreign companies in Japan by supplying temporary offices, free consultancy services and assistance in accessing the
market. It also provides subsidies for EU companies to set up Asia Pacific operations in Japan and R&D initiatives.

The conclusion of the EPA will bring with it major opportunities for EU and Japanese companies to increase trade and investment with one another, access emerging economies in Asia with Japan acting as a high value gateway for Asia.

**Conclusion**

The opening session provided much food for thought and was a great starting off point for the discussions that followed. The speakers gave a comprehensive overview of the core elements of Japan EU relations and the major economic trends taking place in both economies to deliver a return to more sustainable growth.

**Session 1: Assessing Abenomics: The Lasting Impact for the Japanese Economy**

Session 1 assessed the impact and role of Abenomics in revitalising the Japanese economy. The insights shared covered a wide range of issues, such as the successes and failures of Abenomics in promoting sustainable growth, the need for more structural reforms, the consequences on financial markets and Japan’s economic impact on Asian integration.

**Ms Naoko Saiki, Director General, Economics Affairs Bureau, Ministry of Foreign Affairs,** provided some valuable insights into the role played by Japan in promoting East Asian economic integration and its value to Japan as it embarks on its economic reforms. Japan is currently involved in negotiations of a network of multilateral, regional and bilateral agreements to promote greater trade and investment as part of its growth strategy outlined in the third arrow of Abenomics. See figure 1 below.

*Figure 1: The network of Multilateral, Regional and Bilateral Trade Agreements in place or under negotiation with Japan*

Fourteen EPAs/ FTAs mainly with ASEAN countries have entered into force or been signed, which covers about 23% of Japan’s overall trade. In its growth strategy “Japan Revitalisation Strategy” (June 2013), Japan set a target of trading FTA ratio of 70% by 2018.

**GCC: Gulf Cooperation Council**
(UAE, Bahrain, Saudi Arabia, Oman, Qatar, Kuwait)
As outlined by Ms Saiki, the growth strategy encourages greater overseas development of Japanese companies, increased rates of exports of Japanese products and services, as well as the attraction of greater inward investment. A major element of this trade and investment strategy is the network of EPA/FTAs that are under negotiation. In addition to those featured in figure 1, bilateral agreements are under negotiation with Canada, Colombia, Mongolia and Turkey. More bilateral agreements are planned. With these agreements in place, Japan hopes to increase its FTA ratio of trade to 70% by 2018 from just 23% today.

In addition to building these frameworks for trade, the Japanese government has set out to assist the promotion of Japanese business abroad through supporting SMEs, export promotion of Japanese products, infrastructure system exports and through the promotion of tax treaties. Other areas that have been highlighted as priority areas in the growth strategy have been greater environmental sustainability to reduce costs, food security, sustainable marine and fisheries management.

Ms. Saiki discussed at length the value that Japan places on international coordination through taking part in fora such as the G7/8, G20 and APEC, as well as supporting the multilateral trading system through the WTO and contributing to policy coordination via the OECD.

Focusing on APEC and the recent Beijing summit in November 2014, Ms. Saiki outlined three priorities of Japan from the APEC leaders statement. These included (i) advancing regional economic integration, (ii) promoting innovative development, economic reform and growth, and (iii) the strengthening of comprehensive connectivity and infrastructure development. Citing the leaders statement from the the Yokohama summit in 2010 and the Beijing summit, Ms. Saiki highlighted the Free Trade Agreement of the Asia Pacific (FTAAP) and the 2015-2025 APEC connectivity blueprint as major developments for Japan’s growth strategy in the region.

Professor Sahoko Kaji, Faculty of Economics and PCP Co-ordinator, Keio University, focused her presentation on the issue of sustainable growth and introduced some fascinating insights on the successes and shortcomings of Abenomics. Professor Kaji outlined why ‘monetary and fiscal policies’ were insufficient in mature economies to bring about sustainable growth. She called on a greater focus on building ownership and making the necessary structural reforms. In terms of ownership this could include a combination of more private sector, local led and small scale interventions to encourage economic revitalisation. Professor Kaji discussed the nature of democracy and its need to change in order to bring about the much needed fiscal, demographic and environmental sustainability.

