



Provisional Translation

Vision of Japan 2020

Nation of Vibrant Young People,
Looked upon by the World with High Expectations

January 11, 2011

Keizai Doyukai

(Japan Association of Corporate Executives)

Introduction

Present-day Japan is lost and moving into the future with no sense of direction. From the time that I took office as chairman of Keizai Doyukai in 2007 until today, Japan has experienced quick successions of prime ministers under a “divided parliament” and regime changes that have only resulted in a government of confusion. Outside the political arena, Japan has been buffeted by the synchronized global recession triggered by the financial crisis. These events and developments that have beset Japan have virtually conspired to deepen the sense that “Japan is lost and in turmoil.”

Political confusion and economic stagnation are easily seen and identified. No less important, however, are a myriad other even more fundamental problems and challenges that stand before this nation, which we must have the courage to confront squarely. Of particular importance are the fundamental changes occurring in the environment that are shaking the systems that supported Japan throughout the postwar period. At home, these include falling birthrates, the aging of society, and the shrinking of the population. Overseas and in the world arena, these include the advance of globalization, the empowerment of emerging economies, and the emergence of global-scale problems. Each one of these problems and challenges demands our closest attention and immediate action. Unfortunately, very little progress has been made in the reforms that must be implemented so that we can respond effectively to the new environment. Caught in the vortex of political and economic confusion, it seems that Japan is actually moving backward.

The revitalization of a Japan hemmed in by numerous problems will not be an easy task. Many of our thorniest problems have never before been experienced by a developed country. Japan must realize that it faces a challenge equal to or even more serious than the crises of the Meiji Restoration and postwar reconstruction. This is exactly why the leaders of the nation must formulate and present a new vision for Japan. Rising to the challenge with a strong sense of mission and unshakable commitment and passion, our leaders must win the hearts and minds, always ready to encourage and inspire the people on the path to the implementation of necessary reforms.

In every national election and all other opportunities made available to us, Keizai Doyukai has appealed to each political party to publish a manifesto outlining its vision

for the future of Japan and to delineate the specific policies and measures that it intends to adopt for the realization of this vision. It has been our position that such manifestos should serve as the basis for earnest political debate entered into from a medium- to long-term perspective. Unfortunately, the world of politics has neither presented us with a vision nor outlined a viable policy program. Consequently, the resolution of many issues that have a direct bearing on the livelihood of the people has been postponed. There is no more time left to waste. Any further procrastination will surely earn us the following comments from future historians: "Japan was once the world's second largest economy, held in high repute for its 'economic miracle' and revered as 'Japan as number one.' But in the twenty years following the collapse of the Bubble Economy, the 'Japanese disease' became increasingly serious, so much so that the nation began to tread the path of decline by the middle of the 21st century."

Prompted by this sense of crisis, I concluded that Keizai Doyukai must gather together the knowledge and wisdom of the corporate executives that are members of our association to formulate a vision for the future of Japan and to use this vision to trigger nationwide discussion. While we are corporate management professionals, we are not experts in political management, and because of the limits to the information and data available to us, our proposals are inevitably roughly hewn in parts. The formulation of visions and medium-term plans, however, certainly rank among what corporate executives do best. It was my conclusion that if we were to effectively utilize the discussions and proposals that we have accumulated over the years, it would be fully possible for us to create a foundation for generating far-reaching public debate and discussion.

The vision for the future of Japan that we are presenting in this document revolves around two basic concepts that are encapsulated in these key phrases: "A country that motivates and gives hope to its young people." "A nation that contributes positively to international society and is widely trusted." Using these two key phrases as reference points, we have developed a vision for Japan ten years from now, and to this we have added a number of specific proposals for the realization of this vision. Our proposals are not addressed solely to the world of politics and government administration. Rather, we have made a conscious effort to present the issues as a series of challenges that the businesses and individual citizens of Japan must directly grapple with in the spirit of independence, self-reliance, and self-responsibility.

The vision that we present and the policies that we advocate here are inspired by the collective wisdom of the members of Keizai Doyukai and of our many predecessors. In addition to this, my views as chairman of Keizai Doyukai are extensively and deeply reflected in this document. As the next step, I look forward to

explaining our vision and our policy proposals to the general public in an easy-to-understand manner, and to engaging in an ongoing exchange of views with politicians, policymakers, and opinion leaders who have a very important impact on the formulation, adoption, and implementation of policies.

I am certain that throughout this process, many questions will be posed concerning the detailed architecture and the feasibility of the systems that we are proposing. Keizai Doyukai shall welcome such comments and opinions, as I believe that such public feedback has an extremely valuable role to play in generating, sustaining, and intensifying public discussion. Engagement in sustained discussion will allow individual proposals to gain greater depth and will lead to modifications where necessary. It is my conviction that the path to the realization of our vision will manifest itself through this evolutionary process. It is vitally important now to arrive at a general consensus at all levels in all fields on a vision for the future of Japan. This must be a fully fleshed-out consensus and must be finalized as soon as possible. Once this vision has been established, Japan must act audaciously and swiftly to implement concrete measures that will carry the nation in the direction of the vision.

I am committed to continuing in my efforts to give greater depth to our vision for the future of Japan and to work toward its realization. At the same time, I look forward to entrusting with high hopes these important tasks to the new chairman and new administration of Keizai Doyukai that will take office in April.

In closing, I would like to express my deepest gratitude to the many people who participated in preparing this document, for certainly without their assistance and support this work could not have been completed. My special thanks go to the many experts that contributed their knowledge and insight to this project, to our many seniors and predecessors in Keizai Doyukai, to the chairpersons, vice chairpersons, and members of the various committees that were involved in this project, and to staff of the Secretariat.

Masamitsu Sakurai

Chairman, Keizai Doyukai
January 11, 2011

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Principal Processes: Achieving Fiscal Soundness and Rebuilding Social Security

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《1》 Globalization

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《3》 Building a Low-Carbon Society

《4》 Local and Regional Revitalization

B: Reforming Five Aspects of Growth Infrastructure

《5》 Private-Sector Initiative

《6》 Local and Regional Initiative

《7》 Internal Globalization

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《9》 Human Resources

Principal Processes: Rehabilitating the Economy and Strengthening the Foundations of Growth

IV. Contributing to Global Peace and Prosperity

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Principal Processes: Contributing to Global Peace and Prosperity

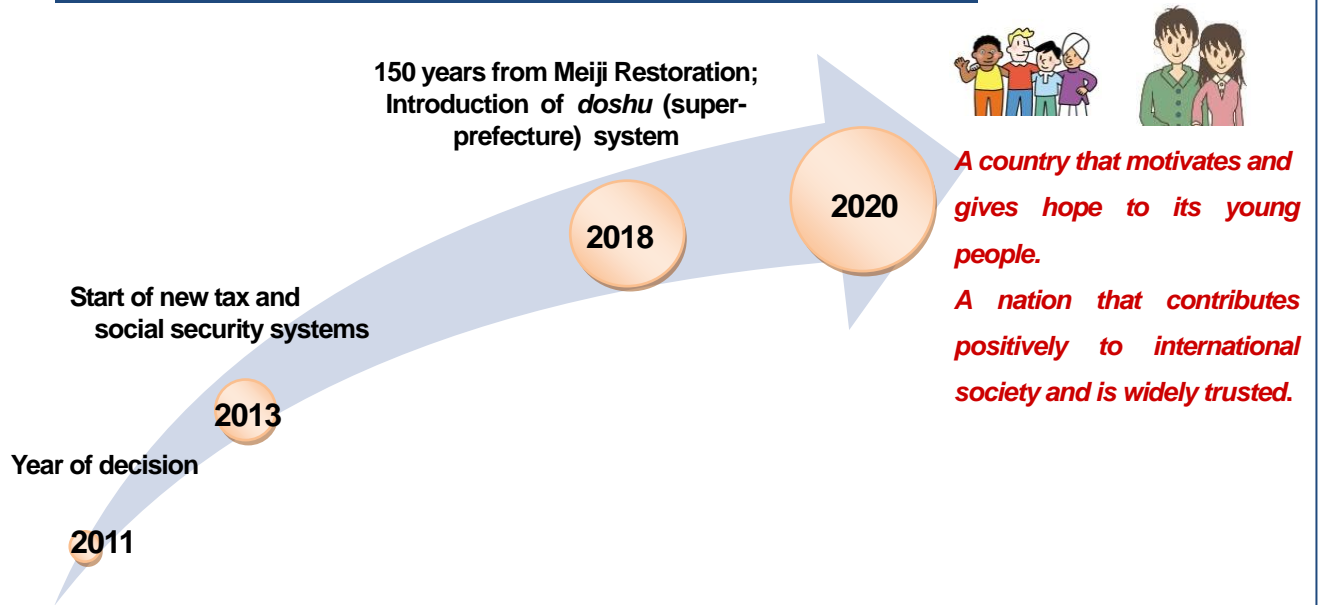
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Transforming Crisis into Opportunity: Head-on Attack for Clean Breakthrough

