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P R O C E E D I N G S

MR. BUSH: Welcome to Brookings on a beautiful Friday afternoon. It's my great pleasure to welcome you to this afternoon's event. My name is Richard Bush. I'm the Director of the Center for Northeast Asian Policy Studies here at Brookings. We're very privileged this afternoon to hear an address by His Excellency, Toshimitsu Motegi, who is the Minister of Economy, Trade and Industry in the Government of Japan.

He will speak on economic growth, energy and economic partnership, Japan's current obstacles and new opportunities. After the Minister speaks my colleague, Dr. Mireya Solis, will moderate the discussions and we need to end promptly at 3:50.

I think there's biographical information about Minister Motegi outside. I will just say that he is a graduate of Tokyo University in 1978. He received a Masters from the John F. Kennedy School of Government at Harvard University. He is now in his seventh term as a member of Japan's lower house. He has served in a variety of ministerial and vice-ministerial positions in the government and also policy executive positions in the Liberal Democratic Party.

He became Minister of Economy and Trade and Industry in December of last year. Without further ado, welcome to Minister Motegi.

MINISTER MOTEGI: Thank you very much for your kind introduction. It is my honor to be given an opportunity to introduce Japan's effort at the Brookings Institute where opinioned leaders here in the United States and all over the world get together.

Everyone has a dream that one wants to try even once in a life. If you were a singer it might to be hold a solo concert at Carnegie Hall. If you were an actor it

might be to play the role of James Bond or 007, but you might better switch Aston Martin to another car as it is not the perfect car for daily use. However, since the TPP negotiations are getting into a crucial and sensitive stage I'm not going to suggest which car you may change.

One of my dreams since my Kennedy school days has been to give a speech here at Brookings. Yet, getting Peter Knapp in the Q and A session is not a part of my dream.

Well, in the four months since the inauguration of Prime Minister Abe's administration our new government -- our new administration has taken politically tough actions at an unprecedented speech such as bold monetary policy and the entry into TPP negotiations. Japan's economy has started to show promising signs. For example, NKE stock average has risen by 50 percent since last November. The Cabinet approval rating is marking 76 percent. I see this is a reflection of strong expectation of Japanese people for new administration's economic policy namely Abenomics.

To turn such an expectation into strong confidence what we've wrought, instead of wrought I'd rather use a word with more straight connotation, street, because it is a key word for today's speech. It's the air in the street represent strategy. Strategy for what? The first e is a strategy for economic growth. Second e is a strategy for energy and finally the t stands for strategy for trade liberalization.

I begin with strategy for economic growth. Abenomics is to shoot three arrows strongly at the same time, namely, bold monetary easing, right through fiscal policy and growth strategy to stimulate business investment. As a first arrow, Mr. Kuroda, new Governor of the BOJ introduced very bold monetary easing on the dimension we have never seen.

This is to overcome Japan's prolonged deflation as early as possible. This new policy is never targeted on the exchange rate. Only the market decides the exchange rate anyway. The first arrow seems to be within the range of the mark of ending deflation.

The second arrow targeting at diverging economic decision is to make a seamless execution of two budgets namely our supplementary budget of over a hundred billion US dollars and the current fiscal year's regular budget which has passed the House of Representatives. This second arrow has also reached a cruising speed smoothly.

I suppose that the most important and what you want to hear the most today may be the third arrow, growth strategy. I'd like to mention two points about the growth strategy here. The first is to open new frontier of Japanese economy and the second is (inaudible) metabolism of Japanese economy. What I mean by new frontiers of Japanese economy, for example, Japan is now facing a challenge of aging society. By developing new frontiers of Japanese economy Japan turns this challenge into an opportunity for developing new business is a wide range of health and welfare areas.

I'd like to introduce Japan's initiative that we will call the healthiest and longest live in the world. For example, suppose someone suffered a spinal cord injury due to a traffic accident. He has to rely on the wheelchair but with the application of IPS cells his nerves can be regenerated and he can walk again. Another example is a working assistance robot named Robot Suit HAL. This robot has developed by a Japanese venture company.

