Globalization Working Group Report

Japan:
Creating an Influential
Nation Without Walls

April 2005

Globalization Working Group
In September 2004, the Council on Economic and Fiscal Policy instituted an Expert Panel on Japan's Vision for the 21st Century. Four working groups were established in the areas of Economic and Fiscal Prospects, Competitiveness, Living and Regional Affairs, and Globalization. Vigorous deliberations were conducted across a wide range of issues. The Globalization Working Group, under the direction of Group Chief Takatoshi Ito, Professor, Graduate School of Economics, University of Tokyo) has met ten times since September 2004; it holds free and spirited discussions that explore Japan's vision for its economy and society in the year 2030 from the perspective of globalization. The present report compiles the results of these discussions in this Working Group.

### Working Group Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Current Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>&lt;Group Chief&gt;</strong></td>
<td></td>
</tr>
<tr>
<td>Ito, Takatoshi</td>
<td>Professor, Graduate School of Economics</td>
</tr>
<tr>
<td></td>
<td>University of Tokyo</td>
</tr>
<tr>
<td><strong>&lt;Assistant Group Chief &gt;</strong></td>
<td></td>
</tr>
<tr>
<td>Ueta, Kazuhiro</td>
<td>Professor, Graduate School of Economics</td>
</tr>
<tr>
<td></td>
<td>Kyoto University</td>
</tr>
<tr>
<td>Tanaka, Akihiko</td>
<td>Director, Institute of Oriental Culture</td>
</tr>
<tr>
<td></td>
<td>University of Tokyo</td>
</tr>
<tr>
<td><strong>&lt;Members&gt;</strong></td>
<td></td>
</tr>
<tr>
<td>Fukagawa, Yukiko</td>
<td>Professor, Graduate School of Arts and Sciences</td>
</tr>
<tr>
<td></td>
<td>University of Tokyo</td>
</tr>
<tr>
<td>Jimbo, Ken</td>
<td>Assistant Professor, Faculty of Policy Management</td>
</tr>
<tr>
<td></td>
<td>Keio University</td>
</tr>
<tr>
<td>Kokubun, Ryosei</td>
<td>Director, Keio Institute of East Asian Studies</td>
</tr>
<tr>
<td></td>
<td>Professor, Faculty of Law and Politics</td>
</tr>
<tr>
<td></td>
<td>Keio University</td>
</tr>
</tbody>
</table>
Konuma, Shiro  
Deputy Director, Economic Policy Division  
Acting Director, Research Division, Economic Affairs Bureau Ministry of Foreign Affairs  
and Counselor, Cabinet Office

Kwan, Chi Hung  
Senior Fellow  
Nomura Institute of Capital Markets Research

Matsunaga, Akira  
Director, Research and Analysis Division  
Trade Policy Bureau, Ministry of Economy, Trade and Industry and Counselor, Cabinet Office

Murai, Masachika  
Inspector General, Personnel Division, Minister’s Secretariat, Ministry of Agriculture, Forestry and Fisheries, and Counselor, Cabinet Office

Ootsuji, Sumio  
General Manager  
International Government and Industrial Affairs Division, Toyota Motor Corporation

Shirai, Sayuri  
Associate Professor, Faculty of Policy Management  
Keio University

Suzuki, Atsuo  
Counselor, Director-General’s Secretariat  

Toichi, Tsutomu  
Managing Director and Chief Executive Economist  
Institute of Energy Economics, Japan

Urata, Shujiro  
Professor, Graduate School of Asia-Pacific Studies, Waseda University

Yuge, Akiko  
Director, United Nations Development Programme, Tokyo Office
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Summary

Basic Understanding

○ The image that Japan should aim to fulfill is that of a country where people around the world want to go to live, work, study, and play. It should also make the Japanese people feel that they are fortunate to have been born in Japan and to have been able to work in Japan.
○ The direction Japan seeks will treat globalization as an opportunity, and will take full advantage of it. It must also be borne in mind, however, that although globalization does represent an opportunity, it can also become a threat.
○ The measures taken over the next few years will be of crucial importance in realizing the more positive scenarios for the year 2030.

Part I. Scenarios To Be Avoided for 2030

If Japan fails to take advantage of globalization, the country risks the following scenarios:

○ If Japan does not take advantage of globalization, the future of Japan's economy cannot be assured.

  • Bold hypothetical calculations based on trends from the past decade indicate that Japan's share of the world economy will shrink significantly, to one-quarter its present extent, by 2030. In terms of the size of the economy, Japan will be surpassed by China, and will essentially be on a par with India.
  • If progress is not made on structural reforms, Japan will also slip significantly below the United States and Europe in per capital GDP.
  • The appeal of Japan's economy will fade as a base for domestic and foreign corporations expanding globally.
  • Japan will miss the main movement toward global economic integration and be left out of the free trade sphere.

○ Japan's influence in the world will decline.
  • The Japanese economy will make up a smaller part of the world economy. If it
is unable to take the necessary political and security measures, Japan's international influence will also decline, and it will only be capable of responding passively to movements in international politics.

- As a result, the Japan-US relationship could lose its meaning for the United States, and the significance of the Japan-US alliance could be cast into doubt.
- China will gain a stronger voice and take part in summits and become a member of the G9, while Japan's presence and participation will be questioned. It is conceivable that even if Japan becomes a permanent member of the United Nations Security Council, its ability to take on the corresponding responsibilities will come into question. The danger of Japan collapsing before the overwhelming presence of the United States and China is a possibility.
- With Japan unable to do anything but react passively, the country's security environment would deteriorate.

- Global environmental problems remain unsolved, increasing the risk of an unstable supply of energy.

  - If no international framework to reduce emissions of greenhouse gases is created, and no revolutionary technology is developed, emissions will increase. A variety of adverse change and damage will take place worldwide, and there is growing risk that this will affect the lives of the Japanese people.
  - Significant growth in world energy demand increases the risk that international conflict will occur in the course of securing energy. It may become difficult to assure a stable supply of energy.
Part II. Positive Scenarios for the Year 2030

Japan should seek to realize the following scenarios to avoid the scenarios described in Part I.

○ Japan adapts successfully to globalization and sustains its own economic development.
  
  • Japan successfully adapts to globalization and brings about structural reform, raises productivity, and achieves high growth. By 2030, Japan's part in the world economy is about 60 percent of its present level, but per capita income is held at a level equal to the West.
  • Japan strengthens its integration into the world economy so that Japanese corporations and consumers can receive the benefits of globalization. In this way, the country succeeds in exporting competitive products and in retaining head office functions, as well as high value-added manufacturing processes. Japan thus maintains domestic opportunities for employment at high wages.
  • If Japan succeeds in establishing its appeal, the international exchange population will increase markedly. (The number of foreign visitors to Japan could rise to approximately 40 million by 2030.)
  • Regional economic integration advances in the East Asia region, and the conclusion of economic partnership agreements (EPAs) brings regional economic prosperity together with political stability.
  • The progress of economic integration in East Asia furthers the formation of a politically as well as economically open and accommodating collective body. These circumstances are suited to the concept of the East Asian Community.

○ Japan contributes responsibly to the resolution of global issues.
  
  • Japan is expected to become a permanent member of the United Nations Security Council, and will make responsible contributions to the resolution of global issues.
  • Japan exercises leadership in international agencies and international standards and certification agencies.
  • Japan makes use of ODA to contribute to the resolution of major issues in the international community. This earns the deep trust of the international
community and gives Japan a greater voice.

- Japan creates and implements domestic systems for the prevention of climate change. It therefore leads in proposing and debating the formulation of an international framework, resulting in participation by all those involved, from the major emitting countries to the developing countries.
- Japan secures stable supplies of energy and promotes regional cooperation with East Asian countries in the energy and environment fields.

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<tr>
<td>Promote economic integration</td>
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<tr>
<td>• Promote economic integration with a sense of urgency to draw out economic growth potential.</td>
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<td>• Assign priority to economic collaboration with ASEAN+3 and extend that further to countries on the periphery.</td>
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<td>Contribute to liberalization of trade and investment through the WTO</td>
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<tr>
<td>• Contribute effectively to the progress of WTO negotiations by means of activities to promote domestic structural reform and to supply superior human resources from Japan.</td>
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<td>Resolve domestic problems with consideration for globalization</td>
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<td>• Foreign workers are received in an active and orderly manner. Employment in Japan is made possible, as a rule, for people from other countries who possess certain skills and qualifications and who have learned a certain amount of Japanese. At the same time, immigration systems and employment management are to be unified to crack down severely on illegal entry to Japan.</td>
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<td>• Take steps to raise the efficiency of agriculture as an industry and to improve its competitiveness. Shift from support by means of tariffs and other such measures taken at the country's borders, to direct payments limited to motivated and capable producers.</td>
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Respond to the complex security environment

- The security environment simultaneously includes threats from terrorists and other such non-state actors, together with traditional threats arising from conflicts between governments. Japan deals with this complex environment by combining cooperation with friendly countries such as the United States and with the United Nations.

Basic foreign policy

- Maintain the closeness of the alliance with the United States and of the friendly relations with Europe while working to make East Asia peaceful and stable.
- Japan should participate actively in the functioning of the international community. Becoming a permanent member of the United Nations Security Council constitutes an important step forward.
- Japan will aim to build cooperative relations with China with a view to the collective benefit of Asia as a whole.
- Significantly increase the number of Japan experts who are highly knowledgeable about Japan.

Aid policy toward developing countries

- ODA to developing countries represents the philosophy of Japan's assistance leading up to 2030. Based on international trends concerning ODA, Japan should promote efficiency and undertake strategic expansion in terms of supporting development in recipient countries and Japan's international role.

Global environment and energy policy

- Lead in the design of East Asian regional systems as part of the formation of international frameworks that inherit the function of the Kyoto Protocol.
- Deal with heightening international needs for new technology in the energy-conservation and environmental fields by embracing them as positive opportunities to tap into the sources of industrial competitiveness, business opportunities, and international contributions. Use these to invigorate the
Japanese economy.

- Take steps to diversify the sources of energy supply and to improve the country's energy self-sufficiency.
- Promote regional energy cooperation in Asia. Japan exercises its initiative in forming a framework to deal jointly with energy and environmental problems.

○ The importance of international agencies and international standards

- Japan should be able to contribute to the decisions of international agencies and the creation of international standards, and to exercise its leadership in doing so. To this end, the number of "world citizens" in government and the private sector who are capable of participating in activities on the world stage should be significantly increased.

○ The importance of domestic system building

- Reform the decision-making mechanisms for external policy. Japan establishes systems that are capable of planning, proposing, and coordinating policy strategically and flexibly with a view to addressing national interests that transcend narrower government interests.
Main Body of the Report

Introduction

The image that Japan should aim to fulfill amid globalization is to become the kind of country that people from around the world will think of as a place where they will want to go to live, work, study, and have fun. For people residing in Japan, this would presumably be the kind of country that gives them a sense of satisfaction, the feeling that they are fortunate to have been born in Japan and glad to be able to work there. Japan should aim to take advantage of globalization and become a country where there is a high degree of satisfaction in terms of income, work, security, the environment, and people’s daily lives.

It will not be easy to develop Japan’s strong points as the country’s birthrate drops off and its population ages. The progress of globalization throughout the world has resulted in fierce competition among corporations everywhere. For Japan, such a world represents an opportunity, but can also constitute a threat, due to the onset of competition not only among corporations but also in the global market for human resources.

In the midst of globalization, a regional integration perspective—and not just one of fostering human resources and corporations that will survive in the global market—will be essential if Japan is to maintain economic growth and preserve a way of life that is affluent and safe. Through deep regional integration, Europe and North America have formed large markets and established systems and markets that are favorable for corporations within these regions. Based on that, they are striving to make advantageous use of those structures to create global systems. There is thus a need to contribute to economic invigoration and the creation of systems through economic integration in Asia as well. It is important for Japan to encourage and promote the economic integration of Asia and to create a regional market—as well as systems and standards—that will enable economies of scale to be realized.

The advancement of economic integration will also have an impact on the shape of foreign and security policies and environmental and energy policies. Furthermore, a combination of policies related to the economy, foreign affairs and security, the environment, and energy is essential for addressing the global-scale problems of global warming and other environmental issues and energy concerns. It is imperative for Japan
to work proactively in the international community to resolve these problems.

Based on an awareness of the kinds of problems described above, the Globalization Working Group, which was established under the Expert Panel on Japan’s Vision for the 21st Century, prepared this report. This document summarizes some ideal visions for Japan in the year 2030 from the standpoint of globalization, and presents recommendations concerning strategies aimed toward those visions.

Positive scenarios as Japan moves toward 2030 appear on the following pages. To bring them about, in the coming year or two Japan must proceed with a sense of urgency and move ahead with efforts in such areas as undertaking domestic structural reform, promoting economic partnerships with countries in Asia and elsewhere, and making proactive contributions in the foreign affairs and security fields as well as the environment and energy fields.
Part I. Scenarios To Be Avoided for 2030

Japan risks experiencing scenarios such as those below in 2030 if it fails to take advantage of globalization and does not keep up with world trends.

Chapter 1. Economics

1. A significant drop in Japan’s economic standing: “The Japanese economy’s relative standing in the world economy will drop significantly.”

