

# Industrial Policy and Economic Growth

In the 1980s, numerous economic analyses were conducted on industrial policy, but the enthusiasm of economists toward the subject waned during the 1990s as the Japanese economy entered its "lost decade." Practical industrial policy also began to abandon its traditional focus on specific industries. However, with the global economic crisis that arose from the Lehman Shock in autumn 2008, major countries have actively engaged in industrial policy that supports or promotes predominantly green growth industries and companies, such as those manufacturing solar batteries and electric automobiles. In 2010, the EU Commission put forward "Europe 2020," a new strategy for growth, and in Japan, Ministry of Economy, Trade and Industry (METI) published "The Industrial Structure Vision 2010," with the Government subsequently announcing its "New Growth Strategy" this June (see page 6).

RIETI has conducted various research related to economic growth policy, such as innovation, productivity, and globalization of enterprises, and the results have contributed to planning a growth strategy. In late 2009, RIETI invited influential figures from the U.S. and Europe to participate in "Industry-Related Government Policy and the Global Economic Crisis," a symposium to discuss the positive roles and potential pitfalls of industrial policy in major economies.

The existence of "market failure" is evident in cutting-edge industries where development and diffusion of innovations are crucial or in environment-related industries where the focus is on dealing with external diseconomy. In such cases, well-designed industrial policies can contribute to industry development and economic growth. However, inappropriate policy measures may hinder natural market selection mechanisms and this may be detrimental to long-term economic growth. The recent experiences of major countries in the wake of the global economic crisis suggest the necessity of deepening theoretical and empirical studies on industrial policy. We introduce some of the recent research of RIETI related to the abovementioned issues.

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# Industrial Structure Vision 2010 and New Growth Strategy

## Industrial Structure Vision 2010

### Reinforcement of five strategic areas

- ▶ Export of infrastructure as a packaged system (nuclear power, water, railways, etc.)
- ▶ Industries for business solutions pertaining to the environment and energy (smart community, next-generation vehicles, etc.)
- ▶ Creative industries (fashion, content, etc.)
- ▶ Medical, nursing, health, and child care services
- ▶ Frontier fields (robots, space, etc.)

### Cross-cutting policies to support Japanese industry

#### 1. Comprehensive strategy to make Japan Asia's industrial center

- ▶ Promote Japan as the Asian center
- ▶ Attract and nurture excellent international human resources
- ▶ Improve systems and reinforce infrastructure for transport and distribution (strong promotion of open-sky policy, etc.)
- ▶ Establish strategic centers

#### 2. Reform the corporate tax system according to international standards

- ▶ Lower the effective corporate tax rate to meet international standards (e.g., 25%-30%)  
(Lowering the corporate tax rate by about 5% as a prompt challenge)

#### 3. Industrial restructuring to increase earning capacity, easing of restrictions for company establishment or dissolution

- ▶ Competition policy (ensure transparency of "Review of Business Combination," make it more medium- to long-term perspective-oriented and more global-market-oriented)
- ▶ Legislation for corporate organizations (simplify and/or diversify procedures for organizational restructuring such as M&A)

#### 4. Development of international strategy that facilitates value-added acquisitions

- ▶ Strategic design for international standardization (identification of ten targeted fields)
- ▶ Trade policy (promote the integration of Japanese and Asian economies, expand network of EPAs, investment cooperation, etc.)

#### 5. Reinforcement and maintenance of key industrial capabilities (support SMEs in the overseas markets)

#### 6. Promotion of R&D to create new values

- ▶ Enhance government investments in R&D (targeted at 1% of GDP)
- ▶ Establish a new research scheme with collaboration among industries, academia, and government (Tsukuba Nanotech Innovation Arena scheme)

#### 7. IT to facilitate the advancement of all industries

#### 8. Development of human resources to meet changes in industrial framework

- ▶ Enhance both the development of human resources and employment diversity (strengthening support for job training, establish the Japanese version of National Vocational Qualifications [NVQs], etc.)

## New Growth Strategy

### Green innovation

- ▶ Introducing smart community, next-generation vehicles, etc.
- ▶ "Eco-future city" initiative

### Life innovation

- ▶ Grow the health-related service industry (quality standardization, clarification of gray zone in medical practice)
- ▶ Develop innovative Japanese medicinal products, healthcare robots, and accept foreign patients (creating temporary stay visa for medical treatment)

### Co-prosperity with Asia

- ▶ Export infrastructure as a packaged system
- ▶ Lower the effective corporate tax rate to a level on a par with other major nations
- ▶ Promote Japan as the Asian center
- ▶ Foster global talents and increase acceptance of highly skilled personnel from abroad (provide preferential treatment for immigration control based on a "point system" and accept a broad range of personnel)
- ▶ Promoting full open skies, intensive investment in port infrastructure to handle larger container ships
- ▶ Strategic design for international standardization (identification of targeted fields)
- ▶ Export "Cool Japan"
- ▶ Free Trade Area of Asia-Pacific (FTAAP) and EPAs/FTAs

### Tourism-oriented nation and local revitalization

- ▶ Introduce a "comprehensive special zone system"
- ▶ Introduce a package for SMEs to support their overseas market cultivation

### Science-and-technology-oriented nation

- ▶ Strengthen international competitiveness of science and technology by creating leading graduate schools and other schemes
- ▶ Establish a new research scheme with collaboration among industries, academia, and government (Tsukuba Nanotech Innovation Arena scheme)
- ▶ Promote investments in R&D (government-private collaboration targeted at 4% of GDP)
- ▶ Promote a comprehensive cloud computing infrastructure

### Employment and human resources

- ▶ Integrate kindergartens and nursery schools
- ▶ Introduce the "career grading system" (establish the Japanese version of National Vocational Qualifications [NVQs])

### Financial Strategy

- ▶ Revisit "Review of Business Combination" and carry out necessary revisions
- ▶ Study measures to simplify and/or diversify procedures for organizational restructuring such as M&A