

## **Opinion on Medium- to Long-Term Action Policy for New Coronavirus Issue**

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### Introduction

- The pandemic of the new coronavirus still continues now, showing no sign of subsiding. We must brace for a protracted battle against it.
- There are some estimates forecasting a loss of 2,000-trillion-yen global demand, or over 20% of annual global GDP, during the coming three years as a result of the pandemic. Considering its significant, long-lasting impact, this is not a crisis that can be overcome by fiscal and monetary policy alone.
- It is important for the private sector to lead the revival of our economy. In other words, the trajectory for the recovery should be free from too much reliance on the fiscal support.
- During the process of the “new normal” taking root in our society ahead, there will be various changes in our daily lives, such as those in working-style and in contacting others. Those challenges should not necessarily be a burden on our daily lives, but a trigger to improve quality of life, by fixing frequently quoted negative features of Japanese society and by utilizing new technologies and data.
- Baring those challenges in mind, Keizai Doyukai have exchanged views on short- to long-term policy measures required. We have already publicized “Opinion on Government’s Recent Measures Reflected in Second Supplementary Budget Draft” to show our short-term views. For our long-term views, we have established “With/After Coronavirus Initiative”<sup>1</sup> and will consider the relevant agenda items for reviving Japanese economy.
- We agree on the recommendations made by the expert members of the Council on Economic and Fiscal Policy, with regard to the development/dissemination of the new

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<sup>1</sup> “With/After Coronavirus Initiative” will create a neutral, open dialogue forum that invites stakeholders from diverse sectors.

coronavirus vaccines and drugs, the enhancement of the medical and virus-testing systems, and measures to support households, education, and employment. This paper focuses on agenda items to be added to the expert members' recommendations, and presents our opinion on them. They are to be incorporated into the government's "Basic Policy on Economic and Fiscal Management and Reform 2020" as the medium-term policy measures that lead to the formulation of the government's long-term strategy.

## 1. Development of infrastructure

### (1) Further digitalization

- Japan's further digitalization requires promotion of a digital transformation, or DX, in the private sector. As alerted with the term "2025 digital cliff," there is reportedly a possibility that Japan will face an economic loss of as much as 12 trillion yen per year from 2025, unless our existing complicated, aging, and black box systems are properly renovated. In this regard, we hope to see availability of preferential tax treatment in the investment-promoting taxation, which enables private funds to be used for new system investment, without bearing legacy cost for system maintenance. The system renovation is expected to contribute to the digitalization for the society as a whole, with the digital transformation disseminating among SMEs as well as major companies. Meanwhile, SMEs and micro-enterprises are now facing a bigger hurdle than before, for promoting the digitalization and ensuring cybersecurity. It is, however, a challenge we cannot escape when we seek a bottom-up in the digitalization of the society as a whole. We hope that the coronavirus crisis will act as a catalyst for reinforcement of cybersecurity.
- Development of "remote society"<sup>2</sup> will accelerate the digitalization at a rapid pace going forward, through the use of Artificial Intelligence (AI), the Internet of Things (IoT), and 5G technology. It will presumably change the composition of electricity demand significantly, in accordance with the substantial increase of the telecommunication traffic. Having a robust infrastructure for electricity is, therefore, essential for supporting digital society. Promoting the digitalization of the electricity infrastructure is, here again, required to cope with changing electricity demand. We advocate the necessity for promoting holistic reconstruction of the energy system, which satisfies stable electricity supply ahead and a request for low carbonization. One of its examples is the development and implementation of the technologies such as a virtual power plant (VPP). It is a cloud-based power plant that remote-controls distributed energy sources such as

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<sup>2</sup> Translator's note: "remote society" in this paper means a society where teleworking, online schooling, online medical care, and other types of lifestyle are available among the public.

dispersed power sources and storage batteries, operating like a unit of a power plant.

- In the society of with/after coronavirus, contactless payment methods will be required more for consumer spending, leading to further use of digital money. Its user-friendliness is to be improved in line with its changing environment, while promoting collection and use of consumer data.

## (2) Renovation of digital government

- The government has so far publicized its policy documents including “The Basic Policy for the Establishment of a New IT Strategy” and “Digital Government Execution Plan.” Following these policy documents, the government has been exploring better administrative services with a focus on users, by ensuring administrative reforms and promoting the digitalization. Despite such an effort, there emerged a series of disruptions including recent system failures in providing employment adjustment subsidies. There are challenges, quoted about the digital government plan, such as lack of user-friendliness, transparency in decision-making, and governance. First and foremost, we request the government to drastically strengthen the functions and structure of the IT Strategic Headquarters within the Cabinet Secretariat, for the purpose of restoring the public trust. In doing so, the government must not only review the organization’s governance, but also recruit talented personnel from the private sector with a competitive salary. This person must be well versed in the digitalization and have a successful track record.
- Second, the government must pursue development of infrastructure that facilitates the government-led digitalization of the municipalities, aiming at optimum results for the country as a whole. Meanwhile, the municipalities must standardize and unify their administrative work on the basis of the system infrastructure established under the government initiative. Their administrative processes should be likewise renovated by making an all-out effort in Business Process Re-engineering (BPR) with a help of the digitalization. In this way, their inefficient administrative work will be screened out. For achieving this goal, the municipalities must endeavor to recruit and use external human resources in a proactive manner, as well as fostering their internal human resources.

