

# Bringing Out Japan's Hidden Strength to Meet Further Challenges of Globalization

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The Ministry of Economy, Trade & Industry (METI) has been publishing its White Paper on International Economy and Trade each summer since putting out the first edition on August 15, 1949. This year's issue, the 62nd in the annual series, analyzes the current state of the world economy and the direction of its structural changes, illustrates Japan's relationship with the Asian economy, which is expected to develop into the "world's consumer market" besides "the world's factory," and dwells on means for Japan to take on further challenges of globalization.

## 1. Present & Future of Changing Global Economy

Problems involving subprime mortgage loans that surfaced in 2007 triggered a global financial crisis after the collapse of major US investment bank Lehman Brothers in the autumn of 2008.

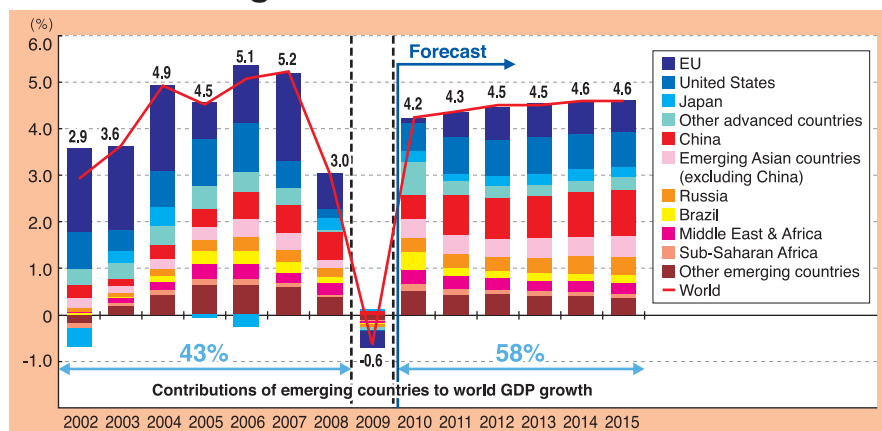
The crisis originating in the United States occurred amid (1) the influx of a huge amount of money that had created an economic environment driving people to consume freely and (2) the financial globalization and the rapid expansion of credit leverage at financial institutions. The crisis impacted even Japan and other countries away from its epicenter. The world economy has tided over the crisis and is now generally heading for recovery after countries implemented massive fiscal and monetary policy measures in collaboration with one another through the G-20 and other international frameworks.

At the same time, however, the critical situation the world economy faced after the Lehman shock has uncovered a host of problems inherent in the global economic system.

The white paper summarizes the present state of the world economy and challenges it faces, and discusses ways and means to correct the global imbalances, make the international financial system sound and prevent protectionism in the world trade system, all crucial issues confronting the world economy.

CHART 1

### Country-by-country contributions to world GDP growth



Note: The contribution rates were calculated by applying the nominal rate of contribution by each country/region to the real rate of world GDP growth.

Source: Compiled from "World Economic Outlook April 2010," IMF

## (1) Present & Outlook of World Economy

Upon the onset of the global economic crisis, the world economy plunged into the most serious recession for many years, shrinking 0.6% in GDP terms in 2009 for the first negative growth in 60 years. The large-scale fiscal and monetary measures taken by countries helped the world economy bottom out that year. The International Monetary Fund (IMF) estimates that the world's GDP will grow 4.2% in 2010.

There still exist, however, various risks in the world economy, notable among them being the Greek financial crisis. Other risks include delayed recovery of employment and battered financial systems in some countries, soaring property prices caused by the inflow of funds into emerging countries and violent fluctuations of commodity, resource and food prices. How these risks will affect self-sustained recovery of the world economy needs to be carefully watched.

Chart 1 gives a comparison of country-by-country contributions to world GDP growth before and after the global economic crisis. The contributions by emerging economies put together will expand to approximately 60% after the crisis from about 40% before then, a reversal of the case before the crisis in which advanced economies had accounted for 60%. This foretells rapid economic expansion in the emerging countries over the years to come.

## (2) Challenges for International Economic System Revealed by Global Economic Crisis & Response to Them

### ① Rebalancing Global Imbalances

According to the IMF, the "global imbalances" refer to the composition pattern of current account deficits and surpluses that surfaced in the world economy in the latter half of the 1990s. A look at the current account trends in core countries and regions shows that the global imbalances kept on widening in sync with the expansion of the United States' current account deficit after 2000 (Chart 2).

Historically, a current account imbalance has always existed in the world economy. It is not bad in itself. There will be no problems as long as a debtor country can finance its debt. However, if the imbalance widens in scale and if a current account deficit concentrates in a specific country, the country can run into

greater difficulties in continuing to borrow. That can lead to widespread concerns such as, in particular, the outbreak of a default that may compel the country to enforce a major amendment of its macroeconomic policy.

