

## **Chairmen's Summary**

The 30<sup>th</sup> Annual Meeting of the UK-Japan 21<sup>st</sup> Century Group was held at Wiston House, West Sussex from 3-5 May 2013. The meeting was chaired by the Rt Hon Lord Howard of Lympne, UK Co-Chairman and the Hon Yasuhisa Shiozaki, Japanese Co-Chairman.

The 22 British and 18 Japanese participants included parliamentarians and senior representatives from business, the media, academia, think tanks and the diplomatic service from both countries.

### **London programme**

On the 2<sup>nd</sup> of May, the Japanese participants led by Lord Howard called on Foreign Secretary William Hague and discussed UK-Japan relations and opportunities for future cooperation.

A luncheon meeting for the Group was hosted by the Japan Society and the Japanese Chamber for Commerce & Industry at the Cavalry & Guards Club. This was attended by conference delegates, corporate members and other guests as a prelude to the conference discussions.

On the evening of the 2<sup>nd</sup> of May, a Reception to welcome the Japanese delegation was hosted by the Foreign & Commonwealth Office and presided over by Simon Fraser, Permanent Under-Secretary of the FCO and Head of the UK Diplomatic Service.

A dinner for the Japanese delegation was hosted later that evening by His Excellency Ambassador Keiichi Hayashi.

### **Wiston House Conference**

In his opening remarks the UK Co-Chairman of the Group, Lord Howard, made reference to the significance of the 30<sup>th</sup> conference. He reminded participants that the Group had been established as the UK-Japan 2000 Group in 1984, following discussions by the then Prime Ministers, Yasuhiro Nakasone and Margaret Thatcher. Both wrote of the importance that they attached to the Group and, in the words of Lady Thatcher, its potential 'to explore the territory, to identify the most promising directions for cooperation, and then to spread the word to others on the scope and the advantages of determined action'.

The Japanese Co-Chairman, Yasuhisa Shiozaki stressed that the Group had been action-oriented from its beginnings with discussions leading to specific recommendations by the end of each conference.

The role of the Japan Center for International Exchange (JCIE) in this process was acknowledged and a welcome was extended to Ken Shibusawa, who was appointed in June 2012 as President and successor to the late Tadashi Yamamoto, the founder of JCIE.

## **Session 1: Latest Developments in Japan: The Political Situation and Economic Prospects**

The Group discussed the political and economic challenges in Japan following the general election in December 2012 and the resulting change of Government. Although the Liberal Democratic Party won a landslide victory and established a coalition government with the New Komeito Party, the mood in the party is far from euphoric and it acknowledges that it is facing the last chance to regain the faith of Japanese members and to revive the economy. Unity within the LDP which would enable Prime Minister Abe to rule for a longer period than previous prime ministers is seen as crucial. Under this conviction, the party has managed to come to an agreement on the difficult decision of joining the negotiations of the Trans-Pacific Partnership (TPP) in spite of the initial opposition of the majority of its members on this issue. On the other hand, the Democratic Party of Japan considers that its loss at the general election was due to a failure to keep promises, such as not raising the consumption tax, that were made in the manifesto when it won the general election in 2009. The DPJ is determined to reinstate itself in the political scene, and to become a viable alternative to the LDP so that the Japanese people will have different choices in future elections. Realignment of the opposition forces was seen as key to this end.

There are many political and economic challenges that need to be debated right after the Upper House election this summer such as identifying a sustainable growth policy for Japan and the amendment of the Constitution. While doing so, issues such as dealing with a shrinking and ageing society, increasing public debt, and persistent deflation need to be tackled. Furthermore, TPP should be seen not only as an economic or trade arrangement but as a strategic regional architecture which would need to be accompanied with agricultural reform in Japan. Concerns were raised about the continuation of disputes in the region that could hinder peace and stability, and on possible attempts by Prime Minister Abe to revisit history issues with its neighbour countries.

