

White Paper on International Economy & Trade 2023

By Naoyuki Haraoka

METI's White Paper on International Economy & Trade 2023 highlights economic security against the background of increasing geopolitical risks. One key to security must be to strengthen the national economy so as to cope with the coercive trade policies of superpower nations. It is important for Japan to position itself as strategically indispensable as a nation. This could be related to this White Paper's second main point, namely the need for Japan to boost its earning competency against the background of its increasing trade deficit.

How to strengthen a national economy is an issue not only for Japan but also for the smaller countries and middle powers in the world. Otherwise, their significance could decrease under the threat of coercive policies of superpowers while a rules-based trade and security regime is in crisis due to a malfunctioning World Trade Organization and United Nations.

To strengthen its economy, Japan needs to implement numerous reforms, including labor market reform to boost labor mobility to encourage the flow of workers into sectors with high growth potential, increasing investment in human resources, reforming universities into more innovation-friendly ones, implementing policies to stop depopulation by raising the fertility rates, and accepting more highly skilled foreign labor. Many of these policies would require more government expenditure.

Meanwhile, Japan needs to increase its fiscal expenditure on social welfare to cope with its rapidly aging society; and against the background of increasing geopolitical risks, it also needs to increase its defense spending. So Japanese public finances, already suffering from tremendous amounts of debt, would suffer even more in the coming years. Given an extremely high amount of fiscal debt, if the continuing trade deficit partly caused by energy and food price hikes due to the Ukraine war turns the current

balance into a deficit, Japan will be exposed to a high risk of a fall in the price of national bonds and a drastic hike in interest rates, which would put the whole economy into an unprecedented crisis that could lead to national bankruptcy. Most small and middle powers in the developed world could share this risk with Japan.

Thus, the global economy is at a highly unstable point. Each nation will doubtless develop its own strategy to minimize its government deficit or trade deficit. What we need is an industrial policy to increase our earning capacity and reduce our trade or current deficit, but such a policy requires government expenditure as well. Sensible expenditure that restrains a government from issuing more debt but is effective in increasing industrial competitiveness is what should be pursued. We may have to practice large-scale administrative reforms that can convince people opposed to tax increases of the inevitability of tax rises, since remaining with a fiscal deficit even after such decisive rationalization of expenditure would itself require further tax increases in order to clear it.

The leadership of politicians to achieve these reforms and tax hikes is critical. In developed nations today, how democracy works in achieving the emergence of highly competent politicians could be key to the country's potential in the future. This is a spontaneous thought provoked by this White Paper. In achieving this goal, trust is the key. Nations where political leaders are not trusted by people could face the danger of collapse.

Please enjoy reading the White Paper while considering whether this statement is relevant or not.

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