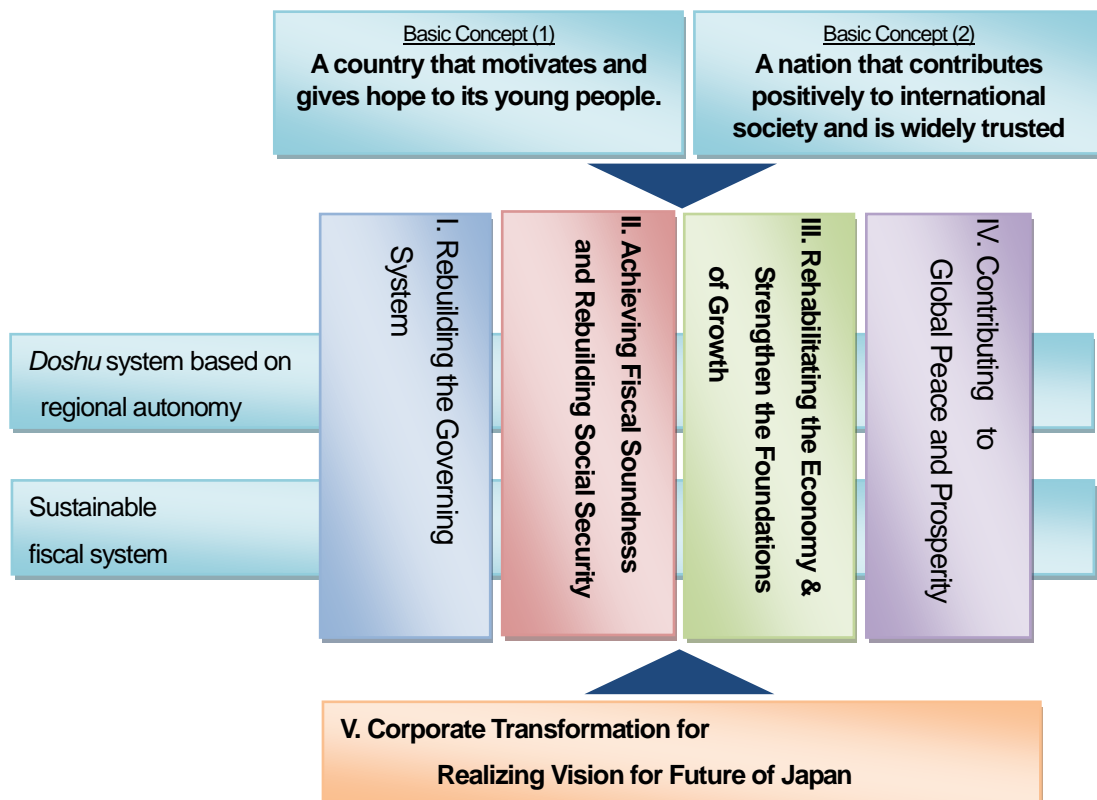
Main Points

Vision for Japan in 2020

Rebuilding Japan: Restoration of Japan by 2020



Overview of Our Vision for the Future of Japan





Dissolution of Prefectures, Establishment of *Doshu* in 2018

Introduction of *doshu* system based on regional autonomy

Reorganization of the 47 prefectures into 11–12 *doshu* (super-prefectures) plus Tokyo Special Region. Reorganization of municipalities into basic units with population of about 300,000. Transfer of authority and taxation to basic unit of government and *doshu*. *Doshu* will be comparable in population and economic scale to various developed countries, and will compete internationally on the basis of economic vitality, quality of life, and unique culture.

Key Point in Decision:

Use independence, self-reliance, and self-responsibility as a lever in stimulating diversity in local and regional activities.

Basic Unit of Government

(Population of about 300,000)

Responsibilities include: maintenance of family registries and Basic Resident Registry; nursery schools and childrearing support; long-term care; social welfare; primary and secondary education; health services; emergency services and firefighting; city planning; streets; water and sewage systems; garbage disposal.

***Doshu* (super-prefectures)**

(11~12+Tokyo Special Region)

Responsibilities include: promotion of industry; development of regional infrastructure, airports, ports, and roads; higher education; employment security; capacity development; police (regional); countermeasures to natural disasters; medical insurance.

Central Government

Responsibilities include: enactment of basic laws; foreign affairs; national defense; judiciary (court system); police (national); maritime safety; air traffic control; immigration; public prosecution; currency and foreign exchange; trade policies; raw materials and energy policies; science and technology; pensions; medical services for the elderly; public assistance.

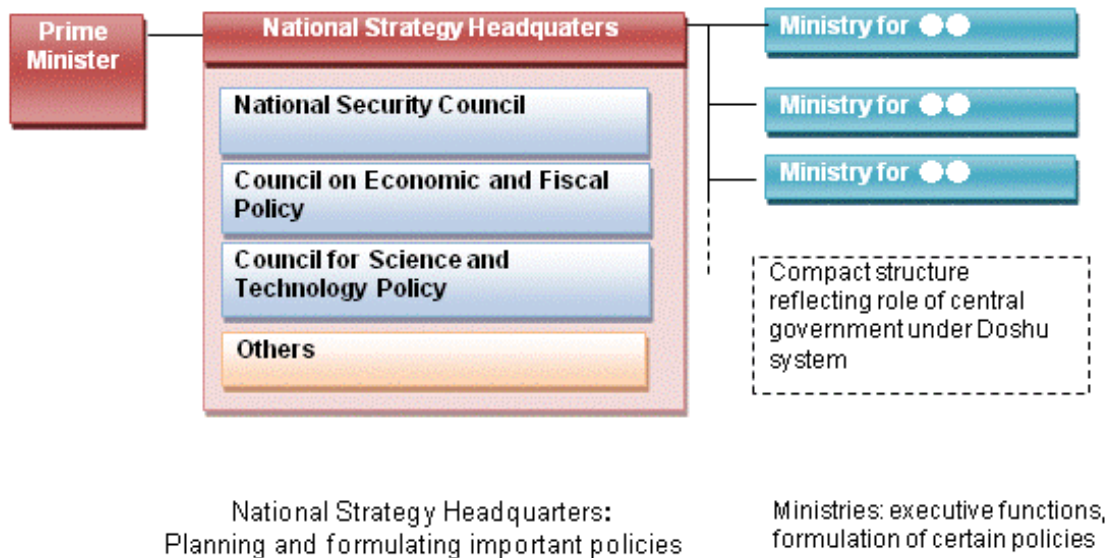
Fundamental Reorganization of House of Councillors as the “House of Common Sense”

«The Diet after reform»

House of Representatives		House of Councillors
Accurately reflect popular will in regime selection	Functions	House of Common Sense; representation of super-prefectures
400 members	Seats	120–130 members
300 single-seat districts + 100 nationally based proportional representation	Election Method	One ten-seat district per super-prefecture × (11–12 super-prefectures + Tokyo Special Region)
Within 1.5	Vote-value disparity	Not considered

Achievement of True Cabinet Leadership through National Strategy Headquarters

« Central Government Ministries under Doshu System »







Fundamental Reform of Tax and Social Security Systems in 2013: Consumption tax rate of 17 percent; monthly basic pension benefits of 70,000 yen for all persons 65 and over

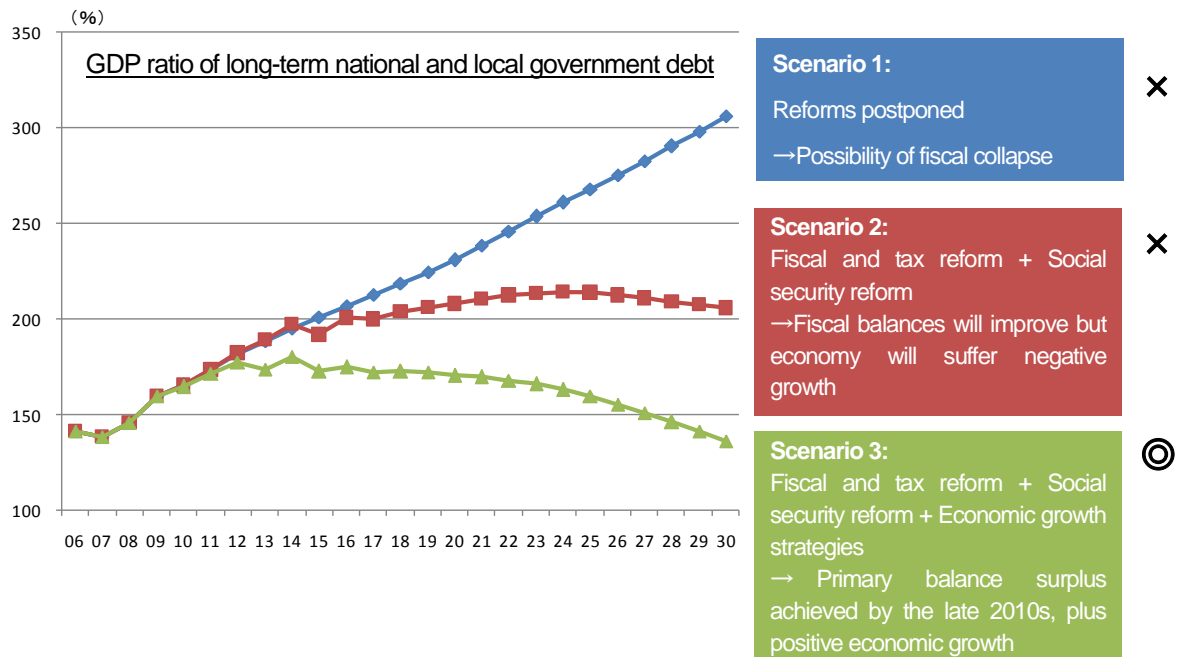
New tax and social security systems will be introduced in fiscal 2013 to cope with declining birthrates, aging of society, and globalization. Consumption tax rate will be raised in stages from 10 percent in 2013 to 15 percent in 2015 and 17 percent in 2017. Out of total proceeds, 10 percent will be earmarked for pensions and 5 percent for local finances. Funds of monthly basic pension payments of 70,000 yen for everyone 65 and over will be reserved. While the consumption tax will be increased, the basic pension premiums will be abolished and taxes and social security payments will remain at the lower end of the 40 percent level of national income.

