

Speech at the Japan Securities Summit  
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Ambassador of Japan to the Court of St James's,  
at Drapers' Hall, London  
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Distinguished Guests, Ladies and Gentlemen,

It is my honour to address this mighty group of financiers on the occasion of the Japan Securities Summit. This is the first time for me to address this audience, but I am happy to note that this Summit is being held against the backdrop of a rather buoyant mood in the Japanese stock market, perhaps for the first time in many years. Of course, I would not say that I should take the credit! This phenomenon, or what you might call the “Japan spring”, may be attributed to various factors, but many would agree that it is primarily thanks to the robust policy messages from the new Government in Tokyo.

As is clear in Deputy Prime Minister and Finance Minister Taro Aso’s foreword in the Event Guide distributed to you this afternoon, the new Japanese Cabinet led by Prime Minister Shinzo Abe is committed, first and foremost, to the swift revival of the long-sagging economy, and his strong message is being taken seriously and positively by the market. Despite one of the headlines in a local newspaper which tried to deride him as “Down-turn Abe”, alluding to a popular TV drama, he seems to be fast becoming “Up-turn Abe”! In this transformation, however, there appear to be some misunderstandings or distortions, if I may say so, about the measures being pursued by his Government. Let me take this opportunity to clarify what is really happening in Japan.

### **1. Economic Policy of the Government of Prime Minister Abe**

It is worth emphasising that the Abe Government’s most urgent task is to rescue Japan from the long spiral of deflation. They have presented a plan to vigorously pursue this goal through the combination of efforts in three major areas, or the “three arrows” of, first, audacious monetary policy, second, flexible fiscal policy, and third, an effective growth strategy, which in their entirety are popularly known as “Abenomics”. I would like to repeat that the third arrow is, indeed, a growth strategy and not competitive devaluation, as some misguided critics have argued.

The first arrow, or bold monetary policy, consists of a framework to strengthen coordination between the Government and the Bank of Japan (BoJ), with the expectation of more aggressive monetary easing by the BoJ to consciously achieve a clear inflation target of 2 per cent in terms of the year-on-year rate of change in the consumer price index.

The second arrow, flexible fiscal policy, is designed to continuously support the economy by putting into effect a “15-month budget” as opposed to a normal 12-month budget, seamlessly combining the supplementary budget for fiscal 2012 and the full budget for fiscal 2013. The Government also decided upon what it called “Emergency Economic Measures for the Revitalization of the Japanese Economy” on 11<sup>th</sup> January. The total projected scale of these measures exceeds 20 trillion yen (or about 140 billion pounds), with government spending of over 10 trillion yen coming from the supplementary budget, making this package the largest-scale in history, aside from the extraordinary response at the time of the Lehman Shock. These measures are expected to boost real GDP by roughly 2% and create employment for approximately 600,000 people. At the same time, the Government will aim for a primary surplus in the medium-to-long term as a means of achieving fiscal consolidation.

With regard to the third arrow, the Government plans to put together a growth strategy in such areas as robotics, green technology and biotechnology. Many of you surely recall that Kyoto University Professor Shinya Yamanaka and Cambridge University Professor John Gurdon shared the Nobel Prize in Physiology or Medicine last December for their achievements in the area of iPS cells, which have enormous potential for the development of regenerative medicine, with phenomenal commercial implications. Japan has always excelled in terms of the number of patent applications, but the Government is determined to push harder to make innovation a tool for growth.

In the Japanese Government’s view, these three arrows, if they are put together, will help rocket-start the national economy and regenerate society. By the way, the story of “three arrows” is well known in Japan as being derived from a family precept of the famous feudal Lord of Mouri in Choshu Province. Its founding father, Motonari Mouri taught his three sons that three arrows separately could easily be broken while, if combined tightly together, they would refuse even to bend, admonishing the three brothers on the importance of getting together to defend their family fortune. What the naming of the policy suggests is that each of the three measures taken by Prime Minister Abe, who himself hails from Choshu Province, may not be strong enough, but combined together the dosage will be highly potent and will, I hope, cure Japan from its depression. It looks as if the package has started working already.

## **2. Defence and Security Issues in East Asia**

Ladies and Gentlemen, this is my second assignment in London. The first time was in the late '90s, when the Iron Lady was still going strong. Whenever I met her, accompanying my Ambassador when he called on Lady Thatcher in her office in Belgravia, she would first ask, as if inquiring about the weather, what the Nikkei Index was that day. I know for certain that she knew perfectly well that it was 20,000- something yen, but she would still ask, perhaps to test the alertness of the visitors. The level of stock prices seemed to be very close to her heart as an indicator of peace and security in the Asia-Pacific region, in which she was so interested.

In this context, assuming that you are already tired of hearing about securities in the sense of financial instruments, I would like to give you a little refreshment by talking about a different type of “security” in relation to Japan and its neighbours.

Let me start with North Korea which has been the most disturbing element in the region. On 12<sup>th</sup> December 2012, North Korea launched a missile. Whatever they may call it, it had all the features of a long-range missile and, at any rate, such a launch was in direct contravention of earlier UN Security Council resolutions. It is a fact that North Korea is pursuing nuclear weapons development in defiance of the world's nuclear non-proliferation regime. Thus North Korea's actions pose a grave threat not only to its neighbours such as Japan but also to the entire world. That is why, on 22<sup>nd</sup> January, the UN Security Council unanimously adopted another resolution condemning the launch and decided on measures to strengthen sanctions against North Korea. It not only failed to heed this firm message from the international community but on the contrary has now threatened the world further with another nuclear test. Japan will continue its close cooperation and coordination with the international community, particularly the US and the Republic of Korea, aiming to achieve a comprehensive resolution of the nuclear and missile issues as well as the abductions issue.

