

September 8, 2011

Requests to the Noda Administration

Kansai Economic Federation

I. Necessity to Promote New Country Creation with Concerted Efforts of All Japan

Japan's economy has been confronting a series of difficulties serious enough to be termed a national crisis. As a result of the "20 lost years" of deflation, the Lehman Shock and other problems, Japan's share of the world GDP began to shrink after reaching a peak of 18% in 1995. In 2009, its share fell to 8.7 %. Moreover, the damage inflicted by the Great East Japan Earthquake is far beyond our imagination, and is having tremendous impact on the values and attitudes of people in Japan.

What is required in politics today is, above all, to present a clear path for Japan to follow, in terms of how to achieve creative regeneration from the disaster and lead this country towards new development, how to regard the diplomatic relationship between Japan and the U.S. in the framework of global society, and what types of mutually beneficial relationships should be established between Japan and other countries in east Asia.

In other words, the new administration should clearly indicate "what country and society they will transform Japan into and how they will lead Japanese citizens," or in other words, "the form of the country that they are aiming for." To ensure that this will be achieved, we at the Kansai Economic Federation strongly urge the new administration to demonstrate leadership to unite the entire nation.

We call for Prime Minister Noda, who heads the new administration, to take the lead in this emergency situation, and to implement measures to promote "a new country creation" with firm determination, even if such measures might be painful to Japanese citizens. If he demonstrates his capability to implement such measures, Japanese citizens need to respond appropriately.

Japanese economic growth has been achieved by the development of industrial activities, especially manufacturing. We of the business community will continue to play our role in contributing to Japan's economic growth through industrial activities, serving as a financial source for the recovery and a key element to improving financial health. With global competition becoming increasingly fierce, Japan has been facing so-called "quintuple difficulties," including the unprecedented super-strong yen. To make matters worse, an urgent problem of power supply shortage has been added, resulting in "sextuple difficulties." Solving these problems, we would like to overcome these severe situations by supporting a new country creation based on the promotion of the Growth Strategy.

II. Measures to be Taken by the New Administration

At the inauguration of the new administration, the Kansai Economic Federation urges the administration to take the following major actions regarding issues to be dealt with strategically from the viewpoint of a long-term plan for the country.

1. Achieving Reconstruction and Recovery from the Great East Japan Earthquake

Prompt reconstruction and recovery efforts must be conducted. These efforts should not be deemed to be only for reconstruction and recovery. It is necessary to regard creative recovery as a growth strategy and to lead such recovery to new economic development of this country. Essential in this case is the viewpoint that compatibility must be ensured between improving financial health and securing funds necessary to steadily promote the recovery.

2. Implementing the Growth Strategy Steadily and Promptly

As the focal point of the Growth Strategy, it is necessary to position manufacturing as the engine for economic growth. To solve the so-called "sextuple difficulties," the first thing to do is to prioritize immediate problems, such as correction of the super-strong yen and solution of the power shortage, and to launch actions immediately to establish an environment where companies can demonstrate their fullest vigor and abilities in global competition.

3. Launching Measures Immediately to Improve Financial Health

To improve financial health, reform must be initiated immediately to realize a sustainable social security system that people can rely on. No delay is permissible in implementing concrete measures to improve income and expenditure, such as raising the consumption tax rate and curtailing social security costs.

4. Securing Stable Power Supply

A national energy policy is a critical issue affecting the nation's economic policy and all society. It is necessary to feature a comprehensive perspective with consideration given to the balance between the environment and economy, as well as to energy security and other issues, and to establish an energy policy based on Japan's situations and scientific views.

In this context, in order to realize recovery, economic growth, and financial health improvement, which we request the new administration to achieve, it is necessary to solve the current power supply shortage immediately. Stable power supply must be restored as soon as possible, by the resumption of operations of nuclear power plants that have passed periodic inspection. Under the responsibility of the government, the resumption must entail the understanding and agreement of local communities.

5. Establishing Active Diplomacy in Pursuit of National Benefits

Economic and security problems must be solved with the cooperation of the U.S. based on the strong alliance between Japan and the U.S. Moreover, it is necessary to make use of the vigor of Asia, including countries that are currently showing remarkable growth, such as China, India, and ASEAN countries, and to deepen cooperative relationships to ensure that Japan's economy will develop together with the Asian economy.

1. Achieving Reconstruction and Recovery from the Great East Japan Earthquake

A few months after the occurrence of the Great East Japan Earthquake, the Basic Act on Reconstruction from the Great East Japan Earthquake and the Basic Guidelines for Reconstruction from the Great East Japan Earthquake were finally established in order to deal with the disaster. It is highly important that the Act and Policy incorporate the establishment of the “Reconstruction Agency” and “systems of special zone for reconstruction”, both of which have been espoused by the Kansai business community. What must be done from now on is to hasten efforts toward full recovery and to support the hope and determination of victims and people in the afflicted areas.

While prompt reconstruction and recovery efforts must be conducted, **these efforts should not be deemed to be only for reconstruction and recovery. It is necessary to regard creative recovery as a growth strategy and to lead such recovery to new economic development of this country. Essential in this case is the viewpoint that compatibility must be ensured between improving financial health and securing funds necessary to steadily promote the recovery.**

After the disaster, the Kansai Economic Federation established the Emergency Disaster Response and Support for the Great East Japan Earthquake Special Committee. As indicated by this, all of western Japan has been engaged in supporting recovery from the disaster, and will continue to offer support in a timely manner with due attention paid to needs in the afflicted areas.

