

UK-Japan 21st Century Group 26th Annual Meeting

Chewton Glen, 18-21 March, 2010

Chairmen's Summary

The 26th Annual Meeting of the UK-Japan 21st Century Group was held in London and Chewton Glen, Hampshire from 18- 21 March 2010. The meeting was chaired by Rt Hon Lord Cunningham of Felling, UK Co-Chairman, and Mr Tadashi Yamamoto, Japanese Co-Chairman.

On 18 March, the Japanese participants called upon Lord Mandelson, First Secretary of State and Secretary of State for Business, Innovation and Skills. He stressed that Japan was a major partner for the UK in trade and international affairs. There was a strong coincidence of interests. He welcomed the new Japanese government's strengthening of action to tackle global climate change. There was great scope to develop bilateral industrial and R & D collaboration, especially in low carbon projects. The UK warmly welcomed recent announcements of new investment in the UK by Nissan, Toyota, MHI and others. The UK would like to see Japan reduce the difficulties for UK firms wishing to invest in Japan. The UK could learn from Japan's experience over China. It was important for Europe to take a united, non-hostile approach to relations with China.

Session 1: Latest developments in Japan and East Asia

Domestically, Japan was adjusting to the historic change from an LDP to a DPJ government. The new government was seeking to exert political control over the bureaucracy and traditional vested interests. There was resistance to this. The DPJ considered Japanese policy had previously been too biased towards neo-liberalism and the gap between rich and poor had become too wide. They argued that the public wanted greater transparency and accountability from government. The government had opened a debate on the relationship with the US and the presence of US bases in Okinawa. This had caused some friction with the US, but was unlikely to produce significant change to the US-Japan Alliance.

In discussing the transference of power between political parties that had happened for a first time in Japan, UK speakers referred to the advantage of civil servants giving pre-election briefing to the main opposition party to prepare them in case they won the election. A new democratically elected government should be helped and enabled to exercise political control effectively.

Externally, Japan was focused on how to balance both its growing economic relationship with China and its alliance with the US that remained crucial to its economic, and security interests. Japan needed to combine a strong relationship with the US with a strong relationship with East Asia. Japan was seeking to ensure that China played a constructive role in international relations and believed that the

Chinese, while pursuing their national interests, would become responsible international stakeholders. At the same time Japan was conscious of China's lack of democracy and the exponential growth of the Chinese military, which was under the control of the Chinese Communist Party. Japan needed therefore to hedge its position. The West, including Japan, needed to have a cohesive policy towards China. Western governments also needed to consult their businesses over China policy given the growing impact of Chinese actions on their companies.

There was a rapid economic rebound in East Asia that was resulting in inflation. Japan by contrast was experiencing deflation. The need to rebalance certain East Asian currencies was becoming an increasingly sensitive issue.

Session 2: Latest developments in UK and Europe

Whoever won the UK election would face the need to raise taxes and make painful cuts in public spending. Two long-term questions were the resource constraints on Britain's global role and if and how to reduce the dependence upon the financial sector as the primary engine of British economic growth. Britain needed to improve further its skills base in order to strengthen its competitive edge. However, its liberal labour market was a strength.

The UK public, in contrast to that in Japan, did not have hesitations about globalisation. They were strongly supportive of overseas aid. But they were likely to question the scale of Britain's global defence role.

The problems in the eurozone were likely to militate against further EU integration. They would also lead to a slowing of growth. It was more likely that the EU would accommodate member states moving at different speeds and forming different sub groups on different issues. Recent events had shown large member states going their own way and a diminution in the influence of the European Commission.

A Conservative government in the UK would continue to see the relationship with Japan as one of the UK's key bilateral relationships.

Session 3: The challenges of recovering from the global economic crisis and its impact on international trade, investment and financial flows

The Group was concerned that the earlier sense of urgency in dealing with the global economic crisis had evaporated. The situation remained worrying. The upcoming G20 meeting in Korea would be very important. Policy needed to be concerted and global, for example on regulation of banks, and the danger of increased national protectionism avoided. Otherwise countries might increasingly turn inwards. There was a significant risk of stagflation as fiscal and monetary stimuli were unwound. In the advanced economies, private sector investment would remain depressed and at risk of being crowded out by public sector borrowing. Growth in the emerging economies would be of increased importance for global recovery, but here too governments would be tightening economic policy. China had to deal with an economic bubble and India had recently raised interest rates.

