

Chapter 3 Japan's current situation and direction of progress after the economic crisis

Section 1 The future image of Japan that corresponds to global changes

4 For new growth in our nation

It will be shown in this chapter that globalization in this country is the key to economic growth. After looking back on the growth process from the country's past, a general view of a strategy to respond to the new world economic framework is given.

(1) The development of our nation so far, and the model aimed at

After the Second World War, stable productivity and competitiveness were secured under the free economy. Our nation had continued high growth, through vigorous personal consumption made possible by increases in personal income, active capital investment in enterprise by the population's high level of savings, and expansion of the trade balance surplus because of the weak yen against the dollar and high growth in the United States.

Economic growth that centred on consumption and capital investment was achieved in the 1980's. After the Plaza Accord in 1985, it aimed at internal demand expansion to correct a disproportionate economic balance in the form of a large sum of trade balance surplus. On the other hand, it became an asset-inflated economy from the later half of the 1980's to the beginning of the 1990's, because a recession caused by the appreciation of the yen occurred, and the monetary easing policy brought excess liquidity. Besides, the strong yen speeded up the advances of Japanese enterprises abroad. When the asset-inflated economy collapsed in 1991, economic measures were executed several times through the 1990's. Although public demand supported the economy, the growth expectation became weak in the prolonged recession. In the later half on the 1990's, economic investment was sluggish while the uneasiness in the financial system rose with failures to major financial institutions, which came one after another. Moreover, the efforts to support business as made in the 1980's were not demonstrated, increasing unease about the future.

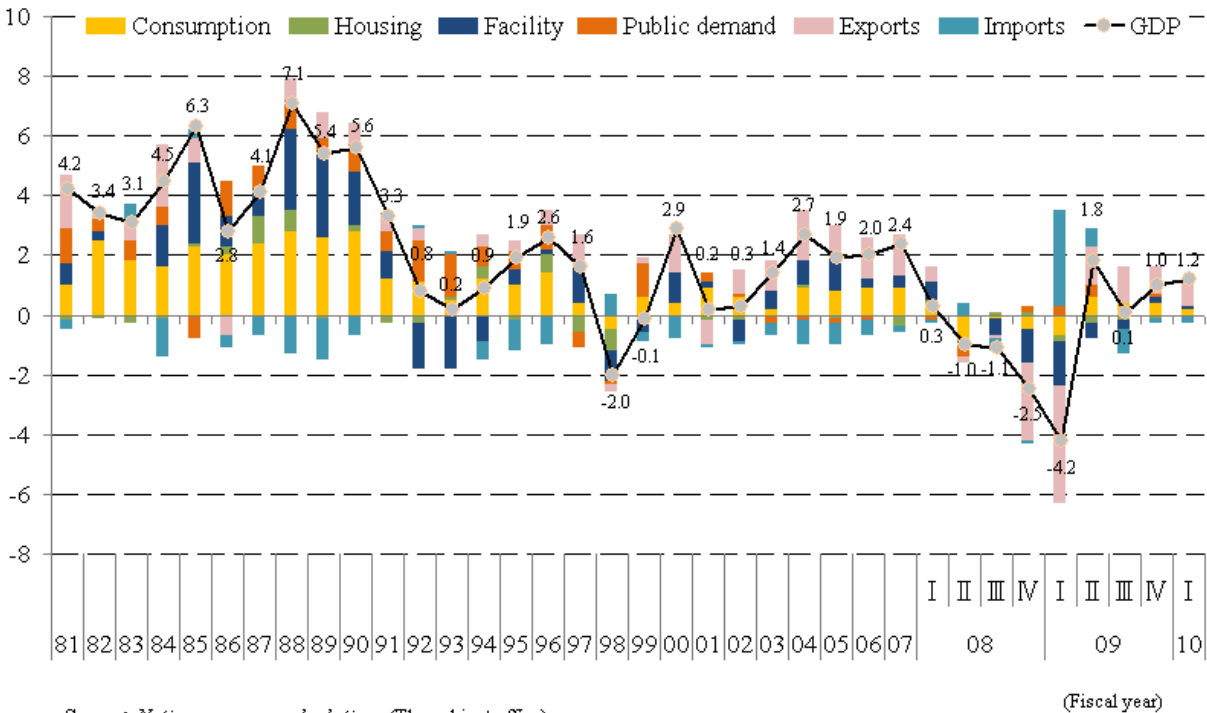
Such was the situation, enterprise promoted severe restructuring, and it tackled the solution of excessive employment, facilities and equipment, and debt. The government also tackled the structural reform of the dispersal of bad debt in financial institutions. Our nation also shared in economic expansion after the 2000's while the expansion of the world economy continued. The world economy is shifting, with the role of growth engine shifting from advanced countries to emerging countries with their rapid growth.

