

New Growth Strategy under Digital Economy

~Industrial Policy, Competition Policy, Economic Security for Japanese Companies to Survive and Win~

A drastic review of the policy system is necessary to respond to the major transformation of the industrial structures.

**Digital
Economization**

**Cross-border
Economization**

**Chapter 3
Competition
Policy**

**Chapter 2
Industrial
Policy**

**Chapter 4
Economic
Security**

**Intensification of
US-China Conflict**

1. Recognition of the Current Situation: General Remarks

Concerns to be digital peasants

- All industries can be integrated into digital economy across industry boundaries in this era.
- Since foreign DPFs are expanding and accelerating due to the pandemic, there is no other position left for Japan but to be digital peasants at this rate.

Balance Between Economic Security and Innovation

- Economic security, which is drawing attention due to the intensifying conflict between the US and China, is important in terms of the risk of excessively relying on foreign DPFs for the digital infrastructure.
- On the other hand, stringent regulations would prevent from fostering the innovative environment.

1. Recognition of the Current Situation : Progress of Digital and Cross-border Economization

- Digital economy has revolutionized all industries, horizontal structure formation and IT infrastructure will become indispensable foundation.
- Based on these circumstances, it is necessary to recognize the crisis and consider specific countermeasures.

Real Economy

- Industry-classified vertical sectioning structure

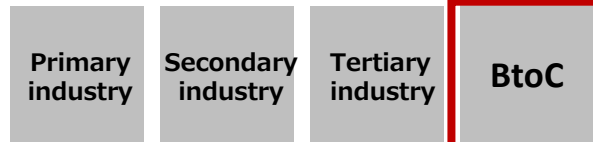


IT Infrastructure

Physical Infrastructure

Digital Economy

- Internet creates and popularizes new services for consumers. (E-commerce, Online banking etc.)
- Various services promote separation of software and hardware, and service evaluation by various software.
- IT infrastructure becomes indispensable foundation for life and business.



IT Infrastructure

Physical Infrastructure

Digital+Real Economy

- Accelerate digital value creation and expand into industrial and real sectors.
 - Private and Public services
 - Mobility · Education · Healthcare etc.

