

CEFJ- Partner Jones Day
Conference: “What Role Is To Be Played By Japan?”
Lecture of Mister Tadakatsu Sano
Thursday 15th December 2011

On the occasion of his coming to France, M. Tadakatsu Sano held a lecture about Japan's position into the global economic landscape. M. Sano occupied an all range of positions in METI (Vice Minister between 2002 and 2004) and as Executive Chief Assistant to the cabinet of Prime Minister Hatoyama. This lecture, organised by the CEFJ, in collaboration with Jones Day, where M. Sano is now an attorney-at-law in their Tokyo office (involved in a wide range of practise such as government regulation issues), was held with the participation of His Excellency Motohide Yoshikawa, Ambassador, Permanent Representative of Japan to the OECD, M. Olivier Mellerio, Deputy Chairman of the CEFJ, and M. John Crawford of Jones Day.

At METI, M. Sano focused on number of different areas such as trade, investments, energy and intellectual property. He is a famous commentator in Media in Japan. M. Sano delivered a presentation based on his thirty years long experience of relationships between Europe and Japan, followed by a general exchange of views on the international situation.

Presentation: How will Japan continue to exercise an influential role in the G20?

1. The current situation

1a. Noda administration politics

The appointment of Prime Minister Noda is a big political change for Japan, because, at the age of 54 years-old, he is the first Japanese Prime Minister coming from the «*post-baby-boomers*» generation. His appointment represents a break, the generation shift operating in the Japanese political class. Noda administration is not taking a strong leadership but is coming back to the bureaucracy, and is in continuity with the socialists' politics of the beginning of the eighties and nineties when socialists started to being involved.

1b. Alliance between Japan and the USA

Since Barak Obama was elected, USA-Japan relation is getting straightened. This is because of China, but most of all because Noda administration expressed its will to accept to start negotiating its participation to the *Trans-Pacific Partnership* (TPP) agreement. Negotiations about the long standing issue of Okinawa and its American military bases, and how to move them to safer areas, has also been reactivated.

1c. Reconstruction-lead economy

Public investments that are currently being devised in Japan are in fact reconstruction plans that are to last at least for three to five years. For some economists, it may continue within the next ten years following the March 11th 2011 disaster.

1d. Yen/ Dollar exchange rate

M. Sano evokes the recent evolution of the exchange rate between the yen (JPY) and the dollar (USD). From 120-130JPY for 1USD, it dropped to USD/JPY =100 in 2008-2009, then to USD/JPY = 77 à 80 today. It is pushing some Japanese industries to think whether if they can maintain their activity or not, within the country. A number of exporting industries are screaming against this JPY regarded as too strong.

1e. Conventiional energy import demand

It increased a lot since the damaging of four out of the six Fukushima nuclear power plants that has been shut down. In Japan, there is about 40 nuclear power plants, but since Fukushima disaster, Japan has to be prepared in the case of risks of earthquake or tsunami in sensitive nuclear power stations (such as in Nagoya, Osaka...). Amongst the measures taken:

- Shutting for checking, and permanent for some power plants, of the nuclear power station of Hamaoka (Shizuoka)

- Setting up of really big investigations and tests every ten years whether the running of the nuclear power plants can continue or not
- Approval of the Governor of the prefecture and of the committee of the power plant on the extension of the running of the nuclear power plants
- Stop of the projects of reopening of power plants stations

Because of this situation, capacity energy supply became a big problem. Until the end of November 2011, a rotating plan of regional power cuts and guidelines aiming a reduction of 20% of energy (« *black out* », air conditioning restrictions, suited dress codes...) had been set up. But this loss in energy capacity cannot be compensated by renewable energy investments so much because it is not considered as a big energy supply. Factories are therefore encouraged to operate to send electricity, and oil and coal imports are growing up. Japan cannot meet the Kyoto protocol criteria but it will be possible again in a couple of years.

2. Observing points for Japanese economy

2a. Japanese political agenda

1. Answering to the reconstruction demand
2. Devising of a supplementary budget while the Japanese budget deficit is already big, bigger than the one of Italy for instance.
3. Being an actor of Asian economy
4. The *Economic Partnership Agreement* (EPA) also in discussion with the EU, and the TPP

2b. The Japanese political challenges

1. The demographic decrease
2. The budget deficit and the social security expenses that has been a big burden for a long time
3. The exchange rate
4. Energy constraints

2c. Some Japanese economy figures

1. The GDP and its forecast

Despite the March 11th period, 2011 showed positive figures of growth and the government forecasts 2% of economic growth in 2012. Japan's third quarter went even up.

2. Supplementary budget in 2011 fiscal year

The budget was initially of 400 billions Euros. The third supplementary budget was brought to 1200 billions Euros. In total, the 2011 budget represents 1800 billions Euros.

3. Japan's current account balance was in difficulty because of March 11th. Japan could not ship cars for six months. Despite this deficit in trade and a high exchange rate of JPY, apart from the March 11th period, the current balance recorded positive numbers.

