

## Stanford Japan Program at Shorenstein APARC

The Stanford Japan Program was formally established in November 2011, renewing the Walter H. Shorenstein Asia-Pacific Research Center's commitment to this important field. As an integral component of the Center, SJP facilitates multidisciplinary, social science-oriented research on contemporary Japan, emphasizing both academic scholarship and policy-relevant research. The program aims to become a central platform for Stanford students and the broader community for understanding and engaging with Japan.

## Research and Program Activities

Program activities include the Japan Colloquium Series, conferences to further cutting-edge research and address critical contemporary policy issues, and public seminars. The goal of Japan Program is to become an eminent platform to foster intellectual exchange among scholars, experts, top-tier professionals, politicians, and students.

## Message from the Director



June was a very important month for Japan this year. No, I am not talking about soccer, which was disappointing for Japan. I am talking about important economic policy announcements. The government published its new growth strategy, the Basic Policy on Economic and Fiscal Policies, and the plan for regulatory reforms.

The new growth strategy is the revised version of Japan Revitalization Strategy that was published in June of last year (also known as the third arrow of Abenomics). Last year's Strategy had the subtitle "Japan is Back," whereas in the 2014 revision, the subtitle is "Japan's Challenge for the Future." The Basic Policy is formulated by the Council of Economic and Fiscal

Policies and discusses the administration's emphasis in fiscal and other economic policies. This year's Basic Policy begins with the evaluation of Abenomics so far and discusses the policies going forward. The central themes this year are the growth strategy and the fiscal consolidation, the two areas of Abenomics that need to be accelerated. Finally, the Regulatory Reform Plan is formulated by the Regulatory Reform Committee and is considered to be the central part of the Abe administration's efforts to increase the growth potential of the Japanese economy.

As I wrote in *Nikkei* ([Keizai Kyōshitsu on July 8, 2014](#)), I find significant improvements in the revised growth strategy over the last year's version. Last

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## Stanford Japan Program

Director

**Takeo Hoshi**

Faculty & Researchers

**Masahiko Aoki**

**Michael H. Armacost**

**Karl Eikenberry**

**Kenji E. Kushida**

**Phillip Lipsky**

**Daniel Snider**

Fellows & Visiting Scholars

**Ryo Sahashi**

Staff

**Meiko Kotani**

year's growth strategy just listed all sorts of policies that may or may not increase Japan's growth potential. The revised version focuses on a smaller number of policy areas (although 10 is still large) that are important for economic growth such as encouraging innovations, increasing creative destruction, and labor market reforms. But there are some problems remaining especially in the implementation of the economic reforms. Having Key Performance Indicators (KPIs) for each reform plan is good, but some KPIs are just aspirations rather than measures of performance. The mechanism of how the planned reforms would achieve the goal is often unclear. It is important to have objectively measurable indicators that are clearly linked to the goal and can be influenced by policy actions within each reform area. The indicators must also be used to periodically evaluate the effectiveness of the policy and to adjust it if necessary. I have written an FSI Working Paper on how we should formulate such a process for one KPI in Abe's growth strategy, which can be found on page 3 of this newsletter.

There are a couple of things that I was not able to include in the published version of the Nikkei article due to a word limit. One point is about the policies to increase entry and exit of corporations to enhance creative destruction. I wrote that the growth strategy includes many policies to encourage more entry but only few orderly exits, without listing any examples. One notable example of a few policies concerning corporation exits is the formulation of the Guideline for Adjusting Personal Guarantees. Japanese banks require personal guarantees from the owners of small and medium enterprises (SMEs) when they take out loans, which often make it difficult for the SMEs to close down their businesses smoothly, even when it makes business sense. The existence and use of the Guideline by

creditors can bring more transparency and equity to the process. We should watch how the Guideline will change the restructurings, which involve SMEs in Japan.

The second is about fiscal consolidation to stabilize the amount of Japanese government debt (relative to GDP). Although the consumption tax rate has been raised to 8% and is planned to be raised again to 10% in October next year, it is still not sufficient to achieve the fiscal sustainability. A little bit more tax increase and more importantly cuts of government expenditure (especially pension benefits and medical expenses) in the future is necessary to close the fiscal gap. I was hoping that this year's Basic Policy to clarify this point and shows at least the framework to come up with a credible fiscal consolidation plan, but the Basic Policy just reiterated the goal of eliminating the primary deficit by fiscal year 2020 that the government set last year. The problem is that the goal is impossible to achieve even under very favorable economic growth conditions without further consolidation of the future budgets. It is urgent for the Abe administration to come up with a credible fiscal consolidation plan in the long run.

Now at Stanford's Japan Program, we are finalizing our preparation for the second Stanford Summer Juku for the Japanese Political Economy. We are anticipating about 45 participants this year again. I am glad that many participants of the last year decided to come back and we also have new participants. I look forward to welcoming all the participants and discussing latest research on the politics and the economy of Japan. We will have a report on this year's Summer Juku in the next newsletter.

- Takeo Hoshi

# Japan Program Members in News

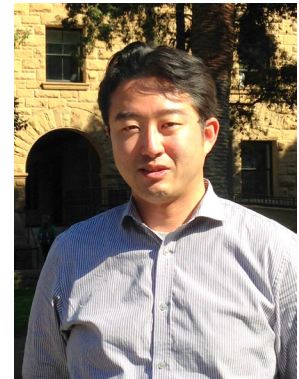
On June 17, **Kenji Kushida** (Takahashi Research Associate in Japanese Studies) gave a presentation at Research Institute of Economy, Trade & Industry (RIETI), entitled “Leading without Followers’: The puzzle of Japan’s ‘Galapagos’ ICT industry, a political economy explanation.”

