

**The Medium- to Long-term Economic and  
Fiscal Policies and the Outlook  
for the Next Ten Years**

**January 19, 2009**

**Cabinet Decision**

# **The Medium- to Long-term Economic and Fiscal Policies and the Outlook for the Next Ten Years<sup>1</sup>**

## **Introduction**

The global financial crisis has been spreading and increasingly affecting the real economy at an unprecedented rate. The Japanese economy cannot be immune to such drastic changes in the global economy.

There are various ways of looking at the worldwide development of the current economic crisis and the magnitude of its impact. At a time when things are rapidly changing, it is difficult to forecast the future in an accurate manner. As the Japanese economy is also expected to change according to future global financial and economic trends, any outlook at present can only be extremely uncertain.

Under such uncertain circumstances both at home and abroad, the vision we aspire to is that of a “strong and bright Japan.” This refers to a society in which steady economic growth is attained by fully utilizing the “latent power and vitality”<sup>2</sup> of our industrious people as well as our scientific and technological prowess. It is also a society where “peace of mind in people’s daily lives” is secured by a reliable social security system. In order to create this “strong and bright Japan,” the government will address the following three policy stages and work on them in parallel: taking bold measures to prevent the “spiral of anxiety” in the near term; reinforcing the “sense of security” among the public and assuring a medium-term framework for a responsible fiscal position in the medium term; and achieving economic growth by taking advantage of the change of tide

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<sup>1</sup> Hereinafter referred to as “The Outlook.”

<sup>2</sup> “Policy Speech by Prime Minister Taro Aso to the 170<sup>th</sup> Session of the Diet” on September 29, 2008

occurring in our society in the medium- to long-term.

### *(1) Avoiding the “spiral of anxiety”*

There is a growing concern that the slowdown in domestic economic activities, which was triggered by the global financial crisis, may create a negative spiral as a result of the critical state of corporate financing and gloomy prospects concerning job security.

For the time being, the government’s top priority is to avoid sinking into a negative spiral in economic activity by employing all possible policy measures aimed at, among others, facilitating corporate financing, assisting employment and job creation, and supporting the socially vulnerable. The government is determined to take emergency measures if needed, although market-based policies are the norm.

In addition, international cooperation including the Summit Meeting on Financial Markets and the World Economy will be utilized to address global economic turmoil.

### *(2) Reinforcing a “sense of security” and assuring a responsible fiscal position*

In order to halt the “spiral of anxiety,” the government will, while taking bold action in the near term, implement a fundamental reform of the tax system including that of the consumption tax in accordance with the “‘Medium-term Program’<sup>3</sup> for Establishing a Sustainable Social Security System and Securing its Stable Revenue Sources.”

This will assure that the government establishes a responsible fiscal position in the medium term as well as enhances the reliability of the social security system and strengthens international competitiveness, thus setting in place sustained domestic demand growth.

Even once the global economy has recovered, this effort will be an essential preparation for financial risks that may be encountered as a result of a rapid increase in outstanding public debts in major countries.

### *(3) Growth policy that foreruns changes in global trends*

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<sup>3</sup> “ ‘Medium-term Program’ for Establishing a Sustainable Social Security System and Securing its Stable Revenue Sources.” (Cabinet decision on December 24, 2008) Hereinafter referred to as the “Medium-term Program.”

The world is in the process of change as evidenced by increasing constraints related to natural resources, food and the environment, a rise in Asia's significance in the global economy, global financial system reforms, advances in information and communications technology, and various divide issues caused by the globalization of the market economy. As a result of this process, countries all over the world are facing common challenges. These challenges may become more severe as a result of the current global economic crisis.

In Japan, our ability to present and disseminate advanced models capitalizing on our strengths ("latent power and vitality") will help us meet the challenges and become a source of growth in the post-financial crisis era.

From this viewpoint, the government will make intensive efforts to construct the world's most advanced low-carbon society and a society by and for all (younger generations, elderly people, women, and local communities), as well as to promote mutually-beneficial partnerships in the areas of finance, industry and infrastructure toward the development of Asia as a growth axis during the 3-year period of economic recovery. In this way, the government will support economic recovery and simultaneously achieve medium- to long-term economic growth.

