

*Economic Integration as the Growth
Strategy: The Case of Japan*

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Outline



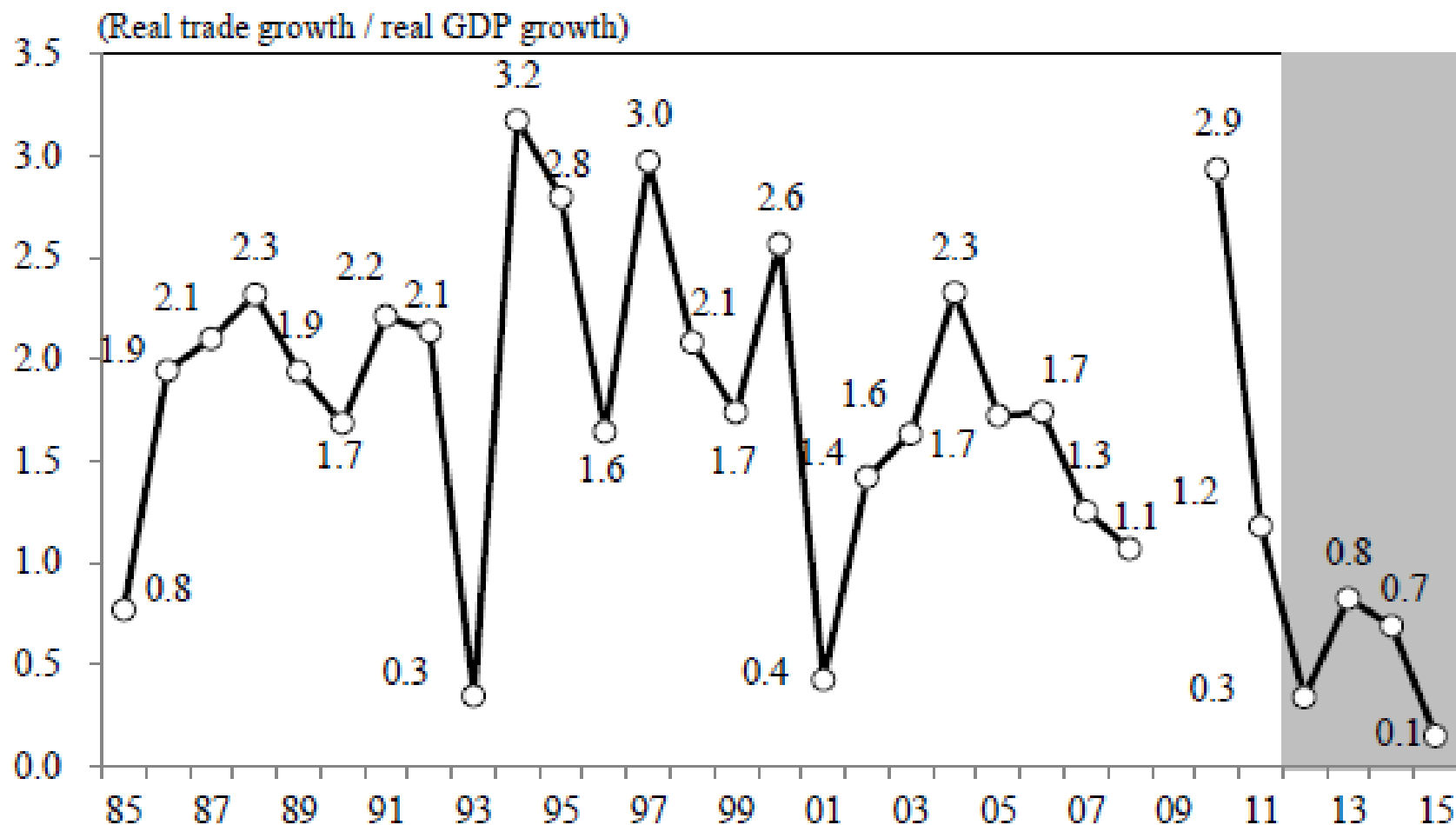
- ▶ Slow trade in the world since 2015
- ▶ Rising protectionism
- ▶ Japan as the exception?
- ▶ Economic integration as the growth strategy
- ▶ Some implications

Slow trade since 2015

(JETRO: White Paper on Trade and Investment (2016))

