



# FPCJ Press Briefing



June 17, 2021  
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# Balance Between Demand Policies and Increasing Growth Potential

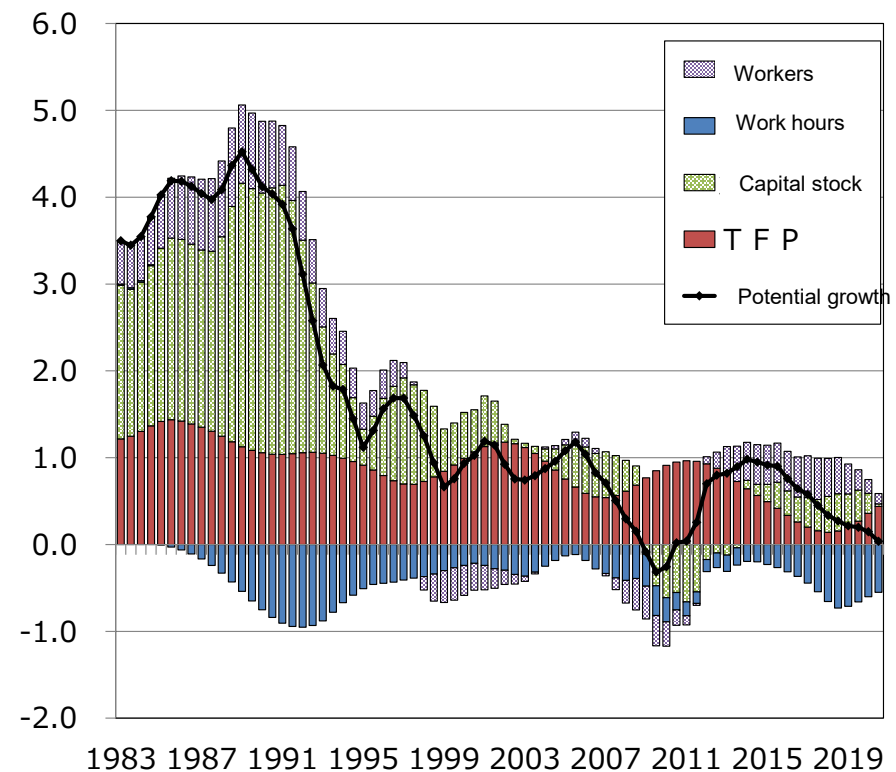


Global Economic Forecast

	2020 <Estimate>	2021 <Predicted>	2022 <Predicted>
World	▲3.5	+5.8	+4.4
US	▲3.5	+6.9	+3.6
Europe	▲6.7	+4.3	+4.4
Japan	▲4.7	+2.6	+2.0
China	+2.3	+8.5	+5.8
India	▲7.7	+9.9	+8.2

Source: OECD (May 2021)

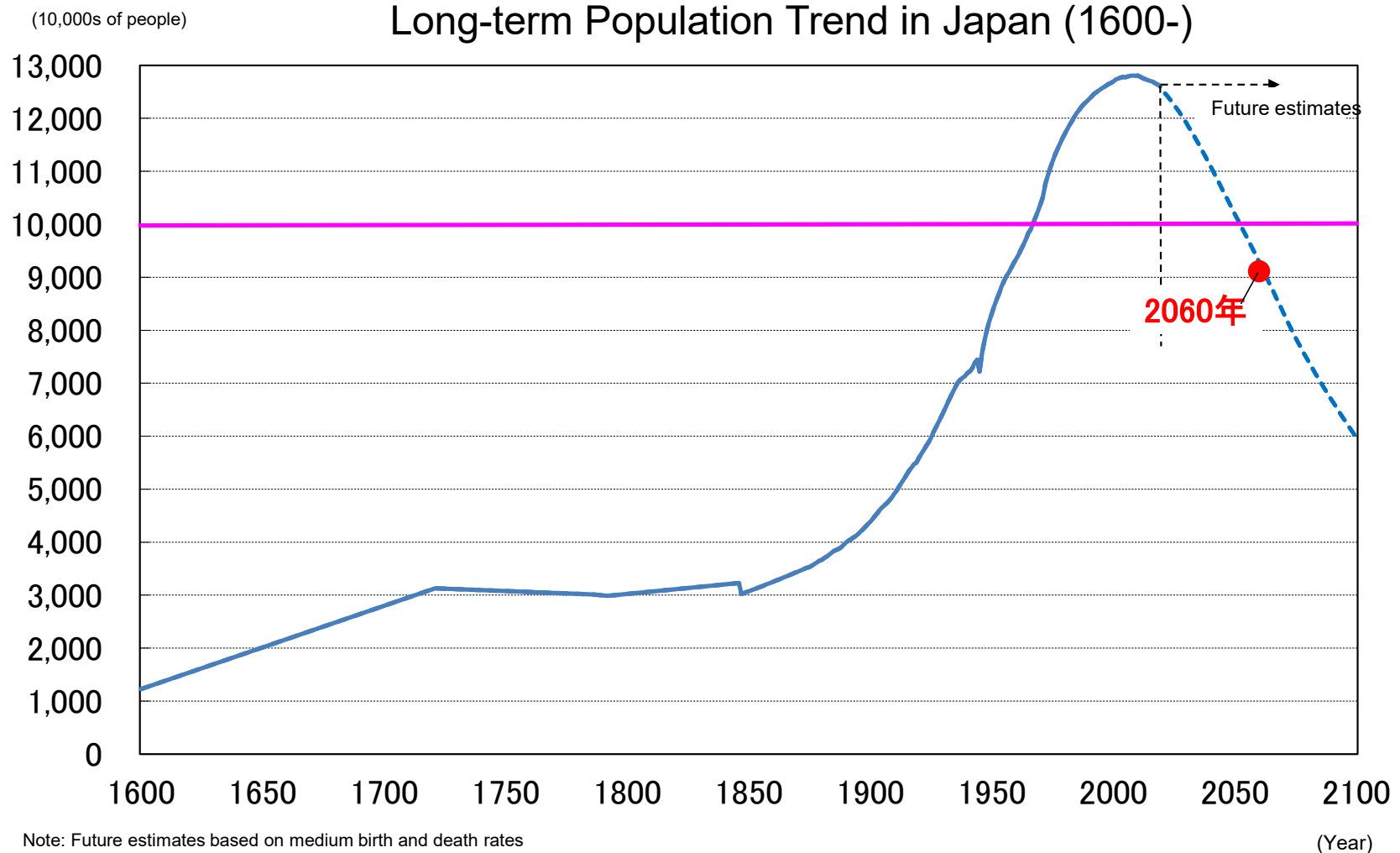
(Year-on-year, %) Potential Growth Rate



Source: Bank of Japan

(Half fiscal years)

# Aging of Japanese Society: Trends in Japan's Population



Note: Future estimates based on medium birth and death rates

Source: National Institute of Population and Social Security Research's Population Statistics (2021 and Population Projection for Japan (2017)

# Active Policies in Japan for the Near Future



- PM Yoshihide Suga: "...taking on challenges especially in four areas, namely, green and digital fields, local communities, and children..."
- Short-term targets (lower mobile phone rates, expanded infertility treatment, founding Digital Agency), long-term target (carbon neutral by 2050), what about mid-term?