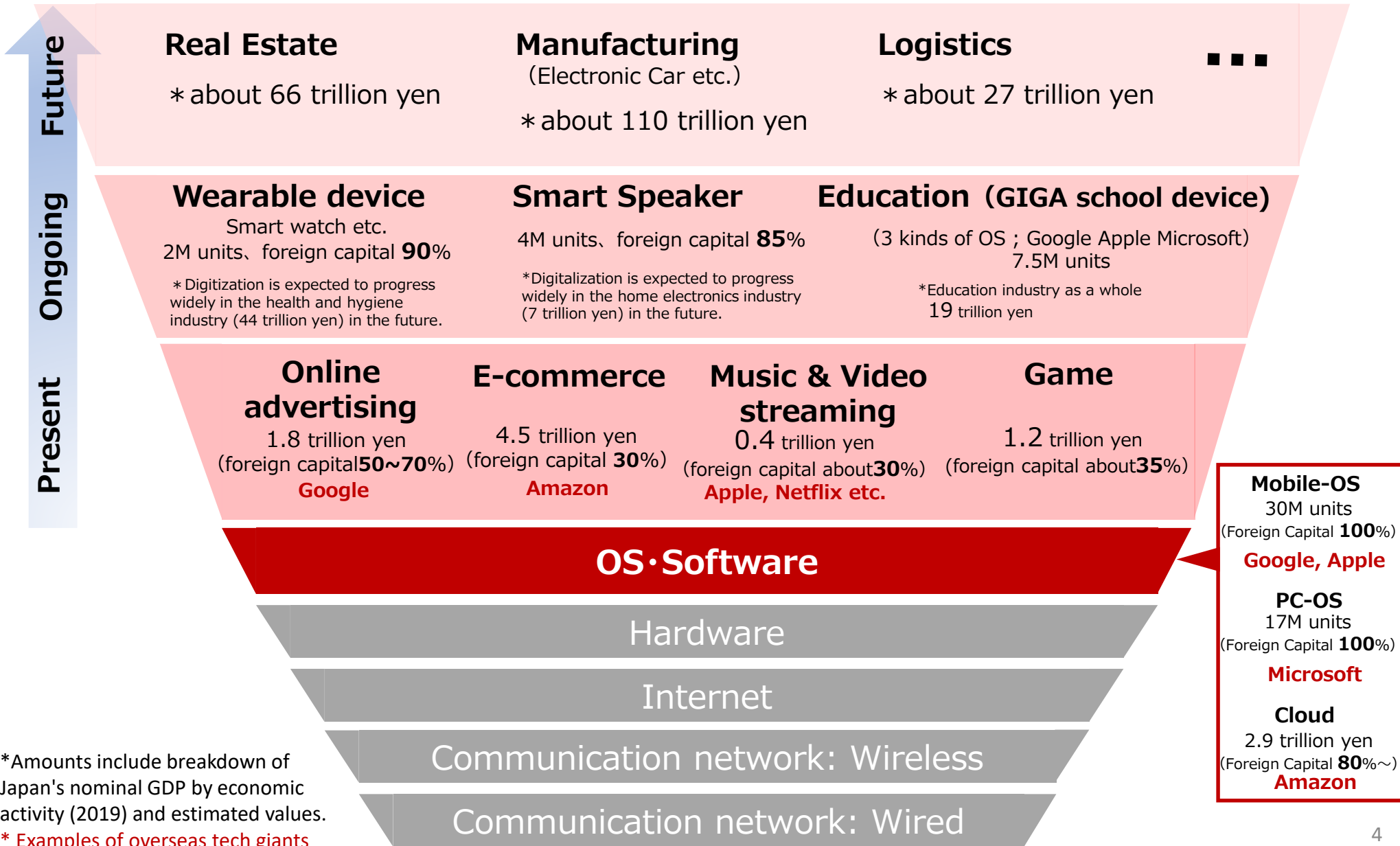


IT Infrastructure

Physical Infrastructure

1. Recognition of the Current Situation

: Digital and Cross-border Economization and Expansion of Foreign DPF



* Amounts include breakdown of Japan's nominal GDP by economic activity (2019) and estimated values.
* Examples of overseas tech giants

1. Recognition of the Current Situation : Digital and Cross-border Economization and Economic Security

Economic security issues include a wide variety of topics but dealing with digitalization and cross-border economization is particularly important.



1. Issues by industry and items

Prioritized areas of economic security

- Review from the perspective of economic security in all areas of economic activity.
- Identify high-tech areas where rules should be formed based on economic security. (guaranteeing predictability)
- Domestic production of core OS such as smartphones and clouds in the US and China.
- Concerns that foreigners will dominate the OS in the real sector (automobiles, etc.) in the future.

2. Issues by horizontal topics

Strengthen global enforcement

- Strengthening enforcement power for foreign entities that violate domestic law.

"Supply chain" influenced by other countries' economic policies

- Understanding and responding to SC vulnerability risk.
- Multiplying and strengthening SC.

"Data/Security"

- Difference in data volume from US and Chinese entities.
- Current status of international rules regarding data distribution.
- Industrial espionage, foreign exchange law.

"International rules" that support free trade

- Adequacy and inadequacy of the existing international rules.
- Involvement in the new international rules making.

Ensuring Japan's "Technology" Superiority

- Japanese entities to become digital peasants.

"People and Company" that are the main constituents of the cross-border economy

- Regulatory measures against human rights violations.
- Overseas outflow of talent due to foreign capital.
- Acceptance of foreign talent.

3. Issues by organization

Strengthen governmental organization

Strengthen economic intelligence capabilities

- Strengthening information gathering and analysis capabilities.