Japan's economy entered a recession phase at the end of 2007 caused by sub-prime lending in the United States and the crude oil price rise. It developed into a worldwide economic crisis following the bankruptcy of Lehman Brothers in the United States in 2008. Business in our country also retreated largely through a decrease in external demand linked to the world economy decelerating. The level of economic activity is still low³⁶ now, but business here has been showing the movement towards recovery since spring 2009. Business recovery depends on a recovery in exports and the effect of economic measures, mainly in Asia. It is becoming more important to approach emerging countries

³⁶ The GDP gap became about 6% with a big supply excess in October to December 2009. Even though there is a tendency towards improvement of equipment and employment, an excess continues. Therefore the expected growth rate of the entire enterprise has been also decreased.

including those in Asia. It can be said that this came to have a big influence on corporate activity (see Figure 3-1-4-1 and 3-1-4-2).

Figure 3-1-4-1 Japan's real GDP change
(%, seasonally adjusted YOY)



Source: Nation economy calculation (The cabinet office)

As seen in Chapter1 and 2, the centre of the world economic growth is shifting to Asia and emerging countries through changes in world economic structure.

Our economy is benefiting from growth energies in newly active Asian countries through the expansion of globalization and its ties to our own economic activation. It is important that the economic framework is structured to achieve a benevolent circle of internal and external demand. Emerging countries are attracting attention as markets, because the affluent class and middle class are expanding. Our nation will require the further enhancement of our emerging markets strategy, because the overseas development of our country was previously with mainly major countries.

Our country enterprise is expected further advancement to the locale as the emerging market expands. Comprehensive low cost is necessary to satisfy consumer demand in emerging countries. As analyzed in Chapter 2, our country's enterprise is advancing in locations around Asia, and now the local content ratio of corporations operating in Asia is rising. Aiming at volume zone acquisition in expanding emerging markets, specific measures are indispensable for example low cost and promotion in that locale and removing unnecessary functions in components or material manufacture. Therefore it is not only regarding the manufacture and assembly of finished goods. Enterprise needs to respond promptly to intense competition in emerging markets and changes to the world's business model.

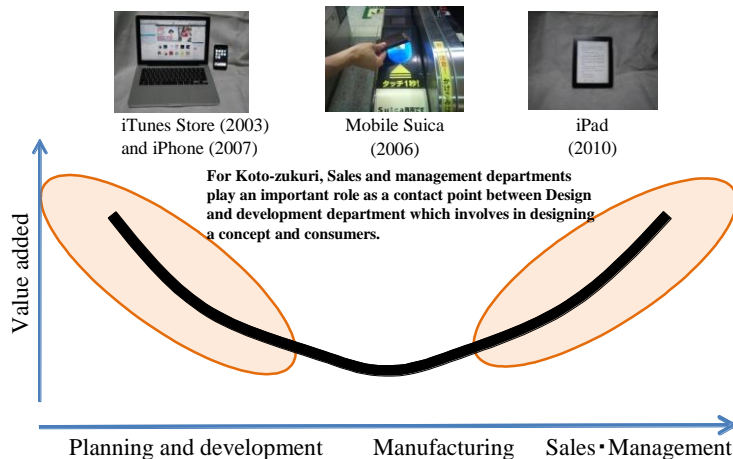
Table 3-1-4-2 Japan's major economic indicators

Japan

Real GDP growth (2009)	-5.2%
Nominal GDP (2009)	5.681 trillion dollars
Nominal GDP per capita (2008)	38,271 dollars
Population (2008)	127.70 million people
Population growth rate (2008)	-0.1%
Fertility rate (2008)	1.34
Gini coefficient (1993)	24.85
R&D expenditure / GDP (2007)	3.4%
Exports of goods and services / GDP (2007)	12.6%
National burden rate (2008)	38.8%