Basic Policy on Economic and Fiscal Management and Reform 2021 (draft): Source for New Growth to Lead the Next Age

<b>1. Creating a Green Society</b> <ul style="list-style-type: none"> <li>(1) Green growth strategy for private investment/innovation</li> <li>(2) Energy/Resources policy for carbon neutrality</li> <li>(3) Using carbon pricing to invest in growth</li> </ul>	<b>4. Overcoming Declining Birth Rate, Creating a Society Where Having and Raising Children Is Easy</b> <ul style="list-style-type: none"> <li>(1) Society where desired marriages and childbirth happen</li> <li>(2) Preventing child abuse/Creating environment for future generations to feel safe</li> </ul>
<b>2. Public/Private Efforts to Accelerate Digitalization</b> <ul style="list-style-type: none"> <li>(1) Establishing digital government</li> <li>(2) Accelerate digital transformation in private sector</li> <li>(3) Train digital human resources, eliminate digital divide, cyber security policy</li> </ul>	<b>5. Building Foundations to Support 4 Driving Forces</b> <ul style="list-style-type: none"> <li>(1) High-quality education in digital age, encourage innovation</li> <li>(2) Participation of women</li> <li>(3) Participation of youth</li> <li>(4) Improved safety net, prevent isolation</li> <li>(5) Reform to allow diverse working styles, expand recurrent education</li> <li>(6) Ensure economic security, etc.</li> <li>(7) Increase strategic economic cooperation</li> <li>(8) Promote investment in Japan to improve growth potential, hiring/coexisting with foreign workers</li> <li>(9) Improved diplomacy/security</li> <li>(10) Create safe and secure life</li> </ul>
<b>3. Regional Development to Energize Japan as a Whole -New Regional Vitalization and Distributed National Development</b> <ul style="list-style-type: none"> <li>(1) Encourage flow of people to regional areas</li> <li>(2) Create SMEs with vitality</li> <li>(3) General economic growth through wage increase</li> <li>(4) Recovering domestic and inbound tourism</li> <li>(5) Agriculture, forestry, fisheries growth with exports, etc.</li> <li>(6) Promote sports, culture, arts</li> <li>(7) Accelerating networked cooperation with smart cities</li> <li>(8) Distributed national development and regional development with individuality</li> </ul>	

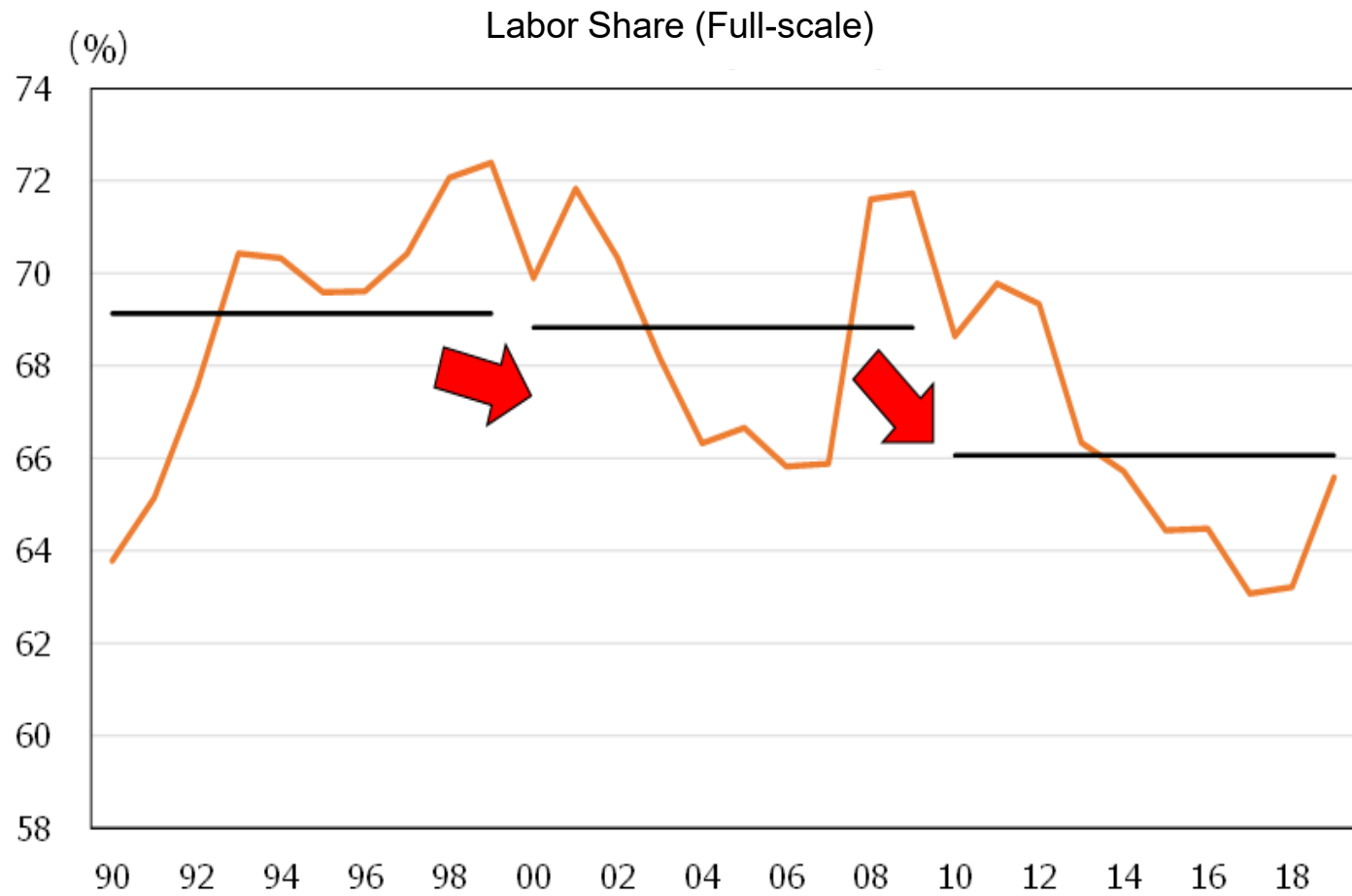
Source: Materials from the 8<sup>th</sup> 2021 meeting of the Council on Economic and Fiscal Policy





2021	April	16	Japan-US Summit
		22-23	Leaders Summit on Climate
		25	Three elections for vacant seats/re-elections for House of Representatives and House of Councillors
	June	11-13	G7 Summit
	July	22	Terms end for Tokyo metropolitan assembly members
		23	Tokyo Olympic Games begin (until August 8)
	August	24	Tokyo Paralympic Games begin (until September 5)
	September	30	Term ends for LDP president
	October	21	Terms end for House of Representatives members
		30-31	G20 Summit
	November	1-12	COP26 (26 <sup>th</sup> Conference of the Parties to the United Nations Framework Convention on Climate Change)

