

An Outline of Economic Structure Reform

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Significance of implementing economic structure reform now

The globalization of the world economy is progressing rapidly, and we are witnessing the age when business corporations can choose the country where they locate has arrived. In such an age, companies locate their operations in those places they consider best from an economic rationale, transcending international borders. In Japan, however, some regulations,

systems and practices that have outlived their usefulness are still retained. They are partly the causes of high structural costs across the entire economy. Moreover, the aging of the population is progressing in Japan at a speed that is without parallel in the rest of the world, with fear not only of a decrease in the working population but also a rise in the public burden due to increased social security expenditures. There is also concern that a vicious circle will develop in which structurally high costs and a rise in the public burden make Japan less attractive as a

base for business operations, and that companies which are internationally competitive will transfer their operating bases overseas, increasing the burden that companies remaining in Japan must carry in terms of social security payments.

Taking the following actions are extremely important for Japan in order to avoid this vicious circle and preserve its economic dynamism when the environment for the country is becoming increasingly harsh both domestically and internationally:

- (1) Creating new industries;
- (2) Making Japan an internationally attractive base for business operations; and
- (3) Reducing the public burden as much as possible.

To achieve these goals, the Program for Economic Structure Reform, compiled by MITI, was adopted as a Cabinet decision in December 1996, and the Action Plan, which is the concrete substance of the Program for Economic Structure Reform, was finalized by the Cabinet in May 1997. In December 1997, MITI conducted the first follow-up to the Action Plan adopted as a Cabinet decision. This evaluated and expedited the progress made toward the goal of the program, clarified the scheduling of its implementation, and appended additional measures. We would like to take the opportunity to explain the significance of the Action Plan and the changes that are expected to evolve in the economic environment.

Creating an environment favorable to new business activities

From now, the environment in Japan is expected to change into one that facilitates the launching of new enterprises in such respects as funds,



Acknowledging the dynamic change of business environment, MITI conducted a follow-up to the Action Plan

human resources and technology.

Funds

With Japan's financial system presently in such a critical condition, emerging ventures, which possess few assets, have difficulty raising funds. Consequently, it is a matter of urgency that Japan set up a system that can supply funds without collateral to fledgling enterprises which show promise, in order to foster new industries. In the United States, there are large numbers of venture capitalists who invest in promising companies in such industries as information, and their investment is about five times larger than the corresponding investment in Japan, both in flow and stock.

As a part of financial reform, it has become possible in Japan for investment trusts to invest in unregistered, unlisted stock companies. Moreover, MITI has submitted a new bill to the current Diet session for the purpose of creating a Japanese version of the U.S. investment partnership system. If the Diet passes the bill, fund sources will diversify and risk capital, including abundant private-sector funds, will begin to be supplied to emerging growth ventures, which at present have difficulty in obtaining loans from banks.

Human resources

In order to ensure its economic survival and growth, since it has few natural resources, Japan should endeavor to foster the growth of a wide variety of abilities in people, who can then actively develop new knowledge and new ideas and can think creatively, as opposed to fostering abilities which



Academia-Industry R&D: Sumitomo Metal Industry's High Quality Life Research Institute in Kansai Science City

were suited to the catch-up type of progress of the past. Further, establishing a system where the right position goes to the right person is essential.

As part of the Action Plan for economic structure reform, MITI has decided to ease the regulations for fee-charging employment placement businesses and introduce a tax system to facilitate the introduction of stock options. These measures should make it easier for companies to secure able and creative individuals. Deregulation of manpower dispatching businesses will make it possible for them to deal with a broader range of competencies than at present. In addition, the internship system, under which students can experience work related to their majors and future careers while still in university, will become more widely used, and university education will be reformed to produce a greater number of young people who have greater creativity and can rise to the challenge

in uncharted areas of business.

Technology

To ensure continued progress and growth in Japan, new industries with high growth potential must be promoted, and the development of new technologies for such industries is indispensable. To this end, the government will sponsor research and development on a priority basis in areas relating to industries such as information, telecommunications and environmental protection. Again, the government will structure a system to facilitate the utilization by the private sector of intellectual property rights held by academia and create an environment that stimulates the development of innovative technologies.

Moreover, by revising the patent violation compensation system in order to better protect intellectual property rights, the government will help create a society where people who have developed new knowledge and new

ideas are duly rewarded.