Professor Kaji outlined the major requirements and challenges facing Japan to revitalise its
economy, stating that Japan needed fiscal, demographic and environmental sustainability while preserving competitiveness, openness and a unique, much cherished, social model. To achieve this Professor Kaji outlined the big challenges for each element of sustainability. Fiscally, Japan’s current deficit to GDP ratio is 7.5%, while debt to GDP is 230%, the highest of any industrialised country in the world. See figure 3.

In terms of demographic sustainability, Japan’s ageing population is a major challenge. It is projected that by 2050, 39.6% of the population will be 65 and over, while the population of 0-14 year olds will have dropped to 8.6%. See figure 4.

This demographic phenomenon, coupled with the rising life expectancy will have a major impact on the future health of the Japanese economy.

From an environmental sustainability perspective, there has been a rapid overhaul of the energy supply following the Fukushima Daiichi nuclear disaster. In just two years from 2010 to 2012, Nuclear power has dropped from 28.6% to 1.7%, as Japan has sought alternative power sources with fossil fuels gradually increasing their market share. However, the high costs of fossil fuels, upgrading safety facilities and rising emissions have seen the government reconsider nuclear power in parliamentary discussions in early 2014. See figure 5.

Professor Kaji outlined some core requirements for sustainable growth to succeed, where both supply and demand sides need to grow together, while also pointing out some of the pitfalls with existing institutional and legal frameworks getting in the way.

The presentation then focused in on Abenomics citing that the reform agenda has not succeeded yet, with unemployment still a major issue for the young population, the potential growth rate declining, while regional economies are still not seeing the benefits of reforms. Professor Kaji called for greater ‘regional revitalisation’ to empower regional areas to impact their local economies positively. Currently, regional revitalisation is funded by the taxpayer through regional governments who act as a go between for the central government. She cited the success of Hometown Investment Trusts (HITs) as a more effective means to promote regional revitalisation and promote ownership. These privately funded initiatives help to support SMEs, distribute risk and share local expertise to get struggling regional areas growing again. Another initiative is the ‘Platinum Network’, which is a private sector network to encourage local leaders to come up with their own local solutions to problems of fiscal, demographic and environmental sustainability.

Interestingly, Professor Kaji detailed the immense difficulty facing Japan in achieving sustainable growth due to the “impossible trinities”, whereby conflicting issues and ideology make it near impossible to achieve real sustainable growth. Democracy and sustainable growth are at odds with each other as...
Democracy supports vested interests, which can hinder any radical reform agenda as risk averse electorates fear reform and a change from the status quo. For these reasons, ownership in the reform agenda can be very difficult to encourage, this is especially true for Japan whose ageing population has resulted in a very risk averse voting base, while the younger generation have little political ownership. Figure 6 highlights these “impossible trinities”.

Dr Naoyuki Yoshino, Dean, Asian Development Bank Institute, opened his presentation by outlining three key areas impacting the Japanese economy (i) the ‘Abenomics’ reform agenda, (ii) SME finance and specifically HITs, (iii) Asian economic development.

On Abenomics, Dr Yoshino gave a brief run through of the three arrows and some of the measures that have been undertaken by the Abe government and the Bank of Japan (BoJ) Chairman Haruhiko Kuroda. Firstly, he spoke about the aggressive monetary policy, where the BoJ have printed money and purchased long term government bonds to drop interest rates and promote an inflation target of 2%. In fiscal consolidation, Japan needs to act as it has the highest debt to GDP ratio in the world and a rapidly ageing population. The simple measure is to reduce government spending and increase tax revenue where it can. Finally, the third arrow is the ‘growth strategy’ where the Abe government are undertaking major structural reforms, Dr Yoshino emphasised that this process takes time.

