

The Guideline on Policy Promotion For the Revitalization of Japan

May 17, 2011
Cabinet Decision

The Great East Japan Earthquake is a “crisis in the midst of a crisis.” Even before the earthquake Japan had been faced with a “crisis” of economic stagnation and social occlusion, with this recent great earthquake occurring in the middle of this crisis. The nuclear incident is still ongoing, and so we must do absolutely everything to tackle this incident.

We must restart initiatives to revitalize Japan in order to underpin the reconstruction of East Japan and deal with the challenges that had been facing us since prior to the earthquake. The guideline will present policies to revitalize Japan that are commensurate with the reconstruction following the earthquake (ensuring the sustainability of public finances and social security and redesigning and refortifying national strategies towards new growth).

1. Basic Policies for Economic and Fiscal Management After the Great Earthquake

(1) Impact of the Great Earthquake on the Japanese Economy

1) Three Shocks Brought About by the Great Earthquake

- The great earthquake brought about the following three types of shocks to the Japanese economy as a whole, which had been picking up.
 - No. 1 A supply shock due to the enormous human and physical damages and severing of economic circulation caused by the complex disaster of the earthquake, tsunami, and nuclear incident (suspension of economic activity in the area afflicted by the nuclear incident)
 - No. 2 Restrictions on electricity due to the destruction of power generating facilities
 - No. 3 Recognition in the safety of nuclear power was shaken, as was confidence in Japanese products and “Japan brand” precipitated by the damage caused by radiation

2) Impact for the Immediate Future

- The supply restrictions from the shocks in No. 1 and No. 2 are exerting an enormous impact on the Japanese economy. That is to say, there has been damage to stock centered mainly in the afflicted region, supply chain disruptions, and decreasing production activities and exports due to the power restrictions in the jurisdiction of Tokyo Electric Power Company and Tohoku Electric Power Company.
- At the same time, negative impact by worldwide rumors related to radiation and decline of consumer confidence has affected demand side of the economy such as consumption and tourism, whose effect on employment is also under concern.

- With regard to prices, although mild deflationary conditions still persist, the possibility of cost-push inflationary pressure caused by the supply constraints coupled with rises in the price of such as oil should be kept in mind.
- Flexible and active policy responses after the earthquake staved off any major problems in the financial, capital markets and the exchange market, but careful observation should be kept.

3) Future Impact on the Japanese Economy

- Impacts on the business climate from the drop in consumption and other factors are anticipated, and the continuing harsh condition for employment is expected to persist for a certain period of time as well. There is also the possibility that the restrictions on electric power will remain to some extent in the following fiscal year and beyond. Conversely, the reconstruction demand due to things like rebuilding the damaged capital stock will bring about positive effects for the business climate.
- In order to overcome concerns such as those over the energy and environmental restrictions, and outflows of companies and human resources, starting medium to long-term initiatives will conceivably be needed. At the same time, on the plus side there is the possibility that new demand for earthquake-resistant housing, electricity-conserving, energy conserving, and new energy investments will expand.

(2) Basic Policies for Economic and Fiscal Management for the Immediate Future, Short-Term, and Medium to Long-Term

- We will overcome the restrictions brought about by the great earthquake—such as by restoring economic circulation as soon as possible—in a sequential and steady manner. At the same time, we will strengthen the initiatives for achieving new growth and restore the growth potential of the Japanese economy.
- The need to ensure the sustainability of public finances and social security and maintain confidence in such institutions, which had been major issues from before, has increased all the more because of the great earthquake. As such, we will promote sound initiatives for achieving this.

1) Immediate Future: Prompt Recovery from the Great Earthquake

- We will place the highest priority on assistance for the disaster victims, assistance for the victims of the nuclear incident, disaster relief, and promptly responding to the accident at the nuclear plant. At the same time, we will also promote a variety of policies in a concentrated manner, including clearing away the mood of self-restraint, rebuilding production equipment and facilities, measures for electricity supply and demand, restoring and reconstructing supply chains, employment measures (such as the creation of direct and indirect employment for reconstruction projects and the agricultural, forestry and fishery industries, etc.), and the prevention of damage from rumors in Japan and abroad.

