

Provisional

Japan Revitalization Strategy

Revised in 2014

-Japan's challenge for the future -

June 24th, 2014

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I . Basic Concept of Revising Japan Revitalization Strategy

(Past achievements)

The Japanese economy has achieved great, clear change over the past year.

When the Abe administration was inaugurated, the Japanese economy was obsessed with a chronic deflationary mindset after an economic slump that lasted for more than 20 years. It was in a grave situation in which corporate managers and individual citizens had lost self-confidence and hopes for the future. Corporate managers had lost their spirits to take on challenges. Opportunities were limited for skilled people to demonstrate their performance. Excellent technologies or ideas had nowhere to go. Household financial assets and companies' internal reserves failed to be utilized in Japan. Human talents, goods and funds were structurally left idle.

In response, the Abe administration launched the first arrow of bold monetary policy aimed at eliminating the deflationary mindset and the second arrow of flexible fiscal policy aimed at igniting the dampened economy. It has also formulated “Japan Revitalization Strategy” as the third arrow, implementing its bold, speedy Growth Strategy.

The administration has fundamentally revised Japan's electric power policy that had remained unchanged for 60 years, paving the way for the electric power market to be fully deregulated. It has also decided on an agricultural policy reform including a revision to the rice production regulations that had lasted for more than 40 years. The administration has thus implemented bold reforms that had been described as impossible so far. It has had close to 40 laws enacted to promote the Growth Strategy, including the Industrial Competitiveness Enhancement Act and the National Strategic Special Economic Zone Act. In this way, the administration has carried out structural reforms at an unprecedented speed.

As a result, the strength of the Japanese economy is being restored, as shown in real GDP growth, the employment situation, capital investment and other economic indicators. Price trends show the economy is making steady steps

forward to break free from deflation.

Corporate profits have recovered to pre-Lehman Shock levels, leading to wage hikes and expanded employment that result in expanded consumption and further investment. A “virtuous economic cycle” has begun to work. Under such environment, the administration raised the consumption tax rate in April this year for the first time in 17 years, making the first step towards achieving both economic growth and fiscal consolidation. As people have begun to hold hopes for the future, human talents, goods and funds have begun to move for growth after remaining idle for a long time.

(On revision)

However, it is not easy to put the Japanese economy back onto a full growth path at a time when Japan's economy and society face the advent of a population fall through declining birthrate and aging population.

In order to prevent the past year's changes from ending up as temporary phenomena and to keep the positive economic cycle rotating, we must awaken Japanese people's and companies' original potential to improve the entire Japanese economy's productivity and its “earning power”. Now that the economy is about to break free from protracted deflation, we should be determined that this is a golden opportunity and the last chance to gear up the Growth Strategy and take bold measures to restore Japan's “earning power” with a spirit to turn around Japanese companies' characteristics, institutions and practices drastically.

The key point is whether corporate managers and individual citizens can restore their self-confidence, believe in their future and take specific actions to tackle innovation. However hard the government may break through bedrock regulations to pave the way for companies and individuals to act more easily, it will never bring about progress in business restructuring and real productivity improvements beyond mere cost conservation to the Japanese economy, unless corporate managers boldly tackle business realignment and new business exploration in a bid to upgrade their companies' earning power.

Individual citizens including corporate managers will restore their

“challenging spirit” to tackle the promotion of business restructuring and innovation for “reviving a vigorous Japan,” while the government will realize a world-leading business environment to support their efforts. This is the first step for the Japanese economy to break away from deflation, to expand the positive economic cycle that has begun to work, and to secure an average annual economic growth rate of around a nominal 3% or a real 2% over a “decade of revitalization” (FY 2013-2022).

The Japan Revitalization Strategy, compiled last year, provided three plans -- the Industry Revitalization Plan, the Strategic Market Creation Plan and the Strategy of Global Outreach -- and established key performance indicators (KPI) for each policy measure to check progress through the PDCA (plan-do-check-act) cycle.

This revision shows how much progress there has been over the past year towards achieving the KPI by providing concrete figures and what additional policy measures will be adopted to ensure achieving the KPI.