Collaboration with other countries and international organizations such as Five Eyes, etc.

2. Countermeasures : General Remarks

- Administrative resources should be devoted to enforcement of foreign entities, standardization strategies for international rules, and economic intelligence rather than subsidy and prior regulation based on vertical sectoring structure.

Offensive (Building innovative environment)

Defensive (Equal footing inside and outside)

New Industrial Policy

- Tax reduction and reviewing taxation main system rather than subsidy and special taxation measures.
- Drastic review of ex-ante regulation.
- Standardization strategy on global rule.

- Equal footing inside and outside. (regulation)
- Equal footing inside and outside. (tax)

Re-Designing Competition Policy

- Truly competition-promoting competition policy. (Ensuring the fairness of the competition process.)

- Cutting into indispensable industrial infrastructures in the digital economy such as OS and cloud.

Economic Security

- Conduct a risk assessment, consider actions including evaluation of the need for new rules. (Clarify the target such as content and scope if necessary.)

- Strengthening the country's economic intelligence function for overseas companies.
- Close information exchange between the country and the business community.

2-1. New Industrial Policy: Drastic Review of Taxation and Subsidy

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- System has been based on the vertical sectioning structure and "industry".
- "Improvement" for the survival of the system has been repeated and become complicated.
- Resources are allocated to large companies that can handle complex systems and it becomes vested interests.

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- In principle, lower the main rule. (Review of corporate tax, income tax, inheritance tax, etc.)
 - Return to the basic principles of taxation, "fairness, neutrality, simplicity" and the principle of capitalism, "rewarding results".
- Abolish unnecessary special measures concerning taxation and subsidy.
 - Do not overemphasize "process" and complicate the system.
 - A mechanism to promptly abolish systems that are not expected to be effective / that are not appropriate to the era.

2-1. New Industrial Policy: Abolition of Ex-ante Regulations

Regulatory Framework

Legal System

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- Ex-ante regulations that discourage entrepreneurs' ingenuity are left in place, stifling innovations.

- Despite the advocacy of ICT in the IT Basic Law of 2000, conventional systems were not revised and essential digitalization did not proceed.

- Discuss the necessity and goals of every existing regulations at the Regulatory Reform Promotion Council (including agile approach).

- Establish "DX Legislation Bureau" to implement "Digitization Principles" .

- Regulation itself is a cost, so reduce the cost and make it as a source of funds of other useful programs.

- Set a deadline for existing laws to comply with the principles.

- Legally declare the use of new technologies such as AI and blockchain.

- "Scrap & build principle" to fund new useful regulations.

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2-1. New Industrial Policy: Global-Standard Making

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- **In the cross-border economy, the domestic rules affect international companies and the economies of other countries.**

- Rules for use of technology (AI, Blockchain, etc..)
- Basic rules (use of personal data, international trade rules set by WTO etc, taxation, competition law)

- **Technological standardization strategy is a succession of failures (e.g. Felica). National standardization strategies have not worked properly**

- **Actively set the agenda for "rules on the use of technology" and various "basic systems" to prepare convergence of rules, with understanding that it may take a long time.**

- **Lead international discussions on the coordination of each country's domestic rules and international rule (including extra territorial application discussion).**

- Ensure convergence of rules to reduce the risks arising from the selfish behavior of specific countries.

- **Technical Standardization requires new and different strategies.**

- Adopt promising technologies & human resources from Abroad.
- First, establish the standards in Asia, then expand globally.

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2-1. New Industrial Policy : Global Equal Footing

Domestic Market

Global Market

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- Extraterritorial application is being developed in terms of law, but administrative enforcement is insufficient.
- Japanese companies are forced to compete unfairly in the domestic market.

- Existence of markets with extremely high entry barriers due to economic regulations and systems (ex: China).
- Japan unilaterally allows penetration into the domestic market from the country concerned.

