

# **“New Direction” of Economic and Industrial Policies**

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# Background: Industrial Policy is Back

- Global re-recognition of the importance of industrial policy,

<Reasons>

- ① COVID-19: expanding role of government towards economic recovery
- ② Externalities of capitalism: climate change, economic disparity
- ③ Challenges toward capitalism: necessity to improve legitimacy of capitalism as a system to overcome social issues

- Large-scale, long-term industrial policies in other countries  
(as of 2021)

- US: US Innovation and Competition Act, Build Back Better Act
- EU: Multiannual Financial, NextGenerationEU

# “New Capitalism”: Japan’s government-wide policy

- “New Capitalism” by Prime Minister Kishida.
- Updating capitalism to overcome market failure (e.g. inequality, environment)  
+ utilizing the benefits of market mechanism.
- Virtuous cycle between economic growth and distribution.
- METI’s contribution: “New Direction” of economic and industrial policy.

## Growth

### (1) Technology and Innovation

- Five-year plan for startup creation

### (2) Digitalization

- Investment in digital infrastructure

### (3) Carbon Neutrality

- “Clean Energy Strategy” and GI Fund

### (4) Economic security

- Economic security bill, JASM

### (1) Wage raise

- Tax incentives for wage-raising firms

### (2) Investment in human capital

- Support towards reskilling
- Improving flexibility of labor market

### (3) Maintaining the middle class

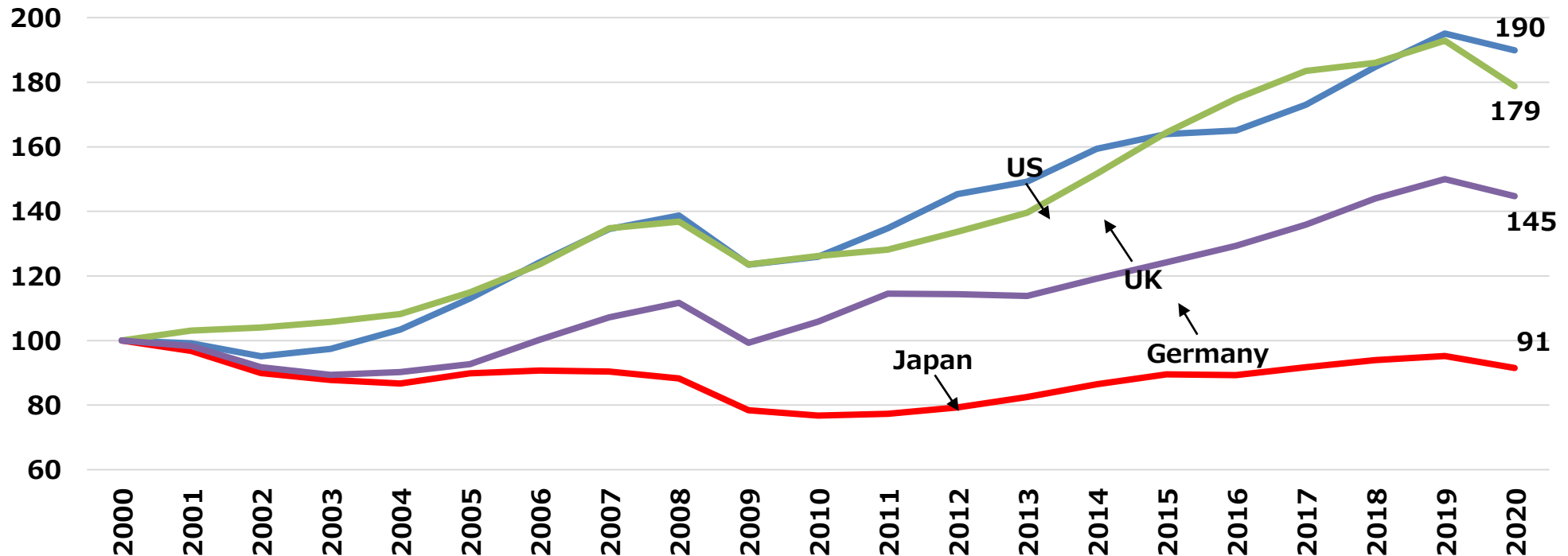
- Strengthening social security for households with children

## Distribution

# “New Direction” of economic and industrial policy

- **“Lost 30 years”**: Low economic growth brought by underinvestment (green technology, digital technology, human capital, etc.).
- “New Direction”: expand investment toward social issues.
- Mission-oriented approach, with large-scale, long-term support.

## Capital Formation in Major Economies (2000=100, excludes residential investment)



# Japan's Approach for Mission-Oriented Policies

## Goal

Solving socio-economic issues & Achieving economic growth

## Mission Setting

- ① Necessity of problem solving in Japan
- ② Necessity of problem solving in the world
- ③ Possibility of Japan's contribution.

## Direction to pursue

- **Global:** oriented towards the global market, partnership with foreign players
- **High value creation:** diverging from Japan's over-focus on cost competitiveness
- **Involvement of startups:** free from existing industrial structure, focusing on resolving social issues

## Policy Tools

- **Shared strategy between public and private sector:** necessary for making bold investments
- **Large-scale, long-term, and planned support:** mitigating risk towards achieving a shared purpose
- **Designed regulation and system:** market creation of areas serving to resolve socio-economic issues

# Two Pillars of the “New Direction”

## “Mission-Oriented” Industrial Policies

### <Concept>

- **Shared long-term vision and goals** between government and private sector.
- Government **providing large-scale, long-term and well-planned support.**

### <Target Issues>

- ① Carbon Neutral Society
- ② Digital Society
- ③ Economically Secure Society
- ④ New Health Society
- ⑤ Disaster-Resilient Society
- ⑥ Sustainable Society through Biomanufacturing

## Updating Socioeconomic System

### <Goals>

- Improving **global competitiveness** amidst rapidly changing industrial structure
- Achieving **inclusive growth** through maximizing the value of individuals and local regions.

### <Focuses>

- ① Human Resources
- ② Startups/Innovation
- ③ Value-Creating Management
- ④ Globalization of Japanese Society
- ⑤ Inclusive Growth
- ⑥ EBPM/Data-Oriented Governance

# Examples of “Mission-Oriented” Industrial Policies

## Green Innovation Fund (established in 2021)

- **Large-scale**: \$15B fund for programs with ambitious carbon neutral goals.
- **Long-term**: support for **up to 10 years**.
- Public-private partnership: requiring executives to engage in programs as a **company-wide management issue**.

## Support for JASM: Japan Advanced Semiconductor Manufacturing (2021)

- Joint venture established by **TSMC, Sony and Denso**.
- **Government support: \$3B**.
- Fortifying **domestic manufacturing base of semiconductors**
- Public-private partnership: **enhancing industry-academia-government collaboration** and **fostering human resources**.

# Updating Socioeconomic System: Investing in Human Capital

- Issue: low and declining investment in human capital,  
→ low labor productivity, slow adaptation to changing industrial structure.
- Policy direction:
  - Promotion of human capital management,
  - Improved flexibility of labor market,
  - Diversification of education.

## International Comparison of Human Capital Investment (excluding OJT) (from the left, shows investment in 1995-99, 2000-2004, 2005-09, 2010-14)

