
Sweden and Japan - 100 days with the new Suga government

In 2018, Sweden and Japan celebrated 150 years of diplomatic relations. Already today, Sweden and Japan are interconnected through the free trade agreement between the EU and Japan (EPA), as well as the strategic partnership agreement (SPA). As the third largest economy in the world, with a solidly functioning democracy, cutting-edge technology, deep integration in the global value chains and large investments in Swedish business - such as Hitachi's acquisition of ABB Power Grids and Nippon Steel's acquisition of Ovako Group - it is of great importance to Swedish companies and decision-makers to promote understanding and cooperation with Japan.

At the end of September, Japan got a new Prime Minister, Yoshihide Suga. Now, more than 100 days have passed with the new government. As Chief of Staff to former Prime Minister Shinzo Abe, he is essentially part of shaping Japanese political developments. But who is he and what will the change of leadership mean? Suga represents a breach of the classical political tradition in Japan, where the otherwise typical political career path has usually gone through membership in the political elite. Instead, he is a representative of another tradition, where long and faithful service within the party is a path to supreme power. Suga is a man of the people, from Akita's countryside far from the rich neighbourhoods of Tokyo. In his new role, he faces a number of policy challenges, all of which are to some extent important for Sweden's relationship with Japan. However, recently the public support of the government is declining in response to how the Covid19 pandemic has been handled and rising numbers of infections in the large metropolitan areas.

China's offensive foreign policy stance has created regional imbalances and unrest in neighbouring countries in general, and the region's other economic power, Japan in particular. The security situation in East Asia is, through the global value chains, most significantly present even in a European perspective. Here, the new collaboration agreements create platforms for continued collaboration for stability. The previous government under Abe reaped great success with large and economically important free trade agreements with the EU, Canada and the states of the Pacific region. Suga has managed its predecessor's legacy of external trade policy initiatives and became the Prime Minister who signed the RCEP agreement on 15 November, which covers the ASEAN countries as well as China and South Korea. Japan has not previously had bilateral free trade agreements with either South Korea or China. With RCEP, a new platform is created to be able to handle these complex economic relationships. However, the agreement with the EU is the one that most clearly has a security policy dimension, mainly in the parties' relationship with China.

Suga is a facilitator of the already formulated economic policy, Abenomics, but the question is whether he can take the next step and increase the pace of economic growth. Japan still has by far, the largest government debt among the OECD countries, about 240% of GDP. Fortunately, in the case of Japan, the bulk of government debt is in government bonds owned by the Bank of Japan, as well as consortia of private financial institutions, which means a near independence

from foreign lenders. With the ongoing Covid19 pandemic, this national debt is not expected to decrease. It is rather strengthened by the monetary policy expansion and the promised record-breaking support program corresponding to USD 708 billion or JPY 73,6 trillion. Despite Japan's position in the world economy and the internationally highly competitive large companies, the size of the economy itself will not be able to be a long-term guarantor of stable growth. In addition, there is the challenge of a rapidly aging population and low birth rates. But to cope with the declining and aging population requires a holistic approach, where tax and welfare systems are reformed in line with the needs that exist in today's Japan.

Closely linked to this is the ability to drive development and streamlining efficiency in government and business regarding digitalization, which has become apparent in Japan during the Covid19 pandemic, where outdated administrative processes have become a bottleneck. Here, Suga has shown a decisiveness no other predecessor has shown. Japan is the least digitalized economy of all OECD countries, where physical seals, faxes and hard copies of documents have been the norm. This is a paradox, since many Japanese firms are highly successful within electronics and advanced manufacturing. To counter this, Suga quickly initiated the establishment of a Digital Agency and has instructed national and local authorities to accelerate efforts to digitize Japan. This initiative also has strong support from the Japan Business Federation, Keidanren. Among other things, the Minister for Digital Transformation has begun work on reviewing the possibilities of introducing a digital identification system similar to that present in Sweden. Suga also proclaimed early on that Japan would become carbon neutral by 2050, which was received positively by the Japanese business community, which is already a leader in a number of areas such as battery development and energy transfer. However, the rapid transformation has also rendered some concern among the Japanese industry. Recently, Akio Toyoda (CEO of Toyota) expressed worry over the future energy mix and supply in Japan. In the recent energy plan, the share of renewable energy should increase from 18 percent in 2019, to 60 percent in 2050. This will not come without challenges.

Japan has been overshadowed by China in recent decades. With a well-functioning democracy and as the world's third largest economy, Japan continues to play a major role in the work of securing multilateral international cooperation. This is also something that the EU has long sought, which means that there is a good basis for continued cooperation on issues relating to trade, the environment, international health, aid, digitalization and security. These are also areas that have always been important for Sweden's international involvement. Swedish companies have since many years had operations in Japan, and now at an increasing rate Japanese companies' involvement in Sweden, also reflects the importance of the relationship between the countries. Despite setbacks in Japan's economic recovery after the 1980s speculative economy, the country remains an economic power house. Regardless of whether Suga succeeds in his role as Prime Minister, Japan will be a very important economic and political partner for Sweden and Europe in the future.

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