

# **Second Report of the Committee on New Direction of Economic and Industrial Policies**

**June 2023**

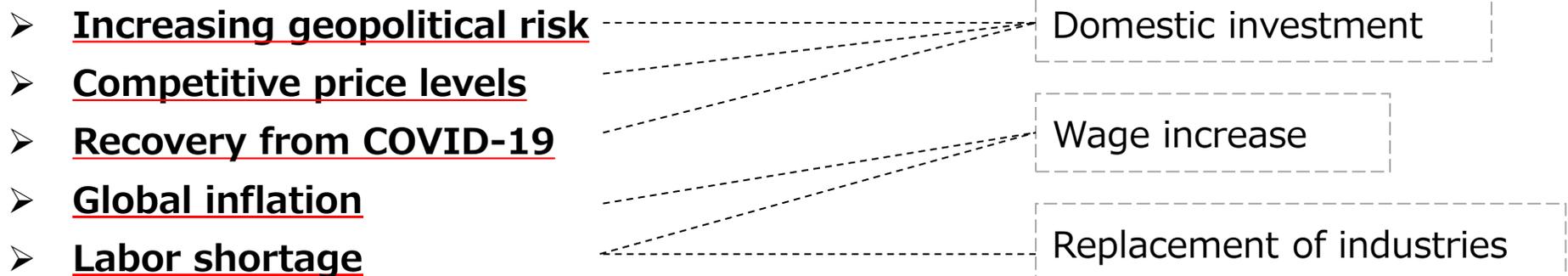
**Economic and Industrial Policy Bureau,  
Ministry of Economy, Trade and Industry**

# Key message ① of the "New Direction"

## I . Current Situation (=“turning point” from the “lost 3 decades”)

- “Deflationary mindset” has spread in the “lost 3 decades” of slow economic growth.
  - Pessimism towards the future, in light of a decreasing population, has restrained growth, domestic investment, and wage growth.
  - Companies focused on cutting costs and overseas investment and refrained from large-scale investment in new growing areas. Emphasis on retaining employment has led to flat wages and personal consumption.
  - Current account balance was once supported by trade surplus, but is now supported by earnings from foreign investment.
  - Government has also been too focused on improvement of market environment and lacked efforts to create new value (=excessive neoliberalism).

- However, recently “changes in the macro environment” is taking place.



# Key message ② of the "New Direction"

- At the same time, the world is proactively engaging in industrial policy.
  - US : CHIPS and Science Act, (\$52B for semiconductors) , IRA (\$369B for climate change)
  - EU : Green Deal Industrial Plan (Clean tech investment within EU, improved flexibility of subsidy rules)
- Amidst these changes, Japan has initiated the "New Direction of Economic and Industrial Policy" in 2021 and launched several policies.
  - GX (Growth-oriented carbon pricing concept, including ¥20T support in advance for investment)
  - DX (¥2T for semiconductors (JASM, Rapidus) and next-generation advanced computing, ¥400B for batteries)
  - Economic Security (Identification of critical goods, establishment of ¥250B economic security fund)
  - Startup Development 5-year plan (¥1T budget, tax reforms)
  - Support towards human capital investment (¥1T in 5 years)
  - Growth of SMEs (Support for business restructuring (¥2.4T) etc.)
- The combination of changes in the macro environment and policy are now bringing about a "turning point" from the "lost 3 decades", in the following aspects.
  - Insufficient domestic investment ⇒ Companies' willingness to invest in plant and equipment is the highest since 1983, Keidanren also targets ¥115T in capital investment in FY2027  
⇒ Domestic investment is beginning to expand
  - Flat wages ⇒ Wage increase in Spring 2023 is at the highest level in 30 years  
⇒ Wages are starting to rise
  - Unchanged Industrial Structure ⇒ Replacement of industries  
(Investment in start-ups, M&As, and movement to growth areas are increasing) ⇒ Signs of change

# Key message ③ of the "New Direction"

- With labor participation rate reaching the highest level in the world and a labor shortage due to the decline in the working-age population, it is becoming difficult to secure human resources without increases in wage.
- Based on the recognition that now is the last chance to carry the momentum of the "turning point" to realize sustainable and continuous growth, we will work on the
  - ① Creation of high value-added businesses, transformation of business structure, and replacement of industries to secure resources to raise wages, and reform of corporate management to promote such changes
  - ② Ensuring of a safety net by providing support for reskilling and improved labor mobility for individuals
- At the same time, it is necessary to overcome the pessimism that has prevailed in Japan in the last 3 decades to avoid falling into a contracted equilibrium where people buy cheap goods and refrain from investment.
  - Uncertainty in the global economy  
(global growth forecast in 2023 is 2.8% (IMF); average for the past 20 years is 3.8%)
  - Accelerated population decline in Japan  
(Decreasing 0.5% per year and accelerating, a 16% decrease to 105 million in 2050)
  - Global competition of industrial policy to induce domestic investment  
(industrial policy competition to induce intraregional investment in advanced fields)

# Key message ④ of the "New Direction"

## II. Concept of the "New Direction"

(= "Fostering Expectations" towards sustainable and continuous growth)

### ("Mission-Oriented" Industrial Policies)

- Sustainable and continuous growth is brought by stimulating new demand and investing in high value-added areas on the supply side to meet that demand. The key to both the above is the "expectation for the future" of growth.
  - "Mission-oriented industrial policies" increase predictability and accelerate strategic investment towards resolving global social issues that are clear towards the future. Such policies must be competitive among industrial policies of other countries. Through such policies, we aim to create new domestic demand and also strengthen international competitiveness, including exports, and expand overseas.

