

Event Report

KAS German-Japanese Economic Policy Exchange

"Economic policy in view of a prolonged COVID-19 pandemic: A comparative view of Japanese and German/EU strategies"

10 February 2022

The KAS German-Japanese Economic Policy Exchange aims to provide an open platform of exchange on economic policy. Important Japanese and German/EU actors in economic policy, from policymakers to representatives of the business sectors, will be regularly invited to openly discuss the challenges and perspectives of their respective economies, achieve a better understanding of each other and enrich the quality of policymaking.

The speakers of the event on 10 February included representatives of the two leading business associations of Germany and Japan—Federation of German Industries (BDI) and Japan Business Federation (Keidanren)—a Member of the European Parliament, as well as a high-ranking functionary of the Japanese Ministry of Economy, Trade and Industry. They candidly discussed the challenges and perspectives of both economies while contributing to a better understanding between the two countries and their respective policy-making.

Ichiro Hara, Managing Director of the Japan Business Federation (Keidanren), underlined that despite the fact that Japan is now recovering from the negative economic effects of the COVID-19-Pandemic, the country's economy has been experiencing a loss of investment attractiveness. During the pandemic, Japan became more isolated than ever in its recent history, mostly due to the Japanese government's strict border policy that has led to big issues in the supply chain.

Mr Hara highlighted the importance of increased initiatives from the public and private sector in promoting digitalisation and administrative reform and improved labour productivity through new types of work styles—such as teleworking—also because of the declining birth rate and ageing population. PM Kishida's road map for a 'new capitalism' with important strategic goals when it comes to overcoming social division and inequality was also described as an important positive step.

Despite the current geopolitical turbulences in the Indo-Pacific, Mr Hara argued that the Regional Comprehensive Economic Partnership (RCEP) can contribute to the expansion of trade and investment and the formation of efficient and resilient supply chains— all that has big significance for the realisation of a free and open international economic order.

Stefan Berger MEP, Member of the European Parliament's Committee on Economic and Monetary Affairs and the Delegation for relations with Japan, underlined that both Japan and Germany are

aiming for social change and a rules-based international order and where both countries are leaders in defending human rights, democracy, and the rule of law.

Germany and Europe both need to speed up when it comes to digitisation, as a means to rejuvenate the economy. An important step for the cooperation between Japan in this field was the EU-Japan mutual adequacy arrangement that was put in place in 2019 and created the world's largest area of safe data flows. However, there is a need to make the EU-Japanese partnership in digitalisation broader both bilaterally and multilaterally.

An especially important tool in overcoming the negative effects of the COVID-19 pandemic is the Japan-EU Free Trade Agreement (JEFTA), which created the EU-Japan free trade zone comprising more than 600 million people and almost a third of the world's gross domestic product. JEFTA led to tariff savings of many billion Euros per year for both Japanese and European companies.

Wolfgang Niedermark, Member of the Executive Board of the Federation of German Industries (BDI), also noted that there are big similarities between the German and Japanese economies. Germany's export figures (which came out one day before the event) showed that the German economy is overcoming the negative effects of the COVID-19 pandemic. He argued however that we should not miss the opportunity to draw important lessons from the previous period, especially regarding economic interdependencies between the EU and the rest of the world (specifically Asia), in terms of trade and investments and the supply chain.

Digitisation is crucial. Hence, BDI is following closely the Japanese Society 5.0 concept as the need for an extended digitalisation on multiple levels of the economy and the society, all of which is evident in the German economy, especially since the outbreak of the COVID-19-Pandemic.

A new redesign of the supply chain is needed, especially when it comes to energy transition. Mr Niedermark saw big potential for further cooperation between EU and Japan, but also other countries of the Indo-Pacific, and even Africa and South America, while highlighting the necessity of climate protection. Mr Niedermark underlined the fact that German and Japanese companies are well-positioned as technology leaders in many areas of the hydrogen supply chain. He also advocated for strong public-private cooperation in this field in both countries.

Hiroshi Ishikawa, Director of the Economic and Industrial Policy Bureau at the Japanese Ministry of Economy, Trade and Industry (METI), argued that it was difficult for the Japanese government to find the balance between the needs of the economy and the adaptation of necessary measures against COVID-19. The main priority was that the measures did not increase unemployment and hurt the economically vulnerable.

The German and Japanese economies have many similarities, such as the same types of industry, e.g. the automobile industry, playing a central role. Therefore, they have also faced similar challenges. This is especially true when it comes to achieving ambitious goals, such as carbon neutrality until 2050, where public-private cooperation in both Japan and Germany will be essential. This is even more so since it is difficult for renewable energy—such as Green Hydrogen—to generate short-term profits.

One of the main strategies of the Kishida administration is to stimulate regional economies and develop digital infrastructure in various fields, such as remote learning and medicine.

Martin Schulz, Chief Policy Economist of the Japanese company Fujitsu, moderated the discussion and addressed questions to the speakers, such as: (1) the possibility to make green investments a field of German-Japanese cooperation in the immediate future, (2) the increased interest of Japanese companies in the European market in the context of the difficult geopolitical situation in the Indo-Pacific, (3) and the importance of digitalisation, innovation, and emerging markets in Africa and Southeast Asia for both Germany and Japan.

In her introductory remarks, **Rabea Brauer**, Country Representative of the Konrad-Adenauer-Stiftung Japan, described the urgency of the 'KAS German-Japanese Economic Policy Exchange' series which aimed at closer collaborations between the industry and business institutions in Germany and Japan to overcome the challenges of our time.

Participants of the event were given the opportunity to submit their questions before and during the session.