

Economic Symposium
“Japan in East Asian Economy”
- Japan as a “Hub” in East Asia and
Enhancing the Relationship with Germany -

Embassy of Japan in Germany (29th August 2016)

This is a brief summary of each panelist’s presentations during the symposium.

1. Ambassador Takeshi Yagi

- Ambassador Yagi firstly takes an overview of actual development of Abenomics. When we look at the trajectory of Abenomics, there have been several achievements today such as corporate profits, investment, wage hikes as well as improvement of employment conditions.
- However, weakness can be seen such as private consumption. Japan needs further reforms under Abenomics by supporting corporate activities, expanding labor force and reforming bedrock regulations such as agricultural sector, energy market and healthcare. In doing so, the second stage of Abenomics pursues a dynamic engagement of all citizens, and aim to function the mechanism of a various cycle of growth and distribution.
- Ambassador Yagi then emphasizes the function of Japan as a “Hub” in East Asian Economy from the viewpoint of its market size, accessibility to the East Asian economies and its world class R&D funding.
- The last, but not the least, he points out the enhanced relationship between Japan and Germany. In addition to the lively exchange at the highest level between PM Abe and Chancellor Merkel, we can see closer economic relations between the two countries. Four areas of economic cooperation can be identified; energy, IT/Industry 4.0, SMEs and innovation. Moreover, Japan will be Partner Country at the CeBIT in Hanover on 20-24 March, 2017. The new tax agreement between Japan and Germany is expected to further promote the investment between the two countries.

2. Prof. Dr. Gunther Schnabl, Leipzig University

- Prof. Dr. Schnabl provided an overview of the Japanese financial and monetary history since the collapse of the Bretton Woods System.
- He stressed the role of monetary expansion (in response to the appreciation following the Plaza Agreement) as well as of fiscal expansion (Louvre Accord) for the emergence of the Japanese bubble economy. He argued that in the post-bubble recession, a persistent current account surplus and ever-growing net international

investment positions which are mostly foreign currency denominated were the reasons for persistent appreciation expectations on the Japanese yen. The reason is that the huge amount of capital income (dividend, interests and other incomes) in foreign currencies from such overseas assets needs to be exchanged into Yen when it flows into Japan, and this have created continuous demand for Yen. Against this background, Yen appreciation have led to negative balance sheet effects on financial institutions, non-banks, households in Japan. This has made Japanese monetary policy dependent on exchange rate developments.

- As a policy response to the lasting stagnation, Japan implemented Keynesian economic stimulus packages and moved towards unconventional monetary policy. While these measures have according to Prof. Schnabl prevented a deeper post-bubble recession and a collapse of the financial system, a lasting economic recovery has not materialized. Prof. Dr. Schnabl argued that the lasting stagnation may have been caused by the very expansionary monetary and fiscal policies instead of having provided sufficient economic stimulus.
- Because monetary and fiscal policies are at the roots of financial market exuberance in Japan (1985-1989), US (2003-2007), Southern and Eastern Europe (2003-2007) and currently Germany (since 2008) as well as at the roots of lasting post-bubble crisis, Prof. Dr. Schnabl claimed that a lasting economic recovery can be only achieved by a prudent global exit from ultra-low interest rate policies in the context of international policy coordination.

3. Prof. Dr. Naoyuki Yoshino, Dean of the ADB Institute, Professor Emeritus at Keio University

- Japan faces structural problems such as demographic change and lower productivity.
- These problems cannot be solved both by monetary policy and fiscal stimulation, partly because of the vertical IS curve and the decrease of government expenditure multiplier respectively.
- As to the demographic change, more participation of senior and female workers as well as a productivity-oriented salary system are necessary.
- In the past, the profitability in the Japanese banking sector was high, and could absorb the risks of SME investment. Today, due to the BIS regulations and low growth rate, the banking sector cannot afford such risks, while the direct finance and capital market have not been sufficiently developed.
- In order to tackle this problem, Prof. Dr. Yoshino points out the lack of incentive mechanism reform in many fields, and proposes several concrete approaches (e.g. investment scheme in SMEs and startups, agriculture funds, private financial scheme for wind power supported by individuals) some of which have already

materialized in Japan.

- Japanese asset managements could not achieve high rates of return and Japan lags behind Germany, UK, USA and France. Fees and commission were set such that short term frequent turnover benefits retail sellers. Investors in mutual funds and retail sellers have to aim for the same goal by setting up consistent fee structures.

4. Mr. Gerhard Wiesheu, Member of the Partners' Committee of B. Metzler seel. Sohn & Co. Holding AG

- Mr. Wiesheu analyses the business relationship between Japan and Germany from different aspects.
- From German companies' perspective, there are three areas opportunities in Japan, namely financial services, renewable energy and new technologies. In financial services, for example, Japanese investors are increasing their portfolio allocation to foreign assets, whereas German asset manager can assist Japanese clients. Renewable energy has a high growth potential in Japan. In the area of new technologies, Japan has a highly qualified work force and is the world leader in R&D spending.
- In the context of "Japan as a hub in East Asian Market", 54% of German companies with a presence in Japan use it as a hub for their business in East Asia. 80% of German companies in Japan say that the presence in Japan is the key for a successful cooperation with their Japanese clients in Asian markets.
- On the other hand, Japanese companies are seeing opportunities in Germany in the following areas: Relocation from UK to Germany after Brexit referendum, better access to the European Single Market, and Industry 4.0.
- In conclusion, Mr. Wiesheu will point out that, although Japan and Germany have many common challenges, both countries depend on innovation. R&D cooperation on industry 4.0 is a first step, and more cooperation on renewable energy could be a second step.