"The Outlook," which succeeds the "Direction and Strategy for the Japanese Economy,"<sup>4</sup> will be revised annually in order to respond properly to changes in the economic and fiscal situation. For this, the government will examine the progress of these measures and reflect the findings in the revised version.

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<sup>4</sup> "Direction and Strategy for the Japanese Economy" (Cabinet decision on January 25, 2007) and "Direction and Strategy for the Japanese Economy – A Country Open to the World, Growth in Which All Participate, Harmony with the Environment-" (Cabinet decision on January 18, 2008)

# **Chapter 1.**

## **Current Situation and**

## **Issues of Economic and Fiscal Management**

### 1. Current economic and financial conditions

#### *(Financial and economic situation)*

The global financial and capital markets have fallen into a crisis that is said to occur only once in a century, and abrupt changes in financial markets have weakened the global economy. While Japan's financial system, compared to those of the US and Europe, has remained relatively stable, the stock and foreign exchange markets have been fluctuating and corporate financial positions worsening. As for economic developments, exports, production and corporate profits have substantially decreased, and corporate bankruptcies have been increasing. Furthermore, the employment situation has been rapidly worsening and real wages decreasing. As a whole, the Japanese economy is worsening. As for the regional economies, even in regions that have so far been driven by exports, business sentiment is rapidly deteriorating and the severe economic conditions have been continuing to spread.

Regarding future prospects, there are risks that the global financial crisis will worsen, and there are concerns over a further slowdown in overseas economies and about the effects of large fluctuations in stock and foreign exchange markets. Under such conditions, concerns have grown that both domestic and external demand will become stagnant, and the economic downturn will be prolonged and become more severe.

Based on this situation, the growth rates of GDP in FY2008 and FY2009 are expected to be approximately minus 0.8% and 0.0% respectively in real terms and approximately minus 1.3% and 0.1% in nominal terms. However, it should be noted that uncertainties with regard to future developments in the global financial and capital markets as well as the real economy have been unusually high.

### *(Current fiscal situation)*

The Japanese economy is facing challenges such as a decreasing population, a declining birthrate and an aging population ahead of other countries, with social security expenditure also increasing. Accordingly, there is a sense of anxiety and uncertainty with regard to the future of the Japanese economy and the sustainability of the pension and medical care systems. There seems to be a concern among people over the imbalance between the future required benefits, which are expected to increase rapidly, and the contributions, which are supposed to cover the benefits.

As for the fiscal situation, while the deficit in the primary balance of the central and local governments improved from 5.7% of GDP in FY2002 to 1.3% of GDP in FY2007, it is expected to rapidly increase to 3.4% in FY2008, and 4.2% in FY2009 partly as a result of a decline in tax revenues in the worsening financial and economic situation. The deficit in the overall fiscal balance including debt service payments is also expected to reach a high level of about 6.4% of GDP in FY2009. Furthermore, the government debt<sup>5</sup> is expected to reach about 150.4% of GDP in FY2009. As a whole, Japan's fiscal situation is one of the most severe among major advanced countries with a structure that shifts the burden to future generations.

If this situation is left unchanged, slow corporate capital accumulation will have a negative impact on Japan's medium- to long-term growth. While population decline is expected to continue alongside dwindling birthrates and an aging population, we need to promote reforms toward fiscal consolidation in the medium term, in order to assure the sustainability of economic growth and the social security system.

## 2. Three policy stages

Under such economic and fiscal conditions, we aspire to build a “strong and bright Japan.” We will implement decisive economic and fiscal management strategies based on the stance of “boldness” in the short term and “responsibility” in the medium term. Without responsible economic and fiscal management, bold economic measures could have considerable side-effects on the daily lives of the people, for example, a rise in

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<sup>5</sup> Here this refers to the sum of government bonds, local bonds, and special account borrowings for local allocation tax and local transfer tax.

interest rates.

