

Minister's Summary by Minister Ota



24th Meeting (November 2, 2006)

- (1) Intensive deliberation (2): Reforms addressing globalization
- (2) On macroeconomic management

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 24th meeting of the year to discuss reforms addressing globalization and macroeconomic management.

At first, the expert members gave explanations about their paper on reforms addressing globalization. Key points of today's discussions are summarized as follows in line with the recommendations by the expert members:

The CEFP members agreed to set up a research committee to sort out problems and consider specific measures.

The CEFP members agreed to accelerate economic partnership agreement (EPA) negotiations while endeavoring to pursue higher-quality agreements.

It was also agreed that the revision of the EPA Timetable proposed by the expert members should be carried out by the relevant cabinet ministers by next spring.

It was on agriculture that major discussions were made today. The following statements were made by temporary member Mr. Matsuoka, Minister of Agriculture, Forestry and Fisheries:

I completely agree with the argument that Japan should develop strong agriculture that does not depend on border measures.

But, even if Japan tries to export, it's still difficult to do so on an equal footing. For example, China bans imports of rice. The conditions for export should be improved.

In response, there were the following remarks:

The most important point is that Japan should develop strong agriculture that does not depend on border measures.

Although there is a rough consensus that Japan has developed some farm products which have high value added and export competitiveness, it is required to increase the productivity of domestic agriculture.

Particularly, it is important to promote merging small plots and speed up

productivity improvement.

In response, Mr. Matsuoka made the following statement:

Merging small plots is quite difficult, partly due to farmers' ardent attachment to their land. But we are now working hard to promote merging small plots.

In response, there were the following remarks:

Methods of "industrialized agriculture" should be developed through, for example, contract-based group farming.

Or, when it comes to a possible lease, a framework allowing for long-term lending will be required.

Mr. Matsuoka voiced clear opposition to the expert members' proposal for drawing up within this fiscal year the reform timetable of overall agricultural policy including a schedule for the elimination of border measures, as specified at the bottom of Page 2 of their paper. He cited the following reasons for thinking that the creation of such a timetable is practically difficult: (1) every country has some form of border measures, and export subsidies that are not implemented in Japan are being conducted by European nations and the United States, (2) the presentation of such a timetable amid tough international negotiations almost amounts to rendering Japanese agriculture totally defenseless.

I made the following conclusions after summarizing the above:

The CAFP requests to Mr. Matsuoka to work on study for achieving strong agriculture not dependent on border measures, based on today's proposal by the expert members as well, and to make a report to the CAFP.

The government should launch the selection of members for the research committee on reforms addressing globalization from now. The committee should advance considerations on the key issues addressed today and make an interim report to the CAFP next spring.

Relevant cabinet ministers should deepen discussions on the revision of the EPA Timetable and compile their discussions by next spring.

The Prime Minister made the following conclusions:

Reforms addressing globalization correspond to the "openness" of "openness and innovation" policy which forms an important pillar under the Abe cabinet. So, I would

like the research committee to make fruitful discussions.

The government will promote multilateral economic partnership agreements beginning with the Japan-ASEAN EPA.

It is also important to take advantage of this opportunity for promoting domestic structural reforms.

I would like to ask Mr. Matsuoka, Minister of Agriculture, Forestry and Fisheries, to show the reform path for developing stronger agriculture which makes a major shift from the defensive to the offensive.

The presentation of the reform path is important for farming families, too. It is also significant for encouraging young people to engage in farming.

Regarding macroeconomic management, at first the Cabinet Office and then Mr. Fukui, Bank of Japan Governor explained economic performance. CAFP members mostly shared the view about present macroeconomic conditions and the following statements were made:

The current macroeconomic situation is relatively favorable. However, economic gaps exist between regions.

Recognizing the point that there are gaps between regular and part-time workers and those according to company size, this should be watched carefully.

We should closely analyze regional economic conditions.

On upside and downside risks for the Japanese economy as indicated by Mr. Fukui, the following opinions were provided:

We should consider not only the probability of the occurrence of upside and downside risks but also the point that downside risks, if realized, would have a greater impact than upside risks.

Overheated capital investment is cited as an upside risk. Given the present economic conditions, however, the problem lies in slightly weak consumption rather than overheated capital investment.

To this, Mr. Fukui asked that these risks should not be taken as visible risks at present, but as those which are possible to emerge in the future.

On weak consumption, the following statements were made:

Even if corporate sectors are showing good performance, we should continue to watch the effect on the households sector in terms of employment and consumption.

Effects on the households sector may emerge gradually as the job market becomes tighter and tighter.

On the BOJ's understanding of a 0-2% rise in the consumer price index as indicating price stability, there were remarks that the CPI itself is biased, and that energy prices and "economic buffer" should also be taken into account.

Mr. Fukui replied that the above only represents a medium-term outlook and expectation, and that the BOJ will continue to watch various and comprehensive indicators in the short-term.

At the same time, several views were expressed on the need to achieve a balance between economic growth and fiscal reconstruction. Thus, they pointed out that formulating a budget with emphasis on the appropriate areas is necessary.

I made the following summary:

Neither the government nor the BOJ denied that they should conduct macroeconomic management while sharing the basic viewpoint proposed by the expert members. There was consensus about the desirable direction of macroeconomic management for the immediate future. From this viewpoint, the government and the BOJ should jointly expend all possible measures for macroeconomic management. The CEFPP should discuss the matter as necessary.

Prime Minister Abe presented his summary as follows:

The basic viewpoint proposed by the expert members should be a guideline for macroeconomic management.

The government will promote macroeconomic management based on the basic viewpoint.

The BOJ should cooperate with the government in policy management.

The CEFPP should conduct deliberations on macroeconomic management to advance discussions.

The Asia Gateway Vision related to today's discussions is also important.

As well, it is necessary for Special Advisor to the Prime Minister, Mr. Nemoto, to offer a report on this matter at the CEFPP.

(End)