

# Why Is It necessary to have an “Asia-Wide Industrial Policy”?

By Masakazu Toyoda

The term “industrial policy” has become something of a buzzword in recent years and it is now commonly heard of in many countries. However, when in the past Japan was in trade friction with the U.S. or the EU, talking about an “industrial policy” was not so well received. The dictionary defines an industrial policy as “a policy to change the industrial structure by accelerating the development of a particular industry or protecting it through government inducement”. Upon closer examination, this is not a new phenomenon as countries have been developing and adopting industrial policies for a long time. The defense industry in the U.S. and the aircraft industry in Europe seem to be typical examples. The term “industrial policy” is once again attracting attention mainly from the perspective of ensuring economic security. In terms of scale of government spending, it amounts to tens of billions of dollars in the short term and hundreds of billions of dollars in the medium term.

The Economic Research Institute for ASEAN and East Asia (ERIA) and the Japan Economic Foundation (JEF) are working together on a cooperative project to study an “Asia-Wide Industrial Policy”. The project aims not to boast a scale of grant for certain industries, but it seeks to develop such a policy to avoid for all Asian countries, including ASEAN and India both with great growth potential, to fall into the “middle-income trap” and simply develop in a stable manner. Such outcome would in turn lead to more development for Japan as well.

Over the last year, this cooperative project profited from the participation of universities and research institutes from six countries, Indonesia, Malaysia, Thailand, the Philippines, Bangladesh, and India. The themes of the project which represent common issues were “digitalization measures,” “climate change measures,” and “measures for agriculture and small and medium-sized enterprises”. Let me summarize some of the interesting points.

First, the reports have been comprised of policy recommendations consistent with evidence-based analytical studies, relying on quantitative and qualitative analyses using statistics, interviews, public opinion surveys, etc. Professor Yasuyuki Sawada of the University of Tokyo, and former chief economist at the Asian Development Bank, supervised this project and offered a great deal of expertise and experience. As an example of evidence-based approach in the field of “digitalization measures”, a quantitative analysis of the impact of digitalization on employment, wages, and GDP growth as well as a qualitative analysis of the forthcoming obstacles through interviews and public surveys were conducted and policy recommendations were made.

Second, two research institutes/universities in two countries made analytical research on a single theme. This was not intended to pit two analysis teams against each other, but rather because Asian countries have diverse industrial structures and are at

different stages of economic development, and so it was thought that multiple analyses on the same theme would complement each other and be easier for many countries to use as a reference. For example, policy recommendations on “climate change countermeasures”, must recognize that they would perform differently in each country depending on energy availability, company size, financial base, etc. and must also reflect the wishes and requests of those interviewed and respond to the public opinion polls of the respective country.

Third, Japan as well as ASEAN, India, and other countries have much to learn from each other. For example, Japan's detailed policies and experiences in “agriculture and small and medium-sized enterprises” are expected to be helpful for Asian countries. On the other hand, Japan has much to learn particularly in the field of “digitalization measures” from ASEAN countries and India, which are leapfrogging in the area of financial digitalization.

Finally, it is important to recognize, as mentioned above, that an industrial policy is now being reevaluated from the perspective of economic security. If relying on a single country for supply chains leads to vulnerability in terms of security, it is mutually beneficial to make the industrial base of more Asian countries tenacious. This is why there is a need for an “Asia-Wide Industrial Policy”.

Of course, an “Asia-Wide Industrial Policy” is not only useful from an “economic security” perspective, but it is also important from the perspective of “promoting free trade” and “coping with an aging society”, both of which will be addressed in the second year of the project. For the promotion of free trade, it is essential that more Asian countries join the Regional Comprehensive Economic Partnership Agreement (RCEP) and the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP), and contribute to the restoration of the WTO's dispute settlement function. For the former, it would be effective to identify the obstacles to accession and learn from each other's experiences what to do to overcome them. For the latter, it is necessary to develop a common understanding in order to find solutions and make recommendations. In addition to sharing the experience of Japan as an issue driven country in “coping with an aging society,” Japan must not forget to develop a better organized system to welcome the people of Asia.

The “Asia-Wide Industrial Policy” is a necessity if we want the Asian countries to develop further, while helping each other. **JS**

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