Key Point in Decision:

Raise consumption tax rate to 17 percent as bold decision of the people

Charges to the People	Benefits to the People
<ul style="list-style-type: none"> ● Consumption tax: From 5% (2011) → 17% (2017) ● Income tax, real estate tax, etc. ● Pension premiums: Basic pension system → premiums abolished. Contribution-based pension → Voluntary enrollment ● Medical: Health insurance premiums (payable through age 74) + 30% co-payment (including persons 75 and over) ● Long-term care: Long-term care premiums (payable starting age 40) + 20% co-payment ● Payments for various local community services 	<ul style="list-style-type: none"> ● Monthly basic pension benefits: 70,000 yen per person (paid to all persons 65 and over) ● Contribution-based pension: Voluntary enrollment ● Health insurance: Covers 70% of expenses (funded by premium payments) (applicable to persons through age 74) ● Medical services for elderly: Covers 70% of expenses (funded by taxes) (applicable to persons 75 and over) ● Long-term care: Covers 80% of expenses (funded by taxes and premium payments) (applicable to persons with care-need ratings of 2 and above) ● Various local community services 

«Fiscal Soundness Requires Unified Fiscal, Social Security, and Economic Reforms»



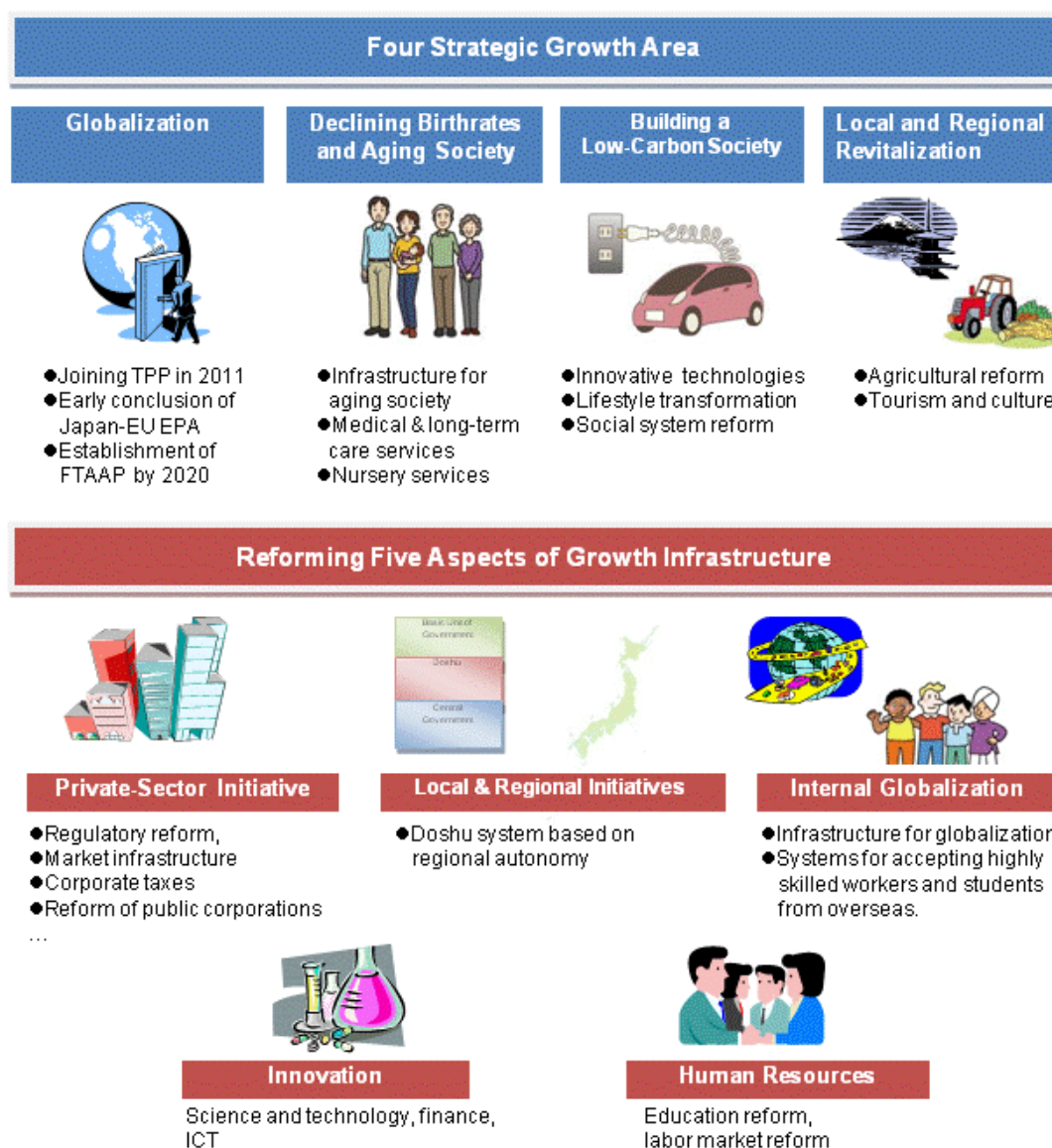
Note: Simulation commissioned by Keizai Doyukai to Mitsubishi UFJ Research and Consulting Co., Ltd. Scenarios based on fiscal and tax reform, social security reform, and economic growth strategies proposed by Keizai Doyukai.



Speedy Implementation of Economic Growth Strategies in 2011: Four strategic growth areas and reforming five aspects of growth infrastructure

To achieve sustained economic growth: take advantage of the challenges facing Japan (globalization, declining birthrates and aging of society, global warming, and impoverishment of outlying areas) and develop four strategies for head-on attack. Reform five aspects of growth infrastructure (private-sector initiative, local and regional initiative, internal globalization, innovation, and human resources).

Key Point in Decision: Japan can accomplish far greater growth; solution of problems can be a new source of growth



Key to Rebuilding Japan: Ten Decisions and Actions

(Primarily required of government)

Rebuilding the Governing System

1. Introduce *doshu* (super-prefecture) system based on regional autonomy
2. Establish policy-oriented politics
3. Achieve true cabinet leadership by establishing National Strategy Headquarters

Achieving Fiscal Soundness and Rebuilding Social Security

4. Achieve primary balance surplus by late 2010s
5. Launch new tax and social security systems in 2013

Rehabilitating the Economy and Strengthening the Foundations of Growth

6. Open Japan to the world: Strategic development of economic partnerships
7. Promote industrial structural reform
8. Strengthen the management foundations and international competitiveness of agriculture.
9. Build world-leading low-carbon society

Contributing to Global Peace and Prosperity

10. Develop proactive and comprehensive diplomatic strategies

Key to Corporate Transformation: Ten Decisions and Actions

(Action plan for businesses)

Practicing a New Style of Japanese Management

1. Implement a style of management that makes the optimum use of strengths

Creating Value through Continuous Innovation

2. Achieve higher value-added and accelerate the replacement of the old with the new
3. Make dramatic progress in service industries and financial services

Achieving Fairness and Transparency in Management

4. Innovate Japanese style of corporate governance

Exploring New Methods in Training and Recruiting Human Resources

5. Diversify and further open recruitment practices
6. Strategically strengthen human resources training
7. Contribute to nurturing socially mature and internationally minded young people

Maintaining Vitality in Low Birthrate and Aging Society

8. Contribute to society where people can work until 70
9. Transform consciousness of male-oriented society to promote active role for women
10. Develop environment where foreign employees can develop their full potential

Part 1

Restoration of Japan

Rebuilding Japan by 2020

I. Key to Rebuilding Japan: Ten Decisions and Actions

Now is the time for committed national leaders to take bold decisions and actions

Which will Japan choose: To make bold decisions, knowing full well the difficulties that such decisions entail, or to avoid and postpone tough choices, knowing that this path can only lead to eventual decline? The ten decisions and actions outlined below without exception represent difficult choices and decisions. But these are also the trump cards that Japan has in the restoration of the nation and its rebirth as a land of vitality and hope. Now is the time for politicians to overcome all obstacles and resistance and arise with a firm commitment to decide and to act.

【Rebuilding the Governing System】

1. Introduce *doshu* system based on regional autonomy

Adopt a *doshu* (super-prefecture) system based on regional autonomy in 2018, marking the 150th anniversary of the Meiji Restoration, and create super-prefectures that directly compete with major countries of the world in terms of excellence of living environment and promotion of industry.

2. Establish policy-oriented politics

Establish a political system that revolves around policies instead of political games. Immediately rectify the disparity in voter representation through reapportionment, and establish a mature parliamentary cabinet system that faithfully and accurately reflects the will of the people. For this purpose, clearly delineate the functions of the two houses, with the House of Representatives providing a space for regime selection, and the House of Councillors functioning as the “House of Common Sense.”

3. Achieve true cabinet leadership by establishing National Strategy Headquarters

Establish a National Strategy Headquarters under the direct oversight of the prime minister before the end of fiscal 2011. Unify the planning and formulation of important policies concerning economics, government finances, foreign affairs, and national security by placing a Council on Economic and Fiscal Policy, National Security Council, and other organs under the direct jurisdiction of the National Strategy Headquarters. Through these measures, achieve strategic and flexible cabinet leadership.

【Achieving Fiscal Soundness and Rebuilding Social Security】

4. Achieve primary balance surplus by late 2010s

Implement unified fiscal, social security, and economic reform by 2013 and achieve surplus in primary balance by late 2010s. In this way reduce the long-term debt of central and local governments and establish a clear path to cutting total debt to the same size as GDP.

5. Launch new tax and social security systems in 2013

Finalize proposals for the reform of the tax system and social security system before the end of fiscal 2011, including raising the consumption tax rate to 17 percent and basic pension benefits of 70,000 yen per month for all persons 65 years and over with the goal of creating systems that can cope with declining birthrates, aging of society, and the forces of globalization. Enact the finalized proposals into law in fiscal 2012 and implement from fiscal 2013.

【Rehabilitating the Economy and Strengthening the Foundations of Growth】

6. Open Japan to the world: Strategic development of economic partnerships

Announce intension to join the Trans-Pacific Strategic Partnership Agreement (TPP) during 2011 and take speedy action to conclude an economic partnership agreement (EPA) with the European Union. Establish a clear path for launching the Free Trade Area of the Asia-Pacific (FTAAP) by 2020.

7. Promote industrial structural reform

Transform industrial structure by achieving higher productivity and by promoting the replacement of old industries and businesses with the new.

8. Strengthen the management foundations and international competitiveness of agriculture

Promote large-scale agriculture and corporate farming to strengthen the management foundations and international competitiveness of agriculture.

9. Build world-leading low-carbon society

Promote technological innovation and transformation of social systems and lifestyles by accepting the challenge of meeting Japan's goal of reducing global warming emissions by 15 percent (real reduction) from 1990 levels and thus build a world-leading low-carbon society.