Particularly, as a result of accumulating vigorous discussions over the past year, we have seen great progress towards solving the following three challenges which were left as remaining issues in last year’s Growth Strategy:

- 1) How to realize a “world-leading employment environment” including further increased opportunities for women’s labor participation and expanding the acceptance of foreign labor
- 2) How to enhance productivity to achieve the goal of doubling the income of farmers and farming communities
- 3) How to transform the health-related area including healthcare and nursing care into a growth market

As soon as the Growth Strategy is revised, renewed challenges to tackle various issues will be launched. It is important to reflect the fruits of growth to people’s livings as early as possible. Particularly, people living in the regional communities, and small and medium-sized enterprises are still left in severe conditions. We must overcome the severity of the declining population as well. We must structurally and boldly reform regional economies and take

comprehensive measures to nurture unique industries that contribute to enhancing the sustainability of regional communities. Needless to say, the Growth Strategy aims not only to secure Japan's medium to long-term growth in the global community but also to restore vigor in regional communities and allow individual citizens to feel affluent through local-Abenomics, so to speak, which spreads the effects of Abenomics nationwide and brings about positive cycles in regional economies.

Until the Japanese economy gets on a secure growth path, there will be no end to the Growth Strategy and it has to keep evolving in line with economic and social changes.

II. Key Policy Measures in the Revised Strategy

1. Restoring Japan's Earning Power

(1) Companies to change

(Improving productivity)

Japanese companies have lower productivity than their Western counterparts. Particularly, the productivity of the nonmanufacturing sector including the services industry is seriously low, dragging down the Japanese economy. Many globally operating industries and companies are struggling due to their failure to quickly respond to market environment changes. While Japanese companies' earnings are recovering thanks to improvements in the macroeconomic environment after the inauguration of the Abe administration, they still have lower productivity than their global rivals. In order to raise productivity in all industries including services and win amid severe international competition, Japanese companies must achieve global-level earnings and productivity through carrying out business selection and concentration through bold business realignment, exploring promising new businesses, promoting overseas expansion and management reform by using information technology. A critical stage has come for companies to improve their earning power.

(Enhancing corporate governance)

What should be done to increase Japanese companies' earning power, in other words, medium to long-term profitability and productivity and to pass the fruits of such increase on to the people (households) evenly? First, it is important to strengthen the mechanism to enhance corporate governance and reform corporate managers' mindset so that they will make proactive business decisions to win in global competition for the purpose of attaining targets including globally-compatible level in return on equity. Particularly, companies that have achieved the highest earnings in several years should be encouraged to proactively use their earnings for new capital investment, bold business realignment, mergers and acquisitions, and other deals, instead of accumulating internal reserves.

In response to last year's Growth Strategy, investors and companies have launched efforts to deepen their talks towards sustainably improving profitability

and capital efficiency and enhancing corporate governance through the creation of a Japanese-version Stewardship Code, revision of the Companies Act to impose accountability on companies having no outside directors, and discussions on desirable investment of public and quasi-public funds. Under such circumstances, institutional investors have offered to participate in the Stewardship Code one after another. Companies have introduced outside directors one after another. Early this year, the JPX Nikkei Index 400 was launched as a new stock index covering companies that have higher profitability and are highly attractive for investors. Positive developments towards improving "earning power" are gaining momentum.

The time has come to further advance the environment for companies' demonstration of corporate governance and implement specific measures to improve companies' "earning power". Based on the efforts so far, companies must link their proactive utilization of outside directors to the evolution of their business strategies, specify what values they would create in the long term and how they would enhance their earning capacity to win in global competition, and activate their communication with investors.

At the same time, banks, institutional investors and other financial players must maintain healthy tension with companies and play positive roles in creating values in the long term and improving their "earning power." Among them, banks and trading houses must promote return-oriented risk money provision, including contributions to private-sector equity and mezzanine finance investment through funds, and offer good judgments and advice with a view to supporting companies' business restructuring. Institutional investors, including those managing public and quasi-public funds, are called on to appropriately manage their investment portfolios and proactively perform their governance functions as investors.