### (Updating Socioeconomic System (OS) )

- At the same time, we will work on structural transformation with a sense of urgency.
  - In order to secure labor force amidst labor shortage, it is necessary to continuously increase wages through investment in human capital, labor mobility facilitation, and transformation of corporate management to one that enhances value creation.
  - While taking advantage of this once-in-three-decades environment, the government will further support companies that are willing to undertake change to create value. In addition, the government will foster sturdy companies including start-ups and SMEs that create new value, and thereby enhance replacement of industries. At the same time, we will foster and internationally attract human resources who will lead growing industries (Updating Socioeconomic System (OS) ).

# Key message ⑤ of the "New Direction"

## (Continuation and development of the "New Direction" - 3-5 years as a "focus period")

- The "New Direction" (a policy concept in which the government plays a proactive role to enhance growth through large-scale, long-term, and planned policies to improve predictability of the market, and through new public-private partnerships), that was launched two years ago, must be continued and developed.

⇒ The next 3-5 years are a "focus period" to jump start growth over the next 10 years.

In the mid-to-long term (5-10 years), we aim to sustain the virtuous cycle of domestic investment, innovation, and income growth.

## (Reorganization of 14 Policy Themes within the "New Direction")

- Based on the discussions this year, we will reorganize the policy themes to 8 themes of "Mission-Oriented" Industrial Policy + 5 themes of Updating Socioeconomic System (OS).
  - Inclusive Growth will be repositioned as a "mission-oriented" industrial policy.
  - The Growth-Oriented Resource-Autonomous Circular Economy is positioned as a "Mission-Oriented" Industrial Policy.
  - Web 3.0 is integrated into "Realizing the Digital Society".

### "Mission-Oriented" Industrial Policies (8 sectors):    Updating Socioeconomic System (OS) (5 sectors):

- |  |  |
|--|--|
| <input type="checkbox"/> Carbon Neutral Society                                | <input type="checkbox"/> Human Resources                   |
| <input type="checkbox"/> Digital Society                                       | <input type="checkbox"/> Startups/Innovation               |
| <input type="checkbox"/> Economically Secure Society                           | <input type="checkbox"/> Value-Creating Management         |
| <input type="checkbox"/> New Health Society                                    | <input type="checkbox"/> Globalization of Japanese Society |
| <input type="checkbox"/> Disaster-Resilient Society                            | <input type="checkbox"/> EBPM/Data-Oriented Governance     |
| <input type="checkbox"/> Biomanufacturing                                      |  |
| <input type="checkbox"/> Growth-Oriented, Resource-Autonomous Circular Economy |  |
| <input type="checkbox"/> Inclusive growth in the region                        |  |
| that contributes to coping with a declining birthrate                          |  |

# Key message ⑥ of the "New Direction"

(Realization of the virtuous cycle of "domestic investment, innovation, and income growth" through the "New Direction")

- The "New Direction" will create the virtuous cycle of domestic investment, innovation, and income growth through the following path:
  - Mission-oriented industrial policies will create new demand supported by the need to solve social issues.
  - Such demand will promote domestic investments and the development of new products/services that contribute to resolving social issues. Such investments serve as catalysts to realize innovation. New businesses that emerge from those innovations will also become new investment targets.
  - As a result, wages will rise from improved labor productivity through increased capital-labor ratio and new added value through innovation. To accelerate this change, updates of the socioeconomic system (OS) is necessary such as investment in human capital, enhancing value creation of companies (including start-ups), and strengthening ties with foreign countries.
  - As higher wages prevail, consumption of individuals will increase, and demand will expand. Improved corporate earnings and higher expected growth rates will induce companies further domestic investments and accelerate innovation to capture growth markets.
  - The beginning of this virtuous cycle is already being observed as a "turning point" from the last 3 decades. To achieve sustainable and continuous growth, it is critical to foster expectations toward future growth. This will contribute to halting the decline in the birth rate through improved economic conditions, stabilize the demographic conditions, and eventually lead to long-term growth.
  - To this end, the next 3-5 years will be a "focus period" to jump-start growth over the next 10 years, and to sustain the virtuous cycles over the medium to long term (5-10 years).

# Key message ⑦ of the "New Direction"

- **"Mission-Oriented" Industrial Policies (8 sectors):**

- **Taking global social issues as a starting point**, we will develop **domestic demand**, which will **grow over the mid- to long-term even under a declining population**.
- We will accelerate investment in strategic areas by **continuing to implement measures** that **ensure the predictability** of the private sector. **Government "invests strategically" rather than "provides support" to expand national wealth**.