【Contributing to Global Peace and Prosperity】

10. Develop proactive and comprehensive diplomatic strategies

Formulate and implement proactive and comprehensive diplomatic strategies to contribute to global peace and prosperity.

II. Japan's Myriad Problems: Current Conditions

*Postponement of reform worsening the turmoil
—making a new start from a position of strength*









1. Dramatic Changes in the Environment Add Urgency to Rebuilding Japan

(1) Rapid decline in birthrates, aging of society, and shrinking of population

Today, Japan is confronted by major changes in the environment. First among these is the rapid pace at which birthrates are declining, society is aging, and population is shrinking. Of particular concern is the trend toward super-longevity, a development that is advancing at a speed never before seen in the world, and the rapid dwindling of Japan's working-age population (productive age population). These developments are now beginning to have serious distortive effects on government finances, social security, and economic growth in Japan.

Japanese Society Moves toward Super-Longevity

(Number of working-age persons supporting each elderly person)

1990	2009	2020	2050
1 (Age 65 and above) 	1 	1 	1 
5.8 (Age 15~64) 	2.8 	2.1 	1.3 

Sources: Compiled by Secretariat of Keizai Doyukai based on data from Ministry of Internal Affairs and Communications, "Population Estimates", April 2010; National Institution of Population and Social Security Research, "Population Projections for Japan" (medium variant fertility and mortality rates), December 2006 projections.

(2) Accelerated globalization and the growing presence of emerging economies

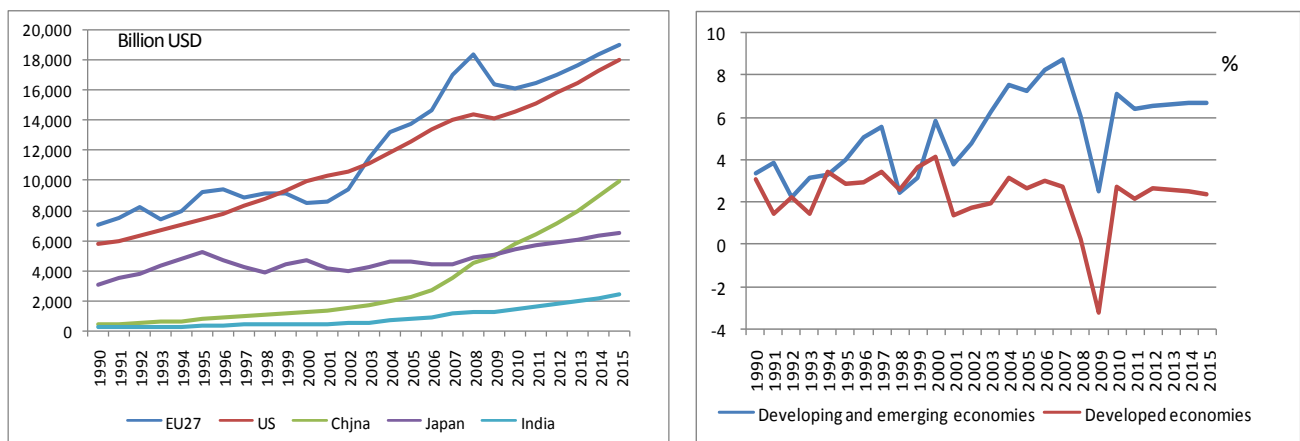
The second change in the environment affecting Japan relates to the accelerated pace of globalization and the growing international presence of emerging economies.

The increasing cross-border movement of people, goods, capital, and information is providing added impetus to the process of economic integration and partnership. Against this backdrop, a number of emerging economies led by China, India, Russia, and Brazil are claiming an increasingly important position in the world as they continue to enjoy rapid economic growth and strengthening political influence. In the business world, these developments are adding to the intensity of global mega-competition.

While many Japanese companies are doing well in global markets, the domestic business environment is generally subdued and inward-looking. As a resource-poor nation with a shrinking population base, Japan has no other way to survive but to open the country to the world. Unfortunately, Japan remains mentally unprepared for competing and coexisting with the world.

Growing Presence of Emerging Economies

(Left axis: real GDP growth; Right axis: comparison of real GDP growth rates)



Source: IMF, "World Economic Outlook Database", October 2010.

(3)Emergence of global challenges

The third change relates to the emergence of a global-scale problems and challenges, which include terrorism, poverty, infectious diseases, climate change, and natural resources and energy. Today's international society is buffeted by the conflicting interests of individual countries. In the absence of a global central government, the international society cannot hope to solve the global-scale problems that beset it without partnership and cooperation among the nations of the world. While the negotiating and coordinating abilities of individual nations are being put to the test in this environment, Japan has so far failed to exercise its influence and give full scope to its negotiating and coordinating capabilities.

2. Japan's Governing System Faces Structural Fatigue

(1) Politics: Implementing solutions postponed by political turmoil

Although Japan stands challenged by a series of radical changes in the environment that surrounds it, effective solutions have been long postponed due to political turmoil. The outcome of this is that Japan has been mired in stagnation for nearly twenty years. Factors contributing to political turmoil are readily listed, including Japan's so-called divided parliament, the leadership qualities of recent prime ministers, the structure supporting the current administration, vision-less policy management, and problems of money and politics. Regardless of the cause, any further political stagnation threatens to push the entire country into crisis.

The first requirement is for all political parties to clearly identify where they stand in the spectrum of policy options and to present their vision for Japan. Next, a responsible policy debate must be launched without delay. However, none of the manifestos published by the political parties thus far contains a coherent vision for Japan and a systematic presentation of the requisite policy measures. The situation has been worsened by the positions taken by the ruling and opposition parties and by public opinion that whatever has been written in a manifesto can be implemented without revision or that no revision can be permitted. This obsession with the "infallibility of manifestos" has only served to deepen the political turmoil.

It must be admitted that Japan has few politicians who can hold their own on the global stage. In numerous countries throughout the world, younger politicians with a clear global perspective and brimming with the energy to change and reform their nation are in leadership positions. By contrast, many Japanese politicians have a strong domestic orientation and appear to be lacking a fully developed global outlook. In addition, it would be folly to expect the rapid succession of short-lived prime ministers to be able to develop strong ties of mutual trust and confidence with the leaders of foreign countries.

(2) Government administration: Inefficient and unresponsive to change

Postwar Japan was committed to the goal of catching up with the advanced countries of the West. Without doubt, one of the most important driving forces in this

process of catch-up and the achievement of economic reconstruction and rapid growth was Japan's centralized structure of government that was heavily oriented toward the leadership of the bureaucracy. These once successful mechanisms of centralization, however, are now seen to be frequently inefficient and critically lacking in the ability to adopt to change. Given the extremely fast pace of change in such areas as globalization, the development of information networks, and the diversification of values, and given the absence of model that can be readily used as a goal, the structure of Japan's government administration has worked to deepen the nation's turmoil and confusion.

Repeated references to the drawbacks of sectionalism among government ministries, prioritizing the interests of the ministry, and governing by precedence have in a sense encouraged a culture of excessive criticism of civil servants. It should be understood, however, that these often-criticized patterns of behavior reflect rational choices that are made by civil servants in the conventional bureaucratic framework. In other words, far greater problems are to be found in how the system has been laid out. For this reason, Japan must accelerate administrative and civil service reforms. The best and the brightest must be brought together and given an opportunity to exercise their abilities, and a system capable of resolving Japan's complex problems must be developed as soon as possible.

(3) Local autonomy: Centralization causing impoverishment in outlying regions

The continuation of Japan's centralized form of government has impoverished and denuded the outlying regions. As shown in the table below, Japan's eight principal regional blocs are on par with major developed countries in terms of population and economic scale. Sadly, however, the regions have not been able to fully develop their potential. This is because centralization has stifled local incentive to be creative and has replaced imaginative initiatives with an easy dependence on the central government. Furthermore, fiscal grants from the central government have created a deeply engrained culture of waste in local governments because grants have severed the connection between local burden and local benefits.

Population and Economic Scale of Japan's Regions and Selected Countries

	Population (in 10,000)	GDP (trillion yen)		Population (in 10,000)	GDP (trillion yen)
Hokkaido	550	18	Denmark	557	37
Tohoku	937	43	Sweden	924	53
Kanto	4,205	204	Spain	4,490	170
Chubu	2,177	82	Australia	2,129	112
Kinki	2,268	81			
Chugoku	756	30	Switzerland	756	51
Shikoku	399	14	New Zealand	428	15
Kyushu/Okinawa	1,456	49	Netherlands	1,659	92

Sources: Ministry of Internal Affairs and Communications, "Population Estimates", April 2010; Cabinet Office, "Fiscal 2007 Annual Report on Prefectural Accounts", June 2010; UN, "World Population Prospects", 2009; IMF, "World Economic Outlook Database", October 2010.

Note: GDP figures are for 2007 and are based on the IMF exchange rate for 2007 (\$1=117.7 yen).

Today, Japan is beginning to lose sight of the direction of decentralization reforms. However, for Japan to regain its vitality, it is essential for the regions to become more independent and able to fully realize their potential. Local and regional matters should be left to the choices and responsibility of local residents, and a system of government must be adopted that allows and encourages local initiative and creativity. The goal should be to transform Japan's principal regions into economic blocs that are internationally competitive.

(4) Judiciary: Supreme courts avoiding constitutional decisions

It cannot be said that the separation of powers is truly functional in Japan. Although the Constitution of Japan grants the judiciary with powers to examine the constitutionality of legislation, the Supreme Court has consistently avoided handing down decisions on issues of a highly political nature concerning the foundations of national governance. Questions that have been repeatedly avoided include the constitutionality of the Self-Defense Forces and disparities in voter representation.