Information and telecommunications

After the collapse of the bubble economy, capital investment in information has been greatly curbed in Japan. Since information and telecommunications are the foundations of corporate activities, and are major factors determining productivity in all areas of economic activity, the international competitiveness of Japanese companies may seriously decline if capital investment in information continues to be limited.

Under the Program for Economic Structure Reform, the period until

fiscal 2001 is considered to be the takeoff phase for the realization of an advanced information and telecommunications society, in which Japan's information and telecommunications industry will progress to top international level. The environment to facilitate an advanced information society should be quickly established by completing, among other things, a nationwide fiber optic communications network by 2005 and making electronic commerce a widespread phenomenon. As

a result, new businesses will be born in diverse fields, and the foundations for higher productivity in all areas of economic activity will be established.



*Fair competition:
Deregulation of energy
sources will bring lower
energy costs*

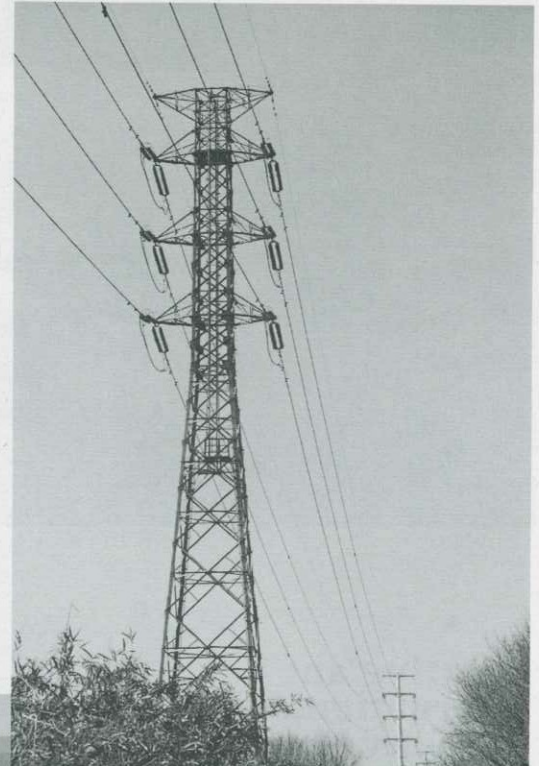
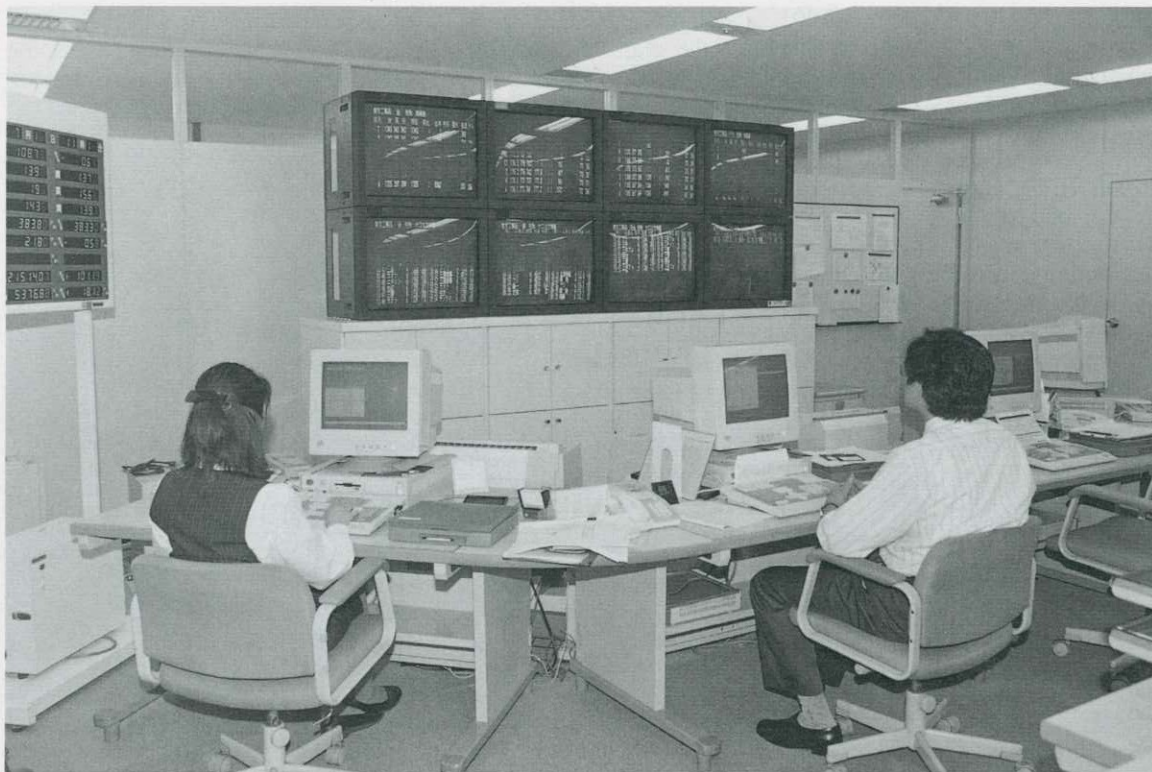


