

New Direction of Economic & Industrial Policies Supported by EBPM

By Japan SPOTLIGHT

Evidence-Based Policy Making (EBPM) is defined in Japan as the clarifying of logical links between a policy's purpose and the means to achieve it effectively, the collecting of evidence proving those links. In this clarification, data-endorsed evidence in particular is utilized and thus a basic framework of a policy can be clearly shown to the public. With this definition, the Japanese government officially introduced EBPM in its administrative decision-making process in 2017. An official in charge of promoting EBPM was appointed in each ministry. It also organizes regular inter-ministry meetings to share each ministry's successful cases of EBPM.

METI's Engagement with EBPM

The Ministry of Economy Trade and Industry (METI) has been working on its implementation since 2017 as well. As EBPM is applied to intra-ministerial budget request processes, first it needs to fill in a policy implementation process review sheet and publicize it to show why a national budget is necessary, as well as the policy goals to be quantified, and also set up and publicize a logical model-chart showing how the policy would help change the economy and society. Through this, the relevance of the policy means and objective would be visible.

METI is now attempting to apply a quantitative analysis to examination of a policy's impact in some selected model cases. Within METI, the divisions making a policy and requesting a budget, the policy assessment division and economists from the Research Institute of Economy, Trade and Industry (RIETI) and experts on quantitative analysis are collaborating to examine data to be utilized for the econometric analysis to measure the policy's impact, as well as working on specific quantitative analysis.

METI's New Direction of Economic & Industrial Policies Implemented with EBPM

Industrial policies are now starting to be seen from a new angle. In the 1980s and 1990s, the US and European nations labeled them protectionist and tried to hinder them as unfair practices, though their own national security policies worked as de facto industrial policies to a large extent in enhancing their defense industries with sensitive high technologies. However, today, China is now strengthening its industrial competitiveness significantly at an extremely high speed that has never been seen so far by large-scale

government support for industries. In particular, the expanding high-technology sectors in China are now a threat to all capitalist developed nations. The capitalist nations in the West are now starting to think about application of large-scale industrial policies to counteract this tremendous rise in China's industrial competitiveness.

In addition to this concern about competitiveness, China has presented another challenge. National economic security has emerged as a crucial issue for a nation's survival during geopolitical crises. In sectors with sensitive technologies which could affect security, trade and investment in those technologies may be limited due to concerns about possible leakage of information about them to their trading partners. Excessive dependency on certain vital products by a specific nation would make that nation vulnerable in terms of national security or trade, and investment relations with any country suspected of stealing secrets of vital technology would imperil the country's security through leakage of key information on the technology.

The US-China confrontation, or more generally the confrontation between democracy and authoritarianism, one of the key geopolitical risks to the world today, could exacerbate the situation and the possible disruption of global supply chains between democracies represented by the United States and authoritarian regimes represented by China would make it necessary for each nation to have their own industrial policy to secure vital technology or products in terms of national security. Thus many nations are now pursuing industrial policies based on these assumptions, and Japan should be no exception.

METI is now planning to adopt the following EBPM for promoting its new industrial policies in general with a large-scale budget. A policy's impact, measures to quantify it and how to collect data for those measures need to be clarified before its implementation. Business operators expected to provide such data must agree with the EBPM practitioner on the provision of the necessary data. Explicit involvement by experts on quantitative analysis must be achieved. RIETI, a public policy think tank affiliated with METI, having established an "EBPM Center", is to be officially involved in the EBPM process as an advisor. As a trial, it adopted a subsidization policy to secure production sites for advanced semiconductors in Japan and funding for green innovation (innovation of environmental technology). Thereafter, new policies with large-scale budgets will in principle be subject to EBPM and the effects of the finished large-

scale budget policies will be successively examined.

Ideal Future of EBPM in METI & Issues to Be Tackled for Its Realization

METI eventually aims at becoming a data-driven organization. To analyze policy impacts by data, a wider and horizontal utilization of a variety of data must be accommodated. In particular, in the near future, it would like to get real-time data through a private cloud service on finance, accounting, as well as labor management contracts used by the companies to be covered by the analysis after getting their agreement. With such real-time data, it could have more up-to-date EBPM. But to achieve this there will be challenges to be overcome.

According to METI's Business Process Re-engineering Division in charge of promoting EBPM, there are mainly two issues to be tackled. First, there are not enough data yet necessary for EBPM. Second, government officials' literacy in data utilization and quantitative analysis is not sufficient yet at this moment. There is also frustration with so much paperwork on a wide range of policy assessments that is occasionally duplicated.

On the first issue, the government plans to ask the offices in charge of the relevant policy to obtain the necessary data by using part of its budget at the beginning of the project proposal. These data are, in the case of METI, usually on the business firms intending to apply. Thus, it will also examine the possibility of gathering data sources of business enterprises' activities for horizontal use while promoting accumulation and utilization of digitalized data to be acquired when these business firms apply for any given policy project.

In this regard, it is important first to promote utilization of government statistics, but as government data are not up to date but only available after a time lag, how to promote utilization of real-time data from the private business will be a crucial issue to be solved.

On the second issue, the government plans to organize a training program for those officials to promote utilization of data and expand the data users. It is also going to introduce experts on econometrics in RIETI who could help these officials involved in EBPM. The officials would have a stronger incentive to work on EBPM if it is always a prerequisite for budget allocation.

At this moment, in METI, there are four so-called EBPM concierges providing officials with advice on how to collect data and

how to use them for quantitative analysis to prove a policy's positive impact. It is, however, a bit uncertain whether this is sufficient to allay all the frustrations of the METI officials involved in EBPM.

The United Kingdom and the US are the countries at the forefront of EBPM. In the UK it has been developed since the government of Prime Minister Tony Blair from 1997, and today more than 1,500 government economists are working on pre-policy implementation assessment by social cost-benefit analysis in a policy-making process among different ministries and providing ministers with policy advice. All of them were once employed by the Government Economic Service and have been assigned to each ministry.

In the US, EBPM has been actively developed since the administration of President Barack Obama from 2009. The Office of Management and Budget in the White House has reinforced each government department's involvement in EBPM through its annual guideline for budget requests from each department delivered to them every year. They have \$100 million in budget for promoting EBPM, apart from Tiered Grants, subsidies provided depending upon the robustness of the evidence.

Japan will need to study expanding funding and human resources for EBPM, following these examples. **JS**

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