Because of Japan’s declining birthrate and aging population, both its total population and its working-age population (15 to 65 years of age) are decreasing. If the country neglects structural reform, its economic growth rate will continue to flounder, and the size of its economy will presumably decline, even in absolute terms. Boldly assuming that the trends of the past 10 years will also continue from now on, calculations show that Japan’s share of the world economy will probably shrink significantly; in 2030 it will be approximately a quarter of what it is today. In terms of economic magnitude, it is anticipated that Japan will be surpassed by China around 2014 and generally be on a par with India around 2030. The expectation is that Japan will rank as the fourth-largest economy in the world in 2030, following the United States, China, and Europe. If structural reform does not progress, it is projected that Japan will also place significantly below the United States and Europe in per capita GDP in 2030, and that South Korea will surpass Japan (Reference Table 1: Case of Extension of Past Trends). Because of a drop-off in the savings rate due to Japan’s increasing number of elderly people, the balance of trade will probably show a deficit. If remittances from overseas are small, a shortfall in the current account is also likely. If the budget deficit in the government sector also continues, Japan risks suffering a twin deficit and becoming a “little country” jeopardized by the threat that the value of its currency could drop.

2. A decline in the appeal of the Japanese economy: “Globalization moves forward, but the future of the Japanese economy is not secure.”

Globalization in all political and economic fields will continue as a worldwide trend. In

1 The calculations for Reference Figure 1 cover the United States, Europe, Japan, China, South
conjunction with the elimination and lowering of tariff and non-tariff barriers, economies and markets in which the same standards and regulations apply will grow. For corporations, this will mean the establishment of a business climate in which they can easily bring into play the benefits of engaging in business in a large market. As a result, the number of corporations and financial institutions that fare well in countries and regions around the world will be limited, and the rewards for corporations that succeed will multiply. In such a climate, ceaseless product development and continued innovation will be necessary to prevail in global competition. Given the expectation that the population in Japan will decrease and the welfare burden will increase, many Japanese corporations will not be able to pursue economies of scale if they do not have the ability to do business globally, and it is therefore projected that opportunities for growth will be relatively limited. Japanese businesses that have responded well to globalization will be presented with enormous opportunities. But these Japanese corporations will not necessarily have left their head-office functions and high-value-added processes in Japan and be providing domestic opportunities for employment. If Japan cannot respond to globalization, the appeal of the Japanese economy as a base for domestic and foreign corporations with global operations will become weaker and weaker.

3. Not keeping up with the trend toward regional integration: “Internationally, large free trade economic zones are being formed, but it is possible that Japan will be left out of that free trade zone activity.”

The European Union (EU) and countries on its periphery (including Turkey, Russia, and North African countries), the Americas (North, Central, and South America), and East Asia and Asia proper are common examples of large free trade zones created through regional integration. The advancement of economic integration is having a major impact on such fronts as foreign affairs and economic policy, and the number of currencies in the world is likely becoming smaller than the number of countries. As things stand now, however, Japan will not necessarily be able to assume a leading role in the context of the advancement of regional integration in East Asia.

Korea, India, Brazil, and Russia. Their combined total is used as the world economy.
4. The decline of Japan’s voice: “The role of international agencies and international standards and certification agencies will increase, but there is a possibility of a relative decline in Japan’s influence.”

As globalization progresses and the economic integration of regions advances, this does not mean the emergence of free, restriction-less economies. Rather, market watchdog agencies, standards and certification agencies, and dispute resolution organizations will have an ever-increasing role in ensuring that the market works properly. An expanding role will be played by international agencies of a global and regional nature that oversee the market to ensure that competition is carried out fairly and that the quality of goods and services is secured. As things stand now, there is apprehension that Japan’s say in such forums as the United Nations, United Nations-affiliated organizations, the International Monetary Fund (IMF), and the World Bank will undergo a relative decline in conjunction with economic development in China and other Asian countries. This is due to the fact that the production of human resources measuring up to international standards is lagging in Japan, and to the fact that the country lacks the political clout to ensure that it has a say in international institutions and to have Japanese nationals appointed to posts within them.²

5. The risk of the international widening of income gaps: “While the problem of poverty will be alleviated compared with today, it will not disappear.”

The population of people who suffer from absolute poverty will decrease as the world’s economic development advances. This does not mean, however, that the problem of poverty will be resolved in all countries. While the economic growth of emerging market economies will continue, and some countries will join the ranks of the developed countries, it is anticipated that less-developed countries that cannot break free from poverty due to civil war, conflicts, misgovernment, and other reasons will also continue to exist. The globalization of the world economy provides these less-developed countries with an opportunity through the pursuit of a policy of opening up to foreign business. But it also magnifies the risk that they will end up being stuck with a relatively low income if their efforts to open up are to no avail.

² Japan has not secured a say that is commensurate with the proportion of the funding that it provides to the IMF and the World Bank. For example, a Japanese national has never been appointed as one of the World Bank’s top five officials (its president and four managing directors) up to this point (one of the IMF’s top four posts is filled by a Japanese).
Chapter 2. Foreign Affairs and Security

1. The waning of Japan’s influence

The United States will probably preserve its commanding influence on all fronts: political, military, and economic. Its military power, in particular, will continue to be the world’s strongest. It is highly possible that the EU will also strengthen political unity and begin to engage in foreign affairs and security policy for Europe as a whole. China’s international influence will probably become larger as its economy develops. As an energy-exporting country, Russia is likely to expand its influence, and other countries, including India and Brazil, will also presumably increase their influence in the international community.

As Japan’s birthrate falls and its population ages, the country’s share of the world’s GDP will decrease. If Japan is not able to respond appropriately on the political and security fronts, its influence in the world will decline. With this lowering of its international influence, Japan will probably end up unable to do anything but react passively to international political developments. The significance of Japan-U.S. relations could diminish for the United States, and doubts could be raised about the need to maintain the Japan-U.S. alliance. In that case, there is the threat that Japan’s voice in the United Nations and the G8 summit will also diminish. In a context in which China increases its voice and participates in the summit, making it the G9, the significance of Japan’s participation and its presence will be put to the test. Even if Japan does become a permanent member of the United Nations Security Council, its ability to take on the corresponding responsibilities could conceivably come into question. In that case, there is a risk that, before long, Japan will end up having a lower profile amid the overwhelming presence of the United States and China.

2. The deterioration of the security environment surrounding Japan

Developments in China constitute a key factor in terms of international politics in East Asia. Along with its economic clout, China is also presumably steadily improving its political prowess and military might. The question of what kind of player China will become from now in the world and within Asia is an extremely important factor. Whether or not China proceeds to make a soft landing, both politically and economically, also holds major significance for countries on its periphery.
There is a danger that the problems of North Korea’s nuclear development and the Taiwan Strait issue will continue as destabilizing factors in East Asia in the future. While political stability is increasing in Southeast Asia, small- and medium-scale conflicts related to ethnic minority problems and religious issues may continue to break out.

The Middle East will continue to remain the least stable region within world politics. There is concern that many sub-Saharan countries will continue to be beset with problems in terms of both economic development and internal security. Looking at the security environment surrounding Japan in terms of the actors involved, there is a risk that the influence of non-state actors will increase and that the activities of terrorists will be difficult to suppress.

The United Nations Security Council will continue to remain the foundation for the legitimacy of the settlement of international conflicts, and the role of international agencies, including the World Trade Organization (WTO), the IMF, and the World Bank, will presumably expand. There is not necessarily cause for optimism, however, in terms of the prospects for ensuring that cooperation among powerful countries and these countries’ relationships with international agencies will remain healthy.

Moreover, nationalism and religious fundamentalism may stir up many problems, and international conflicts and competition related to energy resources will possibly continue.

In this way, with Japan unable to do anything but react passively in a context in which a variety of changes can occur, the security environment surrounding the country could deteriorate. Japan could also be left on the sidelines of international undertakings with respect to terrorism and other matters. It could be that, on the whole, the level of Japan’s security will decline. It is also possible that admiration and respect for Japanese people in the world, as well as a friendly attitude toward them, will decrease. This not only would pose a problem in terms of foreign affairs but could also have an impact on the safety of Japanese nationals living overseas.

Chapter 3. Environment and Energy
1. Putting off the resolution of global environmental problems

The simultaneous pursuit of the prevention of climate change (global warming)—that is, the drastic reduction of greenhouse gases—and economic growth is problematic; it will not be easy to accomplish. This problem is likely to develop into an increasingly significant international political and economic issue (and likewise will also be an issue at the levels of domestic and regional economies). The fact that the Kyoto Protocol went into effect in February 2005 is important as a first step. At present, however, the United States has withdrawn from the Kyoto Protocol, and China and other developing countries are not obligated to make specific reduction pledges geared toward lowering their emissions. Additionally, no rule has been instituted with respect to the stage at which provisions making the reduction of emissions mandatory for developing countries are to be inserted into the Kyoto Protocol. As far as the reduction of emissions of greenhouse gases is concerned, the situation will become riskier if an international framework in which the United States and China, as well as many other developing countries, can participate is not created, and if the volume of emissions continues to grow, and no ground-breaking technologies are developed. Specifically, there will be a mounting risk that, along with the occurrence of an array of changes and damage internationally, the daily lives of people in Japan will also be affected.

2. The escalation of risks associated with securing energy

It is forecasted that, in conjunction with economic development in China, India, and elsewhere, the world’s demand for energy will grow approximately 60 percent between 2002 and 2030, and the volume of CO₂ emissions will also climb about 60 percent. In particular, oil will continue to be the most predominant source of energy supply for the world. But the production of crude oil in North America, the North Sea, and elsewhere in regions consisting of developed countries will pass its peak. Meanwhile, the importance of the Middle East region, which is endowed with two-thirds of the world’s

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3 According to an International Panel on Climate Change (IPCC) report, a drastic reduction of emissions of greenhouse gases will be necessary to resolve the problem of climate change. The report states that the trend in global emissions volume—which until now has consistently increased—should be reversed at an early stage in this century so that it moves downward, and that future emissions must be cut to no more than half the present level. As things stand now, it is thought that the volume of emissions will increase significantly in conjunction with economic growth on a global scale, particularly in Asia and China (it has also been projected that the amount around 2050 will be more than double the present level).

4 These figures are based on projections in the *World Energy Outlook 2004*, a forecast generated by
confirmed oil reserves, will further expand. With the war in Iraq, political risk factors in the Middle East that threaten to hinder the stable supply of oil are increasing significantly. For that reason, the risk that Japan’s energy security will be threatened by such developments as the occurrence of oil supply disruptions and the intensification of the battle for the world’s resources rises.

Japan depends on imports for almost the entire amount of its supply of oil, natural gas, and coal. Its energy self-sufficiency ratio is 19 percent (in 2002), which places it extremely low among the major industrialized countries. If nuclear power generation, for which Japan relies on imports of uranium, is excluded, the country’s self-sufficiency ratio becomes a mere 4 percent. Given that the demand for energy will go up in conjunction with economic growth in Asia, especially in China, there is a risk that international discord related to securing resources and energy will increase, and that securing a stable energy supply will become difficult if regional energy cooperation and other factors cannot be established.

**Part II. Positive Scenarios for 2030**

Japan should avoid the scenarios described above in Part I and seek to realize the following kinds of positive scenarios by taking maximum advantage of the trend of the times: that is, the further advancement of globalization.

Chapter 1. Economics

1. Japanese economic development that takes advantage of globalization: “Japan sustains its economic development as globalization advances.”

If the Japanese economy adapts successfully to globalization and if structural reform bears fruit, it will be possible for Japan to boost productivity and maintain a high growth rate.

Provided that Japan achieves the growth spelled out by the Economic and Fiscal the International Energy Agency (IEA).
Prospects Working Group, according to a provisional estimate performed on the basis of assumptions for the world economy with respect to individual countries’ capital accumulation, demographic trends, the appreciation of the real exchange rates of developing countries, and other factors, Japan’s share of the world economy in 2030 will be about 60 percent of its present level. That is, the country’s share will not drop as far as the picture tentatively projected in the case of the simple continuation of past trends. The combined size of the economies of the three countries of Japan, China, and South Korea will exceed that of the EU around 2015 and that of the United States around 2025. Even in 2030, Japan will probably be maintaining its per capita GDP at a level on a par with Europe and the United States (Reference Table 1: Future Estimate Case).

Globalization will mean that the Japanese economy will strengthen its open economic and business relations with other economies. This will include free trade with neighboring countries, free trade on a global scale through the WTO, reciprocal liberalization of financial transactions, and so forth. In the context of a world economy in which globalization marches on, some Japanese corporations that are underpinned by superior technologies and business management will probably be realizing the establishment of their brand power and business presence on a global scale. But this will not necessarily lead to the invigoration of the Japanese economy (the economy within Japan’s borders) or to increases in the income of Japanese people (people who have Japanese nationality and people residing within Japan’s borders). To make it possible for Japanese corporations and consumers to receive the benefits of globalization, the country needs to strengthen its integration into the world economy.

