

Chapter 5 Overcoming the earthquake disaster, and revitalizing the Japanese economy

The Great East Japan Earthquake has had a tremendous impact on the Japanese economy and economic policy management. Our country needs to overcome the constraints caused by the disaster steadily, strengthen initiatives for achieving new growth, and restore the growth potential of our economy. And at the same time, we need to tackle the structural issues we faced before the earthquake. This chapter presents our basic way of thinking and initiatives concerning future policy management in response to this unprecedented earthquake disaster.

Section 1 introduces “The Guideline on Policy Promotion” decided by the Cabinet on May 17, 2011, and presents the government’s policy for reconstruction from the disaster and Japan’s revitalization.

Section 2 discusses the importance of strengthening the bonds of friendship between countries and our concrete initiatives, such as promoting economic partnerships and establishing economic security. We have to turn our attention to the significance of economic partnerships once more, against a backdrop of the need for our economy to enhance its export competitiveness amid severe global competition.

Amid the concern that the earthquake disaster may be causing further deterioration of Japan’s competitive edge as a business location, Section 3 discusses the importance of strategically promoting a series of measures to prevent the hollowing out of domestic industry and develop overseas markets towards enhancing Japan’s locational competitiveness, and presents concrete initiatives to this end.

Section 1 Policy promotion for the revitalization of Japan

1. Guideline for Japan’s revitalization (“Guideline on Policy Promotion”)

On May 17, 2011, the Japanese government issued its “Guideline on Policy Promotion” to re-launch initiatives for revitalizing Japan, with the aim of underpinning the reconstruction of eastern Japan and deal with the challenges that have been facing us since prior to the earthquake.

This guideline presents basic policies for economic and fiscal management based on the immediate future, the short-term, and the medium to long-term (see Figure 5-1-1-1). Under the basic policies, seven basic principles for restarting the effort for Japanese revitalization are presented, as are concrete procedures for promoting each major policy under the two pillars of “ensuring the sustainability of public finances and social security”, and “redesigning national strategies towards new growth”.

The Guideline on Policy Promotion (Excerpt)

(1) Basic policies for economic and fiscal management after the Great East Japan

Earthquake

• Basic policies for economic and fiscal management for the immediate future, short-term, and medium to long-term

We will overcome the restrictions brought about by the great earthquake—such as by restoring the economy as soon as possible—in a sequential and steady manner.

At the same time, we will strengthen initiatives for achieving new growth and restore the growth potential of Japan's economy.

The need to ensure the sustainability of public finances and social security and maintain confidence in such institutions, which already had been major issues before the disaster, has increased all the more because of the earthquake. As such, we will promote sound initiatives for achieving this.

(A) Immediate future: Prompt recovery from the Great Earthquake

- We will place the highest priority on assistance for the disaster's victims, assistance for the victims of the nuclear incident, disaster relief, and promptly responding to the accident at Fukushima Dai-ichi Nuclear Power Station (NPS). At the same time, we will also promote a variety of policies in a concentrated manner, including clearing away the mood of self-restraint, rebuilding production equipment and facilities, measures for electricity supply and demand, restoring and reconstructing supply chains, employment measures (such as the creation of direct and indirect employment for reconstruction projects and the agricultural, forestry and fishery industries, etc.), and the prevention of damage from rumors in Japan and abroad.

- These policies will be promoted through measures such as the early implementation of the FY2011 first supplementary budget and prompt revisions of regulations and systems. We will promote initiatives that maintain their comprehensive and coherent nature as we go about clearly laying out the economic effects of the policies as a whole.

- The stability of the financial and capital markets and the foreign exchange market is extremely important for the sake of restoring the smooth circulation of the real economy. What is more, we expect the Bank of Japan to share the basic perspectives with the government with regard to the macroeconomic management indicated within the guideline, and to continue to prop up the economy through proper and flexible monetary policy management via close exchange of information and cooperation with the government.