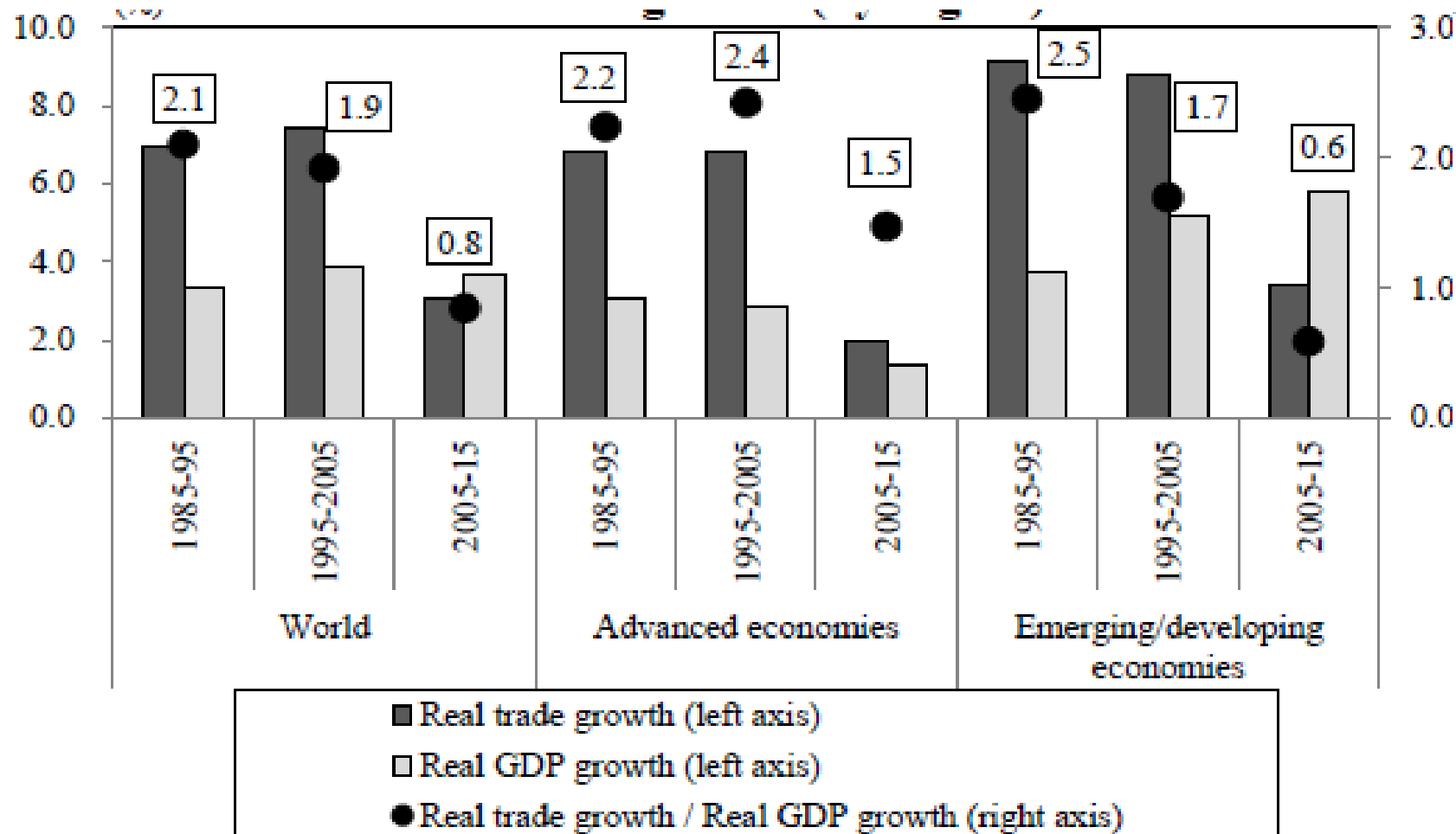
- ▶ Shrinking global trade: Nominal (price) ▲ 12.7% and only 1.3% in Real (volume) basis
- ▶ Prospect by WTO: 2.8% → 1.7% (2016) / 1.8% ~ 3.1% (2017)
- ▶ The back ground
 - (1) Weaker demand/ Investment
 - (2) Slow recovery in commodity prices
 - (3) Rising protectionism

Slow Trade (JETRO(2016))



Note: Value for 2009 cannot be calculated due to real GDP growth turning negative this year. (Year)

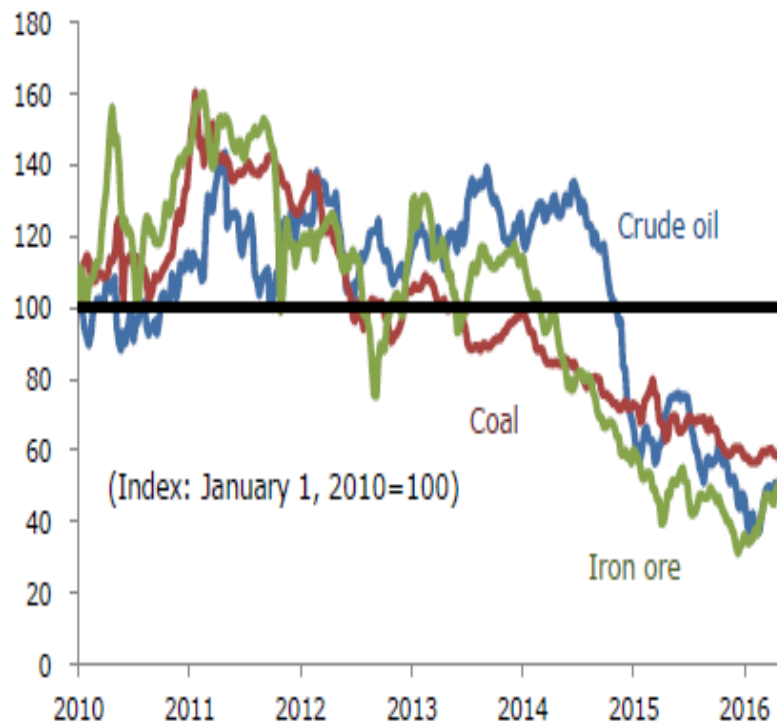
Less Trade for Emerging / Developing Economies