From the viewpoint of preserving fiscal discipline, we should prevent burdens from being passed on to future generations. Thus, the government, aspiring to a more hospitable and efficient basic stance, seeks to achieve both sustainable economic growth and fiscal consolidation. The government will continue to address the expenditure reforms with a thorough review enabling the reduction of unnecessary and non-urgent expenditures, and promote bold administrative reforms throughout the central and local governments.

In order to achieve sustained economic growth led by private-sector demand and stable inflation rates, the government and the Bank of Japan will conduct policies by sharing basic perspectives on macroeconomic management. The government expects the Bank of Japan to conduct appropriate and flexible monetary policies consistent with the economic perspective presented in “The Outlook.”

Under the concept stated above, the government will restore the Japanese economy in three policy stages: implementing economic measures in the near term, promoting fiscal consolidation in the medium term, and pursuing economic growth through reforms in the medium- to long-term. Even if it takes time for the effects of the policy to manifest themselves, it is necessary to successively implement the policies starting with the most feasible.

In the near term, the government’s top priority is to achieve economic recovery within three years from the current fiscal year in order to safeguard people’s lives from the global economic disorder. Therefore, in the near term, the government and ruling parties will steadily implement the economic measures<sup>6</sup> of, in total, 75 trillion yen, including tax deduction and fixed-sum stipend to each person temporarily for the period toward

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<sup>6</sup> Economic countermeasures by Aso administration (project expenses)  
“Comprehensive Immediate Policy Package –Easing Public Anxiety-” (August 29, 2008) Approx. 11.5 trillion yen  
“Measures to Counter Difficulties in People’s Daily Lives” (October 30, 2008) Approx. 27 trillion yen  
“Immediate Policy Package to Safeguard People’s Daily Lives” (December 19, 2008) Approx. 37 trillion yen  
(Total) Approx. 75 trillion yen

the economic recovery, on the premise of implementing the fundamental reform of the tax system. The government will make the greatest possible effort to appropriately utilize various policy instruments, particularly in areas that have a major influence on the economic recession, such as employment, the cash-flow of companies and supporting people in need. In particular, among the countermeasures for unemployment, the government will provide housing and livelihood supports for the unemployed, support small- and medium-sized enterprises that are making efforts to maintain employment, provide subsidies to business owners who directly hire temporary workers, establish a fund for the purpose of creating new jobs, and expand training for the unemployed. Furthermore, the government will work together with the Bank of Japan to fully assure that proper economic policies are implemented.

In the medium term, by implementing the “Medium-term Program,” the government will establish a solid and sustainable social security system with “mid-level welfare and mid-level burden-sharing” and restore fiscal consolidation.

In the medium- to long-term, the government will formulate and strongly pursue a “scenario” toward future economic growth, aiming at economic growth through reform. In addition, the government will actively address regulatory reforms based on such as “the third report on promotion of regulatory reform,”<sup>7</sup> and create new demand and employment by developing new industries and technologies.

### 3. Toward fiscal consolidation

#### *(The primary balance)*

The Japanese economy and tax revenues have declined at an unexpectedly-rapid rate, influenced by the global financial crisis and economic deterioration, and the future is likely to rest in the balance.

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<sup>7</sup> The third report on promotion of regulatory reform – Intensive Regulatory Reform Program - (December 22, 2008 by Council for Regulatory Reform) It centers on 1) measures for social security/low birthrate, 2) the agriculture, forestry and fishery industry/regions, 3) infrastructures for daily life, 4) improvement in international competitiveness, 5) social infrastructure, 6) reforms of education and qualification, and 7) streamlining of government enterprises.

Although integrated reform of the social security and tax systems had been considered, the revenue reform that had been regarded as a premise for restoring budget surplus by FY2011 has not yet been implemented. It is scheduled to be carried out by mid-2010s in a stepwise manner by implementing the “Medium-Term Program.”

Under such circumstances, the Japanese fiscal balance has been rapidly deteriorating. Thus, it has turned out to be difficult to accomplish the goal of creating a surplus in the primary balance of the central and local governments combined by FY2011.

### *(The goal of achieving fiscal consolidation)*

Achieving a surplus in the primary balance is a milestone toward a “sustainable fiscal position.” It is necessary to achieve this goal as soon as possible, while flexibly responding to unprecedentedly uncertain domestic and international economic circumstances.