- Attention must be paid to the rising cost of primary products such as oil, due to the conflicts in the Middle East and North Africa and increased energy demand from newly emerging countries, as well as the financial problems in Europe.

(B) Short-term (about three years from now): Lay the foundations for self-sustaining growth

- We will support the full-scale reconstruction of the disaster region. At the same time, we will

also promote measures such as policy responses to the electricity restrictions and the construction of a system for supplying energy that is resistant to disasters. We will also promote moves such as restoring and strengthening the “Japan brand,” preventing outflows of companies and human resources overseas and ensuring inflows of human resources from overseas and restoring tourism by overcoming the damage from rumors in Japan and abroad.

- We will create a virtuous cycle of fostering new seeds of growth (including the construction of compact cities and Eco-Towns; energy conservation and new energy businesses; the development of decentralized energy systems; social security services suited to regional needs; and turning agricultural, forestry, and fishery industries into value-added sextic industries, etc.) and expanding capital demand (promoting private investment through funds and encouraging the use of private finance initiatives and public-private partnerships, etc.).

- We will proactively respond to requests for the implementation of these initiatives in the disaster-hit region in the form of pilot models.

- Throughout this period, we will secure the financial resources needed for reconstruction following the earthquake and put into practice integrated reform of the social security and tax systems.

(c) Medium to long-term: Achieve sustainable and self-sustaining growth

- We will strengthen initiatives aimed at realizing new energy and environmental structures capable of meeting appeals for a safe and stable supply, efficiency, and for the environment, as well as robust economic structures that are fortified against enormous risks. At the same time, we will also achieve sustainable and self-sustaining growth by means of promoting the expansion of new growth sectors.

- We will firmly establish the sustainability of public finances and social security by carrying on with the integrated reform of the social security and tax systems.

(2) Restarting toward Japan's revitalization

• Seven basic principles for restarting

(a) Japan's revitalization will underpin the reconstruction of East Japan, and the reconstruction of East Japan will serve as a trailblazing example for Japan's revitalization.

(b) Establish economic and social structures that are fortified against enormous risks

(c) Maintain confidence (public finances/social security, and the Japan brand)

(d) Concentrated investment in new growth fields under resource restrictions, such as those on financial resources and electric power

(e) Realize local empowerment and private sector vitality

(f) Revitalize the economy in an open manner by strengthening “Kizuna” (the bonds of friendship) with other countries

(g) Promote understanding in Japan and overseas regarding Japan's revitalization

Procedures for each major policy

I. Ensuring the sustainability of public finances and social security

○ Integrated reform of the social security and tax systems

- Discussions are proceeding at the Council for Intensive Discussion on Social Security Reform, and the council's final draft will be obtained by the end of June in accordance with the Cabinet decision at the end of last year.

○ Fiscal management strategy

- We will revise the Medium-term Fiscal Framework around the middle of this year, thereby steadily pursuing fiscal consolidation in an integrated manner with economic growth and social security reforms.

II. Redesigning and refortifying national strategies towards new growth

○ Growth strategy

- The Council on the Realization of the New Growth Strategy will be resumed in May.
- With regard to the New Growth Strategy, it will inspect items requiring a qualitative shift, those which are adhering to their objectives but for which their schedules should be revised, those adhering to both their objectives and schedules, those to be newly addressed, and so on by this summer. It will then present a concrete image for the strategy within the year for the sake of revitalizing Japan.

○ Innovative strategy for energy and the environment

- The Council on the Realization of the New Growth Strategy will start making considerations for revising the strategy for becoming an environmental and energy power.

- We will consider an innovative strategy for energy and the environment consisting of short, medium, and long-term strategies that not only overcome the power restrictions and strengthen safety measures, but that also correct the distortions and vulnerabilities in the energy system and meet the need for a safe and stable supply, efficiency, and for the environment.