Meanwhile, the global flow of capital underwent a major change after the economic crisis, accelerating the adjustment of global imbalances in 2009. But there are a lot of arguments over the sustainability of this rebalancing process. Holding the key are export and consumption trends in the United States, a major current account deficit country, and consumption trends in China and resource-rich countries with chronic current account surpluses. Possible adjustment of exchange rates involving, in particular, the Chinese yuan, is also being discussed as a means of rebalancing. Correction of global imbalances is one of the main agenda items for the G-8 and G-20. How they will address the issue needs to be closely followed.

## ② Toward Sound Financial System

The financial crisis has revealed the fragilities inherent in the US financial system, once considered the most advanced in the world.

The G-20 leaders who met in Pittsburgh in September 2009 discussed ways to prevent a recurrence of the financial crisis and underlined in their statement the need to (1) strengthen the regulation and supervision of banks, (2) restrict compensation for bank executives and (3) improve banks' capital adequacy ratio.

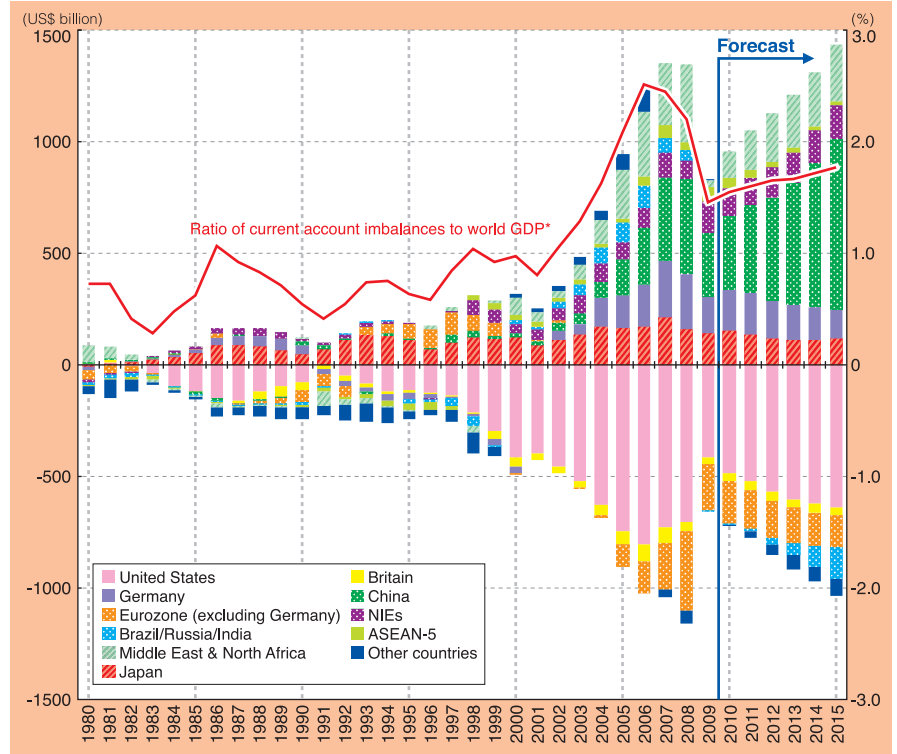
Financial regulatory reforms were one of the major topics discussed by the G-20 finance ministers and central bank governors when they met in Washington in April 2010. The meeting endorsed a progress report on the comprehensive reform proposals aimed at strengthening the capital and liquidity regulations that had been agreed at the G-20 Pittsburgh Summit and discussed in greater detail by the Basel Committee on Banking Supervision. Efforts are underway in search of international cooperation to prevent the financial crisis repeating itself.

### ③ Challenges for International Trade System & Response to Them

There was concern soon after the onset of the global financial crisis that countries might adopt protectionist policies, causing world trade to shrink. However, the trend of world trade after the crisis shows that global import volume began recovering in about five months, although its setback was deeper right after the outbreak of the crisis than at the time of the Great Depression in the 1930s (*Chart 3*). One of the major factors behind this was that countries and regions took action based on international cooperation and that moves to form economic blocs were not seen this time, unlike at the time of the Great Depression. One may say that the World Trade Organization (WTO) framework functioned to check such moves.

However, as countries continue to face the challenges of domestic business recovery and employment security, it looks uncertain if international collaboration can make progress in preventing the rise of protectionism.

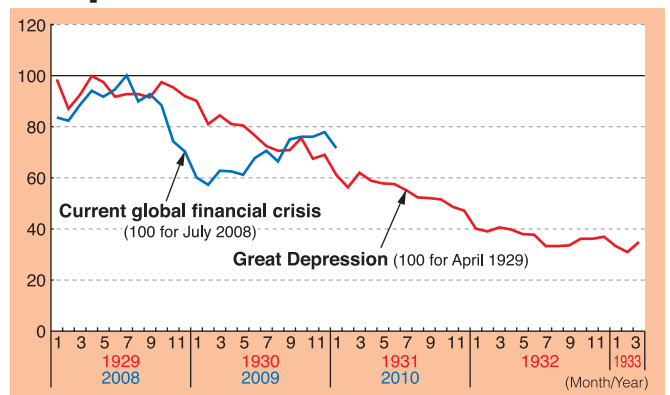
As economic entities become diversified in keeping with globalization, the United States' overwhelming supremacy is gradually waning. This is shaking the basis of cooperation among advanced countries led in the past by the United States. External policy attempts at