## **Session 2: Latest Developments in the UK: The Political Situation and Economic Prospects**

The Group discussed the current political and economic situation in the UK and prospects for the future. The recent outcome in local elections reflected voter dissatisfaction with the established political parties and the impact of economic austerity measures. The growth of fringe parties was being driven by concerns about immigration and the state of the economy. This fragmentation of the political situation made it difficult to predict the outcome of a general election in 2015.

Problems in the eurozone have reached a point of maximum tension but the possibility of a recalibration of policy in the next year with the weaker states stepping up the pace of structural reform to support growth could ease the situation. There were nevertheless issues arising from anticipated waves of immigration into the UK from new member states.

Britain's relationship with Europe continued to dominate the political landscape and was giving rise to uncertainty among investors. The prospect of a referendum on EU membership

was of particular worry to Japanese companies in the UK who were concerned to maintain ongoing access to the EU Single Market.

### **Session 3: Retrenchment or Stagnation: Lessons from Japan's 'Lost Decades'**

The Group discussed the factors leading to Japan's so-called 'lost decades' and the political and social backdrop to economic policy making over this period. The conventional explanation for this extended period of slow growth had been Japan's failure to boost the economy sufficiently with fiscal and monetary stimuli, resulting in deflation and depressed demand. However, growth could be seen as having been slow due to demographic factors with deflation having some positive impacts, not just negative. In fact Japan's productivity through the 'lost decades' had improved more than that of France or Germany.

Excessive past corporate investment as a percentage of GDP and current excessive depreciation allowances have led to a structural corporate cash flow surplus. In order to lower the cash surplus of the corporate sector, companies should pay higher dividends. They are currently inhibited from doing so by excessive depreciation allowances. Japan might therefore consider reforming corporation tax by decreasing depreciation allowances and cutting the corporate tax rate.

### **Session 4: Climate Change and Energy Policy**

The Group discussed energy policy in the UK and Japan, focusing initially on the nuclear sector and tracing its history, from the building of the first nuclear reactor at Calder Hall in Sellafield in 1956 to the Fukushima accident in 2011. Technological change within the industry, energy demand and, in a 'hyper-connected world', public perception meant that monitoring the safety and effectiveness of nuclear power plants remained central to debates about energy supply and efficiency.

In the post-Fukushima environment, the assessment of risk and disaster management had become key issues. The future of the nuclear industry in Japan was dependent on the ability of government to respond to safety concerns and to set up proper monitoring frameworks, independent from 'group-think' of the nuclear and utility industries. Japan might benefit from Britain's Chief Scientific Adviser system which provides an independent channel for government departments to access scientific expertise.

The UK's long experience of new build projects, life extension and decommissioning as well as the reprocessing of nuclear fuels offered opportunities for UK-Japan cooperation. While some progress was being made, it was important to agree the necessary conditions in advance, including the strike price and the length of power purchase commitment, for Japanese investors into the UK energy sector to realise joint projects. There was also potential for cooperation in the renewable energy sector and energy efficiency.

### **Session 5: Geopolitics and Security Challenges in East Asia**

The Group discussed the geopolitics of East Asia by looking into the current situation of China, North Korea, South Korea and Japan, and the possible options to meet the security

challenges in this region. A range of views were expressed, reflecting the difficulties of this sensitive issue. It was recognised that the power balance between China and Japan had changed in terms of the size of their respective economies. China has become much more confident and no longer accepts the status quo in the region. At the same time, China has many problems with consequent risks: namely, internal dissatisfaction over such issues as income disparity and the environment; the way in which nationalism is used to shift the target of this discontent, in particular towards Japan; the determination to use force if necessary to defend its core interests which include Taiwan and Tibet; and the future direction of China's foreign policy, extending its hegemony in the region which could lead to a clash with the US. The difficulty that Japan faces in dealing with China's stance with regard to the Senkaku islands is representative of this changing dynamic. It was stressed that Japan approaches this issue under the principle of the rule of law and that there was no room for compromise. Some suggested that Japan should strengthen further confidence-building measures with China and partnerships with the US; the EU, and in particular the UK; South Korea, Australia, ASEAN and India (which should not be seen as containment policy).