Dr Yoshino detailed the transmission of monetary policy that is taking place in Japan currently, citing the forward looking policy of targeting a steady 2% inflation rate, exercising Quantitative Easing (QE) until the rate is achieved. The appreciation of the Yen is another major development as the price of oil imports rise. Other major developments are the increase in the stock price by overseas investors, while the launch of the NISA (Nippon Individual

Figure 6: Impossible Trinities

![Diagram showing the relationships between Reforms needed for Sustainability, Sovereignty, Democracy, International Economic Integration, The Nation State, and Democracy.]
Savings Account) aims to provide a much needed boost to the stock market through tax exemptions for up to ¥1 million (approx. €6,750).

The presentation went on to focus on the international finance system and the reliance on the banking sector across Asia rather than capital markets like in Europe and the US. Dr Yoshino went on to call for a shift in financial institution capital requirements as the 8% rate was not reflective of the situation in Japan and pushed that Japan should be able to set its own rate. Japan is currently experiencing a liquidity trap with many Japanese firms looking to invest outside of Japan to generate growth. Japan’s demographic issues are also impacting its finance system with the high household savings rate of older more risk averse investors. This demographic deficit that Japan is facing is a major burden on government resources where 30% of the annual budget going on social welfare and a further 18% going to local government subsidies.

In summary, and echoing the presentation of Professor Kaji, Dr Yoshino raised the issue of HITs as ‘a stable way to supply risk capital’ with projects focused on sustainable growth in areas such as ‘solar power, wind power, agricultural funds, green/forest funds, small business funds’. These community based initiatives, according to Dr Yoshino, would drive economic revitalisation and take the burden off the central government thus reducing government spending. He also pointed towards shifting the demographic deficit to more favourable terms by introducing a ‘productivity based wage ratio’ to replace the age related ratio in existence. This, according to Dr Yoshino, would keep people in employment and reduce the social security burden on the state.

Mr Ryutaro Kono, Chief Japan Economist, BNP Paribas, opened his presentation by discussing the consequences of Abenomics on the economy as a whole and financial markets in particular. Of the three arrows of Abenomics, Mr Kono focused in on the monetisation aspect and its failure to bring about the inflation and growth required to date. He went on to cite QE as the starting point for financial repression and the risks associated with long term interest rate repression, resulting in the potential of a negative real interest rate, the depreciation of the Yen and inflation overshooting its target.

Mr Kono’s presentation raised a number of key questions, these included (i) ‘can financial repression be avoided?’ and (ii) ‘can a hard landing be avoided?’

Looking at the first question, Mr Kono highlighted that the Bank of Japan is determined to continue Quantitative and Qualitative Monetary Easing (QQE) until the 2% target is achieved, not drawing from the lessons from the US Fed, who tapered the QE3 programme before its target was met. To protect the long term interest rate, the BoJ will need to continue purchasing long term Japanese Government Bonds. Mr Kono suggested that the BoJ can taper off when inflation hits 1%, thus avoiding an overly negative outcome should inflation overshoot its target.

On the second question raised, Mr Kono asserted that the ‘hard landing’ was entirely dependent on whether the Yen dramatically weakens or not. In analysing the question, he echoed the economic basis for public debt reduction put forward by Dr Yoshino, fiscal adjustment (tax hikes and spending cuts) and monetisation. Of these two options, Mr Kono recommended monetisation given the political reality of trying to pass fiscal adjustment by an older based risk averse electorate.
Conclusion
Session 1 provided a comprehensive and valuable insight into the current economic reforms gripping Japan and the impact on the wider Asian region and on the Japan EU relationship. While discussion included all 3 arrows of Abenomics, the 3rd arrow ‘structural reform’ or the ‘growth strategy’ caused much discussion with Japan facing fiscal, demographic, environmental and political challenges to securing more sustainable growth. Another key element highlighted in session 1 was the value of the growth across Asia to the Japanese and EU economies with the Japan EU EPA offering a means to tap into the network of high value Trade Agreements under negotiation.