Note: \*Ratio of current account imbalances (total sum of current account surpluses) in major countries/regions to world GDP  
Source: Compiled from "World Economic Outlook Database," IMF

### CHART 3

## Comparison of world trade trends



Note: Indexed with peak global import volume as 100

Source: Compiled from "The World in Depression 1929-1939," Kindleberger (1984), and "IFS," IMF

an open trade system tend to be reflected in domestic policies. With national interests increasingly conflicting with one another, efforts to strengthen the multilateral trade system based on WTO rules are essential to ensure further promotion of free world trade.

#### ④ Toward Multipolarized World Economy

In the process of post-crisis recovery, emerging countries are adding to their presence in the world economy. One can say that the world economy is already becoming multipolarized as driving forces of global economic growth spread to emerging countries in Asia and other regions. In particular, the Asian economy that draws global attention is enhancing its status not only as “the world’s factory” but also as “the world’s market.” In order to attain a strong, balanced and sustainable growth of the world economy, Japan needs to support Asian economic development and realize its own economic growth hand in hand with its Asian neighbors.

## 2. Japan's Growth Keyed to Asia's "Domestic Demand"

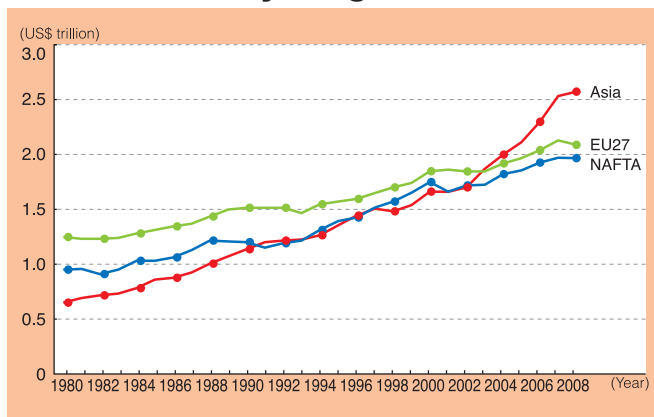
At a time when the world economy is gradually rebounding from the global economic crisis, emerging economies mainly in Asia are making their presence increasingly felt by both the pace of growth and economic scale. Reviewed below is that picture of Asia: namely, Asia as "the world's factory" with developed production networks of manufacturing industries; Asia as "the world's market" with increasing income – the focus of global attention as an emerging provider of "domestic demand" – and Asia as a center of "knowledge" with a spreading network of key bases for research and development (R&D).

### (1) Asia with Established Position as "World Factory"

The past development of the Asian economy had been likened to a flight of wild geese with Japan as the leader, followed by newly industrializing economies (NIEs) consisting of South Korea, Hong Kong, Taiwan and Singapore, the Association of Southeast Asian Nations (ASEAN), China and India. However, the growth model of the Asian economy has been changing in recent years owing to the rapid growth of such countries as China and India. Moreover, Asia's quick recovery from the global economic crisis is making the presence of the Asian economy increasingly felt in the world economy. For Japan as well, it is getting important to contribute to ensuring the sustained development of the fast-growing Asian economy and also making sure that the rapid growth of the Asian economy will have a favorable impact on the growth of the Japanese economy.

As a result of progress in what is known as "the production network of East Asia" – the division of labor among Asian countries and regions in terms of manufacturing processes – the total value added of Asian manufacturing industries has already surpassed that of the North American Free Trade Agreement (NAFTA) members and of the European Union (EU), making Asia the biggest production center in the world (Chart 4). Moreover, the comparison of real values added of manufacturing industries in major Asian countries and regions shows that China outstripped Japan in this respect in 2007, indicating the ongoing shift of the world's manufacturing center focusing

CHART 4  
**Trends of values added of manufacturing industries in major regions**



Note: Asia consists of ASEAN+6

Source: "National Accounts Main Aggregates Database," United Nations

on processing and assembly from Japan to China. (In 2008, the real value added of China's manufacturing sector was \$1.12 trillion as against Japan's \$1.00 trillion, according to the United Nations' "National Accounts Main Aggregates Database.")

As for the world production of such manufactured items as electronic apparatus, automobiles and crude steel, Asia, especially China, accounts for a large proportion. For instance, Asia's share of the world's color TV set production (including liquid crystal TVs) is 60%, of which China accounts for 40% (according to the Japan Electronics and Information Technology Industries Association). Regarding personal computers (including laptops), 96% is produced in China and the remaining 4% elsewhere in Asia (according to the above-mentioned source). Asia accounts for about half the world's automobile production and 56% of the world's crude steel output (according to the International Organization of Motor Vehicle Manufacturers and the World Steel Association, respectively).

Furthermore, Asia is attracting attention not only as a production center, but also as a center for R&D. In Asia, which is also greatly counted upon as a major consuming market (to be noted later), there seem to be moves for the establishment of R&D centers to come up with new products, based on local consumer characteristics.

