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Japan Needs a New Mechanism to Bridge the Public and Private Sectors

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Jun Makita, Visiting Researcher at the Institute for Comparative Research in Human and Social Sciences, Tsukuba University, Japan, explains that “Japan needs a new mediating organization that can represent the fresh voices of emerging business sectors and convey them to policymakers, thereby bridging the public sector and core elements of today’s industrial sector.”

In a democracy, politics and public policy must reflect the voice of the general public. Thus, a democratic society inevitably needs some way to bridge the public sector (including politicians and bureaucrats) and the private sector (individuals and various types of organizations). This is critical if democracy is to function well. The systems and structures that play such a role are different from country to country. In the United States, there is a “revolving door” between the public sector—whether it be government employees, appointees, or elected officials—and the private sector, represented primarily by businesses, lobbying groups, think tanks and universities. Thanks to this system, personnel involved in policy planning and research can move back and forth through that “door.” This serves as one bridge between the two worlds.

In the case of Japan, on the other hand, these American-style bridges do not exist. Labor mobility is quite low and the movement of policy experts across the border between the public and private sectors is still very rare. Furthermore, experts like lobbyists, who can access the Diet and the government, do not play a role in the policy process.

Nevertheless, this does not mean that there are no mediators in Japan. The key actors playing such a role are the various economic and industrial organizations. In Japan’s private sector, there are a number of organizations that have been established by various industries, and these organizations are vigorously involved in the policy process.

The most famous and influential Japanese private entities are the so-called “three economic organizations,” the Japan Business Federation (Keidanren), the Japan Chamber of Commerce and Industry (Nissho), and the Japan Association of Corporate Executives (Doyukai). Their memberships consist of leading companies and executives in each industry. The private organizations represented by the above three associations actively participate in the Japanese policy process, making policy proposals and appealing to the political and administrative executives to implement their requests as public policy. These groups represent their member companies, and what they do and say reflects the voices of the current economic frontline. Accordingly, policymakers—and particularly politicians who need corporate support in elections—cannot ignore their requests. This means that the influence of such organizations on policymaking is substantial.

Arguably, then, Japanese economic organizations wield political power as they bridge the public and private sectors. Nonetheless, in recent years the gap between the two sectors has become larger and it cannot be bridged by the existing organizations. In short, the Japanese industrial structure has changed, and these traditional

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organizations fail to deal with the new policy demands presented by emerging industries.

In the high-growth period from the 1950s to the 1970s, manufacturing was at the very core of Japanese industry. Producing goods like cars and electric appliances, exporting them abroad, and increasing the national wealth—that was Japan’s national business model. Yet from the 1980s, the relative presence of manufacturing has gradually decreased, and in its place, the share held by the service industry has increased. Looking at each sector’s share of GDP in the postwar period, we find that while manufacturing accounted for 34.9% in 1970, it had declined to 18.2% in 2012. Meanwhile, the service industry has grown from 9.3% in 1970 to 19.9% in 2012.

Within the service industry, IT service companies are particularly conspicuous. According to one source, while the growth of real national GDP from 2005 to 2010 was ¥2.9 trillion, the growth of Internet-related industries, which is one of the main parts of the IT industry, in the same period was ¥4.9 trillion, while that of other industries declined by ¥2.0 trillion. This means that the national GDP growth over those five years was almost equal to that of Internet-related industries, which shows the tremendous importance of IT service companies in the evolving Japanese economy.

Still, because IT service is a very new industry, there are many gaps between the actual business activities performed by emerging companies in the field and the existing public institutions and rules. A typical example is the principle of “face-to-face communication and paper-based documentation.” In most cases, Japan’s government applications and procedures—including getting a Certificate of Residence at the local government office, signing a real estate contract, and so on—require that you go in person and fill out hand-written documents. While these processes could be simplified by utilizing basic IT services like email, Skype, or an online application system, thereby eliminating the need for face-to-face meetings and paper-based documents, those alternatives are currently prohibited by regulations. Obviously, the IT service companies are not pleased with these old rules that hinder their economic activities.

The existing Japanese industry organizations are basically comprised of traditional companies, including manufacturing, and are not necessarily able to accurately represent the opinions of the newer industries. Therefore, Japan needs a new mediating organization that can represent the fresh voices of emerging business sectors and convey them to policymakers, thereby bridging the public sector and core elements of today’s industrial sector.

New actors are now emerging that could play such a role, the most noteworthy being the Japan Association of New Economy (JANE). This new economic organization was founded in 2012 and consists of major Japanese IT service companies. JANE’s policy proposals are based on the voices of the new economy, and its influence is quickly increasing, reflecting the expanding importance of the IT industry. For example, JANE’s Representative Director Hiroshi Mikitani, CEO of Rakuten, and Director Yasufumi Kanemaru, CEO of Future Architect, are both members of the Japanese cabinet’s Council for Industrial Competitiveness. It is quite unusual that two executives of such a new organization would become members of a government council chaired by the prime minister, and this indicates JANE’s political potential.

In short, the relationship between the public and private sectors in Japan has changed dramatically in recent years, and because of this, a new actor that can adeptly mediate between the two fields is necessary. It is too early to say whether JANE can become such an actor, but a change in the policy process is happening—belatedly but certainly—in accordance with the industrial transition of Japanese society.

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