

Speech at the launch of the EBC Annual Report 2008

" Economic Integration: the new reform paradigm"

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Your Excellencies, Ladies and Gentlemen,

It is a great pleasure to see so many of you here today. It really warms my heart to see that so many of the EU Member State Ambassadors are here and show their support. I would particularly like to welcome Ambassador Richardson of the Delegation of the European Commission to Japan. I am also grateful to see so many of our friends from the Japanese government here. It is a great pleasure to see Director General Okada from METI along with Deputy Director General Tanabe of Gaimusho together with all the EBC Committee chairmen. The EBC appreciates very much our special relationship with the Japanese government and are deeply grateful for your patience in listening to us, although our message is not always what you want to hear – to say the least!

As you may know, I am President and Chief Representative of Chanel K.K. and Chairman of the European Business Council in Japan, or EBC for short. The EBC is the trade policy arm of the 18 European National Chambers of Commerce and other Business Associations in Japan. We have 350 member companies and 32 sector committees. We have also been recognised and officially registered this year by METI as the European (EU) Chamber of Commerce in Japan. So you will appreciate that we have a very good insight into what it means not only to be a foreign company investing in Japan but also what it means to be any company – foreign or Japanese – trying to do business here.

I've been the EBC Chairman for the past seven years, and I've lived and worked in Japan for 35 years. Over this time I have witnessed a great many changes, both in the conditions for doing business here and in Japanese society as a whole. In my view, these changes have been, overall, very much for the good. At this time of global economic upheaval, it's important to keep this point in mind: change can be a force for good – so long as it is effectively managed. It seems that the electorate of the United States has, in their way, understood this, by specifically choosing a leader whose message is all about change, and who they believe has the vision and courage to deliver. Frankly, I think this positive approach is essential to survival – we must all be ready and willing not just to embrace change, but to seek it and harness it to our advantage. That is why so many recession-hit countries are right now putting together reform agendas and why the G20 leaders have pledged to work together on actions to restore growth.

Where do the European Union and Japan stand in all this? Well, let's be clear – both have been severely affected by the current global economic problems, and are facing a recession, which will last – who knows how long? Their governments have proved unable to avert the crisis and are now scrambling to manage its impact. The EU Member States have shown some capacity and drive to respond quickly, as well as collectively, and look likely to seize the opportunity to lead global economic reforms. Japan should be equally well placed to lead the reform agenda, but will it?

Looking at the historical evidence, we have to question Japan's record as a leader of reform. It has remained attached to its post-war economic development model, based on central government planning and export-led expansion, long after the weaknesses of that model became apparent. It has left Japan vulnerable to the effects of a strong yen on the profits of its major exporters and on the stock market as a whole. And this has led, in turn, to a serious weakening in the capital of Japanese banks. It should be clear that Japan can no longer export its way out of crisis. But does it have any other idea what to do?

And here we come to the crunch. The EBC believes that Japan will remain stuck for ideas, unable to lead or benefit from reform, or to move ahead in the global economy, unless it lets go of the past. It has reached an economic crossroads. Major decisions need to be made about the direction to take, and there is little time to make them.

Japan is not alone in needing to reform. All major industrialised economies, including those of the European Union, are struggling in the current crisis and they all need to look for new approaches to enable business to flourish. But the EBC believes that something sets Japan and the EU apart from the rest, and that is the nature of the new approaches they might consider.

Let me explain. Japan and the EU share a set of values, emphasising a co-operative and inclusive approach to solving socio-economic problems. Both are acutely concerned to protect human health and the environment, to ensure public safety, to respect social and cultural sensitivities, to see fair play and fair pay. Both would like to see these values better represented at the global trade level. I am not claiming that these issues do not matter to others, but that they treat them as lower priorities, whereas Japan and the EU have consistently pursued them in the way they govern and regulate, and will continue to do so.

The fact that Japan and the EU are united in this way is no small matter. These are two of the most powerful economies in the world. Their mutual trade accounted for 40 percent of global GDP in 2006. Their importance to each other as trade partners is extremely significant. Japan proved the EU's sixth largest export market in 2007, while the EU ranked third for Japan.

The EBC believes that, in this time of crisis, the moment has arrived for Japan and the EU to recognise the significance of their combined strength and shared values, and unleash their potential as global economic leaders. We believe that Japan and the EU should start working now, together, on a new approach to international trade and investment, starting with their own relationship.

Right now, that relationship suffers from endless differences in rules and regulations and very little vision of a way forward. It is obvious a step change is needed. That's why the EBC has proposed that Japan and the EU should commit to get started on an Economic Integration Agreement.

We propose that the Agreement would ultimately establish a free market between the EU and Japan for goods, people, services and capital. It would be based on mutually accepted rules and regulations. Such an Agreement has the potential to boost trade and investment. It would offer consumers a wider choice of quality goods and services. It would deliver benefits for business in terms of a single set of rules and unified certification schemes. And it would position the EU and Japan as leaders in the development and implementation of state-of-the-art trade rules, offering a template for wider agreements on the global stage. It seems to us that this is worth working for.

