

パネルディスカッション Panel Discussion

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Growth Strategy for the Japanese Economy amid global challenges and uncertainties (RIETI-CEPR Symposium)

*“Towards **Society 5.0** by capitalizing the technological innovations of the Fourth Industrial Revolution (IOT, Big Data, AI and Robotics) with Connected Industries, and solving social challenges by a human centered approach.”*

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March 2019

Focus for discussion

1. **Abenomics**: What are its achievements after six years (2013-2018)?
2. **Global Picture**: What are outstanding global issues and remaining challenges in the context of economic and industrial policy? (e.g. Global economic slowdown, Brexit, rapid innovation, new social system with redistribution for growth, local economy & resilient infrastructure.)
3. **Growth Strategy** for the future? How are global benchmarks and international competition taken into account? (Global events: 2019 G20, 2020 Tokyo Olympics and Paralympics, 2025 Osaka Kansai World Expo)

Three pillars

(1) **Society 5.0** for SDGs

- Mobility
- Health care
- Fintech / cashless living

(2) **Social Security Reform for 100-year-lifespan society**

- Raising continued employment age over 65
- Expanding mid-career recruiting
- Enhancement of incentives for preventive medicine and health promotion

(3) **Revitalizing local economies**

1. Achievements of Abenomics

I. Overcome deflationary economy

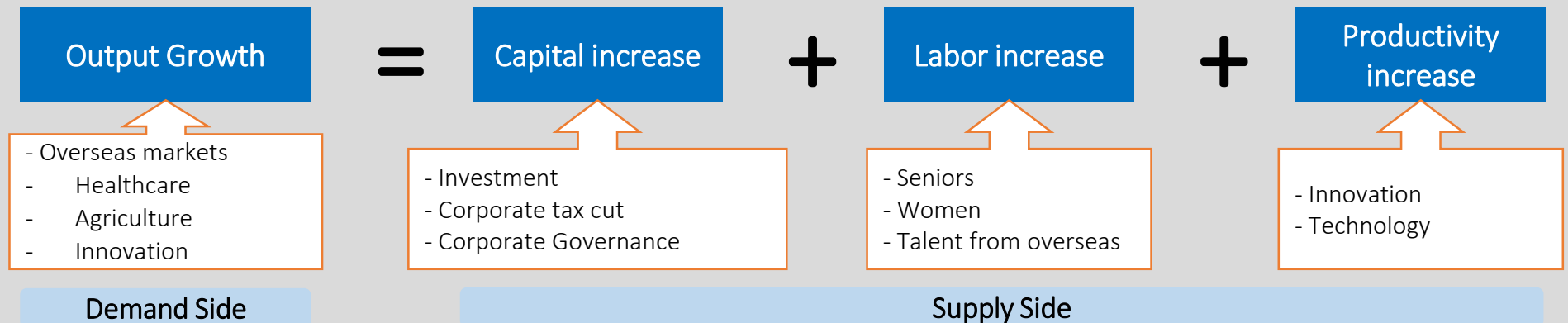
First Arrow: Aggressive monetary policy

Second Arrow: Flexible fiscal policy

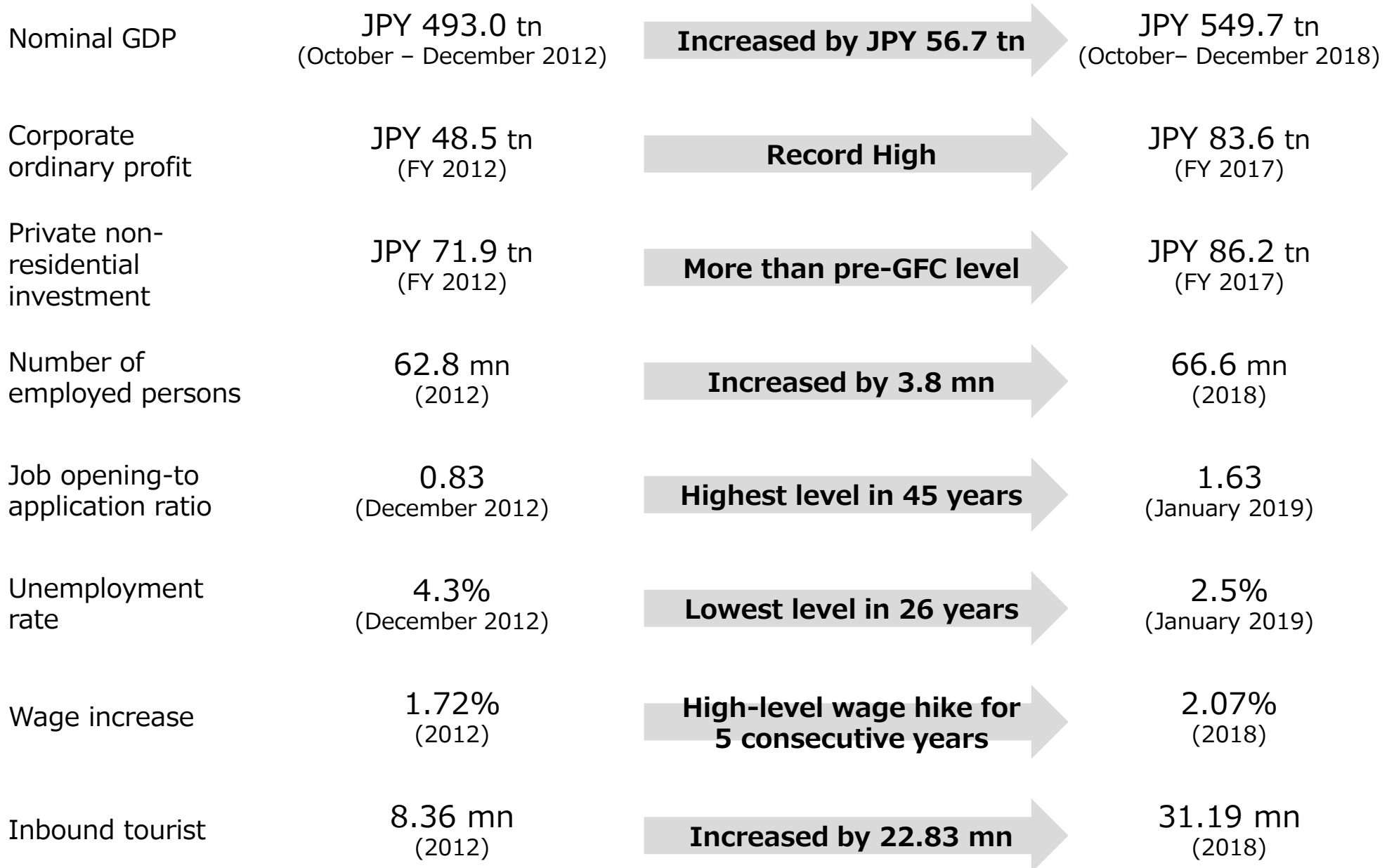
II. Increase the economic factors for growth

Third Arrow: **Growth Strategy**

- Supply side: Raise the potential GDP growth rate
- Demand side: Create and expand market



Virtuous cycle in the economy is truly being realized.



2. Global Picture: Tectonic shifts due to global-scale chain reactions

Provisional

Hyper-globalization

- Increasing competition and inequality between countries, prefectures, firms, and individuals
- Expansion of financial capital
- Needs for new rules ahead of the 4th industrial revolution
- National particularism
- Geo-economic strategy
- Global-scale issues (climate change etc.)

4th industrial revolution

- Competition across countries due to the technological development of AI/IoT
- Data is the source of added value
- Gap between real and technological changes (human resources, employment, risk-taking capability of firms, social receptivity, rules etc.)

Fluctuation of Japanese social system

- Challenges to its standing as a tech nation
- Problem of the regional economies
- Shrinking population, labor shortage, intergenerational inequality
- The 100-year life, limitations of single-line mode of education and employment

Policy directions Japan should take though these turbulent times

Rule-based trading strategies

- While the global trade system is fluctuating due to the conflict between the US and China, we would like to move towards a more “rule-based” international order.
- In order to create a foundation to promote fair competition between industries and companies, Japan leads the construction of high quality trade rules; for example, digital rules.

Innovation ecosystem which takes Japan’s strengths into account

- Realizing Society 5.0
- Integration of “Monozukuri”* and digital technologies. Creating issue first services/ solutions. *Manufacturing, craftsmanship
- Removal of self sufficiency, accelerating open innovation
- Legislation of regulations and rules ahead of the 4th industrial revolution
- Improve productivity of local SMEs
- Accelerate climate change measures led by private firms

New social system with redistribution for growth

- From distribution as growth trickles down to distribution for growth
- Realize a society where each individual can constantly adapt to changes in industry and societal structure, can always thrive throughout his/her life in the new era of the 100 year life-span (through comprehensive reform of education, labor, medical, long-term care, pension etc.)

Way of thinking

Action (Direction)

- Make TPP, Japan-EU EPA etc. into a large trade framework with Japan at the core
- Make full use of the framework of the WTO and rectify protectionism etc.
- Promote the formation of leading rules to deal with digital transformation etc.