2d. Personal point: Democracy vs. Media and the Internet

The 21st century most successful companies are American: *Apple, Google, Amazon, Facebook*. Those companies provide personalized information by the Internet. These new corporate models represent a major challenge for democracies. Common understanding of Mass Media must be created because the entrance in the Internet era became a global issue. Internet is changing from citizens (« *I have to* ») to consumers (« *I like it* »), from a community to individuals. The SNS (*Social Networking Services*) embody this trend. SNS attract people by answering to their expectations (participation, disclosure of information...). In this context, it is getting difficult for existing Media to establish successful business models. However, in Japan, there are many possible alternatives to survive in this business. That is why Media, such as the *Yomiuri*, encounter big difficulties in order to adapt to the digital challenges.

Observations of Ambassador Yoshikawa

I wish to thank Mr. Sano for his very comprehensive presentation. In order to highlight some of the issues that Japan faces today, let me share with you my recent experience when I visited my home town in Nara Prefecture two weeks ago.

I visited my elementary school, pupils in 5th and 6th grade (10/11 years old) asked me what the TPP (Trans-Pacific Partnership) and the APEC was. At the local City Council, I was asked if I was in favor of the TPP (I am), and how it is possible to protect the agriculture of Nara with the TPP; at a local hospital, doctors asked me why the TPP will destroy the Japanese medicinal system.

The issues related to the TPP are the structural change of Japan's economy. The TPP is a form of an agreement of economic partnership among the Pacific nations.

Since the TPP does not involve Europe, attention toward the TPP is very limited here, but I think more attention should be paid. Japan and the EU will start negotiations on the EPA (Economic Partnership Agreement) soon and the issues we will face are similar.

Another issue common to Japan and Europe is China; how to bring China in the same rule of game in investment and trade, for example.

Questions – Answers

Q: Should Japan reduce its production of nuclear energy? Are you in favour of the privatisation of TEPCO as some economists want?

Tadakatsu Sano: Before Fukushima, Japan had a 40% dependence on nuclear power. We encouraged non conventional energy like renewable energies development but nuclear was the central issue. Because of Fukushima, maybe in a near future, there will be no more new power plant except with strong security and the information of the public. We also have to analyse the real factors of the accident and if the damages were 100% caused by the tsunami or if some of the damages were caused by the earthquakes, and if so to which proportions. Without that information, the public won't be convinced. We cannot say, like Germany, that we will abandon nuclear from now on. Solutions takes time, regulation is necessary, but we still stick with nuclear. In that sense, France and Japan (USA too) share the same objective. The question about TEPCO is whether production and distribution of energy can be separated or not. For the moment, it is not separated. We want to create different ways of distribution eventually, this question is also on the Consultative Committee Agenda.

Q: Is Sony suffering from Samsung competitiveness, and the Japanese industries, as an all, from those of the Korean industries like Hyundai?

Tadakatsu Sano: We appreciate and respect LG and Samsung, and Sony is not a competitor to them. Sony is still categorized in the manufacturing of electronic devises, but in reality, its main business has now much shifted to the production of contents. Companies like Panasonic, or the joint-venture Sony-Ericsson, are rather competing with Samsung on the mobile phones market, but today, in Japan, a new industry, the industry of contents, is emerging, and in 10 to 20-years time, those new merging companies, like Nintendo, for the video games, will be major companies. DNA is for instance a real new merging company which creates games for the Internet, Rakuten, too, for online selling. We have to encourage them.

Q: The cost of Health care in Japan represents 8% of the GDP. Do you think that the factory system will be able to continue to answer the demand? The demographic decrease will not rather cause further problems?

Tadakatsu Sano: The total cost of health care will of course grow. In TPP, medical devises will be a big issue to be deregulated. Philips, Siemens and GE are already ahead, and there is very heavy regulations in this area. Japan wants to take all this high tech to Asian societies too. Moreover, why not proceed to a Japan-EU economic agreement in this area too?

Q: Is TPP helping or unhelping the EPA construction?

Tadakatsu Sano: We would like to do both. For the time being, the TPP is going anywhere. We had better a really good single market like the WTO, but, for the moment, the DOHA round is quietly dead. For the moment, Through ASEAN, thanks to the China-ASEAN FTA *marked*, we have privileges for doing business in China, or agreements for producing in South East Asia and exporting in China without any restrictions. EU is not so enthusiastic to start negotiating with Japan, because, in many

sectors, there are numerous tariff barriers, and many more, non-tariff, that are not equal with Japan, and which should be a major topic to discuss further between Japan and the EU.

Q: What can you say about the transfer of technology to China?

Tadakatsu Sano: It continues but China is to become a pure importer of Intellectual Properties now. On the top of it, they have their own now, even if Chinese companies are leaking up. The government cannot approve that. The companies who want to import technologies, if they think it is unfair, they can ask the government to say no.