

STREET
: Strategy for Economic Growth, Energy and Trade Liberalization
—Japan's New Challenge—
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1. Introduction

- ◇ Thank you very much for your kind introduction. It is my honor to be given an opportunity to introduce Japan's efforts at the Brookings Institution, where opinion leaders here in the U.S. and all over the world get together.
- ◇ Everyone has a dream that one wants to try even once in a life. If you were a singer, it might be to hold a solo concert at Carnegie Hall. If you were an actor, it might be to play the role of James Bond of "007."
- ◇ One of my dreams since my Kennedy School days has been to give a speech here at Brookings.
- ◇ Well, in the 4 months since the inauguration of Prime Minister Abe's administration, our new administration has taken politically tough actions at an unprecedented speed, such as bold monetary policy and the entry into TPP negotiations.
- ◇ Japan's economy has started to show promising signs. For example, Nikkei Stock Average has risen by 50% since last November. The cabinet approval rating is marking 76%. I see this as a reflection of strong expectation of Japanese people for new administration's economic policy, namely, "*Abenomics*."

<STREET>

- ◇ To turn such an expectation into strong confidence, what will be the "road"? Instead of road, I'd rather use a word with more straight connotation "STREET," because it is the key word for today's speech.

"STR" in the "STREET" represents Strategy. Strategy for what?

- The First E is Strategy for Economic Growth.
- Second E is Strategy for Energy.
- And finally, the T stands for Strategy for Trade Liberalization.

2. Strategy for Economic Growth

- ◇ I begin with Strategy for economic growth.

<Three arrows>

- ◇ "Abenomics" is to shoot "three arrows" strongly at the same time: namely, "bold monetary easing", "flexible fiscal policy" and "growth strategy to stimulate business investment." As the first arrow, Mr. Kuroda, new governor of the BOJ, introduced very bold monetary easing on a dimension we have never seen.
- ◇ This is to overcome Japan's prolonged deflation as early as possible. This new policy is never targeted on the exchange rate. Only the market decides the exchange rate. Anyway, the first arrow seems to be within the range of the mark of ending deflation.
- ◇ The second arrow, targeting at reversing economic recession, is to make a seamless execution of two budgets: namely, our supplementary budget of over 100 billion USD and the current fiscal year's regular budget which has passed the House of Representatives. This second arrow has also reached a cruising speed smoothly.
- ◇ I suppose that the most important and what you want to hear the most today may be the third arrow, "Growth Strategy." I would like to mention two points about the growth strategy here. The first is to open new frontiers of Japanese economy, and the second is facilitating metabolism of Japanese economy.

<The new frontiers of Japanese Economy>

- ◇ What do I mean by "new frontiers of Japanese economy"? For example, Japan is now facing a challenge of aging society. By developing "new frontiers of Japanese economy," Japan turns this challenge into an opportunity for developing new business in a wide range of health and welfare areas.
- ◇ I would like to introduce Japan's initiative that we call "the healthiest and longest life in the world". For example, suppose someone suffered spinal cord injury due to a traffic accident. He has to rely on the wheelchair. But with an application of iPS cells, his nerves can be regenerated and he can walk again.
- ◇ Another example is a "walking assistance" robot named "Robot Suit HAL." This robot was developed by a Japanese venture company. Suppose those who have difficulty in walking due to the old age or injury put on the suit. The robot senses bioelectrical signals generated when the user intends to move the legs. Then, the robot moves its joints in sync with the user's movements. Now, the user can walk again. The government has been a driving force for these initiatives through providing R&D and other assistance.
- ◇ "The new frontiers" also include changing energy constraints to a breakthrough of much safer, more economical and more efficient energy technology for a new economic growth. I will come back to energy issues later.

<Facilitating metabolism of Japanese Economy>

- ◇ Second, Japan will stimulate the metabolism of Japanese economy to implement structural reform for growth. We will support business efforts toward their own structural reform.

◇We will also intensively implement variety of measures in taxation and regulatory systems to facilitate the transfer of business resources and labor forces from conventional to growing industries.

<Regulatory Reform>

◇In addition, We will develop new markets through regulatory reform. We are considering a new approach called "International Top-Runner Test" in pursuing regulatory reform. When there is a gap between domestic regulations and international standards, we will bring the domestic regulations into line with the international standards, unless there are good reasons to maintain domestic regulations.

◇As almost 150 years have passed since the end of the isolationist period of the Tokugawa Shogunate, we just cannot allow regulations to become closed to the outside world again.

3. Strategy for Energy

◇The 2nd "E" is Strategy for Energy.

◇Nuclear energy accounted for 30% of Japan's power generation before the Great East Japan Earthquake. It now stands at only 2%. The amount of power generation lost is equivalent to nearly twice the amount of electricity consumed in New York State.