- Spreading and increasing depth of Connected Industries
- Secure adequate competitive environment around digital platformers. Promote cashless payment services
- Promote digital transformation with public-private cooperation
- Strengthen regional innovation base

- Training and utilization of AI human resources etc. qualified for the era of the 4th industrial revolution
- Construct a mechanism that always enables people to develop skills and to secure work flexibly
- Arrange the environment that allows people to work, consume and participate in society regardless of age

- ◆ Japan is facing changes in the global political and economic landscape in addition to changes in the industrial structure due to the Fourth Industrial Revolution.
- ◆ In order to ensure Japan's continued success in the midst of such changes and to improve the vitality of the whole of Japan, METI will promote industrial policy, trade policy, and regional policy together with the following three pillars.
 - i) Open innovation with data as the core, ii) new "rule-based" trading strategy, and iii) revitalization of local SMEs.

The first pillar: Realizing Society 5.0 by promoting open innovation with data as the core

Promoting Connected Industries and constructing new economic and social system ahead of the Fourth Industrial Revolution

1. Promotion of innovation in strategic fields

- Promote connected industries
- Effective use of consumption data by promoting cashless payment services
- Effective use of advanced manufacturing technology and data for the realization of flying cars etc.

2. Strengthening the industrial base that creates innovation

- Enhancement of start-up ecosystem centered on J-startup
- Implementation of AI/ R&D/ human resource development/ utilization
- Prepare rules for platform business • Improve cyber security and industrial security • Digital transformation in both public and private sectors

Promote industrial policy, trade policy, and regional policy together

The second pillar: new "rule-based" trading strategy

- Counter market distortion measures and protectionist measures (Utilizing the Ministerial Meeting of Ministers, WTO etc.)
- Establish multilateral trade relationships that will contribute to comprehensive economic growth

The third pillar: Construction of a new development models for regional economic vitalization and SMEs

- Enhance earning power, expand inbound tourism
- Improve the productivity of SMEs, work style reform
- Securing players for SMEs • Respond to the consumption tax hike

The fourth pillar: A virtuous circle of environment and growth through energy conversion etc.

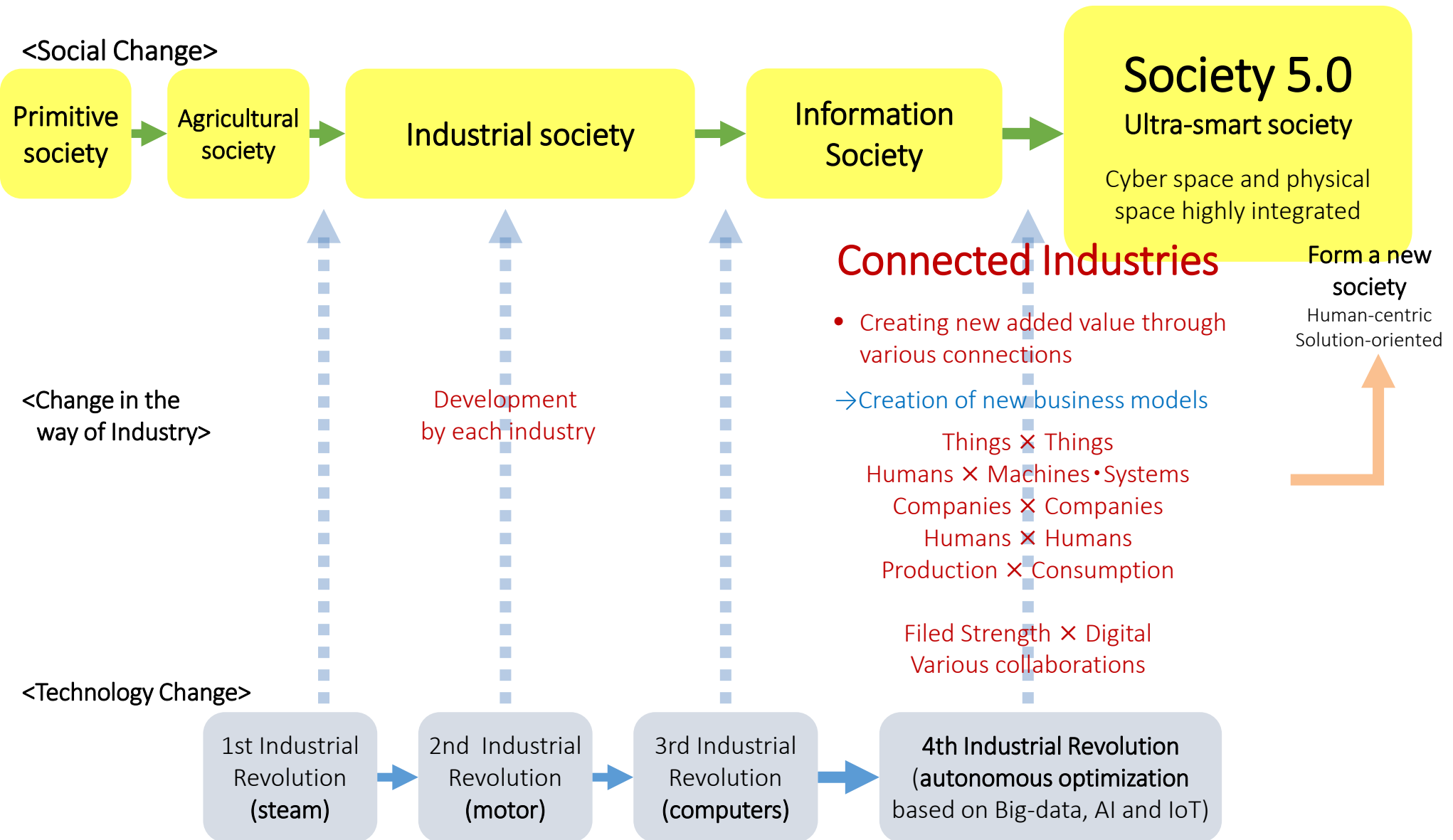
- Energy conversion, promote innovation and investment for decarbonization
- Realizing a hydrogen-powered society • International collaboration

The fifth pillar: economic and social system with redistribution for growth

- Training and utilization of industrial human resources (EdTech, recurrent education etc.)
- Private business supporting social security

Acceleration of Fukushima Reconstruction / Responding to large-scale disasters

3. Growth Strategy “Connected Industries” leading to “Society 5.0”



Examples of priority areas: mobility, healthcare, fintech/cashless

- **Building a next generation mobility system**

- To make driverless cars a viable transport system by 2020.

(Full-scale demonstration: cooperation with operating companies, infrastructure development for the Olympics and Paralympics etc.)

- Necessary legislation for each sector will be created, based on the "Charter for improvement of legal system and environment for automated driving systems"
- Create a model city/region that fulfills the needs of users in terms of mobility with new services that combine town planning and public transportation.

- **Creating a next-generation healthcare system**

- A nationwide healthcare information network will be set up with the health records and medical history of individuals shared between medical institutions. Detailed plans will be formalized.