Both Japan and the UK faced a major problem of rapidly growing public debt. In the UK, the next government would have to emphasise fiscal rectitude. A key challenge was to determine the right pace for fiscal retrenchment and for stronger regulation of the financial system. If banks overdid their tightening, they would not have the capital to lend for business investment. Cutbacks in higher education expenditure risked undermining long-term growth potential.

In Japan, the new DPJ government was seeking to change the focus of the economy towards spending on health services, education, child rearing and environmentally friendly energy and housing investment. There was a problem of increasing unemployment and regional imbalances. At the same time Japan retained its strengths of a continuing trade surplus and a strong global net asset position.

There were significant opportunities for the UK and Japan to adopt new technologies as their economies were moved to a low carbon growth path. Forms of transport, power generation and housing would all have to change. Both the UK and Japan would need to invest more in R&D to achieve this and should look for opportunities to collaborate.

The UK side hoped that Japan would do more to facilitate foreign investment in Japan, including in financial services. Japan's aim should be to manage risk rather than avoid it completely.

Session 4: The changing international geopolitical structure and its impact on global and regional security

There was a fundamental shift of global power underway from the West to Asia and the new, large emerging countries. The latter had huge populations and quite different histories and interests from the West. US power was in relative decline, although the US would remain very important. The success of the transition to a greater role for the new emerging powers would depend on the West finding an effective accommodation for their active participation in global governance. The new powers had a stake in the successful continuance of the global markets and institutions that had facilitated their rise. There was however a need for an immediate change in global governance. The G20 was the right new mechanism, but the G7 should seek to preserve core international values and rules. The G20 should be used to move China towards to a rules based global system.

A new set of regional structures was needed in East Asia that would retain the stability provided by existing bilateral security alliances while developing regional confidence building mechanisms and joint operations in areas such as disaster relief, counter-piracy and counter-proliferation.

In Europe, including the UK, there was a weakening of support for the transatlantic partnership. Europe was increasingly inward focused. Developments in the Middle East, especially the role of Iran and the rise of Hamas and Hezbollah, were threatening to become seriously destabilising.

Elsewhere there was an increase in the numbers of failing states. North Korea posed special challenges and it was important to remain consistent in policies towards it.

The global threat from terrorism had increased greatly. There was the development of IEDs and suicide bombing, the potential use of WMDs, the linking of terrorism to religion and to criminality and the new development of cyber-warfare. New technological counter measures were needed, as was better intelligence and efforts to win hearts and minds.

Session 5: The agenda on climate change after Copenhagen and the strategies needed in response

There was no doubt about the effect of CO₂ emissions in causing global climate change. The sooner the world acted the more effective it would be. Climate change acted as a multiplier for global instability. The results of Copenhagen were not all bad. There had been recognition of the need drastically to limit global CO₂e emissions. The US and China would be key to achieving this. It was necessary to promote the worldwide development and diffusion of new low carbon technologies. Developed countries could benefit from developing countries themselves further improving the technology that they received.

The Group agreed on the need to take forward and build upon its 2009 recommendations on potential UK-Japan collaboration on low carbon projects, including civil nuclear power and carbon capture and storage. The UK and Japan should also cooperate on low carbon aid projects in developing countries. In road transport, electricity would play an increasingly important role, with the attendant need for new support infrastructure and the introduction of intelligent transport systems. Another area for potential bilateral cooperation was offshore wind technology.

In Japan the new DPJ government had drawn up a global warming bill for 80% reduction in CO₂ emissions by 2050 and a carbon permit trading system. There was opposition to this among Japanese industry. It would be useful for UK business, which was largely supportive of the government action being taken on climate change, to exchange views with Japanese business. The UK experience was that there had to be a clear legislative and regulatory framework, otherwise the private sector would not invest. This had now been introduced in the UK and the legislation meant that there could be no turning back from the targets set.

In winning public support in both the UK and Japan for action on climate change, it would be important to stress the benefit to individuals of adopting measures such as improved house insulation and more efficient fuel use. However a carbon pricing policy alone would not be enough and governments would also need to use regulation to promote a low carbon lifestyle.

Session 6: Prospects for UK-Japan bilateral relations and progress in developing bilateral collaboration

The Group considered that the rapidly changing global geo-political scene strengthened the need to have close UK-Japan bilateral relations. This relationship should not be taken for granted. The UK and Japan took similar world views and had a close similarity of interests. They should cooperate closely in international fora and on key international problems.

Continued attention needed to be paid to strengthening bilateral cooperation in fields such as aid and security. The two countries could learn from each other in improving aid effectiveness and providing aid to conflict areas. Similarly both countries could look at ways of cooperating to get maximum value from their defence procurement and the opportunities to work together in areas such as anti-piracy and counter-terrorism.

