

Overview

Issues discussed in the 2008 White Paper on International Economy and Trade:

A new “development strategy” in which Japan leads the sustainable development of the global economy, which is at a critical juncture.

Japan leads the “creation of 3 markets;” these markets provide the basis for further development of the global economy, and also provide “places” and “opportunities” for Japanese industries to develop new businesses.

1. Difficulties faced by the global economy and further development of the global economy through a “5 billion population market”

The global economy facing serious underlying problems

- Financial turmoil triggered by the subprime mortgage crisis in the United States is affecting the real economies in the United States, Europe, etc.
- Inflationary pressure is mounting due to price surge in resource and food amid rapid economic growth in emerging countries such as China.
- The above two closely linked issues are reflective of the current state of the “unified” and “diversified” global economy.
- There is an increase in the presence of emerging economies with four billion people in addition to the developed countries with “1 billion” population.”

Advance of a new global market with 5 billion people

The nominal GDP in emerging economies more than doubled in the last 5 years (the average growth rate from 2003-2008 was 18.3%).

- Relationships among emerging economies (“south-south trade” and “south-south investment”) are growing, creating synergy in expanding consumption and investment (becoming a driving force for the new positive circle).
 - The south-south trade increased by about 3.3 times in 10 years (1997-2006) (accounting for over one fifth of the global trade in value terms).
- A well-balanced demand structure and industrial structure are needed for the self-sustainable development of the newly emerging economies.

Japanese economy strengthening its ties with emerging economies

- Japanese companies are striving to expand their businesses in the growing markets of emerging economies.
 - In 2007, Japanese exports to China grew by 20%, to India and the Middle East by 40%, and to Russia by 50%.
 - 50% of Japanese companies in China, 70% in India and the Middle East, and 80% in Russia, said that they “cannot retain a market share” in their respective local markets (results of a survey as of March 2008).
- The competition is intensifying as companies of emerging economies are also actively expanding

their businesses.

- Chinese exports to the Gulf states grew at an annual average of 38% (Japanese exports to the Gulf states grew by 19%), to South America by 40% (Japanese exports by 18%) and to Africa by 40% (Japanese exports by 19%).

2. Creating a “pan-Asian market” to lead the further development of the global economy Asia—a population of “ 3 billion” unified as a “value-creation hub”

- The “East Asia Production Network” is expanding in Asia (the GDP is expanding at a rate similar to the GDPs in the United States and Europe).
 - The real added values in the Asian manufacturing industry amounted to US\$2.55 trillion in 2006 (US\$2.05 trillion in the EU and US\$1.83 trillion in the U.S.).
- Consumption in the United States, a major final destination for Asian products, is in the doldrums. Asia, meanwhile, urgently needs to convert to a well-balanced demand structure. This will require enhancements in the industrial structure, as well as a revitalization of regional consumption to make up for lost ground against consumption in Europe and the U.S.
 - Over 60% of parts produced in Asia are exported within the region, versus only one-fourth of Asian-produced consumer goods (around 80% of both parts and consumer goods produced in the EU are exported within the EU region).
- The opportunities for a “pan-Asian consumer market” with common orientations with Japan are increasing as incomes in Asia increase.
 - Consumer good imports from Japan into the emerging economies of Asia have grown at an annual average of 13.2% in this century (imports from the U.S. have grown at 3.4% annually).
- “Knowledge-creating” should be promoted by recycling and converging people, money, skills, and knowledge amid industrial development, and by forming human capital in China, India, etc. (Asian Innovation).
 - China: China’s real added value in the manufacturing industry, including IT products, ranked second, outstripping Japan. (2006)
 - India: India is becoming a supply base of various services utilizing IT (finance, R&D, etc.).

Building an international industrial structure for market creation

- Global companies also have to re-establish their international business networks by improving their “direct contacts with customers,” establishing R&D bases, etc. in the emerging economies.
- Global companies also have to reform their organizational management; for example, by aggressively hiring local workers, etc.
 - 44% of the foreign subsidiaries of Japanese companies have difficulties in hiring middle managers locally (a survey as of March 2008).
- Companies in distribution industries, companies in infrastructure-intensive industries, and small and medium-sized companies that used to depend on domestic demand should also expand their businesses into the global market.

- The global business expansion by Japanese retailers facilitates the global expansion of the Japanese consumer goods industry (securing “connections” with customers to facilitate the collection of bills and receivables, especially for small and medium-sized companies).

Developing a new economic structure with Japan as the Asian hub

- Japanese companies should send the benefits of the global market growth back to Japan (development of a system to facilitate a flow of profits of foreign subsidiaries back to Japan).
- Domestic structural reform should be promoted to make the best use of management resources (human, monetary, etc.) in Japan.
- Innovation should be promoted through the “convergence” of management resources in Japan and abroad (including Japan’s technologies and know-how), and human resources in Asia (establishment of the “Innovation-Creation Organization” (tentative)).

3. Creating a market for sustainable development in response to global challenges

Turning “global challenges” into business opportunities for Japanese industries

- Global issues such as environmental concerns, price surge in resource and food prices, water supply shortages, etc. should be solved while achieving economic growth.
- These global issues should be solved with the technologies and systems Japan has accumulated through its years of experience as “a country with advanced and ample experience in tackling such issues.”
- Japanese infrastructure-intensive industries and plant industries should aggressively expand their businesses abroad as “solutions provider” industries.