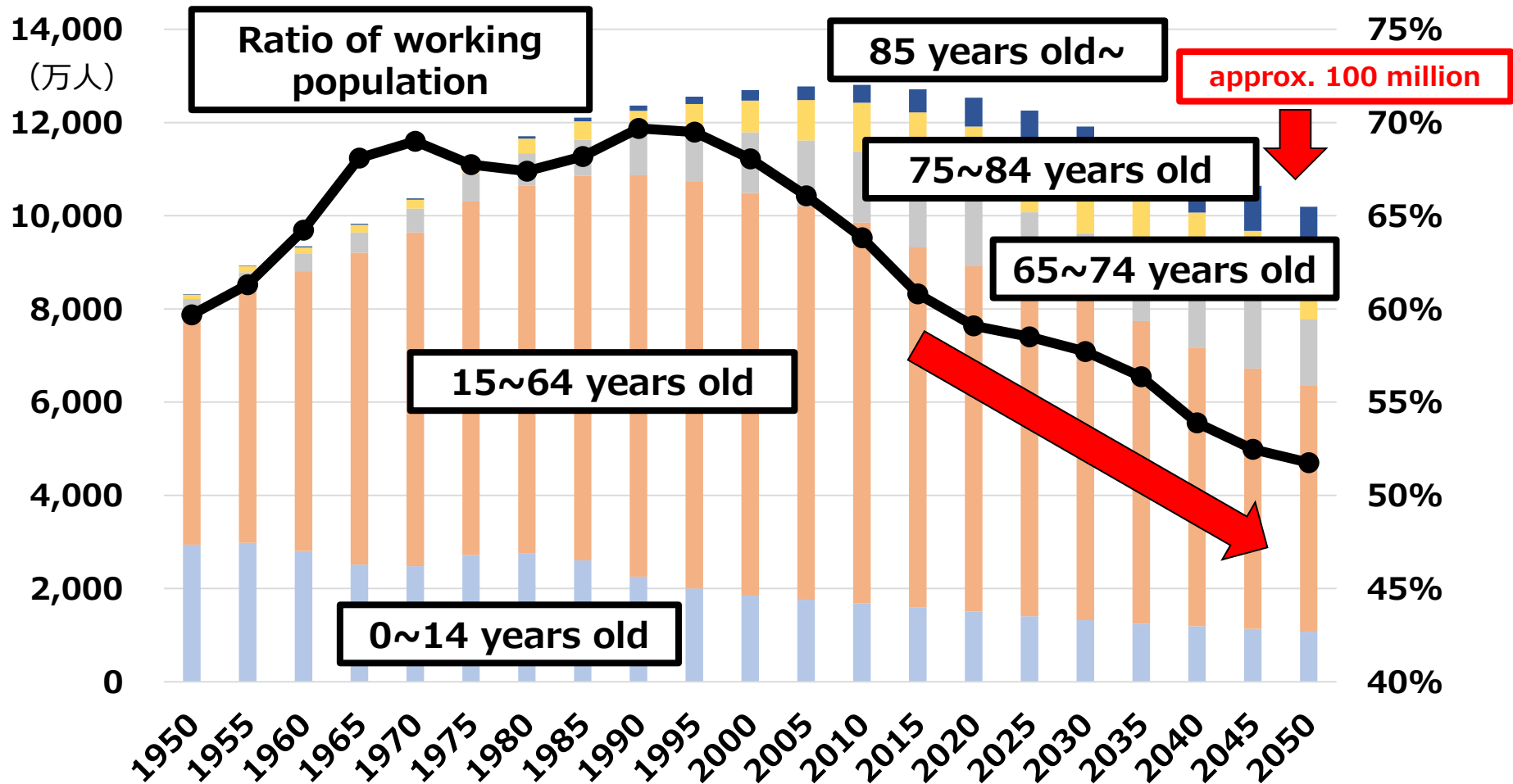
- A public-private partnership will be set up that brings together local governments, researchers and enterprises to create new products and services that are aimed at dementia.

- Enhancement of "online medicine" so patients can receive reliable medical care from professional doctors and pharmacists remotely.

- **Fintech/Cashless**

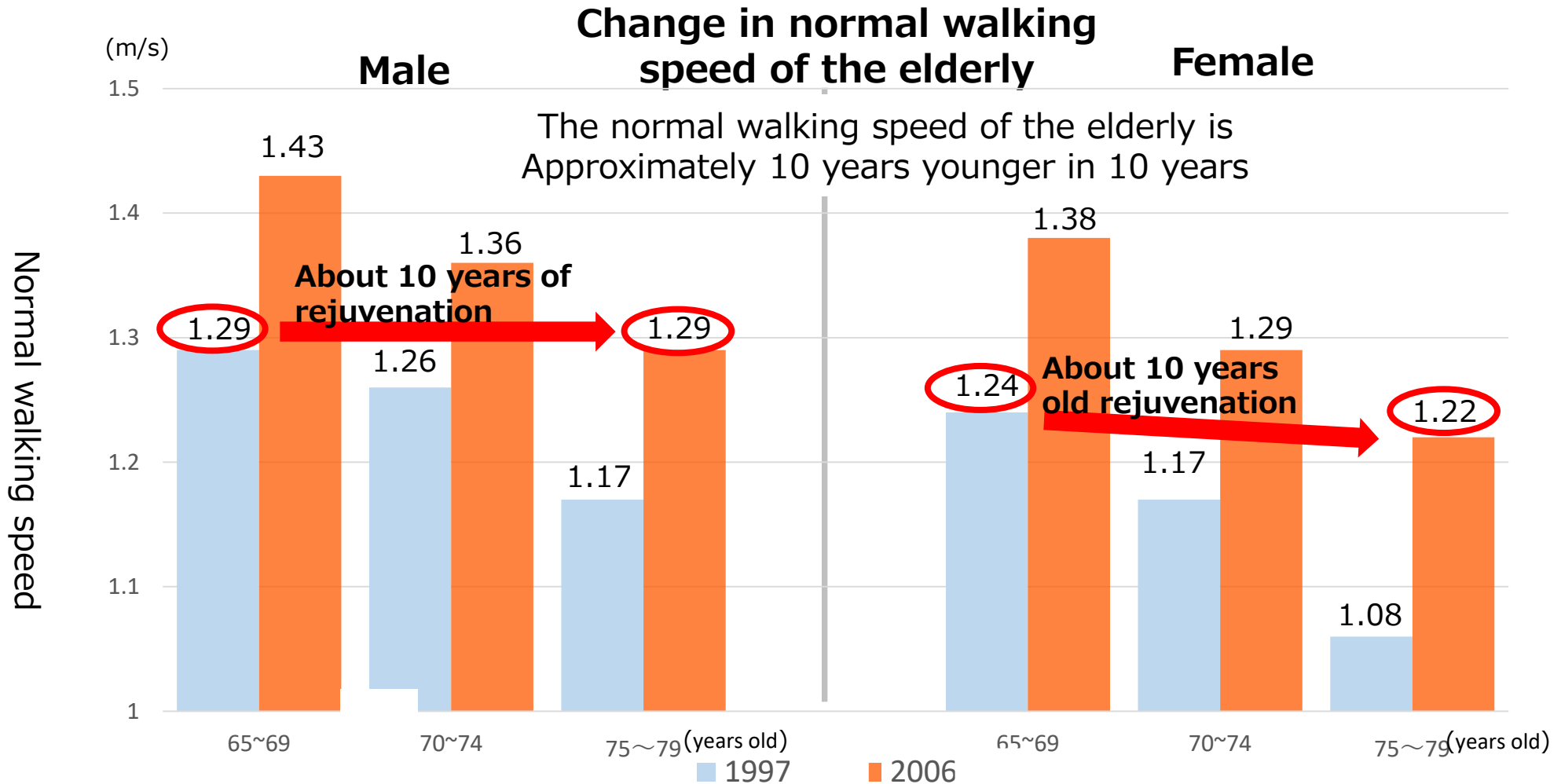
Social Security Reform for 100-year-lifespan society

- The population of Japan is expected to decrease to about 100 million in 2050.
- In the future, the decrease in the percentage of the working population will accelerate.



Elderly people are getting “younger”

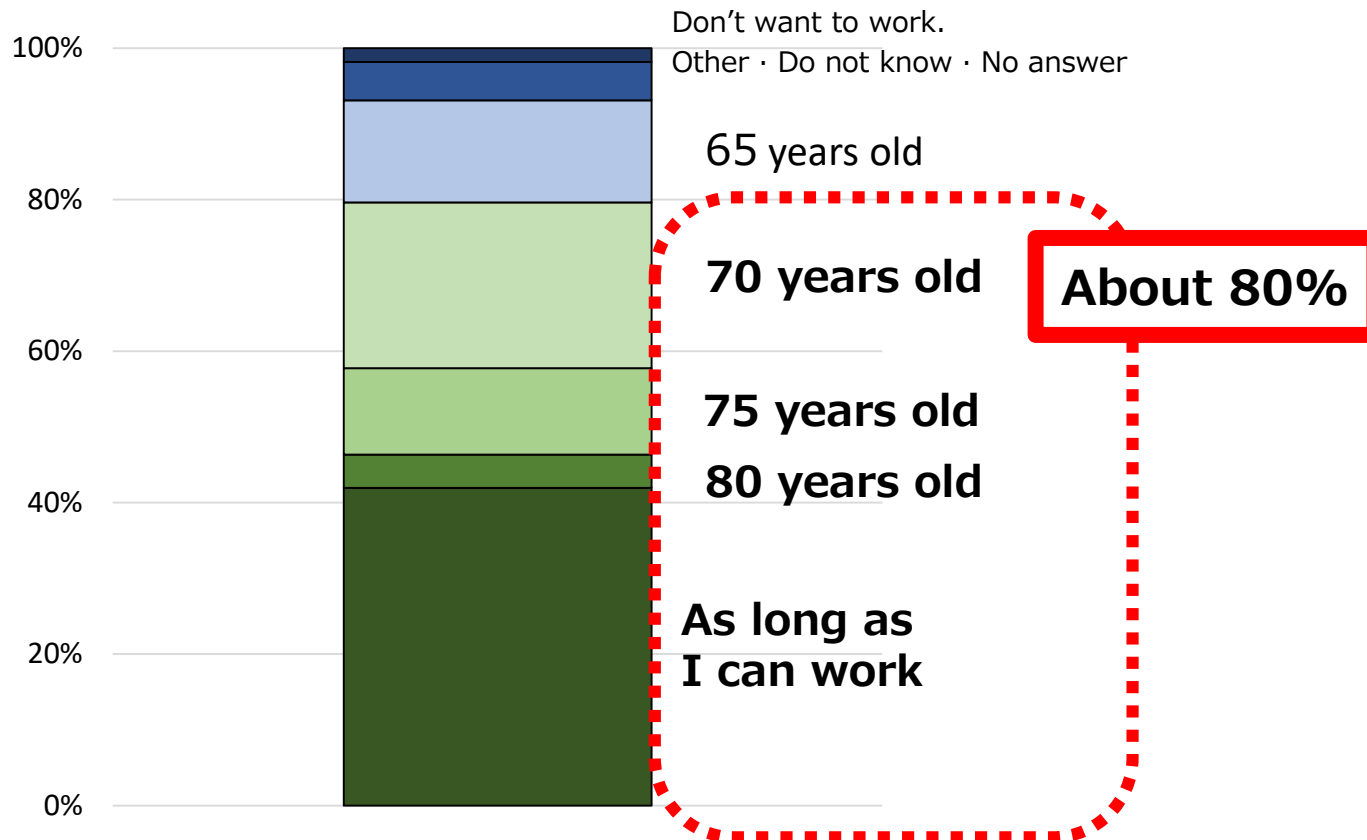
- According to a survey, the walking speed age of the elderly became about 10 years “younger” between 1997 and 2006.