Such series of initiatives will allow corporate earnings to expand further, bringing about a true virtuous cycle where the fruits of the breakaway from deflation will be returned finally to the people through various channels including increases in employment opportunities, wages and dividends.

(Accelerating industrial restructuring and venture businesses)

Urging existing companies to reform themselves alone would be insufficient for promoting business restructuring to shift investment and employment to more profitable and productive areas. It is very important to develop an environment where venture businesses are launched one after another to drive growth areas. Comprehensive measures will be taken to eliminate institutional, human and financial obstacles to business launches, spin-offs and carve-outs from large companies, and mergers and acquisitions so that venture businesses will be able to become active.

<Key measures>

1) Enhancing corporate governance

2) Reforming investment of public and quasi-public funds

3) Accelerating industrial restructuring and venture businesses, promoting provision of funds for growth

(2) Changing the Country

(Strengthening competitiveness of Japan as a business hub)

However, even if called on to maximize their profitability, it will only urge them to locate themselves overseas, if the domestic business environment falls behind international levels. In order to link a proactive management mindset to domestic business operations, thereby actually improving earnings, the government must responsibly develop a world-leading business environment.

In order to strengthen the competitiveness of Japan as a business hub to promote the investment in Japan, we must further reinforce macroeconomic and institutional approaches for improving the business environment through: breaking through the so-called “bed-rock” regulations; accelerating the Trans-Pacific Partnership (TPP) and other economic partnership negotiations to remove obstacles to the cross-border movement of goods, services and investment; reforming energy policy fundamentally to prevent energy costs including electricity rates from rising; carrying out a pro-growth corporate tax reform and so on.

By strengthening the competitiveness of Japan as a business hub to make its investment environment more lucrative, Japan can be expected to attract global

human talents, goods and funds. Taking also hosting the 2020 Olympics and Paralympics into consideration, we will establish a nation-wide structure to ensure achieving the target of doubling inward foreign direct investment stocks while taking maximum advantage of the national special economic zones that has started its operation.

(Realizing a national system of innovation and the world's most excellent intellectual property-based nation)

Japanese companies have led the world by manufacturing and selling products with the world's most excellent quality. Over recent years, however, some companies in other industrial countries have differentiated themselves from others and secured high profit by quickly commercializing innovative technology seeds to create new markets themselves. In order that Japan can continuously lead the world with advanced technologies, leaving it to the efforts of the private sector alone will face limits. We must build a “national system of innovation” to create innovative technology seeds continuously and bridge them directly to new products or business models by combining research, human resources and funds beyond borders between the industry, academia and public sectors.

We will continuously try to make Japan the world's most excellent intellectual property-based nation by appropriately addressing the current situation in which international disputes over intellectual property including trade secrets and competition for acquisition of international standards are growing fiercer in line with the globalization of corporate operations and the deepening of open innovation.

(Realizing a robot revolution to solve social challenges)

Robot technology is a symbol of innovation for which Japan has led the world and will be able to create new markets in the future. Dramatic technological progress and its combination with information technology over recent years have enabled robots to support human work and relieve humans of manual labor or oppressive work not only for plant manufacturing lines but also for healthcare, nursing care, farming, transportation and other areas close to human lives. Robots are no longer cutting-edge machines. They can be used in areas with which we are familiar in our daily lives. In the near future, robots could revolutionarily change

our lives and industries.

The government will promptly launch a robot revolution realization council to work out a strategy for using robots as the key means to solve labor shortages amid the declining birthrate and aging population, low productivity of the services sector and other challenges plaguing Japan and for developing the robot industry into a growth sector to explore global markets. The government will seek to make Japan a showcase for robots in service for various areas ahead of other countries by 2020.

<Key measures>

1) Pro-growth corporate tax reform

2) Promotion of innovation and a robot revolution to solve social challenges

2. Cultivating Human Resources -- Promoting women's social participation and reforming working styles

Facing a population-declining society, whether Japan can sustain growth will depend on whether it can maintain its working population and raise its labor productivity before entering into a population-declining society by improving the working environment for women and elderly people and ambitious, capable youths who are hopeful about their future.

