

Issues Discussed in White Paper on International Economy and Trade 2009

- ◆ This white paper presents the path which the Japanese economy should follow in the historical, world economic crisis: converting crisis into opportunity

1. Global economy facing challenges: current status and issues

- ◆ **Mismanagement of increased global financial investment money in the United States led to a financial crisis.**
 - Global financial investment money, including money managed by pension funds, insurance companies and mutual funds in developed countries as well as foreign currency reserves held by emerging economies, has increased, and most of the money flowed into U.S. securitized products, particularly residential mortgage-backed securities (RMBS), creating a housing bubble.
 - Until 2007, a vast amount of financial investment money from around the world was invested in U.S. subprime mortgage-related securitized products.
 - In 2008, the flow of financial investment money stopped as a result of a plunge in prices of securitized products triggered by the collapse of the U.S. housing bubble and the Lehman shock, causing a global financial crisis.
- ◆ **As the impact of the financial crisis hit the economies of developed countries, the global economy lost one of the twin growth engines, becoming dependent on emerging economies in Asia and other regions.**
 - The impact of the financial crisis spread to the real economies around the world through a drop in asset prices, a slump in consumption and a decline in trade caused by a worldwide shrinkage of investment.
 - While the United States and other developed countries suffered their first simultaneous negative economic growth since the end of World War II, the economies of China and India (as well as Middle East and African countries) remained firm.
- ◆ **Efforts are under way to cope with the global recession.**
 - Major countries implemented a variety of financial stabilization measures, including the coordinated provision of liquidity by their central, as well as large-scale economic stimulus packages. At the London summit held in April 2009, the participating countries pledged fiscal expenditures totaling \$5 trillion (¥500 trillion) by the end of 2010.
 - The economic stimulus measures being implemented at this time are temporary ones, and in the medium to long term, it is important for emerging economies in Asia and other regions to expand domestic demand and develop a market for sound assets.

2. The world economic crisis and Japan's path to cope with it

◆ Impact on the Japanese economy cause by the world economic crisis

- For the period from 2002 to 2007, exports had served as the driving force for the post-war period's longest economic recovery process, leveraged by weak yen.
- After the occurrence of the financial crisis, a material decline in exports and production accelerated the Japanese economy's slide into recession, which was more serious than the recession of any other developed country, including the U.S., the origin of the financial crisis. The possible backgrounds to such severe recession may be the sharp drop in exports to the U.S. including indirect exports via Asia (parts and materials for Japanese products are assembled in Asia), which Japan had heavily depended upon, and Japan's dependence on highly value-added products, which produce considerable ripple effects on production by domestic industries.
- For the medium- to long-term recovery of the Japanese economy, it would be necessary to enter Asian and emerging markets, which have potential for future growth.

◆ Exploration of Asian and emerging markets

- Emerging markets, such as Asian markets, would generate big business opportunities for Japanese-owned companies, as the middle class population (volume zone) is surging in these regions, raising expectation for high growth.
- However, in emerging markets, Japanese-owned companies would face intense competition with China and South Korea. Therefore, to overcome such competition, the key issues would be to recruit local personnel and to develop products oriented toward local markets.

◆ Promoting Japan's attractive points overseas

- It is important to promote Japan's attractive points to the world by disseminating Japanese culture (anime, fashion, tourism resources, etc.) . It is also important to contribute to finding solutions to global problems by taking advantage of Japan's excellent technologies (environment-related technology, energy-saving technology, water treatment technology, etc.)

◆ Warning against protectionist measures, and the significance of free trade systems

- Since 2008, various types of protectionist measures, such as tariff increases, introductions of import licensing procedures and applications of technical regulations, have been taken in all parts of the world. Not all of such measures constitute a violation of the provisions of WTO agreements; however, inconspicuous protectionist measures have been increasing.
- Based on the lessons learned from the Great Depression in the 1930's, under the present world economic crisis, it is important to prevent each country from taking protectionist measures. In order to attain such a goal, the WTO Doha Development Round needs to be concluded as soon as possible.

3. Japan's global economic strategy and foreign economic policy

◆ Overview

- It is necessary to expand domestic demand through the Future Development Strategy ((i) low-carbon revolution, (ii) healthy society with longevity, and (iii) promoting the attractiveness of Japan) while at the same time achieving nationally and internationally integrated growth.
- As the aging of the population and birthrate decline accelerate, it is vital for Japan not to retreat into protectionism, but to grow together with other Asian and emerging economies transcending national borders.

◆ In detail

▪ Nationally and internationally integrated economic policy

- Growth Initiative toward Doubling the Size of Asia's Economy (strengthening growth through the development of regional infrastructure, expansion of domestic demand through the development of social security systems, maximum use of ERIA), strengthening growth through the promotion of economic partnerships with Asian countries (including through the utilization of APEC 2010)
- Promotion of free trade: deters protectionism (efforts in the WTO) and promotes the conclusion of EPAs/FTAs
- Promotion of global expansion of infrastructure-related industries, such as power supply, railways and water supply (businesses that make money using systems), as well as the service and contents industries

▪ Promotion of “volume zone innovation”

- Human resources development contributing to expansion of local production
- Promotion of a license production model (investment agreements, protection of intellectual property, elimination of dual taxation, etc.)
- Expansion of the “volume zone” as a potential market

▪ Global development of the low carbon revolution

- Promotion of international cooperation for energy conservation through the G8 Summit and the International Partnership for Energy Efficiency Cooperation (IPEEC)
- Promotion of sectoral and regional cooperation for energy conservation and the environment through public-private partnerships using the Asia-Pacific Partnership on Clean Development and Climate (APP)
- Promotion of environmental cooperation on a commercial basis through the Japanese Business Alliance for Smart Energy Worldwide
- Enhancement of cooperation for energy conservation environmental technology in Asia under such frameworks as the Japan-China Energy Conservation and Environmental Protection Forum and the Japan-India Energy Forum
- Promotion of Japan-U.S. cooperation in advanced environmental technology, such as fuel cells, photovoltaic cells and electric vehicles

▪ Multi-layer cooperation including industrial cooperation with resource rich countries

- Promoting ministerial-level top sales, public-private joint missions, and conclusion of EPAs and investment agreements after designating priority countries
- Establishing a win-win relationship between Japan -- with its advanced technologies -- and other countries with their respective needs
- Strengthening of foundation for economic exchanges through tourism and educational cooperation