Many older people desire 'lifelong activity'

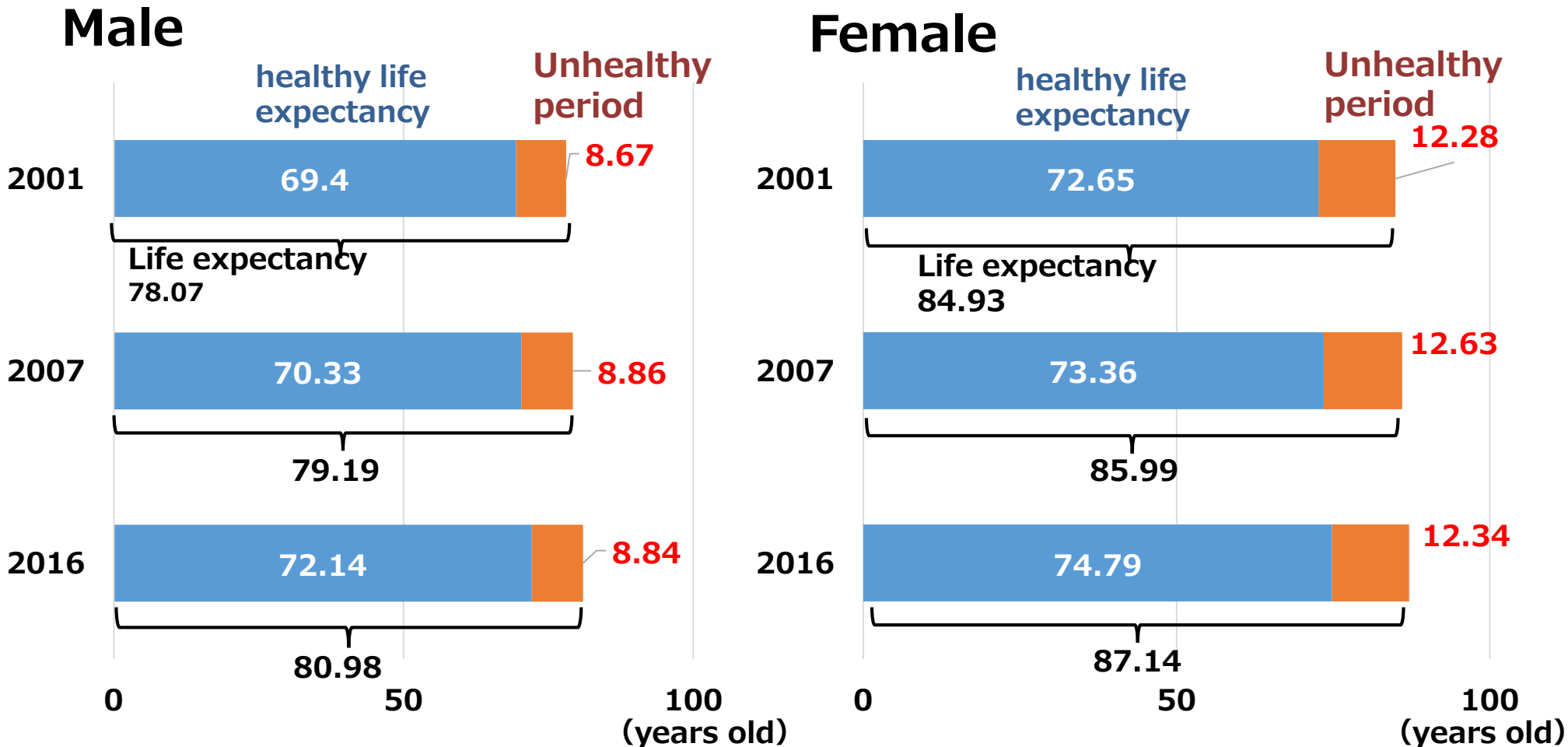
- Eighty percent of the elderly wish to keep working until the age of 70.

Until what age do you want to keep working? (Questions for people currently working at age 60 or older)



Extension of healthy life expectancy is important

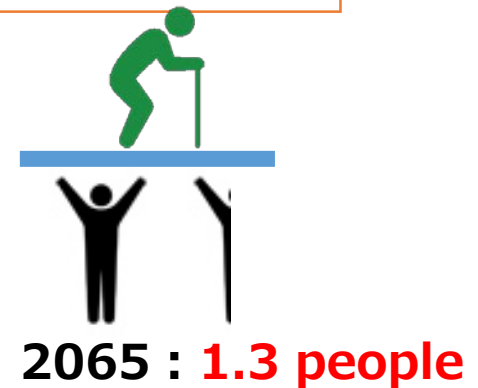
- The “unhealthy period” has not shortened. Preventive medicine and health promotion are important for extending healthy life expectancy.



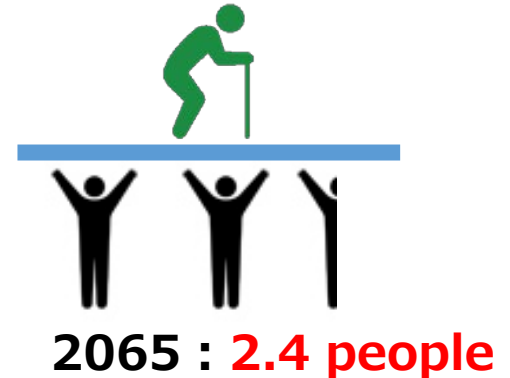
Importance of 'Lifelong active society'

- The '100-year-lifespan society' is a big opportunity for Japan.
- We should realize a "Lifelong active society" where everyone can work if they want to, and increase the number of "supporters" in society overall.

Number of people aged 18 to 64 that are needed to support each person over the age of 65



Number of people aged 18 to 74 that are needed to support each person over the age of 75



Toward a Lifelong active society in the 100-Year age

- In September 2018, Prime Minister Shinzo Abe announced that he will tackle employment and social security system reform to realize a “100-year-life society”, as the top priority for the next three years of his administration.
- PM Abe set up a new Cabinet post in charge of social security reform on October 2nd, and explained that he expects a reform plan to be developed at the Future Investment Council.



(Source) Cabinet Secretariat

Main Agendas that PM promotes

- **Raising continued employment age above 65**
- **Expanding mid-career recruiting**
- **Enhancement of incentives for preventive medicine and health promotion**
- **Balance of benefits and burden of social security system**

2050 economic and social structure committee

- METI set up a committee (the 2050 Economic and Social Structure Committee) under Minister Seko on September 21st to further develop the discussion on the policy proposals in the social security and healthcare areas.
- The committee plans to issue a policy recommendation by the next summer. METI will submit a recommendation to the Future Investment Council chaired by Prime Minister Abe.



Key Agendas of the Committee

- ① **Realization of lifelong active society corresponding to '100-year-lifespan era' .**
- ② **Ensure a secure social security system for all generations including workers and households.**

Thank you

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Growth Strategy for the Japanese Economy
amid Global Challenges and Uncertainties
(RIETI-CEPR Symposium ‘Post-Brexit World Economy’ on 22 March 2019)

“Towards Society 5.0 by capitalizing the technological innovations of the Fourth Industrial Revolution (IOT, Big Data, AI and Robotics) with Connected Industries, and solving social challenges through a human-centered approach.”

Remarks by
Jun KAZEKI, Deputy Director-General
Economic and Industrial Policy Bureau
Ministry of Economy, Trade and Industry (METI) of Japan
22 March 2019

1. Introduction

Let me start by expressing my appreciation to RIETI-CEPR for inviting me to this Panel. As I had been engaged in the trade policy fields for a long time, in particular for the WTO negotiations since the Seattle and Doha Ministerial Meetings and for several Economic Partnership Agreement negotiations notably the first EPA with Singapore in 2002, I am very pleased to join this discussion. Most recently, I have worked on national security policy and then economic and industrial policy for the national Growth Strategy.

In this background, today I will focus on both global and domestic issues in the context of global challenges including Brexit and uncertainties in the world economy, given the potential slowdown of advanced economies, US-China trade conflicts and many other geopolitical concerns.