For example, exports of competitive Japanese products will rise if Japan works with more countries to conclude free trade agreements (FTAs) that do not have any exceptional items or quantitative restrictions. Head-office functions and high-value-added manufacturing processes will also be successfully retained in Japan, and domestic opportunities for employment at high wages will thus be maintained. Meanwhile, dividends and remittances from the overseas branches and production facilities of Japanese corporations that have expanded their operations globally will also increase. Furthermore, within Japan itself, foreign direct investment will also be encouraged in the kinds of fields that, until now, have been thought of as domestic industries. As foreign corporations come into Japan, competition will make further strides, and there will be progress in terms of efficient business management. Amid globalization, corporations in service industries will also be able to engage in global
business operations by offering high added value, and it will be possible for Japanese businesses in this sector to succeed in the global market, too.

As a result of this, the transmission of information from Japan will flourish. The country will start to perform the function of being a global information portal for accessing networks of high-value-added information that is stored systematically. Furthermore, if Japan succeeds in establishing its appeal, many foreigners will visit the country—it is possible that the number of travelers will reach approximately 40 million people in 2030 (Reference Figure 2)—and the international exchange population will swell.

2. Participation in regional economic integration: “Regional economic integration in the East Asia region will progress in tandem with the advancement of globalization.”

While Japan will of course benefit from participation in globalization on a worldwide scale, it also has relationships of deep economic interdependency with East Asian countries. Tariff reductions, business environment improvements, and the standardization of systems and standards within East Asia will produce a business climate in which goods and services can flow back and forth freely within the region. The creation of such a climate will be beneficial for Japan. With respect to business environment improvements in particular, Japanese corporations are already involved in a substantial amount of foreign direct investment in East Asia, and the existence of high-quality systems that cover a broad range of fields and that are shared throughout the region will also be desirable to promote intraregional trade and investment in East Asia.

Japan’s goal should be economic partnership agreements (EPAs) that encompass not only trade but also the movement of people, the harmonization of standards and systems, tax systems that do not impede trade and investment, the improvement of customs procedures, and other aspects. Achieving the liberalization of trade in services, and not simply the export and import of goods, is crucial. Furthermore, Japan should strive for a customs tariff union with neighboring countries that are geographically close and also have a brisk flow of people to and from Japan. Such a union will make it possible for goods and services to flow back and forth with greater efficiency.

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5 Becoming a base that transmits information to the world and also collects information from it,
According to calculations premised upon the present industrial structure and cross-border trade coefficients, the FTA partner options that will have a large effect in terms of boosting Japan’s GDP are China, the United States, the EU, Australia, Thailand, South Korea, Canada, India, Malaysia, and Mexico (Reference Figure 3). Of these parties, FTAs with the United States, Australia, and Canada will have a comparatively heavy impact on Japan’s agricultural, forestry, and fishing industries. But the magnitude of that impact will be quite minor compared with the effect those FTAs will have on pushing up Japan’s GDP. Meanwhile, it is estimated that the impact of FTAs with China, the EU, Thailand, South Korea, Malaysia, India, and Mexico on Japan’s agricultural, forestry, and fishing industries will be relatively imperceptible. This kind of quantitative analysis is a factor to weigh when considering the sequence for entering into FTAs. Furthermore, in cases in which the movement of people is included in FTAs, the impact of that mobility will greatly alter the existing industrial structure. As a result, there should be consideration that also factors in a perspective that differs from the aforementioned estimate. Ongoing quantitative analysis with regard to the impact on Japan in conjunction with the economy’s globalization will be required.

The conclusion of FTAs (EPAs) and the enlargement of a free trade region that includes Japan will do more than simply reduce tariffs and expand exports and imports. The fact that such action will also be advantageous in terms of the expansion of investment, employment, and consumption that go beyond calculated figures should be emphasized. This is because outcomes on two fronts will become crucial over the long run. First, such factors as long-term changes in the industrial structure and the creation of new industries will produce dynamic economic effects. Second, the strengthening of economic ties and increases in the flow of people going back and forth, as well as cultural exchange, will be accompanied by the enhancement of mutual understanding and the reinforcement of security.

Political stability in the regions around Japan is an indispensable prerequisite for the country’s economic prosperity. Efforts to promote external economic policy and contribute to the economic prosperity of these regions will help establish political stability and order within them. A virtuous cycle created by that kind of regional political stability (security) and economic prosperity should be a goal of Japan’s

Japan will become known as the place to ask questions and become knowledgeable about the world.
external economic strategy.

3. Leadership in the international community: “Contributions to international agencies will increase.”

It is important for Japan to participate in international agencies and international standards and certification agencies and to act as a leader. Structural reform of the domestic economy to keep pace with globalization, the efficient utilization of limited resources and personnel, and the establishment of efficient structures for negotiating with other countries are essential if more positive scenarios for the Japanese economy are to be realized. It is hoped that Japan will secure a say in international agencies that is commensurate with the proportion of the funding that it provides and that the country will express its opinions and exercise leadership in a manner that corresponds to that say. Japan should clearly articulate what it believes is a desirable worldview.

4. The reinforcement of aid to less-developed countries: “The reinforcement of aid to less-developed countries will be conducive to more positive scenarios.”

The globalization that is presently in progress holds great potential in terms of encouraging economic development in less-developed countries. But the benefits associated with that are being divided up in an extremely inequitable manner, and many less-developed countries are facing difficult circumstances. A challenge for the 21st century is to ensure that globalization will become a positive force for people all over the world and that, starting with the achievement of the Millennium Development Goals adopted by the United Nations, it will lead to promoting the development of human resources and improving people’s lives.

A peaceful and stable international environment is absolutely vital for Japan, which receives benefits from trade and investment involving various countries and is dependent on overseas sources for a considerable proportion of its food and other resources. Official Development Assistance (ODA) promotes developing countries’

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6 The Millennium Development Goals were compiled from international goals related to development that were formulated in the 1990s by the United Nations, the Organization for Economic Cooperation and Development, the IMF, and the World Bank. They were then incorporated into the United Nations Millennium Declaration, which was adopted by the United Nations Millennium Assembly in 2000. The goals include reducing the number of persons in conditions of extreme poverty to half the 1990 level by 2015 and making the rate of completion of primary school 100 percent by 2015.
economic and social development and helps ensure the requisite stability of the international community not only for the recipient countries but also for Japan. If Japan contributes to the resolution of major problems in the international community through its utilization of ODA and plays a leadership role, such action will lead not only to winning the deep trust of the international community but also to enhancing friendly relations with developing countries and to strengthening Japan’s standing and voice in the international community.

Chapter 2. Foreign Affairs and Security

1. Contributing responsibly to the resolution of global issues

The presumable outlook for the world as a whole is that a stabilized system of liberal democracy will spread, a harmonious international order will develop among the United States, Europe, East Asia, and other regions, and the United Nations and other international agencies will start to play a more significant role in the resolution of international political problems and coordination in that regard. It is anticipated that Japan, along with Germany, India, and Brazil, will become a new permanent member of the United Nations Security Council amid the reform of the United Nations. As a key member of the international community, Japan will probably be making a responsible contribution to the resolution of global issues. The international security environment surrounding Japan is likely to become favorable as a result of the country’s proactive implementation of human and material activities through such avenues as international peace cooperation, disaster assistance efforts, and ODA while assuming political leadership in the international community. Such activities will also probably lead to the heightening of trust in Japan and the people of Japan.

2. The realization of a peaceful international community

The creation by 2030 of conditions in which interstate war is inconceivable is an urgent issue on the international political front. In East Asia, as well, it could be that the formation of a collective body that is open and also politically cooperative will make progress on the basis of the advancement of economic integration. In that way, the actual circumstances suited to the concept of the East Asian Community may take shape. With regard to the political systems in individual countries, the spread of a system of liberal democracy that respects human rights and that is based upon the rule
of law is desirable.

For that to happen, the present nuclear problem on the Korean Peninsula must be resolved, and political and economic stability should be instituted there. Peaceful resolution of the Taiwan Strait issue will also be required. It is hoped that relations between the United States and the countries of East Asia will become even closer. It will be desirable for the United States and Japan to cooperate proactively as partners to resolve global issues and for cooperative relations for the purpose of addressing global problems to be gradually enhanced between these two countries, too. As for difficult issues in the Middle East, Africa, and elsewhere, there are likely to be attempts to resolve these problems through U.S., European, and Japanese (and East Asian) cooperation.

Chapter 3. Environment and Energy

1. International contributions to the resolution of global environmental problems

With regard to the simultaneous pursuit of the prevention of climate change (global warming) and economic growth, it is hoped that effective international systems for the prevention of climate change will be built. These will include, for instance, an emissions trading system that will be widely used internationally as the basic system. Japan will endeavor to create and implement a domestic system for the purpose of preventing climate change. Taking advantage of this experience on the home front, the country will take the initiative with regard to forming an international framework to succeed the Kyoto Protocol in 2013 and beyond. Specifically, Japan will take the lead in proposing and debating the formation of such a framework and work to build an effective consensus. The outcome will be an arrangement that is founded on the principle of assuming shared but different responsibilities and that involves the full participation of everyone, beginning with the United States, China, India, Russia, and other countries that produce a large amount of emissions and also including a large number of developing countries in Asia and elsewhere. Furthermore, Japan is making international contributions through such activities as technology transfers that take advantage of the supremacy of its advanced technologies related to energy conservation and the environment. Along with that, it is gathering scientific knowledge that will

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7 The Kyoto Protocol only stipulates the volume of emissions from 2008 to 2012, and new
contribute to the prevention of climate change and promoting continued technological development. These endeavors are further improving Japan’s energy conservation and environmental technologies; they are also leading to new business opportunities and, by extension, to the invigoration of the Japanese economy.

2. Securing energy

In addition to addressing energy problems from the standpoint of the issue of climate change, they are being dealt with in light of the risks of the depletion of energy and supply constraints. Restrictions on the production and consumption of fossil fuels are being implemented across the globe, and there is an attempt to shift away from the present structure of energy demand, which is dependent on fossil resources. The energy supply is becoming more diversified, and Japan’s energy self-sufficiency ratio is also on the rise.

3. The establishment of regional cooperation in East Asia

Regional cooperation with the countries of East Asia, which share many problems in the energy and environment fields, will be promoted, and a framework for jointly responding to energy and environmental challenges will be created in the East Asia region. Through such efforts, the entire East Asia region’s response capabilities with regard to energy crises, environmental problems, and other areas will improve.
Part III. Strategies Japan Should Pursue to Bring About the More Positive Scenarios

The following strategies should be pursued to take maximum advantage of globalization and to realize the positive scenarios for 2030.

Chapter 1. Promotion of Economic Integration

1. Positive Reasons for Promoting Integration

The advance of world globalization is an important opportunity for Japan. Deep economic integration with the world economy will offset the weaknesses in the Japanese economy in the face of a declining birth rate and aging society. Since Japan’s trade ratio within the Asian region is the highest after NAFTA and the EU, there is significant merit for Japan in promoting economic integration and trade stability within the region. Realizing deep economic integration within Asia is therefore desirable for economies both within and beyond the region.

To draw out the Japanese economy’s potential growth under globalization, the pursuit of scale economics is necessary. To facilitate the international activity of Japanese enterprises that have their headquarters or design, planning, or production base in Japan, high-quality production elements (human resources, workforce, technological development) must be practically utilized at competitive process.

China and ASEAN are strong in fields in which Japan is weak; conversely Japan is strong in fields in which China and ASEAN is weak. In this sense, the Japanese economy has a complementary relationship with China and ASEAN is important that. In addition to seeking continued economic openness, Japan endeavors to build strong cooperative relationships with China and ASEAN in fields where cooperation is possible. In order to take advantage of the complementary relationship between Japan and China and ASEAN, Japan should maintain and strengthen business headquarter functions, high added-value production, and high added-value processes, in addition to entrusting international shifts in production processes to market mechanisms. The establishment of free trade agreements between Japan and China and ASEAN under such conditions would easily enable the creation of a system dividing labor in a
comparatively advantageous way that would benefit all partners to the agreement.

Japan is a “model student” in that it charges almost no tariff duties on most manufactured commodities. In addition to ensuring that this fact becomes more widely known, it is important that Japan negotiate through the WTO and FTAs (Free Trade Agreements) for other countries to lower their tariffs.\(^8\)

To maintain and improve the living standards of Japanese people, the proactive education and occupational training of human resources in areas necessary to the Japanese economy in the future is, of course, important. However, it is also vital that skilled foreign workers proficient in the Japanese language be proactively encouraged to come to Japan. This is one means of counteracting the declining birthrate and aging population, and will also contribute to the promotion of economic integration through FTAs.

2. Defensive Reasons for Promoting Integration

Although the advance of world globalization is an opportunity for Japan, it also poses a potential threat. The number of FTAs has been increasing rapidly since 2000. Compared with other Asian countries such as Thailand, Japan has concluded or negotiated only a small number of FTAs. From the perspective of other Asian countries, Japan’s response has no doubt appeared passive and, if Japan continues at this slow negotiation pace, there is a possibility that a greater Asian free trade block that excludes Japan will be realized within the Asian region. With the liberalization approach, there is a danger over time of Japan missing the boat on East Asian economic integration. Speed is thus of the essence.

Whether on a regional or global level, it is important for Japan to be committed from the beginning when a new system is being formed, since joining the system afterward would require adherence to systems and standards that have already been established, making adaptation more difficult.