(1) Promoting women's further active social participation

Particularly, unleashing the “power of women”, Japan's greatest potential, will lead Japan not only to secure human resources but also to bring various values and creativity to the company, the government and regional communities and to vitalize society while cherishing the values of families and regional communities.

Last year's Growth Strategy proposed solutions to the problem of childcare waiting lists, including childcare center shortages, which was hindering women from participating in society. This revised Growth Strategy gives solutions to the problem of the so-called “1st Grade Barrier” against children's entrance into elementary schools, which is another major obstacle to women's participation. Also, in order to change companies' mindsets, the revised strategy also decides to

encourage them to proactively disclose the number of women in executive and management positions, the women recruitment policy and other relevant information. Under the revised strategy, the government will embark on a discussion to make tax and social security systems neutral with regard to how women choose to work and a preparation for submitting a bill that aims to promote women's social participation by stipulating the roles that national and local governments and companies should play in attaining "women's share of leading positions at 30% in 2020."

(2) Reforming working styles

Under last year's Growth Strategy, the government shifted from an excessive employment stability policy to a labor movement-supporting policy to enable individuals to smoothly change jobs, fulfill their potential and play active roles for economic growth.

Under the revised strategy, the government will diffuse and expand various systems for regular employees, reform the flex time system and create a new working hour system that will meet the needs of workers who hope to be rewarded for their performance instead of the length of time spent on their work, while securing health and achieving their work-life balance .

The government will also attempt to create a more predictable labor dispute resolution system to respond to views by the part of foreign countries' that Japanese employment practices are not transparent, to protect workers at small and medium-sized enterprises and to promote foreign direct investment in Japan.

(3) Utilizing foreign human resources

It is important to let foreign human resources fulfill their potential in Japan, who have various values, experiences and skills. For the immediate future, the government will expand Technical Intern Training Systems while strengthening management and supervision schemes, and also develop urgent measures to facilitate the employment of skilled workers for the construction and shipbuilding industry. The government will also comprehensively consider measures, including the utilization of the national strategic special economic zones, to make it easier

for foreign students in Japan and excellent overseas human resources to work and live in Japan.

<Key measures>

- 1) Paving the way for women to participate in society (expanding after-school childcare services/programs, etc.)**
- 2) Realizing flexible and diversified ways of working (creating a performance-based working hour system, etc.)**
- 3) Developing a Japanese society where foreigners can perform well (expanding Technical Intern Training Systems, etc.)**

3. Nurturing industries to become new growth engines and support regional communities

(1) Developing aggressive agriculture, forestry and fisheries

Agriculture should become a competitive, attractive industry to play a role in driving regional economies' autonomous development. To this end, an environment should be developed to allow farmers with ambitions and a business mindset to take advantage of various companies' knowledge to perform well. It is important for this environment to be combined with the so-called "farmland consolidation bank" to make maximum use of farmland in Japan for triggering youths' return to rural regions and developing a powerful agriculture.

Last November, the government decided on the direction of an agriculture policy reform including a revision of rice production adjustment. Treating the decision as the first step in a major policy shift to an agriculture policy for farmers to be hopeful about their future and feel secure, the government will multilaterally implement structural reforms to develop aggressive agriculture, forestry and fisheries.

Under the revised strategy, the government will 1) reform agricultural committees, agricultural production corporations and agricultural cooperatives integrally to enable independent decisions and speedy farm management in farming communities, 2) rebuild the domestic value chain including distribution, marketing and collaboration among primary, secondary and tertiary industries, and 3) make comprehensive efforts to link the value chain firmly to international

markets and explore new domestic markets. These measures are designed to develop aggressive agriculture, forestry and fisheries that can have high added value and a strong brand power and drive regional economies.

