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Can Europe overcome its conservatism? – Future of Europe from a Japanese perspective

Takayuki SUMITA

Former Executive Director, Japan Machinery Center, Brussels

The agenda of the recent European Summit shows that the discussion is no longer dedicated entirely to the Euro crisis, and the efforts to stabilise the markets after the Euro crisis are finally starting to pay off. However, the question of whether and how Europe could return to growth and improve its competitiveness is still unanswered – and unless the European governments can deliver a credible solution to this question, it is unlikely that foreign investments, including those by Japanese businesses, will increase in Europe – and without investments, the alarming rate of unemployment cannot be reversed.

Many observers have noted the similarities between the European and Japanese economies, both are mature economies tackling a number of complex social issues, such as climate change. Japan was also the first developed economy to suffer from stagnating domestic consumption from a rapidly aging society and an unprecedented structural change due to a diminishing working population, lasting for more than two decades.

To counter the problems, Japan focused intensely on innovation and improving corporate profits through investments in overseas markets to make full use of the growth in emerging markets, rather than relying on exports. Although some European firms – primarily in Germany – have also invested in innovation to improve competitiveness, this is not the case of the EU in general. Instead, Europe's primary source of growth has been the EU enlargements, which have automatically expanded the domestic markets. However, the prospects of any substantive enlargement that would impact EU growth are now unlikely. Markets have also shrunk from austerity measures, unemployment. The recent stabilisation of the crisis has resulted in an appreciation of the Euro, which has hampered exports. All in all, the situation is all too similar to the Japanese experience of the early 1990s.

I do not intend to claim that the Japanese economy has been managed in a healthy manner, but Japan continues to make tremendous efforts to come to terms with shrinking demand at home by investing in innovation, expanding their economic frontiers and increasing their competitiveness. Compared to Japanese businesses Europe invests less in innovation and, after four years in Europe, this remains my biggest concern for the continent's future.

The Japanese focus on innovation is partly explained by the consumer patterns at home – Japanese consumers continue to crave ever more efficient and convenient products, and are also willing to pay more. This behaviour is evidently different from European consumers, who are content with basic functionalities and less interested in convenience, efficiency and cutting edge technology. Both Japanese consumers and suppliers are constantly seeking incremental improvements – thus the entire value-chain is geared towards change. This forms the basis

of the innovative culture of modern Japanese society, something which visitors experience from the moment they arrive in Japan.

As many academics have pointed out, the nature of innovation has changed from the traditional technology and supply-side driven innovation, to a user-centric one that is driven by consumer demand. In other words, even if innovative product or services are being created, there will be no diffusion without the support of the users and the consumers. This is why even a minor shift in the conservative mentality of Europeans could drastically improve the attractiveness of Europe. Shorter market cycles and faster rate of change will revitalise the economy and improve innovation. Market expansion would come from increased demand and higher efficiencies, rather than population and territorial increases. Some may use environmental concerns as an excuse to resist change and modernisation. However, improving efficiencies decreases the total environmental burden – the critics should look to Japan and how it has succeeded in raising energy and resource efficiencies, especially in absolute terms.

When Europeans use their abundant knowledge to resist any change to status quo, they should not expect a brighter future, or that the next generation will be able to lead the enjoyable life of the current one. The problem is not only attributed to business, governments or regulations – it is also a matter of whether the people can change their mentality. In other words, this is also a question of social evolution, which may take a longer to address than the time it takes to make an investment decision or introduce a new piece of EU regulation. Given the fact that Europe has been the frontrunner of economic development for more than one and a half millennium, they have rarely experienced the pressure to catch up with others.

The fact that the world's best and most sophisticated products and services have always come from Europe is a psychological barrier – and the current generation of Europeans find it difficult to accept the fact that something from another region could be superior to their own. In this context, the negotiation for a free trade agreement (FTA) between the EU and Japan was launched last April. This is a very good opportunity for Europe to begin its change. Creating a win-win situation is the common challenge for these negotiations, while the FTA builds the foundations for future growth in the EU and Japan, both of whom share the same values in almost every aspect.

The Japanese government has already committed to change by tackling a huge number of non-tariff issues before the negotiations, but the European side needs to embrace the same openness towards learning from its partners. The EU should exploit the strengths of others to create prosperity for Europe, rather than overly focusing on trade deals or protecting its automobile industry. It should not hesitate to reform itself and accept the notion that others may, in some aspects, have superior capabilities.

If the EU and its people could start to overcome its conservatism, more foreign companies, including those from Japan, will be confident to bet on the future of the European economy. This would increase their investments in the EU, creating employment, which could reignite the domestic consumption and, in turn, could lead to further foreign investments. I hope the FTA negotiations between the EU and Japan can trigger a positive change of attitude towards overcoming the biggest obstacle facing Europe's future – conservatism.