○ Strategy for preventing the hollowing-out of industry and for developing overseas markets

- The Council on the Realization of the New Growth Strategy will re-examine initiatives such as the Inward Investment Promotion Program, promotion of Japan as an Asian industrial center, fostering of global talent, and the overseas deployment of integrated infrastructure systems.

- In addition to the responses that should be taken immediately (restoring and reconstructing supply chains, preventing harmful rumors, etc.), we will also explore other measures, such as improving Japan's competitiveness as a business location, creating economic and industrial structures which are fortified against enormous risks, and promoting strategic and focused innovations that will pave the way to the future.

○ Strategy for strengthening bonds between countries

- The Minister-level Meeting on FTAAP (Free Trade Area of the Asia-Pacific)/EPA (Economic Partnership Agreements) will consider the basic policy for strengthening “Kizuna” (bonds of friendship) with other countries through such measures as promoting high-level economic partnerships based on the “Basic Policy on Comprehensive Economic Partnerships” and establishing economic security, taking into consideration factors such as the sentiments of the farmers and fishery industry workers who have suffered enormous damage by the earthquake and the nuclear incident, the progress in international negotiations, and concerns regarding the hollowing out of industry.

- The timing of a decision on whether to join negotiations for the Trans-Pacific Partnership (TPP) Agreement will be considered from an overall perspective.

○ Strategy for the revitalization of the agriculture, forestry, and fisheries

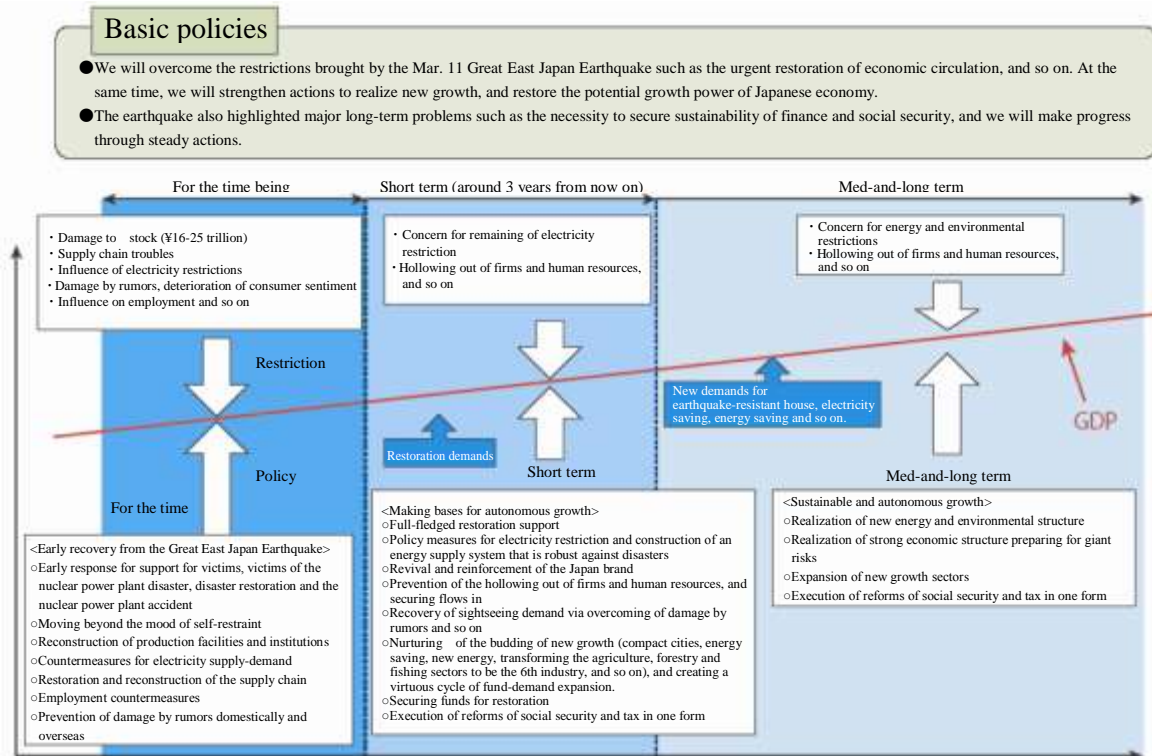
- Considering the enormous damage to the agriculture, forestry, and fisheries sectors caused by the Great East Japan Earthquake, every effort will be made for the restoration and reconstruction from the disaster. The Council to Promote the Revitalization of Food, Agriculture, Forestry and Fishery Industries will consider measures to cope with new challenges of rehabilitating the agriculture, forestry, and fishery industries in East Japan and restoring confidence in Japan's agricultural and marine products.