- These policies will be promoted through measures such as the early implementation of the FY2011 first supplementary budget and prompt revisions to the regulation and institutionalism. We will promote initiatives that maintain their comprehensive and coherent nature as we go about clearly laying out the economic effects of the policies as a whole.
- The stability of the financial and capital markets and the exchange market is extremely important for the sake of restoring the smooth circulation of the real economy. What is more, we expect the Bank of Japan to share the basic perspectives with the government with regard to the macroeconomic management indicated within the guideline, and to continue to prop up the economy through the proper and flexible monetary policy management via the close exchange of information and cooperation with the government.
- However, attention must be paid to the rising cost of primary products such as oil, due to the conflicts in the Middle East and North Africa and increased energy demands from newly emerging countries, as well as the financial problems in Europe.

2) Short-Term (About Three Years From Now): Lay the Foundations for Self-Sustaining Growth

- We will support the full-scale restoration of the disaster region. At the same time, we will also promote measures such as policy responses to the electricity restrictions and the construction of a system for supplying energy that is resistant to disasters. We will also promote moves such as restoring and strengthening “Japan brand”, preventing outflows of companies and human resources to overseas and ensuring inflows of human resources from overseas, and restoring tourism demand by overcoming the damage from rumors in Japan and abroad.
- We will create a virtuous cycle for fostering new seeds of growth (including the construction of compact cities and Eco-Towns; energy conservation and new energy businesses; the development of distributed energy systems; social security services suited to regional needs; and turning agricultural, forestry, and fishery industries into value-added sextic industries, integrating processing and retailing functions, etc.) and expanding capital demands (promoting private investment through funds and encouraging the use of private finance initiatives and public-private partnerships, etc.).
- We will proactively respond to requests for the implementation of these initiatives in the disaster region in the form of forerunning models.
- Throughout this period, we will secure the financial resources needed for reconstruction following the earthquake and put into practice integrated reform of the social security and tax systems.

3) Medium to Long-Term: Achieve Sustainable and Self-Sustaining Growth

- We will strengthen initiatives aimed at realizing new energy and environmental structures capable of meeting appeals for a safe and stable supply, efficiency, and for the environment, as well as robust economic structures that are fortified against enormous risks. At the same time, we will also achieve sustainable and self-sustaining growth by means of promoting the expansion of new growth sectors.
- We will firmly establish the sustainability of public finances and social security by carrying on with the integrated reform of the social security and tax systems.

(3) Medium to Long-Term Economic and Financial Outlook

- We will accelerate the necessary reforms with an eye toward achieving the same level of economic growth as was previously predicted for over the medium to long-term. With regard to prices, for the immediate future we carefully judge the impact of the cost-push inflationary pressures, and strive for moderate and steady price increases measured by GDP deflators, which are the same as those predicted thus far.
- For public finances, we will steadily move forward with fiscal consolidation on a sound footing through measures such as assuring the sources of finance for reconstruction following the earthquake, the integrated reform of the social security and tax systems, and initiatives for government revitalization.
- Business trends must constantly be kept in mind for the sake of economic and fiscal management. The Cabinet Office will perform medium to long-term analysis around the middle of this year in order to check up on the economic and financial outlook.

2. Restarting toward Japan's Revitalization

(1) Seven Basic Principles for Restarting

In order to restart we cannot just simply resume those which had been suspended by the earthquake.

In line with the following basic principles we will rebuild the economy, industry, and local communities with resilient structures through a “qualitative shift” in our strategy towards new growth, while also fostering the human resources to sustain these. We will proceed by overcoming the weaknesses that were laid bare by the Great East Japan Earthquake and restoring our wounded confidence, while also strengthening our bonds of friendship with the world. We must regenerate a dynamic and powerful Japan.

- 1) Japan's revitalization will underpin the reconstruction of East Japan, and the reconstruction of East Japan will serve as a trailblazing example for Japan's revitalization
- 2) Establish economic and social structures that are fortified against enormous risks
- 3) Maintain confidence (public finances and social security, Japan brand)
- 4) Concentrated allotment and concentrated investment in new growth under

- resource restrictions, such as those on financial resources and electric power
- 5) Realize local empowerment and private sector vitality
 - 6) Revitalize economy in an open manner by strengthening “kizuna” (the bonds of friendship)
 - 7) Promote understanding in Japan and overseas regarding Japan’s revitalization

(2) Procedures for Each Major Policy

Japan’s revitalization commensurate with reconstruction following the earthquake will be carried out under the two pillars of ensuring the sustainability of public finances and social security, and redesigning and refortifying national strategies towards new growth.