Session 2: Concluding the Japan EU EPA - Challenges on the Path to 2015

Introduction
Session 2 focused the attention on the Japan EU EPA that is under negotiation and due for completion next year. The EPA is a comprehensive agreement that aims to address the key road blocks to greater trade and investment between both sides, as well as providing synergies with global trade agreements unlocking global value chains.

Mr Koichi Akaishi, Director General for Trade Policy, Ministry of Economy, Trade and Industry (METI), opened his presentation by detailing some of the major developments in global trade that are currently under negotiation. In addition to the Japan EU EPA, major economies in the Asia Pacific are seeking greater trade liberalisation through the Trans-Pacific Partnership (TPP), the East Asia Agreement (Japan, China and the Republic of Korea) and the Regional Comprehensive Economic Partnership (RCEP) involving ASEAN + 6 (Australia, China, India, Japan, New Zealand and the Republic of Korea). Specific to the EU, the Trans-Atlantic Trade and Investment Partnership (TTIP), will see the two largest economies, the EU and US, boost mutual trade and investment. The Japan EU EPA, representing 31.3% of global GDP by 2012 levels, will gain considerable access to global value chains through this network of agreements.

Mr Akaishi went on to detail the background of the Japan EU EPA, which began in May 2011 with a year long scoping exercise. Negotiations began in March 2013 and 7 rounds of negotiations have been completed to date with a deal in principle expected to be agreed in 2015. The one year review of negotiations revealed that major progress had been made on Non-Tariff Measures (NTMs), exchange of market access offer, procurement (railways in particular), service and investment offer.

From the Japanese side, there is major interest in eliminating the EU’s high tariffs on industrial products (currently at 10% for automobiles and 14% for electronic goods) and tackling regulatory issues for Japanese companies in the EU. On the EU side, the major interest is in NTMs covering a variety of sectors including automobiles, food safety, medical devices and pharmaceuticals. Other areas of interest for the EU are government procurement (e.g. railways) and geographical indications (GI).

Danny Risberg, President & CEO, Phillips Electronics Japan Ltd. & Chairman, European Business Council (EBC) in Japan, provided a very useful introduction to the work of the EBC in promoting Japan EU business linkages. The EBC is the trade policy and advocacy arm of 16 stakeholders – the European national chambers of commerce, business associations and other organisations in Japan. It works on behalf of these organisations and their members through 28 separate committees to improve the trade and investment environment for European companies in Japan.

Mr Risberg discussed some of the major trends in global trade today detailing the changing landscape with the ongoing difficulties at the
WTO level, the shift to a more multipolar world impacting the overall share of global trade and the most recent trend of bilateral and multilateral (and regional) free trade agreements and frameworks. In this context, Mr Risberg focused in on the Japan EU EPA and the existing linkages between the EU and Japan, listed in figure 7.

The presentation highlighted some significant challenges in the relationship such as the FDI imbalance, with the high level of Japanese investment into the EU and a low level of investment from the EU into Japan. A reason for this is in part the structure of the Japanese economy, which has the lowest level of inward FDI in the OECD. See figure 8.

This weakness in the Japanese economy to attract foreign investment is being addressed on two levels, firstly in the EPA where conditions for investment are set to improve and secondly in the structural reforms (the third arrow) taking place under Abenomics. Mr Risberg highlighted the importance of the third arrow in making the economic reforms a success. He went on to state that beyond Abenomics, the Japanese economy needs to take significant measures to open doors to FDI and greater competition.

