

## Symposium on “European situation update – political and economic changes and implications for Japan” is held



On 10 October, the Keidanren Policy Research Institute’s (Chairman: Yoshinobu Tsutsui) Project on Europe Studies (Research Director: Sayuri Ito, Executive Director of Economic Research Department at NLI Research Institute) held a symposium on “European situation update – political and economic changes and implications for Japan” at the Keidanren Kaikan in Otemachi, Tokyo. Professor Michito Tsuruoka of Keio University's Faculty of Policy Management and Executive Chief Economist Osamu Tanaka of the Dai-ichi Life Research Institute were invited to the event.

In the first half, Professor Tsuruoka and Executive Chief Economist Tanaka delivered speeches. In the second half, Researcher Director Ito moderated a panel discussion with the two guests. Below is a summary.

### **Dramatically changing European security, US-Europe relations and implications for Japan (Professor Tsuruoka)**

Since the inauguration of the second Trump administration, US-European relations have been unstable, and Europe has been strengthening its efforts toward security autonomy.

At the June North Atlantic Treaty Organization (NATO) summit, European leaders leveraged royal diplomacy to extend a warm welcome to President Trump. Even as the meeting achieved formal success, Europe had already begun constructing a new security



Professor Tsuruoka

strategy. As part of this effort, the European Commission announced the “Readiness 2030” initiative in March 2025. It established a four-year exemption from the Excessive Deficit Procedure (EDP), enabling defense spending to exceed the 2.0% of GDP benchmark by an additional 1.5%, thereby allowing it to rise to as much as 3.5% of GDP.

NATO Secretary-General Mark Rutte proposed a two-tier structure of “3.5+1.5,” which adds 1.5% for defense and security-related spending such as infrastructure to this 3.5%, and committed to gradually reaching 5.0% of GDP by 2035.

These European moves also resonate with the US stance of “supporting self-reliance efforts.” Faced with the threat from China, Japan, too, must urgently reassess its reliance on the US-Japan alliance and rebuild a realistic defense strategy.



Executive Chief Economist Tanaka

### **Strengthening Europe's economic security framework and its challenges (Executive Chief Economist Tanaka)**

The EU has advanced its integration based on peace and free trade, but its foundations have been shaken by the invasion of Ukraine and Trump tariffs. The second mandate of European Commission President Ursula von der Leyen centers its policies on achieving both decarbonization and competitiveness, while strengthening defense capabilities.

Germany has shifted its fiscal policy to expand investment in infrastructure and defense spending, which is expected to boost growth rates across the eurozone. Meanwhile, the Trump tariffs were settled at 15%, avoiding punitive retaliation, but a decline in exports is unavoidable.

The EU is seeking partnerships with the Global South and Mercosur (Southern Cone Common Market), among others, to uphold the free trade order. However, the absence of political leadership, structural challenges and delays in fiscal reconstruction are hindering progress.

France's fiscal deterioration is particularly severe, with government bond yields rising. As the NextGenerationEU (NGUE) recovery fund nears its end, funding becomes a challenge. While positive developments are visible, such as the utilization of private funds and the repatriation of funds due to the strong euro, the weak reform momentum is a concern.

Although the Draghi Report outlined prescriptions for strengthening competitiveness, it has not been backed by action.

### **Panel discussion**

The panel discussion in the second half covered three topics: 1) the Russia-Ukraine war; 2) US-European relations; and 3) the turmoil in French politics. Below is a summary.

- 1) The prolonged Russia-Ukraine war is putting pressure on Europe to undergo structural transformation in terms of security and the economy. Support is based not on humanitarian sentiment but on pragmatic judgment directly tied to European security, though challenges remain for Ukraine's EU accession.
- 2) While increased defense spending has limited effects on economic growth and raises concerns about fiscal burdens, Europe is nonetheless seeking autonomy due to deepening divergence in defense industry policies between the US and Europe.
- 3) The turmoil in French politics is spreading across the EU, and the rise of the far-right National Rally (Rassemblement National, or RN) party could undermine foreign policy and fiscal stability.



