Overall Picture of Policy Promotion

August 15, 2011
Cabinet Decision

In accordance with “the Guideline on Policy Promotion”1 for restarting initiatives for revitalizing Japan as well as subsequent discussions at related organizations and councils, the Government has decided to push ahead with the following efforts for revitalizing Japan (i.e., “ensuring the sustainability of public finance and the social security system” and “redesigning and refortifying national strategies toward new growth”) in parallel with reconstruction following the earthquake.

1. Basic Policies for Economic and Fiscal Management after the Great East Japan Earthquake

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

- The Great East Japan Earthquake had a tremendous impact on the Japanese economy. Industrial production activities and exports have decreased because of the damage to stock mainly in the afflicted region (approximately 16.9 trillion yen2), supply chain disruptions, and the power constraints in the jurisdiction of Tokyo Electric Power Company and Tohoku Electric Power Co.
- It has been more than five months since the earthquake occurred; the Japanese economy is picking up because of support from the private sector’s efforts mainly in the disaster-affected areas and policy actions. The employment situation remains severe. With regard to prices, although the Japanese economy is still in a mild deflationary phase, the pace of their decline has slowed.

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

The Government will promote economic and fiscal management for the immediate future, short-term, and medium to long-term as listed in the “Guideline on Policy Promotion” by putting emphasis on the following tasks.

- To surely overcome the constraints caused by the earthquake, the Government will promptly

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1 “The Guideline on Policy Promotion: For the Revitalization of Japan” (Cabinet Decision dated May 17, 2011)
2 “Estimating the Monetary Value of Damages in the Great East Japan Earthquake” (Cabinet Office [Disaster Management] dated June 24, 2011)
implement the first and second supplementary budgets and do its utmost to realize the reconstruction measures listed in the “Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake.” The reconstruction of the affected areas will play a leading role in revitalizing Japan. At the same time, without revitalizing the Japanese economy, true reconstruction in the affected areas will be impossible.

- Limited electricity supply might constrain economic growth not only this summer but also in subsequent seasons. There is some fear that the earthquake will have a negative effect on medium- to long-term growth, which could be caused by not only electricity shortage but also the rise in costs and outflows of companies and human resources. To avoid these risks, it is necessary to promptly take supply- and demand-side policy measures on the basis of the “Measures to Stabilize the Immediate Supply of and Demand for Energy.”

- Also, economic downturn risks such as the deterioration of overseas economic conditions and appreciation of the yen must be watched carefully. To steadily work on reconstruction from the earthquake, stability in the financial and capital markets and the exchange market is extremely important. Excessive fluctuations in the exchange markets will have a negative impact on economic and financial stability. The Government will continue to carefully observe trends in the exchange markets and take firm action when necessary. Furthermore, it will quickly work on preventing the hollowing-out of the industry by implementing the FY2011 third supplementary budget. The Bank of Japan is expected to share the basic perspectives on macroeconomic management shown in this “Overall Picture” with the Government and to continue to underpin the economy by appropriate and flexible monetary policy management, engaging in close exchanges of information and liaison with the Government.

- In the light of the recent financial and fiscal situations of Europe and the United States, it is now all the more important to take all possible measures to maintain the stability of the financial markets and market confidence. The Government will advance further consideration on the basis of the “Definite Plan for the Comprehensive Reform of Social Security and Tax” compiled in June 2011 and the “Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake.” Furthermore, the Government will steadily carry out government revitalization efforts as well as legislative or other necessary actions to ensure the sustainability of the social security system and public finance, which had been major issues before the earthquake. Through these efforts, the Government will

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steadily work on measures toward fiscal consolidation described in the Fiscal Management Strategy.

(3) Economic and Fiscal Outlook

- The growth rate in FY2011 is expected to be –0.4% in nominal terms and 0.5% in real terms because of the impact of the Great East Japan Earthquake. The growth rate in FY2012 is expected to be in the mid-to-high 2% range in both nominal and real terms because of a steady increase in reconstruction-related demand, such as rebuilding the damaged stock, generated by implementing the measures based on the “Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake.”
- As the earthquake might have risks to restrict economic growth in the medium- and long-run, the Government will work on early recovery from the earthquake. To address the appreciation of the yen and to prevent the hollowing-out of the industry, the Government will make efforts to advance necessary reforms, which include initiatives to reinforce growth capacity that are outlined in this document (“Overall Picture of Policy Promotion”), and laying out other foundations for self-sustaining growth.
- The inflation rate will gradually become higher in tandem with economic recovery and stabilize thereafter.
- With regard to employment, the Government aims to reduce the unemployment rate to the 3% range as soon as possible by taking scrupulous employment measures to ensure stable lives for the disaster-affected people and by, in advancing efforts for new growth, implementing measures that are highly effective in creating jobs.
- Public finance is expected to proceed toward fiscal consolidation, helped by the Government’s steady efforts to achieve the targets described in the Fiscal Management Strategy.