Figure 8: The EU Japan relationship 2013: Key Facts and Figures
Speaking on behalf of the EBC, Mr Risberg listed the proposals put forward by the organisation for the EPA agenda. This comprehensive list represented the sentiments of business leaders and the end users of the EPA. Issues listed included the following:

- Further reduction of the corporate tax rate
- A new code of corporate governance
- Enabling more skilled professionals from overseas to work in Japan
- Boost female participation in the workforce
- Healthcare reforms
- A revision of the policy asset mix of the “government pension investment fund”
- Liberalisation of the agricultural sector

Some contentious issues of the EPA were also examined by Mr Risberg. On the issue of Non-Tariff Barriers (NTMs), specific to FDI, he called on a deferral of capital gains tax for M&As between the EU and Japan as this will help encourage more FDI. In addition, he called for reform of the regulatory environment to address the unclear administrative practices of unique Japanese standards, testing and certifications.

Of the NTM issues specific to Trade, the presentation detailed major examples from prominent sectors that require attention if the EPA is to succeed. In the food sector, high costs for ingredients and transport are major issues for EU exporters, while high tariffs and bans on harmless food additives have hindered trade to date. In the medical devices sector, Japan is experiencing a ‘Device Gap’ as much needed innovations that save lives do not pass Japanese standards, despite meeting the highest international standards. This issue of harmonisation of standards, testing and labelling to converge with widely used International standards is a major issue across many sectors. Other inefficiencies that need to be addressed according to Mr Risberg are the administrative burden of over-processing and red tape, another related to long approval times and the uneven playing field in certain sectors where EU companies are not given access and the lack of competitiveness breeds inefficiencies.

The EBCs priorities for the EPA were also complemented by some concerns over the need to conclude the agreement in 2015, a move that may prove difficult due to the complexities surrounding NTMs and the potential for slow moving negotiations. More optimistically, the EBC did cite some major progress on issues such as testing procedures in the automobile industry, classifications in the pharmaceutical and medical devices sectors and aviation access with daytime slots opening for EU carriers in Haneda airport.

**Conclusion**

Session 2 examined the Japan EU EPA in detail, looking at key aspects of the agreement from both Japanese and European government and business perspectives. Japan has prioritised the elimination of tariffs as a key area to improve access for its products particularly in the automobile and electronics sectors. The EU has a number of priority areas with Non Tariff Measures (NTMs) being chief among them, as
well as greater harmonisation of standards, testing and labelling of products. With an agreement in principle targeted for 2015, there have been some optimistic results so far and it is estimated that the EPA will make a major contribution to growth in both economies.

Session 3 - Focus on Foreign Direct Investment: Two Way Investment between Japan and the EU

Introduction
As mentioned above - FDI is imbalanced and in need of adjustment. The Japanese economy has the lowest level of FDI of any OECD country, yet is a large investor in the EU with employment in excess of over 437,000 and investment estimated at €150 billion by 2012 figures.

Mr Toshiyuki Shiga, Representative Director, Vice Chairman, Nissan Motor Co. Ltd, Chairman, Committee on Asia Japan Relations, Keizai Doyukai, began his presentation by detailing the growing list of Japanese automakers in the EU. In total, the Japanese automobile industry has 14 plants across 7 countries, 16 R&D Centres across 5 countries, employs 161,681 people and purchased a total of €12.69 billion worth of EU parts in 2013. The contribution of the sector is considerable and EU production by Japanese carmakers is rising steadily. EU produced Japanese cars sold in the EU accounted for 66% of all Japanese cars sold in the EU in 2013 with 1.38 million units sold.

There are some major landmarks on the horizon for automobile industry linkages with the Nissan-Renault partnership announcing that the Nissan Micra will be manufactured in France for the left hand drive car market. While in the UK, the first Infiniti plant will open in Sunderland with the creation of 1,000 jobs. There are vast linkages between EU and Japanese car makers, see figure 9 for further details on the links. In terms of EU car manufacturers in Japan, the rate of sales have gradually increased to 4.9% of market share.