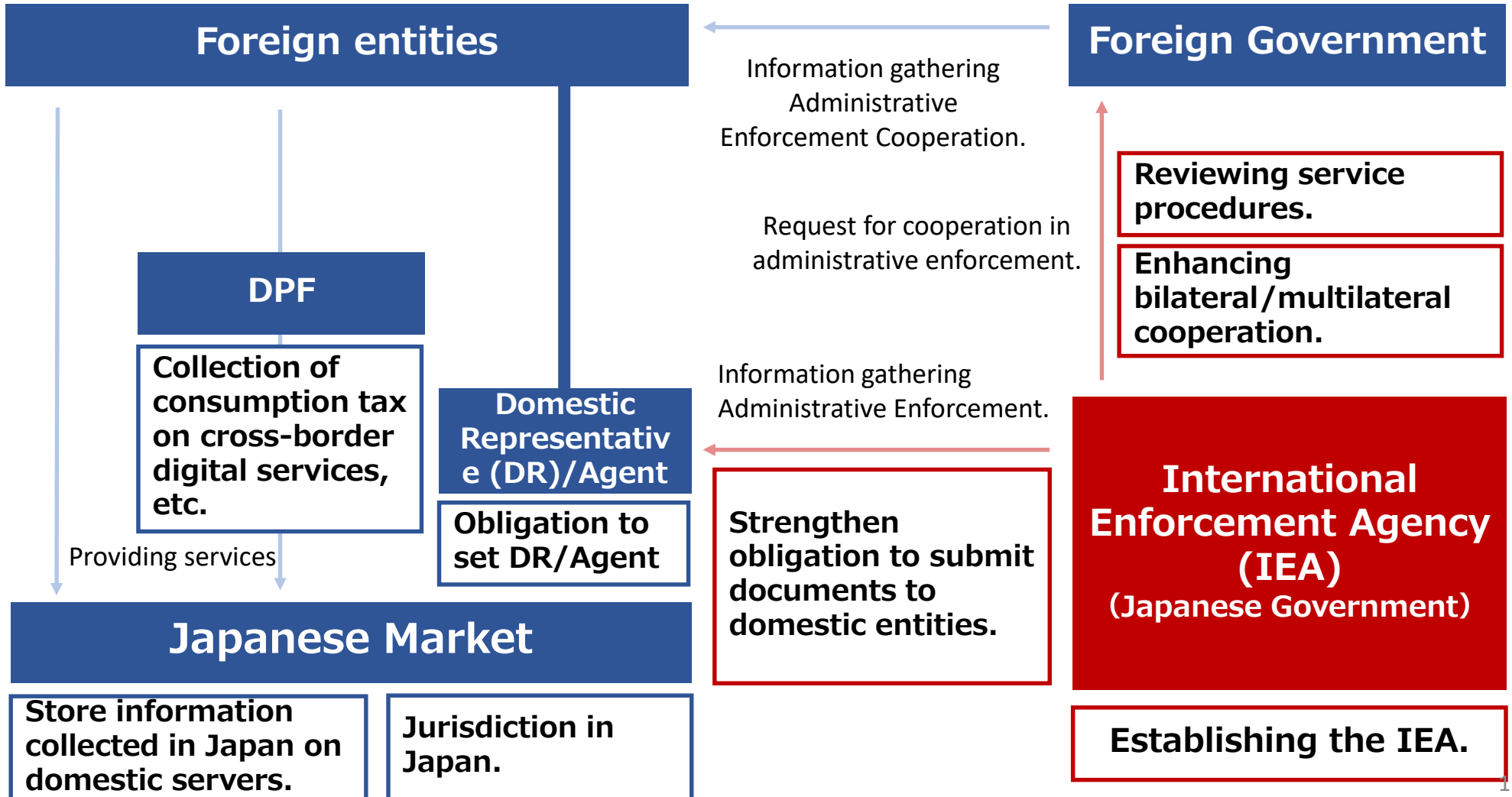
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- Identify and analyze legal compliance status of foreign entities.
- Strengthen executive power against foreign companies.
 - Strengthen information gathering capabilities.
 - Strengthen enforcement function.