Japan-China relations have been another focal point in recent months. As you might know, this most important bilateral relationship in East Asia has a history of well over 2000 years. During this time, except for a few brief unfortunate periods, peace and civilized exchange have been the norm in our relations. However, in the wake of the horrors of the most recent war, which ended 68 years ago, the Japanese people are now determined that there should never be

any more such disruptions.

Nonetheless, there has been continued tension over the Senkaku Islands as China has continued its provocative actions to challenge the status quo that has existed for over a century. I am not going into the details of the legal aspect of our position, in which we are entirely confident, but, as far as Japan is concerned, there is nothing to be disputed about and we have no intention of compromising our sovereignty. At the same time, however, Japan has no intention of stirring things up, either. What is evident to everybody is that both Japan and China need each other and that both need peace for their continued prosperity.

It is important to remember that China's provocative or assertive attitude is only a part of the wider issue of the rise of China and the rise of Chinese nationalism. Many other countries in the region share the concern over the increasingly assertive words and deeds by China. Moreover, the US is legally and politically committed through the bilateral Security Treaty to the defence of these islands as they are firmly under the administration of Japan and, most crucially, as recently as on 18<sup>th</sup> January, then-Secretary of State Clinton expressed US opposition to any unilateral actions that would seek to undermine the Japanese administration of the islands.

Considering the enormous impact the Sino-Japanese relationship has on the peace and prosperity of the region and the world, I only hope that reason and a sense of proportion will prevail so that what is called the mutually beneficial strategic partnership will be brought back on track.

### **3. Japan's relationship with the UK and Europe**

Ladies and Gentlemen, let me now touch on Japan's relationship with the UK and Europe.

Japan and the UK have forged an excellent bilateral relationship that has benefited both sides. It encompasses the economic, political and cultural fields, and our cooperation, both in the governmental and private sectors, extends beyond our borders. The UK remains one of the largest destinations for Japanese investment. We cooperate in the Middle East, Africa, the United Nations and many other areas. No wonder the new Prime Minister, Shinzo Abe, has already held a number of telephone talks with Prime Minister David Cameron and that the two leaders have agreed to cooperate in this year's G8 Summit, of which the UK is the host, and to strengthen collaboration in such areas as defence and security as well as civil nuclear power.

Indeed, albeit in tragic circumstances, our close cooperation was reaffirmed during the recent Algerian terrorist crisis as Japan and the UK worked together to save the hostages, exchanging information closely at all levels.

Last year we witnessed a surge in our relationship in the form of the visit by Their Majesties the Emperor and Empress to participate in Her Majesty's Diamond Jubilee as well as the official visit by Prime Minister Cameron to Japan. This trend is likely to continue this year: in the months ahead many Japanese VIPs will visit the UK as the G8 process moves on. Foreign Minister Kishida will be here in London in April for the G8 Foreign Ministers' Meeting; Deputy Prime Minister and Minister of Finance Aso as well as the new Governor of the Bank of Japan will attend a UK-hosted G7 Meeting in May; and the process will culminate in the visit by Prime Minister Abe to Lough Erne in Northern Ireland in June. I expect that these visits will further strengthen the friendly relationship between Japan and the UK.

Our close relationship with the UK also serves our interests in relation to the EU. The UK has provided robust support for the conclusion of a Japan-EU Economic Partnership Agreement (EPA). As a result, in November last year the path was finally cleared for the formal launch of negotiations. When concluded, a Japan-EU EPA will definitely enhance Japan-EU and Japan-UK economic relations in many spheres. As financial services are of course an important element of an EPA, access to each other's securities markets will also be significantly improved.

Japan welcomes the fact that a single banking supervisory mechanism for the eurozone was basically agreed to by the EU Council last December. It will support the durability of the euro, coupled with the "Fiscal Stability Treaty", even though the UK may not be a party to the latter.

I mentioned at the beginning that arrows become much stronger when bound together. In the same vein, I am convinced that Japan and the European countries, each of which may not be a "superpower" by itself, will have a better chance to succeed if they collaborate in the form of as many "bound arrows" as possible. That is another reason for a Japan-EU EPA. Of course, I earnestly hope that neither a 'Grexit' nor a 'Brixit' will happen because Japan definitely prefers to be bound together with a strong EU as its partner in such an agreement.

In this respect, I watched PM Cameron's EU policy speech on 23<sup>rd</sup> January with keen interest. It is a reality that Europe has been a controversial, divisive issue in this country. Under the circumstances, I support the view that he delivered a very good speech in that he came out with a resounding message for the UK to remain committed to an even stronger, single European market. From the perspective of Japanese investors it is of critical importance that the UK should firmly maintain its role as a gateway to the European market. I reiterate that we want to see the UK bound together in a strengthened EU in the years to come.

In our zodiac, this is the Year of the Serpent, which signifies revival and prosperity. I hope that, just as snakes shed their skin, this will be the year of economic revitalization, not only for Japan but also for the UK as well as Europe. May I now conclude by proposing a toast, wishing all of you success and prosperity and hoping for further upticks in the Japanese securities market.