Note: Actual GDP values which are the basis of average growth rates are calculated from PPP. Real trade growth is based on import volume. Source: "WEO, April 2016" (IMF) and "IFS" (IMF)

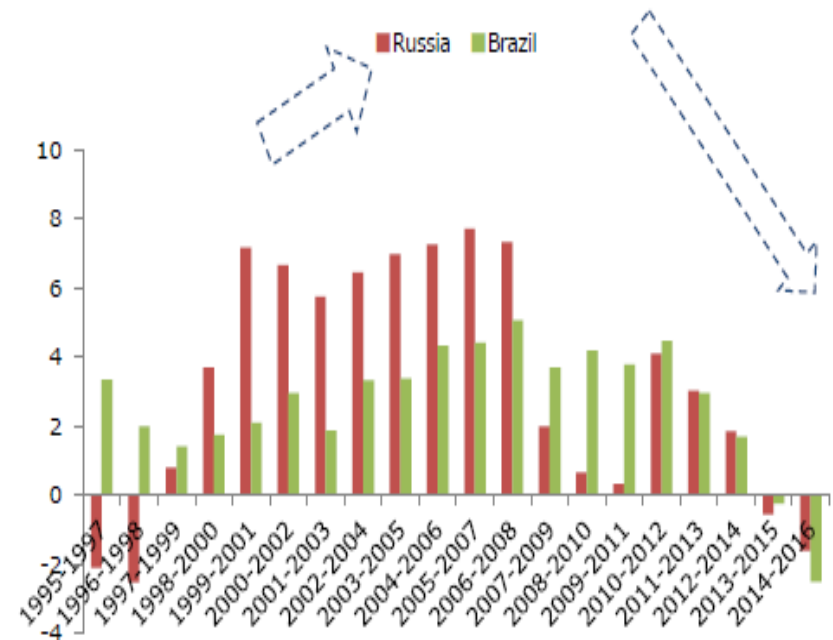
Slower Trade Structure

Fallen commodity prices



Source: Prepared using Thomson Reuters EIKON

Resource-based Economies Hit

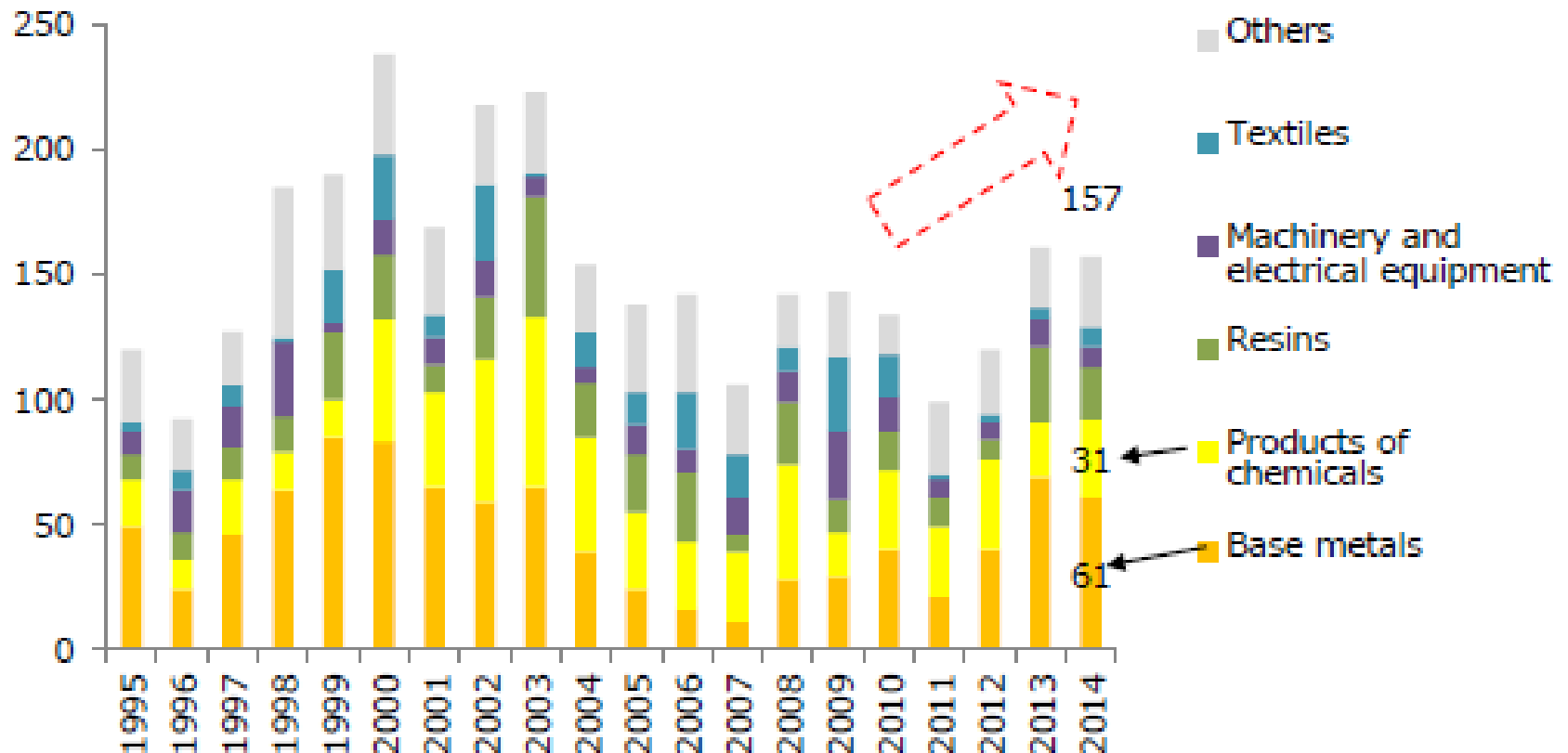


Remarks: Simple moving average during the relevant period

The figures for 2016 are estimates

Source: Prepared by METI, based on IMF World Economic Outlook Database April 2016

