



首相官邸

# Japan's Reconstruction and Foreign & International Economic Policy under Noda Administration

November, 2011

**Office of Global Communications  
Prime Minister's Office of Japan**

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# Earthquake Recovery and Reconstruction: Accelerating Reconstruction in Disaster-affected Regions

## Key highlights

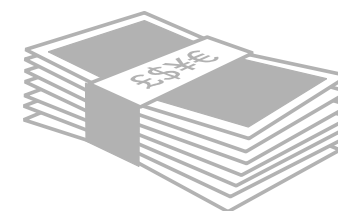
**Daily lives outside the affected areas have returned to normal**

### Macroeconomic impact

- Japan's economy will grow in Q3 (5.3%) and Q4 (2.3%) CY 2011 after slowing down in Q1 (-3.7%) and Q2 (-2.1%). Slowdown is expected to be much less than after "Lehman Shock."<sup>1</sup>
- According to IMF World Economic Outlook (Sep 2011), Japan's real economic growth rate in 2012 (2.3%) is expected to be higher than the U.S. (1.8%) or the Euro Area (1.1%).

### Infrastructure and economy of Tohoku are recovering

- Restoration of the Tohoku Expressway and Sendai Airport within a month
- Damaged supply chains close to full restoration



**At least 20 trillion yen (\$ 257.7 billion) will be required over a five-year period**

- supplementary budgets
    - 1<sup>st</sup> ¥ 4 trillion (\$ 51.6 billion)
    - 2<sup>nd</sup> ¥ 2 trillion (\$ 25.8 billion)
    - 3<sup>rd</sup> ¥ 12 trillion (\$ 154.7 billion)
- \* US\$1=¥77.55

Note;

1 "National Accounts" (Cabinet Office, Sep 2011) and "Monthly Survey of Japanese Economic Forecasts" (Economic Planning Association, Oct 12)

# Reconstruction Open to the World

- Japan is committed to strengthening its partnership with the global community to ensure reconstruction efforts following the Great East Japan Earthquake in March 2011.
- Promoting international cooperation by sharing with the international community lessons from the disaster and reconstruction
- Establishing Special Zones for Reconstruction that allow for bold deregulation and special taxation measures
- Introducing a points-based system<sup>1</sup> to accept highly skilled foreign workers
- Continuously promoting the free-trade system for revitalization of Japanese economy by embracing the vitality of other countries

## Reconstruction open to the world

### Basic Concept for Reconstruction

(x) Upon reconstruction, bonds (kizuna) with the international community would be reinforced and the Government aims for reconstruction open to the world, incorporating various types of vigor from foreign countries.

– “Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake”

We will establish special zones for reconstruction that allow for bold deregulation and special taxation measures... Furthermore, by establishing unprecedented measures that will exempt companies from paying corporate tax for a five-year period in the special zones for reconstruction, we will attract new corporate investment in the region from Japan and overseas.

– Policy Speech by Prime Minister Yoshihiko Noda to the 179th Session of the Diet, on October 28

1. A system that awards points for career and research achievements, and grants incentive measures to foreign nationals who have acquired the requisite number of points, such as allowing them to prolong their period of residency in Japan