## ■ Labor Share



Labor share= Personnel costs (excl. executives)/ (operating income + personnel costs + movables & real estate rental costs + taxes & dues)

Source: Ministry of Finance Statistics of Corporations

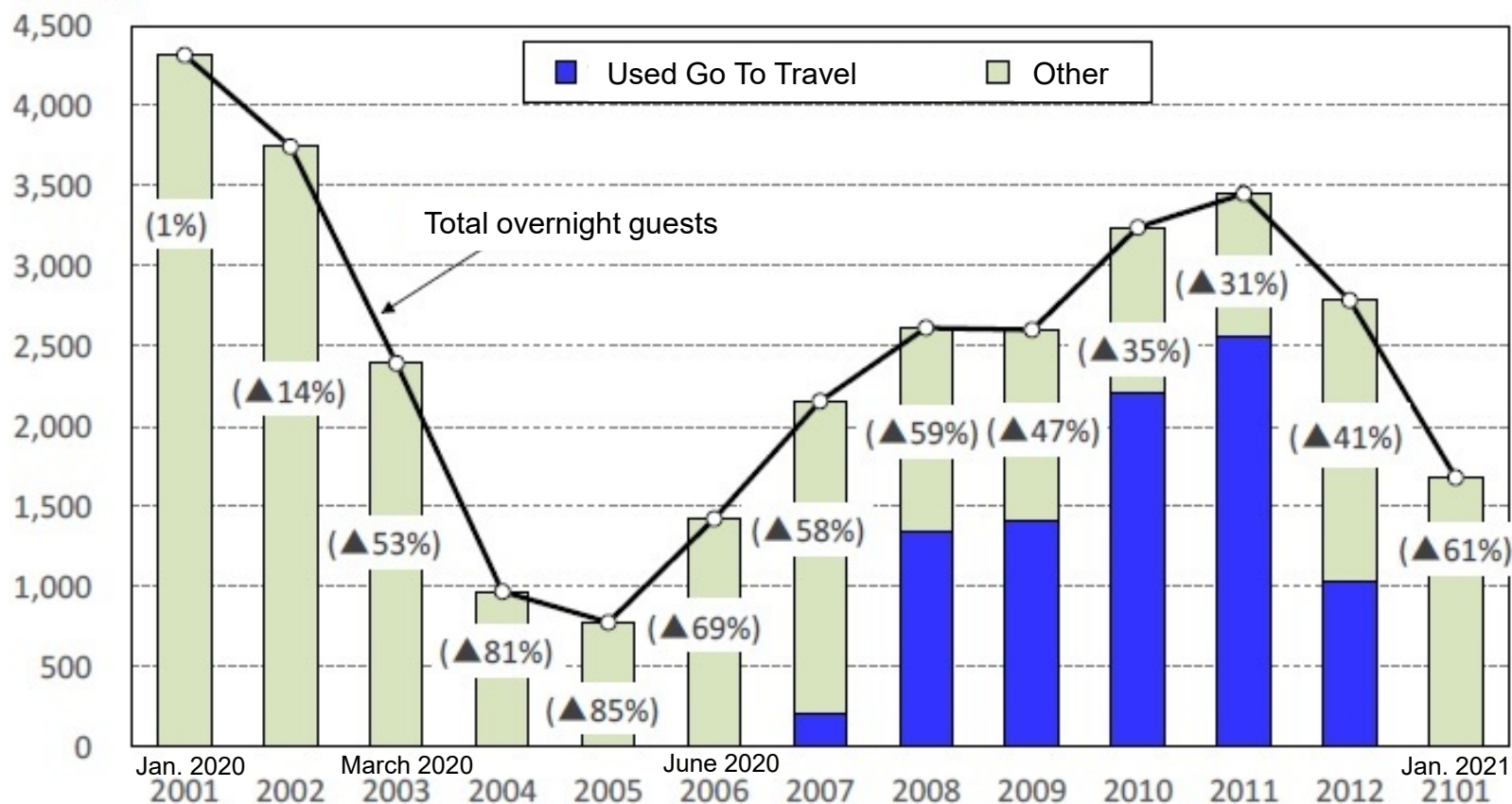
(Fiscal year)

# Go To Campaign



(10,000s of overnight stays)

## Cancellation of Go To Travel Led to Decline in Overnight Guests Again



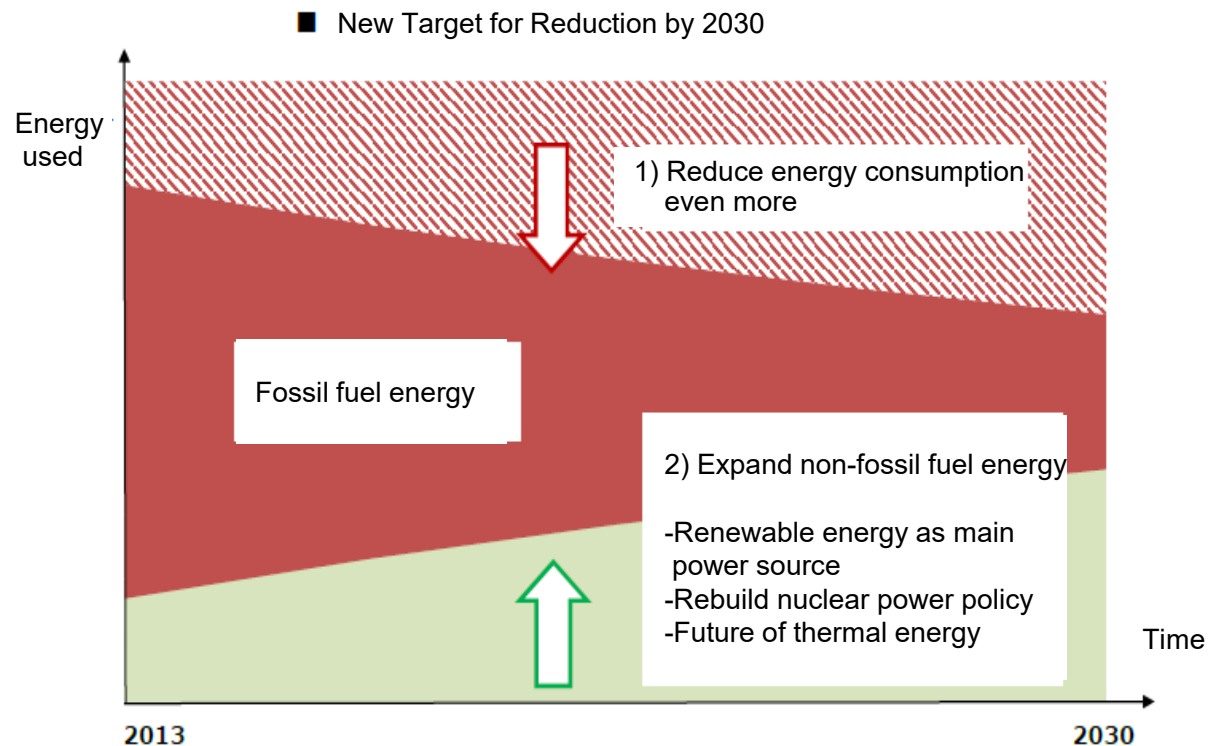
Note: Parentheses show year-on-year comparisons of total overnight guests (triangle=decrease)