Since 2000 in particular, the establishment of R&D centers has made progress not only among electric machinery and transport equipment manufacturers, but also among makers of foods and daily necessities. Such moves have been prompted by the need to develop products tailored to the local consuming market as well as by the high availability of excellent researchers at low cost compared with developed countries.

### (2) Asia Expected to Be "World's Consumer Market"

The improvement of income among Asian consumers has generated rising eagerness among Japanese businesses to expand their business in China not only as a manufacturing center, but also as a market. As to reasons for expanding their business in China, a large proportion of Japanese firms, which moved into that country in fiscal 2002, cited China as a base for export to Japan and other countries. In fiscal 2009, however, more than 30% regarded China as their market. ("Research Report on Japanese Manufacturers' Overseas Operations" published by the Japan Bank for International Cooperation). Moreover, since 2006, more companies engaging in the commerce and service sector have expanded their business than manufactures. According to the industry-by-industry analysis of Japanese corporations moving into Asia, the number of manufacturers surpassed the combined total of those engaged in the commerce and service trades as of 2005, but from 2006, manufacturers declined in stark contrast with a marked increase in those engaged in commerce and services, including wholesalers and retailers (according to the "Overview of Japanese Corporations Operating Abroad," Toyo Keizai Inc.).

The global economic crisis has also impacted consumption in Asia by reducing exports from Asian countries and regions and forcing the adjustment of production and employment. Consequently, Asian consumption plummeted from the second half of 2007. Nonetheless, Asia has been quick to recover from the effects of the economic crisis. Thanks to effective business stimulus measures and expectations for prospective growth, the consumer confidence index displayed a recovery in 2009 and even surpassed pre-crisis levels in Indonesia and South Korea.

CHART 5

## Prospects of personal consumption in Asian countries/regions

Personal consumption in Asian countries such as China and India has shown an upswing in recent years and is expected to continue to increase in the years ahead, propelled by such factors as further economic growth and the propagation of durable consumer goods. China's personal consumption is predicted to reach \$5.57 trillion in 2020, far eclipsing the level in Japan. Moreover, personal consumption in Asia as a whole is expected to total \$16.14 trillion in 2020, or about 4.5 times as much as in Japan, outstripping that in Europe and catching up with the US level (*Chart 5*).

Meanwhile, the middle and wealthy classes in Asia are expected to increase from now on.

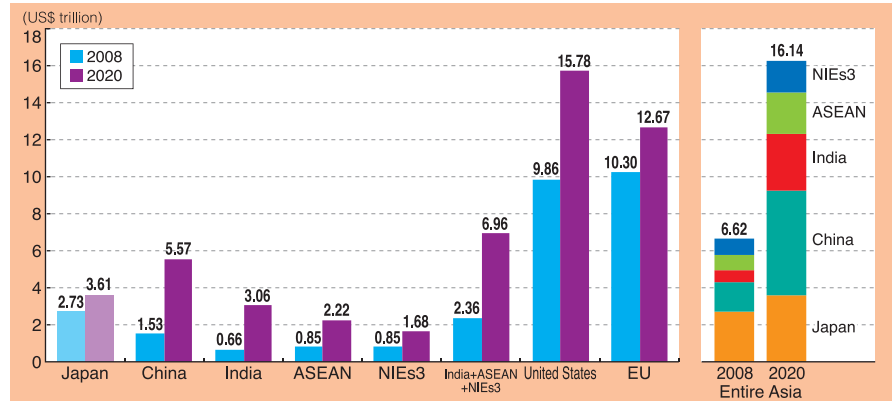
By 2020, Asia's middle-class people are expected to reach two billion, while the number of wealthy people in the region is predicted to exceed Japan's level within five years (according to *Euromonitor International 2010*). Not only goods but services are expected to grow in Asia. This region is now experiencing an increase in expenditures for various services contributory to making life safer, more secure and richer, such as travel, medical care and education. In China, for instance, the proportion of such service expenses in household expenditures, which fell short of 18.4% in 1990, shot up to 40.9% in 2008 as such spending exceeded \$600 billion. In this context, Japan is hoped to provide Asian people with "attractive, safe and secure" services in diverse fields, including culture and medical care since Japan has an advantage in these services.

### (3) Support for Growth by Infrastructure Improvement

To ensure the growth of Asia, it is indispensable to improve three spheres of infrastructure – industrial infrastructure as a basis for corporate activities, life-related infrastructure as a basis for the expansion of consumption, and logistics infrastructure for linkage among industrial clusters.

Asia has seen progress in urbanization in parallel with expansion of new industrial locations. This trend is clearly shown by data on the Asian urban population and the ratio of urbanization. The region's urban population expanded by 700 million between 1980 and 2005, with a further increase of 670 million anticipated by 2025. The urbanization ratio has also increased, and about half the Asian population is expected to be concentrated in urban areas in 2025. In particular, heavily populated countries such as China and India have experienced rapid urbanization since the 1990s, and the proportion of their urban population, which was 27% and 26% respectively in 1990, is expected to show accelerated growth hereafter and reach 60% and 40% in 2030. To support the lives of such urban dwellers and ensure further economic growth, it will become essential to improve social infrastructure.