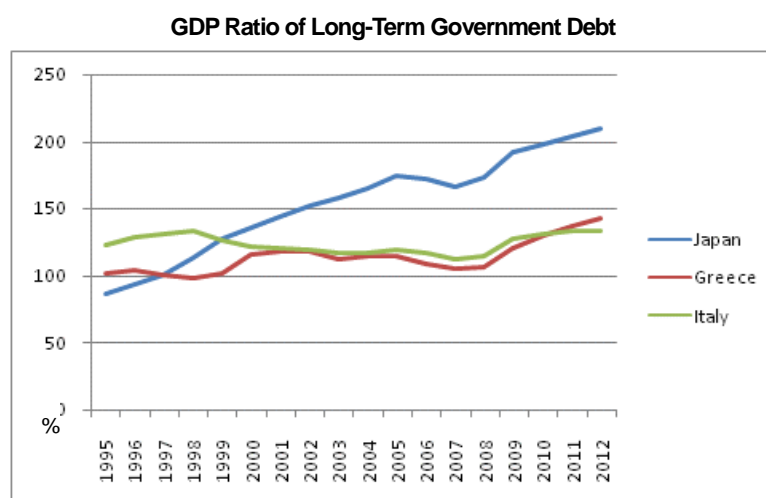
The introduction of the system of lay judges has given the public an opportunity to project its thoughts and sensibilities into the judicial process. However, the area of activity of legal professionals remains narrow and restricted. The scope of the activities of legal professionals should be expanded to include the corporate sector, government

administration, and international organizations, and the path should be opened to allow legal professionals with extensive experience on the frontlines of politics, business, and society to be eventually appointed as judges and public prosecutors.

3. Japan's Unsustainable Fiscal and Social Security Systems

(1) Fiscal and tax systems: Limits of elimination of waste

Fiscal conditions in Japan are becoming increasingly severe. The combined long-term debt of the central and local governments comes to approximately 868 trillion yen (projection for end of fiscal 2010).¹ With public debt reaching 180 percent of GDP, even exceeding



Source: OECD "Economic Outlook No. 88", November 2010

Greece (129 percent), the situation in Japan is far more serious than in any other developed countries. It has been argued that Japan can avoid a fiscal crisis as has occurred in Greece because most of Japan's government debt is absorbed domestically. However, there is no guarantee how long the Japanese public will be able to continue buying government bonds.

A review of the fiscal 2010 budget shows that tax revenues account for only about 40 percent of total revenue and that the government now depends on debt (issue of government bonds) for about 50 percent of all money coming into the treasury. On the other hand, the structure of expenditures is highly problematic with nearly 70 percent of the total going to social security payments, debt service, and grants to local governments. The situation has clearly come to a point where fiscal rehabilitation cannot be achieved through the elimination of waste alone.

¹ Ministry of Finance, "Kuni oyobi chiho no choki saimu zandaka" (Long-term debt of central and local governments), November 2010.

Fiscal Conditions Expressed as Household Budget (in JPY)

<u>Monthly Income</u>		<u>Monthly expenditures</u>	
Principal Income	310,000	Living expenses	230,000
(tax revenues)		(social security expenses)	
Miscellaneous income	90,000	Transfer to country home	150,000
(non-tax revenue)		(local tax grants)	
New borrowing	370,000	Loan repayment	170,000
(revenue from bonds)		(debt service expenses)	
		Other expenditures	220,000
		(general expenditures	
		excluding social security)	
<u>Annual Income</u>	4800,000	<u>Outstanding debt on mortgage</u>	
			63,700,000
		(more than 13 times annual income)	

Source: Ministry of Finance, "Nihon no zaisei kankei shiryō (Japan's fiscal statistics)", August 2010, with additions and modifications.

(2) Social security: Current system on verge of collapse due to rapid decline in birthrates and aging of society

The current social security system has been managed on the assumptions that Japan would continue to experience population and economic growth, and is based on a pay-as-you-go approach where the working population pays for the benefit payments being made to the elderly. However, the basic assumptions are no longer valid and it is clear that the current system cannot be sustained into the future. Furthermore, as a result of growing sense of inter-generational disparity and unfairness, the younger generations are becoming increasingly distrustful of the social security system.

4. Long-Term Stagnation of the Japanese Economy

(1) Slow progress in industrial and business renewal

Since the collapse of the Bubble Economy, the Japanese economy has now experienced twenty years of stagnation. One of the reasons for this stagnation is the

slow pace of industrial structural reform vis-à-vis the dramatic changes that are occurring in the environment surrounding the country. Japanese companies are facing intense cost competition due to various factors, including the growing strength of emerging economies, and the situation has come to the point where international competitiveness cannot be maintained solely on the basis of any cost advantages that may remain. Unfortunately, the process of industrial and business renewal is going forward at an unacceptably slow pace, the result of which is excessive competition and the prevalence of price-cutting behavior that is not accompanied by any significant improvement in productivity. There is a very urgent need for businesses to muster the courage to exit sunset industries and areas of excessive competition and to reallocate the resources that are freed up to new areas of growth.

Number of Major Companies in Selected Industries

	Japan	North America	Europe	Asia etc
LCD TVs	5	1	1	3
Railway Cars	5	1	2	1
Nuclear power	3	1	1	1
Water works (water and sewage system)	Equipment: 16 Plant: 9 Management: 3	2	3	1
Medical imaging equipment	4	1	1	—

Source: Ministry of Economy, Trade and Industry, “The Industrial Structure Vision”, June 2010

(2)Economy not conducive to private-sector initiative

While the government’s “New Growth Strategy” is currently being implemented, the most important task for the government is to create an environment that allows the private sector to fully develop and express its potential. However, it cannot be said that enough effort has been put into regulatory reform and related matters. Healthy competition and creative initiatives are particularly difficult to achieve in highly regulated fields, such as agriculture, health and medical services, long-term care, childcare, and education. As a result, progress has been slow in achieving greater efficiency, creating new demand that corresponds to emerging social needs, and facilitating the entry of new participants.

(3)Economy left behind the wave of globalization

Countries throughout the world are accelerating the conclusion of economic partnership agreements (EPA) and free trade agreements (FTA). Japan, however, has fallen behind in this development, particularly in comparison to South Korea. While agriculture remains Japan's main stumbling block, the situation is such that the very existence of Japanese agriculture is being threatened by factors that would persist regardless of whether or not Japanese agriculture is opened to the world. These include the aging and shrinking of the agricultural population, low productivity, and high costs. These challenges must be leveraged into an excellent opportunity for Japanese agriculture to strengthen its economic foundations and to be reborn as an internationally competitive industry.

5. Japan's Sinking International Presence

(1) Growing importance of global governance

More than two decades after the end of the Cold War, the international society finds itself in a very different environment. On the one hand, the world is confronted by a new set of threats, such as terrorism, infectious diseases, and climate change, while on the other hand the rapid economic growth achieved by the emerging economies is generating numerous fundamental changes. As a series of global-scale problems manifest themselves, the nations of the world are caught up in conflicts of interest that render consensus building increasingly difficult. These conflicts of interest are plainly seen not only among the advanced industrialized countries but also between these countries and the emerging and developing countries.

In the arena of global governance, as a member of the developed countries, Japan is failing to show sufficient leadership. The result of this failure is the gradual and unmitigated sinking of Japan's international presence. Various factors are to blame for this regression: the inward-orientation of Japanese politics, the fragility of Japan's policy base, and the lack of sufficient human resources capable of pursuing activities on the global stage.

(2) Absence of proactive and consistent foreign policies and security strategies

Postwar Japan enjoyed the benefits of international peace and prosperity and

achieved economic growth. These achievements were made possible through a national security system based on the Japan-US alliance, as well as by Japan's position as a member of the free market economies. After emerging as the world's second largest economy, given the constitutional restrictions that it faced, Japan used official development assistance (ODA) as a key element in its foreign policies to contribute to international peace and prosperity. As a result, beginning in 1990, Japan remained the world's top ODA donor for a period of ten years. In the area of security, Japan responded to growing international demands for the provision of human resources by enacting the International Peace Cooperation Law in 1992 to enable the participation of Self-Defense Forces in international peace cooperation activities.

However, these contributions suffer from low visibility on the international stage, and are seen merely as reactive measures, not as proactive programs guided by a true vision for the future of the international society and of the Asia-Pacific region and reflecting a well-developed conception of Japan's medium- to long-term national interests. One of the reasons for this negative perception is the absence of proactive and consistent foreign policies and securities strategies.

6. Transforming Crisis into Opportunity: Making a New Start from a Position of Strength

Awareness of these problems tends to encourage a pessimistic view of the future of Japan. However, crisis is opportunity. In reviewing the history of Japan, we see time and again how our predecessors overcame one crisis after another on their path to building a nation. Learning from them, we must stop to reaffirm the identity of Japan and to develop a clear vision for the future of this country. A bright future of hope and achievement can be secured only through the realization of such a vision.

Fortunately, Japan still has many valuable strengths on its side. In the process of building a new Japan, these strengths must be honed and utilized to the greatest extent possible. As the sun also rises, there are ample opportunities waiting to be exploited. The following are some of the important strengths of Japan.

First, Japan's frontline capabilities are of tremendous value. These capabilities are born of Japan's high level of discipline, teamwork, hospitality, ability to optimize through subtle mutual coordination, trust and confidence based on long-term relations, and the presence of highly motivated people with a strong sense of ownership. These

factors combine to create overall strength. Japan has the adaptive powers to further develop these frontline capabilities if obsolete organizations and systems are effectively removed.

Second, Japan has a wealth of “soft power” that renders it attractive to the peoples of the world. Japan’s rich natural beauty and scenery, its historical heritage, the culture and cultural contents nurtured by the refined sensibilities of its people, and its advanced technologies are much more highly appreciated around the world than imagined by the Japanese people. Honing the Japanese “brand” and putting to it to strategic use will enhance Japan’s international presence and lead to growth.

Third, Japan has the world’s largest net foreign assets valued at 266 trillion yen and household financial assets amounting to roughly 1,400 trillion yen. By effectively utilizing these assets, Japan will be able to share in the fruits of global growth.