(Year/month)

Source: Japan Tourism Agency statistical survey of overnight trips, usage of Go To Travel

# Reducing Greenhouse Gas Emissions

- Target of reducing emissions to 46% of FY2013 levels by 2030
- Need concrete policies to reduce emissions





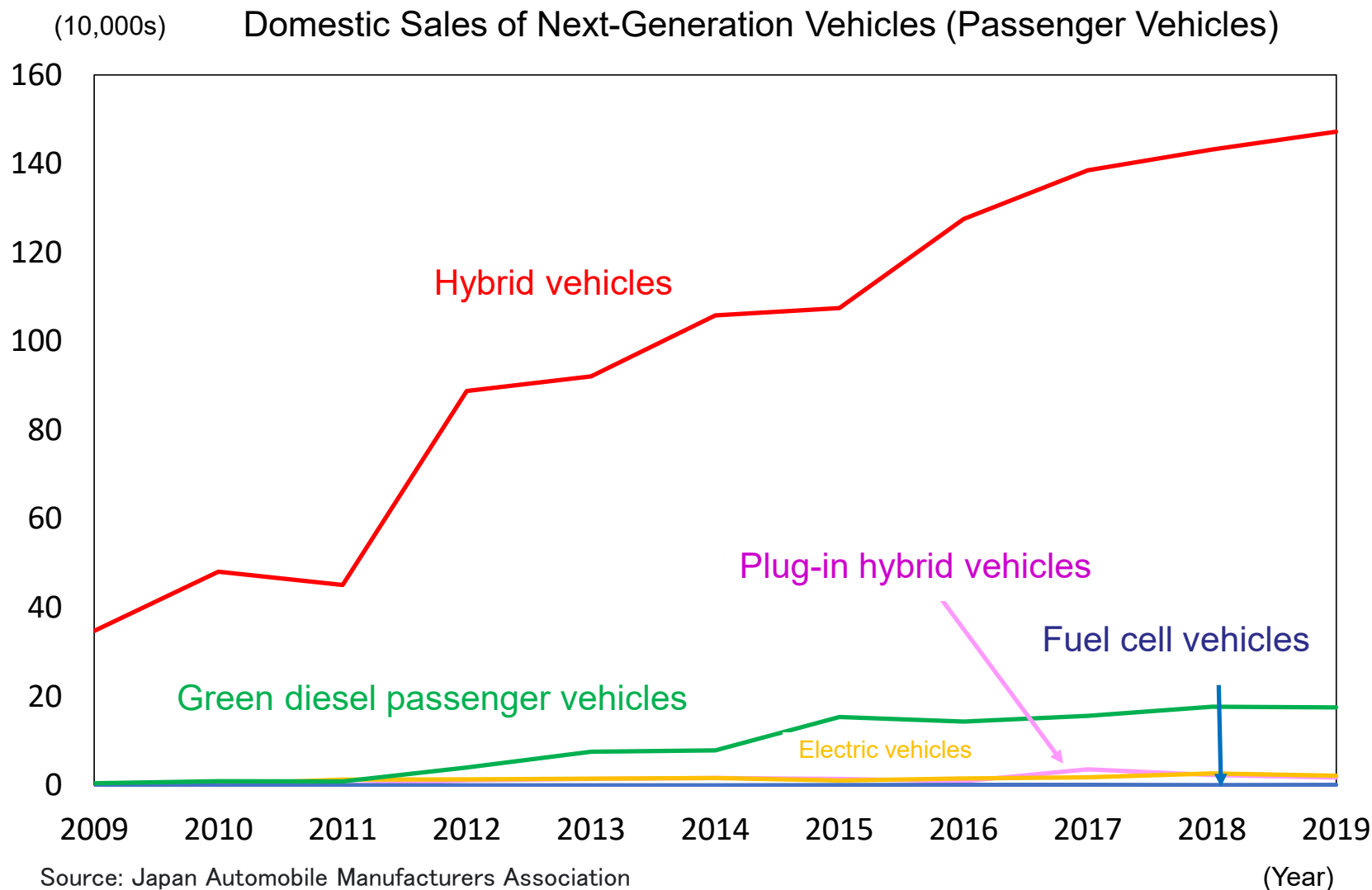
# Emissions Goals for Major Countries



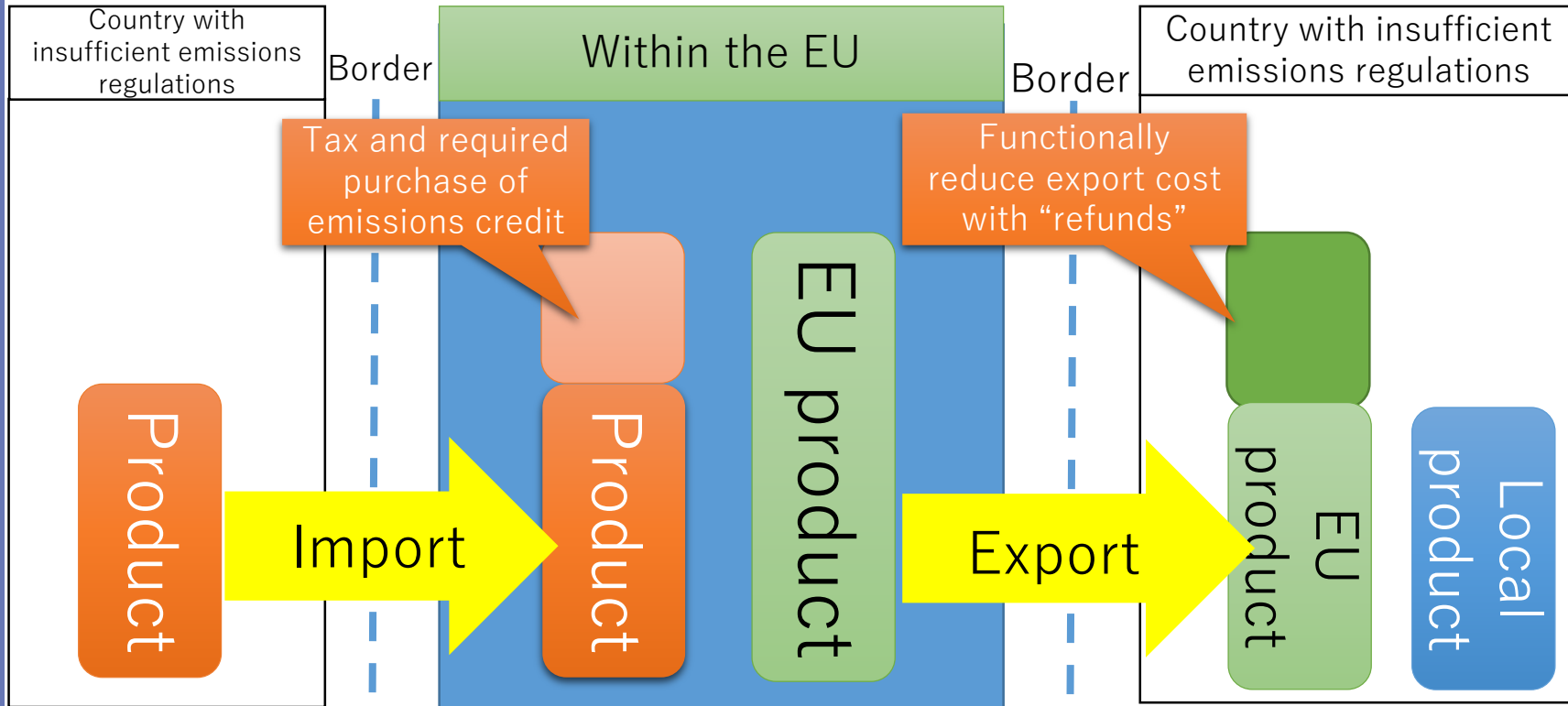
Country	Previous Target	Target After Climate Summit
Japan	2030, <b>26% down from 2013</b> <NDC submitted March 2020>	Aim for <b>46% down from 2013</b> , also <b>try to achieve 50%</b> .
US	2025, <b>26-28% down from 2005</b> <NDC submitted September 2016>	<b>50-52% down from 2005.</b> *NDC submitted for above goal.
Canada	2030, <b>30% down from 2005</b> <NDC submitted May 2017>	<b>40-45% down from 2005</b>
EU	2030, <b>55% down from 1990</b> <NDC submitted December 2020> *40% down before raising target	No change in target
UK	2030, <b>68% down from 1990</b> <NDC submitted December 2020> *Was EU's 40% before	<b>78% down from 1990 by 2035.</b> *No change in 2030 target
South Korea	2030, <b>24.4% down from 2017</b> <NDC submitted December 2020>	No change in target. At climate summit, <b>stated intent to raise NDC within the year.</b>
China	<b>Peak by 2030, 65% decrease by GDP</b> compared to 2005 <Announced at UN General Assembly (September 2020), Paris Agreement 5 <sup>th</sup> anniversary event (December 2020)>	No change in target  *At climate summit, stated intent to reduce coal consumption.