The extremely provocative behaviour of North Korea under its new leader Kim Jong-un poses a serious challenge to the security of the region and to the international community. Instability within the regime could be the backdrop and while reasons behind its conduct could vary from a strong response to sanctions imposed by the United Nations to testing the new leadership in South Korea, North Korea's enhanced military capability should be taken as a serious threat. So far the US-Korea alliance has worked as a deterrent and President Park has been praised for her handling of the situation, but there is a risk that North Korea may take irrational steps and that a military confrontation could be caused by accident. In seeking a solution, China should be urged to play a more effective role. It was suggested that more engagement with North Korea, encouraging people-to-people links between the younger generation, academics and others could be considered.

As for Japan, Prime Minister Abe's current policy and in particular the 'Third Arrow' to be announced in June this year which is expected to include structural reform measures, was seen as key to the revival of the Japanese economy. Possible attempts to revisit history issues may be the reflection of certain views within Japan but there were several opinions encouraging pragmatism to prevail in dealing with this issue in the light of the concern that exists not only in neighbouring countries but also amongst members of the Western community.

#### **Session 6: The EU and Japan: Future Prospects for Trade and Investment**

The Group discussed the current state of trade and investment links between the UK and Japan. The launch of negotiations for an EU-Japan Economic Partnership Agreement (EPA) offered the potential to expand opportunities for Japan in Europe and for European investment and trade with Japan. The UK, as a key trading partner and base for Japanese investment in Europe, would benefit from such an agreement. It would also serve to stimulate the sluggish European economy. Japan greatly valued the UK's support in pressing for the launch of negotiations.

There were issues to be dealt with if the negotiations were to succeed, particularly with regard to progress in addressing concerns about actual and perceived non-tariff barriers. In addition, it was argued that regulatory reform should be pursued to improve the environment for trade and investment.

The importance of supporting training links between Japan, the UK and Europe was emphasised. Such programmes as Vulcanus and the Executive Training Programme (ETP) provided a framework for educational and cultural exchange that would support the future business environment.

### **Session 7: Corporate Governance and 21<sup>st</sup> Century Capitalism: Common Concerns**

The Group took up this theme with enthusiasm. The issue of corporate governance was perceived as central to socially-inclusive wealth creation in the new atmosphere of the ‘Asian Century’. The main challenge would be how to encourage emerging markets to adapt their behaviour and to sign up to this proposition. Measures such as tying development assistance to appropriate behaviour in business could be employed to this end. Strong leadership in business and government were seen as key factors for success, which ultimately would determine the quality of life for future generations.

It was felt that, even amongst developed countries, the problem was far from resolved. For corporate governance to prevail, not only the corporate sector but also politicians, regulators and citizens needed to take responsibility in monitoring business. In the case of Japan, in part as a result of the difference in corporate mindset that values ‘group-think’, incidents which could be perceived as a failure of corporate governance have taken place. There are many leading Japanese corporations that engage in global business, yet do not appreciate the role of independent directors on company boards monitoring the performance of CEOs. Top executives tend to stay with their companies longer than those of western companies, and there is an emphasis on stakeholders, such as employees, banks, customers and even retired management members, not just the shareholders.

It was agreed that, because Japanese companies emphasise sustainable corporate value creation, they should improve shareholder engagement and increase the number of independent directors in order to introduce more diverse and global perceptions into their corporate top management.

### **Session 8: International Development Cooperation: The UK and Japan**

The Group looked into possible ways in which the two countries might cooperate in the area of international development and private security. Although traditional differences in the way Japan and the UK have administered development projects and also in the regions where they focused their projects may have been the reason why cooperation has not really happened in the past, there are more overlaps now which would allow cooperation between the two countries. For example there is a growing consensus between the UK and Japan that local wealth creation is a powerful force for development and should be encouraged, especially through trade facilitation. Development projects in areas such as Somalia as well as private

armed security protecting trade interests were seen as critical to curbing the problem of piracy.