Research Director Ito

# Seminar on “What is geoeconomics?” is held.



On 21 October, Keidanren Policy Research Institute’s Project on Technology and International Order (Executive Visiting Research Fellow: Kazuto Suzuki, Professor at the Graduate School of Public Policy, The University of Tokyo, and Director of the Institute for Geoeconomics at the International House of Japan) held a seminar on “What is geoeconomics? – considering the latest international situation” at the Keidanren Kaikan in Otemachi, Tokyo. Executive Visiting Research Fellow Suzuki provided an explanation on challenges surrounding economic security. Below is a summary.

The premise of “peace through free trade” that has underpinned the post-World War II international order has been severely shaken. The “weaponization of the economy,” where nations use their economies for political ends, is advancing, creating a situation where interdependence between states actually heightens risk. Interdependence makes war more difficult, but brings great pain when that dependence is severed. This is the “trap of interdependence.” Economic security lies in how we manage these dependencies and secure strategic autonomy. On top of this, we should strategically promote a “small yard, high fence” (a strategy of strict defense focused on areas requiring protection) aimed at building resilience in supply chains.

Japan has reduced its reliance on China for rare earths from approximately 90% to about 50%, diversifying its sources to countries such as Australia and Vietnam. While diversification serves as insurance, it also incurs costs. How the government and businesses share these costs is important.

Additionally, the concept of “indispensability” serves as a factor influencing economic leverage. This



Executive Visiting Research Fellow Suzuki

involves forming geoeconomic deterrence by maintaining dependencies that are difficult for other nations to replace. Indispensability encompasses both the “indispensability of goods” such as materials and components (evident in, for example, China's rare earths) and “indispensability of markets” based on massive market scale, with the latter growing increasingly important in recent years.

Going forward, it is important for Japan to advance “indispensability” as a national strategy. Regarding the “indispensability of goods,” which should be advanced first, it is necessary to pursue products that only Japan can manufacture while preventing the leakage of the supporting technologies, intellectual property and know-how. Prime Minister Sanae Takaichi, during her tenure as Minister of State for Economic Security, was a figure who emphasized information management and the prevention of technology leakage, and was passionate about security clearance issues. In this sense, the new administration presumably understands the importance of the indispensability of goods.

Regarding the “indispensability of markets,” given Japan's limited market size on its own, it is crucial to form market blocs through common rules, such as the Comprehensive and Progressive Agreement for Trans-

Pacific Partnership (CPTPP). Securing a leading position from the outset of rule formation is key to enhancing international influence while safeguarding national interests.

Japan should establish its strategic position through stable international relations and the construction of a rules-based order, in coordination with its neighboring countries.

## Symposium on “the future of China’s stagnating economy – challenges in fiscal policy and local governance” is held



On 13 November, the Keidanren Policy Research Institute’s China Studies Project (Principal Research Director: Shin Kawashima, Professor at the University of Tokyo’s Graduate School of Arts and Sciences) held an online symposium on “the future of China’s stagnating economy – challenges in fiscal policy and local governance.”

In the first half, Research Fellows Jiro Naito (Professor at Daito Bunka University’s Faculty of Economics) and Zheng Haolan (Associate Professor at Keio University’s Faculty of Policy Management) delivered speeches. In the second half, Principal Research Director Kawashima moderated a panel discussion with the two research fellows. Below is a summary.

### Structural problems and policy limitations in China’s sluggish economy (Research Fellow Naito)

China’s economy maintains a growth rate of around 5%, but questions remain about its sustainability. The biggest concerns are the deflationary trend and the severe slump in the real estate market. Fixed asset investment is being dragged down by real estate, with urban property prices continuing to fall. Despite strengthened subsidy policies, consumption growth remains sluggish and consumer sentiment remains depressed.

Fiscal and monetary policies are said to be turning “more proactive,” but their effects are limited. Hidden local government debt and the collapse of land-based financing constrain fiscal management, while the central government maintains a cautious stance.



Principal Research Director Kawashima



Research Fellow Naito

Policies skewed toward strengthening the supply side have led to overproduction and deflation, failing to stimulate demand.