<Examples of demand created by each mission in the long term>

- ❑ **GX**: Over ¥150T of public-private investment over the next 10 years, with ¥20T of government support for this purpose.
- ❑ **DX**: Creation of demand for new services through digitalization and increased capital investment including software. For example, by 2030, companies producing semiconductors in Japan aim to achieve related sales of over ¥15T.
- ❑ **Economic security**: Increasing autonomy, ensuring superiority and indispensability, and maintaining international order
- ❑ **Health**: ¥77T in services outside of public insurance in 2050
- ❑ **Resilience**: Adaptation market will grow to ¥70T in developing countries by 2050.
- ❑ **Biomanufacturing**: Total market size of ¥92T in Japan and abroad by 2030.
- ❑ **Resource Autonomous Economy**: ¥80T in 2030 and ¥120T yen in 2050 for the circular economy market.
- ❑ **Inclusive growth in the region**: Restore desired fertility rate to 1.8 through higher disposable income/time, etc., and further improve hope in the future.

- **Updating Socioeconomic System (OS) (5 fields):**

- The realization of the missions also requires the **development of an economic and social system as a complement to the mission-oriented industrial policy**.
- These policy themes themselves **contribute to the virtuous cycles of domestic investment, innovation, and income growth**, even outside the scope of individual missions.

<Examples of goals in each area>

- ❑ **Human resources**: Sustained wage increases that exceed price increases
- ❑ **Startup Innovation**: 10x investment in startups in the next 5 years
- ❑ **Value Creation Management**: Increase the percentage of leading Japanese companies with PBR over 1 to 80% by 2030.
- ❑ **Globalization of Japanese society**: Inward direct investment balance to be ¥80T in 2030 and ¥100T at the earliest
- ❑ **EBPM and Data-Oriented Governance**

# Main policies within the macroeconomic framework

	About 3 years	3-5 years later	Long-term goal
Domestic Investment	<ul style="list-style-type: none"> <li>● Increased willingness for investment</li> <li>● Government support for domestic investment (¥7T supplemental budget in FY2022)</li> </ul> <p><b>World-class, long-term, large-scale support for strategic areas</b> (GX, DX, etc.) (e.g., multi-year/ support beyond initial investments★)</p> <p><b>Preparing industrial land/infrastructure</b></p> <p><b>Promotion of investment in local areas as a measure against declining birthrate</b> (intensive support for medium-sized enterprises★, creation of growth-oriented SMEs)  <b>/Promotion of investment in manpower saving as a measure against labor shortage</b></p>	<p>¥115T investment in FY2027, and higher</p> <p>Establishment of specific projects in the late 2020s</p> <p>Implement necessary measures to promote investment</p>	<p><b>Promoting private investment based on future growth expectations</b></p> <p>+</p> <p><b>Add value to corporate activities, Transforming the economic and industrial structure</b></p> <p>↓</p> <p><b>Achieve long-term sustainable economic growth</b></p> <p>↕ <b>Simultaneous Realization</b></p> <p>Progress toward <b>solving social issues</b></p> <ul style="list-style-type: none"> <li>• GX: Carbon neutral in 2050</li> <li>• DX: Realization of a Digital Society</li> <li>• Achieving Economic Security</li> <li>• Extension of healthy life expectancy</li> <li>• Resilient Society to Natural Disasters</li> <li>• Resource autonomy: Freedom from resource constraints</li> <li>• Reversal of the declining birthrate trend: recovery of the desired birthrate to 1.8, and further improvement of the desired birthrate in the future.</li> </ul>
Innovation	<ul style="list-style-type: none"> <li>● Signs of labor shortage and industry replacement</li> </ul> <p><b>Reform business structure for value creation, promote replacement of industries</b></p> <p><b>Development of world-class innovation investment environment</b> (innovation box system, common infrastructure for storage battery CFP/automated driving data, etc.)</p> <p><b>World-class support for innovation in strategic areas</b> (GX, semiconductors, AI, quantum, space, biomanufacturing, health)</p> <p><b>Start-up: Promote/strengthen the 5-year development plan</b> (Extension of JIC operation deadline, expansion of LPS investment targets, relaxation of requirements for foreign investment restrictions★, etc.)</p>	<p>Promote inflow of labor and capital into growth areas</p> <p>Startup investment: ¥10T in FY2027</p>	
Income increase	<ul style="list-style-type: none"> <li>● Largest wage increase in 30 years</li> </ul> <p>Improvement of the wage increase environment (<b>price pass-through measures for SMEs, expansion of tax measures to promote wage increase</b>, support for business restructuring and productivity improvement, and integrated support for career counseling, reskilling, and job change)</p> <p>Creation of quality jobs in rural areas (e.g., workplace reforms to balance child rearing and women's activities)</p>	<p>A virtuous cycle of rising prices and wages</p>	