However, it is difficult to forecast the future accurately under such fluid and unclear circumstances. Therefore, in the near term, from the viewpoint of fiscal discipline, the government will pursue fiscal consolidation under the current fiscal goal, while placing top priority on achieving economic recovery. Even if the schedule for achieving the goal is delayed due to drastic changes in the global economy, the government will make an effort for fiscal consolidation in order to minimize such a delay as far as possible.

In addition, ensuring the prevention of a divergence in the ratio of debts of the central and local governments to GDP, and the stable reduction of its ratio, is a particularly important benchmark for securing fiscal sustainability. With a view to achieving this goal by mid-2010s, when all baby boomers are going to become pensioners, the government will carry out the appropriate economic and fiscal management.

### *(Addressing fiscal health)*

For the present, the government will make efforts to attain medium-term fiscal health through the measures stated below.

#### 1) Expenditure

In order to guard people’s daily lives, the government will take decisive and flexible action to respond to a further economic downturn and other changes in economic conditions. The government will maintain the basic direction of the existing expenditure reform, and, at the same time, prioritize budget allocation by taking into account

changes in social and economic situations. It is necessary to continue the expenditure reform so as to reduce as far as possible the burden in the process of the fundamental tax reform as well as to deepen people's understanding.

## 2) Revenue

In implementing the "Medium-term Program", the government will steadily give concrete shape to the fundamental reform of the tax system including that of consumption tax.

Simultaneously, it will also implement a reinforcement of the social security system and promote its streamlining.

## 3) Growth policy

The ability to foresee changes in global trends and present and spread advanced models using our own strength is a source of growth in the post-financial crisis era. The government will assure economic recovery and will realize medium- to long-term economic growth by intensively addressing a growth policy that foreruns global change of tide. As a result, it will limit the increase in the burden on our people including future generations.

## **Chapter 2.**

### **Future Prospects for Economy and Society**

1. Looking toward 10 years into the future and taking a step tomorrow

*(Strategies responding to drastic changes in global trends)*

The global economy is facing a financial crisis, and real economic activities have seen a worldwide slump. Throughout each and every business field the impact on employment of the sharp plunge in production, investment and consumption has been quickly growing. To overcome such a situation, the government should not only strive to support and maintain decreasing consumption and employment, but also take measures to boldly create new markets and employment as well as promote free trade and investment in order to stop the global economy from shrinking.

Meanwhile, global trends are about to change significantly. For example, in the international financial and capital markets, while financial models, which have become vulnerable as a result of factors such as excessive leverage, are falling into bankruptcy, it has become necessary to establish a new financial model to match the demand for funds necessary for economic and social maintenance and development, as well as, from the medium-term viewpoint, the necessary human resources and technology. Furthermore, with the ascendancy of emerging countries, the global economy, which has so far centered on Japan, the U.S. and Europe, is taking on a more multi-polarized structure. While a global population explosion is predicted, constraints related to the environment and natural resources are also considered urgent issues common to all of humankind. Such a drastic change in the global economy leaves the future course of Japan and the rest of the world extremely uncertain. As a result, individual people, individual companies cannot clearly figure out what to aspire to, where to place importance, what action to take, and where to invest. Consequently, local societies, and thus Japan as a whole, have started to wilt.

*(Exercising the “latent power and vitality” of Japan in order to eliminate the sense of stagnation, with public and private sectors*

### *sharing a future vision)*

On the other hand, these drastic changes may fundamentally redraw the global economic and industrial map. Accordingly, industrial and technological structures which have up until now been taken for granted may undergo significant modification. Amid the drastic changes in global trends, things which had been regarded as superior may come to be seen as inferior, and things which had never been expected may have the opportunity to thrive. In this way, we are about to see what can be considered a turnaround in the structure of competitive advantage in the global economy. Since the global economy is now at a turning point, our future rests on the next step we take.

