Economic Integration as the Growth Strategy: The Case of Japan

Yukiko Fukagwa
Waseda University
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 background
  1. Weaker demand/ Investment
  2. Slow recovery in commodity prices
  3. Rising protectionism
Slow Trade (JETRO(2016))

(Real trade growth / real GDP growth)

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

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

Source: Prepared using Thomson Reuters EIKON
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

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>TPP11</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total tariff elimination</strong></td>
<td>95.0</td>
<td>95.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>99.9 (Canada/Mexico/Peru)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>~100.0 (Others)</td>
</tr>
</tbody>
</table>

### Immediate tariff elimination

**In Industrial goods**

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>USA</th>
<th>Australia</th>
<th>Mexico</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In Agricultural goods</strong></td>
<td>51.3</td>
<td>55.5</td>
<td>99.5</td>
<td>74.1</td>
<td>42.6</td>
</tr>
<tr>
<td>2-11 years</td>
<td>27.5</td>
<td>37.8</td>
<td>0.5</td>
<td>17.2</td>
<td>52.3</td>
</tr>
<tr>
<td>After 12 years</td>
<td>2.2</td>
<td>5.5</td>
<td>0.0</td>
<td>5.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Exclusion</td>
<td>19.0</td>
<td>1.2</td>
<td>0.0</td>
<td>3.6</td>
<td>0.6</td>
</tr>
</tbody>
</table>

### Final tariff elimination

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>USA</th>
<th>Australia</th>
<th>Mexico</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In industrial goods</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>99.9</td>
<td>99.9</td>
<td>42.6</td>
</tr>
</tbody>
</table>

### Immediate tariff elimination

<table>
<thead>
<tr>
<th></th>
<th>J-US(TPP)</th>
<th>Korus</th>
<th>J-Canada(TPP)</th>
<th>C-Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In Agricultural goods</strong></td>
<td>87.4</td>
<td>81.4</td>
<td>83.0</td>
<td>77.5</td>
</tr>
<tr>
<td>2-11 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>After 12 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Korea-China FTA Standard

<table>
<thead>
<tr>
<th></th>
<th>Korea</th>
<th></th>
<th>China</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tariff lines</td>
<td>Trade volume</td>
<td>Tariff lines</td>
<td>Trade volume</td>
</tr>
<tr>
<td>Normal track</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Immediate elimination</td>
<td>50</td>
<td>52</td>
<td>20</td>
<td>44</td>
</tr>
<tr>
<td>1-5 years</td>
<td>12</td>
<td>4</td>
<td>21</td>
<td>4</td>
</tr>
<tr>
<td>6-10 years</td>
<td>18</td>
<td>21</td>
<td>31</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>79</td>
<td>77</td>
<td>71</td>
<td>66</td>
</tr>
<tr>
<td>Sensitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within 15 years/20 years</td>
<td>13</td>
<td>14</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Highly Sensitive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusion, TRQ</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>15</td>
</tr>
</tbody>
</table>
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
“Growth Strategy 2016” toward nominal GDP 600 trillion yen

- 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

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, AI, 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 AI 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.

2) 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
- 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)

3) 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 researches 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 AI technologies (Council for strategy on AI technologies)

4) 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”

※Realize a society where people can feel affluence by producing new values and services through the 4th industrial revolution (Society 5.0)
“Growth Strategy 2016” toward nominal GDP 600 trillion yen

1-1: Creation of new promising markets

② Toward a world leading health care country

- 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: 1 trillion 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 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 yen (2015) ⇒ 8 trillion yen (2020) ⇒ 15 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 researches.
- 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 securing 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.

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