Suppose those who have difficulty in walking due to the old age or injury put on the suit. The robot sense bioelectrical signals generated when the user intends to

move the legs. Then the robot moves its joints in sync with the user's movement. Now, the user can walk again. The government has been a driving force for these initiatives through providing R & D and other assistance.

The new frontiers also include changing energy constraint to a breakthrough a much safer, more economical and more efficient energy technology for new economy growth. I will come back to energy issues later.

Second, Japan will stimulate the metabolism of Japanese economy to implement structure reform for growth. We will support business efforts toward their own structure reform. We will also intensively implement variety of measures in taxation and regulatory systems to facilitate the transfer of business resources and labor forces from conventional to growing industries.

In addition, we will develop new markets through regulatory reforms. We are considering a new approach called International Top Runner Test in pursuing regulatory reform. When there is a gap between domestic regulations and international standards, we bring the domestic regulations into line with the international standard unless there are good reasons to maintain domestic regulations. As almost 150 years has passed since the end of isolationist period of the Tokugawa Shogunate we just cannot allow regulation to become closed to the outside world again.

The second e is a strategy for energy. Nuclear energy accounts for 30 percent of Japan's power generation before the great east Japan earthquake. It now stands at only two percent. The amount of power generation lost is equivalent to nearly twice the amount of electricity consumed in New York State. It is replaced by thermal power generation. Japan has to rely about 90 percent of energy demand on for sale (inaudible). We import all of them from overseas. It certainly is not sustainable. This

situation is in stark contrast to the United States as the US has taught energy independence supported by its shale revolution.

Energy is a lifeline for different industrial activities and prosperous lives of people. The key elements to overcome the energy supply constraint and to ensure stable and economical energy production are diversification of fuel supplies, enhancement of efficiency of solar power generation and utilization of nuclear energy. The high natural gas price is a main cause for Japan to experience trade deficit. For the first time in the 31 years the price in Japan is four or five times higher than in the United States. If energy can be imported from the US with growing production of shale gas it makes a lot of difference for Japan to diversify fuel supply sources and shrink the price gap.

This is not a program only for Japan. Energy demand is expanding rapidly throughout Asia therefore new flow of energy supply from the US to Asia is an essential game changer that would contribute to energy security as well as to economic and geopolitical stability in nature. I will explain a bit more details on Japan's nuclear energy policy. First of all, I'd like to express our appreciation to American people for Tomodachi Initiative that has been extended in response to (inaudible) Fukushima Nuclear Power Plant accident. I am sure Tomodachi Initiative heart-to-heart ties between peoples of Japan and the United States.

Abe Administration will review from scratch the policies of the former administration that targets zero nuclear power in the 2030s. We will restructure and build responsible energy policy with a strong determination for safety that will never repeat the accident and the recognition that we are a leader of nuclear non-proliferation efforts. To date, Japan has been contributing to peaceful use of nuclear power and its non-

proliferation in tandem with US. We feel it our responsibility to share the experience and lessons learned from the accident with the rest of the world, with this can contribute to safe and peaceful use of nuclear energy worldwide. Even an increasing number of new nuclear power plants and their planning, we will remain committed through exporting nuclear power plants of the highest safety standards.

Let me touch on the decommissioning of the (inaudible) Fukushima Daiichi Nuclear Power Plant. It is an unprecedented case in the world involving various challenges. We therefore will not leave this work to the utility alone. Instead our government will take a leading role in the field of R & D in tackling with this challenge; Japan will keep the information open and get wisdom from all over the world including the US. Last year, based on the determination of our diet, Japan established an independent regulatory body nuclear regulation authority for in the case of the US, this authority has introduced cities of strict regulations and is now known as the strictest organization to utilities in Japan. I'd rather call it JNRA, not simply NRA.