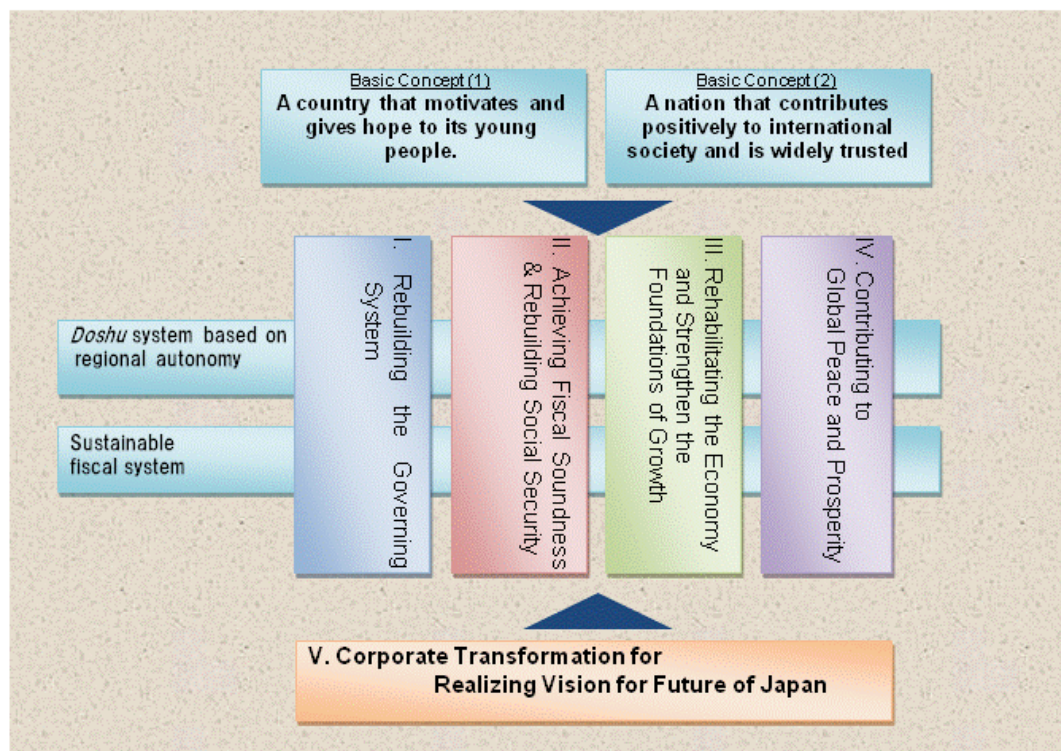
It should be emphasized that strengths and weaknesses are opposite sides of the same coin. Japan today confronts problems associated with super-longevity never before experienced by any country in the world. But there is an opportunity hidden in this challenge. Should Japan be able to lead the world in developing a social and economic model for a society that successfully overcomes the challenges of declining birthrates, aging society, and shrinking population, it would emerge as a more mature and deepened advanced country. By developing a forward-looking vision based on these strengths, Japan would be able to undertake powerful reforms with a sense of confidence and a clear idea of where the country is headed. This is what is meant by starting from a reaffirmation of strength.

III. Our Vision for Japan

A country that motivates and gives hope to its young people
A nation that contributes positively to international society and is widely trusted

Using this framework as our point of reference, we will now present our vision for Japan in 2020. What will happen if Japan continues to postpone the implementation of solutions out of a fear of the pain that such solutions will entail? Without any doubt, there is no one who would find the inevitable outcome of such a choice desirable. The vision that we present for rebuilding Japan is designed to avoid the result of inaction. At the same time, this vision is intended to provide a dream for the future and to call forth the courage that will be needed for its realization. Our aspirations must be high and our commitment and actions must be steady. Otherwise, there can be no bright tomorrow for Japan. We must realize that the tasks before us are on par with the grand enterprises undertaken at the time of the Meiji Restoration and Japan's postwar reconstruction. It is the responsibility of the present generation to gather up the courage needed to see these reforms to a successful completion.

Overview of Our Vision for Japan



1. Basic Concepts Underlying Our Vision for Japan

Our vision for the future of Japan is based on the concepts of

***“A country that motivates and gives hope to its young people” and
“A nation that contributes positively to international society and is widely
trusted.”***

Using these concepts as guiding principles, the goal is to rebuild Japan by 2020 with following specific objectives in mind:

- (i) Rebuilding the governing system
- (ii) Achieving fiscal soundness and rebuilding social security
- (iii) Rehabilitating the economy and strengthening the foundations of growth
- (iv) Contributing to global peace and prosperity

In addition to the above, the business community and corporate executives must develop an awareness of the role that they are to play in creating a new Japan, and must modify their decisions and behavior accordingly.

(1) A country that motivates and gives hope to its young people

What must be achieved for Japan to become a country that motivates and gives hope to its young people? The first requirement is to solve various current problems and establish a framework that does not pass on the burden to the younger generations. The earth is irreplaceable, as is this country. In passing this precious trust from one generation to another, it is our duty to resolve current problems as quickly as possible and to hand over a better society to the next generation. As Japan enters the age of super-longevity, we must create a society in which the elderly can lead healthy and self-reliant lives. The achievement of this goal will have a two-fold benefit. First, the placement of excessive burdens on the younger generations will be avoided. Second, the sight of elderly persons leading good and meaningful lives will motivate and give hope to the younger generations.

The second requirement is to create a country that nurtures people who, with the spirit of independence, self-reliance, and self-responsibility, willingly accept both domestic and international challenges and play an active role in these arenas. This means that Japan must transform itself from a society in which the “nail that sticks out is hammered” to a society that consciously nurtures the nail that sticks out, and is prepared to honor and praise those who have risen up successfully to accept a challenge. It will be equally important for such a society to provide a second chance to those who have initially failed and to have the warmth of spirit that will allow people to use past failures as nourishment for future success.

Our young people must become independent members of society endowed with a sense of love and appreciation for the country and city of their birth and upbringing. With this as a foundation, they must seek a life of activity either on the global stage or in local communities. By doing so, the young people will restore vitality to Japan and create a society in which people are bound together with strong personal ties. To educate and nurture people who will support the future of Japan is also our responsibility.

(2)A nation that contributes positively to international society and is widely trusted

This concept implies not only benefiting from international peace and prosperity, but also being willing and prepared to take the initiative in contributing to the world. Secondly, the goal must be to become a nation whose contributions are highly valued by other countries and to which the international society turns with high expectations and unwavering confidence. Here, the key to success is to lead the world in proposing solutions to the problems affecting the international society and to take the initiative in the implementation of such solutions. Finally, in order for Japan to increase its attractiveness to other countries and peoples, it must take positive action to open itself to the world and to create an environment conducive to the free domestic and international movement of people, goods, capital, and information.

* * *


In the following sections, our vision for the future of Japan is presented with an eye to what we imagine Japan can be like in 2020.

2. 150 Years from the Meiji Restoration: Pursuing Major Changes in the Governing System

(1) Dissolution of prefectures and establishment of *doshu* (super-prefectures): Independent super-prefectures with diverse qualities competing with foreign countries

The year 2018 marks the 150th anniversary of the Meiji Restoration. A *doshu* system of super-prefectures will be adopted in time for this anniversary as a step toward the realization of regional autonomy and revitalization through diversity. Local and regional matters will be left to the discretion and choice of local residents. By developing a keen awareness of the balance between benefits and costs, local residents will make creative choices on the allocation of limited resources and will engage in a positive process of selection and concentration. Not only will this result in greater satisfaction among local residents but it will also enhance the sense of ownership in individuals and facilitate the maturation of Japan's democracy starting from local communities. Given that the super-prefectures will be equivalent to many leading countries of the world in population and economic size, they will be in a position to compete directly with foreign countries by developing their potentials, improving the quality of life, promoting industries, and pursuing cultural accomplishments.

Division of Responsibilities among Basic Unit of Government, Super-Prefectures, and Central Government



Basic Unit of Government (Population of about 300,000)	Responsibilities include: maintenance of family registries and Basic Resident Registry; nursery schools and childrearing support; long-term care; social welfare; primary and secondary education; health services; emergency services and firefighting; city planning; streets; water and sewage systems; garbage disposal.
Doshu (super-prefectures) (11~12+ Tokyo Special Region)	Responsibilities include: promotion of industry; development of regional infrastructure, airports, ports, and roads; higher education; employment security; capacity development; police (regional); countemeasures to natural disasters; medical insurance.
Central Government	Responsibilities include: enactment of basic laws; foreign affairs; national defense; judiciary (court system); police (national); maritime safety; air traffic control; immigration; public prosecution; currency and foreign exchange; trade policies; raw materials and energy policies; science and technology; pensions; medical services for the elderly; public assistance.

(2) Toward a mature democracy: Policy-oriented politics and true parliamentary cabinet system

As a result of the reform of the Diet, the functions of the two houses will be clearly delineated, with the House of Representatives acting as the arena for regime selection, which faithfully and accurately reflects the will of the people, and the House of Councillors acting as the “House of Common Sense.” With a fully functional bicameral structure, the Diet will become the scene of active and earnest policy debate and policy-oriented politics by political parties revolving around a two-party system formed around policy positions.