Establishing a “market structure” to promote innovation for solutions to global issues

- Climate change: The transfer of superior industrial technologies and the development of innovative technologies should be promoted.
 - Global energy consumption can be cut by one-third if other countries are as energy-efficient as Japan.
- Resources: Stable crude oil markets (promoting dialogues between producing and consuming countries, etc.), voluntary development (promoting strategic resource diplomacy, etc.), technological development (resource-saving, developing alternative resources, and recycling), and partnership among consuming countries (support for resource reserves, etc.)
 - Dependency on imported oil is a common issue in Asia (dependency in 2005: 50% in China, 70% in India, and almost 100% in Japan).
- Foods: Both domestic and foreign markets should be developed (promoting “partnership among agricultural, commercial, and industrial sectors,” etc.).
 - An international business network covering upstream and downstream businesses should be established (supported by JETRO, etc.).

The support for producers such as “regional trading companies” should be enhanced and

partnerships with foreign food companies affiliated with Japanese companies should be promoted.

- The financial and managerial support functions should be enhanced through partnership among agricultural, commercial, and industrial sectors.
- International rules to secure food trade should be defined and investment in foreign agricultural development should be promoted.

- Water: Japan’s “water-saving, environmentally-friendly, and recycling-based” water resource management technologies should be promoted overseas where water and sewage markets have been privatized.
 - Six billion people are suffering from water shortages. Water contamination is also becoming a serious problem (of the 7 major water sources in China, less than 40% are qualified for drinking).
 - With insufficient water sources in the country, Japan has developed high-level water management technologies and management systems to cope with increased water demand (water-saving systems) and the pollution (water-cleaning systems) generated during the period of high economic growth of the 70s

Developing “Asian development models” to help eliminate poverty in Africa

- The African market, with its population of “1 billion,” is a new frontier where Japanese companies compete with American, European, Chinese, and Indian counterparts.
- Japan’s most important international contributions are: (1) The establishment of a business network with Japanese industries and (2) The aggressive creation of Japanese markets through initiatives such as the “one village one product campaign,” etc.

4. Developing a new global strategy to lead sustainable development

Japan as an aggressive leader in the development of a new global economic framework.

WTO Doha Round, etc. (Global framework)	Final agreement by the end of this year* (See the note.)	Signing and ratification* * The schedules are the target dates.	
EPAs/FTAs	- ASEAN-Japan Comprehensive Economic Partnership (AJCEP) was signed by all the countries concerned. - Under negotiations with Vietnam, India, Switzerland, GCC and Australia.	-EPA signatories will be increased to over 12 by early 2009.	- The share of trade with signatories in the overall trade will be increased to over 25% in value terms.
	-Actively getting involved in and contribute to studying frameworks such as the East Asia Free Trade Agreement (EAFTA), the Trade Area of the Asia-Pacific (FTAAP) and the Comprehensive Economic Partnership in East Asia (CEPEA), etc. -Compiling a report on		

(Note) The maintenance and development of the free trade system led by the WTO can be supplemented by promoting efforts to cope with new policy issues such as investment, competition policies, climate change and trade, etc., at global frameworks such as the OECD, etc.

"Asian Economic and Environmental Community" Initiative, etc.	- "Asian Economic and Environmental Community" was announced in May. - The "Economic Research Institute for ASEAN and East Asia (ERIA)" was established in June.	- Implementing various policies by making the best use of the ERIA to promote the "Asian Economic and Environmental Community". (Japan is the chair of APEC in 2010.)
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Efforts for EPAs/FTAs

- Japan should make efforts to increase the number of EPA signatories to over 12 by early 2009 and to increase the share of trade with the signatories in the overall trade to over 25% in value terms in 2010 (from 14.8% in 2007).
 - The final report of the CEPEA Private Sector Experts' Research will be presented at the ASEAN 6 economic ministerial meeting and the East Asian Summit for discussion on future efforts.
- Japan should promote bilateral investment agreements by strategically prioritizing negotiations while satisfying practical needs.

“Asian Economic and Environmental Community” for sustainable development

- The common issues in Asia are “environmental and resource constraints,” “urbanization,” and “rapidly aging society.”
- Japan, as a “country with advanced and ample experience in tackling issues in Asia,” should take initiative in solving these issues and promote the applicable technologies and social systems throughout the Asian region. This is the basis of Japan's new development strategy.
- Japan should endeavor to create the “Asian Economic and Environmental Community,” in order to contribute to and grow together with Asia, the growth center of the global economy. The following four goals should be kept in mind:
 - (1) Asia growing in harmony with the environment: Asia should maintain sustainable growth by overcoming environmental issues and energy constraints (promotion of the “Clean Asia Initiative,” a plan for a sustainable society where economies grow in harmony with the environment, etc.).
 - (2) Asia leading growth: Asia should liberalize the flows of people, money, capital, and information while enhancing production networks.
 - (3) Asia's middle class: Asia should increase its middle class population to 60% by 2030 (to reinforce the consumer market).
 - (4) Open Asia: Asia should enhance cooperation with the United States, Europe, the WTO, and the APEC.
- Japan should make the best use of the “Economic Research Institute for ASEAN and East Asia (ERIA).”