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1970: Graduated from the University of Tokyo, and entered the Ministry of International Trade and Industry in the same year. 1975: Received an MBA from Harvard Business School, 1995: OECD Science, Technology and Industry Director, 2001: Fujitsu Research Institute Senior Executive Fellow, 2005: Senior Managing Director, 2009 Member of the Board, Executive Fellow, 2001: The Research Institute of Economy, Trade and Industry Director. Former Chairman of the OECD Steel Committee

Still Much to Learn from Europe

Has the anti-EU current come to a stop?

In Japan, there is a deep-seated pessimism about Europe's future. Developments, particularly since 2010, such as the collapse of the Greek economy and stagnation of southern European economies have heightened wariness of the Euro, the region's common currency. There is also a prevalent view that it was impossible in the first place to attempt to tie 19 countries in mutually different economic situations together with a single currency, and that the grand experiment of the Euro has failed. Furthermore, Europe is faced with the problems posed by a rapidly increasing influx of refugees from Islamic countries in the Middle East and Africa. These problems are adding impetus to movements in each country aimed at excluding immigrants and refugees. There are mounting calls for each country to control its own borders and for reduction of migrants and refugees influx on the national authority. The United Kingdom decided to leave the European Union (EU) as a result of a national referendum last summer, and is currently pursuing negotiations to that end. However, in elections subsequently held in Austria and the Netherlands, far-right forces calling for withdrawal from the EU and exclusion of immigrants were defeated. Similarly, in the French presidential election held in May, the far-right candidate likewise lost In Germany, the Merkel administration is anticipated by most observers to emerge victorious in the general elections to be held in September. If it does, the drift toward a domino-like toppling of European countries could be said to have halted. Why has the anti-EU current come to a stop at this point? The answer lies in the economy.

Higher rate of economic growth than Japan

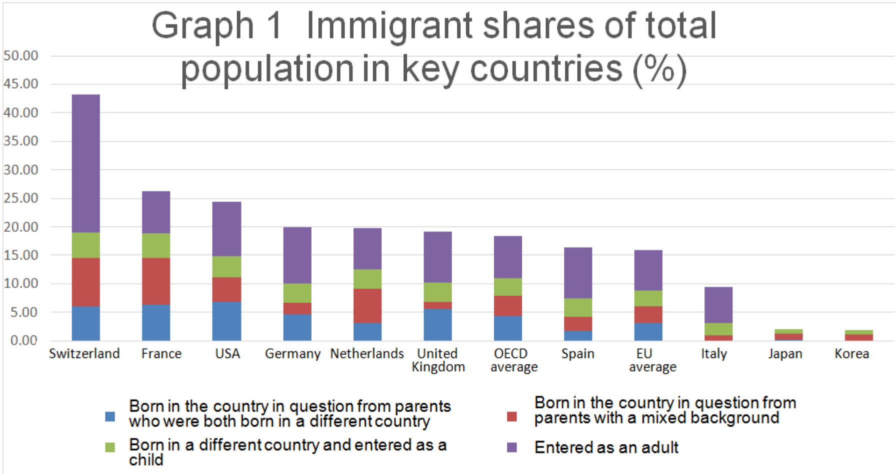
As far as the economic picture is concerned, Europe is in remarkably good shape. When looking solely at the rate of growth in the gross domestic product (GDP), it is doing much better than Japan. In 2016, while this rate was 1% for Japan, it was 1.7% for the EU and 1.6% for the United States. By country, at 1.8% and 1.1%, the respective rates for Germany and France were also higher than that for Japan. In the outlooks of international institutions, this situation is expected to persist this year and the next. Stock prices have risen at basically the same pace as in the United States since 2016, and this suggests that business conditions are not very bad, either. Since the second half of last year, there has also been a rapid improvement in the Purchasing Managers Index (PMI), a major economic indicator. On the dark side, the jobless rate has remained high. In Italy and Spain, which have been compelled to take austerity measures, unemployment is running high among youth, who are finding fewer opportunities to participate in society and enhance skills through employment. Unemployment is casting a dark shadow over the future. It should be noted, however, that these countries have full systems for provision of social assistance and setups for absorbing dissatisfaction to a certain degree. Moreover, the jobless rate is gradually starting to come down, and it can be said that the worst is over. As for price trends, while European countries had long struggled with deflation like Japan, the trend towards overcoming deflation is stronger than that in Japan. The inflation rate for the January to March period this year was 1.8% for the EU compared to 0.2% in Japan. If the EU can conquer deflation, it can also make the shift from easing to a more neutral stance in monetary policy, and the Euro would also probably begin to rise.

A strong current account balance

One of the important indicators for assessing the soundness of an economy is the current account balance. This balance is the difference between income and expenditure in transactions with other countries on the level of the national economy as a whole. In the case of the EU as a whole, this balance shows a huge surplus. The surplus is particularly large in Germany, but the balances of other countries, such as the Netherlands and Denmark, are also in the black. France's balance is at deficit, but those of Spain and Italy, which were regarded as problem countries just three years ago, are in the process of moving into the black, thanks to their austerity policies. As a result, in 2016, the combined EU surplus increased to 3.4% as a percentage of the GDP (compared to 3.9% in Japan), and even evoked critical comment from the United States. A surplus in the current account balance indicates the possession of competitiveness, and ordinarily should lead to a stronger Euro. This has not happened because of continued monetary easing, and the wider interest rate gap with the United States is causing an outflow of funds from the Eurozone in search of higher yields. Nevertheless, there cannot be an outflow of speculative money forever, and the flow is bound to reverse eventually. This reverse will come earlier if the United States shifts to a policy favoring a weaker dollar.