The arrival of a new DPJ government in Japan and imminent parliamentary elections in the UK underlined the need to ensure that bilateral governmental and parliamentary links were kept strong. There was interest in the DPJ in learning more about the workings of the UK political system and the relationship in the UK between government, opposition and the bureaucracy.

The Group was concerned by the apparent decline in the numbers of their young people going to each others' countries and the reduction in Japanese studies in the UK. They were concerned too by the reduction in Japanese government support for international exchanges and representation at international conferences. These trends risked reversing the strengthening of the cultural bilateral relationship that had taken place in the last decade.

The Group once again highlighted the important opportunities for bilateral collaboration on low carbon projects as part of UK and Japanese commitment to action on climate change. Key potential areas for this included nuclear power, a range of alternative energy sources, carbon capture and storage, building technologies, emissions trading and carbon finance.

Recommendations

In the light of the their discussions, the Group made the following recommendations on UK-Japan bilateral relations:

At a time of profound change in the global geopolitical, economic and security environment, the Group has found that the UK and Japan share a very wide measure of common interests and views. They encourage their governments to strengthen even further their bilateral consultation and cooperation on matters of international organisation, trade, aid, climate change, global health, R & D and education. The Group notes too the value of increasing bilateral defence and security cooperation and collaboration at a time of growing challenges and resource constraints.

The UK and Japan should consult closely at high level and be prepared to play a leadership role. The UK continues to support Japan's bid to be a Permanent

Member of the Security Council. Both countries wish to see a strong rules-based multilateral architecture that upholds democratic values and freedoms.

Both sides emphasise the importance of resisting protectionism and upholding the free market system, including by promoting an EU-Japan Economic Integration Agreement.

The Group once again identifies low carbon industrial research and development projects as a key area for promoting UK-Japan collaboration. It encourages both governments actively to strengthen the mechanisms, incentives and framework for facilitating this. It considers that the specific areas for collaboration listed in last year's recommendations (see Appendix below) deserve further careful consideration and that the UK government should build on Japanese investment in hybrid and electric vehicles in the UK by examining the potential for collaborating on intelligent transportation systems and the infrastructure needed to support the expanded use of such vehicles. The need to strengthen the UK supply chain in civil nuclear power, low carbon and renewable technologies generally provides growing opportunities for Japanese business investment and partnerships in the UK. Both countries should also look at opportunities to cooperate in promoting low carbon growth in the developing countries.

The Group sees a need once again to bolster bilateral people to people links. They are concerned at the decline in numbers of British JETS going to Japan and of Japanese students studying in the UK. Both groups are key future contributors to UK-Japan relations. The Group urges the two governments to review the reasons for this decline, including the fall in the number of places for British JETS and the impact of the new UK points based visa system, and act to reverse the decline.

The Group are concerned that the funding pressures on UK higher education will lead to a cutting back of the provision for postgraduate Japanese studies that will reverse the progress on this made in recent years with generous help from Japan. It is essential for the UK that given the major economic and political importance of its partnership with Japan, it maintains its level of expertise on Japan.

The Group recommends that steps should be taken to strengthen university links and undergraduate exchange, including, where UK and Japanese universities wish to issue joint degrees, the facilitation of this approach.

The Group notes too the important role played by their international research and exchange institutes in promoting the bilateral relationship and exploring with their counterparts abroad the respective international roles of their two countries.

The Group notes the interest among Japanese politicians in learning more about the workings of British governance. It recommends holding a seminar on this subject and that greater two-way parliamentary exchanges take place.

The Group intends to follow up and assess the future progress made to strengthen bilateral relations in the above areas.

Appendix (2009 recommendations)

- (1) With government support, the UK and Japan should consider setting up joint environmental working groups to identify and explore potential low carbon technology solutions in fields such as air travel, power generation (e.g. marine current generation), and land transportation.**
- (2) The UK and Japan should consider setting up a joint project to establish detailed guidelines that explain how to achieve a low-carbon built environment. These would include recommendations for how to integrate the latest designs and advanced technologies to improve energy efficiency and reduce emissions.**
- (3) The UK and Japan should consider establishing working groups on geothermal energy and carbon capture and storage.**
- (4) The UK and Japan should consider establishing a business development working group to pilot the wider introduction of electric and hybrid vehicles into the UK.**
- (5) The UK and Japan should work together to enhance the security and supply of nuclear components and services and to share information on recycling.**