Source: Cabinet Office, The Ministry of Finance, IMF and World Bank

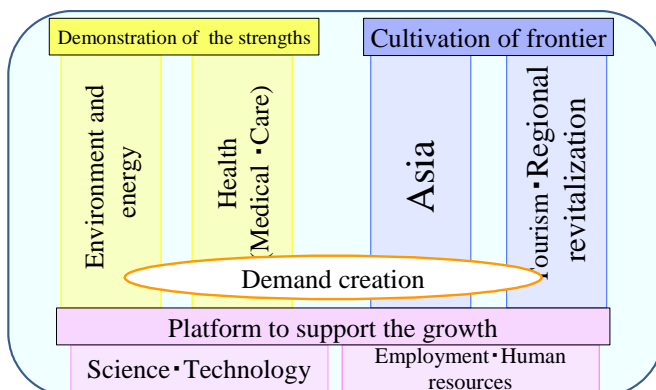
Figure 3-1-4-3 Image of “Koto-Dzukuri”



Source: The Ministry of Industry, Trade and Economy

Quality, value and price balance need to be reviewed, and goods and services that match local needs need to be provided in the development of emerging markets. High performance and quality is not enough. In Making (Kotodukuri), it is important that goods and services are combined, going beyond the normal business model, and a new mechanism is created for the realization of potential consumer desires. To achieve “Making (Kotodukuri)” it is necessary to sustain planning and development with strong concepts, and for sales and operation sections to make points of contact with consumer. It is also important to use the power of the brand “Made in Japan / by Japan” for our country. As a result, new kinds of world demand, including amongst the Asian affluent class, can be tapped into. From this can be expected the export of high value-added products and expansion of high quality job opportunities (see Figure 3-1-4-3)

Figure 3-1-4-4 Image of Japan’s new growth



Sources : Excerpts from *New growth strategy (Basic polity)~Shining Japan~*

In addition to a worldwide decrease in demand, if you see the current state of our country, stagnation of domestic demand due to restriction of public expenditure caused by increasing fiscal deficit and the ageing population is a concern.

Such a situation is breaking down, and it is hoped that the creation of new fields of demand will be a successful attempt to activate new economic activity. Especially, it aims at demand creation to respond to the problem of the environment and population ageing. Domestic demand and employment can be stimulated, and the aim should be national problem solving that contributes to the world and develops together. It will also become important to strengthen the fields of expertise that, while they exist in Japan, they have not yet developed properly, and harness the vigour of emerging countries for Japan. It is becoming more necessary to use the combination of government and private funding (see Figure 3-1-4-4).

(2) The direction for our country required by the global economy

As confirmed through this section, although our economic growth has been achieved with foreign relationships, space for advancing globalization is still bigger in human resources, distribution and capital. It is important to promote globalization in all directions whilst responding to the changing demand structure of the world economy, and to utilise the energies of foreign countries (including emerging countries), thus starting to spin the virtuous circle, converting it to energies within our country. As a global economical base it is also necessary to approach positively the making of world rules. Then our country can create domestic demand in emerging countries including in Asia through infrastructure maintenance, to contribute to continued growth.

Aiming at an “East Asian Community”, the element of developing Asia is used to aid the growth of this country. Institutional reform is required in order to be an advanced open country that can be active in enterprise and abundant in human resources (see Figure 3-1-4-5). This important approach is shown here for our future image to match the new world.

Figure 3-1-4-5 Concept of East Asian community

1. Promotion of economic collaboration

- To promote EPA/FTA and development of environment for incessant businesses within the zone.
- To review various domestic regulations to open-up Japan (Acceptance of human resources and promotion of business integration)

2. Working out environmental issues regionally such as climate change

- Support Asia in building up their countries making use of Japan’s experience or technologies

3. Cooperation to protect lives such as disaster prevention cooperation or countermeasures against infectious diseases

4. Cooperation to create sea of friendship such as countermeasure against pirates or marine rescues

5. Reinforcement of human interaction and culture interaction

- Promotion of interaction of advanced human resources, inter-university, in the science and technology fields, revitalization of culture interaction, and others.

Source: Future commitment on the “East Asian community” concept (Cabinet secretariat)

(A) Responding to the new global demand structure

(a) Obtaining emerging markets

(i) Promote an emerging markets strategy

Emerging countries, including in Asia, are expanding rapidly. Emerging markets are attracting attention through the expanding affluent and middle class and their decline in major countries. The

enterprise attitude in this country is required that emerging markets are the main target, not a supplementary market. And it is important to review quality, value and price balance, and commodity and services to ensure that they meet local needs. The more visible approach is also the expected high-level technology of our country, including for the environment and our reputation for high quality in a hidden competitive edge. In “Making-Kotodzukuri” is important that goods-service are combined and potential desire is made a reality for the increasing affluent classes.