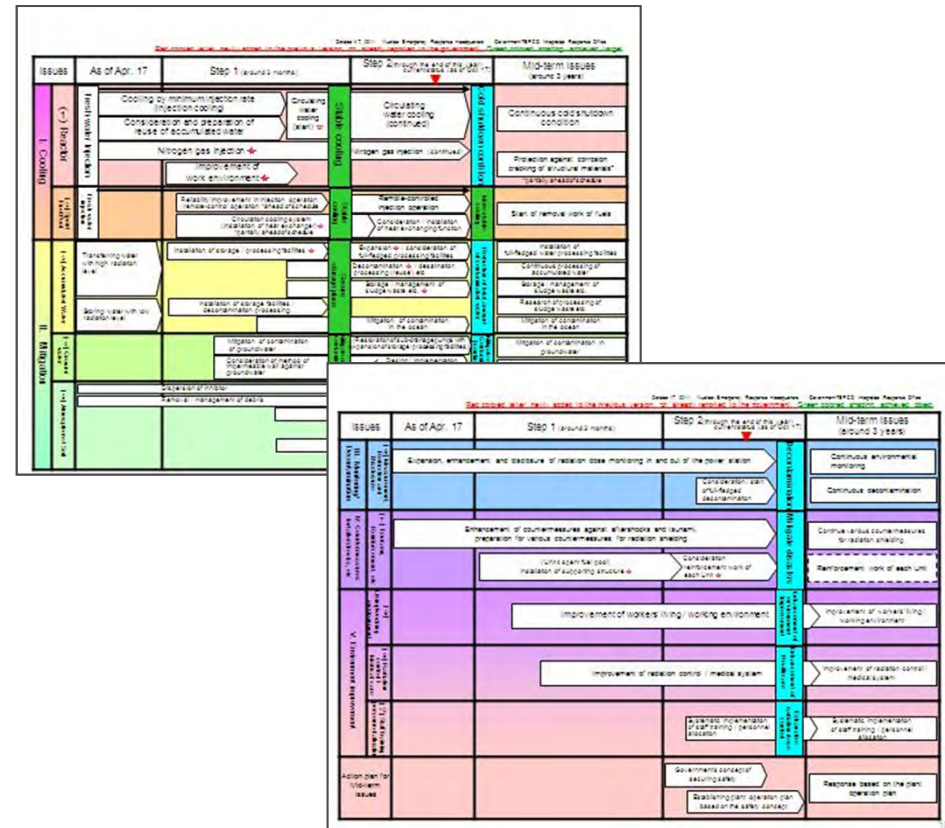
Source: "Toward reconstruction ~Hope beyond the Disaster" (Report to the Prime Minister of the Reconstruction Design Council in response to the Great East Japan Earthquake)

# Earthquake Recovery and Reconstruction: Bringing the Nuclear Power Station Accident to a Conclusion

## Key highlights

- Cold shutdown of the reactors expected by the end of this year
- Large-scale decontamination operations implemented
- Full disclosure of information on dispersal of radioactive materials and impact on health
- Volume of radioactive materials being released has significantly reduced over time
- Evacuation Advisory was lifted for areas outside of a 20km radius of Fukushima Dai-ichi nuclear plant

Current Status of “Roadmap towards Restoration from the Accident at Fukushima Daiichi Nuclear Power Station, TEPCO”



Source: Octoberr17,2011 Nuclear Emergency Response Headquarters Government-TEPCO Integrated Response Office

# Response to Economic Challenges: G20(November 3-4) – Japanese Economy, Emerging Markets –

## Japanese Economy

- Based on the fiscal measures, we are expecting a relatively high growth in Japan (2.3% for 2012; cf: Eurozone 1.1%, US1.8%; IMF). However, due to the recent speculative and disorderly movement in the currency market, unprecedented appreciation of yen has rapidly developed. This is the downside risk for the Japanese economy. That is why our authorities intervened into the foreign exchange market.
- Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability (as was referred to in the Communiqué of Finance Ministers and Central Bank Governors of G20 in mid-October), it is important to promote cooperation for stability in the exchange rates, which should reflect economic fundamentals.

## Emerging Markets

- If contagion to emerging economies would take place, it would be damaging not only to emerging economies, but the global economy as a whole will suffer.
- To prevent contagion to emerging economies while keeping their liquidity, necessary to prepare our response including the IMF financing facility and regional arrangements.
- Japan expanded currency swap arrangement with ROK to \$70 billion.
- We have been proposing to strengthen IMF financing facility to those countries that are trapped into financial crisis in spite of healthy policy management.

## G20 (November 3-4) – Euro Zone, EFSF –

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### Euro Zone

- Important to create a sustainable and credible framework to fundamentally resolve the government debt issues while trying to stabilize the financial system, in order to prevent contagion.
- Highly regards the agreement among European leaders. We strongly hope that the agreement will be steadily implemented based on leadership by European leaders.
- When we see the strong unity of Europe, Japan will consider necessary cooperation.

### EFSF

- Extremely important for European efforts to regain the credibility in the market place.
- Take into account such European efforts and our contribution to stabilizing European financial situation in deciding to purchase EFSF bonds in the future.

## G20 – Financial Regulation – PM speech at G20 (November 3)

### Lessons from Japan's experiences

- Thorough evaluation of the assets held by financial institutions, early knowledge of losses accrued and the thorough disclosure of information.
- Swift implementation of liquidation proceedings for financial institutions that are found to be in capital deficit as a result of the above evaluation. In addition, the prompt injection of public funds to financial institutions that have fallen into capital deficit.
- Efforts to restore and maintain financial functions, starting with lending, and support growth of the real economy. Restoration and maintenance of financial functions and real economic growth are the two axles of the same vehicle.
- Unilateral strengthening of regulations alone will not bring greater stability to financial systems, and it is important to find an appropriate balance between financial regulation and surveillance.