Four specific areas were suggested for UK-Japan cooperation: aid coordination by DfID and JICA in specific countries, for example in Myanmar, which is a new destination for UK aid and where JICA has an unmatched level of experience and knowledge; cooperation in sending young people and senior people to developing countries which will enable them to be part of the development process, and at the same time to contribute in reversing the so-called inward-looking tendency of the Japanese young generation; co-hosting seminars at key development meetings complementing their relative strength, namely the Japanese expertise in funding and building large infrastructure projects and the British one in financial management and service delivery; follow-up on ongoing dialogue between members of this Group and to implement two projects, one to re-build women's maternity shelters in Zimbabwe, and another to increase women's engagement in rural development in Myanmar.

### **Session 9: Progress in Developing UK-Japan Bilateral Cooperation and Prospects for the Future**

There has been multi-layered engagement between the UK and Japan over the past year and the recommendations of the 2012 conference have been implemented in a number of ways.

On an official level, visits to Japan have been made by the Chancellor, by the Secretaries of State for Health, International Development, and for Wales; by Ministers of State of the FCO, the Department of Business Innovation & Skills and the Department for Transport; and by the Parliamentary Under-Secretary of State of the Department of Culture, Media and Sport. The Governor of the Bank of England and the Lord Mayor of London have also visited Tokyo over this period.

Japan's Foreign Minister visited the UK in October 2012 for the First Japan-UK Foreign Ministers' Strategic Dialogue. The UK's Presidency of the G8 in 2013 has led to subsequent meetings involving Japanese Foreign and Finance Ministers in advance of the G8 Summit. Ministers for Culture and Education, the Vice Minister for Finance, the Cabinet Office and the Governor of Tokyo have also visited the UK. Both Prime Ministers were due to meet in the UK in June.

Progress has been made in addressing bilateral issues of importance to both countries including the strengthening of trade and investment links, defence and civil nuclear cooperation and collaboration on international development.

The UK has actively supported the launch of parallel negotiations for an EU-Japan Economic Partnership Agreement and Political Agreement. The first round of discussions began in April 2013. It is felt that an ambitious agreement could greatly benefit bilateral trade between the EU and Japan with key areas of interest for the UK including professional services (including financial services), the automotive sector, and government procurement.

Defence cooperation has been high on the agenda and the Group has a mechanism in place for receiving periodic updates from both governments to inform its discussions. Following

the signing of a Defence Cooperation Memorandum by the two Defence Ministers in June 2012, efforts have been made to identify defence equipment projects that British and Japanese industry could collaborate on and to put the necessary legal framework in place.

Following discussions at the 2012 conference and with the approach of TICAD V, UK-Japan international development cooperation, particularly in Africa, has been a focus of interest. The Group has been directly involved in a series of seminars and workshops in cooperation with JICA, Asia House and the Embassy of Japan.

Further opportunities for collaboration in dealing with energy issues, particularly in the civil nuclear field have continued to be pursued. The next UK-Japan Energy Dialogue was scheduled for July 2013.

Higher education links between the UK and Japan have remained strong. The Group welcomed such initiatives as the Sasakawa Lectureship Programme for Japanese Studies and the 5-year UK-Japan Conference Series at Chatham House, funded by the Nippon Foundation and run in partnership with the Great Britain Sasakawa Foundation. High profile academic conferences on ‘Why Japan Matters’ at the Nissan Institute, Oxford and ‘Japan in Our Futures’ at Sheffield University have also been held in the course of the year.

Changes to the English national curriculum came under discussion with respect to the narrower range of foreign languages (not including Japanese) to be offered at primary school level. It was felt that excluding Japanese from such curriculum choices would affect the wider study of Japan in the classroom and, in the longer term, interest in degree courses in Japanese.

The Japanese government’s recent announcement on measures to improve English language standards in Japan was positively received, particularly the projected doubling of the number of young people to be sent to Japan on the JET programme. However, there was concern that the proposed selection of TOEFL as the sole English language qualifying exam in Japan could have an adverse impact upon English language teaching links with the UK.