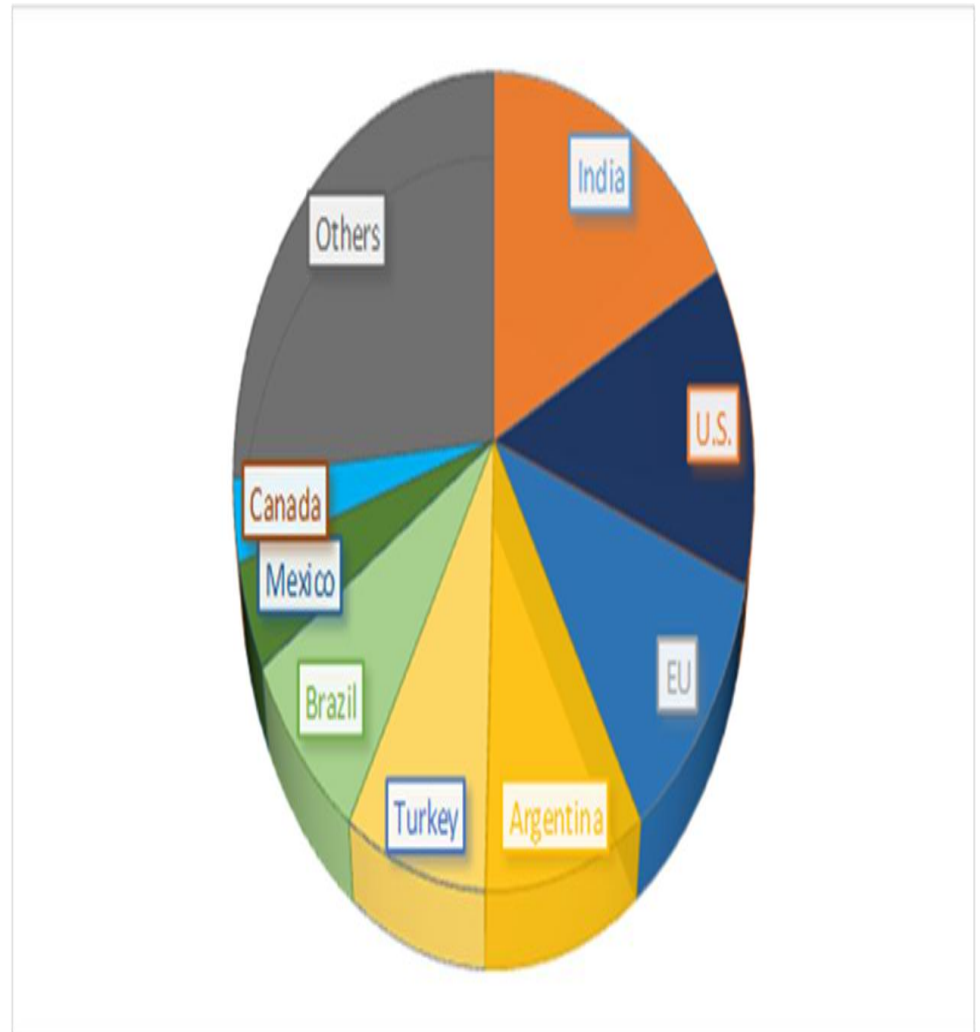
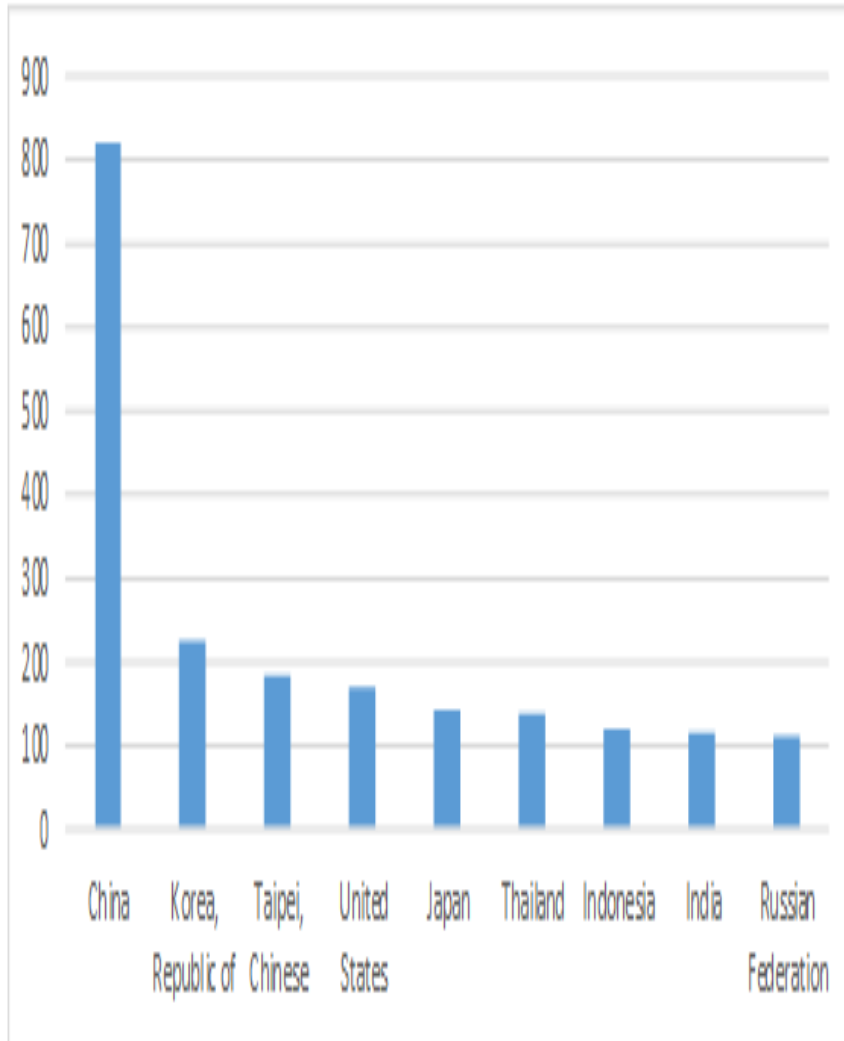
AD Measures taken by Sectors



Remarks: "Base metals" refers to items classified as "Base metals and articles, Products of the chemical and allied industries."

Source: Prepared by METI, based on WTO Anti-Dumping Database

Number of AD Cases (WTO statistics 1995-2015)



Trade War Potentials

- ▶ No prospects for China's Market Economy Status (MES) by US, EU and Japan (Dec. 2016) ← Populism (Victim mentality for everyone)
- ▶ Steel industries in troubles:
 - AD duties against China (US and EU)
 - Steel crisis in ASEAN and ROK
 - BREXIT and steel in UK.....
 - BRICs crisis
 - Speed of China's restructuring?
- ▶ China's response to WTO?

Japan for Free Trade after One Lap Behind (Mega FTAs)

- ▶ Ratification for Trans-Pacific Partnership (TPP): Almost done, Japan-EU EPA within 2016?, Pushing Regional Comprehensive Economic Partnership (RCEP)
- ▶ Japan's Scenario (1) TPP: (1) JKFTA without negotiation, (2) Upgrading opportunities for KORUS, (3) TPP domino starting from Vietnam (Accumulated Rule of Origin)
- ▶ Japan's Scenario (2) RCEP: (1) JCFTA without Enhancing rights, (2) JCFTA especially with CEPT system, (3) "ASEAN+1" Connectivity to cover SCN

Japan for Free Trade after One Lap Behind (CJK FTA)

- ▶ Korea in TPP: High standard JK FTA vs. Middle standard KC FTA
- ▶ Japan in RCEP: Middle standard Japan-China FTA?
 - (1) KC will be upgraded into JK
 - (2) KC will be upgraded into JC (MES deal)
 - (3) How to combine Pluri-agreements in WTO with CJK (ex. KC with ITA)
- ▶ CJK cooperation: Where to start??