# G20 – Financial Regulation – PM speech at G20 (November 3)

## Challenges for global financial regulation

### Strengthening the financial sector in Europe

- The financial problems of a number of European countries are threatening to impact emerging economies outside Europe.
- In addition to calling on financial institutions to ensure high-quality and sufficient capital adequacy, governments must strengthen the management base of financial institutions through efforts to monitor their status and to ensure liquidity.
- Measures agreed upon to strengthen the fiscal base of financial institutions should be steadily implemented, which can be expected to lead to financial stability in Europe.

### Developing structures to facilitate liquidation proceedings

- In combination with efforts to strengthen the financial sector it is also essential to develop structures that will ensure the facilitation of liquidation proceedings.
- With regard to financial institutions that are considered “too big to fail,” referred to as “G-SIFIs” in the report of the Financial Stability Board (FSB), the fact that a framework for facilitated liquidation proceedings as well as providing further capital have been demonstrated is an important step.

### Financial sector and economic growth

- It is important that financial institutions seek out growth opportunities and play the role that is expected of them in supporting the economy.
- It is important to strengthen the financial system through reform of financial regulations, but it is also important to consider the impact on the real economy.

### Financial regulatory reforms that consider the global economy

- It is necessary to consider the global economy, including the impact on the provision of the necessary capital to emerging economies and international capital transfers.
- If a situation occurs in which funding from financial institutions in developed countries ceases to be provided to emerging economies, thus impeding growth in these economies, this will be a significant loss to the global economy as a whole.
- Stabilization of currency markets is another important factor for promoting a healthy financial system.

# Response to Economic Challenges: Bold Countermeasures to Yen Appreciation and Hollowing-out (October 21)

**GOJ will promptly execute the comprehensive countermeasures against the yen appreciation consisting of the concrete policies based on the following principles, to preemptively address the downside risk of economy and risk of hollowing-out of industry stemming from the yen appreciation.**

## Five Basic Principles

- A) Maintaining the Stability of Markets
  - take decisive actions, without excluding any option, necessary.
  - Appropriate and decisive monetary policy management
  - Maintain fiscal discipline and ensure market confidence
- B) Carefully Selecting Effective Policies to Respond to Yen Appreciation, Hollowing-out, and thereby to Support Growth
  - Establish a robust economy immunized against yen appreciation
  - Realize the reconstruction demand as early as possible
- C) Minimizing the “Pain” and Maximizing the Merits of the Yen Appreciation
  - Relieve the concerns of those directly hit by the yen appreciation, including firms and workers
  - Maximizing the merits of the yen appreciation
- D) Producing Results through Progress Management
- E) Agenda for New Growth

# Concrete Measures in Response to the Global Economic Crisis (October 21)

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## A) Mitigating the “Pain” of the Yen Appreciation

- I. Creating and Securing Employment
- II. Expanding the financial support to the firms including SMEs
- III. Supporting Tourism industry Suffering from both the Earthquake and the Yen Appreciation
- IV. Supporting Agriculture, Forestry and Fisheries Industry
- V. Early Realization of Reconstruction demand

## B) Establishing Robust and Resilient Economy Against Risks

- I. Strengthening Competitiveness by Enhancing the Location Subsidy
- II. Enhancing Demand by Strengthening Support for Installing Energy Saving and New Energy Equipment
- III. Developing “Only One” Companies and Technologies
- IV. Strong Support for Entrepreneurs
- V. Supporting the Challenge to the Global Market
- VI. Strengthening International Competitiveness through Promoting Comprehensive Special Zone
- VII. Measures against the Hardships Facing the Companies locating their base in Japan

## C) Making the Maximus Use of Merits of the Yen Appreciation

- I. Promoting Foreign M&A and Acquisition of natural resources by utilizing the Yen Appreciation Merit
- II. Sending Japanese Students Abroad and Accepting High-Skilled Personnel
- III. Promotion of “Visualization” of the Merits of the Yen Acquisition

# Response to Economic Challenges: Achieving both Economic and Fiscal Health

Pursue three paths: “the Path of cutting expenditures”, “the Path of increasing revenues” and “the Path of revenue reform”

## Path of Cutting Expenditures

Achieve overall Government expenditure cuts and secure non-tax revenues

- Cut personnel costs for national civil servants
- “Proposal-based policy review”
- Sell government assets: stock in Japan Post Holdings and Japan Tobacco

## Path of Increasing Revenues

Adopt a policy where ingenuity is used to develop industry and increase tax revenues

- “Basic Policy and Action Plan for the Revival of the Food, Agriculture, Forestry, and Fishery Industries in Japan”
- Council on National Strategy and Policy will be compiling a basic strategy for revitalizing Japan by the end of the year and stepping up efforts to promote active undertakings.