- Response based on the Mutuality Principle.
 - Remove barriers to entry in partner's markets.
 - Set up similar barriers to entry in Japanese market.

【 Ref】 Strengthen administrative enforcement against foreign entities

- It is important to accumulate and strengthen know-how on intelligence and enforcement activities through a **cross-ministerial structure (i.e., IEA)** as well as **various obligations on foreign entities**.



2-2. Redesign of the Competition Policy

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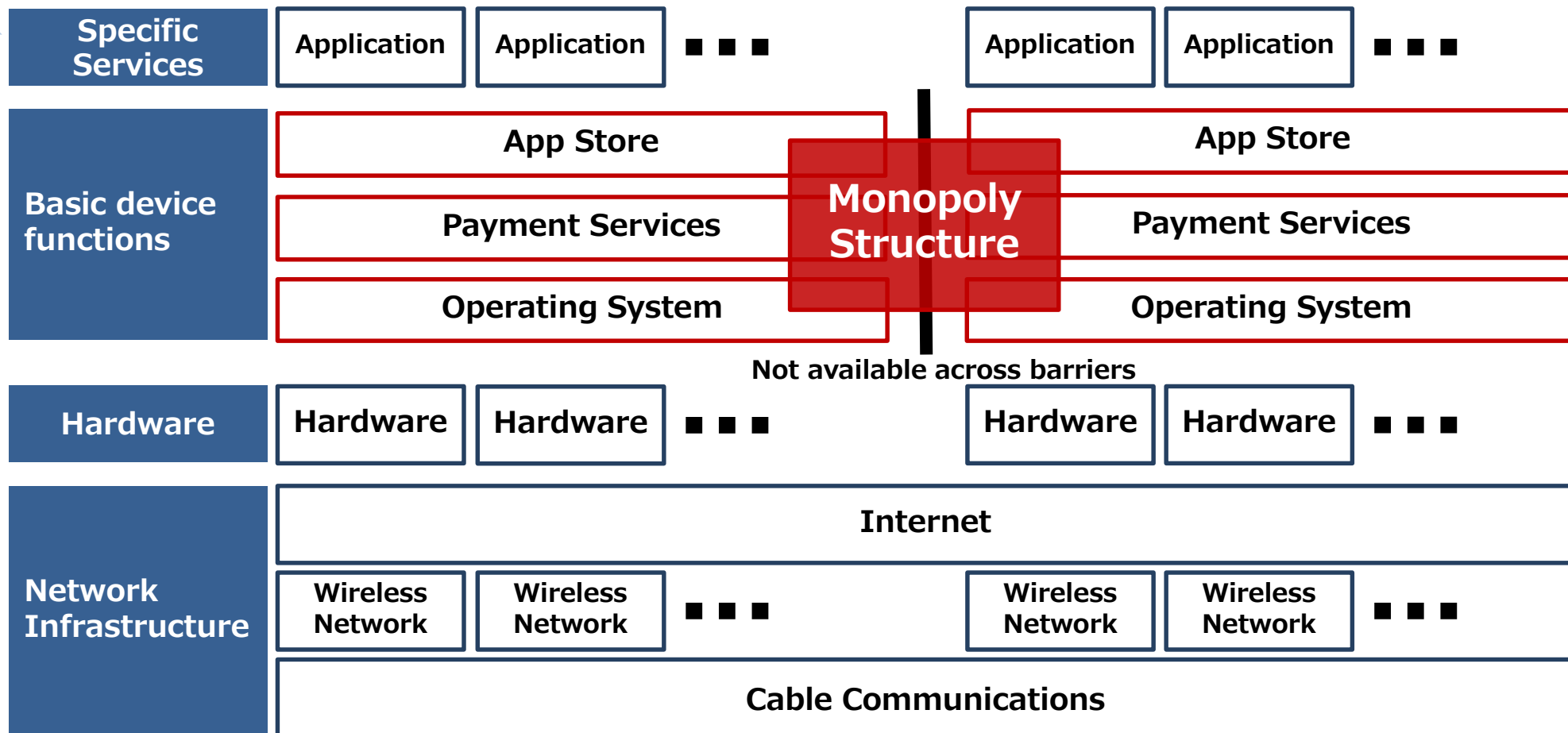
- **In Europe and the US, competition authorities are actively operating, and competition laws are being reexamined. The procedure to ensure healthy competitive process are underway.**
- **“Abusing dominant positions” inclined to protect underdogs are occurring in Japan. Current approaches against structural issues, including private monopoly are also inadequate.**
- **Adverse effects and risks of ex-ante regulation are emerging.**
 - External standards may quickly become obsolete in the fast-changing digital world, and these may also act as barriers to hinder innovation in Japan.

