

New Industrial Policy

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The Great East Japan Earthquake served as an opportunity to illuminate the problems that had long existed in Japan. The overvalued yen and the high effective corporate tax rate had been cited as factors putting Japanese companies at disadvantage in competing with their overseas rivals. Forthcoming changes in the nation's energy policy and other challenges brought on by the earthquake spell a harsher business environment going forward. Against this backdrop, concerns have been raised over the acceleration in the offshoring of operations from Japan to lower cost economies, particularly among manufacturers. As the Japanese economy undergoes structural changes, shifting weight from the manufacturing sector to the service sector, it is necessary to create new industrial sectors to generate jobs.

Along with the need for a **“new industry” policy**, industrial policies attract intense attention worldwide given the economic crisis after the collapse of Lehman Brothers. With interests in such policy drawing attention—especially in competing with emerging nations such as China, Korea, and Brazil, which appear to be growing rapidly under the leadership of their governments—we need to deepen our understanding about the **new “industrial policy”** by taking into account past criticism of industrial policies.

This program has the two aforementioned aspects as its background—the **“new industry” policy** and the **new “industrial policy”**—and it plans to conduct projects with diverse approaches. (Please refer to the table below.)

Through the economic crisis following the collapse of Lehman Brothers, the industrial policy that had not received much attention for over a decade is now again receiving increasing attention. Japan, too, needs to formulate and implement policies that aim to achieve sustainable economic growth by promptly shifting its allocation of resources from old industries to new ones, thereby improving the metabolism on the supply side leading to new goods and services.

Broadly speaking, the two major agenda for improving the metabolism of the Japanese economy are: (1) the creation and development of new industries and new companies; and (2) the turnaround and revitalization of existing companies. The recent economic

crisis and the earthquake have made it clear that these agenda cannot be completely left to the market functions alone and need substantial policy intervention.

While empirical studies are demonstrating that the factors mentioned in Agenda (1)—creation and development of new industries and companies—drive economic growth and innovation, long-term efforts are required before these industries/companies can stand on their own feet. While expectations are high for innovation in the areas of energy and medical and elderly care, we would like to include in our analyses Japan’s entrepreneurial activities, which have been lackluster by international comparison.

Knowing the time-consuming process of entrepreneurial endeavors and development of new industries, turnaround and reconstruction of existing companies and industries are more effective as approaches with more immediate payoffs. Through the earthquake disaster, the importance of using policy to prevent external diseconomies arising from the disconnection of the supply network has been recognized anew. On the other hand, there is concern about an increasing sense of unfairness if the policy decision process regarding government support of particular companies lacks transparency. We plan to conduct research also from the perspective of competition policy that would minimize government failure by making assessments before and after the fact to prevent any distortion of the competitive environment of the domestic market through government support. Also, how to rebuild Japan’s agricultural industry amidst the decreasing population and globalization is an important perspective in considering the direction to take on the Trans-Pacific Partnership (TPP) and is an important theme of this program.

There are no versatile prescriptions for revitalizing economic activities. For both entrepreneurship and reconstruction of companies, subtle policies that take into consideration the market situation and the industry structure of each case are desirable. New perspectives that traditional research has not covered—how to provide government support while utilizing the discipline of market competition and how to assess such policies—are needed today. In this program, we will zero in on such new topics while collaborating with other programs.

Table

New Industrial Policy Program (Projects)	Project Leaders
1) Issues Faced by Japan's Economy and Economic Policy:	YOSHIKAWA Hiroshi,

Demand, productivity, and sustained growth	FF/ UNAYAMA Takashi, FF
2) Basic Research for New Industrial Policy	OHASHI Hiroshi, FF/PD
3) Dynamics, Energy and Environment, and Growth of Small- and Medium-sized Enterprises	AOYAMA Hideaki, FF
4) Agricultural Policy Reform Aimed at Competitive Agriculture in the Age of Globalization and Decreasing Population	YAMASHITA Kazuhito, SF
5) Globalization, Innovation, and Competition Policy	KAWAHAMA Noboru, FF/ OHASHI Hiroshi, FF/PD
6) Economic Analysis of Environmental, Energy, and Resource Strategies Following the Great East Japan Earthquake	MANAGI Shunsuke, FF