His talk was motivated by the puzzle of why Japan’s mobile sector led the world until the late 2000s, but was unsuccessful in entering global markets, and was eventually disrupted by the advent of “Smartphones” from Apple and the Google Android operating system. In his talk, Kushida argued that different set of “winners” emerged across the US, Japan, and Europe. In Japan, network carriers were the winners, making the globalization of domestic-optimized equipment difficult. These outcomes were the results of political bargains at the inception of telecommunications liberalization in each country and region. The US computer industry, protected from the telecommunications incumbent through regulatory means, ultimately emerged as global players, commoditizing everyone else.



**Ryo Sahashi**, a visiting associate professor at Shorenstein APARC, gave insight in his recent article in the [East Asia Forum](#) on Japan’s announcement to reinterpret their longstanding pacifist Constitution. Sahashi says that “it is necessary for Japan to enhance deterrence by its own efforts and by strengthening its alliances.” He also points out that in order to achieve a foundation of self-defense, “nations need unified public support for national strategic policy,” which is a challenge as Japan lacks its public support toward the reinterpretation.

Sahashi also spoke with [LinkAsia](#) about Japan’s changing security paradigm in the context of Mr. Abe’s state visit to Canberra, Australia. He points out that it will take a year for the administration to change the laws associated with the Constitution’s reinterpretation, saying this time gap will allow the Government to shore up national support.



**Takeo Hoshi’s** new co-authored working paper, “Implementing Structural Reforms in Abenomics: How to Reduce the Cost of Doing Business in Japan,” was cited in the [Wall Street Journal](#) and the [Washington Post](#).

## Abstract

Improving the environment for business is an important part of the growth strategy of Abenomics. As the KPI (Key Performance Indicator) for this effort, the Abe Administration aims to improve Japan’s rank in the World Bank Doing Business Ranking from the current #15 among high-income OECD countries to one of the top three. This paper clarifies what it takes for Japan to be among top three countries in terms of ease of doing business. By looking at details of the World Bank Doing Business ranking, we identify various reforms that Japan could implement to improve the ranking. Then, we classify

the reforms into four groups depending on whether the reform requires legal changes and whether the reform is likely to face strong political resistance. By just doing the reforms that do not require legal changes and are not likely to face strong political opposition, Japan can improve the ranking to 9th. To be in the top 3, Japan would need to implement all the reforms except for those that require changing the laws and are likely to face strong political resistance, even under the unrealistic assumption that the other countries do not reduce the cost of doing business. Thus, in order to be one of the top three countries among OECD countries in terms of ease of doing business, Japan would most likely need to carry out all the reforms identified in this paper.

The paper is available at [FSI Faculty Working Paper Series](#).

# 2014 Governors' Meeting in Silicon Valley

## U.S.-Japan Economic Collaboration at the State-Prefecture Level

July 28, 2014

McCaw Hall at Arrillaga Alumni Center, Stanford University

On July 28, as part of the U.S.-Japan Council's (USJC) Governors' Circle Initiative, USJC and The Walter H. Shorenstein Asia-Pacific Research Center (APARC) will convene a Japan Governors' Meeting in the Silicon Valley. Governors from six prefectures, namely Fukuoka, Hiroshima, Oita, Okayama, Saga and Shizuoka, have confirmed their attendance, and each plans to bring a delegation of business leaders and government officials involved in bilateral economic collaboration. These governors are interested in the state of California, particularly Silicon Valley, as a leader in the fields of IT, biomedical/healthcare, automobile technology, clean energy and consumer goods. This event will serve as a catalyst for select Japanese prefectures to connect with the Silicon Valley's innovative companies, pilot projects, and state-of-the-art technologies across a number of sectors, including technology licensing, market development, manufacturing agreements, investments, joint ventures, and strategic partnerships.

For registration, please visit <http://bit.ly/GovCircle>.

### Plenary Session and Networking Reception

2:00-2:15	<b>Opening Remarks</b> Daniel Okimoto, U.S.-Japan Council Takeo Hoshi, Stanford University
2:15-2:45	<b>Presentation</b> Mariano-Florentino Cuellar, Stanford University
2:45-4:00	<b>Governors' Panel Discussion</b>
4:00-4:15	<b>Break</b>
4:15-5:15	<b>Keynote Speech</b> Dennis Boyle, IDEO
5:15-5:30	<b>Closing Remark</b> Daniel Okimoto, U.S.-Japan Council
5:30-7:30	<b>Networking Reception and Sake Tasting</b>

## Contact Us

The Walter H. Shorenstein  
Asia-Pacific Research Center  
Stanford University  
[www.aparc.stanford.edu](http://www.aparc.stanford.edu)

### GENERAL INQUIRIES

Meiko Kotani  
Email: [meiko@stanford.edu](mailto:meiko@stanford.edu)  
Phone: (650) 724-0051  
Fax: (650) 723-6530



## Recent & Upcoming Events

### • July 25 - 2014 Japan-US Innovation Awards Symposium

- The Japan Society of Northern California and Stanford University US-Asia Technology Management Center -  
**Arrillaga Alumni Center, Stanford University**

RSVP Required

<https://www.eventbrite.com/e/2014-japan-us-innovation-awards-symposium-tickets-11702539611>

### • July 28 - 2014 Governors' Meeting in Silicon Valley

- Shoresntein APARC Japan Program and U.S.-Japan Council -  
**Arrillaga Alumni Center, Stanford University**

RSVP Required

[http://jsp.stanford.edu/events/governors\\_meeting\\_in\\_silicon\\_valley/](http://jsp.stanford.edu/events/governors_meeting_in_silicon_valley/)