## Path of Revenue Reform

Compensate for resources that could not be attained through the other two paths

- Ask citizens to bear a certain financial burden by temporarily raising core taxes; income tax, corporate tax and resident tax.

# Response to Economic Challenges: Reconstruction of Energy Policy

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- Next one or two years implementing supply and demand countermeasures.
- Revising from scratch the current Basic Energy Policy, which covers until 2030, and will create a new strategy and plan by summer of 2012.
- Moving towards reducing dependence on nuclear power generation as much as possible in the mid- to long-term
- Restarting operations at nuclear power plants to be made possible, after thoroughly ensuring safety on the basis of “stress tests” and regular inspections
- Creating a safety and regulatory structure based on the separation of the Nuclear and Industrial Safety Agency (NISA) from the Ministry of Economy, Trade and Industry (METI)
- Reviewing energy policy from scratch and determining the best ‘energy mix’ by August next year
- Utilizing advanced technological power to promote a cutting-edge model for energy conservation and renewable energies (A bill has been passed to realize “feed-in tariff system”)

# Foreign Policy: Appreciation for the International Community

## Great support of the International Community

### Assistance offered from

- 163 countries and regions
  - 43 international organizations
- (As of October 21th)

### Rescue teams were sent from 29 countries, regions and international organizations

(As of October 21th)

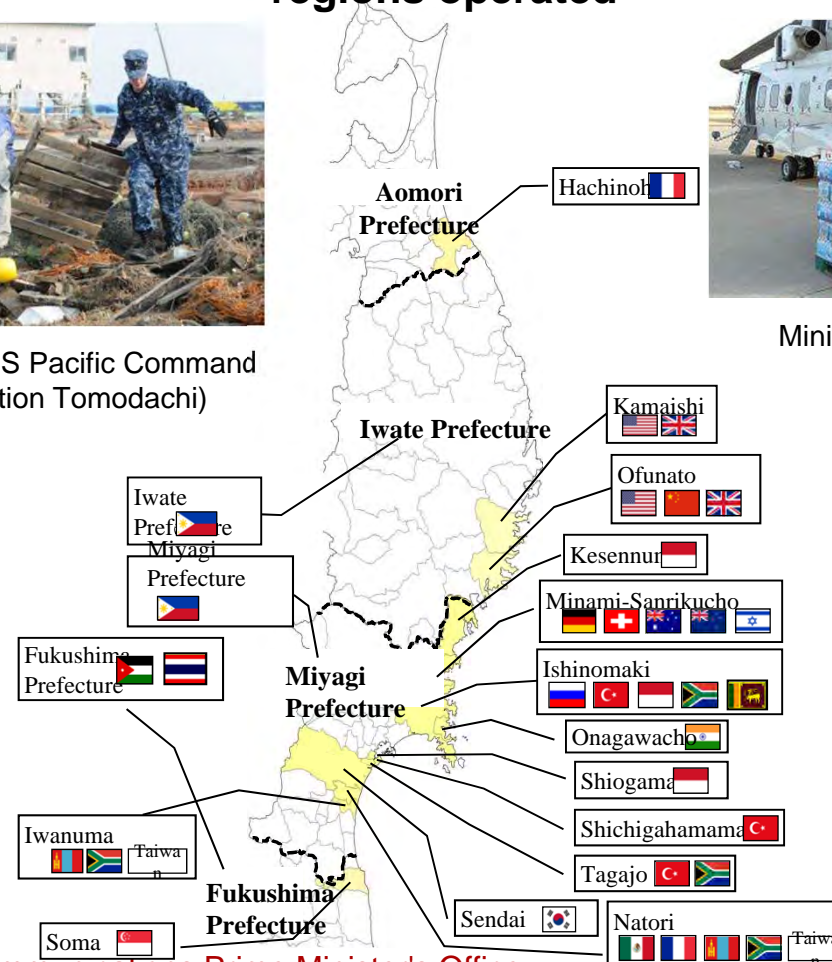
## Map of sites where rescue teams from foreign countries and regions operated



US Navy/US Pacific Command  
(Operation Tomodachi)



Ministry of Defence



Source: Ministry of Economy, Trade and Industry, Ministry of Foreign Affairs

# Foreign Policy: Asia-Pacific Economic Cooperation (APEC)

◆ The cooperative and voluntary nature of APEC enables it to, through consultation and information exchanges, deepen common understanding on the importance of liberalization and facilitation of trade and investment. Through this, APEC aims to establish an open and market-driven trade and investment system.