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\(^8\) Take automobiles for example. In contrast to Japan’s 0%, the Unites States charges tariff duties of 2.5%, the EU 10%, the ROK 8%, Australia 10%, Brazil 35%, China 30% (25% from July 2006), and Thailand 80%.
3. Strengthening Japan’s Economic Relationship with East Asian Countries

(1) From ASEAN+3 to an East Asian Community

With Asia, the importance of political, economic, and cultural exchange within ASEAN+3\(^9\) in particular is growing. A practical step to take would be to give priority to economic integration within ASEAN+3 and then expand outward to neighboring countries.\(^{10}\) Within this process, furthermore, bilateral FTA with countries outside the region should be proactively pursued when the benefits of such an agreement would be great for both parties. Focusing on moves toward economic integration such as these, Japan must work toward the formation of an open and cooperative community in East Asia by promoting cooperation in energy, environment, politics, security, culture, and various other areas. In this, it is important that Japan continue to proactively take a leadership role and ensure that the community created is based on universal values and is open to the world.

(2) Economic Relationships with the ASEAN+3 Countries

China is, for Japan, already a greater trading partner than the United States\(^{11}\). Since this situation is expected to continue\(^{12}\), Japan-China FTAs are therefore highly significant. For Japan, China’s growth can be taken as a business opportunity\(^{13}\). Japan’s fostering of China’s growth should not, therefore, stop at tariff duty reductions or exemptions—it should extend to the elimination of impediments to the flow of commodities, people, and money through developed country-standard EPA, including investment agreements and protection of intellectual property. In other words, Japan should strive toward comprehensive EPAs that also includes service trade, investment, and protection of

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\(^9\) Includes the ASEAN countries and Japan, China, and the Republic of Korea

\(^{10}\) According to “Japan’s Vision for the 21st Century: a Survey of Japanese Companies Abroad” (conducted by the Cabinet Office in February 2005), a large number of businesses based abroad, regardless of location, believe that Japan should give priority to ASEAN countries and China in pursuing FTAs and EPAs (see Table 5A).

\(^{11}\) Includes trade with Hong Kong.

\(^{12}\) According to the survey mentioned in (10), a large number of businesses, regardless of location, gave China as a country/area that would increase in importance in the future (see Table 5B).

\(^{13}\) According to the survey mentioned in (10), in most of the locations in which the survey was conducted, China’s economic growth was seen not as a threat but as a business opportunity. In Bangkok, however, opinion was split almost equally between “threat” (49.3%) and “business opportunity” (44.0%). (Note: “threat” includes “if anything, a threat”; “business opportunity”
intellectual property. Furthermore, in addition to its own economic expansion, China has begun providing ODA to several countries in Asia. Moreover, per capita income in coastal cities such as Shanghai is increasing dramatically. A shift in the focus of the Japan-China economic relationship in line with China’s economic expansion, from intergovernmental ODA to private sector trade and investment, is only natural. With regard to Japanese ODA to China, the formation of a truly “equal partnership” with China is desirable in terms of response to “market failures” such as overcoming “externality” (cross-border environmental problems).

The ROK is the only OECD member, apart from Japan, in ASEAN+3. Thus there is significance in these two countries presenting a model of high-quality economic integration. Maintenance of a competitive environment in both Japan and the ROK and expansion of inter-industry cooperation and coordination are beneficial for both countries. In addition to improving various aspects of the Japan-Korea relationship, from the promotion of systematic harmonization (move toward tariff union) to policy coordination such as trade policy, expansion of human exchange between the two countries is also desirable. Within the Japan-China-Korea relationship, it is important that we build up cooperation in various functions, such as cooperation concerning the environment, energy, science and technology, and IT.

The relationship between China and ASEAN is competitive, with the two importing to and exporting from each other similar commodities. For ASEAN countries, the creation of a system for dividing labor with China while at the same time reforming industrial structure is an important issue for the maintenance of economic expansion. It is important that Japan provide support for such ASEAN efforts toward increased industrialization and specialization in competitively advantageous industries. There are tremendous disparities in income and level of development among the 10 ASEAN countries. While cooperative relationships with middle income countries are important—whether through support for infrastructure construction, direct investment by companies, or technological support for financial and capital market development—with low income countries, Japan should focus on the establishment of a foundation for a free economic structure based on market mechanisms using ODA. For low-income countries, furthermore, expansion of imports (or provision of initial opportunities for establishing autonomous imports) would be a more effective means of

includes “if anything, a business opportunity.”) (see Table 5C)
14 For example, the establishment of a uniform exchange rate, independence of the central bank to secure public confidence in the local currency, and transparency of public finances.
strengthening economic ties than would support. Japan introduced a system of general preferential tariff duties in 1971; to promote industrialization and economic growth in developing countries, which increases their export income, Japan applies a low tariff (preferential tariff), lower than general tariffs, to specified agricultural, mining, and manufacturing imports from developing countries. The number of products and countries to which these apply is expected to expand.

(3) Issues Involved in the Economic Integration of ASEAN+3

To achieve economic integration of the East Asian region, various problems must be resolved.

The first of these problems is the tremendous economic disparity between potential community members. The second problem is the difficulty of averting restrictions imposed by countries outside the region. Because the East Asian region is heavily dependent on the United States, particularly for trade and investment, forming FTAs that are highly independent from other regions is extremely difficult. The third problem is the slow pace of monetary cooperation. Even when tariffs or non-tariff barriers are removed through the establishment of FTA, fluctuations in exchange rates between member countries would continue to impede cross-border trade and direct investment. To overcome these problems and promote the economic integration of ASEAN+3, it is important that Japan make an active contribution. Specifically, Japan should contribute not only to the creation of mechanisms to ensure that East Asian currencies remain more stable within and float outside the region, but also to the promotion of financial cooperation within the region to protect against the risk of sudden Asian currency fluctuations accompanying increased capital flow. Establishment of an Asian basket currency unit that includes the yen, won, yuan, and ASEAN currencies. Encouraging the use of this currency unit in trade and bond floatation would help stabilize regional currencies. Stronger commitment must be urged to stabilize currencies within the region by 2030.

15 In Fiscal 2003, preferential tariffs applied to 340 specified agricultural products and 3,300 mining and manufacturing products from 148 countries and 15 regions. Furthermore, in addition to these privileged products, since 1980 Japan has made duty-free and quota-free provisions for approximately 1,200 special privileged imports from the least-developed countries.
Chapter 2. Contributions to the Liberalization of Trade and Investment Through the World Trade Organization (WTO)

1. Relationship with the WTO

The WTO is indispensable to Japan as an organization that fosters trade liberalization through the formation of international rules and the application of the rules of dispute-settlement organizations. In reality, the WTO also functions as a dispute-settlement entity. For example, the decrease in the number of unilateral measures imposed by the United States government in recent times indicates the role of the WTO. It is hoped that the preparation of an environment and system that fosters freer and smoother trade would also benefit Japan, and so maintenance of the WTO’s authority is in Japan’s national interests. Furthermore, effectively contributing to the promotion of WTO negotiations would help Japan gain trust internationally. Also for this reason, it would be desirable to increase the number of top-caliber Japanese personnel (from both the government and private sector) capable of contributing to WTO debates within the ranks of WTO officials and staff.

2. The WTO and Complementary FTA

The WTO is indispensable in the liberalization of world trade, but momentum of negotiations waxes and wanes because decisions are made by consensus, despite the large number of member countries (148) and the diversity of the issues under negotiation. Consequently, it is necessary for Japan to pursue FTAs to supplement the formation of rules by the WTO. The promotion of open FTAs does not impede promotion of the WTO; basically, FTAs and the WTO have a complementary relationship. By 2030, deep economic integration will have been realized in the majority of regions in the world through FTAs and other means; it is even possible that the WTO will also play a major role in negotiations between these economic communities.

3. The WTO and Japan’s Response

One major problem for Japan is the fact that it has not necessarily been able to contribute adequately to the formation of WTO rules. Because sensitive industries

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16 Industries that are uncompetitive internationally and are protected by tariffs or...
within Japan are uncompetitive and remain vulnerable, and because understanding and acceptance of the benefits of trade liberalization through WTO negotiations among many members of the general public remain weak, the domestic momentum to promote/support WTO negotiations has been dampened. Accordingly, for Japan to contribute to the formation of WTO rules, it is important that structural reform of sensitive industries be implemented, that domestic understanding of the benefits of trade liberalization through the WTO as well as the formation of a rational market trend outlook be encouraged, and that an intragovernmental framework for planning strategies, coordinating opinions, and implementing measures be established as early as possible.

Chapter 3. Resolution of Domestic Issues with Consideration for Globalization

1. Foreign Workers

Japan’s conventional policy on foreign workers has been to admit the highly skilled and exclude the unskilled. This rule, or stance, is inconsistent with reality on four points. First, a tremendous number of unskilled workers are believed to have entered the country under the pretext of educational purposes. Second, an examination of foreign students’ fields of study reveals that more than 130,000 (approximately 80 percent) were studying in “entertainment-related” fields, while only four were studying medicine—a reality far removed from the image invoked by the term “highly skilled.” Third, there are also problems concerning the acquisition of skills and living environment in Japan (especially education for children) of foreign nationals of Japanese descent who have already been admitted with a view to permanent residency. Fourth, the issue of occupation or profession is not so simple that jobs can be neatly divided into “highly skilled” and “unskilled.”

The disparity in income levels—in other words, the opportunities available in Japan for high-paying work—is enticing for people in low-income countries. Japan’s declining birthrate and aging population mean that there are many occupations for which a future labor shortage is anticipated. Under such circumstances, staunchly insisting on limiting entry to “highly skilled” foreign workers would not only be impossible, but would also produce a variety of social, systematic, and political discrepancies. In principle, foreign nationals with qualifications and skills in a broad similar means.
range of fields, and who have achieved proficiency in the Japanese language sufficiently to enable smooth communication at work and in daily life, should be permitted to work in Japan. To enable this, the number of residence statuses allowing work should be expanded substantially. The nursing-care-related occupations\textsuperscript{17} for which certification systems have already been established should also be made entry statuses permitting work. Even apart from this, granting entry status permitting work to a variety of occupations\textsuperscript{18} is important for invigorating the Japanese economy. Moreover, Japan should consider greatly expanding qualifications for occupations that Japan wishes to foster, recognizing qualifications obtained overseas and permitting entry to foreign nationals holding such qualifications. With regard to Japanese language acquisition, actively providing opportunities for Japanese study in other countries will lead to a greater number of foreign nationals arriving in Japan already proficient in Japanese; thus ways of promoting Japanese education in other countries will be considered.

With regard to occupations for which demand will grow at the birthrate declines and population ages, such as nursing care workers, nurses, and doctors, opportunities for employment should be actively provided. Furthermore, occupations that reduce or lighten the burden of childcare and nursing care should be certified and opened to foreign workers. Japan should grant residence status to foreign workers from FTA partner countries on the premise that they acquire proficiency in Japanese and national qualifications. Residence status will not be granted to a fixed number of foreign workers to cover the shortage of Japanese workers, nor will the labor shortage caused by the declining birthrate and aging population be calculated and an equivalent number of foreign workers allowed entry. The only conditions for entry will be proficiency in the Japanese language and Japanese professional qualifications; the rest will be decided by demand and supply in the labor market. Furthermore, there is to be no wage discrimination between Japanese and foreign workers with the same skills and performing similar duties.

Until now, the JET Programme\textsuperscript{19} has provided a means of increasing opportunities for students to have contact with living English in the classroom and has been extremely successful. For example, Care Worker, Helper Level 1, Helper Level 2.

\textsuperscript{17} For example, Care Worker, Helper Level 1, Helper Level 2.

\textsuperscript{18} For example, assistant teachers, nursery teachers, office administrators, system engineers, and lathe operators.

\textsuperscript{19} The Japan Exchange and Teaching Programme. Under the JET Programme, local government agencies host young foreigners with the aim of enhancing foreign language education and promoting internationalization at a regional level.
successful in enhancing the international awareness of Japanese people, as well as in furthering foreigners’ understanding of Japan. Acceptance of foreign workers will similarly serve to further the internationalization of Japanese society and deepen mutual understanding on an international level.