Photo: Tokyo Electric Power Company





On-line activity: Shift to electronic commerce enhances business opportunities

Creating an internationally attractive business climate

(1) Correcting the high-cost structure

It is expected that drastic deregulation measures will be taken in regard to distribution, energy, information and telecommunications, and so on, which are basic elements in industrial activities, with the aim of providing internationally high standard services at correspondingly low cost by fiscal 2001.

Drastic deregulation measures

[Logistics and transportation]

The government will abolish, as a rule, regulations that are hampering new entries in the logistics and transportation industries sometime between fiscal 1999 and fiscal 2001,



while taking measures to create the environment and conditions necessary to facilitate new entries.

[Energy]

The government will take measures to ensure fair competition among

competitive energy sources, such as electricity, petroleum, and gas, for the purpose of lowering energy costs to internationally comparable levels, while taking measures to ensure energy security. Regarding electricity, the government will endeavor to raise the load factor, stimulate competition in power generation and improve the overall power distribution and transmission facility structures to reduce power costs in Japan over the medium to long term. With regard to oil, the government will introduce international market forces and relax regulations and improve systems by 2001.

[Information and telecommunications]

Through drastic deregulation of telecommunications enterprises and creating an environment to ensure fair and effective competition, the government will establish a more competitive market in the area of telecommunications and endeavor to eliminate the difference between Japan and overseas in both domestic and international telecommunications charges and in the quality and variety of services on offer by fiscal 2001.

[Finance]

With regard to finance, which is a basic factor for industrial activities, the government hopes that financial institutions will get rid of their bad loans by 2001, and at the same time, the government will carry out a reform of the financial system including drastic deregulation in order for the Japanese financial market to be reborn as an international financial market comparable to New York and London.

The government will do its utmost to stabilize the nation's financial system. Because banks' reluctance to lend is causing problems, the government will expand loans from government banking agencies and make use of the credit guarantee function of the Credit Guarantee Association, etc., to ensure that necessary funds are supplied smoothly to sound small and medium-sized enterprises and second-tier companies. As part of such endeavors, the government has already

activated the supplementary budget and the flexibility clauses of the fiscal 1997 Fiscal Investment and Loan Plan.

[Distribution]

Regarding the Large Scale Retail Store (LSRS) Law, MITI has decided to make fundamental policy changes by introducing a new legal framework to address current and new concerns, such as environmental problems, related to the opening and operating of large scale retail stores. Thus, the current LSRS Law will be abolished.

[Other items]

The government will abolish the acts relating to depression and rationalization cartels, and review the other cartels allowed as exceptions to the Antimonopoly Act in order to ensure fair market competition.

• *Improvement of commercial customs*

In order to correct trade practices that cause inefficiency in society, such as small-lot shipments at a high frequency and a multi-stage distribution system, the government will examine areas where there seem to be problems and urge improvement. In addition, the government will study ways to complete a civil law-based system of relief to help people seek redress on their own initiative and responsibility for damage which they have suffered from acts that hamper the realization of a fair market which is open both domestically and internationally.

(Review of standards, certification systems, etc., and reform of the standardization system)

Under the premise that nothing should undermine the protection of people's lives, health and property, the government will conduct an overall review of standards, certification systems, etc., with the participation of every ministry and agency in line with the following principles:

(i) Government regulations should be kept to the minimum necessary to serve the purpose of the underlying policy;

(ii) Even where regulations are necessary, the government will structure a licensing system, etc., operated by a third party by using the private sector's abilities and resources as much as possible. The government will structure an efficient licensing system which is free from overlapping inspections.