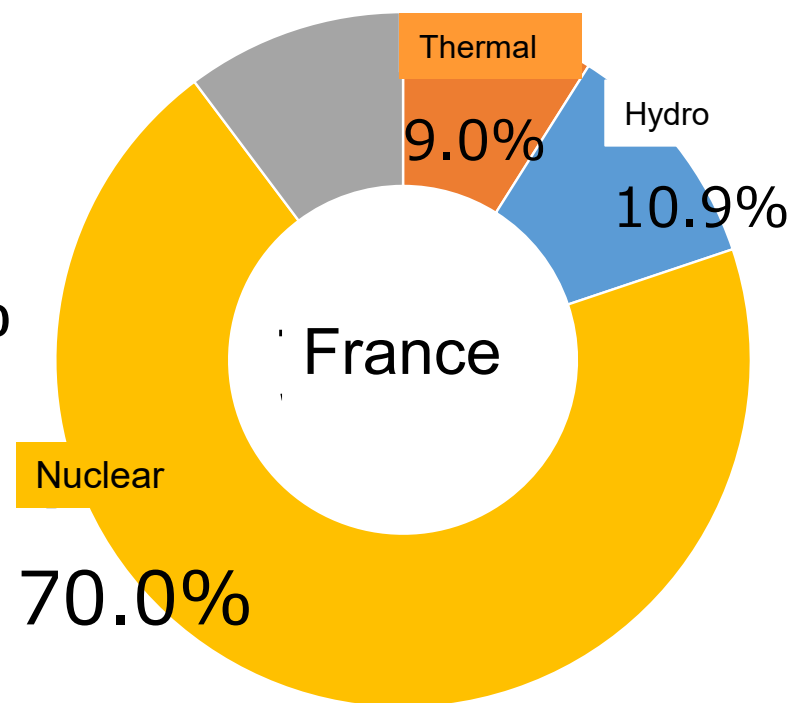
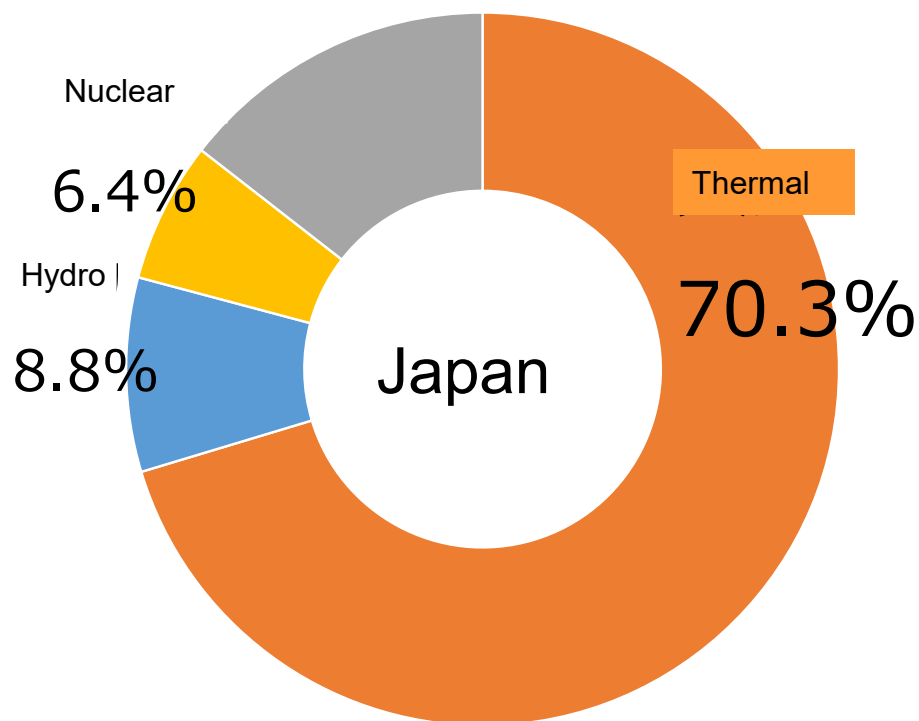
# Domestic Sales of Next-Generation Passenger Vehicles