The safety of nuclear power plants is left to professional and scientific judgment by JNRA. Unless safety is assured by it, it will not restart nuclear reactors. On the other side, once safety is assured we'll move forward to their restart.

The US has built a system which encourages the nuclear industry's voluntary and continuous efforts of improving safety after the Three Mile Island accident. It includes the establishment of the Institute of Nuclear Power Operations, INPO and the introduction of performance based regulation. We will enhance international cooperation and I aim to achieve the highest standards of safety in the world through our industries' voluntary and continuous effort. In doing so, new tradition of probabilistic risk assessment, PRA, will be very important as a tool to measure safety at each front

objectively.

The quantitative risk assessment by PRA will enable us to depart from the so-called safety miss which is a belief that there exists no risk. If nuclear power plant satisfies regulatory standard PRA will encourage the industry's voluntary and continuous effort and will also enable us to explain risk mitigation efforts by objective figures. The Japan-US cooperation for nuclear safety enhancement will contribute to sound development of nuclear industries of the world in a manner compatible with non-proliferation.

Eventually it will also contribute to strengthen national security of both countries. For this reason, I'd like to propose to set up a forum under Japan-US Bilateral Committee on Civil Nuclear Corporation for discussing and exchanging views on the effort of safety improvement by industries.

The US have been and will be our most important partner when tackling with our challenges of the energy crisis. The only regret during my visit to the US this time is that Dr. Moniz, a nominee for Secretary of Energy, is not in office yet. I trust that the top of the piled up documents that he has to sign upon taking the position will be the energy export license to Japan. I'm sure I'll be able to work together with him in a win-win manner. I look forward to contributing to stable, economical and sustainable energy development on a global scale through the Japan-US cooperation.

The third part of the street, t, is strategy for trade liberalization. Japan is on track to join the TPP negotiation as the US government not fight Congress of interest to include Japan in negotiation on April 24th. We hope that Japan can contribute to the discussion in the round expected to be held in July. We will contribute to the rulemaking in the Asia Pacific region together with countries that share the same value particularly

with the US.

At the same time Japan promotes the variety of economic partnership in all dimensions including Japan EU, EPA, AISEP and Japan-China-Korea trilateral FTA. We will play a strong leadership to realize FTA, free trade area of Asia Pacific. Here there is a point that we should be mindful of as mega-FTAs such as TPP, US, EU, FTA and Japan EU, EPA are spreading mainly among developed countries, it might be possible in the future that these mega-FTAs compete with each other.

Another possibility might be that no (inaudible) issues arise between developed countries and developing countries left out of mega-FTAs. Japan is proceeding with economic leadership partnership with countries ranging from developed to developing countries and hope to serve as a mediator to address these concerns. The trade liberalization is not just about FTA. It includes participation, participating cross border cooperation and connecting one country to another in the broad sense. For example, Japan has promoted broader area infrastructure building that can support spreading separations across national borders. One example is of building roads and port which connect Vietnam, Cambodia, Thailand and Myanmar.

Another example is developing Delhi-Mumbai industrial corridor in India. Japan has strongly supported such dynamic cross border infrastructure building. Through these efforts separate chains in Asia has been strengthened. Japan together with the US have supported the progress toward democracy in Myanmar. We hope to expand such successful Japan-US cooperation to worldwide cooperation not (inaudible) to in Myanmar.

In the context of global cooperation between Japan and the US, I'd like to promote Japan-US cooperation for leading the world in strategic sector leveraging our

excellent technologies and competitive industries. One example is in the areas of cyber security. Last year, Japan established public private initiatives for cyber security information shared partnership to protect important infrastructure from cyber-attacks. This information sharing framework is joined by certain organizations covering five sectors of heavy industry, power, gas, petroleum and chemical.

Under the framework 246 cases were reported last year and it helped prevention of security impediment and enhancement of countermeasures. Japan will promote cooperation with the US including sharing best practice R & D and human resources development. In addition, Japan has a variety of advanced dual use technologies which should be invaluable even in the defense sector.