(ii) Providing for our nation’s attractiveness, security and safety

Income increases in emerge country makes the living standards of consumers in that region improve. There is a new and rising demand for prosperity and services that it is safe and secure, and life that is also richly attractive. In foreign countries, including in emerging countries, enterprise in our country is seen as providing prosperity and services. It has got a high reputation for being “safe, secure and attractive,” “cool” and “good taste”, “reliable,” and “high quality”. It is expected that overseas deployment of health-related services by using the image of being safe and secure, and in the culture-related industries of fashion, tourism and content, will increase by using this attractive image.

(b) Domestic demand in emerging countries including Asia

(i) Asian development support through infrastructure maintenance and development of infrastructure export overseas

Infrastructure maintenance is supports investment expansion to the region concerned, provides a base for consumption rise, and continuous growth is achieved by expanding domestic demand. Our country needs to positively contribute to infrastructure maintenance in emerging countries including in Asia. Nevertheless, enormous amounts of capital are necessary for infrastructure maintenance. And it is important that the government positively takes part and supports consortium formation, because there are a lot national project ideas. An integrated approach from national and private organizations is needed. Furthermore, a total resolution to unite products and services is strongly requested. For example emerging countries need safe operating services for nuclear power stations, not just their construction. The business deployment in the system including operation is requested along with business solutions that suit the needs in other countries.

(ii) Our nation leads in the technology of the environment and energy conservation

One of big problems that the world should solve for sustainable growth is global warming and energy measures. Our country has surely achieved strong results. For example, the world’s top level of energy efficiency has been achieved through the development of current energy conservation technology. Positive cooperation and contribution are important for the world and for Japan, aiming at the achievement of a low carbon society and the solution to global warming through the spread of our capable technology and shared experience. For example, renewable energy from sunlight and the wind, the safe use of nuclear power and efficient electrical power supply and demand through smart grids. It is necessary to achieve green innovation.

(2) The realization of a virtuous circle for domestic and external demand in Japan

(a) Creating a flow smooth of people, goods, money and knowledge

It is very important that our country becomes a base in Asia and the world for the flow of the global economy. As is mentioned above in this section, a further internationalization of our country is necessary. It is hoped that high value added functions attracted from abroad will maintain and strengthen the domestic base, anticipate tourist and business visits to Japan, accept more students from abroad, and expand the use of foreign advanced human resources. Also, strengthening the distribution environment also greatly contributes to the improvement of the business location environment by activating international hubs in airports and harbours. EPA/FTA are promoted from this strategy. The liberalization of trade and investment is advanced, and the business environment is rationalized. Japan should develop measures to ensure that enterprise activity as a source of economic growth is backed up, including making the flow of people, goods, money and knowledge smoother.

The aim is growth based on innovation and the knowledge economy. This means the maintenance of intellectual property infrastructure, IT use, and promotion of advanced human sources as one of growth strategy (see the following description, Section 3, (4) (c) Decision of growth strategy in APEC region) in Japan APEC.

Moreover, because of the falling birth rate it is necessary to use skilled Japanese women and the baby boomers that will retire in the future in our country. It is also necessary to secure global human resources through the use of foreign people.

(b) Relation strengthening with resource countries

Our country has to depend on foreign countries for resources. Strengthening relations with resource countries is indispensable to achieve economic growth and secure a stable supply of resources as resource demands increase worldwide centred around emerging countries. A multi-layer deployment of industrial cooperation in resource countries needs to be planned. This will connect development energy to Japan. At the same time, it brings the chance of the acquisitions in the resource country market. Therefore it connects with attracting growth energies into our country. Top diplomacy at a head of ministry level, and attempting to strengthen economic partnerships of EPA/FTA and investment treaties are important approaches.

(c) Contribution to the global economic infrastructure

In the global economy, a positive approach on the integration of East Asia by our country is a contribution to Asia as a whole. At the same time, it also greatly contributes to the economic growth of Japan. The following can be seen as important. The investment environment is maintained by the promotion of strategic EPA/FTA. The flow of capital and labour is made smooth. Market conditions are maintained by the conclusion of investment agreements, social security agreements and tax treaties, and the promotion of international standardization. After the world economic crisis, it responds to the protectionism movement for the WTO approach. It is aimed at the APEC2010 in our country in 2010.