◇It is replaced by thermal power generation. Japan has to rely about 90% of energy demand on fossil fuels. We import all of them from overseas. It certainly is not sustainable. This situation is in stark contrast to the U.S. as the U.S. heads toward energy independence supported by its shale revolution.

◇Energy is a lifeline for vibrant industrial activities and prosperous lives of people. The key elements to overcome the energy supply constraints and to ensure stable and economical energy production are "diversification of fuel supplies," "enhancement of efficiency of thermal power generation," and "utilization of nuclear energy."

<Diversification of Fuel Supplies>

◇The high natural gas price is a main cause for Japan to experience trade deficit for the first time in 31 years. The price in Japan is 4 or 5 times higher than in the U.S. If LNG can be imported from the U.S., with growing production of shale gas, it makes a lot of differences for Japan to diversify fuel supply sources and shrink the price gap.

◇This is not a problem only for Japan. Energy demand is expanding rapidly throughout Asia. Therefore, new flow of LNG supply from the U.S. to Asia is an essential game changer that would contribute to energy security as well as to economic and geopolitical stability in Asia.

<Utilization of Nuclear Power>

- ◇I will explain a bit more details on Japan's nuclear energy policy. First of all, I'd like to express our appreciation to American people for "Tomodachi initiative" that has been extended in response to TEPCO's Fukushima nuclear power plants accident. I'm sure "Tomodachi initiative" strengthened heart-to-heart ties between peoples of Japan and the U.S.
- ◇Abe administration will review from scratch the policies of the former administration that targets zero nuclear power in the 2030's. We will restructure and build responsible energy policy with the strong determination for safety that we will never repeat the accident and the recognition that we are a leader of nuclear non-proliferation efforts.
- ◇To date, Japan has been contributing to peaceful use of nuclear power and its non-proliferation in tandem with the US. We feel it our responsibility to share the experience and lessons learned from the accident with the rest of world. We, thus, can contribute to safe and peaceful use of nuclear energy worldwide, given an increasing number of new nuclear power plants under planning. We will remain committed through exporting nuclear power plants of the highest safety standards.

<Decommissioning of the TEPCO's Fukushima Daiichi>

- ◇Let me first touch on the decommissioning of the TEPCO's Fukushima Daiichi nuclear power plant. It is an unprecedented case in the world, involving various challenges. We, therefore, will not leave this work to the utility alone. Instead, our government will take a leading role in the fields like R&D. In tackling with this challenge, Japan will keep the information open and gather wisdom from all over the world including the U.S.

<Nuclear Regulation Authority and Reactivation>

- ◇Last year, based on the determination of our Diet, Japan established an independent regulatory body, "Nuclear Regulation Authority", following the case of the U.S. This authority has introduced series of strict regulations and is now known as the strictest organization to utilities in Japan. I would rather call it "J"-NRA, not simply "NRA."
- ◇The safety of nuclear power plants is left to professional and scientific judgment by J-NRA. Unless safety is assured by it, we will not restart nuclear reactors. On the other side, once safety is assured, we will move forward to their restart.

<Further Actions on Nuclear Safety>

- ◇The U.S. has built a system which encourages the nuclear industry's voluntary and continuous efforts of improving safety after the Three Mile Island accident. It includes the establishment of the Institute of Nuclear Power Operations (INPO) and the introduction of performance-based regulation.
- ◇We will enhance international cooperation and aim to achieve the highest standards of safety in the world through our industry's voluntary and continuous efforts. In doing so, utilization of probabilistic risk assessment, "P-R-A," will be very important as a tool to measure safety at each plant objectively.

- ◇The quantitative risk assessment by PRA will enable us to depart from the so called "safety myth," which is a belief that there exists no risk if nuclear power plants satisfy regulatory standards. PRA will encourage the industry's voluntary and continuous efforts and will also enable us to explain risk mitigation effects by objective figures.
- ◇Our government will continue to encourage to build such mechanism through learning from the U.S. experience. The Japan-US cooperation for nuclear safety enhancement will contribute to sound development of nuclear industries of the world in a manner compatible with non-proliferation. Eventually, it will also contribute to strengthened national security of both countries. For this reason, I would like to propose to set up a forum on occasions such as "Japan-US bilateral committee on civil nuclear cooperation" for discussing and exchanging views on the efforts of safety improvement by industries.

<Japan-US Energy Cooperation>

- ◇The U.S. has been and will be our most important partner when tackling with our challenge of the energy crisis. The only regret during my visit to the U.S. this time is that Dr. Moniz, a nominee for Secretary of Energy, is not in office yet.
- ◇I am sure I'll be able to work together with him in a WIN-WIN manner. I look forward to contributing to stable, economical and sustainable energy development on a global scale through the Japan-US cooperation.

