

**Speech by Minister GOTO Shigeyuki  
At B7 Tokyo Summit, April 20, 2023**

**(Opening Remarks)**

My name is Shigeyuki Goto and I am the Minister for Economic and Fiscal Policy and Economic Revitalization. Thank you very much for providing me with an opportunity to address this audience.

Today, I would like to present to the business leaders here from the G7 countries remarks regarding the policy areas that I am in charge of in the Kishida Administration, especially relating to macroeconomic policy, what the New Form of Capitalism is aiming for, and our economic partnerships with overseas economies.

**(Today's Key Points)**

Since the collapse of the bubble economy in the 1990s, Japan's macroeconomic policy had been focusing much on overcoming deflation. For the past 30 years, the world economy had experienced global structural changes, such as the rise of emerging economies. Meanwhile, Japan had to respond to these external changes while at the same time fight against the internal chronic disease of deflation.

During this time, against a backdrop of stagnant domestic demand caused by deflation and cost competition with emerging economies, it is regrettable that many Japanese companies had

prioritized cost cutting and had increased their overseas production ratio. As a result, domestic investment was restrained and wage increases were subdued.

Today, however, I would like to tell you that we are now striving to stop this negative spiral, and that our efforts are about to bear fruit. We are currently experiencing the highest wage increase in 30 years, the fruit of appropriate price pass-through. Another is that the appetite for domestic investment is growing in the private sector. And last but not least, Japan is determined to continue to be an open market and further promote inward FDI.

### **(Growing Momentum for Wage Increases)**

The first area I would like to highlight is our current wage increase. As you may know, Spring wage negotiations, which are called “Shunto” by labor unions, play a major role in Japanese wage determination practices. This year, wage hikes are expected to be nearly 4%. This is the highest in the past three decades. Now, wage negotiations for SMEs, accounting for about 70% of all employment, will intensify in the coming months. What is important is that this wage increase momentum will continue by spreading to these SMEs and small-scale enterprises throughout Japan.

In March, we held a tripartite meeting to discuss wage increases with the representatives from employers, including Chairman Tokura of Keidannren who is here with us today, and those from workers, and the government. At the meeting, we reached an agreement in principle that it is essential to ensure the fairness

of business transactions through the adequate pass-through of labor costs, not only raw materials and energy costs, onto prices.

The government will further strengthen support for the enterprises that raise wages through taxation and subsidies and for SMEs that make efforts to address productivity growth. In addition, the government will improve the environment for appropriate price pass-through and fair subcontracting transactions. The government will make our best efforts to make the wage negotiations of this Spring a turning point to break the vicious cycle of deflation and sluggish growth of the last three decades.

### **(Increased willingness for domestic investment)**

Along with raising wages, it is also crucial to expand domestic investment. I believe that the two inseparable factors are important for a virtuous cycle of sustained growth and distribution: 1) productivity improvements by increasing domestic investment and promoting R&D, and 2) wage increases by ensuring markup through appropriate price pass-through.

According to a survey by Bank of Japan, the expected domestic business investment for FY 2022 that ended last month showed an 11% increase from the previous year. The investment plans for FY 2023 also indicate higher growth than those for the same period last year. As shown in this survey, the investment appetite of the private sector is greater than it had been in recent years. The other day (6<sup>th</sup> April) Chairman Tokura made a strong statement saying that the business sector will work to achieve the

goal of 900 billion U.S. dollars (115 trillion yen) of capital investment in FY 2027 through close cooperation with the public sector.

We are expecting to see significant investment growth in several fields, including digitalization, decarbonization, and semiconductor-related industries in response to changes of the global environment. The government is proceeding with bold investment in tandem with the private sector in a long-term perspective. For instance, the comprehensive economic measures formulated last year include government support at the scale of 55 billion U.S. dollars (7 trillion yen) for domestic investment in strategic areas, such as semiconductors, green transformation (GX), and next-generation communications technologies.

### **(The New Form of Capitalism)**

As I explained, the Kishida Administration has promoted the establishment of a virtuous cycle of growth and distribution under the concept of “New form of Capitalism,” emphasizing the expansion of domestic investment, as well as wage increases. The importance of this sort of governmental initiative is growing worldwide that the government effectively mobilizes economic policies, strengthening the supply side and spurring private investment to realize sustainable economic growth under stable macroeconomic management. This sort of initiative includes the “Modern Supply Side Economics” advocated by U.S. Secretary of the Treasury Janet Yellen and the “Green Deal Industrial Plan” formulated by the EU. Now, this idea is a shared policy recognized among the G7 and other countries. This is because some areas in

which investment tends to be insufficient due to externalities, such as human capital, GX, and economic security, are the key factors for future growth. Investment in these areas leads to the accumulation of the so-called “Social Common Capital,” and at the same time acts as an engine for growth.