The increase in crimes committed by foreigners is one factor behind the ambivalence among the general public toward the acceptance of foreign workers. Behind the increase in violent crimes lie factors such as the sudden increase in the number of foreigners entering the country under the false pretext of study, and the inadequacy of the system for checking illegal residency and employment. To prevent further increases in the number of illegal workers, Japan’s immigration and labor supervision systems need to be integrated, and educational institutions and businesses should be required to regularly check the work qualifications (status of residency) of foreign students enrolled or foreign workers employed, respectively. Fines should be imposed on noncompliant businesses and educational institutions. Japan needs to rigorously clamp down on illegal residency and to strengthen penalties for illegal employment, while at the same time utilizing electronic passports and similar screening technologies. The number of foreigners wishing to use the working holiday system (under which short-term visitors to Japan are permitted to work, subject to certain conditions, to cover their living expenses) is also expected to increase in the future. It is important that Japan answers the wish of foreigners of many nationalities to visit Japan by changing the working holiday system from the present “mutual recognition” arrangement (under which Japan accepts only working holiday makers from countries

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20 From the sudden increase (approximately double) in foreign students over the past few years, it can be inferred that these numbers include many students who are unable to focus on their studies and individuals with no desire to study who enter Japan under false pretenses to work. Moreover, a huge disparity between universities in their capacity to accept foreign students has also emerged. Study visas should not be issued to students lacking a desire to study, basic knowledge prerequisite to their chosen study, or funds for living expenses while in Japan. This is because, if students come to Japan unprepared, they will have developed a bad impression of Japan, and Japan will have developed a bad impression of them, by the time they return home. What is important is not simply increasing the number of foreign students, but ensuring the satisfaction of all parties – the educational institutions and communities accepting the foreign students – by accepting only foreign students who have carefully prepared for their study in Japan. Foreign students should be required to focus on their studies for at least their first year in Japan, and the system for checking on and preventing illegal employment should be strengthened. From their second year of study onward, part-time work could be permitted depending on a student’s wishes and academic performance. However, a system should be created in which the university, employer, and immigration authorities maintain communication regarding the work itself, and fines should be imposed on educational institutions when a significant number of their students are found to be working illegally. Moreover, scholarships should be established for the benefit of students with particularly outstanding academic performance from their second year of study onward (irrespective of the students’ income or
that accept Japanese working holiday makers) to a “unilateral recognition” arrangement (under which Japan would accept working holiday makers from a country regardless of whether or not that country accepted Japanese working holiday makers).

By 2030, the number of foreign national working in Japan is expected to have increased considerably compared with numbers today. It is therefore necessary that common rules and systems are established in workplaces and communities, while differences in culture and values are mutually respected.

2. The Agriculture, Forestry and Fishing Industries

In trade negotiations held thus far (such as the Uruguay Round and the Japan-Mexico FTA), Japan has been criticized for negatively influencing the negotiation outcome and timing because of its insistence on protecting a number of agriculture, forestry, or fishing industry (hereunder referred to as “agriculture”) products. Japan’s lack of strategy regarding the agriculture issue has undeniably worked to Japan’s extreme disadvantage in trade negotiation outcomes and attempts to strengthen competition within agriculture domestically. The agriculture issue is not, however, limited to Japan. Within the developed countries, very few countries have completely free agricultural trade, and none are totally without internal measures for protecting agricultural industries. However, because in trade negotiations Japan has refused to the end to play the “agriculture card,” it has been obliged to participate in disadvantageous negotiations on many occasions. Its continued insistence on protecting certain agricultural products weakens Japan’s negotiating position. Agriculture is one card that could be drawn in both WTO and FTA negotiations and therefore needs to be considered in terms of maximizing the national benefits to Japan as a whole.

In line with globalization, it is important for there to be a change from agricultural support financed by consumers through border measures to agricultural support financed by public funding (by taxpayers). When making this change, and also as preparation for the elimination of border measures in the future, it is important that domestic structures of agricultural production that are not unduly dependent on border measures be established as early as possible. To enable this, support measures that provide support to all producing farmers—as measures have done up until now—should be revised and, from the perspective of financial efficiency, a system of financial means).
support in which direct payments are made to only those with the desire and ability to maintain continuous agricultural production, domestically and into the future, should be adopted.

With FTA negotiations, as a rule Japan should aim to introduce a non-quota zero-tariff system for all agricultural products as rapidly as possible (within a maximum of 10 years) and use this system as a draw card in FTA negotiations. The number of full-time farmers is extremely high. With regard to strengthening brand name and some products for which improving production efficiency is expected to take some time (for example, rice), it is necessary that structural reforms are implemented somewhat gradually; a schedule spanning 10 years or more should be considered. Rice is already imported with minimum access. As an interim measure on the path to liberalization in the future, it would be desirable to put into play elements of competition regarding minimum access with respect to what type of rice is imported from which countries, and how this rice is distributed for sale within Japan.

The aim of agricultural promotion in Japan is to strengthen the efficiency and competitiveness of agricultural production, and this should be clearly spelled out. Moreover, systematic improvements enabling the pursuit of economies of scale—particularly important in agriculture—should be carried out. Specifically, the acquisition of agricultural land or agricultural production by business corporations should be permitted. Even if inefficient farmers consequently withdraw from agriculture (selling their land to business corporations), both parties would profit economically. Internal measures should also be implemented efficiently through the provision of economic incentives. In the case of a number of Japan’s agricultural products, exports could potentially be increased; efforts to reduce the import surplus, even by small amounts, through product “luxurification” and specialization are vital for agriculture. What is important is that the principle of comparative advantage comes into play as a result of the agriculture industry also moving closer to market mechanisms.

Chapter 4. Security Policy

1. Response to the Complex Security Environment

Scenarios predicted as extensions of the current situation suggest a complex security environment that simultaneously includes threats from terrorists and other non-state actors, together with traditional threats arising from conflicts between governments.
Future security strategies must be able to respond to this complex security environment under domestic constraints such as the declining birthrate and aging population. The present response comprises the strategies outlined in The Council on Security and Defense Capabilities Report\(^{21}\)—in other words, comprehensiveness, centralization, functionality, emphasis on information, and maintenance of scientific and technological capability must be sought (see note.)

2. “Preventative Security” and “Farsighted Diplomacy”

To improve Japan’s international security environment, from the perspective of “preventative security,” emphasizing the prevention of conflict, not only the self-defense forces but also other government and private sector organizations will proactively conduct international peace cooperation activities. They will also practice “farsighted diplomacy” with respect to preventing the proliferation of weapons of mass destruction, antiterrorism measures, arms control, and other issues.

**Main Points Outlined in the Council on Security and Defense Capabilities Report**

(1) Comprehensiveness

Three features are necessary in implementing security policies: a comprehensive combination of Japan’s own efforts (both military and non-military); cooperation with Japan’s ally, the United States; and cooperation with the entire international community. It goes without saying that Japan’s own efforts and close coordination with the United States are necessary for maintaining Japan’s self-defense directly as well as maintaining stability in neighboring regions. To maintain stability in various other regions of the world also, overall coordination of the efforts of the self defense forces and other peace-building activities, the efforts of the United States and other friendly countries, and the efforts of the international community with the United Nations at the helm are necessary.

(2) Centralization

\(^{21}\) The Council on Security and Defense Capabilities is a council comprising key figures in fields such as security and economics who are appointed by the Prime Minister; the council meets to discuss Japan’s national security and self defense capabilities. The report mentioned here was published in October 2004.
In comprehensively implementing security policies, decision-making and an implementation system for the policies must be centralized. Precisely because various methods must be pieced together, decisions made by the Japanese government must be centralized at the Prime Minister’s office, maximizing the role of the Security Council of Japan. Moreover, the cooperation of various government ministries and agencies is also vital in implementing these policies. In this aspect, too, centralization must be achieved.

(3) Functionality

Within a complex security environment, various functions are called for in the maintenance of security. As a response to ballistic missiles, an effective ballistic missile defense system is necessary; in response to invasions of Japanese territorial waters, the capacity to carry out closely coordinated sea-air actions is necessary. In addition to domestic antiterrorism measures, peace-building activities in regions throughout the world must be implemented. The collective efforts of not only the self defense forces but the country as a whole are needed in the creation of a system capable of fulfilling these many functions.

(4) Emphasis on Information

The most important factor in effectively undertaking multiple functions is emphasizing information. In addition to upgrading defense and weapons systems so that they emphasize information, the system for gathering and analyzing information used by the Prime Minister’s office in making centralized decisions must be strengthened. Prior to this, it is necessary for Japan as a whole to strengthen its system of gathering and analyzing information from throughout the world.

(5) Maintenance of Scientific and Technological Capability

It is not necessary for all the equipment required in maintaining Japan’s security to be produced domestically. If high caliber equipment can be procured from allies and friendly countries, Japan need not hesitate. However, for Japan to purchase equipment from allies and friendly countries efficiently, it is vital that Japan as a nation maintain a high overall level of scientific and technological capability. In several weapons-related technological fields, it is desirable that Japan maintain technological capacity at the
Chapter 5. Foreign Policy

1. Basic Foreign Policy

The basis of Japan’s foreign policy should be building peace and stability in East Asia while maintaining its close alliance with the United States and keep friendly relations with Europe. Underlying Japan’s friendly relations with the United States and Europe, as well as with countries of the Asia-Pacific region, is the need for Japan to participate actively in the functioning of the international community as a whole. Becoming a permanent member of the United Nations Security Council is an important step toward achieving this, as the current debate over United Nations reform rapidly moves forward. Furthermore, prompt responses are also required in the establishment of FTAs and EPAs as well as the creation of international frameworks to prevent climate change. Japan should act with a sense of speed as it exerts maximum effort to respond to these issues. Furthermore, Japan needs to exhibit leadership in heads-of-state summits, such as the G8, APEC, and ASEAN+3, and a variety of other multilateral diplomatic situations; Japan therefore needs to proactively contribute human resources to international organizations.

2. Relationship with the United States

The Japan-US alliance and the cooperative relationship between these two countries that share universal values and interests are diplomatic assets that Japan must continue to strengthen and solidify. To build peace and stability in East Asia, the Japan-US alliance will continue to play an important role in stabilizing the region. Precisely because the two countries are firm friends, Japan and the United States should continue to exchange opinions frankly and cooperate in resolving problems in Asia and other areas of the world. However, Japan cannot maintain a good relationship with its closest ally without consistent effort. Deep personal relationships at various levels of society support current Japan-US relations, and efforts must be made to broadly maintain such relationships in the future.

3. East Asia Policy

The direction of Japan’s East Asia policy is toward transforming the region into one
that is peaceful and stable and in which liberalism, democracy, diversity, equality, and openness are respected. A future East Asian community must be envisioned for a region in which such universal values are respected, and Japan must take on a leadership role if this is to be achieved.

In Japan’s relationship with China, the stability and growth of China’s economic society is important; thus Japan should avoid situations demanding a choice between “antagonism and indulgence.” The nature of a positive and long-term cooperative relationship with a view to the collective benefit of Asia as whole needs first to be debated in various fields, centered on the private sector, then these opinions collected and compiled by the government. The Japan-China relationship is the cornerstone of cooperation in East Asia; as long as these two major powers cannot reach agreement, an East Asian community is little more than a pipedream.

Efforts must also focus on the maintenance and development of friendly relations with other countries and regions in East Asia.

4. Other Diplomatic Issues

It is also necessary for Japan to strengthen its relationships with countries and regions, such as Europe, Russia, India, and Brazil, whose global influence is expected to grow in the future. Europe is a developed region whose values, like those of the United States, Japan shares. In the interests of multilateral diplomacy and resolving regional issues, Japan must actively engage in strategy dialogue encouraging cooperation. With Russia, Japan must promote diplomatic cooperation to resolve the territorial dispute, conclude a peace treaty, and enable collaboration in the development of Far East Russia and various other areas.

Japan also needs to continue taking a leadership role with countries suffering as a result of regional conflict, civil war, or poverty, actively advancing aid policies, peace-building activities, and other forms of diplomacy.

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22 “Mapping the Global Future” (December 2004), a report compiled by the US National Information Center (NIC), states that within the Japan-China relationship, Japan may be pressured to choose between “balancing against China” (antagonism) and “balancing with China” (indulgence).

23 With an eye to long-term diplomacy in the future, enhancement of a foundation for intellectual exchange and human resources training, such as the establishment of a joint Japan-China public fund, should be carried out.
5. Cultural and Intellectual Exchange

Japan’s cultural and intellectual exchange has conventionally aimed at facilitating understanding of Japan through the introduction of Japanese culture and promotion of Japanese language education. The reason for this focus was that Japan believed such activities would facilitate good relations between Japan and other countries, and the importance of such activities will not diminish in the future. There is a need to substantially increase the number of “Japan experts,” who are highly knowledgeable about Japan, through such measures as increasing the number of foreign students and foreign teachers at universities and other educational institutions. In addition, to resolve various global issues in the future, it is vital that Japan promote global activities by supporting intellectual collaboration between Japan and other countries. It is necessary for Japan to make cultural and intellectual exchange activities an important national policy for Japan to become a world intelligence center in the 21st century.

Chapter 6. Aid Policy

1. Philosophy Regarding ODA

Japan’s bilateral government aid to developing countries should focus on the funding of activities that truly contribute toward economic development in the recipient country, political stability, and the elimination of poverty. Japan must also take a leading role in the planning and implementation of comprehensive aid programs, including technological aid used in the building of infrastructure and reduction of poverty. Not only traditional infrastructure building, but also environmental ODA and technological aid in a diversity of fields, should be promoted actively.

ODA for developing countries reflects Japan’s philosophy toward aid for 2030, and should be positioned as a card in Japan’s realization of a stable economic and political environment. Based on international trends concerning ODA24, Japan should promote efficiency and undertake strategic expansion in terms of supporting development in the

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24 In the Monterrey Consensus, decided at the International Conference on Financing for Development (ICFD) (March 2002), and the World Summit for Social Development (WSSD) (September 2002) Plan of Implementation, developed countries are called on to make concrete efforts to achieve an ODA target of 0.7% of GNI. For example, France and Germany have set specific time limits for the achievement of this objective. Moreover, many OECD countries have increased ODA in recent years.
recipient country and Japan’s international role (see Reference Table 4).