My presentation is composed of three parts. In the first part, I will briefly introduce the economic situation of Japan by referring to the achievements of Abenomics over the last six years (2013-2018). In the second part, I will present key points of METI economic and industrial policy and Growth Strategy. In the third part, I will refer to a specific domestic policy for social security reform for the 100-year-lifespan society.

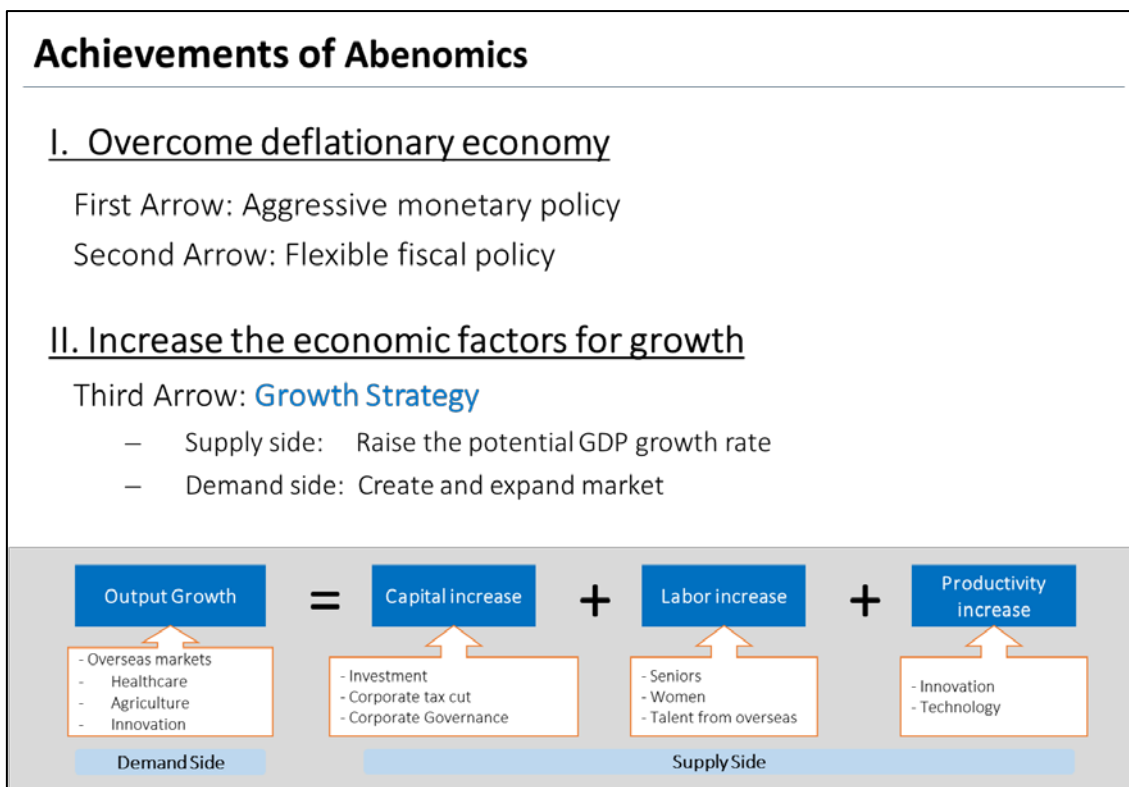
My story-line is, as the sub-title mentions, as follows: Japan is moving towards Society 5.0 by capitalizing on the technological innovations of the Fourth Industrial Revolution (Internet of Things, Big Data, Artificial Intelligence and Robotics) with Connected Industries, and solving social challenges through a

human centered approach. Also, given the past experiences like the Asian Financial Crisis in 1997 and Global Financial Crisis in 2008 and the current global challenges and uncertainties, Japan is actively working on establishing a resilient and robust economic and social structure for all generations.

2. Achievements of Abenomics

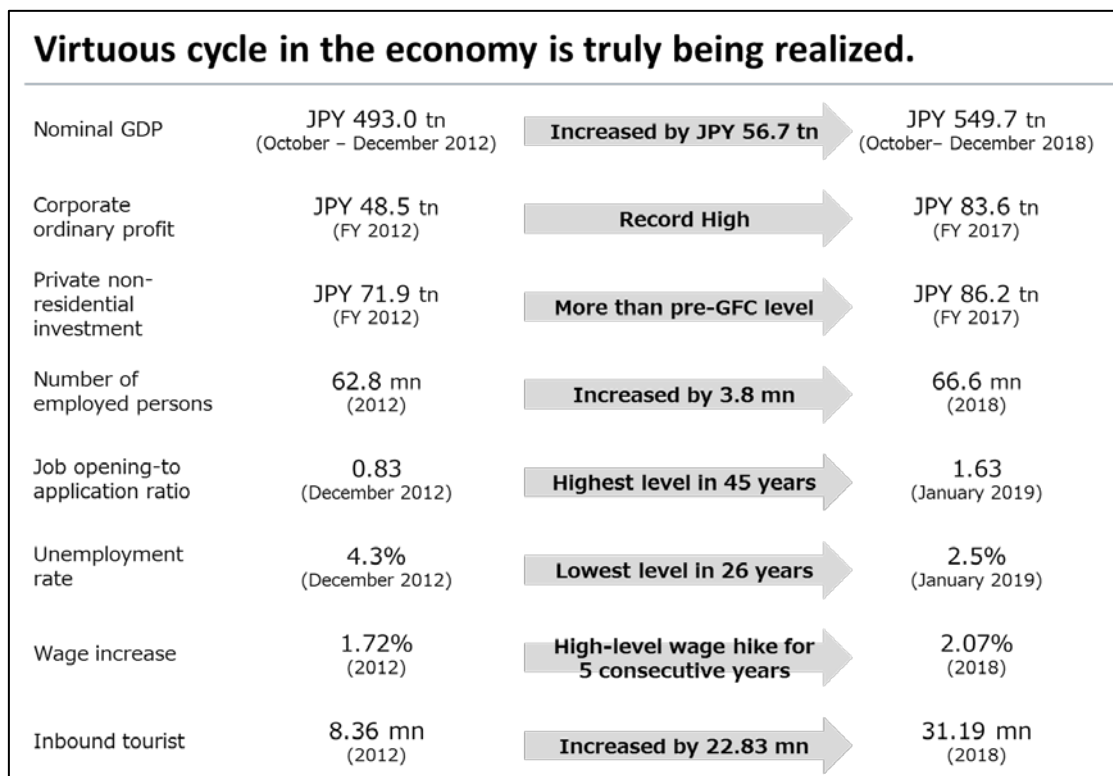
Since 2013 Abenomics has moved forward on three pillars, namely the First Arrow – monetary policy, the Second Arrow – fiscal policy, for overcoming our deflationary economy, and the Third Arrow – a Growth Strategy for increasing the economic factors for growth. For example on the supply side, raising the potential GDP growth rate through capital increase, labor increase, and productivity increases, in particular through technological innovation; on the demand side, creating and expanding both domestic and overseas markets and new services such as next generation health care. Please look at the chart below. (Chart 1)

[Chart 1: Achievements of Abenomics]



Achievements of Abenomics by positive indicators are as follows. (Chart 2)

[Chart 2: Virtuous cycle in the economy is truly being realized.]



In the meantime, challenges remain for productivity growth and human resource development in order to raise potential GDP growth from the supply side.

3. METI's policy and Growth Strategy

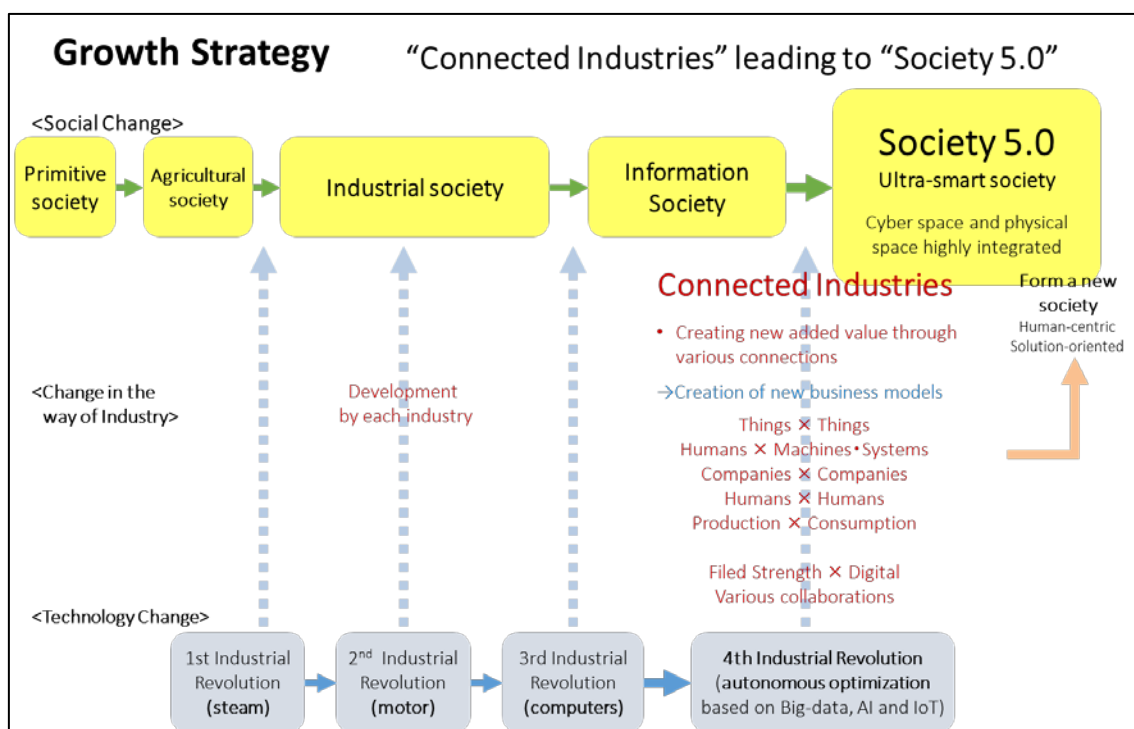
In December 2017, the “New Economic Policy Package” was published. In response to it, “The Act on Special Measures for Productivity Improvement” (including a regulatory sandbox, promotion of industrial data utilization etc.) and other various policy measures have been established, implemented and enforced.