According to the Asian Development Bank (ADB), a total of about \$8 trillion will be needed for the improvement of intra-Asian infrastructure during the 11 years from 2010 to 2020 to bring Asia's growth potential into full play (*Chart 6*). Of the total, 68% will be necessary for new infrastructure, and 32% for the maintenance and renewal of the existing infrastructure. Such infrastructure invest-



Note: 1. In nominal terms, converted into dollars

2. Asia consists of ASEAN, Japan, China, South Korea and India.

Source: *Euromonitor International 2010*

CHART 6

## Needs for infrastructure investment in Asia worth \$8 tril. (2010-2020)

(US\$ billion, in 2008 real prices)

Sector	New	Renewed	Total
<b>Energy (electricity)</b>	3,176	912	<b>4,089</b>
<b>Communication</b>	325	730	<b>1,056</b>
<b>Transport</b>	1,762	704	<b>2,466</b>
Airports	7	5	<b>11</b>
Seaports	50	25	<b>76</b>
Railways	3	36	<b>39</b>
Roads	1,702	638	<b>2,341</b>
<b>Waterworks/Sanitation</b>	155	226	<b>381</b>
<b>Total</b>	<b>5,419</b>	<b>2,573</b>	<b>7,992</b>

Note: Covered are 30 countries – Armenia, Azerbaijan, Georgia, Kazakhstan, Kirghiz Republic, Tajikistan, Uzbekistan, Brunei, Cambodia, China, Indonesia, Laos, Malaysia, Mongolia, Philippines, Thailand, Vietnam, Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka, Fiji Islands, Kiribati, Papua New Guinea, Samoa, Timor, Tonga, Vanuatu

Source: "Infrastructure for a seamless Asia," Asian Development Bank Institute

ment will cover four sectors – energy (electricity), communication, transport and waterworks/sanitation. Above all, electricity and roads will account for large proportions – that is, \$4.09 trillion (51%) and \$2.47 trillion (29%), respectively. In addition to these national investments in Asian countries, there are at least 1,077 infrastructure projects covering two or more countries, which are said to cost about \$290 billion altogether. Such sectors as energy, roads and communication represent large proportions. The improvement of infrastructure is expected to prove beneficial in economic terms through the sophistication of industrial clusters and the formation of efficient industrial arteries.

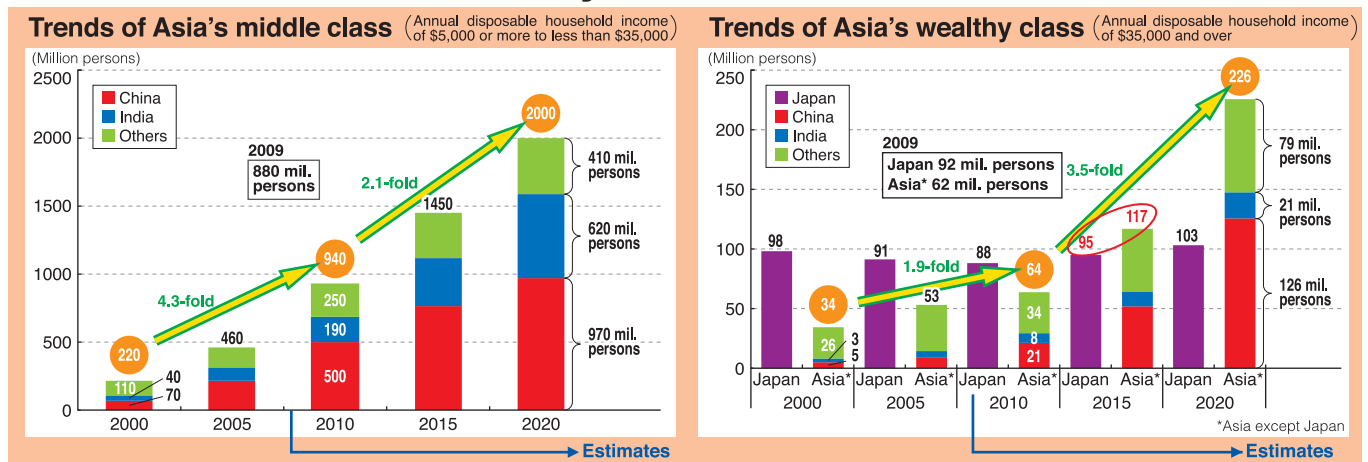
### (4) Asia's Challenges (Low Birthrate, Aging Population, Natural Resources)

In order to enable the Asian economy to achieve sustained growth, not a few problems must be resolved. Since the 1970s, Asia has enjoyed economic growth thanks to the "population bonus" (the working population increases faster than the population as a whole owing to changes in the population makeup, birthrate and mortality rate).