Aid to developing countries, particularly humanitarian aid to the poorest developing countries, is limited by bilateral aid, and thus a multilateral framework is important. Japan should take a greater leadership role in the formation of an ethos, strategies and plans for aid provided by the World Bank, Asian Development Bank, and United Nations organizations, their implementation, and evaluation of their outcome.

2. ODA as a Part of Peace-Building

The incidence of conflict and terrorism is increasing to grave levels. Preventing such incidents and facilitating peace-building are becoming increasingly important for the stability and expansion of the international community. Emergency humanitarian aid and reconstruction support following conflict are important, but there is also a need to pour greater effort into preventing conflict based on a paradigm shift from a “response culture” to a “prevention culture.” If Japan—which is already active in the area of peace-building—can show a leadership role in conflict prevention, its presence within the international community is expected to further increase.

3. Identification of Priority Regions

Although cooperation between Japan and the Asian countries with which it has close ties remains important, a number of those countries are moving from being aid recipients to being south-south cooperation partners, and this trend is expected to continue. China, with its remarkable economic expansion, is gradually moving toward “graduation”; it can be expected to increase its role in the future as an aid-giving country. Japan should also foster cooperation with China in this respect.

Accordingly, aid for peace-building and fighting poverty in South Asia, Central Asia, the Middle East, and Africa, as well as aid to low income countries within East Asia for the purpose of redressing disparities within the region, are expected to become the focus of Japanese ODA in the future.

4. Improving Aid Implementation Frameworks

To enable the implementation of strategic ODA, a framework for constructing consistent ODA policies and strategies is necessary.
Achieving this requires a flexible system that effectively utilizes human resources, including the training of specialists and delegation of authority to local offices in recipient countries. There is an urgent need for finding and training human resources capable of actively promoting policy discussion in a variety of development fields, as well as training of human resources in peace-building and in particular the field of conflict prevention. Moreover, in formulating and implanting development projects, it is important that Japan adopt a participatory approach that fully reflects the wishes of the people of the recipient country. Furthermore, in promoting development aid, it is important that Japan strategically strengthen coordination and cooperation with other aid-giving countries, international organizations, domestic and international NGOs, private sector businesses, and universities and other research/training institutions. While at the same time utilizing the characteristics of each to maximum advantage, Japan should further promote cooperation that makes up for any shortcomings.

Chapter 7. Global Environment Policy

1. Japan’s Role in the Containment and Reduction of Greenhouse Gases

As mentioned above, international frameworks that succeed the Kyoto Protocol require the full participation of all signatory countries. Japan should take a leadership role in the effective formation of consensus, but this cannot be achieved overnight. Japan should thus strive to build experience with policy packages that meet objectives with as much cost-cutting as possible, then apply this experience in international debates and system-building. In particular, Japan should display its leadership as the only Kyoto Protocol Annex I country in Asia, taking the initiative in designing a system for the East Asia region to ensure that an emissions trading system becomes the systematic foundation for an economic community in the East Asia region.

2. Economic Revitalization and Strengthening of Japan’s Capacity in Industrial Technology and Science and Technology in the Environment Field

The international promotion of climate control is heightening the worldwide need for new technologies in the environment and energy conservation fields. This can be taken as a positive opportunity for Japan, furthering Japan’s international contribution,
business opportunities, and industrial competitiveness. Thus it is necessary for Japan to devise strategies that lead substantially to the revitalization of the Japanese economy. Japan should learn from international efforts, such as those of the EU, and formulate a specific vision and agenda for raising Japan’s capacity in science and technology and industrial technology. Such endeavors will also encourage urban redevelopment and knowledge-based industries and stimulate the revitalization of regional economies.

3. International Cooperation

Utilizing its experience in promoting energy consumption and environmental measures, Japan should strengthen its cooperation with developing countries through its know-how, technological transfer, sharing, and development so that the future economic expansion of developing countries may come to be regarded as sustainable. In addition to conventional ODA policies, it is important that Japan strengthen international cooperation with respect to the environment through the utilization by the public sector of CDM26 and other market mechanisms. In addition to efforts among developed countries to reduce greenhouse gas emissions, it is vital that a system for promoting the reduction of greenhouse gas emissions be created through cooperation between developed and developing countries.

China’s environmental problems are not only serious for China, but are becoming serious problems for Asia and worldwide. There is much scope for Japan, which has the experience of accumulating knowledge and technology over a long process of dealing with environmental issues, to help China in this area. China’s current structure of energy demand, which is dependent on fossil fuels such as oil and coal, is expected to continue into the future, and highly inefficient energy consumption practices continue. The problem of sulfur oxides (SOx) is serious not only for China, but for its neighbors, who also suffer damage from acid rain. Japan should make use of schemes such as CDM to actively work toward and implement countermeasures through international cooperation. Through such efforts, measures to curb greenhouse gas emissions will spread throughout China and, consequently, can be expected to lead to China’s active

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26 Under the Kyoto Protocol, targets for reducing greenhouse gas emissions have been set for developed countries. The Clean Development Mechanism (CDM) is a mechanism whose introduction has been approved as a Kyoto mechanism that makes use of market mechanisms to enable countries to achieve their set targets for reducing greenhouse gas emissions. When developed countries for which reduction targets have been set (investors) carry out greenhouse gas-reducing projects in developing countries, for which reduction targets have not been set (hosts), credit toward the developed country’s emission quota is granted according to the reduction in greenhouse gas emissions.
commitment to international frameworks on greenhouse gas emissions that succeed the Kyoto Protocol. To build an effective cooperative relationship, what matters is not only systematic or technological aspects, but also the exchange of knowledge and human resources viewed from a long-term perspective. From such a perspective, with regard to the environment, Japan should continue to actively accept foreign students and technicians from China, as well as encourage human resources and technological support from Japan.

Chapter 8. Energy Policy

1. Diversification of Energy Supply Sources

From the perspectives of both the environment and resources, it is necessary to restrain the production and consumption of fossil fuels on a global scale. Japan must establish an energy strategy to prepare for a shift from the present energy supply and demand structure that is dependent on fossil resources. In addition, while striving for the diversification of supply sources, such as natural gas, coal, nuclear energy, and new forms of energy, Japan should aim to improve its self-sufficiency ratio.

Furthermore, as a national goal, Japan has announced that the percentage of natural gas in primary energy supply should be raised from today’s 13 percent to 18 percent in 2030. The realization of this target will require policy measures for promoting the establishment of a wide-area pipeline network. However, since Japan depends on imports for almost all of its natural gas as well, nuclear power generation has an important role to play in terms of bargaining power with the producing countries that are the suppliers of liquefied natural gas and the oil majors. For this purpose, the companies and regulating authorities concerned should ensure thorough information disclosure and accountability to recover the trust of the public.

emissions achieved through that project.

27 Wind and solar power generation, biomass (waste and forest resources), etc.

28 Although there are many problems to be resolved in terms of economics, stable supply, and so on, since promoting the use of new energies will also play a role in the improvement of self-sufficiency and countermeasures against global warming and contribute toward activating the regional economy, it is necessary to strengthen public measures to promote their introduction. Furthermore, conducting technological development in the fields of fuel cells and energy conservation, diffusing and expanding these technologies domestically, and at the same time transferring and exporting them overseas will lead to countermeasures against global warming and the creation of new business opportunities for Japanese companies.
2. Promotion of Regional Energy Cooperation in Asia

The efforts of a single country alone are insufficient for Japan to ensure its energy security. As a nation that has advanced technology and experience, Japan should promote regional cooperation with Asian countries, which share many common issues in the field of energy. Japan should aim to develop the ASEAN + 3 Energy Ministers’ Meeting and build a framework to enable cooperation in the area of energy policy in the future, including the coordinated management of oil reserves.

Specifically, it is important to strengthen oil stockpiling, establish a transparent and competitive oil market, develop and expand the use of natural gas and reusable energy, promote energy saving, and diffuse clean-coal technology. For Japan, which must take due consideration of the situation in each country, it is important to place priority on, among other things, support on the soft side to Asian countries when they build systems involving energy conservation and the environment, lateral support to Japanese companies for developing international business in the fields of energy conservation, new energies, and the environment. Japan must also support the use of nuclear energy on the premise of ensuring safety.

Moreover, since China and other Asian countries are going to further increase their dependence on Middle Eastern oil from now on, it is necessary to try and disperse the import sources for oil and natural gas. In this sense, it is important to promote the development and import of oil and natural gas resources in East Siberia and Sakhalin. In particular, the new supply of Russian crude oil to East Asia will play a role in ensuring the stable supply of energy to Japan and, at the same time, will contribute immensely to the energy security of the region as a whole. Japan should support the East Siberia – Pacific Pipeline Project, participate in the exploration and development of oil resources in East Siberia, and, from a long-term perspective, strategically endeavor to build a framework for the promotion of regional energy cooperation in Northeast Asia, including Russia, China, and the Republic of Korea.

3. Strengthening of Interdependent Relations with the Middle Eastern Oil-producing Countries

Since it can be expected that the high dependence on Middle Eastern oil is going to

29 Held in Manila in June 2004.
30 Technologies that reduce the outbreak of greenhouse gases and coal ash and that use coal in consideration of the environment.
continue for the foreseeable future, Japan should endeavor to strengthen interdependent relations with the Middle Eastern oil-producing countries. For this purpose, it is necessary to bolster the arrangements for supporting the business of private companies in the Middle East, including the building of investment environments in the Middle Eastern oil-producing countries and the enhancement of trade and investment insurance. The premise here is the realization of political and social stability in the Middle East. It is important for Japan to promote multilateral cooperation, such as nation building and human resources development, through technological cooperation not only in energy-related fields but also in such areas as information technology, medicine, and the environment.  

4. Policy Integration in the Environmental and Energy Fields

To resolve the issues in the environmental and energy fields, Japan should promote thorough policy integration at regional, national, and international levels. For example, at the national level, Japan should promote the integration of environmental policy, energy policy, and transport policy. At the international level, it is necessary to make organic and united efforts, including official development assistance, poverty reduction, environmental ODA, and the Kyoto mechanism (cleaner development mechanism, joint implementation, and emission trading), and also to give

\[31\] Regarding the Iraq problem, which is the most important issue at present, contributing to the building of a stable administration through humanitarian, reconstruction, and other assistance is Japan’s international duty. This will lead to a stable supply of oil. If a democratic government is established in Iraq and the development of new oil fields through the introduction of foreign capital becomes full-fledged, support can be expected from Japanese companies. Also, in Saudi Arabia, where the population is continuing to increase, terrorist activities by Islamic extremist groups are frequent. To solve the serious problem of unemployment among young people, which is a background factor behind these activities, efforts are required in the areas of human resources development, technical cooperation, and other areas. Furthermore, with regard to the nuclear development problem in Iran, as a nonnuclear state that promotes the peaceful use of atomic energy, Japan should think about what it can do toward the peaceful settlement of this issue. The reason is that, depending on new developments, there could be a major impact on crude oil imports from Iran, and prospects for the Azadegan oil field development project—which is being promoted by Japanese companies—must be considered. Eventually, events in Iran could even affect the energy security of Japan.

\[32\] Global environmental issues do not involve only the problem of climate change, and in particular the control and reduction of greenhouse gas emissions, and should not be limited to this problem. It is essential that efforts be integrated with other global-scale issues, such as energy, the stable supply of food, and poverty reduction, in addition to the ensuring of safe and hygienic water, the prevention of pollution, and environmental preservation, including the preservation of tropical rain forests. In particular, the energy problem has deep relations with the issue of climate change, and a response is necessary that takes account of the risks of exhaustion and supply limitations. In view of this situation, policy integration is necessary to solve problems in the environmental and energy fields.

\[33\] Joint implementation (JI) is one program in the Kyoto mechanism that utilizes market principles.
consideration to complementary relations with overseas direct investment and trade by the private sector.

Also, amid the advance of economic integration in the Asian region, the promotion of economic cooperation in the region and regional cooperation to respond to the problems of energy shortages and global warming—which exert an impact on the region as a whole and on a worldwide scale—and the formation of a framework for a joint response to energy and environmental problems, will increase the strength of the region as a whole to deal with the risks involved in achieving sustained economic growth and exert a positive impact on the security of the region. Japan should display initiative toward the building of such a framework.

Chapter 9. Importance of International Organizations and International Standards

1. Securing of Human Resources that Can Operate in International Organizations

While the role of international organizations is increasing as a result of the advance of globalization, Japan’s presence in international organizations (the UN and UN-related bodies, including the IMF and the World Bank), the WTO, regional development banks, international conferences, and agencies that set international standards (the formulation of banking regulation standards and international accounting standards through the Bank for International Settlements) is extremely low compared with the share of its gross domestic product in the world economy and its ratio of contributions to international organizations. This leads to a decline of Japan’s information-gathering capability, contribution, and leadership. Recognizing the importance of Japan’s contributions and display of leadership in the decisions of international organizations and the formulation of international standards, Japan should devote efforts toward the securing of human resources that can operate in international organizations. For this purpose, it is necessary for Japan to greatly increase the number of “world citizens” in the public and private sectors who can be active on the international stage.

Major developed countries that have set numerical targets for the reduction of greenhouse gases cooperate with one another, implement joint projects, such as for the reduction of emissions in the countries concerned, and issue credits based on the reduction of emissions that is achieved as a result. These credits are then transferred to the project participants from the investing country.