Simply responding to such a situation in an ad hoc manner without considering the future, the government may make mistakes regarding significant policies. Although it has so far been thought that it will be a long time before the “future” comes, the government needs to work on further envisaging it in concrete terms as well as act with the aim of accelerating its arrival. Based on such an idea, actually putting down in writing a concrete vision of the future that is shared by both the public and private sectors will induce concrete action that is meaningful for the future. Through such action, the sense of uncertainty and stagnation at the individual, regional and national level will be eliminated.

To this end, through such efforts, the government will continuously maintain and develop Japan’s existing strengths such as the manufacturing industry, even amid changes in global trends, and create domestic markets in advance. With these measures, the government needs to strive to expand domestic demand, and also aim at establishing a foundation to capture new global markets in the future. A vision of the future shared by both public and private sectors will provide specific opportunities to realize Japan’s “latent power and vitality.”

## 2. Developing a future growth “scenario”

### *(Taking a bold step forward to realizing steady future growth)*

On the basis of this approach, the government needs to clearly indicate its image of and objective for the future, for example, what kind of economic society Japan aspires to, and then draw up a “scenario” toward its realization, while at the same time anticipating drastic changes in global trends. The government will also present a strategy in an easy-to-understand manner which enables public and private sectors to take common

and immediate action. The strategy, based on the “Revised New Economic Growth Strategy,”<sup>5</sup> should be represented in the most concrete terms possible. In taking measures to overcome the present economic crisis, the government will decisively act in accordance with this “scenario” with the aim of creating stable employment corresponding to the needs of the new markets thus created. As a result, the government will overcome the crisis that Japan is now facing, and simultaneously realize steady future growth by taking a bold step in anticipation of changes in global trends.

*(Timetable for the development of the “scenario”)*

Specifically, the government will establish the future vision and the “scenario” aimed at realizing it by spring 2009 on the basis of the viewpoints stated in 3. below. The process is as follows:

- 1) Identify strategic areas on which the public and private sectors should concentrate resources while recognizing the “latent power and vitality” of Japan as well as Japan’s position in the global economy.
- 2) Boldly draw up an “ideal future vision for 2020” of each strategic field. Indicate each strategic field’s position in the Japanese economy, market size, and labor absorption capacity.
- 3) Clarify which aspects of Japan’s “latent power and vitality” are to be exercised and what hurdles are to be crossed in an attempt to realize the ideal future vision of each strategic field.
- 4) In order to exert Japan’s “latent power and vitality” and to cross the hurdles we are facing, both public and private sectors will concentrate their resources on the strategic fields identified by the government, and carry out the necessary institutional reforms. During this process, particularly measures and specific priority projects to be addressed ahead of schedule within the next a few years will be clarified.

In order to overcome the present economic crisis by creating new markets to boost demand, the government will formulate and execute the “scenario” as stated above in cooperation with the private sector. At the same time, the government will also take strategic action toward future growth in anticipation new global trends.

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<sup>5</sup> “Revised 2008 New Economic Growth Strategy” (Cabinet decision on September 19, 2008)

### 3. How to envisage the future

As for the economic society that Japan should aspire to in the future, the government will establish the future vision and the “scenario” aimed at realizing it, taking into account the following points:

Firstly, the vision should anticipate changes in global economic trends. If the vision lacks profound insight into the global situation, it will not be possible to grab major trends. Secondly, the government will logically analyze and then concretely draw up and exercise the “latent power and vitality” of Japan. Groundless visions and strategies will bring out a distorted view of the future rather than the ability to break through problems. Thirdly, the vision should enable individuals, companies and regions to envision a concrete image of the future by replacing components of the original vision with their own action. Visions and strategies that do not involve everybody will not allow significant changes to be realized and the ideal “future” to be created.