The fundamental issue is a lack of security and trust, with future anxieties suppressing consumption. Correcting disparities, strengthening redistribution and boosting rural purchasing power are essential, but a politics-first stance is hindering reform. Without improvements in the market environment and deregulation, the investment mindset of private companies and foreign capital will not recover.

### **The current state and challenges of China's "county-level economies" (Research Fellow Zheng)**

County-level economies are regional development strategies centered on counties, with policies that simultaneously advance industrialization, urbanization and agricultural industrialization. These come in the context of complex challenges such as correcting urban-rural disparities, overcoming poverty and improving the environment.

The characteristics are: 1) emphasis on optimizing resource allocation and industrial relocation among regions as part of national industrial policy; 2) comprehensive promotion led by provinces; 3) strengthening of county-level authority through the "provincial administration of counties" reform; 4) construction of industrial parks and investment promotion activities at the provincial level.

Challenges include the contradiction between expanding public duties and insufficient funding, widening regional disparities and the depopulation and hollowing out of rural areas. While governance reforms and land consolidation are essential, there is strong administrative dependence in planning and funding, raising concerns about neglect of market mechanisms. Long-term keys are rebuilding local finances and mobilizing private capital.



Research Fellow Zheng

### **Panel discussion**

Principal Research Director Kawashima, based on the presentations by the research fellows, identified the common points of discussion as "the securing of funding sources" and "the role of the market." He pointed out that even though policies are being presented from the central to local levels, there is currently insufficient financial backing.

Research Fellow Naito emphasized that it is difficult to stimulate demand under supply-biased policies, and that the central government's role is to prepare an environment where private companies, the main players in the market, can operate freely and with peace of mind.

Research Fellow Zheng stated that the development of county-level economies could alter local industrial structures and potentially impact Japanese companies expanding into China, advocating for continued close monitoring.

The discussion also touched on the trend of "state advancement and private sector retreat" and the authority of local governments. In his concluding remarks, Principal Research Director Kawashima sounded the alarm, warning that China's economy contains countless contradictions which, if they become extreme, could trigger serious problems. He concluded that it is essential to identify these contradictions, confirm whether there is a bias and rigorously implement risk management.

## Visit to International University of Japan



Keidanren Policy Research Institute visited the International University of Japan (Minami Uonuma-shi, Niigata Prefecture), a graduate university established in 1982 with support from the business community, including then-Keidanren Chairman Toshio Doko, and its affiliated Global Communication Center (GLOCOM, Minato Ward, Tokyo). Discussions were held on cultivating international leaders and changes in the information society.

International University of Japan comprises the Graduate School of International Relations and the Graduate School of International Management, and is also known as the first school in Japan to offer an MBA program. At its campus in Niigata Prefecture, students and corporate trainees from 65 countries and regions (as of May 2025) spend their student lives amidst the rich natural environment at the foot of Mount Hakkai, using English as the official language on campus. In the class observed, students were conducting practical exercises using the programming language Python to analyze product reviews and political articles through natural language processing. It was impressive to see them not only learning political and economic knowledge at desks but also deepening their understanding in a practical and interdisciplinary manner through data analysis.



Graduates not only return to their home countries to tackle public challenges but some also secure employment with domestic companies in Japan. This contributes to supplying leadership talent to Japan's business community while simultaneously expanding the international network of such leaders.

GLOCOM provided an overview of the unique, specialized fields of each of its researchers analyzing the information society. We also learned that, despite being a university, it advances market research and policy proposals with capabilities rivaling corporate think tanks. At a time like now, when social media and video sites directly influence politics, GLOCOM's practical research will likely remain in high demand.

Keidanren Policy Research Institute will continue to explore collaboration with International University of Japan.

## Study session on AI and intellectual property is held



On 11 November, the Keidanren Policy Research Institute held a study session titled “The world is built on intellectual property – domestic and international challenges and the future of IP” at the Keidanren Kaikan in Otemachi, Tokyo. Kenichi Inaho, Principal

Research Administrator at the Research Management Center of the Organization for Research Promotion, Tohoku University was invited to the event.