Emission trading (ET) is one program in the Kyoto mechanism that utilizes market principles. It involves the acquisition and transfer of emission quotas between major developed countries that have set numerical targets for the reduction of greenhouse gases.
2. Improvement of Mobility Between International Organizations and Domestic Workplaces

True globalization in Japan means increasing mobility between international organizations and domestic workplaces. It is also necessary to further improve the expertise of public- and private-sector human resources who are active in international organizations.

3. Ensuring a Voice Commensurate with Actual Economic Power

To increase Japan’s voice in the IMF and the World Bank, it is necessary to strengthen cooperation with East Asia, expand Japan’s and Asia’s quotas to make them commensurate with actual economic power, and improve the present unfair situation in which voting rights are concentrated in the United States and the EU. 35

4. Participation in the Formulation of International Standards and Systems

Active involvement in the formulation of international standards and systems would prevent unnecessary investment by the Japanese government and Japanese companies and reduce the cost of adjustment for the Japanese economy.

Chapter 10. Importance of Domestic System Building

1. Problems with the Present Decision-making Mechanism

When promoting new EPAs and FTAs with other countries, the problem with the present situation is that the formulation of an overall strategy, such as order of priority and decision-making are difficult. In the present situation, cases can be seen in which the external responsibility relations of the negotiations are unclear and a proactive response is not possible when an immediate decision is required. 36 Also, because of the large number of related government departments and agencies, the problem is that not only does the coordination among the related ministries and agencies take time, but

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35 Voting rights in the IMF and the World Bank are allocated according to contributions. For example, in terms of the ratio of IMF contributions to nominal GDP, the figures for Britain, Germany, and France greatly exceed that of Japan.

36 In the WTO negotiations, in the process leading to the interim agreement in July 2004, the agricultural talks were conducted in a group consisting of the so-called Five Interested Parties (FIPs) of the United States, the EU, Brazil, Australia, and India, and Japan was left out.
also the person with final responsibility and the location of responsibility are unclear. The essence of this problem lies in Japan’s decision-making mechanism itself; the authorization process by which individual interests are given an order of priority in accordance with a long-term strategy for the state has not been properly established by a system of politics that grants this authority to the top leaders in the administrative government. As a general argument, it is important to coordinate domestic interests in whatever situation; if international agreements cannot be implemented domestically, international trust is going to be further damaged.

2. Reform of the Decision-making Mechanism

To promote globalization, it is important to carry out external negotiations and domestic coordination in consideration of national interests and on the basis of proper information, and to establish a setup for decision making. In EPA and FTA negotiations, it is necessary to think about the economic interests of the nation, offer advice to the top officials in the administration, and establish a system that calls for a decision. For example, within the Prime Minister’s office, it is necessary to build a setup that enables planning, drafting, and decision making from the perspective of national interest overriding ministerial interest (for example, the establishment of an external negotiating office, the assignment of learned persons and experts in the economic field, and so on). Or another feasible method might be to entrust trade talks to people who have a wealth of experience in international negotiations, who are known to share a common direction with the Prime Minister, and who have ability and a sense of presence in external negotiations and domestic coordination. By going through that kind of process, these people would be able to reaffirm their unity with the Prime Minister.

In external negotiations, the important thing for Japan is to prepare the economic card, including ODA, and to act with strategic thinking. It is important for departments in charge of negotiations to share information about countries and international organizations not only at the time of negotiations but at ordinary times as well. To safeguard secrecy, they should enforce a duty of confidentiality on people who share information and impose fines on those who violate this obligation.

In strategically tackling environmental and energy problems as well, it is necessary to reform the government’s setup for making efforts. The oil problem is inseparable from foreign policy, and the problem of securing sea lanes as oil transportation routes has a
close relationship with security policy. Furthermore, if Japan, China, South Korea, and ASEAN aim for a common energy market, coordination with trade policy, such as economic partnership agreements, will be necessary. In addition, efforts to solve global economic issues cannot be conducted without taking into consideration their relationship with foreign policy and trade policy. Domestically, too, various policies are involved.37

To protect Japan’s national interests in international negotiations on the problem of global warming, the establishment of a consensus on basic policy among the ministries and agencies concerned is essential. Under the present vertical-oriented administration, however, the reality is that a setup for drafting and implementing a comprehensive and long-term national strategy has not been properly established. In particular, in view of the fact that the problems of global warming and energy are two sides of the same coin, it is essential to decide on comprehensive, planned, and coordinated policies that go beyond the walls and interests of individual ministries and agencies, for example by establishing a council on energy and environmental strategy, and to build a setup that can be implemented in a cross-sectional manner.

3. Building a Mechanism that Emphasizes International Organizations

To actively dispatch human resources to international organizations, explain Japan’s opinions, and get involved in the formulation of systems, the building of a mechanism in Japan that stresses international organizations is important.

As a means for building such a mechanism, Japan should further strengthen practical English-language education that prepares people to work in international organizations (including debating ability, negotiating skills, and specialist knowledge through English). It is necessary to bolster arrangements in university undergraduate courses and specialist graduate schools that enable practical English-language education. In addition, the building of a domestic system for people to accumulate practical experience while they are young is necessary (a system that does not place people who accumulate experience in international organizations at a disadvantage when they seek employment in Japan).

37 For example, with regard to the location problem concerning the construction of atomic power stations and back-end problems (problems relating to the reprocessing of spent fuel arising through the operation of atomic power generation and the disposal of waste arising from the various processes in the reprocessing of recovered plutonium and so on), local governments, such as prefectures and municipalities, have an extremely large role to play.
To actively dispatch human resources to international organizations, as well as to establish incentives, it is important to improve the assignment of private-sector persons and politicians and the career path of bureaucrats engaged in international relations, and to dispatch people who have expertise and outstanding knowledge. Furthermore, the appointment of core staff in international organizations is a competitive field in which countries look to their own national interests, so it is important for the Japanese government to position such appointments as one card in its external negotiations, shape a strategy, draft a plan, and put it into action.

**Conclusion**

This report has considered a vision of Japan in the year 2030 from the perspective of globalization, and has offered both scenarios that should be avoided and scenarios that are more attractive. It has also sketched some strategies for achieving these more optimistic scenarios. Japan should aim to achieve the free flow of people, goods, money, and information both domestically and internationally – in other words, to become a country without walls – and to be a nation that fulfills a leading role and that has a presence in the international community.

In thinking about the strategy for realizing the healthier scenarios toward the year 2030, it is extremely important to begin work on the strategies outlined above, and to do it with a sense of urgency. The reason is that, if these strategies is not realized, Japan might find itself on a track toward the scenarios that should be avoided; there is an extremely strong possibility that the train will run forward in this direction. For example, with regard to free trade agreements, if a situation arises in which Japan is not able to conclude FTAs with the main countries in East Asia over the next one or two years, there is a strong likelihood that a large Asian FTA zone will be established without Japan. With regard to permanent membership of the UN Security Council as well, there is a strong possibility that a conclusion will be reached in the near future. In addition, to give practicality to the prevention of climate change, an international framework to succeed the Kyoto Protocol will be decisively important, and there is a strong likelihood that the main current will be formed over the next one or two years. In light of these factors, to achieve the desirable vision of Japan in the year 2030, we

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38 In order to be active at the top of international organizations, people should be appointed while they are still young. Therefore, for example, it is necessary to establish a system in the career path of national government employees that makes it easier to follow such a course.
conclude this report by emphasizing that, in external decision making, it is extremely important for the steering wheel to be sharply turned over the next couple of years in the direction of the maximum utilization of globalization.
Reference Tables
Reference Table 1: The World Economy in 2030 (Two Cases)

1. Case of Extension of Past Trends

1-1-a Trends in Long-term Growth Rate and Nominal GDP of Major Countries

<table>
<thead>
<tr>
<th></th>
<th>for year 2004 GDP ($ trillion)</th>
<th>Share (%)</th>
<th>Real growth rate (%)</th>
<th>Real exchange rate change (%)</th>
<th>for year 2030 GDP (approximate $ trillion)</th>
<th>Share (approximate %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World*</td>
<td>30.0</td>
<td>100.0</td>
<td>-</td>
<td>-</td>
<td>117</td>
<td>100</td>
</tr>
<tr>
<td>USA</td>
<td>11.7</td>
<td>39.2</td>
<td>3.3</td>
<td>-</td>
<td>44</td>
<td>37</td>
</tr>
<tr>
<td>Europe (12 countries)</td>
<td>9.4</td>
<td>31.3</td>
<td>2.0</td>
<td>0.4</td>
<td>28</td>
<td>24</td>
</tr>
<tr>
<td>Japan</td>
<td>4.7</td>
<td>15.6</td>
<td>1.2</td>
<td>▲ 3.3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>China</td>
<td>1.6</td>
<td>5.5</td>
<td>8.6</td>
<td>1.0</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.7</td>
<td>2.3</td>
<td>4.9</td>
<td>▲ 1.9</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>India</td>
<td>0.6</td>
<td>2.1</td>
<td>6.1</td>
<td>▲ 0.3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.6</td>
<td>2.1</td>
<td>2.4</td>
<td>▲ 2.5</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Russia</td>
<td>0.6</td>
<td>1.9</td>
<td>3.6</td>
<td>1.6</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Note: The real GDP growth rate and rate of real exchange rate change are the average for 2005 – 2030.

Note: ▲ precedes negative figures.

*The world figures are the totals for the above eight countries and region.

1-1-b Trends in Per Capita Nominal GDP of Major Countries

<table>
<thead>
<tr>
<th></th>
<th>for year 2004 per capita GDP ($ thousand)</th>
<th>for year 2030 per capita GDP (approximate $ thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>39.7</td>
<td>121</td>
</tr>
<tr>
<td>Europe (12 countries)</td>
<td>30.3</td>
<td>90</td>
</tr>
<tr>
<td>Japan</td>
<td>36.5</td>
<td>35</td>
</tr>
<tr>
<td>China</td>
<td>1.3</td>
<td>21</td>
</tr>
<tr>
<td>South Korea</td>
<td>14.3</td>
<td>48</td>
</tr>
<tr>
<td>India</td>
<td>0.6</td>
<td>3</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.5</td>
<td>4</td>
</tr>
<tr>
<td>Russia</td>
<td>4.0</td>
<td>28</td>
</tr>
</tbody>
</table>

Note: For details on calculation, refer to Remark 1.
1-2 Trends in the GDP of Four Countries (Japan, United States, China, India) (Case of Extension of Past Trends)

China will overtake Japan in around 2014.
India will become almost level with Japan sometime around 2030.

Note: For details on calculation, refer to Remark 1.
2. Future Estimate Case

2-1-a Trends in Long-term Growth Rate and Nominal GDP of Major Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>for year 2004 GDP ($ trillion)</th>
<th>Share (%)</th>
<th>Real growth rate (%)</th>
<th>Rate of real exchange rate change (%)</th>
<th>for year 2030 GDP (approximate $ trillion)</th>
<th>Share (approximate %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World*</td>
<td>30.0</td>
<td>100.0</td>
<td>-</td>
<td>-</td>
<td>116</td>
<td>100</td>
</tr>
<tr>
<td>USA</td>
<td>11.7</td>
<td>39.2</td>
<td>3.0</td>
<td>-</td>
<td>37</td>
<td>32</td>
</tr>
<tr>
<td>Europe (12 countries)</td>
<td>9.4</td>
<td>31.3</td>
<td>1.8</td>
<td>-</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>Japan (Economic and Fiscal Prospects WG case)</td>
<td>4.7</td>
<td>15.6</td>
<td>mid-1% range</td>
<td>-</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>China</td>
<td>1.6</td>
<td>5.5</td>
<td>6.8</td>
<td>3.9</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>South Korea</td>
<td>0.7</td>
<td>2.3</td>
<td>4.0</td>
<td>-</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>India</td>
<td>0.6</td>
<td>2.1</td>
<td>4.0</td>
<td>0.6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.6</td>
<td>2.1</td>
<td>3.6</td>
<td>0.4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Russia</td>
<td>0.6</td>
<td>1.9</td>
<td>3.6</td>
<td>1.8</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Note: The real GDP growth rate and rate of real exchange rate change are the average for 2005 – 2030.

*The world figures are the totals for the above eight countries and region.

2-1-b Trends in Per Capita Nominal GDP of Major Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>for year 2004 per capita GDP ($ thousand)</th>
<th>for year 2030 per capita GDP (approximate $ thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>39.7</td>
<td>102</td>
</tr>
<tr>
<td>Europe (12 countries)</td>
<td>30.3</td>
<td>68</td>
</tr>
<tr>
<td>Japan (Economic and Fiscal Prospects WG case)</td>
<td>36.5</td>
<td>83</td>
</tr>
<tr>
<td>China</td>
<td>1.3</td>
<td>25</td>
</tr>
<tr>
<td>South Korea</td>
<td>14.3</td>
<td>55</td>
</tr>
<tr>
<td>India</td>
<td>0.6</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.5</td>
<td>11</td>
</tr>
<tr>
<td>Russia</td>
<td>4.0</td>
<td>27</td>
</tr>
</tbody>
</table>

Note: For details on calculation, refer to Remark 2.
China will overtake Japan sometime around 2016.