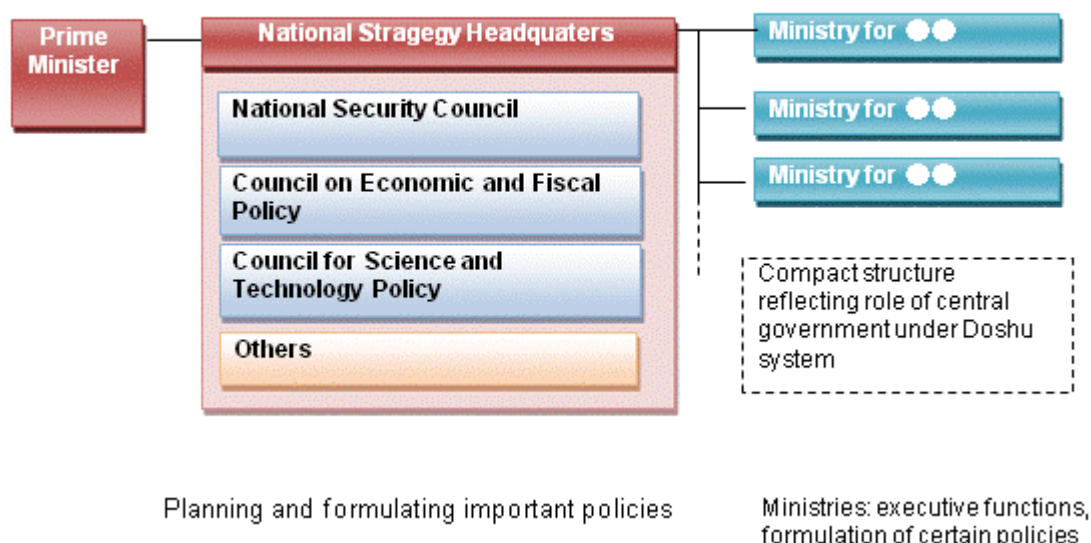
The Diet after reform

DIET		
House of Representatives		House of Councillors
Accurately reflect popular will in regime selection	Functions	House of Common Sense; representation of super-prefectures
400 members	Seats	120–130 members
300 single-seat districts + 100 nationally based proportional representation	Election Method	One ten-seat district per super-prefecture × (11–12 super-prefectures + Tokyo Special State)
Within 1.5	Vote-value disparity	Not considered

These arrangements will promote the establishment of the manifesto system, which is essential to creating a policy-oriented political system. The correction of disparities in voter representation will ensure equality in the weight of individual ballots throughout the country, allowing general elections to accurately reflect the will of the people. Finally, the people will be able to express their will on regime selection by passing their judgment on the policies proposed by each political party.

A National Strategy Headquarters will be established under the direct oversight of the prime minister. Launching this framework will strengthen the government’s capabilities for policy formation, coordination, and implementation, thus contributing to the establishment of a Cabinet-led political system.

《 Central Government Ministries under Doshu System 》



Under the new system, the government will become more strategy-oriented and transparent. The government will collaborate with businesses and civil society, and will exercise leadership in the international society for the solution of global-scale problems. This course of action will simultaneously achieve two objectives: Japan will win the trust and confidence of the world and will be able to promote its national interests.

3. Sustainable Fiscal and Social Security Systems: Ten Years to Avoid Collapse

(1) Achieve primary balance surplus by late 2010s for building fiscal soundness

Under the principles of selection and concentration and balance of costs and benefits, government expenditures will be cut and fundamental reforms will be promoted in the tax and social security systems, and strategies for economic growth will be implemented. As a result of these efforts, a surplus in the primary balance will be achieved by the late 2010s and a clear path will be laid out for reducing the long-term debt of the central and local governments to the same size as GDP by the end of the 2020s. Following the introduction of a *doshu* system in 2018, local and regional government finances will become self-reliant and sustainable.

(2) New tax and social security systems to cope with declining birthrates, aging of society, and globalization

New tax and social security systems designed to cope with declining birthrates, the aging of society, and the forces of globalization will go into force in 2013. Although the postwar baby-boomers will have already reached pensionable age in the previous year (2012), this is the earliest possible date for implementation assuming that the proposed revisions are deliberated on during 2011 with due speed.

The consumption tax rate will be raised to 17 percent to provide a stable source of funds for basic pension benefits and support for local finances. The basic concept will be to avoid the placement of excessive burdens on the working population and to create a system that is supported by a wide range of generations. Given the competition among developed and emerging economies to create an attractive environment for investment, Japan will take action to improve the tax-related aspects of its international competitiveness.

Raising the Consumption Tax Rate:

Stable Support for Basic Pensions and Local Finances

	For pensions	For central government	For local government	Total
Current	-	4%	1%	5%
FY 2013	3%	2%	5%	10%
FY 2015	8%	2%	5%	15%
FY 2017	10%	2%	5%	17%

Social security systems will be reorganized as sustainable systems in line with the principles of self-responsibility and self-help to correspond to conditions created by declining birthrates and aging of society. To alleviate anxiety for the future and to ensure a national minimum for all citizens, everyone aged 65 and over will receive basic pension benefits of 70,000 yen per month. Even as Japan approaches a society of super-longevity, the sense of marked inequality among generations will be alleviated and the people will appreciate that they must accept burdens that are commensurate with the level of their benefits.

New Systems for Pensions, Medical Services, and Long-Term Care



	Pensions	
System	Basic Pension System (ground floor portion)	Contribution-based Pensions (second floor portion)
Responsible Entity	Central government	Private-sector financial institutions
Coverage	Benefits start at 65	Voluntary enrollment; details to be by contract
Benefits	70,000 yen/month	(By contract)
Burden	Consumption taxes earmarked for pensions (pension premium abolished)	(By contract) Includes premium payments by businesses

Notes: 1. New basic pension payments will amount to about 33 trillion yen in 2020 and will be covered by earmarking about 10% of consumption tax revenues.

2. There is no change in corporate contributions to pension funds under revised system. Current amounts of corporate contributions to pension premiums will be used to cover outstanding net liabilities of pension funds, and additional amounts of corporate contributions will go into a new defined contribution-based pension plan.



	Medical Services	
System	Public Health Insurance System	Medical Services for Elderly
Responsible Entity	<i>Doshu</i>	<i>Doshu</i>
Coverage	Age 74 and below	Age 75 and above
Benefits	70% (funded by insurance premiums)	70% (funded by taxes)
Burden	Insurance premiums 30% co-payment	No insurance premiums 30% co-payment

Note: Tax revenues needed to cover the new system of medical services for the elderly will amount to about 16 trillion yen in 2020.



Long-Term Care	
System	Long-Term Care Insurance System
Responsible Entity	Basic unit of government
Coverage	Services for care need rating of 2 and above
Benefits	80% (funded by taxes + insurance premiums)
Burden	20% co-payment

Note: Long-term care expenses will amount to about 11.5 trillion yen in 2020. If 50% of benefits are funded by taxes, amount of tax revenues used would be about 4.8 trillion yen.

4. Sustainable Growth in Mature Society with Shrinking Population: Opening the Country and Utilizing Private-Sector Initiative



(1) Achieving growth through head-on attack for clean breakthrough: Four strategic growth areas

The major changes in the environment surrounding Japan, which include globalization, declining birthrates, and the aging of society, are giving rise to problems that must be met head on. Technological innovation and the cultivation of new demand must be used to open up new strategic growth areas and to realize sustained economic growth. By solving the problems that confront Japan and simultaneously achieving economic growth, the people will enjoy a sense of greater affluence in terms of both quality and quantity.

Globalization: Japan will respond to the continued advance of globalization by strategically concluding economic partnership agreements, including the Trans-Pacific Strategic Partnership Agreement (TPP), a Japan-EU Economic Partnership Agreement, and the Free Trade Area of the Asia-Pacific (FTAAP). By opening up the country to the world, Japan will be able to attract the flow of people, goods, capital, and information from around the globe and will succeed in taking advantage of burgeoning demand in Asia and other emerging economies.

Declining Birthrates and Aging of Society: Notwithstanding the challenges posed by declining birthrates and the aging of society, Japan will develop infrastructure to provide a secure environment for childrearing generations as well as for elderly generations. To provide health services and support a society of super-longevity, a diverse range of businesses will enter such fields as health and long-term care services and childcare services to support childrearing needs. These businesses will cultivate new demand by offering finely tuned products and services. With steady progress made in the utilization of ICT, high-quality services will be offered that match the needs and perspective of users.

Leading the World in **Building a Low-Carbon Society:** Japan will adopt the building of a low-carbon society as part of its national strategy and will bring together the full capabilities of the public and private sectors to achieve this goal. Businesses will compete in developing and marketing outstanding low-carbon products and services. Parallel to this, major changes will be made in the lifestyle of the people and in social systems. The world's top environmentally friendly technologies and systems that are developed in this setting will enhance the competitive position of Japanese companies, industries, and the country itself. These technologies and systems will emerge as an important source of economic

growth as they are adopted throughout the world.

Local and Regional Revitalization: The regions throughout Japan will pursue strategies for capitalizing on their unique qualities and advantages. Contrary to earlier fears of its imminent demise, agriculture will stage a strong comeback with the introduction of corporate agriculture and the emergence of larger-scale farms. Japanese agriculture will focus on high-quality and high value-added products and processed goods, and will enjoy a steady growth of exports to overseas markets. Regional tourism resources will be developed to offer increasingly attractive options to visitors. About 30 million foreign tourists will be traveling to Japan annually, as a result of which tourism will become an important pillar in regional economies.

(2) Foundations for robust growth: Reforming five aspects of growth infrastructure

Private-sector initiative and regional vitality will be fully utilized through the promotion of innovation, human resources development, and internal globalization. These measures will help improve productivity, promote structural reform in industries, and strengthen international competitiveness.

Private-Sector Initiative: With regulatory reform and effective market surveillance in place, an environment conducive to private-sector initiative will be secured, and socioeconomic systems will be established around a core of free and fair markets. Healthy forms of competition pursued in this framework will encourage creativity and will accelerate the replacement of the old with the new among businesses and industries, leading to highly diverse and efficient value creation by the private sector.

Regional Vitality: The introduction of the *doshu* (super-prefecture) system in 2018 will create super-prefectures that are on par with many leading countries in the world in terms of population and economic size. Following their creation, super-prefectures will be responsible for the promotion of industries, fostering of human resources, and infrastructure development, and will contribute to regional vitality by capitalizing on their own unique qualities and potential resources. Super-prefectures and basic units of government will engage in positive rivalry to create new flows of people, goods, capital, and information, and will work toward raising the quality of life and encouraging the transmission of culture.

Internal Globalization: The process of internal globalization will be given a vital boost by opening Japan to the world through strategic pursuit of economic partnership agreements. New social and transportation infrastructure will be developed that suits the needs of globalization. By improving living conditions for skilled foreign workers and international students, a dramatic increase will be achieved in the inflow of such human resources. By facilitating highly diverse and intensive cultural exchange within the framework of daily life, this development will enhance the openness of Japanese society and will raise the international competitiveness of Japanese industries.