Furthermore, “Future Investment Strategy 2018” (June 2018) indicated the importance of Society 5.0 (Chart 3) with its data-driven economy. Japan is a developed country that faces various social issues such as declining population and low birthrates, an aging population as well as environmental and energy challenges. With rich “real-world data” from the ground, there is an opportunity to solve social challenges by utilizing data and innovative technology. In fact, Japan, facing more rapid population decline than of the rest of the world, is in an advantageous

position to incorporate new technology such as AI and robotics into society with less likelihood of causing social problems like unemployment.

In the Future Investment Strategy 2018, priority areas were referred to such as next generation mobility system like autonomous driving, next generation health care systems, fintech and a cashless economy.

[Chart 3: Growth Strategy “Connected industries” leading to Society 5.0”]

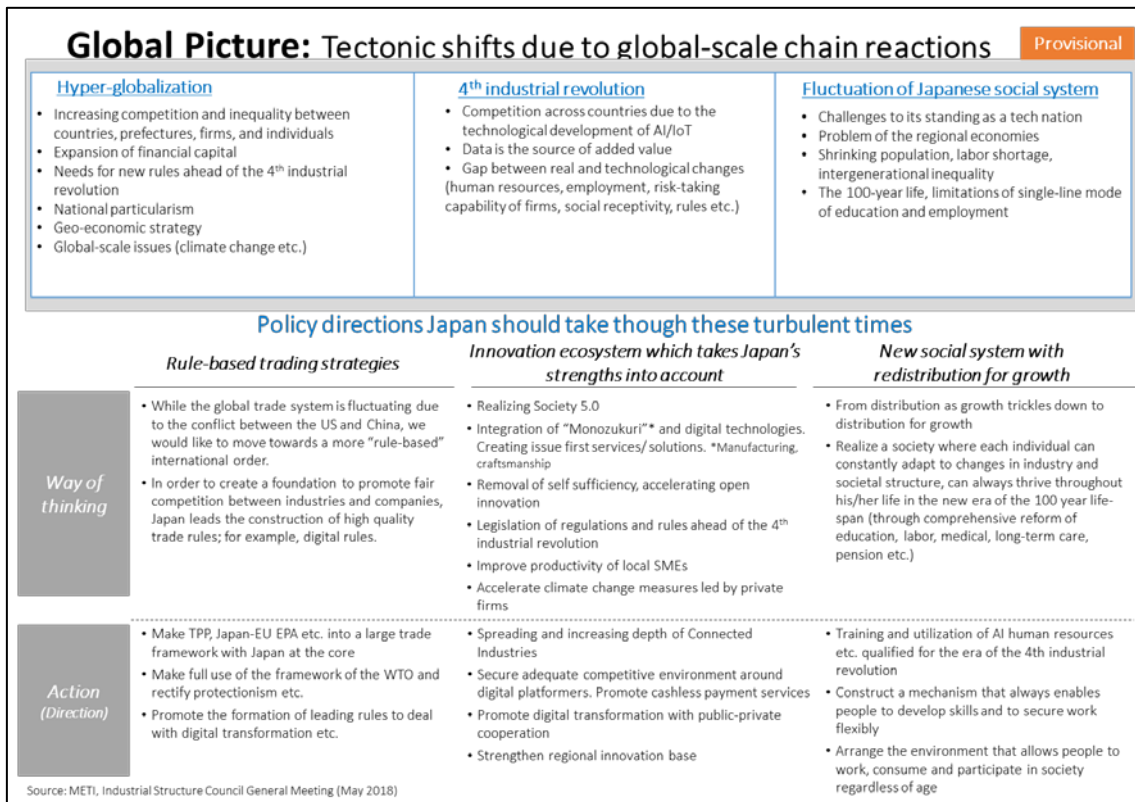


METI regards that Japan is facing tectonic changes in the global political and economic landscape in addition to changes in the industrial structure due to the rapid innovation caused by the Fourth Industrial Revolution.

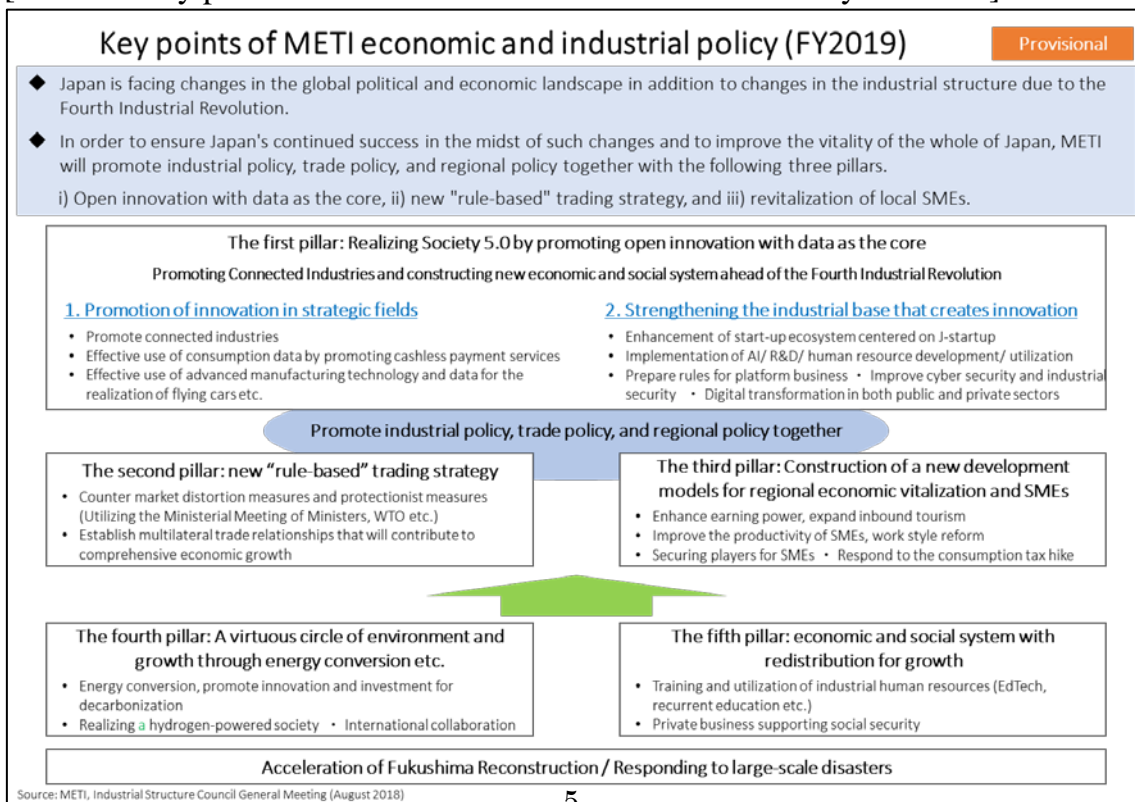
In order to ensure Japan's continued success in the midst of such changes and to improve the vitality of the whole of Japan, METI will promote industrial policy, trade policy, and regional policy together with the following three pillars.

- i) Open innovation with data as the core,
- ii) a new "rule-based" trading strategy, and
- iii) the revitalization of local SMEs. (Chart 4, 5)

[Chart 4: Global Picture: Tectonic shifts due to global-scale chain reaction]



[Chart 5: Key points of METI economic and industrial Policy 2019 FY]



In the context of trade policy, there have been fruitful outcomes. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP11 Agreement) entered into force on 30 December 2018 and the Japan-EU Economic Partnership Agreement entered into force on 1 February 2019. The Regional Comprehensive Economic Partnership (RCEP) negotiations are moving on aiming at the possible outcome by the end of this year.

