

Study Group on “Policies Needed to Ensure Japan’s International Competitiveness”

June 15, 2011

[Overview of research]

As implied by references to a “lost decade” or even “two lost decades,” Japan’s post-bubble society and economy have experienced a protracted recession and stagnation, with no visible sign that the country is approaching the end of the tunnel. In 2007, Japan was surpassed economically by Singapore in terms of per capita GDP, surrendering its long-held status as number one in Asia, and in terms of total GDP was last year knocked down to second place in Asia and third worldwide by China. In the international competitiveness rankings published by the International Institute for Management Development (IMD), Japan dropped from 17th in 2009 to 27th in 2010. The economic damage caused by the recent earthquake, admittedly a force majeure, will inevitably lower Japan’s competitiveness within the international community.

There appear to be numerous factors tied to this prolonged slump in the Japanese economy. One is the shift in demographics that has taken place over the past 10 to 20 years. With Japan’s labor force shrinking and aging and its population on the whole declining, securing new labor resources for the future has become a major issue. Approaches to employment and education systems that enable younger generations to hold out hope for the future are being explored.

A second issue essential to strengthening Japan’s competitiveness is economic liberalization, especially in the areas of trade and investment. With Japan’s population on the decline, the prospects for a substantial expansion in domestic demand are poor. Accordingly, the Japanese economy will have to rely on external demand, making it particularly urgent that Japan seek out new opportunities in emerging markets in Asia and elsewhere that are forecast to see rapidly growing demand. FTAs must be pursued and a strategy developed to entice investment from abroad.

The third policy issue to be addressed in enhancing competitiveness is the harmonization of domestic regulations with those overseas as well as the increased acquisition of international standards. In aiming for a “Heisei opening of Japan,” it will become increasingly important to ease domestic regulations and harmonize regulations internationally. Avoiding discussions of these matters will in particular hinder efforts to conclude FTAs with the US, EU and other developed countries. Japan faces the reality

that it will be unable to maintain its advantage in international markets unless it wins out in the competition to acquire international standards. Acquiring international standards is an issue of primary importance in selling products overseas, and Japan's economic strength will be greatly impacted by its efforts in this regard.

The fourth issue Japan must address to ensure its competitiveness within the international community is the development and utilization of human resources. Major distortions are beginning to appear within the human resources development mechanisms of Japanese society as a whole, particularly in approaches to human resources development at universities and companies. Universities have proven unable to provide the education needed to boost academic ability and foster human resources, and companies no longer have the financial leeway to fund employee education activities to make up for these deficiencies in higher education. We believe the time has come to give serious thought to new means of developing and utilizing human resources in ways befitting today's super-aging global society that values higher education, i.e., a 21st-century-style mature society.

This research project will organize four subcommittees on (1) securing labor resources and improving youth employment, (2) liberalizing trade and expanding domestic investment, (3) harmonizing regulations and acquiring international standards, and (4) developing and utilizing human resources, and will carry out well-formed analyses of the status quo and develop policy recommendations on each of these issues. We will consider the course Japan should pursue in future, taking into consideration the impacts that the recent earthquake has and has not had on these issues and the best ways of tackling these issues to overcome the March 11 crisis. We will have leading Japanese researchers in these areas participate in this project and examine policies that present answers to these issues.

[Project plan]

This study group is scheduled to meet for the first time in July 2011. Study Group meetings will be held thereafter once or twice each month, and interviews and overseas surveys will be conducted at the appropriate times when necessary. A final report should be compiled by the end of March 2012, and the research findings will be made available via symposiums and the JIIA website.

[Study Group Members]

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