

Quo Vadis, The European Union ?

~ With Pandemic and Brexit, In Search of New Relations with Japan ~

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Management of the pandemic in the EU

- The pandemic has been very severe in Europe: UK (almost 128.000 deaths), Italy (more than 120.000), France (almost 105.000), Germany (almost 85.000) y Spain (almost 80.000).
- In deaths per million of people, the European ranking is led by Hungary, Czech Republic, Bulgaria, Slovakia and Belgium (between 2.800 and 2.100 deaths per million of inhabitants)
- In the beginning, there was an “every man for himself” strategy. The exports of sanitary materials to other members of the EU was banned.
- There has not been an European health authority. In some cases, national institutions delegated their competences to the regional governments.
- There has been an approach of living with the virus, however, the measures have changed among countries and even regions (use of masks, mobility restrictions among municipalities, regions and countries; closure of hotels and restaurants...)
- European coordination in the field of vaccination. The European Commission has centralized the negotiations with the pharmaceutical companies.
- The outcome with AstraZeneca was negative due to the complexity of the contract terms, which were clearer with the UK and therefore they were given priority in the supply of vaccines.
- In the “peacetime “ strong European institutions are needed in order to manage well the “wartime”.

The Economic response to the coronavirus crisis

- The eurozone recession in the 2020 has been historic (-6,9%). The fell has been greater in countries such as Spain, France (around -11%), Italy (-8,9%), etc.
- The first quarter of 2021 has also been negative: -0,6% in the eurozone (-1,8% in comparison with the first quarter of 2020).
- The return to the pre-crisis Gross Domestic Product is not expected earlier than the mid-2022. It all depends on the reduction of the current uncertainty .
- (New virus variants, effects of vaccination, structural changes as a result of the teleworking, increase in electronic transactions, less mobility, etc.)
- The response of the European Central Bank has been strong: it has dramatically increased its asset purchases, especially government bonds of member countries.
- It has managed to stabilize European financial markets and to prevent spreads on the debt of peripheral countries (Italy, Spain, Greece, etc.) from increasing.
- The European banking supervisor has made banks' capital requirements more flexible, thus favoring the maintenance of bank credit during the recession.

The Economic response to the coronavirus crisis (2)

- The fiscal policy response has been more national than European. Countries with more fiscal capacity (e.g. Germany) have approved larger fiscal packages.
- The European response has been the Recovery and Resilience Plan approved in July 2020, but not yet implemented.
- It is about 750.000 million euros, with grants predominating over loans. The funds will be distributed according to the impact of the pandemic (Spain and Italy will benefit the most).
- The novelty is that the financing of this fiscal package will be through the European Commission, in other words, it will increase its own tax resources and issue debt in the markets (something similar to an European Treasury). It is an embryo of a common fiscal policy.

Challenges after the COVID-19

- **Health system:**

- The health system model cannot be drastically changed (giving a greater weight to the non-hospital primary care, since the chronically ill predominate).
- But it is necessary to increase the effectiveness of the response to pandemics (development of contingency plans that will have to be adapted to the type of pandemic; improvement in data management; development of telemedicine; etc.).
- Increased self-sufficiency in key medicines and medical supplies and increased strategic storage capacity.
- In the longer term, emerging technologies and applications ("blockchain", geolocation, 3D printing, artificial intelligence algorithms, etc.) will play an important role, some sooner than others, in the different areas of the healthcare.
- Institutions responsible for pandemic management should be strengthened in Europe, as well as at the national level.

Challenges after the COVID-19 (II)

- **Digitalization:**

- In general, the networks have maintained adequate performance despite the high volume of traffic. It is clear that investments must continue in order to improve them and to fight against cybercrime.
- The health crisis is providing a clear stimulus to the digitization of many company activities and the migration to "cloud" computing systems.
- Many consumers have discovered e-commerce and those already using e-commerce have dramatically increased its use. The same can be said with regard to banking customers.
- It is essential to generalize access to the Internet and to continue to push emerging technologies and applications (e.g., artificial intelligence and blockchain).
- It is clear that companies with better IT platforms and a fully digital business model have responded better to the crisis and are better positioned for the future.
- Making what today may be perceived as a competitive advantage become into something vital to be able to compete in the short term.

Challenges after the COVID-19 (III)

- **Teleworking and videoconferences**

- Teleworking has worked quite well in some sectors, therefore some companies and public entities could consider using it to a greater extent.
- There may be cost savings for companies, positive externalities on the environment and incentives to reside outside cities. However it may impact negatively in some economic sectors.
- Videoconference meetings have been widely used during the crisis. Companies and public entities could take advantage of the experience to generalize their use and save on travel expenses.
- This measure also generates positive externalities for the environment, although it has a negative impact on some sectors.