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- **Apply competition laws as ex post regulation.**
 - Abuse of "dominant position" may lead to stifling of innovation. Expect to address structural issues by applying "private monopoly" .
 - Define rules for the structure that enables usage of data beyond the type of products and services, such as focusing on the value of data.
- **Strengthening the capabilities of competition authorities.**
 - Expand the number of staff and budget of the JFTC and make it easier to use information from other government agencies in investigations.

[Ref] Basic functions of the smartphone operating system/device - as an indispensable foundation -

- The basic device functions, centered on the operating system, are the essential foundation, and more data is accumulated, further strengthening. It has a great influence on each application as well as hardware.



2-3. Economic Security

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- **Security Risks in the Digital Economy.**

- Addressing the risks associated with data storage in overseas/ cross-border data transfers.
- Addressing the risks of stopping cross-border data transfers.
- Protecting essential information (such as technical/personal data). Addressing the risk of having to rely on foreign sources.
- The impact of the above issues will be intensified as the winners of the digital economy affect the real world.

- **Establish the "intelligence cycle" from offensive and defensive perspectives.**

- Strengthen the National economic intelligence functions against foreign entities.
- Conduct a risk assessment, consider actions including evaluation of the need for new rules.
- Close information exchanges between the Government and business communities.

- **Independence from foreign entities monopolizing OS, Cloud platform. Implementing Information security measures. (Installing servers in Japan, store data etc.)**

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[Ref] The Image of the Intelligence Cycle

Establish the cycle with national economic intelligence organizations.

Research and Analysis

- ✓ Analyze the world situation and legal system, etc.
 - ✓ Risk assessments by region and specific situation.
 - ✓ Grasping and analyzing the compliance status of foreign entities.
(Corporate law or law in each industry)
- Putting them into concrete countermeasures.

Execution

- ✓ Ensuring enforcements of the "Companies Act" as the basic law.

Gathering more information during executions.

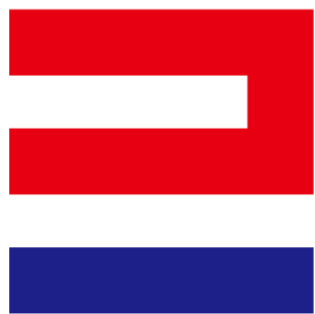
Application

- ✓ **The State and business communities closely exchange information and understand each other's actions.**
- ✓ **The State leads the appropriate international rule formation.**

Foreign Entities in Japan

- ✓ **Strengthen enforcement of laws and regulations.**
- ✓ Establish **rules for the transfer of personal data and important technical information.**
- ✓ Establish **rules for investment** from relevant countries.
- ✓ **Clearance guidelines** for the relevant countries.
- ✓ **Security measures for software** related to relevant countries etc.

※ The basic idea is to focus on **the risk of the rules adopted by the country**, rather than the country itself.



新經濟連盟

Japan Association of New Economy