

New “Industrial Policies” and “New Industry” Policies: old lessons in a new age

Japan Updates
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IPs in Full Swing!

- IP worldwide are increasingly centered on fostering **innovation, sustainability and net zero**, and **economic security** (strategic autonomy and resilience).
- In particular, advancing **AI** and digital technologies, and fostering **green and net zero**.



Future made in Australia: measures encompass a \$22.7 billion package of commitments aimed at ‘maximizing the economic and industrial benefits of the move to net zero and securing Australia’s place in a changing global economic and strategic landscape’.

Production Tax Incentives: Of the overall \$22.7 billion package announced in the budget for a Future Made in Australia, \$13.7 billion has been allocated to production tax incentives for critical minerals and hydrogen.



CHIPS Act (AUG 2022): \$52.7 billion in funding as incentives for semiconductor-related investments and restrictions on establishing locations in foreign countries.

Inflation Reduction Act (AUG 2022): \$433 billion, including local assembly requirements for EV tax credits and prevailing wage requirements for hydrogen production equipment tax credits.



EU Recovery Plan: €1.8 trillion for green and digital transitions, etc.

Strategic Autonomy and Supply Chain Return to Europe: Legislation to strengthen supply chains in order to reduce dependence on specific countries for critical goods such as batteries and semiconductors.

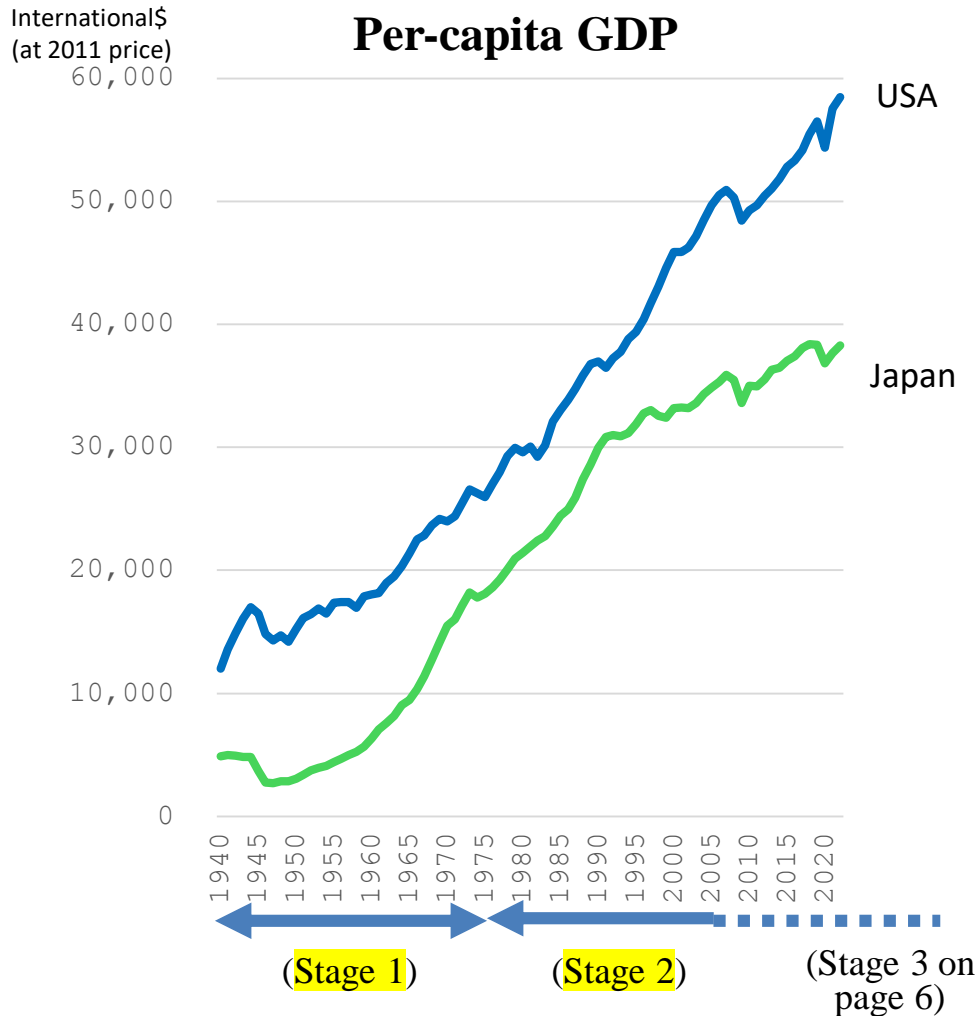
Green Deal Industrial Plan (FEB 2023): Creation of an environment to support scale-up of the clean industry sector (e.g., relaxation of state aid rules, €6.9 billion for hydrogen infrastructure development, etc.).