For example, carbon fiber as light and strong material is used for aircraft body. Second is robot that's functioned effectively in disasters. METI would like to support cooperation in the strategic industry sectors between Japan and the US while maintaining the firm position of Japan as a peaceful nation.

Do I have 15 more minutes? No. Three more minutes. Let's think about the future qualifier. What the world in 2050 will look like. According to ADB, GDP of China will be \$63 trillion, India \$40 trillion and Asia will account for 52 percent of the world GDP. At that point the US GDP will be around the same as that of India. Furthermore, GDP per capita in the entire Asia region will reach \$40,800. It is approximately at the same level as in today's Europe.

If this projection comes true the people will shift toward Asia. This scenario, however, is subject to many different risks. There are various elements of uncertainties such as increasing gap between the rich and the poor, depletion of resources, environmental deterioration and the changing geopolitical balance. How

should Japan and the US react to immense growth of Asia? When heading to a new land or new frontier the most important thing is the close ties, *kizuna*, among the pioneers.

I believe Japan-US Alliance should be the pivot of those expeditions. Our Prime Minister Abe stated Japan is back. If Japan, which is back, and the United States now walk together, we will be followed by a new street, produce *rudra* (?) meaning further beyond. Is another Latin word I like as much as *veritas* over the Harvard coat of arms. This street will lead to broad way that brings about peace, stability and prosperity in the Asia-Pacific region. You never enjoy peace and stability result assuring not only national security but energy and cyber security.

Similarly, we will never enjoy prosperity without TPP which is to lead up to FTAP through applying new rules this will further facilitate trade and investment in this region. Japan and the US share the same values including freedom, democracy, human rights and rules of law.

I very much look forward to drawing a hundred year plan for the Asia-Pacific region and trending on the street of state of stable, peace and prosperous Asia-Pacific region together with the US. Thank you very much.

DR. SOLIS: Okay, the mic is on. Thank you so much, Minister Motegi. May I say that your dream is our dream and we're really delighted to have you here at Brookings. And thank you so much for such a rich presentation and I think there's so much, I'm sure that people here have so many questions and now we're going to turn to that portion of the program. And I would like to take the opportunity to ask the first question this afternoon.

And I think that these are very exciting times in Japan as the Abe Administration has put forward a number of economic policies that could indeed have a

transformational effect so that Japan can overcome deflation and slow growth. And I think, Minister, Motegi, as you've pointed out in your remarks the component of structural reform is really essential to the success of this economic strategy.

Now, I think that there are some people that are a little bit skeptical about what could be the results of the third arrow in the Abenomics program because they point out to the fact that previous governments in Japan have called upon the need for structural reform but that due to internal inertias or other obstacles sometimes these efforts have been bogged down. Now, in my mind, this time the campaign at structural reform is qualitatively different from what it has been attempted in the past, partly because I see a very positive synergy between the domestic reform agenda and Japan's participation in very ambitious trade agreements like the TPP and the negotiation with Europe.

But my question to you, Minister Motegi, is how would you respond to those people out there who may be a little bit skeptical about the chances of structural reform in Japan finally gaining traction? What could be different this time as the other government undertakes this very, very ambitious and positive economic policies?

MINISTER MOTEGI: Well, maybe it's not necessary to compare what we can do with what the previous administration did. In the full month after the inauguration of Abe Administration we have already been able to deliver some outcome like more than 50 percent rise in the NIKE average index and also increase in the business investment. And at the same time I believe there is a sign of changes in the perception and mindset of Japanese consumers.

Well, about the growth strategy during former ODP government as well under DPJ government the growth strategy has been formulated and been pursued but

what makes a difference right now is not to prepare a beautiful growth strategy package. What that makes a difference is for us to deliver and for us to be able to deliver what is important is reform including regulatory reform.