CHART 7

## Trends of Asia's middle & wealthy classes



Note: Household population in terms of disposable household income. Asia consists of China, Hong Kong, Taiwan, India, Indonesia, Thailand, Vietnam, Singapore, Malaysia & the Philippines. Euromonitor estimates for 2010, 2015 & 2020.

Source: Compiled from Euromonitor International 2010

Note: Household population in terms of disposable household income. Asia consists of China, Hong Kong, Taiwan, India, Indonesia, Thailand, Vietnam, Singapore, Malaysia & the Philippines. Calculated by "household income ratio multiplied by population" at each income level. Euromonitor estimates for 2010, 2015 & 2020.

Source: Compiled from Euromonitor International 2010

Nevertheless, the productive-age population in the whole of Asia is estimated to turn downward after hitting a peak in 2035, followed by a quickening tendency toward a lower birthrate and the graying of the population (according to a United Nations estimate). China, India and some ASEAN nations are anticipated to face the aging of population at lower economic levels – with per capita GDP below \$10,000 – than in developed countries. This spells the possibility that they will be confronted with population aging before they can sufficiently improve social security and other relevant systems. Therefore, it is to be hoped that Japan's experience in population aging and related industries such as medical treatment, nursing care and health will be given chances to play a major role in those Asian countries.

Moreover, energy consumption is increasing in Asia's emerging economies such as China and India, aggravating problems related to the environment and natural resources. In particular, China replaced the United States as the world's No.1 emitter of carbon dioxide linked to energy consumption in 2007. By 2030, moreover, China is predicted to surpass the emission total of North America, the EU and Japan combined, boosting its emission share to 30% of the world's total, according to the International Energy Agency (IEA). Consumption of food and water resources is also growing. Food consumption, for example, is expanding in Asia on account of population growth and the diversification and sophistication of a dietary life stemming from increased income due to economic growth. If food supply lags behind consumption and food prices skyrocket in countries which rely on imports for much of their food needs, it will bring heavy pressure to directly bear upon people's life with serious social and economic repercussions. This could put a damper on economic growth. The problems of the environment, energy and natural resources are not the kind of issue that can be resolved by a single country or region alone, and pose a common challenge for the affected region as a whole. Japan is called upon not only to extend assistance with its advanced technologies related to the environment and energy saving, but also to promote Pacific-wide international cooperation and contribute to overcoming the common problems.

### 3. Japan's Future Vision Attuned to New World

Japan's economic growth owes much to the country's overseas relations, rendering it important to further push ahead with globalization in such spheres as human talent, physical distribution and capital. In the face of the changing demand structure of the world economy, Japan needs to promote globalization in all directions in order to build up cooperative relations with other countries, including emerging economies, and thereby generate a favorable cycle of utilizing vitality on both sides. Besides, Japan is called upon to help create domestic demand in emerging economies in Asia and elsewhere by such means as the improvement of infrastructure and thereby contribute to their sustained growth. Described below are what is thought to be important steps Japan should take to march ahead toward its future vision attuned to the emerging new world.

#### (1) Response to World's New Demand Structure

##### ① Securing Markets of Emerging Economies

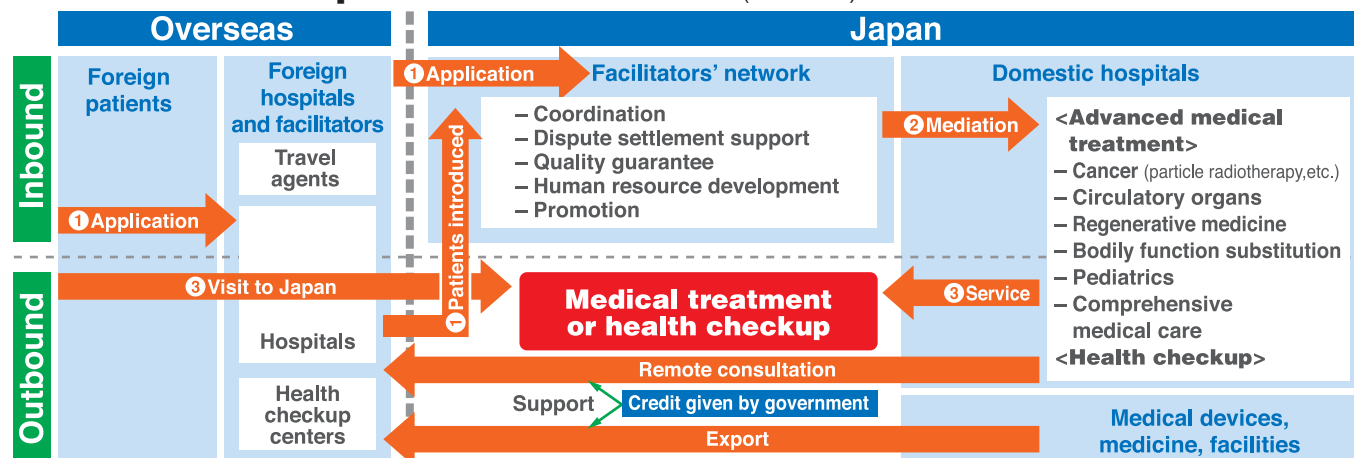
###### a Promotion of Strategy for Markets of Emerging Economies

Asian and other emerging economies are making their presence increasingly felt with great rapidity. At a time when demand in the developed countries of Europe and North America is on the wane, the markets of emerging economies are engaging keen attention against the background of their expanding wealthy and middle classes. Under these circumstances, Japanese businesses are required to look upon the markets of emerging economies not as compensatory markets, but as main target markets. Asia's middle class is expected to expand to two billion people by 2020, while the region's wealthy class is also expected to exceed Japan's level within five years (Chart 7).