China Manufacturing 2025: Targets 70% self-sufficiency in core basic components and materials in 2025, and R&D investment growth rate of at least 7% per year average.

Strengthening the competitiveness of the manufacturing industry (MAR 2024): Strengthen standards and quality assurance, and establish a brand made in China.

IP and Governance Regimes (up to late 2010s)



(S1): State regulation

(Traditional IP)

- Governments correct for market failure.

(S2): Laissez-faire

(Competition Policy)

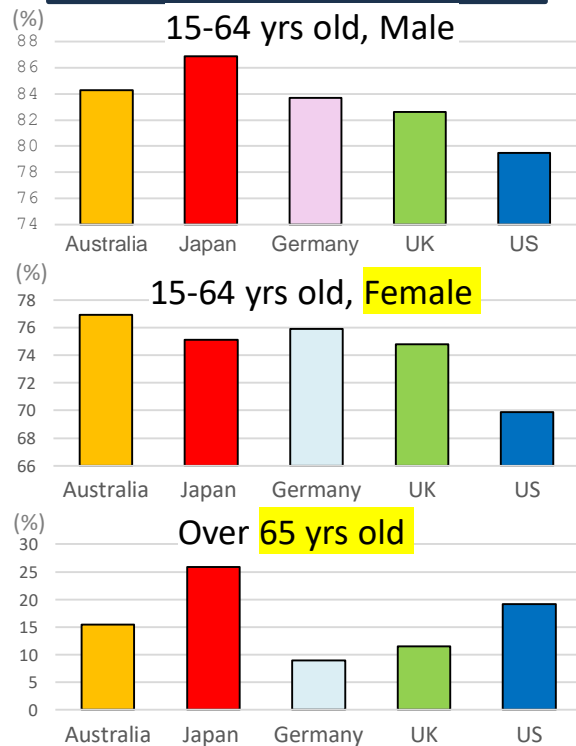
- Markets better perform than governments to pick winners.

⇒ Economists increasingly averse to IP.

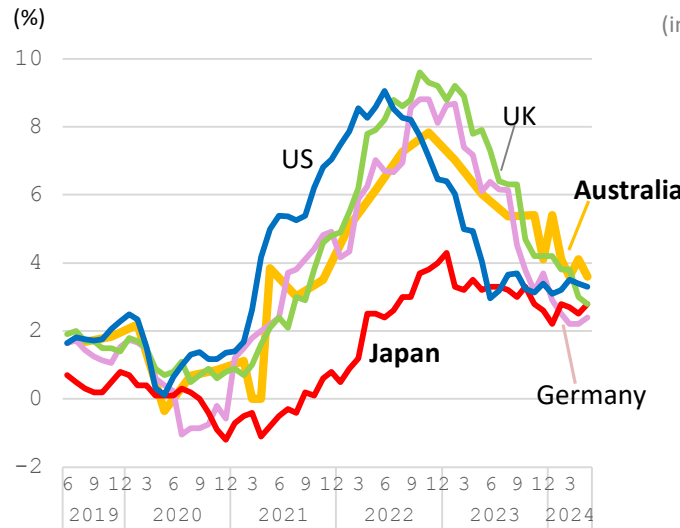
Macro Perspectives

- Japan shows high labor force engagement, perhaps close to full employment.
- Recent Japan's CPI aligns with global patterns, possibly due to cautionary monetary policies and economic structure.
- Rapid population declines in Japan stand in stark contrast with those in Australia, where immigration may play a role.

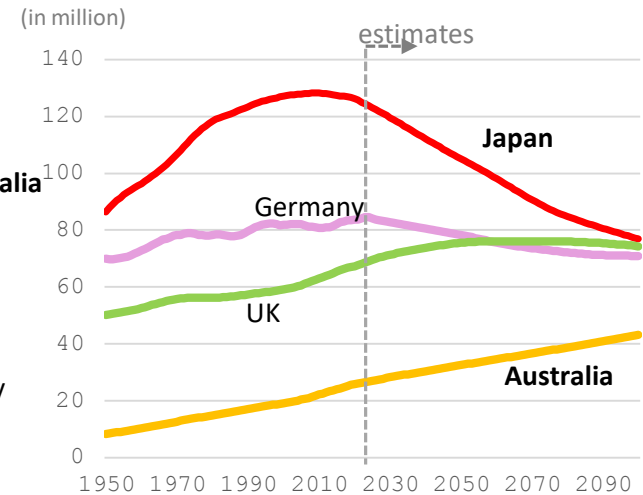
Labor participation (2023)