Well, I made a reference to IPS cells during my speech and last year Professor Yamanaka of Japan was awarded the Nobel Prize and in that sense I think I can say Japan is most advanced in the area of research on IPS cells. Well, research is advanced in Japan but on the other hand Japan is not as advanced in the application or commercialization of this very basic technology. For instance, we've got only two such cases of application or commercialization whereas there are nine in Korea, 25 in Europe and 88 in the United States.

So, where has been the bottleneck in Japan for the lack of such a commercialization, it I believe has been due to the institution system laws and regulations in Japan. Therefore we decided to submit and pass the pharmaceutical business law to address these concerns. Well, in June we are going to formulate and announce a growth strategy package but we are not going to wait until June for what we can do now and there will be bold and courageous in implementing whatever we think we can do right now without waiting for this package.

DR. SOLIS: Thank you very much, Minister Motegi. So, now we'd like to take some questions from the audience. I would like to remind everybody to please wait for the microphone to reach you to identify yourself and to ask a short question since we are really pressed for time.

So, who would like to ask a question of Minister Motegi? The gentleman over there.

MR. RASHID: Hi, Rich Rashid with Economists Incorporated. You

mentioned that you're having an FTA with China and Korea. There is discussions of that and I was wondering if you had plans to expand that into creating maybe a regional economic zone, something very similar to European Union for Asia. And I just wanted to get your perspective prospect upon that.

MINISTER MOTEGI: Well, thank you very much for the question. Maybe my pronunciation during the speech I was not very proper but I made reference to RCEP, which stands for Regional Comprehensive Economic Partnership. That means that is sort of an endeavor you have just suggested in your question of creating a community in the Asia-Pacific region including ASEAN plus Japan, China, Korea, India and Australia.

Well, the eventual destination for all of us in the region is to achieve FTA, free trade area, of the Asia-Pacific. I believe I can compare this to the summit or the peak of the mountains and I think there are many roads and paths to climb up to the summit. And the TPP I believe is one of the main ones at this moment. But RCEP is another pathway and there can be others too.

DR. SOLIS: Thank you very much. Over there.

MR. BERGER: Thank you, Mr. Minister. My name is Jim Berger from Washington Trade Daily. As you probably know there is a lot of skeptics especially in Washington about whether Japan can put forward an aggressive regulatory reform package and make some changes that will have real meaning in the trade, in the Trans-Pacific Partnership. Can you tell us if Japan is ready to bargain quickly in July perhaps on some major issues and so it will not delay these negotiations?

MINISTER MOTEGI: Well, but TPP in the previous administration it took two years for them to discuss the pros and cons of participating in TPP without being able

to make an announcement for Japan's participation in the negotiations. But under Abe Administration which came into power on December 26th last year, already in February the Japan-US leaders' meeting between President Obama and Prime Minister Abe, there was a very positive comment made by Prime Minister Abe vis-à-vis TPP participation. And already on March the 15th Japan make a public announcement for its will to participate. So, the speed in this new administration has been very prompt.

Well, I don't know when actually Japan can participate substantively in the TPP negotiations. We are still waiting for the completion of the domestic procedures of 11 member countries. But we hope to be able to participate in the negotiations substantially as soon as possible so that Japan can make a contribution to high level agreement in the form of TPP.

Having said this, of course, Japan as well as other members have their own domestic sensitivities but the goal shared by all the members of TPP is to achieve high level of economic partnership to be reached. And I think it is shared by Japan and as well as by other countries. Japan hopes to be able to make a contribution along that line.

DR. SOLIS: Thank you very much. I think we have time for one more question from the audience. Yes?

MR. BEHSUDI: Hello, my name is Adam Behsudi. I'm with Inside US Trade. I had a question about the Japan and the US set up a special bilateral consultations with each other in parallel to the TPP negotiations and one of those -- one of the commitments that was made, I think last month, between the two sides was that the US would be able to maintain its auto tariffs for as long as the longest phase out of any product.

