

The Vision within the White Paper 2006

By Shiraishi Shigeaki

The Concept behind the White Paper's Message

An astute novelist once wrote that people show concern for themselves but very little concern for others. Adam Smith, the founder of free-enterprise economics, would probably have said there is nothing wrong with that, since if each person thinks about his or her own gain and acts accordingly, an “invisible hand” will promote the public interest, ensuring that society benefits as a whole.

The “invisible hand,” according to Smith, directs the market so that it functions as it should. In actual fact, of course, the market is not a completely autonomous entity in its own right – it needs to be continually invigorated by hard-working people.

Today, it is common to glorify economic globalization and hail capitalism as a victor, but we tend to forget that the global market cannot succeed without the hard work of all of us. The global economy of the past era, based on the gold standard and centered on the British Empire from the 19th to the early 20th century, was most likely regarded in those days in much the same way we regard economic globalization today. The tragic events that followed that era show how things can go terribly wrong.

Today's economic globalization is driven by efforts to achieve a global equilibrium in marginal productivity and to share the world's resources effectively. This is not bad in itself, of course. Our task is not to debate the pros and cons of economic globalization, but to adapt to

and take advantage of its reality.

We need to look closely and calmly at the global events now unfolding and make sure that future generations do not have a better world taken away from them. If we make the wrong decisions, the ones who suffer will be our children and grandchildren, the very people we hold most dear in our hearts.

The White Paper 2006 was written with the above thoughts in mind. It objectively examines today's global economic trends and brings into focus the efforts needed to ensure a bright future.

The concept behind the message in the White Paper is clear: To avoid problems caused by its low birthrate and aging population, and to expand the financial resources available for its citizens (an issue tied to its Gross National Income, GNI), Japan should ensure its potential for sustainable growth by:

(a) Maintaining GDP growth by using economic globalization as a lever to boost productivity

(b) Expanding both domestic and foreign investments, using this “double-track” structure to increase the country's income surplus

An increase in Japan's financial resources available for its citizens (a result of an increase in GNI)=

Achieve higher GDP by using economic globalization as a lever to boost productivity +

Greater income surpluses through use of a “double-track” structure

Using Economic Globalization to Boost Productivity

Economic globalization represents a trend toward the effective global allocation of resources (i.e., an equilibrium in marginal productivity), and is an instrument that can be used to raise productivity.

For example, Japanese corporations, by expanding their operations to other

Illustration: Inagaki Taketaka



Asian countries, seize the potential to improve their productivity at the corporate level (by taking advantage of their sectoral predominance and by reducing their costs), at the industrial level (by increasing their competitiveness) and at the national economic level (by reappportioning resources effectively). We can expect that the resulting rise in productivity will increase Japan's GDP.

The government of Japan should therefore support the international business activities of Japanese companies, especially in Asia. It can do this by promoting efforts to liberalize trade and investment, harmonize trade rules, stabilize foreign exchange and financial systems, and reduce "the business cost distance" (the cost of moving personnel, commodities, capital, information and other assets between bases of operation). Today, the debate on these objectives goes further than the old debate on the "hollowing out" of Japan's industries.

The Japanese government should also encourage the training and use of human resources on an international scale, and the introduction of technology and know-how from other countries.

Japan, a Country Built on Investments Grown through a Double-Track Structure

In 2005, for the first time since World War II, Japan's income surplus was greater than its trade surplus. Japan's income surplus is growing because of the many years of current account surpluses, the result of accumulated overseas assets.

Japan's low birthrate and aging population, however, will reduce savings and lead to a smaller surplus, or even a deficit, in the current account balance. It is therefore important to continue growing the income surplus, moving from the current "single-track" structure (whereby a current account surplus leads to more overseas assets which in turn lead to a higher income surplus), to a "double-track" structure (whereby domestic and foreign investments are both expanded, leading to an increase in foreign profit ratios). If this double-

track structure works effectively, Japan's income surplus could practically be doubled, from 2.3% of GDP in 2005 to more than 4.5%.

These strategies will make Japan a country built on investment, boosting the financial resources available for its citizens while also providing Asia and other countries with the investment capital they need. These win-win strategies promoting Japan as a country built on investment are two sides of the same coin that will support the above-mentioned international business activities of Japanese companies. Two probable results are that Japan will more fully realize how great a stakeholder is in the global politico-economic system, and that it will exhibit even more responsibility in maintaining that system's stability.

Issues Needing Further Exploration

Of course, the White Paper does not discuss all trade or economic issues. Because of the need for consensus within the Japanese government, some issues that should have been included are not. (From this it would seem that the government still considers a number of subjects taboo!) At any rate, we can at least mention three issues that will require further exploration over time.

1. The relationship between the principle of competition and the principle of industrial specialization:

According to commonly accepted trade theory, all countries benefit if each one specializes in industries in which it enjoys a comparative advantage. Under this theory, it makes no economic difference whether a country specializes in the manufacture of potato chips or microchips, since Country A's specializing in one sector will complement the economic effect of Country B's specializing in the other. But in the actual world, under the principle of competition, there is a fierce struggle for competitive advantage. So we must deal with these questions: How are the two principles interrelated, and how should we regard

them? The answers to these questions will form key elements in future policy proposals.

2. The relationship between commercial principles and industrial principles:

Under commercial principles, profit is achieved by taking advantage of some form of difference, whereas under industrial principles, profit is achieved by raising productivity. In the international context, any consideration of these two sets of principles will lead to another question requiring further study: What value should we attach to an economic globalization whose goal is an international equilibrium in marginal productivity?

3. The relationship between the principle of enterprise and the principle of the state:

In the competitive marketplace, it is natural for one company to compete against another. What is best for Japanese companies is not necessarily best for Japan. Against the backdrop of growing global corporate competition, what should a state do and what should its objectives be? These questions must be examined in greater detail.

These three issues came into my focus during the preparation of the White Paper 2006 and I hope to explore them further in the future.

The White Paper as a Reference for the World

In reality, Japan is not the only country that needs to increase productivity and stimulate its economy within the context of economic globalization.

These are issues that many countries are now struggling hard to find the correct answers to. I therefore hope that our White Paper will serve as a point of reference not only for Japan but for many other countries as well, for the sake of our children and future generations worldwide. **JS**

Shiraishi Shigeaki is a director of the Policy Planning and Research Division, Trade Policy Bureau of the Ministry of Economy, Trade and Industry (METI).