TPP standard

	Japan		TPP11	
	品目	貿易額	品目	貿易額
Total tariff elimination	95.0	95.0	99.9 (Canada/Mexico/Peru) ~100.0 (Others)	99.9 (Mexico) ~100.0 (Others)
Immediate tariff elimination				
In Industrial goods	95.3	99.1	86.9	76.6
Final tariff elimination				
In industrial goods	100.0	100.0	99.9	99.9

	Japan	USA	Australia	Mexico	Vietnam
Immediate tariff elimination					
In Agricultural goods	51.3	55.5	99.5	74.1	42.6
2-11 years	27.5	37.8	0.5	17.2	52.3
After 12years	2.2	5.5	0.0	5.1	4.5
Exclusion	19.0	1.2	0.0	3.6	0.6

	J-US(TPP)		Korus		J-Canada(TPP)		C-Korea	
	品目	輸出額	品目	輸出額	品目	輸出額	品目	貿易額
Immediate tariff elimination	87.4	81.4	83.0	77.5	95.4	87.5	72.2	59.1



Korea-China FTA standard

		Korea		China	
		Tariff lines	Trade volume	Tariff lines	Trade volume
Normal track	Immediate elimination	50	52	20	44
	1-5years	12	4	21	4
	6-10years	18	21	31	19
Total		79	77	71	66
Sensitive	Within 15years/20years	13	14	19	19
Highly Sensitive	Exclusion, TRQ	8	9	9	15



Economic Integration as the Growth Strategy for Japan

- ▶ Restructuring in hardware manufacturing/
Debt: Done but on going
⇔ Export and SCN promotion, Innovating
R&D system
- ▶ From hardware to IoT, AI based technology
shift: On going in the domestic market
⇔ Deregulation, Inbound FDI by better
improving investment climate (including
ISDs), IPR protection, Server control/
Code opening

Economic Integration as the Growth Strategy for Japan(2)

- ▶ Labor shortage as the result of aging population: Weaker anti-globalization campaign, Labor reform
 - ⇔ Skilled labor (Managerial skills)
- ▶ Market pressures from Abenomics/ Local economies: Promoting services (Inbound tourism, SME export, Contents export...)
 - ⇔ Inbound and Outbound FDI, IPR protection
- ▶ Solution oriented business: New energies, Hydrogen society, Health and Medicare business..... ⇔ Inbound FDI

- Implementing difficult structural reforms (reforms on bedrock regulations (energy, agriculture, medical care etc.) / initiatives through National Strategic Special Zones)
- Moving forward toward the elimination of “Six Handicaps to growth” (e.g. appreciation of yen, high corporate tax rate, delay in the conclusion of TPP)

• Employment, corporate profits at historically high level
 • However, actions of private companies (investments, wage hikes etc.) still lack force

“3 challenges”, to accelerate corporate actions, in the context of the virtuous cycle of economy in motion

- ① Stimulate potential demand and create/expand new promising markets to raise GDP to 600 trillion yen (“10 Strategic public-private joint projects”)
- ② Enhance drastically productivity to overcome decreasing population and workforce shortage
- ③ Enhance capabilities of individuals to facilitate transformation of the industrial structure

1. “10 STRATEGIC PUBLIC-PRIVATE JOINT PROJECTS” toward GDP 600 trillion yen

1-1 : Creation of new promising markets

① Realize the 4th Industrial Revolution (e.g. IoT, Big Data, A.I., Robots) [Creation of added value: 30 trillion yen (by 2020)]

Establishment of “Control tower” function

Establish “Public-Private Council for the 4th Industrial Revolution” as headquarters of the government
 (replace the function of “Public-private sector dialogue for investments in the future”)

- 3 bodies placed under the newly established council, “Council for Strategy on A.I. Technology”, “Council for Promotion of Human Resources Development to respond to the 4th Industrial Revolution”, “Robot Revolution Realization Council”
- Identify priority areas for Japan, Formulate “Strategies for each priority area”, Accelerate regulatory reforms, R&D, provision of funds as well as human resources development etc.