## (3) Acceleration of regional revitalization and bolstering of Tokyo’s competitiveness

- A need for Business Continuity Plan (BCP) for natural disasters, e.g. an earthquake, has been long mentioned, and the new coronavirus pandemic has reinforced that need.

From this perspective, the monopolar concentration in Tokyo should be corrected further for risk diversification. It is therefore necessary to revisit the relocation of central government organizations out of Tokyo. There are government functions found difficult for the relocation, but is it really difficult when video conferencing and other tools are in use? What about the functions that must physically stay in central Tokyo? Clustering of those functions in Kasumigaseki and around is not really the answer. The government can look for the possibilities of decentralizing those functions in a suburb of Tokyo, e.g. Tama Hills, which is resilient to natural disasters.

- Businesses should be active in further utilizing their teleworking and satellite office capabilities. Let us think of sending corporate employees for a short-term from their Tokyo office to the company's regional office. It is likely to shore up local demand, and even lead to a review of local operations, creation of new businesses, and increase of relevant local population. Decentralization of human resources must speed up, while keeping the current momentum for various efforts of correcting the monopolar concentration in Tokyo as part of regional revitalization. Furthermore, we propose enhancement of tax system that strengthens regional offices, supporting decentralization of each company's functions and offices.
- In the meantime, it is indispensable to uphold and reinforce Tokyo's competitiveness among the global cities. In relation to this, we support an approach of adopting a hybrid city model that flexibly combines a digital or remote city model with a reality-based city model. The hybrid city model is, with more use of teleworking, expected to reduce hurdles, e.g. long commute hours, for productivity improvement. With this model, Tokyo—where institutions from industry, academia, and government are all located and integrated—will exhibit its strengths.
- There is no doubt that global technology companies are attracted by Tokyo, as it is a center of institutions from industry, academia, and government, and has an environment that allows for a quick review and implementation of their services. Tokyo is also expected to play a role of an international financial hub in Asia, amid uncertainty over Hong Kong. Realization of such a picture will necessitate a review of Japan's regulatory scheme in international finance. As often mentioned, foreign businesses, including technology companies and financial institutions, indeed face twofold difficulties in establishing offices in Tokyo: first, limited availability of educational and living environment suitable for high-skilled foreign human resources; second, insufficient English language capability in professional services, e.g. lawyers and accountants, and in administrative services. We must reiterate the need to address this issue.

## 2. Economic recovery and growth

### (1) Supporting corporate management reform and new business creation

- While teleworking is gaining its momentum, adoption of job description-based employment system is becoming more visible. Accordingly, company regulations such as employment rules, as well as personnel evaluation systems, are to be amended, anticipating the introduction of teleworking. Combination of payment by the hour and payment based on performance should be incorporated into those amendments. We request the government to review relevant regulations without delay, so that these new types of working-style will have a legal basis.
- One of Japan's strengths is "*Suriawase*"<sup>3</sup> not only in a company but also in an industry and beyond. Multilayered business packages—in terms of manufacturing, after-sales service, and maintenance—are expected to be actively deployed overseas with public-private partnerships, stimulating their demand inside and outside Japan, and enjoying benefit from economic growth of each country. It is also promising to embed into the business packages Japan's inherent "strengths of *Suriawase*" by use of artificial intelligence (AI) and robotics.
- In the area of agriculture, abandoned farmland has been increasing due to aging of farmers and labor shortage. Against this backdrop, introduction of the large-scale agriculture looks more feasible. With an eye on Japan's food self-sufficiency ratio moving sideways at a lower bound, it is essential, from a perspective of food security, to set agriculture as a business domain attractive to enterprises, by promoting the agricultural digitalization with higher productivity.
- On another front, there are some traditional industries mostly in rural areas. The digitalization is not the best answer for them, and instead, a person-to-person contact is their absolute necessity. Taking another view, the traditional industries enjoy a solid competitive advantage, thanks to their extremely high entry barrier that prevents foreign capital. We request the government to proactively protect and foster the traditional industries as Japan's core competence.

### (2) Toward new international cooperation regime

- The coronavirus crisis has given rise to a challenge of how to create a global supply

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<sup>3</sup> Translator's note: "*Suriawase*" is a Japanese way for negotiation among stakeholders to have product integrity that satisfies its consumers.

chain that is multilateral and robust. Current excessive reliance on China must be corrected. Having said that, China is geopolitically Japan's neighbor to coexist and co-prosper with, taking its market attractiveness and technological evolution speed into account. Thus, our country must lead the negotiation for the Regional Comprehensive Economic Partnership (RCEP) by retaining China and India at a negotiation table, and partnering with the ASEAN member countries. Its goal is to build a rule-based, and free, fair, wide economic zone in Asia, leading to Japan's more involvement with the growth market.