Figure 9: Corporate relations between EU Japan Automotive industries

Corporate relations between the EU and Japan Automotive ties

Joint development of a fuel-cell system, sports vehicle, lightweight technology, and post-lithium-ion battery technology

Supply of finished vehicles (from 2015)

Supply of engines and transmissions

Supply of finished vehicles jointly developed in the EU

Supply of engines and transaxles

Supply of finished vehicles jointly developed in the EU

Supply of engines

Cooperative sales ties in the Japanese market

 europé

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The trade balance had been narrowing year on year since 2011, while in 2012 the EU had a surplus in terms of value. Looking at the two automobile giants of Japan and Germany, revealed some very interesting trends as the trade balance reversed with Germany now enjoying a substantial surplus. Significantly, the Volkswagen Golf was named Japan’s Car of the Year, the first time a foreign car has won this accolade since it began in 1980.

On Japan EU investment relations, Mr Shiga cited the lack of an FTA as a potential weakness with the Korean automobile industry having a competitive advantage with an FTA in place with the EU since 2011. Mr Shiga cited the government plan to double inward investment by 2020 to address a major shortfall in FDI revenue. With this strategy in place, Nissan is seeking to take advantage and grow itself. Following its revival period from 1999 - 2005, the company firmly believes in synergies as drivers for growth. It plans to leverage its alliance synergies through new convergence projects to grow substantially over the next 3 years to reach a target valuation of €4.3 billion by 2016.

Mr Philippe Avril, Vice Chairman, International Bankers Association of Japan, CEO & Resident Director, BNP Paribas Japan, focused his presentation on the shifts in the Japanese economy and the potential impact of these shifts on EU Japan investment. The presentation, focused on 3 major headings, highlighting three main areas (i) Japanese Financial Markets, (ii) Business Environment - Financial Regulations, (iii) the increase in cross border flows.

In terms of Japan’s Financial Markets, Mr Avril highlighted current developments and Japan’s position globally. Japan has seen a steady increase in household financial assets, while Japan is ranked second globally in terms of government bonds and has the largest pension fund in the world. The JPX is ranked number 3 in the world in terms of market capitalisation and value of share trading.

On the issue of regulation, there has been considerable improvements over the last few years with Japan showing a strong commitment to global agreements on international co-ordination. Mr Avril highlighted the importance of broad thinking alignment between regulators and financial institutions in the EU and Japan on regulation, while also taking part in constructive dialogue to meet regulatory challenges.

Mr Avril cited the large investment from Japan in foreign bonds ¥284 trillion (€1.9 trillion) in total, with EU bonds making up the largest share with 36% of this total. See figure 10.
On the issue of M&As, a key area for discussion under the EPA, outbound transactions from Japan to the EU are on the rise with 23% of transactions going to the EU. Some notable acquisitions in terms of value and strategic importance included Suntory Beverage & Food Ltd. acquiring the Lucozade and Ribena brands from Glaxo Smith Kline (GSK - UK) and the Lixil Group and Development Bank of Japan acquiring Grohe AG, the German global leader in sanitary fittings. See figure 11.

In summary, Mr Avril detailed the further potential to increase cross-border flows. In terms of growing foreign investment, he called for greater asset diversification in financial institutions, tackling the individual savings rate to escape from negative real interest rates and finally, he supported the need for direct investment by Japanese corporations as a strategic imperative for forging development. On the public finances side, he called for new financing methods for public/private projects such as improving the ageing infrastructure in Japan. Foreign contractors and financial institutions have a key role to play to finance and carry out major infrastructure projects.

Finally, he highlighted the importance of the growth strategy aspect of Abenomics third arrow and he was less optimistic, citing the third arrow has been a disappointment from an investor point of view. These adjustments and reforms question whether cross border flows are sustainable in the long term, as there are no guarantee that the cross border flows are mutually beneficial. The EPA needs to ensure that the framework is in place to receive these investments and that both sides can reap benefits from them.

In summation, Mr Avril expressed his optimism for the short term reforms and health of the EU Japan relationship but expressed caution for the long term prospects for the Japanese economy and cross border flows with the EU.