As I mentioned earlier, many Japanese companies continued to focus too much on cost cutting due to intensified global competition. This trend hindered investment in human capital and subdued wage increases. Moreover, R&D investment has been restrained for the past decade. This contributed to the stagnation of new value creation and the shrinkage of the middle class. Economic disparity, such as a gap between regular and non-regular workers, has also become a major issue. Therefore, we must restore the vitality of the society and revive the middle class by achieving a virtuous cycle of growth and distribution, in which firms fairly distribute their gain to their workers while increasing the value added. Then further economic growth will be achieved through expanded consumption and business investment. The prescription for this is the essence of the New Form of Capitalism.

The focused investment areas are “human capital”, “science, technology, and innovation”, “startups”, “GX”, and “DX.” We will promote investment in the above priority fields through public and private cooperation to improve productivity and increase added value based on the “Action Plan for a New Form of Capitalism.”

In particular, for startups, we will increase investment in startups by 10 times the current amount (to the scale of 78 billion

dollars, or 10 trillion yen) in the next five years, based on the newly-formulated “Startup Development Five-year Plan.” We will establish startup ecosystems and evoke entrepreneurship based on the three pillars of human resources, financial support, and open innovation.

We will also attract talented human resources and abundant funding to turn Japan into the largest startup hub in Asia.

As for investment in human capital, in addition to improving the environment for wage increases, we will formulate a guideline for labor market reforms by June, and expand the package of measures for investment in people to 75 billion dollars (1 trillion yen) over the next five years. Through these efforts, we will tackle labor market reforms through public and private cooperation with the three pillars of 1) improving skills through reskilling, 2) appropriately assessing skills for each job, and 3) facilitating voluntary labor mobility.

In addition to these labor market reforms, we will strengthen investment in people during times of pregnancy, childbirth, child-rearing, and higher education, and lead investment to the flipping over of our declining birthrate trend. We will present a general framework for doubling the future budget for children and child-rearing by June through the consideration in the “Children’s Future Strategy Council,” which was recently launched (on April 7th).

When it comes to green transformation, we will establish “GX Economic Transition Bonds” to realize a sufficient amount of public-private investment of over 1.1 trillion dollars (150 trillion

yen) over the next 10 years. We will frontload bold public investment of 150 billion dollars (20 trillion yen) by using this bond.

This year, Japan holds the G7 presidency. At the Hiroshima Summit in May, we will lead the discussion by focusing on common issues that all countries face, including green transformation and economic security, and by emphasizing the importance of the “New Form of Capitalism” under which the government works on the supply side and the necessity of the international cooperation needed to promote such efforts.

### **(Economic Partnerships and Incorporation of Overseas Vitality)**

Lastly, I would like to touch upon our economic partnerships with foreign countries.

We substantially concluded negotiations of the UK’s accession to the CPTPP at the end of March. The CPTPP is one of the most comprehensive and ambitious trade deals in terms of both rules and market access. It is a meaningful treaty in the sense that it spreads new, high-standard, well-balanced, 21<sup>st</sup> century-styled common rules to the rest of the world.

Since the UK’s application to join the CPTPP in February 2021, we held discussions and considerations under the Accession Working Group chaired by Japan. I, myself, hosted ministerial meetings and had discussions with ministers of other countries. I expect that the realization of the UK’s accession to the CPTPP will contribute to the further growth and development of trade and

economy in the Asia-Pacific region and beyond, in addition to the further promotion of free trade, competitive open markets, rule-based trade systems, and economic integration.

Along with these economic partnerships, it is vital that Japan continues to be open and actively bring in people, goods, money, and ideas from overseas. Japan will strengthen economic interactions with foreign economies, not only for the economic growth of Japan but also for the better development of Asian and global economies.

One initiative is to promote inward FDI. We had been working to achieve the goal of doubling inward FDI (to 80 trillion yen, 620 billion US dollars) by 2030 compared to the level in 2020. As Japan holds the G7 presidency this year, we are considering setting a new target of 100 trillion yen for inward FDI, aiming for an even higher level. We will formulate a new Action Plan this month including this new target. We will swiftly implement the following measures: integrated and intensive support for investment promotion and human resource development through industry-academia-government collaboration platforms in strategic sectors; concentrated support for eight Startup Ecosystem Base Cities in Japan; enhancement of our function as an international financial center; improvement of the business and living environments for foreigners, such as business startups and education. By taking these measures, we will promote inward FDI on growing fields, such as green transformation and digital transformation, as well as startups, and regional areas. We will also attract talented human resources and abundant funding from



overseas through the establishment of new residency qualification systems and other measures.

As you can discern from my speech, Japan's market and economic structure are achieving significant changes. I would strongly like to appeal to the B7 members, here today discussing international cooperation, to invest in this reborn Japan.

### **(Conclusions)**

In my speech today, I have been focusing on three points: the highest wage increase in 30 years, the recovery of the domestic business investment appetite, and Japan's continued openness to actively attract inward FDI. I believe that this time is a golden opportunity to break the vicious cycle of deflation and sluggish growth. We will continue our efforts, cooperating with all of you here today, to contribute to addressing global issues and enable Japan and the rest of the world to grow together.

Thank you very much for your kind attention.