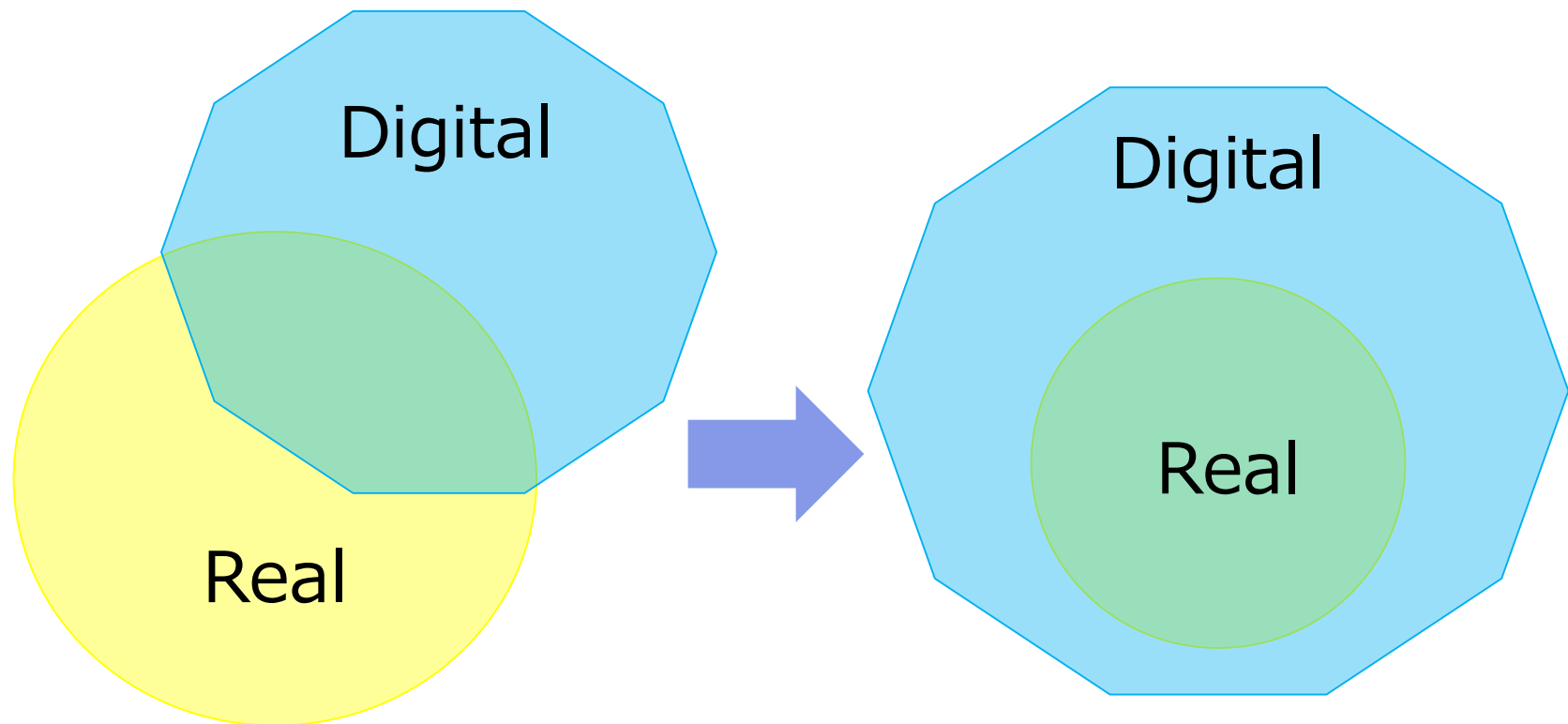
# How the EU's Proposed Carbon Adjustment Works



Source: Based on the *Nikkei*, February 27



Source: IEA Data and Statistics 2019

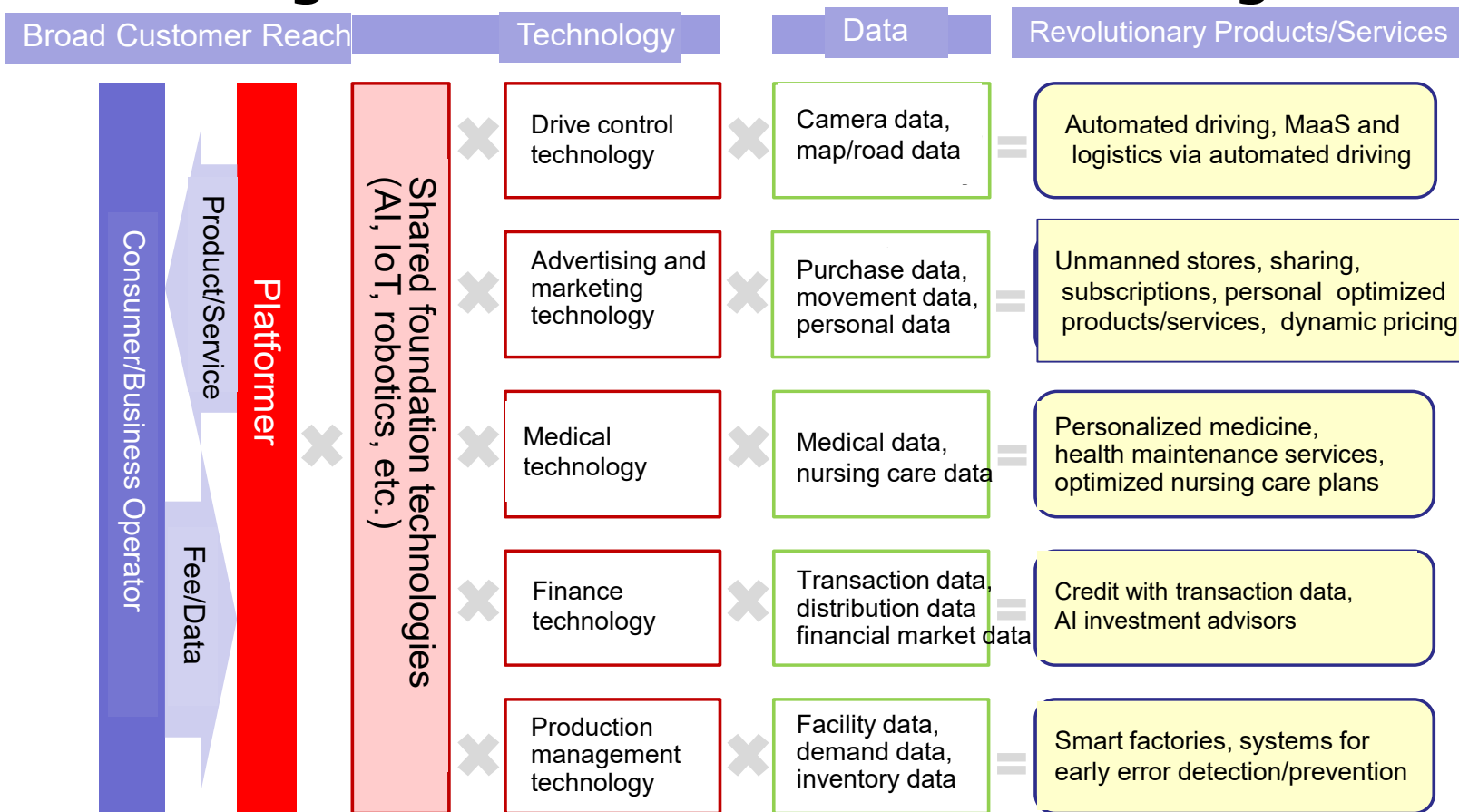


# Promoting 5G and IoT



Entrance  
Digital

Exit  
Real > Digital



Source: NLI Research Institute, based on the Ministry of Economy, Trade and Industry's New Industrial Structure Vision

## ■ Beneficial Points for Japanese Companies

- Harmony, long-term companies
- Digital x Real
- China-US division

## ■ Strategic Issues

- Process industry+ low ROE → Poor ESG evaluation
- Measures to respond to climate change → Japan is not very active? → Downgrade