Taking into account the aforementioned matters as well as increasing constraints related to natural resources, food and the environment, and ever-dwindling birthrates and an increasingly-aging society, etc., the government will aim to build the world’s most advanced low-carbon society and a society for and by all including the younger generations, elderly people, women and local communities, as well as develop Asia as a growth axis. To be specific, the future vision will be envisaged in accordance with the following viewpoints:

#### *“Low-carbon society”*

With constraints related to the environment and natural resources increasing, it is the commitment of our generation to make the transition to a low-carbon society, to realize a society in which people recycle and live in harmony with nature, and to strike a balance between economic activities and realization of such a society. In the aim of achieving the goal of reducing global greenhouse gas emissions by 50% by 2050, the government should start specific initiatives immediately. At the same time, instead of interpreting this as a constraint, the government will develop big industry which can create new demand at home and overseas by quickly making the transition to a low-carbon society. As a country poor in natural resources, Japan has developed

environmental technologies ahead of the rest of the world. We have therefore an abundance of technology, for example, basic technologies such as battery technology and nanotechnology, manufacturing expertise, production methods for new materials, and environmental and energy technology in line with the 3R<sup>6</sup> concept and antipollution policies.

However, in order to fully demonstrate this “latent power and vitality,” it is necessary to make a simultaneous shift in institutions, social systems, business models, infrastructure in the broad sense, etc., so that firms are able to actually increase profits by reducing CO2 emissions and other environmental burdens as well as by developing unique techniques and products; thus making Japan more environmentally friendly. Both public and private sectors need to share a concrete roadmap for the shift, and aggressively invest in these areas. Furthermore, the government will accumulate environmental experience and wisdom which will lead to the creation of value. Such environmental experience and wisdom will be accumulated through reflecting the wisdom of and demands made by environmentally conscious users in the design and production of goods, making an effort to efficiently use energy and natural resources - including unused resources - outside the company framework, making full use of IT<sup>7</sup> and through regional activities. For the stable supply of natural resources and energy, the government will implement strategic policies in the area of natural resources and energy.<sup>8</sup>

### *“Society that makes the most of its human resources”*

Human resources have and always will be one of the most fundamental elements of the Japanese economy. For the future Japanese economy, it is necessary to enable human resources to fully utilize their ability. For this purpose, the government will improve working environments to provide opportunities for developing and learning new skills in response to changes at every stage in life, and bring about a society in which young people can work with hope for the future, and people can, regardless of age, be employed and develop their career if they wish, as well as raise children while working. The basic idea is to enable everyone to work in the way they choose, through

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<sup>6</sup> 3R refers to the concept of Reduce, Reuse and Recycle.

<sup>7</sup> IT (abbreviation for Information Technology)

<sup>8</sup> Descriptions in “Economic and Fiscal Reform 2008 (“Basic Policies”) – A Country Welcoming the World, Growth by and for All, Harmony with the Environment - “ (Cabinet Decision on June 27, 2008)

maintaining and strengthening the employment safety net, including employment maintenance measures, support for reemployment through a national network, and creation of employment opportunities. Consequently, a society will be established in which people are evaluated not by their working styles but according to their motivation and ability and in which they can feel reassured that even if the working environment changes they can continue to work with peace of mind.

Furthermore, education is the foundation for making the most of human resources. Therefore, in elementary and secondary schools, the government will try to build a foundation to enable every child to live independently in a society with a good balance of intelligence, morality and physical strength, aiming for the world's highest academic standards. By improving the quality of higher education, the government will also make efforts to foster a workforce that can develop society and take the lead in an international society.

*“Society supporting peace of mind founded on good health, longevity and child-rearing”*

In Japan the average life expectancy has reached the world's highest level both for men and for women, and the population is aging more rapidly than any other country in the world. However, the government does not consider the aging population to be a constraint on growth, but clearly aims to improve health and longevity. For this purpose, it will develop medical and nursing care as a growing field, while improving social systems such as the medical, nursing-care and pension systems, and promoting broadly-defined innovation in the area of research and development for the prevention, diagnosis and treatment of diseases.

In particular, emphasis is placed on the following major targets: 1) continuous cooperation between medical treatment and nursing care, as well as among medical institutes, etc., 2) improvement of the environment in which people can select various services, and 3) establishment of a system in which people who need nursing care can live independently in familiar surroundings. At the same time, the labor absorption capacity of medical and nursing care services should be considered.

In Japan, as the birthrate is also rapidly falling, there is a concern that economic growth will slow down as a result of population decline if the situation remains unchanged. The government will strive to realize a society in which those who wish to raise children while working can do so with peace of mind by promoting measures to address the declining birthrate, for example, enhancing support for childbirth and

child-raising and reforming ways of working.