(2) Vitalizing the health industry and providing high-quality healthcare services

Last year's Growth Strategy came up with the goal of extending the people's healthy life expectancy and decided on many specific measures including the creation of a headquarters for medical research and development to commercialize innovative healthcare technologies ahead of the rest of the world, and the development of healthy life expectancy extending industries to realize self-medication.

Meanwhile, Japan facing an ultra-aging society must solve difficult challenges including how to secure sustainability of the public health and nursing care insurance system while maintaining the universal health insurance system, as well as how to sustainably and efficiently provide health and nursing care services in rural regions facing a rapid population decline. At the same time, taking the diversification of people's values and needs and their aging as a chance, Japan must realize innovation of high-quality health and nursing care services suitable for such circumstances and vitalize the health industry. Japan is thus required to perform a two-front operation.

Therefore, the revised strategy aims to simultaneously implement the securement of social security sustainability, the provision of high-quality healthcare services and the vitalization of the health industry, giving priority to 1) achieving both sustainability and improved quality of health and nursing care services by creating a system for new corporations for integrated health and nursing care services to improve the efficiency and quality of health and nursing care services and to realize comprehensive regional care, 2) achieving both reduction of public spending and the creation of various healthcare industries left out of public insurance by increasing incentives for health promotion and disease prevention, and 3) achieving both the satisfaction of patients' various needs and the provision of cutting-edge technologies and services by substantially expanding the system for combining insured and uninsured medical services.

<Key measures>

1) Developing aggressive agriculture, forestry and fisheries (integrated reform of agricultural committee, agricultural production corporation and agricultures cooperatives, etc.)

2) Vitalizing the health industry and providing high-quality healthcare services (creation of a nonprofit holding company-type corporation system (as tentatively called), substantial expansion of the system for combining insured and uninsured medical services, etc.)

4. Regional Revitalization and Innovation of Small and Medium-sized Enterprises/Regional Economic Structure Reform

(1) Regional revitalization and innovation of small and medium-sized enterprises

Regional revitalization depends on whether attractive employment opportunities including those for youths can be realized. To this end, companies supporting regional economies should be realigned and restructured to improve profitability and productivity and stabilize regional employment and wages. In this respect, it is important for regional financial institutions and the like to exercise their ability to assess business performance accurately and consulting functions and use experts for providing fine-tuned support for small and medium-sized enterprises. Regional funds should be reinvested in relevant regions to realize a virtuous regional economic cycle.

Unique regional resources can be utilized for high value-added business. In various regions of Japan, there are an inestimable number of high-quality agriculture, forestry and fishery goods and food products featuring regional traditions and characteristics. These various regional resources can be used for promoting collaboration among primary, secondary and tertiary industries, business operations based on dairy farmers' creativity and exports for transforming agriculture, forestry and fisheries into growth industries to create attractive employment opportunities in each region.

Japan's rich nature and unique local cultures as excellent tourism

resources should be not left untapped but rather should be communicated to people at home and abroad with their stories and themes enhanced. At the same time, Japan should further ease visa issuance requirements, accelerate and facilitate immigration procedures and expand services meeting various foreign languages and cultures to develop world-class attractive tourism areas to explore robust tourism demand in Asia and other regions in the world.

Meanwhile, the national government's unilateral uniform support for regional efforts alone cannot be expected to produce effects. Such support would be unsuccessful unless regional communities take advantage of their originality and ingenuity to revitalize tourism in cooperation with neighboring communities. National government support should accompany the initiatives of motivated regional communities.

The Councils on Regional Industrial Competitiveness, which were created after the release of last year's Growth Strategy, present the overall directions of strategies taking advantage of regional strengths for economic growth. Discussions at these regional councils are expected to provide the base for future regional initiatives.

New players are required to revitalize regional economies. Private finance initiatives in which private entities are given infrastructure concessions and public-private partnerships can contribute to creating private sector business opportunities and improving the public sector's efficiency in each region. Private sector players in PFI and PPP initiatives can cover multiple regions, leading to wider-area cooperation. Therefore, it is important to dramatically expand PFI and PPP initiatives.

