

Revitalization of Japan and Strengthening of Its Competitiveness  
- Proposals for Creating a Japan as a Country Open to the World -  
[Executive Summary]

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[Outline of the proposals]

- As Japan is experiencing an unusually rapid aging of its population, faster than most other global nations, it will inevitably be faced with various problems relating to population decrease, falling birthrate and aging society. The process of globalization has been accelerated, with capital and workers moving dynamically across national and regional boundaries, increasing international trade and investment, and strengthening the global network of economies. At the same time, the leaders and laggards in globalization are also becoming more pronounced, and both winners and losers are strengthening their nationalistic tendencies.
- Dramatic economic growth, like that in the high-growth era or bubble years, is hardly expected in Japan, which has already attained maturity. Improving its potential growth rate and continuing sustainable development, from the perspective of sharing Japan's affluence with the world, will be the pressing issues in the future. Under these circumstances, we should proactively tackle the following three themes: **“Dealing with Resources, Energy and Environmental Issues,”** **“Internationalization at Home,”** and **“Outward Strategic Policies”** from the viewpoint of economic diplomacy; in the pursuit of revitalizing Japan and strengthening its competitiveness.
  - a) Firstly, we should deal with **“Resources, Energy and Environmental Issues,”** or more specifically, it is vital to strengthen the government's support in ensuring the supply of resources and energy. Reassessment of the Japan Oil, Gas and Metals National Corporation (JOGMEC), Japan Bank for International Cooperation (JBIC), and Nippon Export and Investment Insurance (NEXI) is required to fortify the initiatives of securing national interests and establish a

system of ensuring the supply of resources, with public and private sectors collaborating through the strategic utilization of yen loans and technological cooperation.

Also, serious consideration should be given to the utilization of sovereign wealth funds (SWFs) for resource development. As we live in times of severe resource constraints, the effective use of portions of foreign currency reserves, which have reached \$1 trillion, will be enormously beneficial.

In the meantime, Japan is already an accomplished global leader in environmental issues with its environmental technologies and systems. By combining these technologies and systems with a platform of official development assistance (ODA), Japan should make a valuable international contribution toward solving this global scale problem. In terms of the stable supply of food, the development and transfer of food technologies through ODA will also contribute to the nation's food security.

Furthermore, in the framework of the Post-Kyoto Protocol, a positive contribution to designing processes as well as promoting the more effective use of our environmental technologies and systems will help revitalize Japan and strengthen its competitiveness. It is vital for Japan to demonstrate leadership in providing rules, such as in the setting of national total emission reduction targets by ensuring the fairness of emission reduction quotas. In-depth consideration is required for introducing emissions trading based on the condition of setting an equitable standard among emitting entities. For this purpose, too, Japan should make a comprehensive proposal, including the design of processes at G8 Toyako Hokkaido Summit, scheduled to be held in July this year, to take the lead as early as possible, by suggesting effective approaches to preventing global warming.

- b) Secondly, we should accomplish “**Internationalization at Home.**” Japan has made progress in external internationalization, but still lags behind in many aspects of *internal* internationalization. Globalization should be made more beneficial to Japan through the smooth flow of “manpower, money and goods” in the future. As for “manpower,” we have to further consider the acceptance of a foreign workforce. In particular unskilled labor, by providing social support mechanisms, including employment, training, pensions and healthcare, as well as the introduction of the Resident Labour Market Test<sup>i</sup>, should be accepted through Economic Partnership Agreements (EPA)<sup>ii</sup>. Efforts should be made to motivate foreign students and researchers to stay and work in the longer term in Japan.

A vital matter at stake in terms of “money” is to make Tokyo a global financial and capital market; aiming to become the international financial center of Asia. It is essential for Japan’s financial and capital markets to increase acceptance of direct investments and steadily execute the “Plan for Strengthening the Competitiveness of Japan’s Financial and Capital Markets,” hammered out by the Financial Services Agency last year, in order to obtain the trust of global investors and to be on a par with New York and London. Actions against increased foreign direct investments to Japan have taken place, as seen in the case of the recent argument concerning the limited participation of foreign capital in an airport operating company, but we should not be excessively cautious about foreign inventors as if they were destroyers or like the black ships that demanded Japan open its doors about 150 years ago. We should instead adopt an open and positive attitude on this matter for revitalizing Japan.

