

## **Summary of speech of Sadakazu Tanigaki, Minister of Finance**

### **[Fiscal Structural Reform]**

Japan's fiscal condition is in a very difficult situation, as the gap between revenues and expenditures is widening and the debt outstanding is increasing.

Under this situation, the Japanese Government has set up a medium-term fiscal target aiming at achieving primary surplus in the early 2010s. The Government intends to improve the quality of its expenditures through prioritized and efficient allocation in its FY 2004 budget while securing the fiscal discipline.

Nonetheless, social security related expenditures, which compose approximately 40 per cent of general account expenditures, increased 4.2 per cent (approx. ¥800 billion) in the FY 2004 budget, despite maximum restraint was put on automatic increase due to aging of the society. Restraining social security related expenditures is the most important challenge for fiscal consolidation.

Over the future, as the population rapidly aging, the increase in social security benefits and burdens is forecasted to outpace the growth of the economy. There is a need to construct an efficient and sustainable social security system in accordance with Japan's economic and fiscal conditions.

It is therefore necessary to restrain increase in expenditures through reforms of various systems including pension, medical care, nursing care and public assistance, and through rectifying and reviewing social security benefits and costs, reflecting recent price, wage and other developments. The Government will proceed on further reforms based on a broad public debate.

### **[Strengthening of Economic Relationship in Asia]**

The strengthening of Asian regional relationships through political and economic cooperation, among other areas, as well as promoting mutual understanding through capacity building and inter-culture exchange is vital for the stable development of Asian countries. In the area of economic cooperation, it is essential to promote trade and monetary cooperation.

[Finance] The "Asian Bond Markets Initiative" was launched for the purpose of enriching bond markets by better utilizing Asian savings for investment in the region. The promotion of a network of bilateral swap arrangements through the "Chiang Mai Initiative" aims to prevent future liquidity crisis caused by drastic short-term capital flow fluctuations. In addition to the previously mentioned Initiatives, Asian countries need to encourage foreign

direct investment and effective use of official resources for development in order to secure regional monetary flow.

[Trade] Strengthening economic partnerships, including Free Trade Agreements, are important to complement the multilateral trading system under the WTO, as well as to promote trade liberalization and vitalize the economy. The Ministry of Finance makes maximum effort to realize economic partnership agreements not only through trade liberalization, but also by building cooperative relationships with other customs authorities to better enhance trade facilitation, including international harmonization and simplification of customs procedures. Furthermore, the region, as a whole, needs to work towards strengthening trade security by implementing measures such as the “Secure Trade in APEC Region (STAR) Initiative”.

(Note) STAR Initiative (Secure Trade in the APEC Region):

Measures to ensure the security of trade in the APEC region, including  
Implementation of the sea-container security regime.

[The revision of the U.S.-Japan tax treaty comprehensive]

The new US-Japan tax treaty was signed, reflecting Japan's updated tax treaty policy including drastic reduction of withholding tax rates on investment incomes as well as introduction of Limitation of Benefit provision. It is expected that the coming new treaty will lead to more active interaction of investment between the US and Japan, the addition of employment creation, and structural reform in Japanese industries. Further exploration of tax treaties negotiation based on Japan's updated tax treaty policy with other countries than the US will be sought in order to promote inbound and outbound foreign direct investment in the global context.