- Global economic growth had continued with an expansion of the free trade. Japan must endeavor to manage global risk through international cooperation, by participating actively in the rulemaking for sustainable growth of the free trade. Furthermore, its leadership is requested in formulating a post-coronavirus new international order, on the foundation of the United States-Japan alliance, and with the EU partnership.

### 3. Response to fiscal challenge

#### (1) Establishment of special account

- We propose establishment of the "Special Account for the New Coronavirus Issue" (provisional name) to manage relevant annual revenue and expenditure for the economic recovery. We have an experience in this at the time of the Great East Japan Earthquake. The Special Account pinpoints the forecast and results of the expenditure for the new coronavirus measures, contributing to better public confidence.

#### (2) EBPM must take root

- It is important to appraise and validate measures taken for the new coronavirus on the basis of the Evidence-Based Policy Making (EBPM), as the amount of the relevant national budget is huge. Although the necessity of EBPM has been often reminded, it has not yet been widely used in the government's policy making process. Now is the time for the concept of EBPM to take root in the process. We propose to strengthen the system for promoting EBPM in a drastic manner, by involving more people active in businesses and academia. The function of appraisal, currently decentralized in the government's organizations such as the Cabinet Office and the Ministry of Internal Affairs and Communications, is to be reviewed for correction.

### (3) Use of private fund

- Amid the environment hit by the new coronavirus, the fiscal spending has been expanding due to unavoidable demands. The use of the vitality in the private sector is, therefore, crucial. In this regard, the municipalities must actively accelerate the use of public-private partnerships (PPP) and private finance initiative (PFI), as PPP/PFI is the scheme that 1) taps into funds, managerial capability, and technologies in the private sector, (2) prevents the bottom line of the regional economies from worsening and continues provision of indispensable services, and (3) realizes increase of the top line and creates local demand. The fiscal burden of the municipalities is expected to increase due to the measures for the new coronavirus. Thus, more use of PPP/PFI is effective in satisfying the new demand of local economies and in lessening/curbing their fiscal burden.
- PPP/PFI is not only effective in checking the profitability of projects, but also expected to reduce expenditure through streamlining, using a management approach of private businesses. It is unfortunate that about 80% of the municipalities have not yet implemented PPP/PFI despite its efficacy. To see more implementation of PPP/PFI, it is necessary that leaders of the municipalities recognize its efficacy. Practically, we hope that the leaders will learn successful cases of PFI and PPP as shown below. It will lead to the effective dissemination of similar cases among other regions.

#### Success in PFI:

Name: New public crematorium development and management project

Municipalities: Kisarazu and three surrounding cities in Chiba

Results: Reduction of fiscal burden

#### Success case in PPP:

Name: Railway station vicinities urban development project

Municipalities: Shiwa in Iwate

Results: Project completion without subsidies and success in regional activation

### 4. Japan's emergency policy revisited

- The Act on Special Measures Concerning Novel Influenza and Other Diseases was revised in March 2020. The revised Act has become a legal ground for the government and the municipalities in developing a framework for making new coronavirus policies.
- The infectious disease policies under the Act minimize the limitation of private rights,

and mostly consist of requests, not mandatory orders. Criminal penalties are only applicable to very limited violations of the Act.

- At the beginning, the government was reluctant to provide compensation for business suspension. Thereafter, it decided to introduce “business continuity subsidies,” as well as “subvention for business suspension” (provisional name) which individuals can apply for.
- The framework of Japanese law, unlike those of foreign countries, does not relate mandatory order—which could include limitation of private rights—with compensation. This is considered one of the reasons behind a delay in supporting affected businesses and individuals.
- To start with, the legal framework with a focus on “requests” is not likely to respond effectively to a scenario where the virus, after mutation to the one with a higher fatality, spreads widely and rapidly. It is essential to screen out matters to be addressed with a certain mandatory power, such as virus testing, quarantine, and disclosure of information on infections. With this information in hand, relevant laws and regulations as well as the framework of support are to be studied for improvement.
- The current scheme of reflecting experts’ opinion on the government decision-making, including the function of the Novel Coronavirus Expert Meeting, is to be revisited for a review, followed by a search for a better style in post-incident appraisal.

## Conclusion

- Our efforts to revive Japan’s economic society as a whole and to respond to the new normal have only just begun. What we have envisaged now for the unprecedented could be totally obsolete tomorrow. We must brace for a series of failures, but we just cannot stop taking on the challenges.
- Japanese society and the people must work as one to face the difficulties. For us to say “It was a blessing in disguise” in post corona **virus**, we must have a grand vision for the new normal, followed by elaborate actions, to reach the goal. Keizai Doyukai will integrate power of its diverse stakeholders from a medium- to long-term perspective, present proposals, and reach out to its community, for opening the way through this age.

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