(iii) The above system should be capable of coping quickly and flexibly with technological progress.

(iv) The system should be in alignment with comparable international systems.

(v) As regards product safety, the system should be one which urges manufacturers to voluntarily endeavor to ensure the safety of their products by use of such measures as product liability insurance and providing information on products.

(2) Reform of various systems relating to business corporations

As a result of the relaxation of regulations concerning such changes in organizational structure as a corporate split, merger and the establishment of a joint venture, companies will become able to change their organizational structure more quickly, more flexibly and at a lower cost than at present. As a result of a tax amendment beginning fiscal 1998, the corporate tax rate in Japan will be lowered with internationally comparable levels being taken into consideration. (The base corporate tax rate will be lowered by 3%.)

The corporate pension scheme greatly affects the business climate in Japan, corporate management, and the mobility of labor, as well as the lives of retirees. The government will structure a sound and efficient corporate pension scheme with the assumption that the lives of retirees in their old age should be stabilized, while heeding the need to make the business climate in Japan internationally attractive. To be specific, the government will study the corporate pension scheme in relation to the public

pension scheme, with regard to such matters as the protection of employee benefit rights, trustee liability, information and disclosure, the checking system, and maintaining portability. In conducting this study, the government will take into account the relationship of the corporate pension scheme with other systems to guarantee the income of old people.

(3) Reform of the employment system

By easing the regulations concerning fee-charging employment placement businesses and reviewing various systems, such as the corporate pension scheme, the government will bring into being a labor market which is easy both to enter and leave, making it possible for workers to display their abilities to the full and at the same time

create an environment where women and aged people can work comfortably.

(4) Construction of infrastructure relating to economic structure reform

In allocating the public-works budget among projects during the period of intensive fiscal structure reform, the government will allocate funds with high priority given to infrastructure construction projects that will contribute to improving efficiency of distribution, such as the construction of high-standard arterial roads, hub airports, core harbors and urban redevelopment.

The government will quickly implement the "Action Guidelines" aimed at cutting the cost of public-works projects by at least 10% and introduce a follow-up appraisal system for entire public-works projects and by doing so, will improve efficiency and ensure transparency in the implementation of public-works projects.

Further, the government will work out new guidelines by this spring, clarifying the various conditions in areas where it is expected that new methods of constructing infrastructure by private corporations, such as the private finance initiative (PFI) and the build-operate-transfer (BOT), will be introduced. The government will study new ways to construct infrastructure based on the Japanese versions of PFI and BOT by capitalizing on the experience and know-how in BOT accumulated in overseas economic cooperation, etc.

(5) Maintenance and promotion of regional industries and accumulation of professional skills which support production of goods

In close cooperation with MITI, the Ministry of Construction and the Ministry of Labor, the government will implement various fundamental and comprehensive measures to secure and foster the growth of superior abilities in the production of goods.

(6) Vitalization of city centers

Under comprehensive city planning



Photo: Kyodo News Service

Japan's third major bridge: The Akashi Kaikyo Bridge, crossing the Inland Sea, opened April 5



Photo: Nihon Keizai Shinbun, Inc.

Reform from the foundations: Construction of the Akashi Kaikyo Bridge has promoted other large-scale projects

that takes account of the policies of cities, towns and villages, the government will improve the environment for traffic, promote an efficient and intensive utilization of

land, expand and regenerate the various functions of cities such as commerce, living, personnel exchanges, and amenity, and by doing so, will restructure the functions of cities and

vitalize commerce.

Curbs on the public burden to maintain and promote economic dynamism

(i) The government will review the division of labor between the public and private sectors in relation to the social security system, tap the private sector's vitality and achieve an appropriate balance between benefits and burdens. As regards the medical system, the government will adhere to the policy of keeping the growth rate of the nation's medical costs within the national income growth rate and carry out, as quickly as possible, fundamental reforms in such areas as the Health Service System for the Elderly, the Medical Fee System, the Drug Price System and the Medical Care Delivery System.

(ii) The government will carry out fiscal structure reform in line with the Fiscal Structural Reform Law while simultaneously implementing economic structure reform. In compiling the fiscal 1998 budget, the government reviewed the current structure for determining expenditures, and gave emphasis to areas that contribute to economic structure reform, specifically the environment, science and technology, information and telecommunications, and improving the efficiency of logistics.