2-2 Trends in the GDP of Four Countries (Japan, United States, China, India) (Future Estimate Case)

Note: For details on calculation, refer to Remark 2.
The total of Japan/China/South Korea will overtake Europe sometime around 2015 and the United States sometime around 2025.

Note: For details on calculation, refer to Remark 2.
(Remark 1) Case of extension of past trends: These figures are calculated by automatically extending the trends of the past decade; they do not have the character of forecasts or estimates.


2. Europe (12 countries) refers to those countries that had introduced the euro as of March 2005 (Ireland, Italy, Austria, Netherlands, Greece, Spain, Germany, Finland, France, Belgium, Portugal, and Luxembourg).

3. The 2030 GDP for each country is calculated by measuring the real GDP growth rate, GDP deflator increase rate, and nominal rate of change of the exchange rate against the dollar from 1995 to 2004 and, assuming that these trends continue until 2030, multiplying the 2004 nominal GDP by them. The 2030 per capita GDP is calculated by dividing the resulting nominal GDP by the population is shown in the population forecasts of the United Nations. Some countries and regions are treated as follows:

GDP deflator increase rate: In the cases of China, South Korea, India, Brazil, and Russia, calculated backward from the level or growth rate of nominal GDP and real GDP.

- **Europe:** The 1994 – 98 exchange rate is for the ECU.
- **India:** Data other than the exchange rate are for the fiscal year (April – March). The 2004 real GDP growth rate is an estimate by the Asian Development Bank; the 2004 GDP deflator increase rate is an extension of the 2003 increase rate.
- **Brazil:** The 2004 GDP deflator increase rate is an extension of the 2003 increase rate.
- **Russia:** The trends are all for the nine years from 1996 to 2004. The GDP deflator increase rate is calculated from the nominal growth rate and real growth rate. However, since the figure for 2000 cannot be calculated because of a standard year change, the GDP deflator increase rate given in the World Bank’s *World Development Indicators* is used.
(Remark 2) Future estimate case: Future estimates are made on the basis of various assumptions.

1. The statistical materials used and definition of the Europe (12 countries) are the same as for the extended trend case. In addition, the following materials were used: World Bank, Global Economic Prospects 2003; Hosen and Nogami, Japan’s Deflation as Viewed by the Balassa-Samuelson Theory (in Japanese), Policy Research Institute Discussion Paper Series (August 2004).

2. In the cases of the United States, Europe, South Korea, China, and India, the real GDP growth rate uses the real growth rate shown in the fall of 2004, a tide in the world economy (an estimate using the Cobb-Douglas production function; labor uses the production forecasts of the United Nations, and the GDP investment ratio and TFP increase rate are guessed from past averages). Japan’s real GDP growth rate uses fiscal year estimates indicated by the Economic and Fiscal Prospects Working Group as calendar year figures. The GDP growth rates of Brazil and Russia are an extension until 2030 of the growth rates until 2015 of the following regions as indicated in the World Bank’s Global Economic Prospects 2003:
   - Brazil: Latin America and Caribbean countries
   - Russia: Europe and Central Asia

3. With regard to the real exchange rate, in the case of advanced countries (Europe, Japan, South Korea), it is assumed that no change will occur. In the case of China, India, Brazil, and Russia, a real increase against the dollar was calculated in accordance with the catch-up of per capita GDP (purchasing power parity base). The real increase rate was calculated using the relation between per capita GDP for the whole world and real exchange rates as indicated in Figure 7 of Hosen/Nogami (2004) (when the difference in per capita GDP with that of the United States declines by 1 percent, the real exchange rate increases by about 0.97 percent).

4. Each country’s share of GDP until 2030 is calculated by multiplying the country’s or region’s 2004 nominal GDP by the above-mentioned real GDP growth rate and real exchange increase rate. Each country’s or region’s nominal figure is compiled by extending the estimated inflation rate of the United States until 2015 (annual rate of 1.4 percent), as indicated in Global Economic Prospects 2003, until 2030.
Reference Table 2: International Ranking of Acceptance of Foreign Travelers (2001)

* figure for year 2000.

Source: Compiled from World Tourism Organization materials.
3-1 Increase Effect on Real GDP

The FTA partner country that would bring about the highest increase in Japan’s real GDP is China. Such major economies as the United States and the EU are also in high positions. In Asia, Thailand is followed by South Korea. Singapore and Mexico, with which Japan has already concluded agreements, are at the lower end of the table.

* Source: Kenichi Kawasaki, “Economic Effects of FTAs” (in Japanese), forum of the Cabinet Office’s Economic and Social Research Institute (March 2005). This analysis is calculated by the GTAP (Global Trade Analysis Project) model, which is one practical general balance world trade model. It is widely used for analyzing the economic effects of trade liberalization on countries.
3-2 Costs and Benefits of FTAs

In the case of FTAs with China, the EU, Thailand, and South Korea, the increase of real GDP (benefit) would be large compared with the decline of production in the agriculture, forestry, and fisheries industries (cost). The reverse would occur in the case of FTAs with the United States, Australia, and Canada.

3-3 Macroeconomic Effects of Regional Free Trade Areas

Trade liberalization in East Asia (Japan, China, South Korea, and ASEAN) would increase Japan’s real GDP by about 0.8 percent and realize more than 80 percent of the benefits of worldwide trade liberalization.
Reference Table 4: ODA Performance in the G-7 Countries

4-1 Trends in ODA Performance in the G-7 Countries

![Graph showing trends in ODA performance for the G-7 countries, with data points for each country from 1985 to 2004.](image)

Source: Development Assistance Committee report (among others).

4-2 Trends in Ratio of ODA to GNI in the G-7 Countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>0.60%</td>
<td>0.55%</td>
<td>0.33%</td>
<td>0.41%</td>
<td>0.42%</td>
</tr>
<tr>
<td>UK</td>
<td>0.27%</td>
<td>0.29%</td>
<td>0.31%</td>
<td>0.34%</td>
<td>0.36%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.42%</td>
<td>0.31%</td>
<td>0.27%</td>
<td>0.28%</td>
<td>0.28%</td>
</tr>
<tr>
<td>Canada</td>
<td>0.44%</td>
<td>0.38%</td>
<td>0.25%</td>
<td>0.24%</td>
<td>0.26%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.31%</td>
<td>0.28%</td>
<td>0.28%</td>
<td>0.20%</td>
<td>0.19%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.31%</td>
<td>0.15%</td>
<td>0.13%</td>
<td>0.17%</td>
<td>0.15%</td>
</tr>
<tr>
<td>USA</td>
<td>0.21%</td>
<td>0.10%</td>
<td>0.10%</td>
<td>0.15%</td>
<td>0.16%</td>
</tr>
</tbody>
</table>

Source: Development Assistance Committee report, etc.

Note: GNI = gross national income.
Main Questionnaire Results (Excerpts)

A. (Advance of economic partnerships) When advancing free trade agreements or economic partnership agreements, which countries or regions do you think Japan should give priority to? Please choose up to two.

Results: While there was a tendency for companies to highly evaluate the region where they were operating or neighboring regions as countries with which Japan should conclude agreements, companies in all regions highly evaluated the promotion of FTA/EPA agreements with China and ASEAN.
B. (Countries and regions of increasing importance) In the development of your business, which countries and regions does your company think will become increasingly important from now on? Please choose up to two.

Results: While there was a tendency for companies to choose the region in which they are operating or neighboring regions as countries or regions that will become increasingly important from now on, many companies operating in all regions selected China.

<table>
<thead>
<tr>
<th></th>
<th>USA</th>
<th>EU countries</th>
<th>China</th>
<th>South Korea</th>
<th>ASEAN</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>62.0%</td>
<td>14.7%</td>
<td>71.3%</td>
<td>1.6%</td>
<td>14.0%</td>
<td>5.4%</td>
</tr>
<tr>
<td>London</td>
<td>6.1%</td>
<td>39.0%</td>
<td>65.9%</td>
<td>0.0%</td>
<td>20.7%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>18.5%</td>
<td>5.6%</td>
<td>95.4%</td>
<td>1.9%</td>
<td>38.0%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Bangkok</td>
<td>11.4%</td>
<td>11.7%</td>
<td>55.9%</td>
<td>1.3%</td>
<td>67.0%</td>
<td>21.3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.2%</td>
<td>5.8%</td>
<td>68.7%</td>
<td>0.4%</td>
<td>57.9%</td>
<td>34.9%</td>
</tr>
<tr>
<td>Total</td>
<td>17.7%</td>
<td>12.1%</td>
<td>67.5%</td>
<td>1.0%</td>
<td>49.1%</td>
<td>21.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Russia</th>
<th>Middle East</th>
<th>Africa</th>
<th>South America</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>0.8%</td>
<td>1.6%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>9.3%</td>
<td>0.8%</td>
</tr>
<tr>
<td>London</td>
<td>1.2%</td>
<td>20.7%</td>
<td>3.7%</td>
<td>2.4%</td>
<td>1.2%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1.9%</td>
<td>5.6%</td>
<td>1.9%</td>
<td>0.0%</td>
<td>0.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Bangkok</td>
<td>2.2%</td>
<td>0.3%</td>
<td>3.5%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.1%</td>
<td>1.4%</td>
<td>8.3%</td>
<td>0.7%</td>
<td>1.1%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Total</td>
<td>1.5%</td>
<td>3.3%</td>
<td>4.3%</td>
<td>0.5%</td>
<td>2.0%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

58
C. (Chinese economy from now on) China is achieving spectacular economic development. What are your thoughts about the development of the Chinese economy from now on? Please choose one.

Results: Many respondents saw China’s economic development as a business chance rather than a threat, although in Bangkok the ratio for threat (49.3%) was almost the same as that for business chance (44.5%).

<table>
<thead>
<tr>
<th></th>
<th>Threat</th>
<th>Threat if anything</th>
<th>Business chance if anything</th>
<th>Business chance</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>6.2%</td>
<td>14.6%</td>
<td>40.8%</td>
<td>30.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>London</td>
<td>8.5%</td>
<td>6.1%</td>
<td>29.3%</td>
<td>52.4%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>5.6%</td>
<td>8.3%</td>
<td>40.7%</td>
<td>44.4%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Bangkok</td>
<td>15.6%</td>
<td>33.7%</td>
<td>28.6%</td>
<td>15.9%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Singapore</td>
<td>8.6%</td>
<td>13.3%</td>
<td>36.7%</td>
<td>36.7%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Total</td>
<td>10.3%</td>
<td>19.3%</td>
<td>34.3%</td>
<td>30.9%</td>
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History of Deliberations by the Globalization Working Group

Session No. 1 (September 22, 2004)
- Procedures for facilitating the proceedings
- “Japan’s Vision for the 21st Century”
- Focal points in the discussions of the Globalization Working Group
- Proceedings and schedule of discussions of the Globalization Working Group
- Other

Session No. 2 (October 18, 2004)
- Report of the 2nd Expert Panel
- Discussions by theme
  1. Presentation by Committee Member Ken Jimbo
     Free discussion
  2. Presentation by Committee Member Yukiko Fukagawa
     “New Economic Integration Strategy of East Asia: Beyond FTAs”
     Free discussion
- Other

Session No. 3 (October 20, 2004)
- Discussions by theme
  1. Presentation by Committee Member Ryosei Kokubun
     “Globalizing China and the Road Ahead for Japan”
     Free discussion
  2. Presentation by Committee Member Shiyuu Seki
     “The Emergence of China and Japan: Aiming for a Win-Win Game”
     Free discussion
  3. Presentation by Committee Member Sayuri Shirai
     Free discussion
- Other

Session No. 4 (October 26, 2004)
- Discussions by theme (environment, energy)
  1. Hearings from learned persons
     Lecture by Hyogo Prefectural University Vice-Principal Akihiro Amano
     “Countermeasures Against Global Warming and Steps That Japan Should
Take”
(2) Presentation by Committee Member Tsutomu Toichi
   “The International Situation Concerning Oil and Energy and Japan’s Strategy”
(3) Hearings from related ministries
   Presentation by the Ministry of the Environment
   “Toward the Formation of a Non – Global Warming Society in the Twenty-first Century”
   Presentations by the Ministry of Economy, Trade and Industry
   (a) “A Future Sustainable Framework Relating to Climate Change”
   (b) “The World Energy Situation and Japan’s Countermeasures”
(4) Free discussion
   • Discussions by theme (economy)
     Presentation by Committee Member Shujiro Urata
     “Japan’s FTA Strategy and Issues”
     Free discussion
   • Other

Session No. 5 (November 9, 2004)
   • Free discussion
   • Other

Session No. 6 (November 22, 2004)
   • Hearing from related ministry
     (1) Presentation by the Ministry of Economy, Trade and Industry
        “Medium- and Long-term FTA Strategy”’’
        Free discussion
   • Discussions on interim report
     (1) Environmental and energy field
     (2) Economic field
   • Other

Session No. 7 (November 29, 2004)
   • Discussions on interim report
     (1) Foreign policy and security field
     (2) Economic field
   • Other
Session No. 8 (December 6, 2004)
- Discussions on interim report
- Other

Session No. 9 (February 9, 2005)
- Putting together the Working Group report
- Other

Session No. 10 (March 7, 2005)
- Putting together the Working Group report
- Other