2. Restarting Japan’s Revitalization

The Government will work on the revitalization of Japan in parallel with reconstruction following the earthquake through the two pillar policies of “ensuring the sustainability of public finances and social security” and “redesigning and refortifying national strategies toward new growth.”

4. Ensuring the Sustainability of Public Finances and Social Security

- Fiscal Management Strategy

As recovery and reconstruction from the Great East Japan Earthquake disasters will pose substantial
additional burdens on public finance, the Government has secured special revenue sources and has set down a new framework to balance revenues and expenditures on a multiyear basis. On the basis of this framework, the Government will give extra considerations, such as creating separate management programs in the Medium-term Fiscal Framework. Moreover, with the concept to steadily work on improving the fiscal balance, the Government will prepare for the FY2012 budgeting process in accordance with the revised Medium-term Fiscal Framework.6

- Comprehensive reform of social security and tax
The “Definite Plan for the Comprehensive Reform of Social Security and Tax” suggests specific directions for the comprehensive reform of social security and tax. The Government will further examine possible solutions in line with the reform plan; work out specific reform programs in individual fields such as children and child raising, medical and long-term care services, and pension; and take the necessary legislative actions in FY2011 in accordance with the roadmap as described in Article 104 of the supplementary provisions of the Tax Reform Act 2009.

II. Redesigning and Refortifying National Strategies towards New Growth

- Growth Strategy
Since the Japanese economy has been facing an increasingly difficult environment, including dwindling birthrate and aging population as well as stiffer global competition, it is necessary to further strengthen policy actions for enhancing growth potentials in the wake of the Great East Japan Earthquake. For this reason, the Government will make efforts to put into practice the “New Growth Strategy”7 by adhering to the objectives and schedules in accordance with the “Interim Report on Strategies to Revitalize Japan.”8 It will also redesign and refortify possible strategies for further growth and develop the “Strategies to Revitalize Japan” by the end of the year.

- Innovative Energy and Environmental strategies
The Government will deploy innovative energy/environment strategies from multiple perspectives.

To address the unprecedentedly limited availability of electric power, the Government will push

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6 “Medium-term Fiscal Framework (FY2012 to FY2014)” (Cabinet Decision dated August 12, 2011)
8 “Interim Report on Strategies to Revitalize Japan” (Cabinet Decision dated August 5, 2011)
ahead with (1) reforming demand structure, (2) diversifying electric supply, (3) reforming electric power system for supporting (1) and (2), and (4) intensifying nuclear safety programs in accordance with the “Measures to Stabilize the Immediate Supply of and Demand for Energy ~Acceleration of the Implementation of Energy Structure Reforms~.”9 By avoiding planned outages and electricity consumption restrictions, it will minimize risks of approximately 10% electric power shortage in the next summer and approximately 20% annual cost hike. It will fully mobilize all policy actions, such as the FY2011 third supplementary budget and regulatory reforms, around this autumn.

The Government will draft medium- and long-term strategies in accordance with the “Interim Compilation of Discussion Points for the Formulation of Innovative Strategy for Energy and the Environment.”10 It will reexamine the current Strategic Energy Plan of Japan from scratch, develop scenarios for reducing dependency on nuclear energy, and thoroughly examine nuclear policies to seek for the new best mix. It will also reinforce and accelerate Green Innovation strategies,11 create distributed energy systems, and hold national discussions based on the verification of objective data. The Government will formulate its basic policy on these strategies by around the end of 2011. It is planning to draft “Innovative Energy and Environmental Strategies” consisting of the new best mix (New Strategic Energy Plan of Japan), energy and environmental industry strategies, and green innovation strategies that will support them.

- Prevention of Hollowing-out of the Industry and Development of Overseas Markets

To get over the unprecedented risks of industrial hollowing out, the Government will make all-out efforts to eliminate two destabilizing factors: limited electricity availability and nuclear power plant accidents. In addition to pushing ahead with restoring/reconstructing supply chains, the Government will hold the “Liaison Council between the Government and Organizations Concerned for the Reconstruction of the ‘Japan Brand’ and Measures to Reputational Damage” to overcome the reputational damages and restore/reconstruct the Japan brand.

As an important agenda in the medium and long run, it is important to expand the flow of humans,
goods, and money with overseas nations; enhance an industrial competitive edge; and shift to new industrial/market structures capable of addressing possible changes in environment. For this reason, the Government will work on the following projects: (1) enhancing location competitive edge and creating sales/production bases in Asia, (2) fostering/utilizing globalized human resources by putting in place the “Interim Report by The Council on Promotion of Developing Globalized Human Resources” and accepting highly skilled foreign human resources, (3) cultivating overseas markets and supporting overseas business expansion through creating infrastructures overseas and enhancing Cool Japan strategies, (4) establishing a labor market that alleviates human resource shift to new industries, enhancing capabilities of financial/capital markets, and strengthening profit-earning capacities of small- and medium-sized enterprises (SMEs), and (5) pushing ahead with innovation from the viewpoint of improving the industrial competitive edge, and effectively using ICTs (information and communications technologies) and future-oriented/international-oriented regulatory/system reforms.