New mechanism for regulatory reforms

- Identify necessary regulatory reforms, by adopting a **back-casting approach**, based on interim targets set by examining future industrial structure
- Reduce regulatory and administrative costs, from the perspectives of business operators (**new method to tackle in an integrated manner regulatory reforms, simplification of administrative procedures, utilization of IT**)

Data utilization projects Supports for SMEs

Individual healthcare service. Utilization of nursing care robots
 - Utilize personal data related to health
 - Utilize robots, sensors to nursing care

No inventory stock in the whole supply chain. Prompt tailor-made production

Smart factory
 Preventive maintenance through sensors in the production line

Automated driving system
 Automated driving on express way in 2020, 3D map information

FinTech
 Establish FinTech eco-system utilizing open innovation

Drone
 Realize Drone delivery service in 3 years

- Data utilizing platforms across companies and organizations
- Promotion of sharing economy, reinforcement of measures against cyber threats etc.
- Supports for SMEs (reduction by 20% of introduction costs for smaller robots / support 10 thousands SMEs for use of IT)

Promotion of innovation

- Target of **tripling investments** by private companies in universities and public research institutions (PRI) by 2025
- Establish at least 5 **strategic research centers of world-level** (universities and PRIs), attracting domestic and foreign talented researchers etc.
- Establish a venture creation platform, inviting advisors from private sector (providing supports from the stage of finding promising technology seeds in regions, to the stage of fostering ventures to attack international market)
- Create inter-ministerial headquarters for R & D and commercialization on A.I. technologies (Council for strategy on A.I. technologies)

Human resources with challenger's spirit

- Introduce **programming education** as a compulsory subject in elementary /secondary education (from 2020), Introduce **individualized education** by using IT according to the degree of understanding of individuals, Reinforce mathematical and IT education in higher education, Develop top level human resources skillful in IT
- Introduce **“Green card system for highly skilled foreign professionals”**, according to which requirement for period of stay to receive permanent residency would be the shortest in the world.
- Create “Council for Promotion of Human Resources Development to respond to the 4th Industrial Revolution”

“Growth Strategy 2016” toward nominal GDP 600 trillion yen

1-1 : Creation of new promising markets

② Toward a world leading health care country

【Market size: 16 trillion yen (2011) => 26 trillion yen (2020)】

- Promote health preservation/disease prevention services, not covered by public insurance (create 4 trillion yen market)
- Reduce burden on nursing care, by using robots and sensors (examine institutional measures including revision of nursing care compensation, standards of personal staffing or utilities)
- Support medical care and develop innovative drugs by utilizing big data etc. (institutions in charge of safe and security-ensured management of personal medical data)
- Promote individualized medical care or health care services, using IoT etc. (collection, analysis and utilization of personal data on medical prescriptions / examinations)
- Acquire global market through international development of Japanese medical services and through contribution to international health activities etc.

③ Overcome environment-energy constraints and expand investments

【Energy related investments: 18 trillion yen (2014FY) => 28 trillion yen (2030FY)】

- Promote energy efficiency activities (coverage of the Energy Efficiency Benchmark Program to 70% of all industries in 3 years, supports for SMEs), Renewable energies (maximum introduction while reducing costs by the revision of FIT)
- Strengthen resource security
- Create negawatt trading market by 2017
- Realize Hydrogen-based society (FCV etc.) (related investments: 1trillion yen (2030)) etc.

④ Foster sport sector to become a growing industry

【Market size: 5.5 trillion yen(2015) => 15 trillion yen(2025)】

- Enhance attractiveness and profitability of sport facilities, Combine sports with IT, health care, tourism, fashion etc.

⑤ Revitalize markets for transaction of existing houses and reform

【Market size: 11 trillion yen(2013) =>20 trillion yen(2025)】

- Establish an appropriate transaction and finance system for evaluating asset value etc.

1-2 : Further promotion of Local Abenomics

⑥ Enhance productivity in service industries

【Added value: 343 trillion yen (2014) => 410 trillion yen (2020)】

- Target to double the increase in productivity to 2%
- New legal framework to enhance productivity in 7 sectors (e.g. accommodation, truck transport, restaurant and take-out meals, medical care, nursing care, childcare, wholesale/retail) through property tax reduction or financial supports by regional financial institutions etc.

⑦ Innovate small, medium and intermediate-sized firms

- Promote the provision of risk money for growing firms, based on “local benchmark”, not based on mortgage or personal guarantees, Promote IT utilization for small, medium and intermediate-sized firms etc.

⑧ Promote proactive agriculture and exports

【Market size of vertical integrated (from production to sales) agriculture: 4.7 trillion yen (2013FY) => 10 trillion yen (2020FY)】

- Consolidate farmland, Reduce agricultural material costs, Reform the distribution of agricultural products
- Promote smart-agriculture (remote monitoring and automated driving tractors in 2020), Establish cooperation among industrial sectors and agricultural sector

⑨ Make tourism a key industry

【consumption by foreign visitors*: 3.5 trillion (2015) => 8 trillion yen (2020) => 15 trillion yen (2030)】

* Consumption by visitors (foreigners and Japanese): 25 trillion yen (2015) => 29 trillion yen (2020) => 37 trillion yen (2030)

- Reinforce tourism management in region, Develop human resources for tourism management, Improve sightseeing excursion routes, Branding of national parks, Utilize cultural properties, Reform paid holiday etc.

1-3 : Stimulation of domestic consumer sentiment

⑩ Stimulate domestic consumer sentiment through public-private sector collaboration etc.

