

New Industrial Policies for Safeguarding Economic Security

By Naoyuki Haraoka

We highlight in this issue Japan's "new industrial policies" being discussed today among leading thinkers with influence on policymaking in the country.

Industrial policies have long been considered another name for protectionism since the 1960s in OECD countries, having brought about economic inefficiency. But today, many economists have started to recognize the merits of industrial policies in contributing to a nation's economic welfare. Against the background of severe competition with emerging economies, OECD nations are finding it inevitable to enhance their policy support for industries to maintain or improve their international competitiveness, the staple source of their current economic welfare. Otherwise, they would lose the benefits of growth and get poorer and poorer. In particular, the growth potential of the world economy has become saturated today and the limited benefits of growth need to be shared by the OECD economies and the emerging economies. The struggle for the bigger share of growth between the two groups is becoming severe.

Secondly, whereas the population of the emerging economies is growing remarkably, population growth in the OECD economies is stagnant due to aging and low birth rates. This would certainly limit the share of the growth benefits for OECD economies.

Finally, geopolitical risks are rising, as dramatically seen in the Ukraine crisis and China's aggressive foreign policy, as well as North Korea's numerous missile launches in the neighboring region. To counteract these power-based threatening national security actions, other countries will need industrial policies that raise strategic industries and strengthen their resilience against geopolitical risks and ensure national security.

New industrial policies that would achieve the objectives above would not be the same as the conventional ones up until the 1980s. This is not a sectoral policy approach but a horizontal approach to strengthen the overall economy's competitiveness. It is not in the form of direct policy intervention such as subsidies and regulations but indirect policies affecting the business sector's incentives by deregulation or market design. The particular focus of industrial policies will be on the digital economy, as today digitalization is key to competitiveness in all business sectors and human society overall. Economic success will depend on what rules for digital economy are devised by the governments of all nations.

A digital society is, I believe, one in which the main role is to be played by an individual and not by a big company. We would need neither a grand office space nor a large number of employees working in a corporate hierarchy as part of a machine. Instead, we would need creative individuals who would spare no efforts to advance their career in a knowledge-based economy. These individuals, integrated in a borderless network beyond companies and organizations, would contribute most to raising a country's international competitiveness. In this light, unfortunately, the merits of the Japanese lifetime

employment system and seniority-led promotion would not work well anymore. An individual changing job audaciously in search of better working conditions, regardless of the years spent in the same company, and with wages paid according to performance criteria rather than seniority, would contribute most to the economy's structural transformation by enhancing its resilience in response to any changes in the economic environment, such as threats to security or energy.

The Japan Economic Foundation (JEF) organized research on "New Industrial Policies for Safeguarding Economic Security" early in 2022 and issued policy recommendation in June 2022, and we are planning to publish a book consisting of articles by the research team's distinguished members by the end of 2022.

Following the policy recommendation drafted by the team headed by former CEO of Asia Development Bank Institute and Emeritus Professor of Keio University Dr. Naoyuki Yoshino, we provide a very interesting Roundtable discussion in this issue on the subject moderated by our chairman, Masakazu Toyoda, with the participation of the various distinguished members. Among the wide range of research topics discussed by our team, we have selected three interesting topics for your consideration, which follow the Roundtable.

Kentaro Sato, a Ph.D. student at the University of Tokyo, presents the challenges that large Japanese corporations are facing and that need to be mitigated soon in order to restore Japanese competitiveness and ensure their economic security. There are two big issues they face: one is the lack of willingness to reinvest cash assets accumulated in their accounts as surplus resources, and the other is the need to change the lifetime employment and seniority-based salary system as mentioned above, the culprit of Japanese business inefficiency.

Prof. Hiroaki Miyamoto of Tokyo Metropolitan University, a labor economist, discusses how to achieve a flexible labor market in Japan in his article, while Prof. Tokuo Iwaisako of Hitotsubashi University, another economist involved in studying Japanese university reform, seems less optimistic about the important reforms urgently needed in Japan to create more open Japanese universities that can attract experts from around the world with higher salaries paid in accordance with competency rather than working years; but he hopes such reforms can be realized by political leadership.

Needless to say, we will need team work supported by trust to achieve all these necessary reforms in a wide range of areas.

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