Meanwhile, Japanese businesses have failed to secure a big share in the markets of emerging economies whereas South Korean and other firms boast major shares. Japanese firms – manufacturers of not only finished products, but also component parts and raw materials – are required to lose no time in moving to secure the fast expanding markets of emerging economies. To that end, it is deemed

CHART 8

## Globalization of Japan's medical services (Overview)



Source: Ministry of Economy, Trade & Industry

essential to reexamine balance between quality/value and prices, and supply goods and services tailored to local needs, while striving at the same time to give full play to Japan's potential competitiveness as instanced by advanced techniques related to the environment and other spheres, and the high-quality image of Japanese products. It is also important to "stage events" conducive to giving shape to the latent desires of the expanding wealthy class by combining appropriate goods and services.

### ⑥ Providing Attractive, Safe & Reliable Goods & Services

Increasing income in emerging economies brings about improvement in their consumer standard of living, which in turn generates and boosts fresh demand for safer and more reliable goods and services contributory to making life richer and even more attractive. Goods and services provided by Japanese businesses are known to have impressed people in emerging and other countries as "cool and having a good sense," "trustworthy" and "of good quality." As such, they are marked by an "image of safety, reliability and attractiveness." Accordingly, great expectations may be placed on the overseas expansion of Japan's medical care-related services, which can take advantage of their image of safety and reliability, and culture-related industries such as content, fashion and tourism, which can capitalize on their image of attractiveness (Chart 8, Photo).

## ② Creating Domestic Demand in Asian & Other Emerging Economies

### ① Support for Asia's Growth via Infrastructure Improvement & Overseas Deployment of Infrastructure Industry

The improvement of infrastructure provides a basis for the expansion of investment and consumption in the regions involved and helps achieve sustained growth through the expansion of domestic demand. Japan is anticipated to make a positive contribution to the improvement of infrastructure in Asian and other emerging economies in cooperation with such organizations as the Economic Research Institute for ASEAN and East Asia (ERIA) and the ADB.

However, the improvement of infrastructure requires a tremendous amount of capital and is undertaken as national projects more often than not. Therefore, it is important for the government to play a positive role and support the formation of an investment consortium. Thus, concerted cooperation is required of the public and private

PHOTO



A showroom for the "tokyo eye" fashion brand at a Shanghai department store

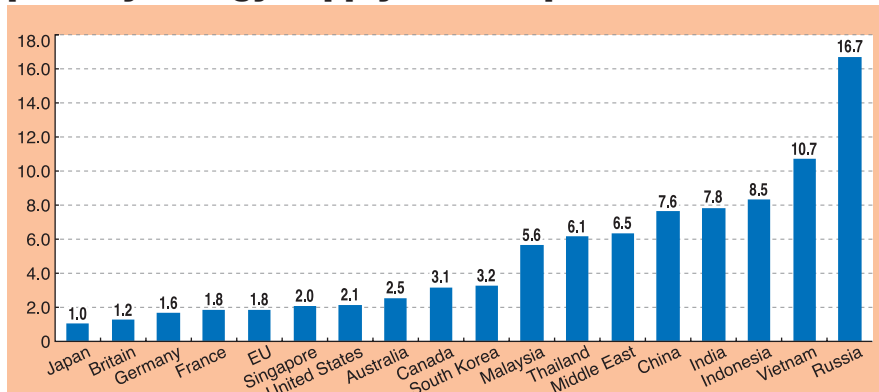
sectors. In many cases, moreover, "total solutions" combining goods and services are called for in regard to such projects as railways and nuclear power plants. As regards nuclear power projects, for instance, emerging economies require not only plant construction but also the provision of services for the stable operation of nuclear plants. Thus, the development of a "system" for cooperation, covering both construction and operation, is called for as a "business solution" tailored to the needs of recipient countries.