Let me give you some examples, taken from our Report, of what we have in mind, starting with a free market for goods.

- We are recommending that the EU and Japan should work towards mutual acceptance of standards and certification schemes, where these exist. This would have an immediate impact in product areas such as Construction Materials, Medical Equipment, Medical

Diagnostics, Animal Health and Vaccines. It would lower the cost and time taken to bring goods to market, improving consumer access to state-of-the art products, which could make a crucial difference, where health and safety is concerned.

- Turning to a free market for services, our Report recommends that the EU and Japan should allow companies to establish themselves and provide services anywhere within their combined territories. This should be underpinned by common competition rules and common standards for service providers. Given that this is a complex field, we are suggesting that initial work should focus on the Financial, Legal, Telecom and Construction sectors.
- Our Report also calls for the EU and Japan to work towards an agreement on Government Procurement. We find still that very few European companies get the chance to participate in public works contracts in Japan. An EU-Japan Agreement could help secure reciprocal market access and truly transparent information about opportunities coming up, as well as binding rules, more effective compliance measures and concrete enforcement mechanisms.
- To achieve free movement of people between the EU and Japan – an essential for economic integration - our Report recommends revising, and even in some cases abolishing, current visa and work permit rules and removing obstacles in the form of national social security and pension regulations.
- Finally, free movement of capital between the European Union and Japan may be rather a long-term goal, but it would undoubtedly help not just the financial services sector, but all sectors, by bringing down the cost of capital. It would also give consumers a wider choice of financial products at more competitive rates. So, as a realistic first step, we recommend that work begins on enabling financial services firms to fully integrate their services and operations in the EU and Japan. This would require establishing mutually accepted principles governing the financial services industry, and mutual acceptance of the home regulator as the core regulator.

This is the reform agenda that we in the EBC have in mind, when calling our report "Economic Integration, the new reform Paradigm". It is a call to the EU and Japan to set the global agenda, to fully engage in global systems, to adopt international standards, and to abandon barriers to trade.

May I just stress that when we speak of "reform", this does not imply a move to "no government", but to "better government", achieved through a process of properly consulted, socially and culturally sensitive improvements to both the way regulation is made and the way it is implemented. We believe this will benefit citizens and businesses alike.

There are numerous examples in our Report.

- We are calling for Japan's product approval systems to be made compatible with international standards and, where possible, for mutual acceptance by the EU and Japan of each other's certification systems. This would not compromise product safety. It would not mean abandoning responsibility. It would simply mean accepting data provided by trustworthy partners, sharing the burden of work, and therefore becoming more efficient, to the benefit of consumers and business.
- We are also calling for vastly better co-operation between the FSA and financial institutions in Japan over how those institutions are regulated. We are not asking the FSA to abandon control. We are not trying to weaken risk management. We are seeking to improve it, by getting rid of a stifling bureaucratic regime that over-emphasises compliance with prescriptive, yet unclear rules, riddled with loopholes, and replacing that regime with a far more transparent approach.

- We are calling for better informed regulation of food ingredients, based on genuine scientific evidence instead of misguided caution, so that limited government resources can be targeted towards finding products and practices that really could be detrimental to consumer health. This would not weaken government, but make it more effective.
- As a final example, we are calling for improvements to Government re-imbursement schemes covering healthcare products and pharmaceuticals, so that they better reward innovation and reflect value to society. We believe this would speed up the process of bringing state-of-the-art products to market, benefiting patients in the short-term and saving public money in the long-term, as illnesses would be treated more promptly and effectively. So our recommendation is not simply designed to meet the needs of business but also those of the Japanese public and the Government.

Our Report contains many more recommendations, covering a wide range of issues and sectors. I cannot hope to do justice to them all here, so I do urge you to read the Report for yourselves.

Let me conclude by underlining why we feel an EU-Japan Economic Integration Agreement is right for Japan, for the EU and even for the global economy.

All major industrialised countries are facing severe challenges to their economies, precipitated by the current crisis but also, in cases such as Japan's, the inevitable outcome of a long-standing failure to reform. Similarly, trade is suffering, not just because of the current crisis, but also due to the failure of leading economies to embrace reform in global agreements. The European Union and Japan are both victims of these circumstances and partly responsible for them. It is time for a more positive approach. The opportunity is here, now, for us to recognise our common interests, build on our mutual relationship, and work together towards an Economic Integration Agreement. This will not only boost our own trade today, but could set an example for global trade tomorrow. The EBC Annual Report sets out the prospects for such a ground-breaking Agreement and the challenges to be overcome. We commend it to you. There is no time to waste. The people of Japan, Europe and the world deserve immediate and rigorous economic reform.