(2) Regional economic structure reform

Under the severe reality of declining population, regions must commonly acknowledge the demographic situation. Under the declining population, regional strategies from the past period of robust economic expansion would be ineffective and could lead multiple regions to fall together. Under a specific strategy for the present situation, health and nursing care and other public services, urban functions or industries led by globally competitive regional companies should be

accumulated in provincial core cities, which should expand human and information exchange and cooperation with metropolitan regions, other center cities and their vicinities to pursue the survival of wide-area regions through network-based complementation of functions. Then, regional small and medium-sized enterprises should take on challenges and make efforts to develop unique industries including agriculture and tourism in various regions to drive regional economies.

The Growth Strategy will not be successful unless vigorous rural communities are realized. Therefore, it is important to promote a comprehensive policy to maintain regional vitality, prevent excessive concentration in Tokyo and overcome the declining birthrate and population. A headquarters for the promotion will be created to develop government-wide arrangements.

<Key measures>

- 1) Building a support platform to realize regional revitalization measures in one package**
- 2) “Hometown specialty support” led by regional small and medium-sized enterprises and nurturing strategic industries led by regional medium-sized enterprises.**
- 3) Regional collaboration among primary, secondary and tertiary industries and dairy farmers’ creativity**
- 4) Developing world-class attractive tourism areas**
- 5) Realizing private sector players’ infrastructure management using PFI and PPP initiatives**
- 6) Developing comprehensive policy promotion arrangements for regional economic structure reform**

III. Future Measures for Further Growth

1. Continuing initiatives for a virtuous economic cycle

In order for a full economic recovery to lead to sustainable economic growth, corporate earnings improvements brought about by the Growth Strategy should be used for expanding income through higher wages and dividends and

increasing employment to further enhance the “virtuous cycle of the economy” in which income and employment expansion can lead to consumption expansion and further investment to increase corporate earnings.

At the Government-Labor-Management Meeting for Realizing a Positive Cycle of the Economy, which was created in response to last year’s Basic Policies for Economic and Fiscal Management and Reform and the Japan Revitalization Strategy, the government, labor and management representatives accumulated constructive discussions through direct talks before compiling a common recognition last December, which cited linking corporate earnings expansion to wage hikes, improving the careers and treatment of non-regular workers, improving productivity, and developing human resources as measures for realizing a positive cycle of the economy.

In this year’s spring labor offensive, wage hikes spread among companies after a long interval. But some problems are left for the future, including how labor and management will address their common challenge of productivity improvement, how the environment will be developed for individual workers to balance their health, work and lives and work satisfactorily, and how the fruits of growth should be distributed to people working in rural regions and at small and medium-sized enterprises.

On the basis of the common recognition compiled by the Government-Labor-Management Meeting last year, government-labor-management talks will be continued to provide overall directions for solving these problems.

2. “Target-realizing and evolving Growth Strategy”

As one year has passed since the formulation of the Japan Revitalization Strategy, we have reached a critical stage where the strategy is expected to make a difference indeed.

(Target-realizing strategy)

The Japan Revitalization Strategy is designed not only for implementing policy measures but also for “realizing” policy targets. To this end, the strategy

sets many KPIs to check whether any achievements are made or not. As only one year has passed since the strategy's formulation, sufficient data are not available at present. As soon as achievement measurement and assessment data are made available in the future, we will promptly review achievements (KPI review). As for measures failing to make sufficient achievements, we will constantly review and assess why they fail and what additional measures should be taken to realize policy targets.

(Evolving strategy)

Last year's Growth Strategy and this revision indicate specific directions for reforms in areas where solutions to problems had been postponed for years, allowing us to see a path to break away from "the lost two decades." But many challenges are left to be tackled to achieve the targets assumed in the Japan Revitalization Strategy.

As globalization makes rapid progress, Japan must attract excellent human resources and investment from throughout the world in order to maintain world-class competitiveness. This revised strategy positions the Council for Promotion of Foreign Direct Investment in Japan as a control tower to enhance arrangements for the promotion of foreign direct investment in Japan. In order to create "the world's best environment for business activities," the government must specify relevant challenges such as a study on regulatory reforms for improving the investment climate and effective support measures for investment expansion and take comprehensive measures.