Following a recommendation of the 29<sup>th</sup> Annual Meeting of the Group, the British Council was congratulated for producing a Scoping Study on UK-Japan educational exchanges. This has both clarified and quantified the bilateral exchange opportunities available to young people.

Several significant anniversaries in the UK-Japan relationship were being marked in 2013. The Choshu 5, five students from western Japan arrived in Britain in 1863 and studied at University College London. Their significant contribution to Japan’s modernisation was being celebrated in this 150<sup>th</sup> anniversary year.

*Japan 400*, a major cultural festival heralding the four hundredth anniversary of the opening of trade, scientific, cultural and diplomatic ties between Japan and Britain was being held in 2013 with an extensive programme of events in both countries to mark the long history of UK-Japan relations.

The following recommendations emerged from discussions at the 30<sup>th</sup> Annual Meeting of the UK-Japan 21<sup>st</sup> Century Group.

## **Recommendations**

### **Japan-EU Economic Partnership Agreement**

- The Group welcomed the launch of negotiations for the EPA and recognised the importance of progress in addressing concerns about actual and perceived non-tariff barriers, some of which were the result of the regulatory framework in Japan.
- A further concern was raised that a political agreement should not be a condition of concluding the EPA. The UK's ongoing support for Japan's position was urged.

### **Defence Cooperation**

- The Group welcomed the positive response from both governments in creating a mechanism to receive periodic updates on defence cooperation. It was agreed that this process should be maintained and the first successful project established.

### **Energy Cooperation**

- The Group agreed to explore the potential for setting up a government/private sector forum for cooperation in the renewable energy sector in addition to the existing Nuclear Dialogue.
- In order to attract Japanese nuclear energy investment in the UK, the Group highlighted the importance of agreeing the necessary terms and conditions, including the strike price and time frame for project implementation.
- In the post-Fukushima environment, the Group recommended that training and exchange opportunities should be pursued to share experience and knowledge of risk and disaster management in the nuclear sector.
- Britain's Chief Scientific Adviser system was advocated as a model for Japanese government departments to draw upon.

### **International Development Cooperation**

- The Group looked forward to a successful G8 and TICAD V and to exploring opportunities for cooperation with Japan both at government and private sector level in development projects in Africa and Myanmar.
- It reiterated the potential for jointly working together with China to improve ODA interventions and investments in developing countries.

## **Women**

- The Group acknowledged the importance of the role of women in public life, particularly in politics and business, and recommended that consideration be given to a bilateral seminar during 2013/14 to discuss the issues that arise in this context.

## **Security**

- The Group urged both governments to work together to use their ‘soft power’ or influence to improve international relations.

## **High-level communication**

- The Group recommended that consideration be given to the possibility of setting up a video hotline between the offices of our respective Prime Ministers.

## **Young Politicians**

- The Group noted the benefit of dialogue between young politicians from the UK and Japan and recommended that both Parliaments explore the possibility of a pilot exchange programme to develop such a dialogue.

## **Education and Exchanges**

- The Group expressed concern about the proposed change to the English national curriculum that would affect the ability of schools to offer Japanese as a foreign language option at primary school level. This would not only have a negative impact on the wider study of Japan in primary and secondary schools but also at HE level.
- The Group welcomed the Japanese government’s commitment to improve English language standards in Japan but agreed that not only TOEFL but also IELTS should be adopted as qualifying exams for university and college entrance.
- The Group welcomed the projected doubling of the number of young people to be sent to Japan on the JET programme and strongly advocated that the UK should have a significant share of these additional places on the scheme.
- The Group welcomed the British Council’s Scoping Study on UK-Japan Educational Exchanges in response to a recommendation of the 2012 UK-Japan 21<sup>st</sup> Century Group conference. It recommended that opportunities to build on existing programmes to allow secondary school students of both countries to widen their cultural experiences should be expanded.
- It also recommended the enhancement of exchange and training links at different levels to create a sustainable pool of UK-Japan knowledge and expertise.