

## **White Paper on International Economy and Trade 2011**

~ Overcoming the earthquake disaster, and restoring and strengthening global the economic networks ~

### **1 Current Status and problems of the world economy**

#### **■ The recovering world economy involves structural volatility**

- The world economy has been gradually recovering since the spring of 2010, driven by emerging economies. However, with advanced economies failing to narrow the gap of growth rate with emerging economies in 2011, the emerging economies have further increased their presence.
- Global imbalances were temporarily improved through the world financial crisis, but were increasing again in 2010. Factors such as default by unsustainable budget deficit, instability of financial institutions, and further inflation by increased capital inflow to emerging economies could exert downward pressure on the world economy.

#### **■ Risks involved in the world economy (rises in prices of food and resources and the financial crisis in Europe)**

- In the background of monetary relaxation environment worldwide, multiple factors such as (1) increase in real demand, (2) weather conditions, (3) political conditions in export countries, and (4) money inflows had negative impacts on rises in prices of food and resources, which led to the downturn of world economy.
- In 2010, the European economy as a whole recovered moderately. However, current account imbalances within the euro zone are gradually increasing. In this circumstance, concerns over the worsening European debt crisis have not been eliminated. And there is uncertainty over self-reliant fiscal reconstruction of other European countries facing difficult fiscal conditions. Establishment of a reliable relief system will be essential.

#### **■ Aiming at the sustainable and balanced economic growth**

- Gap of the growth rate between the developed and emerging economies became sharper since the world economic crisis. The monetary policies of each country the currency exchange rates and trade issues are sometimes inconsistent, thereby becoming factors for instability of the world economy.
- In order to achieve the sustainable and balanced growth of the world economy for the future, cooperation is needed to build consensus within the international community such as G20, APEC, etc. to solve issues such as rectifying the imbalances, securing a stable international currency exchange system, resisting protectionism and promoting free trade.

#### **■ East Japan Great Earthquake Disaster: The World Economy, Stabilization efforts by Coordination of Nations**

- Since the earthquake disaster, with orderly cooperation from many countries in monetary policy, and matters of international significance, the world economy, focusing on the monetary market, has been generally maintaining orderly behavior.

## **2 Changes in the trade structures of the world and Japan**

### **■ World trading structure changed after experiencing the world economic crisis**

- Japan had been one of the poles in the world trade structure together with EU and NAFTA in 1990, but in 2008, China became one of the poles of the world trade structure taking the Japanese position.
- While the production networks in East Asia have continued to make progress in depth and extent, the authorities concerned are developing such a new aspect as ASEAN's expansion of trade within the area and enhancing its independence.
- In the near future, China, ASEAN and India will increase their presence as demand areas, while East Asian production networks display the prospects of becoming "East Asian production/ demand center" as an independent economic zone.

### **■ A new trade partner for Japan: MERCOSUR**

- Entering the 2000's, presence of MERCOSUR in the world trade structure becomes significantly important.
- Especially, as the consumer market in Brazil has been growing drastically bigger, it offers a great opportunity for Japanese business to enter the market. Japanese government's promotional activities to consolidate the market environment are urgently needed.

### **■ Changes in Japanese economic/ industrial structure and "spillover effects"**

- Japan has been changing its economic/ industrial structure from the "full set" type, where everything was procured domestically, to a type where various assets and services are to be imported.
- As Japan's domestic industry strengthened its ties with overseas, policy is needed to further increase exports and profit from the direct investment destinations in order to secure domestic employment and production activities.

## **3 Toward new overseas development of Japanese economy**

### **~ To overcome a world economy crisis (its aftermath) and an earthquake disaster shock ~**

#### **■ Japanese strategic field contributes to problem of growth in the emerging countries**

- The emerging countries in the world including Asia with remarkable economic growth continues expanding rapidly in quantity and quality as a "market".
- It is important for Japanese enterprise to establish the standing position for admiration from the middle income class in the emerging countries, mainly on high value added products.
- Japanese technology having advantage in the world contributes to the solution of problems of growth which the emerging countries are facing worldwide.

#### **■ The localization of the Japanese enterprise entering into a new stage**

- In late years direct investment to Asian emerging countries increases significantly, and the sales amount of Japanese enterprises in the local countries increase, too.
- While localization to emerging countries progresses, intermediate commodity export from Japan and

also repatriation of dividend from overseas countries is increased.

- In the future, the support is required for enhancement of competitiveness of export in the intermediate commodity and further facilitation of the dividend repatriation by means of economic collaboration.

#### **4 Trade and economic relation between Japan and the world which can be seen through Great East Japan Earthquake damage**

##### **■ The impact that the earthquake can give on Japanese production and trade**

- The export of Japan was on the track to recovery until just before the earthquake disaster, but the production/export just after that is decreasing considerably.
- However, the production of April is already likely to recover, and further recovery is anticipated in the future.

##### **■ Importance of the global supply-chain originating from Japan**

- After the earthquake disaster, importance of product supply from Japan to the world was recognized once more, and the impact on industry and item that disaster-stricken area was involved directly and indirectly in production/export of the Japan were especially big.
- Just after the earthquake disaster, supply disruptions from Japan was worried in various regions, but in line with the effort for recovery by industry and region, the production activity is improving promptly. As for the government side, it is important to back up to enhance collaboration of upstream and downstream industries, and further expand competitive power of the intermediate commodity industry while strengthening and solidifying the global supply-chain further.

##### **■ Utilizing the experience of the earthquake disaster**

- After the earthquake disaster, the reputation damage through unfounded rumors for the Japanese export goods is increased due to the nuclear plant accident, and Japan has combined the public and private sectors for transmitting correct and prompt information to settle the problem.
- In the future, it is important to promote the sharing of Japanese experience and the lesson toward the recovery from this earthquake disaster with the global community, and evaluate countermeasures and cooperation system by multinational cooperation in the state of emergency.

#### **5 Overcoming the earthquake disaster and revitalizing the Japanese economy**

##### **■ Towards Japan's revitalization**

- We have to take measures toward new growth, with a view to overcome the earthquake disaster's negative impacts on the Japanese economy, revive the growth potential, and at the same time to solve the structural problems that have existed since before the earthquake.
- In May 2011, the Japanese government adopted the “Guideline on Policy Promotion” at a Cabinet meeting, setting forth policies for reconstruction from the earthquake disaster and revitalization of Japan.
- We aim to contribute to the international community through future-oriented

restoration/reconstruction and also by creating a vision of what the new society should be like, based on these guidelines.

**■ Promotion of multilateral free trade regime and establishment of strategic external economic relationships**

- Japanese companies have multilayered relationships with companies of the world within global supply chains, so it is important for those, which are capable of exporting competitive intermediate goods, to keep upholding their supply responsibility.
- Therefore, with a view to removing various obstacles to overseas business operations/trade and reducing the costs (as defined in a broad sense) for cross-border economic activities, we have to make efforts to build strategic external economic relationships. And, the timing of a decision on whether to join negotiations for the Trans-Pacific Partnership (TPP) will be considered from an overall perspective.

**■ Efforts to recover and enhance Japan's locational competitiveness**

- Although we have taken measures to cope with the impacts of the earthquake disaster to a certain extent thus far, we cannot say for sure that all the concerns about Japan's locational competitiveness were wiped out. It is undeniable that there is a possibility of the earthquake disaster causing further worsening the problem of hollowing-out.
- In order for our country to continue to achieve self-sustaining growth, we have to enhance the domestic locational attractiveness, and keep producing highly competitive goods, services and systems. It's also necessary to be proactive in attracting foreign companies' regional headquarters and R&D centers to Japan