

Minister's Summary by Minister Ota



2nd Meeting (January 31, 2008)

- (1) Macroeconomic management
- (2) Economic growth strategy
- (3) Agenda for the future deliberations of the CEFP

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 2nd meeting of the year and conducted discussions on macroeconomic management, economic growth strategy and the agenda for the future deliberations of the CEFP.

Regarding macroeconomic management, Member Fukui (Governor of the Bank of Japan) explained the interim review of the Outlook for Economic Activity and Prices (the Outlook Report) and trends in the financial and capital markets since last year. From a somewhat medium-term perspective, the Cabinet Office explained global fund flow since 2000 and the issues confronting Japan's financial and capital markets.

Right now, our attention tends to be focused on short-term trends in the financial and capital markets. At a time like this, although the utmost attention should be given to such trends, we also need to look at how the financial and capital markets should function from a medium-term perspective. An explanation of fund flow was given from such a perspective.

The following comments were voiced in response:

Expert member: A sense of crisis is arising in Europe and the United States, centering around the subprime mortgage loan problem. As Japan has not felt much direct impact from this problem, its situation is slightly different, but during the scheduled G7 meeting, it should share a sense of crisis with other member countries and jointly determine the direction of reform. Based on this, each country should take advantage of the best policy approach. Japan should demonstrate leadership as chair of the meeting.

Expert member: It is necessary to build strong economic structures that enable Japan to remain invulnerable to such global risks. With regard to crude oil prices, it is essential to strike a balance between economic growth and the environment. In order to cope with international economic fluctuations, Japan should incorporate overseas funds, human resources and markets into the country, rather than strengthening the inward-looking mindset. To this end, it is vital to enhance Japan's appeal and squarely address sectors that are lagging in international competitiveness. As for fluctuations of foreign capital, it is vital to encourage

the participation of Japanese investors. Therefore, reform of defined-contribution pension plans is very important. For example, increasing individuals' contributions will be the first step in channeling their savings into investment.

Expert member: Member Fukui's comment that a virtuous circle of growth in production, income and spending has been maintained sounds somewhat different.

Member Fukui, in response to this: Although the utmost attention should be paid to risk factors, it is essential to observe the real economy calmly, instead of handling it with a sense of fear. Close attention should be paid to the circle of growth in production, income and spending, as well as the one in production, shipment and inventory, so that a positive growth mechanism can be maintained therein.

Expert member: At a time like this, lavish spending under the pretext of lifting share prices and stimulating the economy must be avoided, because this could be regarded as a setback for reform and invite "Japan-selling." Now is the time to push forward reform with a sense of crisis, and make Japan attractive to investors by way of enhancing the Japanese economy's growth potential.

Member Nukaga (Minister of Finance): Research has been underway on securitized products and risk management, the subject of study selected at the G7 meeting last autumn. I would like to conduct frank discussions at the G7 meeting upon requesting the interim report. I will listen to each state's views on what impacts the subprime mortgage loan problem will have on real economies, and discuss what measures to take and what messages to send. Europe and the United States have some differences in awareness. Given that Japan suffered little direct damage from the subprime mortgage loan problem and has experience from the collapse of the bubble economy, it should demonstrate solid leadership in the G7 discussions.

Member Amari (Minister of Economy, Trade and Industry): The problem of excess liquidity has led to the current situation. A concentration of funds in the United States alone is occurring. From here on, the development of a mechanism to channel funds into Asia's real economies is required. As part of such efforts, the United Arab Emirates and Japan exchanged a memorandum of understanding and agreed on the promotion of joint investment in Asian projects. As channeling funds into Asia requires (1) the development of economic systems in Asia, (2) technical cooperation in environmental and other areas, and (3) human resources development, the "Initiative for an Asian economic and environmental community," as described in the growth strategy, will also be steadily implemented.

The Prime Minister made the following statements:

Looking at the current situation of the Japanese economy, wages are proving slow to grow and consumption is weak. In addition, since instability in the global financial and capital markets continues and the U.S. economy is showing signs of a slowdown, close attention should be given to economic trends for the time being. I think it is vital to be prepared to respond quickly to sudden changes in the situation.

I request that the Government and the Bank of Japan coordinate closely.

Along with responding to the current issues, reform aimed at making Japan's financial and capital markets more solid and attractive from a medium-term perspective, as described in today's report, is essential. Taking the current subprime mortgage loan problem as a starting point, we have to calmly examine risks inherent in the Japanese economy and tackle reforms with a sense of urgency.