### ② Japan Leads in Environmental/Energy-Saving Techniques

One of the major problems the world must solve to ensure sustained growth is how best to cope with global warming and energy needs. So far, Japan has steadily accomplished a lot as instanced by the achievement of the world's top-class energy efficiency through the development of energy-saving technology. It is important for both the world and Japan itself to realize a low-carbon society through the spread of Japan's excellent techniques and the sharing of its experience with other countries, and thereby cooperate and contribute vigorously toward the resolution of global warming. For instance, it is necessary to achieve "green innovation" by promoting the use of renewable energy such as solar and wind power, the active utilization of nuclear power by ensuring safety and efficient electricity supply and demand by means of the "Smart Grid." (Charts 9 & 10)

CHART 9

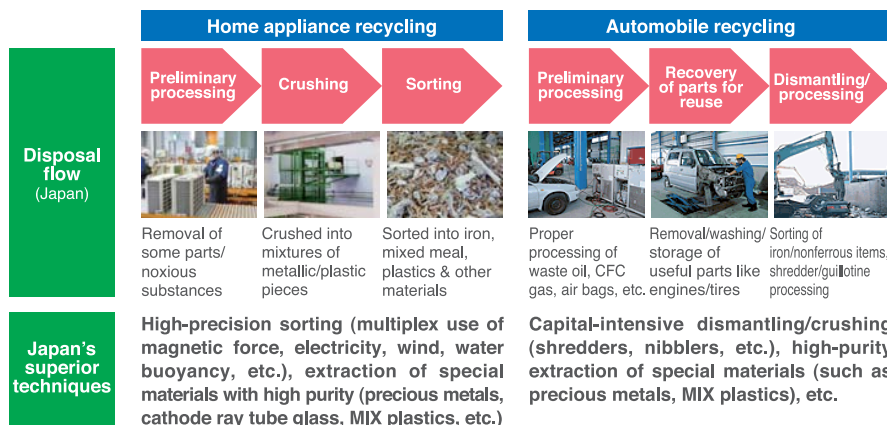
## Comparison of primary energy supply volume per GDP unit



Note: Index with Japan as 1, based on the figure obtained by dividing total primary energy supply (TPES) by GDP  
 $TPES / GDP = \text{Total primary energy supply} / \text{gross national product (GDP converted into dollars at average exchange rates in 2000)}$   
 Source: IEA Energy Balance of OECD Countries (2009 edition) / Energy Balance of Non-OECD Countries (2009 edition)

CHART 10

## Outline of Japan's typical waste disposal/recycling systems



Sources: Panasonic Eco Technology Center (PETEC) home page, Metal & Recycling Co. home page, etc.

## (2) Achieving Salutary Cycle of "Overseas/Domestic Demand"

### ① Smoothing Flows of Humans, Goods, Money & Knowledge

It is very important to make Japan a key base for Asia and the world amid the global economic flow. Japan needs further internationalization, and it is considered desirable to positively attract functions of high value added from abroad, maintain and reinforce domestic economic bases, vigorously invite tourists and business-people from abroad, step up the acceptance of foreign students for study in Japan, and expand the harnessing of highly sophisticated competent personnel abroad. Moreover, the strengthening of the logistics environment through the more active use of international transport centers like airports and seaports will go a long way toward improving conditions for the siting of businesses in this country. Japan should push ahead with the liberalization of trade and investment through the strategic promotion of economic partnership agreements (EPAs) and free trade agreements (FTAs) and improve the business environment to enable smoother flows of humans, goods, money and knowledge. It is imperative for Japan to carry out these and other measures to invigorate corporate activities that serve as the mainspring of economic growth.

Furthermore, as a member of the Asia-Pacific Economic

Cooperation forum (APEC), Japan aims to achieve economic growth, predicated on innovation and a knowledge-intensive economy, by such means as the improvement of the intellectual property infrastructure, the more active and better utilization of information technology (IT) and the promotion of interchange among highly sophisticated personnel. It is thus important to establish bases for a knowledge-intensive economy.

Moreover, amid a growing tendency in Japan toward a lower birthrate and population aging, it is essential to make the most of able Japanese women as well as baby-boomers retiring successively and, at the same time, to secure globally playable personnel from across the world through the more active use of overseas talent.

### ② Strengthening Ties with Resource-Rich Countries

Japan has to rely on other countries for the supply of natural resources. At a time when demand for natural resources is swelling worldwide and especially among emerging economies, it is imperative for Japan to reinforce its relations with resource-rich countries in order to secure the stable supply of natural resources and achieve economic growth. The multilayer development of industrial cooperation with those countries in full consideration of their needs will also serve to enable Japanese businesses to secure

footholds in the markets of resource-rich countries and make it possible at the same time to generate greater vigor for Japan's economic growth. It will become important to conduct top-level diplomacy with resource-rich countries, involving the head of government and Cabinet ministers, as well as reinforcing economic ties by such measures as EPAs and FTAs.

### (3) Contributing to Improvement of Global Economic Foundations

In the context of the global economy, Japan needs to work positively toward the economic integration of East Asia. This will not only amount to Japan's contribution to Asia but also turn out to be highly conducive to Japan's economic growth. Accordingly, it will become important for Japan to improve the investment environment and ensure smoother flows of capital and labor through the strategic promotion of EPAs/FTAs, and to also improve the market environment by means of investment agreements, social security agreements, tax conventions and a better institutional framework for international standards. Japan also needs to attach great importance to its activities for the WTO in connection with, say, protectionist moves emerging after the global economic crisis, as well as to its preparations for the series of APEC meetings hosted by Japan in 2010.