Acceptance of immigrants and refugees is a means of securing human resources

In spite of the above, anti-Euro and anti-EU sentiments gathered momentum over the last few years. In my opinion, this was because of the sharp increase in the influx of migrants and refugees from the Middle East region in the wake of the 2010 Arab Spring. To be sure, when such a huge wave of migrants surges toward Europe and, moreover, includes many dangerous Islamic extremists mixed in, the urge to restrict it is completely understandable. The EU proposed quotas and pressed member countries to accept immigrants and refugees, but opposition to these moves increased and helped to drive the movement in favor of exit from the EU.



OECD immigration data base

However, as shown in Graph 1, countries with higher rate of immigrants are performing better economically. Migrants and refugees are often thought of as being impoverished individuals who have not even been educated. In fact, however, there are many who are highly educated and economically affluent. To flee a country requires money, not only for the cost of transportation, but also for starting a new life at the destination. When a country falls into chaos and dangers threaten, the wealthy are reportedly the first to leave. Germany's adoption of a tolerant policy on refugees probably did not derive simply from humanitarian concerns. The acquisition of talented human resources is the key to economic development. It therefore makes sense to accept refugees. When peace eventually returns to Syria and Iraq, those with low skill levels should be returned and only talented human resources retained.

In Japan, too, a fairly high percentage of talented students enrolled in science and engineering programs in graduate schools are foreign nationals from China and other countries. The problem with Japan is that it has not taken full advantage of these global human resources. Agriculture, construction sites, restaurants, and other workplaces cannot do without foreign workers. In contrast, the United States has actively welcomed talented people from other countries thus far. It appeared that this policy would change under the Trump administration, but the attempted change was shelved after being struck down by the courts. IT firms and other companies in the industrial sector are opposed to a tightening of immigration regulations. In Europe as well, the problems of falling birthrates and aging populations are serious in Germany and Italy, as in Japan. Germany began actively accepting immigrants from southern Europe and Turkey in the 1960s. At present, one out of every 10 persons residing in Germany was born in another country. This number rises to about 20 percent if second- and third-generation descendants of immigrants are included. Without them, the German economy, far from growing, would surely have contracted.

The real problem is widening economic disparity

What the EU countries need to engage in is not the exclusion of immigrants and refugees. Immigrants or their descendants already account for one out of every five persons in their population. Not only does this make it impossible to expel them, there is also no evidence that they are a negative influence on the economy. The images we often see on TV of migrants and refugees who leave for Europe from Africa on boats or enter from the Near and Middle East through Turkey and Greece actually account for only a very small percentage of the entire migrant and refugee population. In almost all cases, the perpetrators of mass killings, too, have been the descendants of immigrants, and full citizens of the country they live in.

What Europe should do going forward is not the restriction of the inflow of these people. Instead, its task is to close the widening gap between the rich and poor, and to heighten the sense of social equality. While opinions are divided among economists on the question of why economic disparities are widening around the world, the biggest reason is the switch to machines for simple labor as a result of technological innovations such as in IT. With further advances in artificial intelligence (AI), even intellectual work like that done by lawyers and doctors could be taken over by machines. Only a handful of highly intellectual workers will have opportunities to work while the rest have their jobs taken away. Naturally, this small minority will earn even higher levels of income and everyone else will lose their jobs and become impoverished. Social unrest is also likely to deepen. The only way to keep this from happening is to redistribute income from the wealthy to the low-income earners. In the United States, this kind of thinking had been branded as socialistic and had not been accepted. However, the good showing made by Bernie Sanders in the Democratic primary for the 2016 presidential election indicates that this kind of idea is spreading even in the United States. In Japan, too, the Abe administration, which is considered essentially conservative in stance, is asking companies to increase their pay and proposing measures such as a hike in the minimum wage, tightening of regulations on overtime work, equal pay for equal work, and expanded opportunities for exercise of capabilities by women. This suggests that a narrowing of economic disparities is a worldwide policy issue.

Issues where Japan should emulate Europe

Conversation with economists and market specialists in other countries reveals that they are uniformly pessimistic about Japan's future. The reason is simple: Japan is not trying to establish effective policies to increase the birthrate, in spite of experiencing such a rapid decline in birthrate and aging of its population. It also continues to embrace one of the world's most exclusionary policies on immigration. If this state of affairs is not remedied, Japan's population will shrink to 65 million, or half the current number, by the end of this century. To avoid this path to decline, Japan must take action on par with that taken in Europe. (Graph 2) Specifically, besides increasing support for child-rearing, education, and low-income households to European levels, it should also slowly expand acceptance of immigrants and refugees. It goes without saying that Japan must also prepare itself for the social burden and friction accompanying these changes. But unless it accepts that are no easy options that can be taken towards a solution, Japan will not be able to open up its future. (End)