- Strengthening Bonds between Countries

To strengthen the bonds between countries, the Government will consider the basic policy for strengthening kizuna (the bonds of friendship) with other countries, such as promoting high-level economic partnerships based on the “Basic Policy on Comprehensive Economic Partnership” and establishing economic security, taking into consideration factors such as the sentiments of the farmers and fishermen who have suffered enormous damage because of the earthquake and the nuclear incident, the progress in the international negotiations, and concerns of deindustrialization.

In particular, the Government will strive to launch negotiations for a Japan-EU EPA promptly, and complete a joint study on a Japan-China-ROK trilateral FTA within this year and launch negotiations next year. The Government will strengthen its efforts for the promotion of Japan-Australia EPA negotiations as well as for an early resumption of Japan-Korea EPA negotiations. In addition, it will actively work to achieve an early conclusion of a joint EPA study with Canada, to start negotiations with Mongolia, and to launch promptly negotiations for a Comprehensive Economic Partnership Agreement in East Asia (CEPEA) and an East Asian Free Trade Agreement (EAFTA). Concerning the Trans-Pacific Partnership (TPP) Agreement, taking the point that the TPP is a matter affecting the

13 “Basic Policy on Comprehensive Economic Partnerships” (Cabinet Decision dated November 9, 2010)
reconstruction of agriculture in the afflicted region—as well as other points such as the status of progress in international negotiations and concern over the hollowing-out of the industry—into account, the Government will discuss the matter thoroughly. The timing of a decision on whether to join negotiations for the TPP Agreement will be considered from an overall perspective and decided as early as possible.

- Strategy for the Revitalization of Agriculture, Forestry, and Fisheries

The Government will promptly address the issues stipulated in the “Interim Report for the Revitalization of Japan’s Food, Agriculture, Forestry, and Fisheries.”

The Government will work intensively in the next five years to enhance the competitiveness and soundness of Japan’s agriculture, forestry, and fisheries and to promote regional economies. It will work on the following issues: securing ambitious core farmers; turning agriculture, forestry, and fisheries into value-added industries (Sixth Industrialization); utilizing resources in rural areas for energy production; promoting the “Forest and Forestry Revitalization Plan”; creating modern and resource-management fisheries; constructing earthquake-resistant infrastructure for agriculture, forestry, and fisheries; and taking effective countermeasures against nuclear disasters.

In order to make compatible high-level economic partnerships and the revitalization of agriculture, forestry, and fisheries, it is indispensable to resolve the issues specified in the “Interim Report for the Revitalization of Japan’s Food, Agriculture, Forestry and Fisheries,” and secure the understanding of the people as well as stable financial resources in addition. Considerations will thus be made in a concrete manner on issues such as the shift of burdens from consumers to taxpayers, reforming direct payment schemes, and formation of benefit distribution mechanism accrued from opening up of the country.

For the basic policy that was to have been developed at around June and for the action plan that was to be drawn up at around October according to the “Basic Policy on Comprehensive Economic Partnerships,” 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.

- Encouraging a Growth-oriented Longevity Society and Regional Revitalization

To keep sustainable growth and vitalities in the society/economy in an aging society and decreasing

14 “Interim Report for the Revitalization of Japan’s Food, Agriculture, Forestry, and Fisheries” (The Council to Promote the Revitalization of Food, Agriculture, Forestry, and Fisheries, dated August 2, 2011)
population, the Government will make efforts to promote the employment of everyone who is capable of working, including the young, women, the elderly, and persons with disabilities; realize a society in which each and every person can play his or her role while ensuring decent work; and foster/secure human resources that will support growth.

To achieve a high quality of life in the longevity society, the Government will accordingly advance reforms of regulations and systems and will inject policy resources in a prioritized manner in order to put innovative pharmaceutical products and medical equipment to use in accordance with the “Basic Policy on Promoting of Medical Innovation.” In addition, it will push ahead with the following projects: creating new services that utilize information and communication technologies and services related to medical and nursing care not covered by public insurance, promoting medical interaction, and developing and promoting products for the elderly.

To revitalize Japan with innovative ideas from local communities, including the affected region, the Government will comprehensively support pioneering efforts initiated by regions, by establishing a one-stop support system and reviewing regional revitalization systems. In addition, the Government will promote the vitalization of small- and medium-sized enterprises and other entities sustaining employment and the economy, and the building of disaster-resilient regions and a nation serving as a base for regional revitalization.

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15 “Basic Policy on Promoting Medical Innovation” (Decision of Medical Innovation Council dated June 16, 2011)