In the near future, global events such as 2019 Osaka G20, 2020 Tokyo Olympics and Paralympics, 2025 Osaka Kansai World Expo are good opportunities for Japan to show our engagement in Society 5.0.

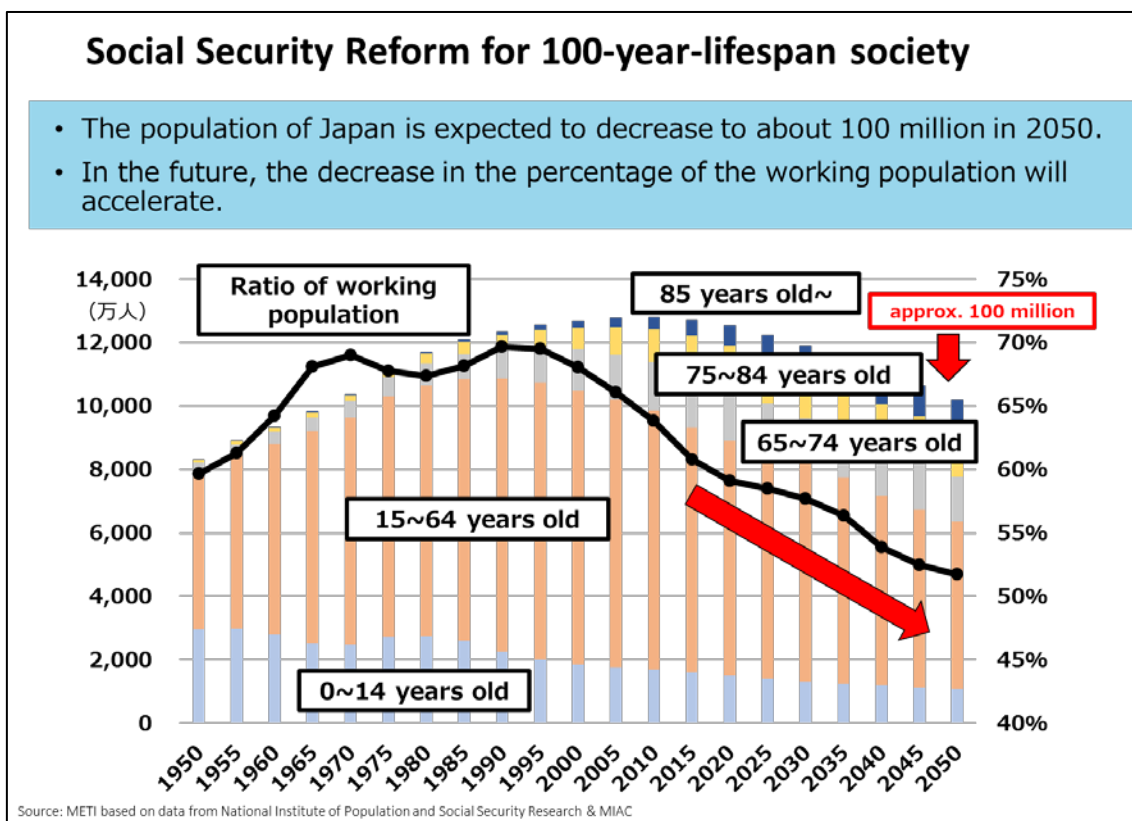
In relation to this, let me also refer to the initiative announced by Japan's Prime Minister in Davos known as "Data Free Flow with Trust" which will lead to world wide data governance. Indeed, in the framework of the Growth Strategy, the discussion on platforms and data is on-going to strike a balance between innovation and governance. As a start, the "Fundamental Principles for improvement of rules corresponding to the rise of Digital Platform Business" were published in December 2018.

4. Social Security Reform for 100-year-lifespan society

Now let me finally introduce our domestic efforts to establish a robust economic and social structure by having concrete measures for the coming three years.

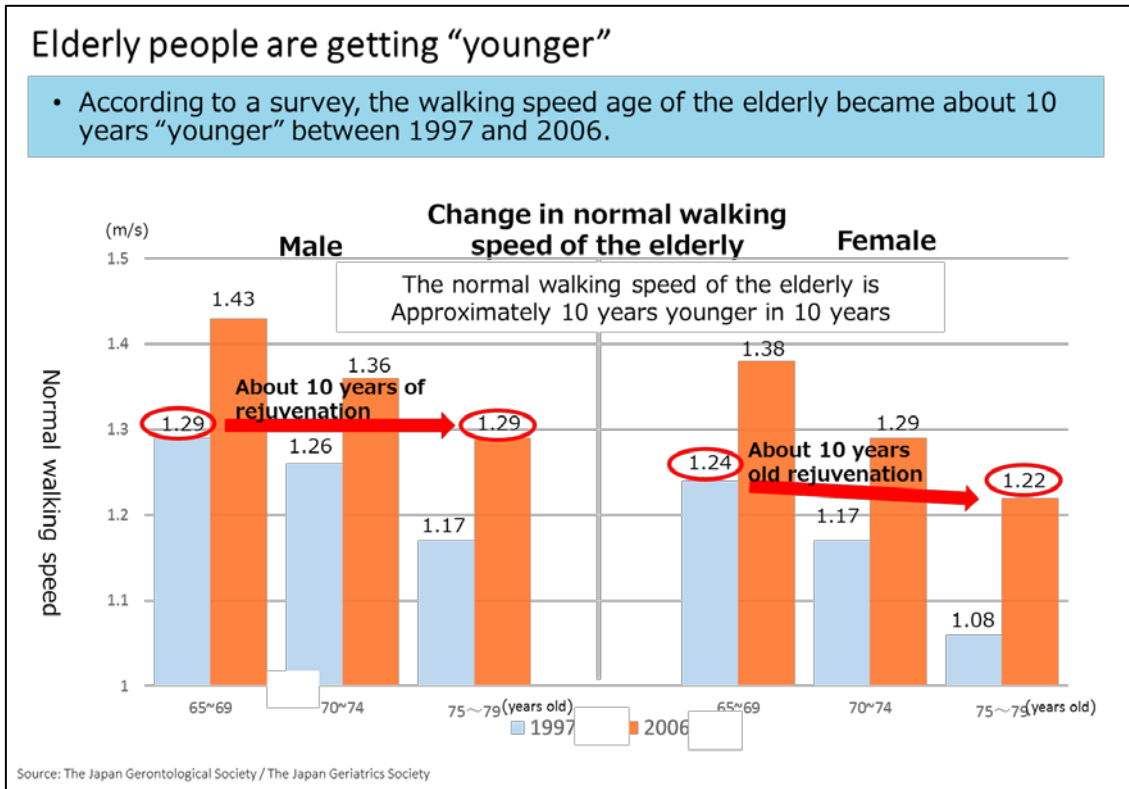
The population of Japan is expected to decrease and to reach about 100 million in 2050. In the future, the decrease in the percentage of the working population will accelerate. (Chart 6)

[Chart 6: Social Security Reform for 100 year life society]

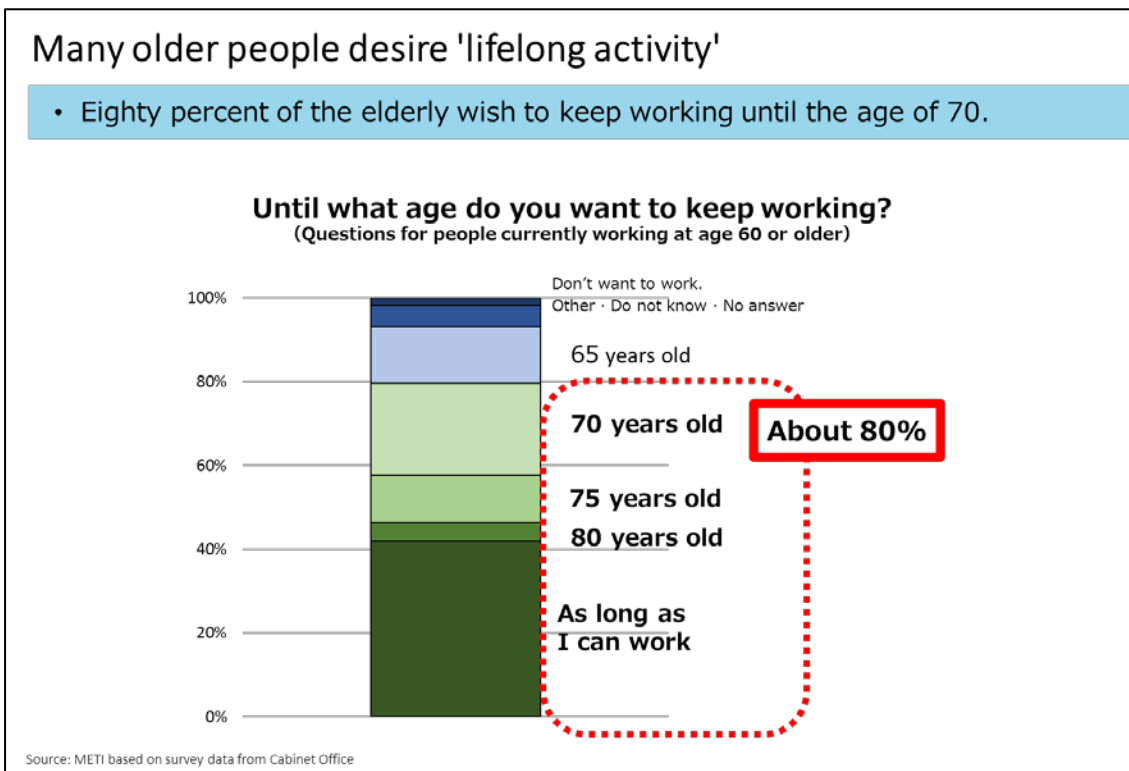


In the meantime, according to a survey, elderly people are getting younger and the walking speed of the elderly became about 10 years younger between 1997 and 2006. Also many older people desire lifelong activity. Eighty percent of the elderly wish to keep working until the age of 70 or more. (Chart 7, 8)