Changes in CPI



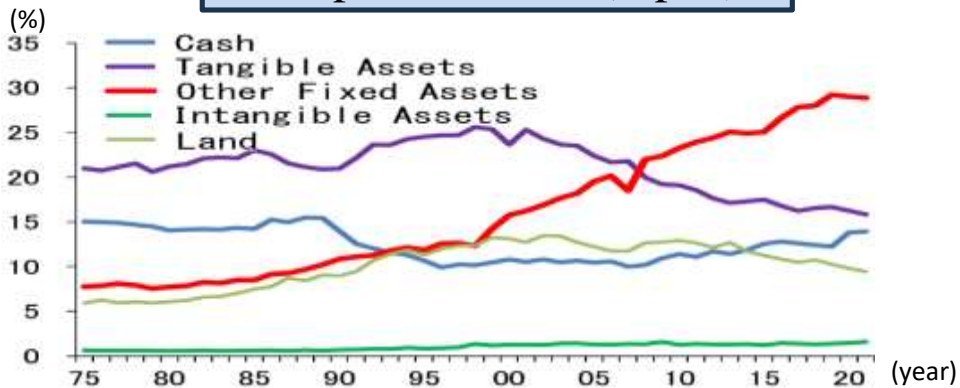
Population Trends



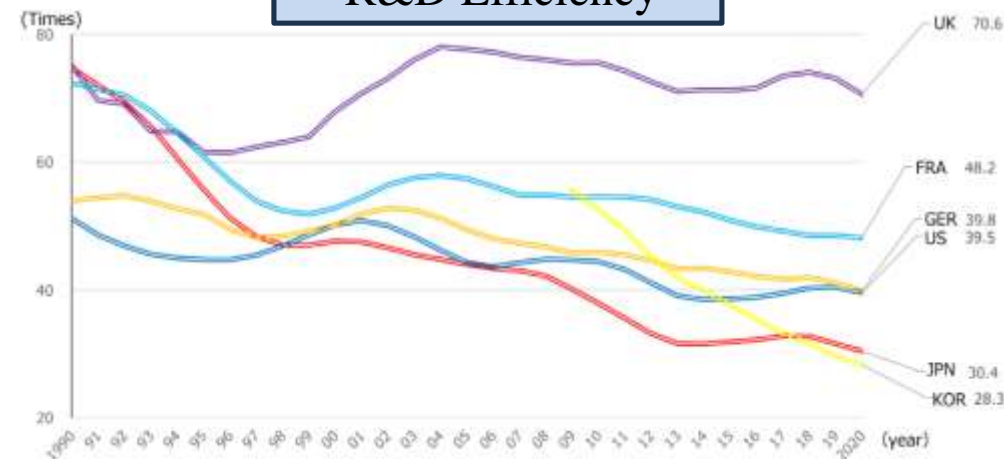
Micro Perspectives

- Corporate profits in Japan shows long-term upward trends, reaching record high.
- Companies have increasingly directed towards overseas investments while adopting cost-cutting strategies domestically.

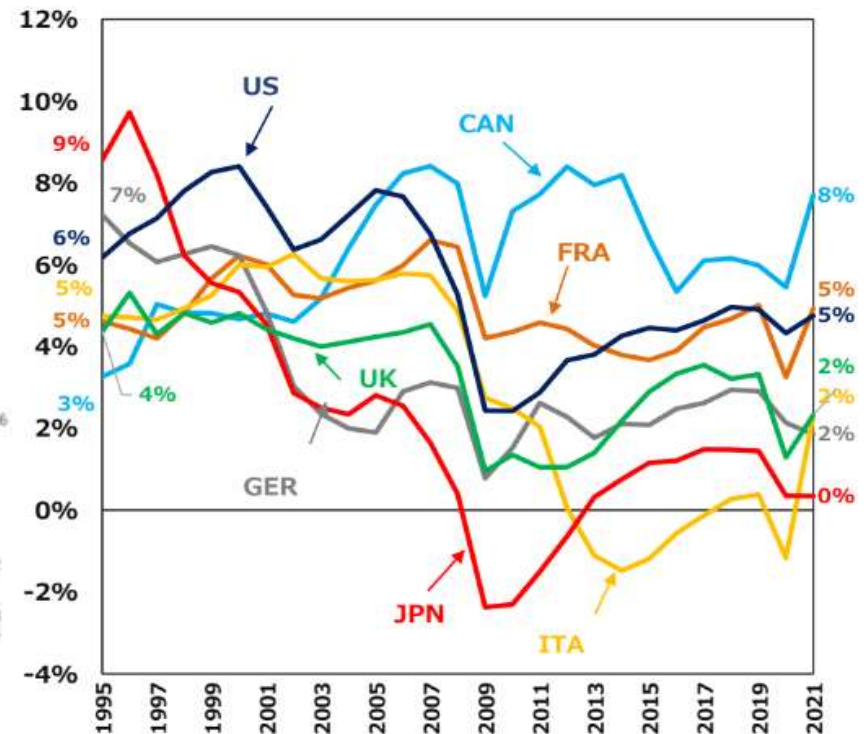
Corporate Assets (Japan)



R&D Efficiency



Net investment (%GDP)



Source: Ministry of Finance, Japan, and OECD Stat.