**Conclusion**

Mr Shiga detailed the importance of the automobile industry for both the EU and Japan, as well as the increased linkages between both sectors. The sector has shifted significantly, with major Japanese brands manufacturing in the EU and EU sales to Japan on the increase. The EPA provided major opportunities for investment and partnerships in the sector, though compromises will need to be reached for both sectors. On the
wider investment side of things, M&A activity is on the rise with the EU the top destination for Japanese M&A activity. In terms of the EPA and ensuring access for EU investment, major reforms are needed for alignment on regulation, while many in the business sector feel that Abenomics’ third arrow needs to do more to encourage investment and growth.

Closing session

The closing session of the event included closing remarks from two prominent figures in Japan EU relations on the ground in Tokyo, as well the Chairman’s summary by Mr Alan Dukes, Chairman, Asia Matters.

Professor Eiji Ogawa, Executive Vice President, Graduate School of Commerce and Management, Hitotsubashi University, & Chairperson of EU Studies Institute (EUSI), thanked the speakers and delegates on behalf of the EUSI, a key partner for the Round Table. Professor Ogawa also echoed many of the points raised on the significance of Abenomics and the challenges in contributing towards sustainable growth in Japan. He highlighted the importance of the Japan EU EPA as a driver for growth in both economies, while also focusing attention on the need for greater innovation in the relationship.

Dr. Silviu Jora, General Manager, EU-Japan Centre for Industrial Cooperation, offered his expert perspectives on the issues raised surrounding Abenomics and in particular the third arrow, stressing the importance of more local community and SME focused initiatives. Dr. Jora cited the growing interconnectedness of the two economies as a strong basis to come together to overcome mutual challenges and common issues for a win win solution. He called on both sides to leverage the strong foundation of the relationship, utilise the existing institutional framework and called on both sides to consider this pivotal juncture a time for action and a time for results.

Summary by Round Table Chairman, Mr Alan Dukes

The Round Table Chairman opened his concluding remarks by highlighting the importance of the 2015 deadline. Much debate in the sessions focused on quality trumping expediency, the Chairman urged that this debate should not be used as an insurance policy and encouraged both sides to stay on track to complete the agreement in 2015.

On the issue of regulation, Mr Dukes called for a careful examination of its need as often regulation can cause unnecessary and unintended barriers to trade and investment.

Much discussion focused on the prevalence globally for more trade agreements, be they regional or bilateral. Mr Dukes questioned how the bilateral agreements and regional agreements (e.g. TTIP, TPP and Japan EU EPA) would mesh together, especially as a multilateral framework has yet to be achieved with the floundering of the WTO’s Doha Round.

On the issue of sustainable growth, Mr Dukes cited Professor Kaji’s excellent presentation on the quality of development and the ‘impossible trinities’ that she raised. The Chairman commented that it is difficult to see solutions to these impossible trinities as giving up sovereignty and democracy is hard to imagine. However, Mr Dukes did highlight greater sustainability as a major factor as the agreement enters its final stages and called on both sides to ensure that it is given greater support.

In summation, Mr Dukes thanked the speakers and delegates for their stimulating and thought provoking contributions to the event. He called upon both sides to not look at where we are or where we have been but rather where the relationship between Japan and the EU is going.
Presentations can be viewed at http://asiamatters.eu/presentations

Speakers

- Professor Sasumu Yamauchi, President, Hitotsubashi University [www.hit-u.ac.jp/eng/](http://www.hit-u.ac.jp/eng/)
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- Professor Eiji Ogawa, Executive Vice President, Graduate School of Commerce and Management, Hitotsubashi University, &, Chairperson of EU Studies Institute (EUSI) [www.eusi.jp/en/](http://www.eusi.jp/en/)
- Dr. Silviu Jora, General Manager, EU-Japan Centre for Industrial Cooperation [www.eu-japan.eu/](http://www.eu-japan.eu/)

Chairperson

- Alan Dukes, Chairman, Asia Matters, [www.asiamatters.eu](http://www.asiamatters.eu)

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