The pivotal functions for Japanese politics, administration and economy are highly concentrated in Tokyo. **It is urgently needed, in terms of national risk management, to establish a backup system for such pivotal functions. Furthermore, the viewpoint is indispensable that solving problems entails the promotion of decentralization.**

Featuring full-fledged traffic and information & communication infrastructures connecting with Tokyo and many other parts not only in Japan but also in the rest of the world, the Kansai region is the best place to act as the backup

function for the capital. Moreover, the Union of Kansai Governments, established in December 2010, has already achieved excellent results in their recovery support efforts, demonstrating their regional power. Based on these potentials of Kansai, efforts must be commenced immediately to establish a backup system for this country's pivotal functions.

2. Implementing the Growth Strategy Steadily and Promptly

Japan's economic growth has been achieved so far mainly through manufacturing. To ensure that economic development continues, there is no alternative but to increase the country's exports, by positioning manufacturing as the engine for economic growth and attracting more demands from rapidly-growing Asia.

Nevertheless, the Japanese export industry has been suffering from the sextuple difficulties: an internationally high corporate tax rate; labor regulations, such as the prohibition in principle of temporary-staffing in the manufacturing industry; delay for response to economic partnership agreements, such as TPP; the goal of 25% decrease in greenhouse gases; the unprecedented super-strong yen; and the power supply shortage. Efforts that companies can make in this country have already been strained to the limit.

The outflow of resources of the manufacturing industry to foreign countries has already been under way. If no measures are taken, problems will arise, such as the loss of employment opportunities in Japan, the collapse of regional industries, the deterioration of the manufacturing environment where skills and know-how are generated, and the decline and loss of Japan's internationally competitive characteristics to produce trade surplus. This will result in the loss of the development foundation for Japanese economy.

To solve the sextuple difficulties, the first thing for the new administration to do is to prioritize immediate problems, such as correction of the super-strong yen and solution of the power shortage, and to launch actions immediately to establish an environment where companies can demonstrate their fullest vigor and abilities in global competition. At the same time, the administration should focus on the

implementation of measures to underlay the competitiveness of companies, such as the development of excellent human resources and the promotion of research in advanced fields in order to create innovation.

To be more concrete, it is strongly desired that the New Growth Strategy, decided by the Cabinet in June 2010, should be implemented rapidly. This will contribute to an early recovery from the disaster.

The Kansai Economic Federation is currently emphasizing promotion of exports of environmental infrastructures to Asian countries, under the slogan of “Kansai: an Environmentally Advanced Region.” Also, the Federation offers support to research and development that will lead to the creation of new industries, such as robotics and bio-industries, in Kansai Science City (also called Keihanna). We at the Federation believe that these efforts feature many vital elements to be connected to the government’s New Growth Strategy.

3. Launching Measures Immediately to Improve Financial Health

With social security and other costs included, Japan’s ratio of long-term outstanding loans to GDP exceeds 200%. Japan’s financial crisis is more severe than that of the U.S. and European countries. There is a growing view that, if the government cannot present finance recovery measures immediately, a financial collapse in the near future will not end up being merely a groundless fear.

It is absolutely necessary to secure a financial resource for the recovery with financial discipline maintained and to conduct drastic tax and financial reforms. In addition, in order to achieve a surplus of the primary balance by FY 2020, as described in the Fiscal Management Strategy decided by the Cabinet in June 2010, it is imperative to implement the Growth Strategy and to inaugurate reforms of the tax and social security systems as soon as possible.

The new administration should **initiate a reform immediately to realize a sustainable social security system that people can rely on. No delay is permissible in implementing concrete measures to improve income and**

expenditure, such as raising the consumption tax rate and curtailing social security costs.

4. Securing Stable Power Supply

The establishment of an appropriate energy policy requires discussions based on short, medium and long-term perspectives. A national energy policy, which is a critical issue affecting Japanese economy and society, must be established with due consideration given to Japan's situations and scientific views.

The direction of medium and long-term energy policies must be established immediately, incorporating the use of nuclear power plants with safety as a fundamental premise, the utilization of renewable energy, the development of new energy, and the realization of an energy-saving society. Such establishment must feature a realistic, comprehensive perspective with consideration given to the balance between the environment and economy, as well as to energy security and other issues.

In this context, in order to realize recovery, economic growth, and financial health improvement, which we request the new administration to achieve, it is necessary to solve the current power supply shortage immediately.

There is no denying that this summer's power supply shortage considerably affected the life of people and industrial activities in Japan. The government should take it more seriously that there is a grave concern in the industrial community about a power supply shortage this winter, which is expected to be more severe than that of this summer. **Stable power supply must be restored as soon as possible, by the resumption of operations of nuclear power plants that have passed periodic inspection. Under the responsibility of the government, the resumption must entail the understanding and agreement of local communities.**

5. Establishing Active Diplomacy in Pursuit of National Benefits

In the world's increasingly globalized society, it is important for Japan to secure active and independent diplomacy.

Economic and security problems must be solved with the cooperation of the U.S. based on the strong alliance between Japan and the U.S. Also, in order to ensure that Japan, facing the declining birth rate and aging population, can achieve sustainable development, various actions should be taken, including the promotion of the conclusion of economic partnership agreements, such as TPP, and demonstration of the Prime Minister's leadership in efforts promoted both by the public and private sectors to export infrastructures. Moreover, **it is necessary to make use of the vigor of Asia, including countries that are currently showing remarkable growth, such as China, India, and ASEAN countries, and to deepen cooperative relationships to ensure that Japan's economy will develop together with the Asian economy.**