- **Companies value chain**

- The trend may result in a less usage of global chains and a rise of the domestic self-sufficiency.
- An intermediate alternative for business groups would be an efficient diversification without excessive dependency on suppliers in a few countries or in a single country.

Challenges after the COVID-19 (IV)

- **Changes in consumption patterns**

- Companies should be alert to possible changes in consumer habits and customs after the crisis.
- For example, in the tourism sector, consumption in bars and restaurants, visits to museums, attendance to concerts, etc.

- **The resurgence of the state**

- There are a lot of trends that point towards a possible strengthening of the state as an economic actor. See the example of Biden in the USA
- It is clear that there is a need for quality healthcare or education and this objective is compatible with the public and private provision of such services (as it is now the case in Spain).
- The public sector has also been very useful in the development of vaccines. Some "strategic" companies have needed financial support from the State during the crisis, but this support should be temporary and extraordinary. Zombie companies should not be supported.

Brexit sticking points

- From January 1st 2021, the UK is out of the European Union.
- The transition has been muddied with the pandemic. The effects of Brexit seem to be extended more than expected.
- The financial sector is losing weight in London, but it has not been a catastrophe. A lot of activity has shifted to Amsterdam, Frankfurt and Paris.
- Trade is suffering, but it is not a disaster (before Brexit almost 60% of British exports were bound to countries outside the European Union).
- The most significant risk is in Northern Ireland. There was a majority vote against Brexit. After more than 20 years of peace (the Good Friday agreements of 1998), discontent is growing.
- It has already been said in 2018 that a physical border between the Irish regions could break the peace agreement and trigger a split referendum in Northern Ireland, but a Norway-type treaty was agreed, which demands a customs border between Northern Ireland and the rest of the UK.
- This agreement is difficult to implement without goodwill on both sides. What cannot be done is to maintain restrictions on the free mobility of Europeans and allow the free movement of European goods into the UK (through Northern Ireland).
- Scotland is also a problem. As in Northern Ireland the majority vote was against Brexit. Scottish nationalists could call for a new referendum.

Relationships between Spain and Japan: Economic Partnership Agreement EU-Japan

- **What are the benefits of the new EU-Japan Economic Partnership Agreement?**
 - The Agreement benefits European companies by eliminating 99% of the tariffs they must pay at Japanese customs. The majority of customs duties, 91%, were eliminated when the agreement came into force.
 - Including chemicals, textiles and clothing, metals, ceramics and glass, plastics and wines. The rest will gradually disappear depending on the statistical heading.
 - According to Spanish official sources, thanks to the elimination of these customs duties by Japan, EU companies could save 1,000 million euros per year.
 - with an expected annual increase in exports of more than 13%, some 13,000 million euros per year.
- **Which sectors will benefit the most due to the withdrawal of tariffs?**
 - In general terms, the sectors which will benefit the most in Spain by the Japan-EU Free Trade Agreement are consumer goods, infrastructure, energy, fashion, food, biotechnology, information technology and pharmaceuticals.
 - The agreement gives protection to protected Geographical Indications, which will benefit wines, ham, etc.

Relationships between Spain-Japan: business cooperation

- **Interesting sectors for Spanish companies:**

- Energy: the closure of nuclear plants in Japan has boosted the Japanese commitment with alternative energy sources.
- ICT sector: graphic design, audiovisual sector and video games are fields with enormous potential in Japan.
- Agri-food sector: The EU-Japan EPA has greatly benefited this sector. There is a growing interest in natural, artisanal, gourmet and organic products that could be very well received in Japan.
- Health: Japan and Spain are the two countries with the highest life expectancy in the world. Therefore, the health sector and goods and services related to the elderly have great potential.

- **Recent examples of business cooperation**

- Mitsubishi-CAF (railway equipment).
- Mitsui-Gestamp (automotive components)
- NTT-Everis (technology consulting)
- Mitsui-Acciona (renewable energies)
- Rakuten Mobile-Movistar (5G)
- Hitachi-Clínica Universidad de Navarra (medicine)
- Iberdrola Investment (offshore wind energy)

Relationship between Spain-Japan: commerce and tourism before the pandemic

- **Commerce:**

- No major changes in the recent years
- Pork meat, pharmaceutical products and automotive components are almost 50% of the Spanish exports
- Automobiles, automotive components and motorcycles, are more than 50 % of the Japanese exports to Spain

- **Turismo:**

- 130.243 Spanish tourists in Japan
- 677.659 Japanese tourists in Spain