Emerging “new” regime in Japan

Recent challenges beyond market mechanism:

- Digital Platforms
- Net Zero
- Economic Securities
- Declining Population

⇒ The need for a “new” regime

(S3) A Hybrid Approach

- Combines (S1) State regulation and (S2) Laissez-faire
- Governments play a crucial role in designing well-functioning markets.
- Examples of Innovative Governance:
 - Experimental regulation (sand-box)
 - Responsive (agile) regulation
 - Co-regulation etc

Two examples: GX and DX

Digital Platforms and Market Dynamics

- Digital platforms inherently feature network effects, leading to “winner takes all” for efficiency.
- Dominant players can exercise market power over less advantaged businesses
- Ex-ante regulation risks undermining efficiency, while ex-post enforcement (competition policy) often lacks timely effectiveness.
- Japan adopts a hybrid approach, utilizing co-regulation.

Net Zero and Industry Restructuring

- Achieving Net Zero requires not only decarbonizing energy sources but also restructuring manufacturing process.
- To meet the 2050 NZ target, plants must coordinate and replace facilities simultaneously.
- This level of coordination is feasible only if competition policy enforcement is adjusted.



**Need to redress balance
between IP and CP**

"New Direction"

- **"Mission-Oriented" Industrial Policies (8 sectors):**

- Taking global social issues as a starting point, we will develop domestic demand, which will grow over the mid- to long-term even under a declining population.
- We will accelerate investment in strategic areas by continuing to implement measures that ensure the predictability of the private sector. Government "invests strategically" rather than "provides support" to expand national wealth.

<Examples of demand created by each mission in the long term>

- ❑ **GX:** Over ¥150T of public-private investment over the next 10 years, with ¥20T of government support for this purpose.
- ❑ **DX:** Creation of demand for new services through digitalization and increased capital investment including software. For example, by 2030, companies producing semiconductors in Japan aim to achieve related sales of over ¥15T.
- ❑ **Economic security:** Increasing autonomy, ensuring superiority and indispensability, and maintaining international order
- ❑ **Health:** ¥77T in services outside of public insurance in 2050
- ❑ **Resilience:** Adaptation market will grow to ¥70T in developing countries by 2050.
- ❑ **Biomanufacturing:** Total market size of ¥92T in Japan and abroad by 2030.
- ❑ **Resource Autonomous Economy:** ¥80T in 2030 and ¥120T yen in 2050 for the circular economy market.
- ❑ **Inclusive growth in the region:** Restore desired fertility rate to 1.8 through higher disposable income/time, etc., and further improve hope in the future.

- **Updating Socioeconomic System (OS) (5 fields):**

- The realization of the missions also requires the development of an economic and social system as a complement to the mission-oriented industrial policy.
- These policy themes themselves contribute to the virtuous cycles of domestic investment, innovation, and income growth, even outside the scope of individual missions.

<Examples of goals in each area>

- ❑ **Human resources:** Sustained wage increases that exceed price increases
- ❑ **Startup Innovation:** 10x investment in startups in the next 5 years
- ❑ **Value Creation Management:** Increase the percentage of leading Japanese companies with PBR over 1 to 80% by 2030.
- ❑ **Globalization of Japanese society:** Inward direct investment balance to be ¥80T in 2030 and ¥100T at the earliest
- ❑ **EBPM and Data-Oriented Governance**

IP in Japan: A Path Forward

- **Global Approach to IP**: While each country navigates IP in its own way, Japan views it as an opportunity to **transform traditional economic and social structures**, rather than focusing solely on industry.
- **Japan's Hybrid Approach; old ideas?**: Japan's approach to IP appears to align, perhaps coincidentally, with **Chalmers Johnson (1982)'s characterization** of MITI's collaboration between the state and private sector – a “market economy with plan rationality.”
- **Innovative Era**: We are in a period of **significant innovation**, marked by GX and DX among like-minded nations. This global interconnection would offer new opportunities for shared growth.
- **With Australia**: Japan relies heavily on Australia in various areas, including sourcing over 40% of its LNG. Japan is also poised to deepen collaboration on CCS and decarbonized energy projects. Both within and beyond the AZEC framework, Japan should pursue **further opportunities with Australia for shared and sustainable growth**.

Thank you!

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