# Japan-US Summit (April 16, Washington)



**Backlash**



## Key Points of the US-Japan Joint Leader's Statement

- Japan resolved to bolster its own national defense capabilities to further strengthen the Alliance and regional security
- Noted the importance of peace and stability across the **Taiwan Strait**
- Reaffirmed the fact that Article V (US responsibility to defend Japan) of the US-Japan Treaty of Mutual Cooperation and Security applies to the Senkaku Islands.
- **Shared serious concerns regarding the human rights situations in Hong Kong and the Xinjiang Uyghur Autonomous Region**
- Shared concerns over Chinese activities that are inconsistent with the international rules-based order
- Forging a free and open Indo-Pacific
- **Partner on sensitive supply chains, including on semi-conductors**
- Committed to taking decisive climate action by 2030
- Supports efforts to hold a safe and secure Olympic and Paralympic Games
- Reaffirmed their commitment to the complete denuclearization of North Korea and resolution of the abductions issue

- Won't win hearts by interfering in other countries internal affairs (Xi Jinping)
- Grave breach of the basic rules for international relations. Japan and the US are inciting group opposition by forming a clique (Chinese government website)
- Resolutely opposed to the statement. Gone beyond the scope of normal bilateral relations (China's embassy in the US)
- Taiwan and the Xinjiang Uyghur Autonomous Region are internal Chinese matters, no interference will be permitted. No matter what Japan and the US say or do, the objective truth that the Senkaku Islands belong to China cannot be changed (China's embassy in Japan)



# Emergencies in Taiwan



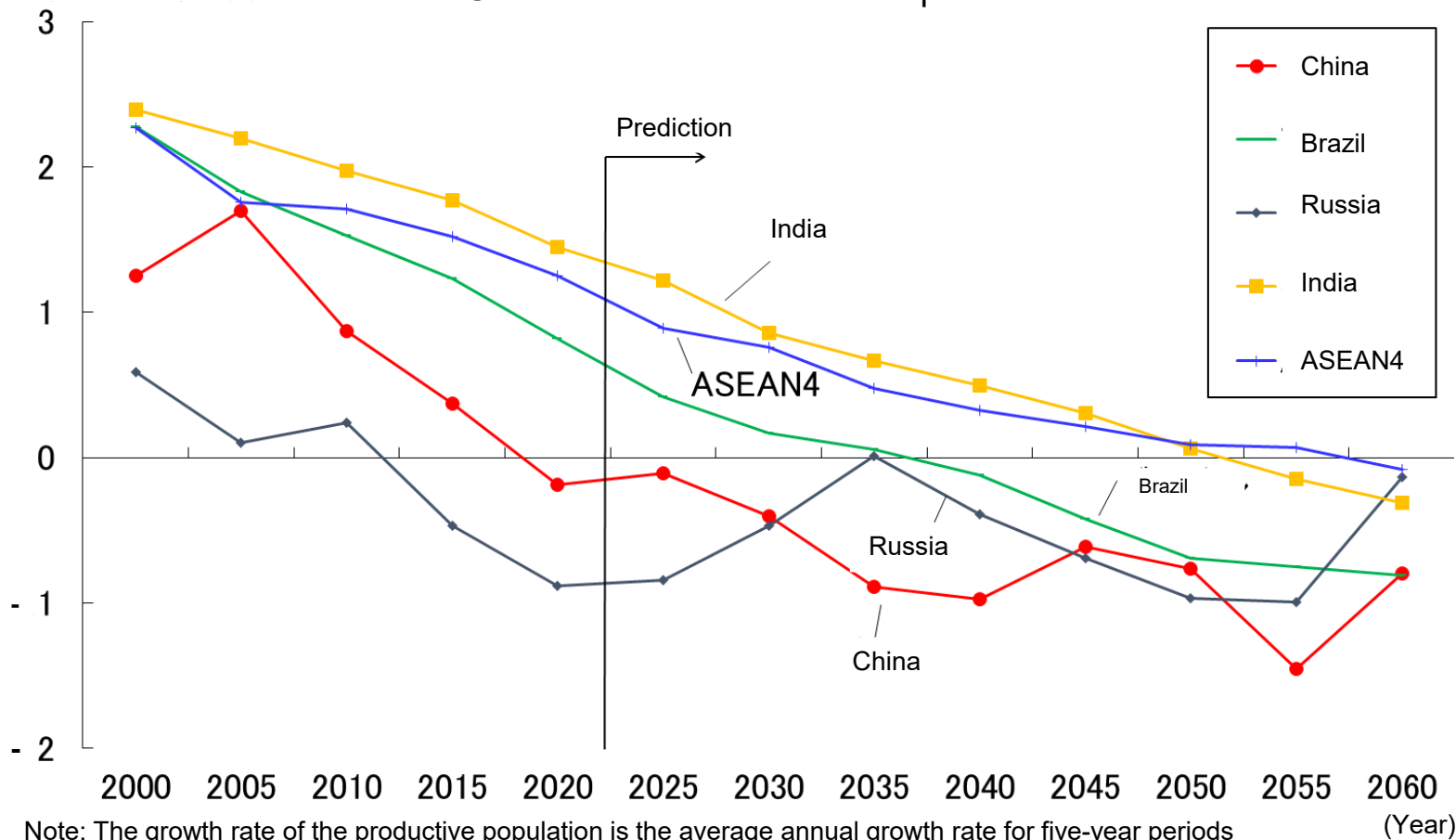
- US-Japan Joint Leader's Statement: "We underscore the importance of peace and stability across the Taiwan Strait and encourage the peaceful resolution of cross-Strait issues." (April 17)
- Three categories under the Legislation for Peace and Security

	Armed Attack	Threat to Survival	Important Impact
Situation	An armed attack against Japan	Armed attack against a country with close relations to Japan	Grey zone without an armed attack
Possible Response	JSDF deploys, rescues Japanese nationals	Right to collective defense used, rescue Japanese nationals	Logistics support for US military, search and rescue

# US-China Battle for Hegemony

(Average annual growth rate, %)

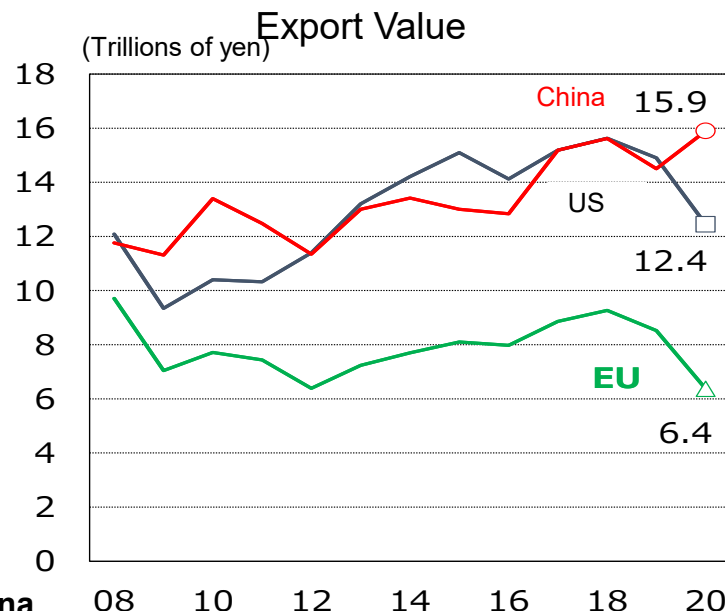
Growth Rate of Productive Population



# Impact on Japanese Industry



- Supply chain and demand shift is not possible in the short term
- Lack of clarity on where national security applies