I. Ensuring the Sustainability of Public Finances and Social Security

- Integrated reform of the social security and tax systems
 - Discussions are proceeding at the Council for Intensive Discussion on Social Security Reform, and the council’s final draft will be obtained by the end of June in accordance with the cabinet decision from the end of last year.
- Fiscal Management Strategy
 - We will revise The Medium-term Fiscal Framework around the middle of this year, thereby steadily pursuing fiscal consolidation in an integrated manner with economic growth and social security reforms.

II. Redesigning and Refortifying National Strategies towards New Growth

- Growth Strategy
 - The Council on the Realization of the New Growth Strategy will be held beginning in May.
 - With regard to the New Growth Strategy, it will inspect items requiring a qualitative shift, those which are adhering to their objectives but for which their schedules should be revised, those adhering to both their objectives and schedules, those to be newly addressed, and so on by this summer. It will then present a concrete image for the strategy within the year for the sake of revitalizing Japan.
- Innovative Strategy for Energy and the Environment
 - The Council on the Realization of the New Growth Strategy will start making considerations for revising the strategy for becoming an environment and energy power.
 - We will consider an innovative strategy for energy and the environment consisting of a short, medium, and long-term that not only overcomes the power restrictions and strengthens safety measures, but which also corrects the distortions and vulnerabilities in the energy system and meets appeals for a safe and stable supply, efficiency, and for the environment.

- Strategy for Preventing the Hollowing-Out of Industry and for Developing Overseas Markets
 - The Council on the Realization of the New Growth Strategy will re-examine initiatives such as the Inward Investment Promotion Program and promotion of Japan as an Asian Industrial Center, foster global talents, and deployment of integrated infrastructure systems.
 - In addition to the responses that should be taken immediately (restoring and reconstructing supply chains, prevent harmful rumors, etc.), we will also explore a number of other measures. These include competitiveness of business locations, creating economic and industrial structures which are fortified against enormous risks, and promoting strategic and focused innovations that will pave the way to future.

- Strategy for Strengthening Bonds between Countries
 - The Minister-level Meeting on FTAAP (Free Trade Area of the Asia-Pacific)/EPA(Economic Partnership Agreements) will consider the basic policy for strengthening “kizuna” (the bonds of friendship) with other countries, such as promoting high-level economic partnerships based on “Basic Policy on Comprehensive Economic Partnership” (cabinet decision adopted in November 2010) and establishing economic security, taking into consideration factors such as the sentiments of the farmers and fishermen who have suffered enormous damage by the earthquake and the nuclear incident, the progresses in the international negotiations, and concerns of de-industrialization.
 - The timing of a decision on whether to join negotiations for the Trans-Pacific Partnership (TPP) Agreement will be considered from an overall perspective.

- Strategy for the Revitalization of the Agriculture, Forestry, and Fisheries
 - Considering the enormous damage to the agriculture, forestry, and fisheries caused by the Great East Japan Earthquake, every effort will be made for the restoration and reconstruction from the disaster. The Council to Promote the Revitalization of Food, Agriculture, Forestry and Fishery Industries will consider measures to cope with new challenges of rehabilitating agriculture, forestry, and fishery industries in East Japan, and restoring confidence in Japan’s agricultural and marine products.
 - As for the basic policy to be developed at around June and an action plan to be drawn up at around October according to “Basic Policy on Comprehensive Economic Partnership”, the new timelines will be considered to replace the intended schedules, taking into account the overall schedule for the revitalization of Japan and the progress in restoration and reconstruction.

3. Towards Substantiating the Guideline

In accordance with the guideline, for the future we will move forward with examinations of initiatives in the various policy fields at the related agencies, councils, and so on, and will compile and publicly announce an overall view of the policies being promoted in the middle of the year.