With the G7 meeting coming up, I ask Member Nukaga and Member Fukui to make efforts to minimize the problem's adverse effects on the Asian economy, in close coordination not only with Europe and the United States, but also the Asia-Pacific countries.

I gave explanations myself regarding the economic growth strategy. The paper was formulated in consultation with the Prime Minister, based on discussions at the last meeting, as well as his policy speech and his subsequent statements at the World Economic Forum in Davos. Let me briefly explain only the scheme of the strategy:

In order to enhance growth potential, the following three points are important: (1) overcoming weaknesses, (2) further enhancing strengths, and (3) channeling overseas growth energy into the Japanese economy. "Further enhancing strengths" falls into Strategy 1 in the paper: the Strategy for Creation of Innovative Technology.

Turning to "overcoming weaknesses," Japan's weakness is the low productivity of the service industries. It is necessary to improve this sector's productivity and try to meet consumers' potential demand and needs for services. Since Japan is challenging the declining population, labor markets in which all participate need to be established. This is Strategy 3: growth strategy through the participation of all.

Global strategy means channeling overseas growth energy into the Japanese economy.

Although the growth strategy had also been implemented under the former Abe Cabinet, it now contains portions that have been strengthened further, such as global strategy. I believe that the following three points have been added as new approaches under the Prime Minister's philosophy:

The new strategy explicitly defines the environment as a key to economic growth.

The strategy values networking, including cooperation between different industries, and clearly maps out a policy of encouraging the participation of all.

It also presents the concept of economic growth originating from people's daily lives, such as sustainable lifestyles and innovation in services that are directly linked with people's lives.

The following comments were voiced in reply:

Expert member: An actionable growth strategy should be implemented as early as possible. Although the growth strategy is scheduled to be drafted this spring and its details are to be specified in the "Basic Policies," whatever can be set into action now should be implemented even before the drafting of the strategy. As a matter of course, things that can be implemented right after the drafting of the strategy should be done promptly. After that, things that require legal revisions, etc. should also be implemented as soon as possible.

Expert member: The paper refers to regulatory reforms from the standpoint of consumers. As electric and gas rates are set to go up, it is necessary for the electric and gas industries to improve their efficiency through competition. The Government should advance regulatory reform of public utilities from the perspective of consumers.

Two expert members: Limitations on foreign ownership of airport companies are now being discussed in drafting legislation. From a global strategy perspective, nondiscrimination between Japanese and foreign ownership would be required. Deliberations should be held from an international perspective.

Member Amari: As even a slight delay in the development of innovative technology, including induced pluripotent stem (iPS) cells, could lead to a disadvantage in international competition, the Government as a whole, including the Council for Science and Technology Policy and the CEF, should collaborate to create a framework to address the issue in a bold and quick manner, rather than ministries each taking different approaches. In addressing

harmony with the global environment, it is vital to establish feasible and impartial targets that allow all major greenhouse gas emitting countries to participate.

Member Masuda (Minister of Internal Affairs and Communications): The separate use of two terms, “IT” and “ICT,” should be unified into “ICT.” It is very important to review the various systems for information and telecommunications. For example, the Government should step up efforts to promote online administrative procedures.

Expert member: The Government should steadily promote EPAs in a global strategy. For example, if South Korea’s EPAs with the United States and the EU take effect, this will leave Japan’s competitive businesses at a disadvantage. Given that the conclusion of EPAs would bring about disadvantages for producers and industries, some measures are required. It is necessary to promote a package of measures across ministries in order to promote FTAs. In the area of aviation liberalization, international charter flights to and from Europe and the U.S. is to be promoted at Haneda Airport under the Asian Gateway Initiative. We have no past record for regular charter flights, and such flights should be promoted.

In the labor distribution ratio, the pace of wage growth is slow and consumption lacks strength. Therefore, we should share an understanding that the distribution of growth results is vital.

The Prime Minister made the following statements:

With regard to the economic growth strategy, I request that the whole Government undertake and implement whatever is actionable.

In future deliberations on the economic growth strategy, things that can be implemented early should be proactively put into action.

I ask for your cooperation.

Regarding the agenda for the future deliberations of the CAFP, we ran out of time for discussions. However, the CAFP approved my paper because working-level adjustment with the ministries involved had already been made during its drafting.

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