Today, flows of “goods” as well as those of manpower in Asia are converging on the airports and harbors in other Asian countries. To bring the flows of goods and manpower back to Japan, we have to renovate its airports and harbors drastically as well as immediately with a sense of crisis. If the present situation continues, Japan may be left behind while other Asian countries move ahead of Japan to consolidate their airports and harbors as international hubs.

- c) Thirdly, we should establish “**Outward Strategic Policies.**” In order to harness globalization, merely removing domestic obstacles is insufficient. We have to establish common rules for increasing and enhancing EPAs, in order to make use of vital energies from countries in Asia, the Americas and Europe. Continuous efforts are required to increase the quality and availability of EPAs through the integrated activities of the public and private sectors.

Also, we have to proactively promote initiatives to ensure our intellectual property attains international standards. Specifically, positive efforts should be made, for example, to concentrate research funds on the areas expected to develop international standards, and assume the posts of chairmen and directors in standardization organizations.

In addition, we have to strengthen the protection of intellectual property, which is essential to our global economic activities, by implementing an “Anti-Counterfeiting Trade Agreement” (tentative) proposed by the Japanese government as early as possible, and establish more efficient global patent systems.

- The society we must aim to be can be “a truly affluent one where we can see the economy grow and enjoy a high quality of living, despite the decrease in population.” Examining economic indicators from this perspective, we need to adopt per capita indicators and GNI (gross national income) <sup>iii</sup>, which includes income from overseas, in more efficient ways as important economic indicators.
- Many proposals for revitalizing Japan and strengthening its competitiveness have been offered from various spheres to date, but have not been realized, because none of us have been prepared to take the responsibility for innovation. We must start with “conscious reform”<sup>iv</sup> of ourselves, with a strong sense of crisis and a readiness to participate in globalization.
- Now is the time for political, economic and government leaders to take lead in tackling challenging issues and taking action, even at the risk of failure. The “implementation” <sup>v</sup> of change is what we need but have done nothing about. We, as global frontrunners, must push forward and create new social and industrial systems of our own to pursue the creation of a “**Japan Open to the World.**”

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<sup>i</sup> A system to permit foreigners to stay and work in a nation in accordance with the situation of national labor markets.

<sup>ii</sup> Generally known as an Economic Partnership Agreement, which incorporates initiatives for the integration of economical activities over a wide range of areas, including investment, intellectual property, standards and conformity assessment, and cooperation, while containing elements of a Free Trade Agreement (FTA).

<sup>iii</sup> GNI (Gross National Income): The total value produced by individual citizens of the nation in a year, while GDP (Gross Domestic Product) comprises the total value produced by economic activities within a country in a year. GNI is GDP plus “net income from overseas,” almost equivalent to the former GNP (Gross National Product) measurement.

<sup>iv</sup> The U.K. is a good example of a nation which overcame economic stagnation through structural reforms. The nation had long suffered economic slowdown due to its generous social welfare policy and inefficient operation of state-run companies, but restored itself in outstanding fashion as a result of opening up the country to the outside through a series of bold regulatory reforms, including financial reform called the “Big Bang” and an increase of the foreign workforce by accepting immigration. We have much to learn from the U.K., which has succeeded in establishing dynamic relations with the world.

<sup>v</sup> The bureaucratic system in Japan functioned well in the catch-up model, but in very different circumstances, like now, there are cases where reforms do not proceed as we wish, due to the problem of bureaucratic sectionalism. For example, during the recent discussions on decentralization, the relevant ministries have not responded at all concerning the rationalization plans proposed by the Council on Economic and Fiscal Policy, while the downsizing of administrative structures, both at national and municipal levels, is essential in the era of population decline. In order to have the measures proposed in this document truly work, prompt restructuring of administrative systems is mandatory.