AELM main issues and expected discussions

## Growth and Job Creation

- Discuss measures that APEC could take for growth and job creation in the Asia-Pacific Region
- Japan will describe its steadfast efforts to promote economic partnerships and its growth strategy

## Regulatory Reform and Competitiveness

- Discuss the concept of regulations from the perspective of enhancing growth in the Asia-Pacific Region.
- Importance of a business environment that promotes regulatory reform and innovation for increasing productivity.

## Energy Efficiency and Energy Security

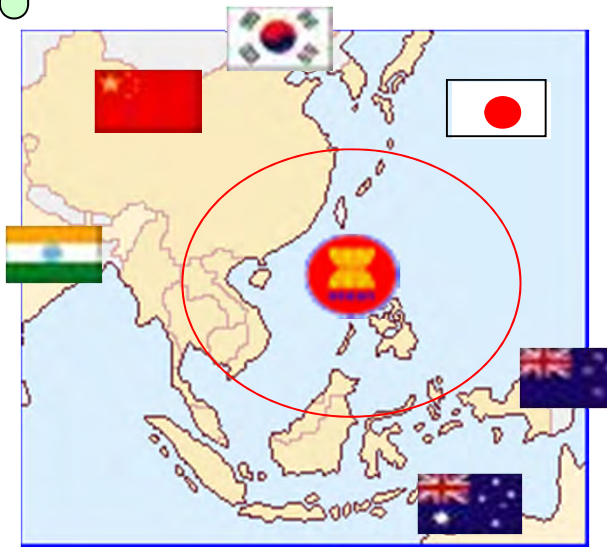
- Discuss measures to realize “green growth”.
- Will promote efforts in the Asia-Pacific Region by sharing its experience in reaching the highest level in the world in energy efficiency over the past years.

# Foreign Policy: Asia-Pacific Economic Partnerships

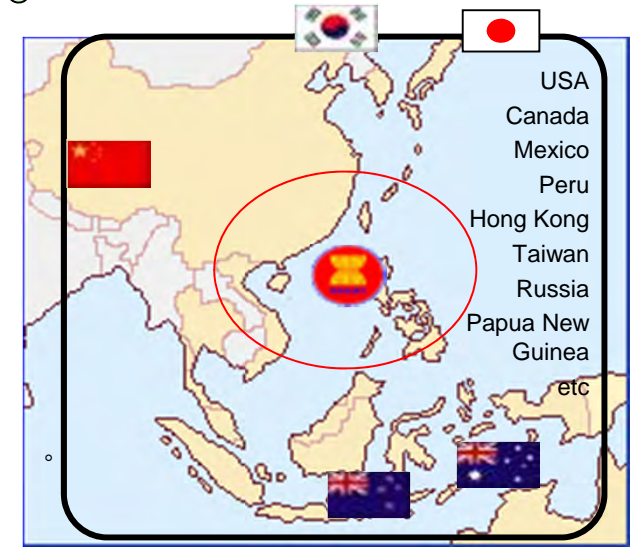
East Asia Free Trade Area (EAFTA)  
【ASEAN+3】



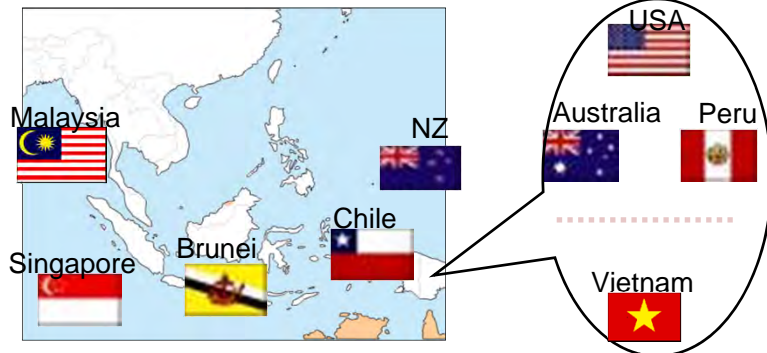
Comprehensive Economic Partnership in East Asia (CEPEA)  
【ASEAN+6】



Free Trade Area of the Asia-Pacific (FTAAP)



Trans-Pacific Partnership (TPP) Agreement



FTA among Japan, China and Korea