“Growth Strategy 2016” toward nominal GDP 600 trillion yen

2. REGULATORY AND INSTITUTIONAL REFORMS TO REALIZE REVOLUTION IN PRODUCTIVITY

- Introduction of new mechanism for regulatory and institutional reforms
 - Identify necessary regulatory and institutional reforms, by adopting a back-casting approach, based on interim targets set by examining future industrial structure
 - Reduce regulatory and administrative costs, from the perspectives of business operators (new method to tackle in an integrated manner regulatory reforms, simplification of administrative procedures, utilization of IT) etc.
- Utilization of National Strategic Special Zones to accelerate structural reforms
 - Implement remaining reforms, in two year time period (FY2016-FY2018) for acceleration of intensive reforms etc.
- Further reinforcement of Corporate Governance
 - Improve the effectiveness of board of directors, promotion of constructive dialogues through information disclosure
 - Provide risk money for growing firms, through vitalized financial and capital markets etc.
- Further utilization of private sector resources to public services / facilities (PPP/PFI etc.)

[Projects volume: 2.4 trillion yen (FY2013-14) => 21 trillion yen (FY2013-2022)]

 - Promote PPP/PFI methods including concession-type PFI etc.

3. PROMOTION OF INNOVATION / PROVISION OF HUMAN RESOURCES WITH CHALLENGER'S SPIRITS

- Promotion of innovation and venture business
 - Target of tripling investments by private companies in universities and public research institutions (PRIs) by 2025
 - Establish at least 5 strategic research centers of world-level (universities and PRIs), attracting domestic and foreign talented researchers.
 - Create inter-ministerial headquarters for R & D and commercialization on A.I. technologies (Council for strategy on A.I. technologies)
 - Establish a venture creation platform, inviting advisors from private sector (providing supports from the stage of finding promising technology seeds in regions, to the stage of fostering ventures to attack international market), Establish a venture support consortium involving governmental bodies (joint planning of policies for support, prioritization of supports
 - Promote investments in intangible assets, R&D etc.
- Development and securement of human resources who drive the economic growth
 - Introduce programming education as a compulsory subject in elementary and secondary education (from 2020), Introduce individualized education by using IT according to the degree of understanding of individuals, Reinforce mathematical and IT education in higher education, Develop top level human resources skillful in IT.
 - Introduce “Green card system for highly skilled foreign professionals”, according to which requirement for period of stay to receive permanent residency would be the shortest in the world.
 - Create “Council for Promotion of Human Resources Development to respond to the 4th industrial revolution” etc.
- Creation of employment environment and promotion of social participation of women, to remove the constraints to growth
 - Reinforce initiatives to correct the practice of prolonged working hours
 - Promotion of social participation of women (increase in additional childcare facilities, promotion of management on diversity) and elderly persons

4. TAKING IN GROWING MARKET OUTSIDE

- Support the expansion of SMEs to international markets, making the most of TPP **[13.8 trillion yen (2013FY) => 25.2 trillion yen (2020FY)]**
 - Provide comprehensive supports to SMEs (including intermediate sized firms), including hands-on supports by experts, through “Consortium aiming at expansion of exports” involving governments and private sector etc.
- Expansion of the exports of infrastructure systems

[16 trillion yen (2013) => 30 trillion yen (2020)]

 - Engage in strategic human resources development, Promote Japanese “high quality infrastructure investment” to become a global standard, Further accelerate the procedures for international yen loans/overseas loans and investments, Enhance corporation with international development banks etc.
- Promotion of inward foreign direct investment to Japan

[24.4 trillion yen (2015) => 35 trillion yen (2020)]

 - Support local governments’ initiatives to invite foreign investments, Promote alliances, including financial alliances, between SMEs and foreign firms, Improve drastically business and living environment to remove obstacles to invite foreign investments
- Promotion of conclusion / revision of economic partnership agreements (EPAs), investment agreements and tax treaties
 - Promote strategically and with speed negotiations of economic partnership agreements such as Japan-EU EPA, RCEP and Japan-China-South Korea FTA
 - Promote negotiations of new tax treaties and of revision of existing investments agreements and tax treaties etc.

5. Utilization of growing momentum for reforms

- Promote leading projects for year 2020
 - Implement following projects, by 2020 Tokyo Olympic and Paralympic games, to showcase Japanese cutting-edge technologies, considering that these technologies could continue to be in practical use after 2020 as a legacy of Tokyo Olympic and Paralympic games

Automated driving system, Decentralized energy system, Advanced robot technologies etc.

Some Implications from Japan

- ▶ Distribution without growth was painful and ineffective
- ▶ Substantial restructuring should proceed or at least synchronize with opening (Japan with agricultural sector)
- ▶ Direct market pressures for manufacturing, but how to boost service sector reform?
Comprehensive approaches?
- ▶ Labor reform is crucial: Enhancing mobility and flexibility in the labor market