Now does this pressure Japan to consider a phase out for its sensitive agriculture products within a reasonable time so that they can take advantage of the auto tariff phase out? Because I guess it seemed to put Japan in a position to have the tariff, a reasonable phase out so they can take advantage of an auto tariff phase out and would just like your comments on that. Thank you.

MINISTER MOTEGI: Well, I believe the point you have just raised is the one which was also raised during consultations between Japan and the United States before the announcement by Japan of its will to participate in the negotiation but it has always been a longstanding interest of the United States even before this. I believe this is the issue that we have been dealing with as a bilateral issue for quite some time already.

And in the February meeting between the President of the United States and the Prime Minister of Japan, the leaders confirmed that Japan has certain sensitivity of agricultural products, whereas the US has a sensitivity of a certain manufactured products. I have had discussions, trade talks, with the counterpart ministers of various countries and I understand that all of them have their own unique sensitivities domestically.

Well, there was a basic agreement on auto issue between Japan and the United States on a bilateral basis. But as to the tariff and how to deal with the tariff and non-tariff issues including all of them, all the products that will be put on the negotiating and during the negotiation the decision will be made.

DR. SOLIS: Thank you very much, Minister Motegi. I think that we are out of time. Well, if you can stay longer?

MINISTER MOTEGI: One or two more.

DR. SOLIS: One or two more questions? Wonderful. So, why don't we -- all right and immediately the hands shoot out. So, this gentleman and then this gentleman, we take those two together so that we save time that way. Yes, this young gentleman with glasses.

MR. JOE: Thank you, Minister Motegi. I am from South Korea. My name is Joe and I'd like to ask a question regarding the FTA to TPP. Right now, South Korea and the United States has FTA and it has a one year anniversary. So far during the procedure it has some structural conflicts and domestic unrest and that was being a chord in the process. So, I believe that Japan had the same kind of hardships that had been faced. So, could you explain more about how you get through those kind of conflicts? Thank you.

DR. SOLIS: Is that okay? And then we will take this one and then we'll ask the Minister to respond to both of them.

MR. BOOK: Hi, I'm Kevin Book from ClearView Energy Partners. Thank you, Minister Motegi, for your presentation. My question was you mentioned that you regretted you hadn't had a chance to speak with Dr. Moniz yet and you were looking forward to working with him. I saw media reports that you may have been at the DOE. I wondered if you had any updates on the discussion towards L & G exports you might be willing to share. Thank you.

MINISTER MOTEKI: I just received sensitive questions. Well, it seems that in achieving a chorus there are difficulties to be overcome by the two countries. I believe that just being on the defensive is not good enough.

Well, as Japan in the national interest, we feel that we should protect what we should protect but even in the agriculture area which we seem to be considered

to be on the defensive but I think we should also be on the offensive in the agriculture area because we have excellent farm products as well as agriculture technology that can compete in the global market.

On energy issues I met with Acting Secretary Poneman of Energy Today and we agreed in the meeting that we would make Japan-US cooperation including nuclear and other energy areas to a higher level as well as to broaden the area of cooperation. Because we get 90 percent of the power generated from fossil fuel, therefore for Japan with this sort of energy structure, energy supplies also of diversification and cost reduction are of great importance. The United States is a very important ally for Japan and between the US and Japan we have very vigorous and excellent bilateral cooperation in energy areas.

Therefore I trust and hope that the US would be mindful of the current Japanese critical energy situation and that we have a great expectation of being able to import L & G from the United States underpinned by shale gas development in this country.

DR. SOLIS: Thank you very much. Now in closing I would like to first of all to ask everybody to stay in your seats so that Minister Motegi can exit. He has other meetings but as a reward for your patience when you actually exit the auditorium you will find copies of the Minister's speech that you can then take and read more carefully.

And I would like to ask you to please join me in thanking Minister Motegi for such a wonderful presentation today.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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