At the outset, we received an overview of the characteristics and mechanisms of intellectual property

rights under the current legal system. Following this, we discussed phenomena unique to the AI era, after which we exchanged opinions. Below is a summary.

**“The world is built on intellectual property – domestic and international challenges and the future of IP” (Professor Inaho)**

The biggest problem stemming from generative AI is copyright. Recently, OpenAI's Sora 2 generated Japanese anime characters, which became a hot topic (the issue has since been addressed). There are three questions surrounding generative AI and copyright.

- 1) Regarding the question of whether copyright is applicable to AI-generated works, under the current legal system, only natural persons can be copyright holders. However, as the act of inputting prompts into generative AI expands and human involvement increases, this may change in the future.
- 2) Regarding the question of whether AI can learn without restrictions, AI learning is generally permitted in Japan under Article 30, Paragraph 4 of the Copyright Act of Japan. In the United States as well, several court rulings have recognized it under fair use doctrine<sup>[1]</sup>. However, Europe is moving toward stricter regulations, while China lacks clear rules and awaits the accumulation of case law.
- 3) Regarding the question of whether utilizing AI-generated content constitutes copyright infringement, copyright infringement is fundamentally judged based on the criteria of copyrightability, reliance and similarity. Similarity is often determined by whether “the essential characteristics of the expression can be directly perceived.” This means that mere similarity in style or ideas is generally insufficient. However, when it is AI generating content rather than humans creating similar works, it becomes problematic because AI is premised on learning from a vast amount of referenced material. This also applies to the “Ghibli-style images” that have recently been a subject of wide discussion. Regarding the use of virtual humans, Japan remains reluctant because



Professor Inaho

issues related to copyright, image rights and publicity rights remain unresolved.

Regarding patent rights, through the DABUS Project 2 litigation<sup>[2]</sup>, courts in most countries have held that AI cannot be an inventor. However, as Japan’s courts have also pointed out, it will be essential to consider this issue in future legislative policy discussions.

Furthermore, while many countries, including Japan, adopt the principle of territoriality whereby the effect of a patent right is recognized only within the territory of that country, rulings have emerged that flexibly interpret the effect of patent rights to align with the modern era of internet advancement. Moreover, while protection against rights infringement within virtual and digital spaces is often difficult under current circumstances, imitation of product forms can be prosecuted as a violation of the Unfair Competition Prevention Act.

Additionally, when buzzwords or internet memes gain popularity, there has long been a tendency for people to file trademark applications to capitalize on them. While this action itself is a matter of personal freedom, when something enjoyed as a shared cultural asset suddenly faces attempts by specific individuals or companies to claim exclusive rights or demand usage fees, it provokes emotional backlash. Moreover, in the modern era, this backlash has repeatedly spread and intensified through social media, escalating into “flaming” incidents.



Also, during the exchange of views, topics such as university education, human resource development and the nature of intellectual property litigation were discussed, leading to a very lively debate. We will continue to advance research on various systems and policies surrounding intellectual property in the AI era.

[1] The legal principle that, when a use is comprehensively evaluated and deemed fair use, it does not constitute copyright infringement even without the rights holder's permission.

[2] An international project seeking intellectual property protection for inventions autonomously created by DABUS (Device for the Autonomous Bootstrapping of Unified Sentence), an artificial intelligence (AI) developed by Dr. Steven Thaler.

## Notice of Keidanren Policy Research Institute website URL change



The Keidanren Policy Research Institute has changed its website URL as follows:

<https://www.keidanren.or.jp/pri/english>

We will continue to strive to enhance our content and

strengthen our information dissemination to respond to your interests. We hope you will take a look at our new website and continue to make use of it.

## Introduction of publications



The Keidanren Policy Research Institute holds symposiums, seminars and discussions. The content of these events is compiled into books, booklets and videos, which are made available to the public. These records capture the proceedings of speeches, Q&A

sessions, panel discussions and more. They serve as a way to experience events that could not be attended and as an archive of past discussions. Full contents are available on the institute's website.

### Reports

Symposium on “Chinese characteristics as seen through two policies”

~~Published and edited~~ トル