4. Strategy for Trade Liberalization

- ◇The third part of the "STREET", "T", is Strategy for Trade Liberalization.
- ◇Japan is on track to join the TPP negotiations as the U.S. government notified congress of intent to include Japan in negotiations on April 24th. We hope that Japan can contribute to the discussion in the round expected to be held in July. We will contribute to the rule-making in the Asia-Pacific region together with countries that share the same value, particularly with the U.S.
- ◇At the same time, Japan promotes the variety of economic partnership in all directions including Japan-EU EPA, RCEP and Japan-China-Korea trilateral FTA. We will play a strong leadership role to realize FTAAP (Free Trade Area of Asia Pacific).
- ◇Here, there is a point that we should be mindful of. As "mega-FTAs" such as TPP, US-EU FTA, and Japan-EU EPA are spreading mainly among developed countries, it might be possible in the future that these mega-FTAs conflict with each other. Another possibility might be that North-South issues arise between developed countries and developing countries left out of mega-FTAs. Japan is proceeding with economic partnership with countries ranging from developed to developing countries, and hopes to serve as a mediator to address these concerns.

<Cross-border infrastructure building>

◇The trade liberalization is not just about FTA. It includes facilitating cross-border cooperation and connecting one country to another in a broad sense.

◇For example, Japan has promoted broad-area infrastructure building that can support spreading supply chains across national borders. One example is building roads and ports which connect Vietnam, Cambodia, Thailand and Myanmar. Another example is developing Delhi-Mumbai industrial corridor in India. Japan has strongly supported such dynamic cross-border infrastructure building. Through these efforts, supply chains in Asia have been strengthened.

◇Japan, together with the U.S., has supported the progress toward democracy in Myanmar. We hope to expand such successful Japan-US cooperation to worldwide cooperation, not limited to in Myanmar.

<Cyber security>

◇In the context of global cooperation between Japan and the U.S., I would like to promote Japan-US cooperation for leading the world in strategic sectors leveraging our excellent technologies and competitive industries.

◇One example is in the area of cyber security. Last year, Japan established public-private initiatives for cyber-security information-sharing partnership, to protect important infrastructures from cyber-attacks.

◇This information-sharing framework is joined by 39 organizations covering 5 sectors of heavy industry, power, gas, petroleum and chemical. Under the framework, 246 cases were reported last year and it helped prevention of security impairment and enhancement of countermeasures. Japan will promote cooperation with the U.S. including sharing best practices, R&D and human resources development.

<Japan-US Cooperation in the Strategic Industry Sectors>

◇In addition, Japan has a variety of advanced dual-use technologies which should be invaluable even in the defense sector. For example, carbon fiber, as light and strong materials, is used for aircraft body. Second is robot that functions effectively in disasters. METI would like to support cooperation in the strategic industry sectors between Japan and the U.S. while maintaining the firm position of Japan as a peaceful nation.

5. Final Remarks

<The world in 2050>

◇Let's think about the future for a while. What the world in 2050 will look like? According to ADB, GDP of China will be 63 trillion dollars, India 40 trillion dollars, and Asia will account for 52% of the world GDP. At that point, the U.S. GDP will be around the same as that of India. Furthermore, GDP per capita in the entire Asia region will reach 40,800 dollars. It is approximately at the same level as in today's Europe. If this projection comes true, the pivot will shift toward Asia.

- ◇ This scenario, however, is subject to many different risks. There are various elements of uncertainties, such as increasing gap between the rich and the poor, depletion of resources, environmental deterioration, and change in geopolitical balance. How should Japan and the U.S. react to immense growth of Asia?
- ◇ When heading to a new land or new frontier, the most important thing is the close ties, "Kizuna," among the pioneers. I believe Japan-US alliance should be the pivot of those expeditions.
- ◇ Our Prime Minister, Abe, stated "Japan is back". If Japan, which is back, and the U.S. now walk together, we will be followed by a new "STREET". "*Plus Ultra*," meaning "further beyond" is another Latin word I like as much as "*Veritas*" of the Harvard coat of arms.
- ◇ This "STREET" will lead to "broad way" that brings about peace, stability and prosperity in the Asia Pacific region. We will never enjoy peace and stability without assuring not only national security, but energy and cyber security.
- ◇ Similarly, we will never enjoy prosperity without TPP which is to lead up to FTAAP. Through applying new rules, this will further facilitate trade and investment in this region.
- ◇ Japan and the U.S. share the same values including freedom, democracy, human rights and rule of law. I very much look forward to drawing "100 year-plan" for the Asia Pacific region, and treading on the "STREET" of stable, peaceful and prosperous Asia Pacific region together with the U.S.
- ◇ Thank you so much.