Innovation: Progress will be made in the establishment of world-class integrated R&D centers. The research output of these cutting-edge facilities will attract outstanding researchers and engineers from both within Japan and throughout the world. ICT will be more widely applied in all areas of society and will support the solution of problems through innovation. A social environment will be in place for giving people a second chance after initial failure and for developing entrepreneurial human resources. By attracting the flow of risk money, this will accelerate the creation of new businesses and will encourage the process of renewal in industries.

Human Resources: The most valuable and important form of “soft infrastructure” available to an economy is its human resources. The quality of primary, secondary, and higher education will be improved to produce human resources who have a good grasp of basic knowledge, who are highly diverse and creative, who have high aspirations and moral awareness, and who are equipped with global communication skills so that they can engage in a wide variety of activities both within Japan and in the international arena. Elderly and retired persons with valuable know-how and skills will be given various opportunities to remain active in businesses and in society, and will be able to contribute to a warmhearted society that is bound together by multifarious bonds and ties.

5. Working with the World to Create the Future: Proactive Contributions to International Society

(1) Proactive contributor to international peace and stability

As an advanced democracy, Japan will share such universal values as democracy, free market economy, rule of law, and human rights with other advanced democratic countries, and will contribute to international society by pursuing a proactive course in foreign relations. The security of Japan and the Asia-Pacific region will be ensured with the Japan-US alliance functioning as a pivot, and Japan will actively participate in conflict prevention, peacekeeping, and reconstruction assistance throughout the world. Furthermore, to promote the resolution of global-scale problems, Japan will actively undertake diplomatic initiatives to encourage international consensus building.

(2) Proactive contributor to international prosperity

A majority of the public will share the belief that the realization of free market principles on a global scale will help achieve prosperity in the international society. Based on this commitment, Japan will take positive measures to open itself to the world by supporting the negotiations of the World Trade Organization (WTO) and by strategically engaging in economic partnership agreements. Japan will take the initiative in contributing to the creation of a new order based on international rules for liberalization and openness, which will become increasingly important in the future. Supported by the trust and confidence that the international society places in it, Japan will play a leadership role in various ways, such as by strategically utilizing its official development assistance (ODA) to make a major contribution to the achievement of the UN Millennium Development Goals.

【Reference】

Need for Unified Fiscal, Social Security, and Economic Reforms

Keizai Doyukai commissioned Mitsubishi UFJ Research and Consulting Co., Ltd. to undertake simulation studies of fiscal and tax reform, social security reform, and economic growth strategies proposed by Keizai Doyukai. While the assumptions relevant to the study were provided by Keizai Doyukai, the choice of macroeconomic model and presentation of computation results were made by Mitsubishi UFJ Research and Consulting.

As indicated by the following reference materials, the simulation results underscore the need to implement fiscal, social security, and economic reforms in a unified and integrated manner.

(1) Base Case:

If reforms are not implemented, the primary balance deficit will continue to grow and the GDP ratio of outstanding government debt will continue to rise.

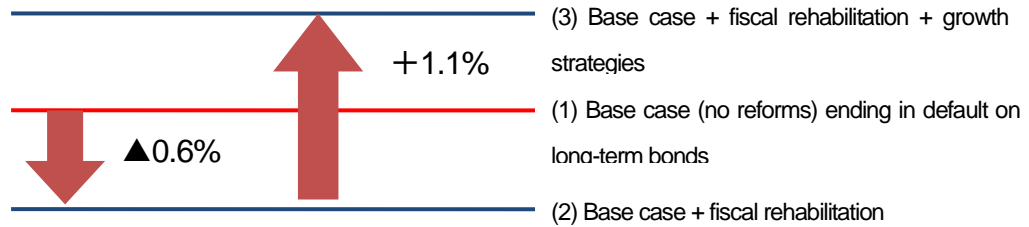
(2) Base Case + Fiscal Rehabilitation:

If government finances are rehabilitated (implementation of fiscal and tax reforms, social security reforms), a primary balance surplus will be achieved in 2020 and the GDP ratio of long-term central and local government debt will begin to decline in the mid-2020s. However, the GDP ratio will remain above 200 percent in 2030. In this scenario, the average real GDP growth rate for the 2010s will be 0.6 percentage points lower than the base case.

(3) Base Case + Fiscal Rehabilitation + Growth Strategies:

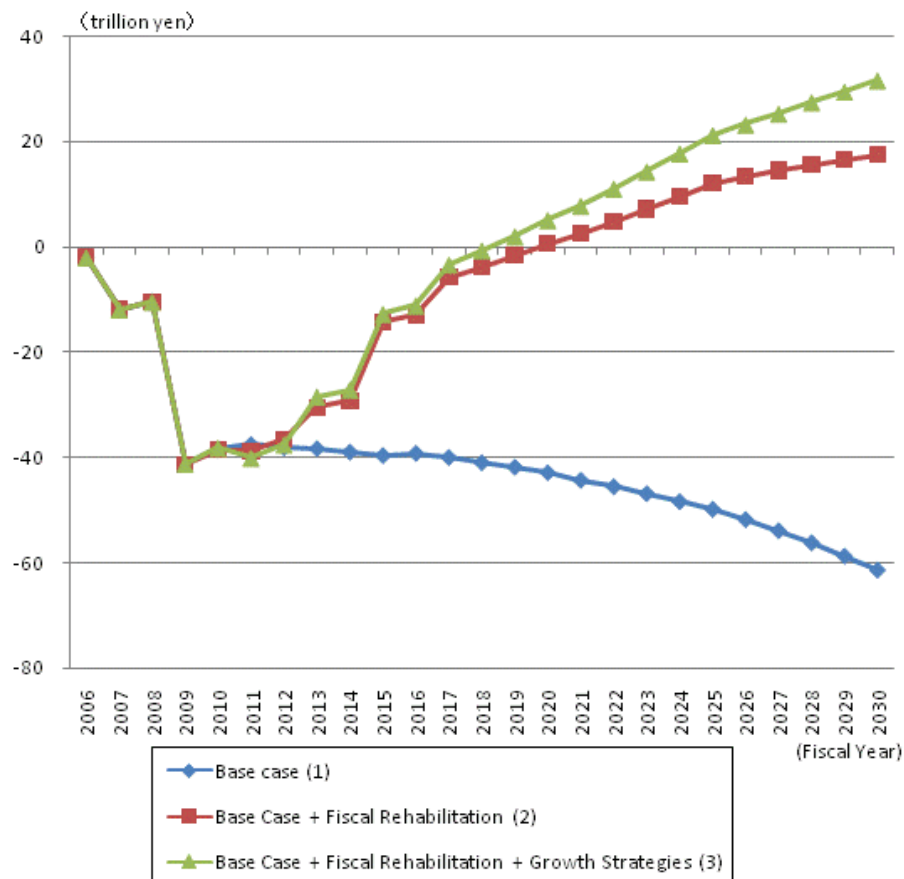
By adding growth strategies to the implementation of fiscal rehabilitation, a primary balance surplus will be achieved in 2019 and the GDP ratio of long-term central and local government debt will begin to decline earlier and at a faster pace than in Case (2). Furthermore, in this scenario, the average real GDP growth rate for the 2010s will be 1.1 percentage points higher than the case where only fiscal rehabilitation is implemented (and 0.5 percentage points higher than the base case).

Impact of Fiscal Rehabilitation and Growth Strategies on Economic Growth Rate (Real GDP)

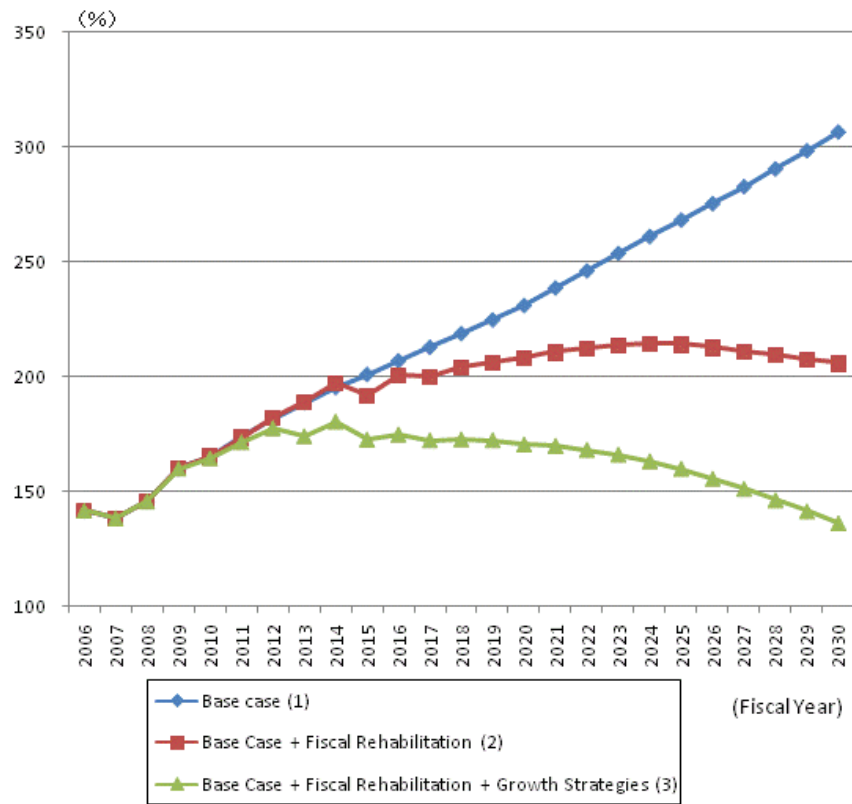


Note: Prepared by Keizai Doyukai Secretariat.

Primary Balance



Ratio of Outstanding Central and Local Government Debt to Nominal GDP



Note: Graphs represent simulation results obtained independently by Mitsubishi UFJ Consulting as commissioned by Keizai Doyukai.