- As for the basic policy to be formulated at around June and an action plan to be drawn up at around October based on the “Basic Policy on Comprehensive Economic Partnership”, the new timelines will be considered to replace the intended schedules, taking into account the overall schedule for the revitalization of Japan and the progress in restoration and reconstruction.

(3) Towards substantiating the guideline

In accordance with the guideline, for the future we will move forward with examinations of initiatives in the various policy fields at the related agencies, councils, and so on, and will compile and publicly announce an overall view of the policies being promoted in the middle of the year (see Figure 5-1-1-1).

Figure 5-1-1-1 Future policy responses (for the time being, short term and medium-and-long term). Reference materials in “Policy Promotion Guidance”



Notes: This material is made by Cabinet Office as reference for "Policy Promotion Guidance" (approved by Cabinet meeting on May. 17, 2011.)

2. Towards Japan's revitalization

As a result of the earthquake and the nuclear incident, Japan's policy management has been interrupted in many ways. When restarting, we should not make it a simple resumption, but rather we need to view the current situation as an important opportunity to “revitalize Japan”, and pursue simultaneously both the revival of East Japan and tackling of the challenges we faced before the earthquake. To this end, policy management should be designed to rebuild the economy, industry, and local communities with resilient structures through a “qualitative shift” in our strategy towards new growth while also fostering the human resources to sustain these, and it should be also aimed at regenerating a dynamic and powerful Japan by overcoming the weaknesses that were laid bare by the Great East Japan Earthquake, restoring our wounded credibility, and strengthening our bonds of friendship with the world. For its realization, it is necessary to manage various policy measures based on the aforementioned “Guideline on Policy Promotion”. It is Japan's responsibility to contribute to the international community through such future-oriented, robust restoration/ reconstruction and also by creating a vision of what the new society should be like.

And, following this nuclear incident, we need to discuss without any presupposition what our

energy policy, including the Basic Energy Plan, should be like, based on a thorough investigation of the causes of the accident, while collecting opinions from all levels of people in Japan. On that occasion, we need to conduct thorough discussions from the perspective of how to realize a 'best mix' of energy sources by considering such issues as what to do with nuclear power, the expanded introduction of renewable energy, effective utilization of fossil fuels, and further promotion of energy conservation by society as a whole. Furthermore, innovations in new energy technologies are an important factor for our New Growth Strategy; hence we will put an emphasis on their promotion from this perspective as well.

The aforementioned Guideline on Policy Promotion cites the strategy for strengthening bonds between countries, and that for preventing the hollowing-out of industries and for developing overseas markets, as major policy measures for Japan's revitalization. These are the pillars of our external economic policy. While the deterioration of Japan's export competitiveness and locational competitiveness has been a matter of concern for some time, there is a possibility that the earthquake disaster may exacerbate the tendency. For our country to contribute to the growth of emerging economies and the world as a whole in terms of both exports and direct investment, and achieve our own growth along with them, we need to pay attention to the importance of economic partnerships once more. At the same time, it is also very important to improve Japan's locational competitiveness and strategically promote a series of other measures designed to prevent the hollowing-out of industries and to develop overseas markets, to the end of strengthening our competitiveness in exports and investment. The concrete initiatives are discussed in more detail in the following sections.