Breakdown of Imports and Exports with China

		Export Value (100 million yen)	Composition Ratio (%)
1	Semiconductors etc., manufacturing	10,350	6.5
2	Semiconductors etc., electronic parts	9,913	6.2
3	Plastics	9,608	6.0
4	Automobiles	9,464	6.0
5	Scientific/Optical instruments	6,799	4.3
Total		158,997	100.0

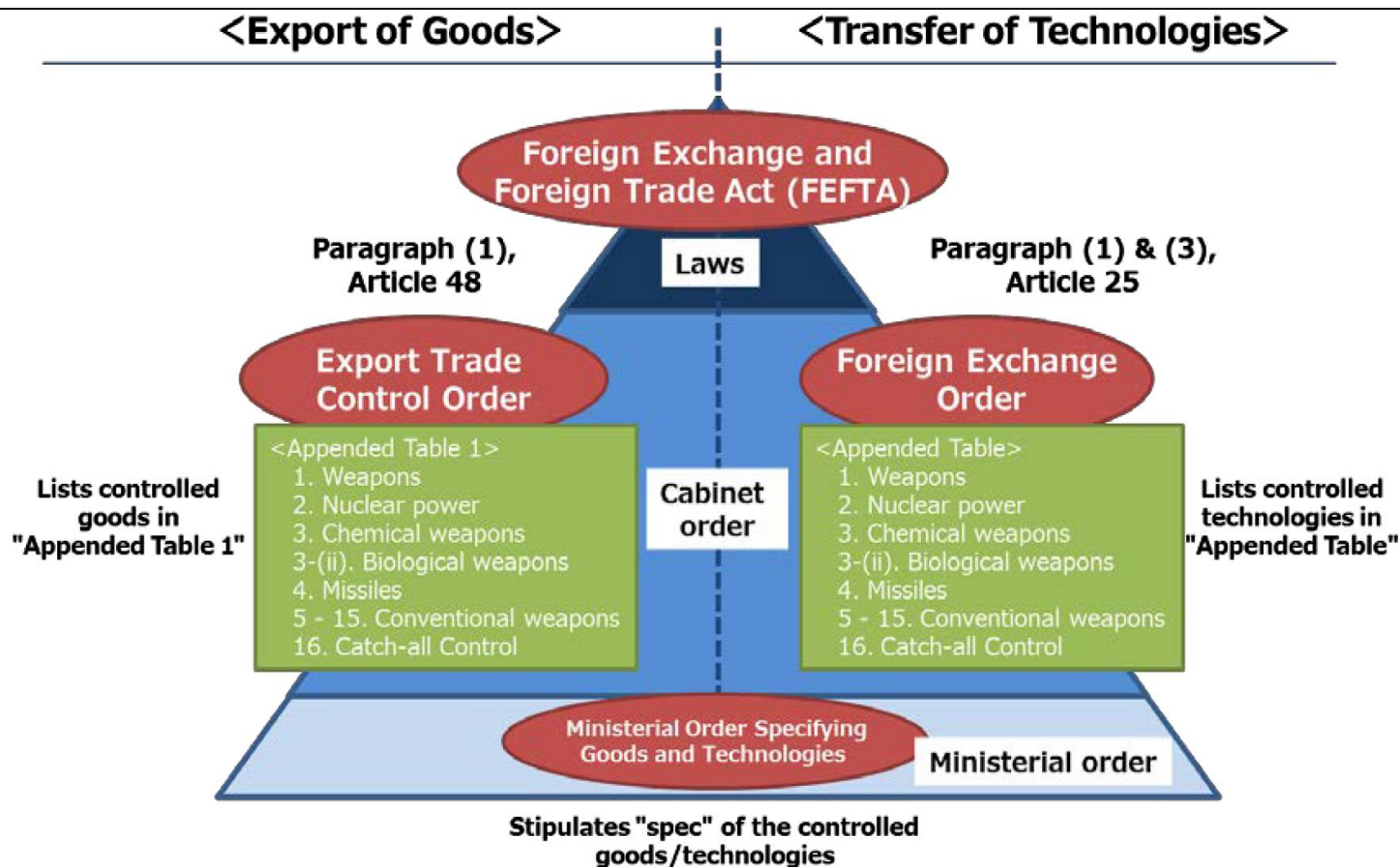
		Import Value (100 million yen)	Composition Ratio (%)
1	Communications equipment	21,242	11.6
2	Computer equipment (and accessories)	20,517	11.2
3	Clothing and accessories	14,868	8.1
4	Textile thread, textile products	8,834	4.8
5	Audio/Video equipment (and parts)	8,017	4.4
Total		183,913	100.0

Source: Ministry of Finance Trade Statistics



## Overview of the Security Export Control System

- Trade controls are implemented based on the Foreign Exchange and Foreign Trade Act in accordance with international export control regimes. Authorization is required from the Minister of Economy, Trade and Industry to export controlled goods or transfer controlled technologies.



## Overview of System

	List Controls	Catch-All Controls		
		WMDs, etc. (April 2002-)	Conventional weapons (November 2008-)	
Controlled Goods	<u>Categories specified by ministerial order</u> Weapons, sensitive materials (use in nuclear power, biological or chemical weapons, missiles; advanced materials, processing equipment, etc.)	<u>All categories other than list-controlled</u> (Excluding food, lumber, etc.)		
Target	All regions	All regions excluding (A) below	Countries (B) below	All countries (C) excluding (A) and (B) below
Conditions Requiring Authorization	—	Potential to be used in developing WMDs, etc. 1. Notice from METI Minister 2. Decision by exporter 1) Usage by importer, etc. 2) Involvement of importer, user in nuclear development, etc.	Potential to be used in developing conventional weapons, etc. 1. Notice from Minister 2. Decision by exporter 1) Usage by importer, etc.	Potential to be used in developing conventional weapons, etc. 1. Notice from Minister of Economy, Trade and Industry

(A): Countries Participating in International Export Control Regimes, and Carrying Out Strict Export Control (26 total)  
 Argentina, Australia, Austria, Belgium, Bulgaria, Canada, Czech, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, UK, US

(B): Countries with Embargoes on Exporting Weapons and Related Goods by UN Security Council Decision (10 total)  
 Afghanistan, Central African Republic, Democratic Republic of the Congo, Iraq, Lebanon, Libya, North Korea, Somalia, South Sudan, Sudan

(C): All Countries Other Than Those Listed in (A) or (B) Above Iran, Syria, China, Russia, Ukraine, Turkey, Pakistan, Myanmar, etc.

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