### *“High-quality consumer society”*

There is no doubt that Japanese consumers are excellent judges who are sensitive to issues such as safety, peace of mind, and design. The government will make active efforts to make the most of consumers’ sensitivity and wisdom (consumer intelligence), and give publicity to JAPAN brands through contents, fashion and other fields underlying this sensitivity and wisdom.

These efforts will lead not only to the establishment of true consumer sovereignty, but also to the enhancement of competitiveness in production and distribution, including food safety; the aim of which being to establish a comfortable and high-quality consumer society. Strict demands from consumers will be incorporated into corporate activities and reflected in the conduct of local governments and residents.

### *“Vigorous and unique regions”*

The government will aspire to a situation in which each region and small- and medium-sized company can create a vigorous social economy utilizing their own qualities and resources across a wide range of fields, and in which Japan can exist as a complex formation of various regions. The creation of vigorous and unique regions will be facilitated by testing a range of innovations so as to avoid dependency on a single model. In the agriculture, forestry and fisheries industry, the government will aim to increase food self-sufficiency to 50% by using farmland effectively, enhancing management, and improving production technology, as well as try to create employment. In the area of tourism, efforts will be made to convey each region’s unique appeal.

The government will promote decentralization and finally aspire to a regional system in which sovereignty rests with the regions.

Furthermore, the government will try to promote regional regeneration by creating regional strengths, using ICT<sup>9</sup> and PFI,<sup>10</sup> and realizing a society that ensures a sense of

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<sup>9</sup> ICT (abbreviation for Information and Communications Technology)

<sup>10</sup> PFI (abbreviation for Private Finance Initiative) New method to carry out construction, maintenance, and operation, etc. of public facilities, etc. using funds, management and technical abilities of private sectors

safety and of peace of mind.

### *“Establishing a new financial model”*

While the international financial and capital markets have become vulnerable as a result of excessive leverage, etc., it is necessary to break out of this situation and create a new financial model to match funds, human resources and technologies with the new growth opportunities demanding them. Under such conditions, it is essential to make the most of financial assets held by Japanese households totaling 1,500 trillion yen to return the benefits to the people, while contributing to the development of the global economic society.

### *“A new era of Asia leading the global economy”*

In order to break out of the current crisis it is essential to get Japan’s economy back on the track to stable growth, with new industrialized countries especially in Asia playing the leading role. Furthermore, as it is in Asia that Japan’s “latent power and vitality” is being specifically tested, without growth in Asia the prospects for Japan’s future are gloomy. The government will improve the environment required to attract excellent human resources, technology and expertise from all over the world including Asia, and build up relationships of mutual trust between Asian countries by utilizing the Economic Research Institute for ASEAN and East Asia (ERIA). The existing global economic imbalance will be reduced by facilitating the flow of people, goods and money on an Asia-wide basis so as to encourage the investment of Asian savings into Asia. Furthermore, in forging a tourism nation, the government will create new demand and employment by expanding internal and international exchange throughout various fields, in order to maintain and enhance the dynamism of Japan as a whole. The environment required to revitalize the international logistics networks will be also improved. In addition, Japan will play a leading role in striving to present and transmit answers as an Asian country to various international issues while revitalizing investment and consumption in Asia using Japanese wisdom, technology, funds for ODA and OOF.<sup>11</sup>

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<sup>11</sup> OOF (abbreviation of Other Official Flows): Economic aid with governmental funds for developing countries which are not defined as ODA

## **Supplement: Economic and fiscal outlook for the next ten years**

As a result of global economic turmoil and significant changes in the stock and exchange markets, etc, the economic future of Japan is extremely uncertain. Furthermore, since the global economy has significantly fluctuated and long-term structural changes in trends have occurred, there are various risks involved in forecasting Japan's medium- and long-term economic and fiscal outlooks. Under such conditions, it is useful to review various scenarios relating to economic and fiscal prospects for the next ten years in order to confirm the future process and select policy measures. Taking into account economic and fiscal trends, the government will regularly verify scenarios relating to economic and fiscal prospects.