[Chart 7: Elderly people are getting younger]

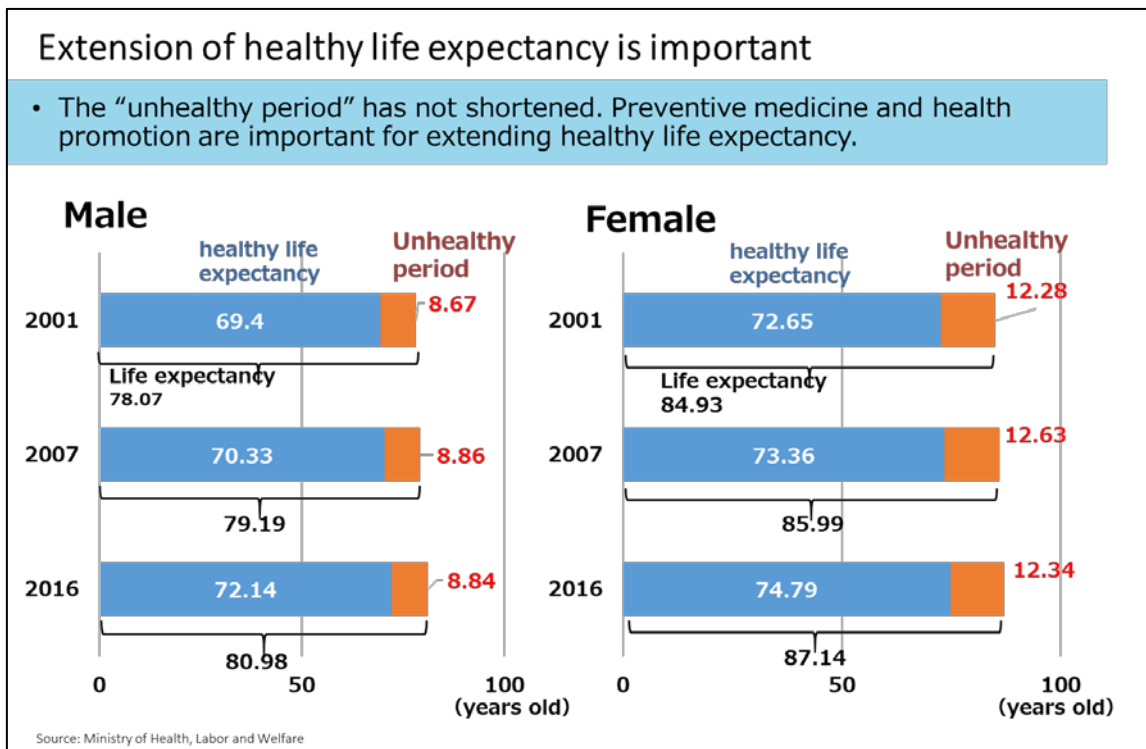


[Chart 8: Many older people desire lifelong activity]



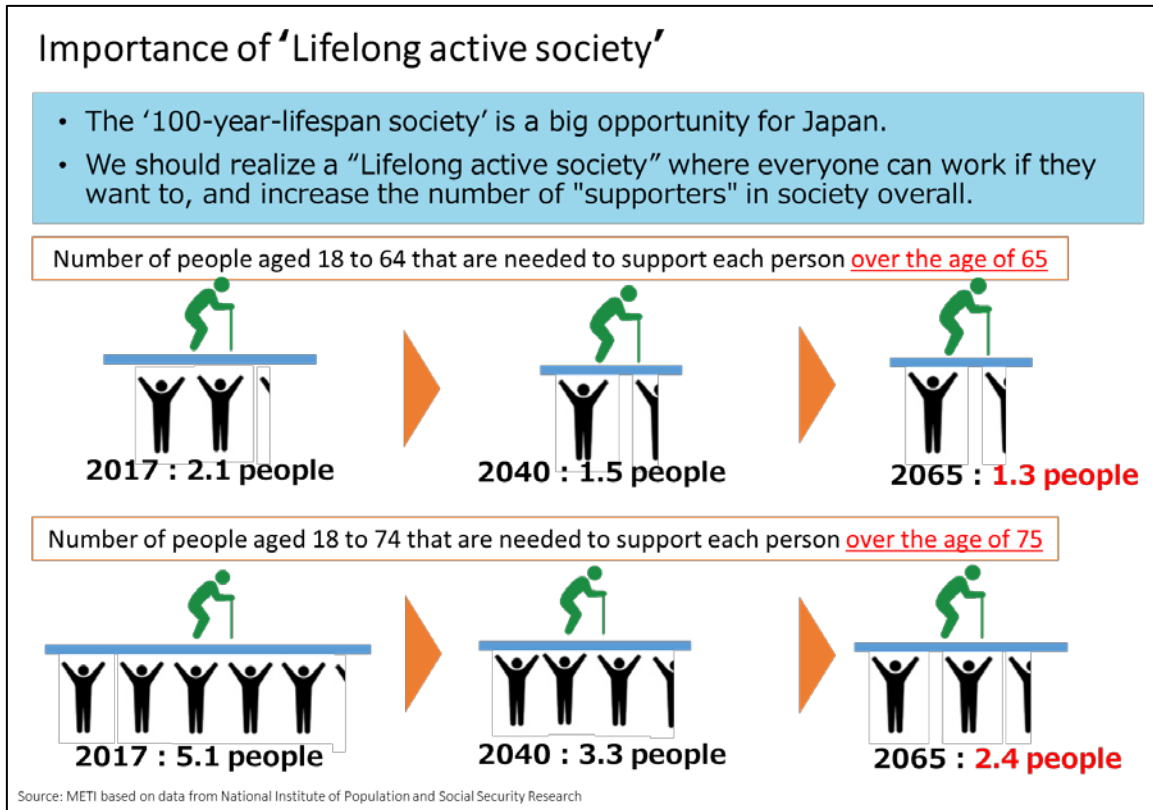
In this context, the extension of healthy life expectancy is important. The “unhealthy period” has not shortened yet, so preventive medicine and health promotion are important for extending healthy life expectancy which will facilitate senior employment. (Chart 9)

[Chart 9: Extension of healthy life expectancy is important]



The 100-year-lifespan era is a big opportunity of Japan. In a lifelong active society, everyone can work if he or she wants, and it increases the number of people acting as supporters in society overall. (Chart 10)

[Chart 10: Importance of Lifelong active society]



In September 2018, Japan's Prime Minister announced that he will tackle employment and social security system reform to realize a "100-year-life society", as the top priority for the next three years of his administration. He set up a new Cabinet post in charge of social security reform on 2 October 2018, and explained that he expects a reform plan to be developed at the Future Investment Council. (Chart 11)

[Chart 11: Toward a Lifelong active society in the 100 year age]

Toward a Lifelong active society in the 100-Year age

- In September 2018, Prime Minister Shinzo Abe announced that he will tackle employment and social security system reform to realize a "100-year-life society", as the top priority for the next three years of his administration.
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(Source) Cabinet Secretariat

Main Agendas that PM promotes

- **Raising continued employment age above 65**
- **Expanding mid-career recruiting**
- **Enhancement of incentives for preventive medicine and health promotion**
- **Balance of benefits and burden of social security system**

METI set up a committee (named the 2050 Economic and Social Structure Committee) under the METI Minister on 21 September 2018 to further develop the discussion on the policy proposals in the social security and healthcare areas.

The committee plans to issue a policy recommendation by next summer. METI has already submitted and will continue to provide recommendations to the Future Investment Council, chaired by Prime Minister. (Chart 12)

[Chart 12: 2050 economic and social structure committee]

2050 economic and social structure committee

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Key Agendas of the Committee

- ① **Realization of lifelong active society corresponding to '100-year-lifespan era' .**
- ② **Ensure a secure social security system for all generations including workers and households.**

5. Concluding remarks

Thank you for your attention today. I welcome any questions.

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