Advancement of information society has dramatically changed human life and has the potential to reform ways of working, industries and state management. While it is not easy for Japan to narrow gaps with advanced IT countries in the world, the government must open-mindedly learn from the present world situation and consider and implement measures it should take with a sense of speed in order to realize "the world's leading IT society."

Human resources and technologies are the greatest treasure left in Japan. In order to realize a "world-leading employment environment," we must link education and labor area reforms and enhance career and professional education

to create a system to turn out human resources who can win in competition with foreign countries. In order to allow new technologies and ideas to be commercialized instead of being left untouched, we must create an environment where all people willing to start up business, including from students to businesspersons, can take on the challenges to do so.

Structural reforms will be endless and the Growth Strategy will always evolve.

3. Intensive Reform Efforts

In order to more powerfully proceed with reforms given in the revised Growth Strategy and produce effects as soon as possible, the government must proactively use an approach to narrow down priorities, time and agenda and concentrate policy resources on priorities in close cooperation with the Council for Regulatory Reform and the Council on National Strategic Special Economic Zones to achieve effects. Therefore, the government will realize the revitalization of the Japanese economy based on two points -- 1) taking advantage of National Strategic Special Economic Zones to implement speedy, impactful reforms and 2) accelerating reforms towards 2020 for the Tokyo Olympics and Paralympics.

(1) Enhancing National Strategic Special Economic Zones

In order to promote reforms with a sense of speed, national and local governments and the private sector must be united to implement bold, impactful regulatory reforms to attract investment from throughout the world. To this end, it is important for the Prime Minister to proceed with the National Strategic Special Zone initiative under a top-down approach to create reform models for the whole of Japan. The government has designated six areas as National Strategic Special Economic Zones. Based on these zones as the core, the government will strongly demonstrate Japan's attitude on reforms.

(2) Accelerating reforms towards 2020

Tokyo was chosen as the host of the 2020 Olympics and Paralympics after the creation of the Japan Revitalization Strategy last year, setting a new momentum for reforms. It is important to interpret this development as an opportunity to accelerate reforms and recover a full-fledged growth path towards

2020 for the purpose of vitalizing not only Tokyo but also the whole of Japan.

Towards the previous Tokyo Olympics (in 1964), Japan accelerated public infrastructure development to restructure Tokyo and other locations, bringing about the so-called “Tokyo Olympic boom” and demonstrating vividly to the world that postwar Japan had returned to the international community.

This time, Japan, tackling those globally common issues caused by the declining birthrate and aging population, environmental problems, divides between rural and urban regions that are globally common, is expected to become a model for the rest of the world.

Given that these problems are structural ones that cannot be solved in one day, Japan is required to assimilate various cultures for its integration into global society and tackle thorough economic and social restructuring, instead of pursuing a temporary boom.

IV. Major Policy Measures in the Revised Strategy

This revised strategy, as indicated by the next chapter, reviews the progress of the Japan Revitalization Strategy created last year, flexibly modifies policy measures, adds specific measures to be taken, revises the progress schedule and comes up with a policy of implementing the revised schedule anew.

Of the measures, representative ones discussed at the Council for Industrial Competitiveness and other panels are excerpted as follows from the three basic viewpoints for this revision -- “enhancing Japan’s earning power,” “addressing challenges left for the future” and “diffusing the fruits of growth throughout the country.” (Note: The following exemplifies specific measures without indicating their importance or priority rankings.)

1. Restoring Japan’s Earning Power

(1) Companies to Change

1) Enhancing corporate governance

- Drafting the Corporate Governance Code
 - The Tokyo Stock Exchange will draft the Corporate Governance Code to encourage companies’ initiatives to attain sustainable growth. Publicly listed companies are asked either to comply with the principles or explain why they are not complied with.
[Drafting in time for the season of general shareholders’ meetings next year]
- Enhancing financial institutions’ functions for supporting businesses
 - In order to promote improvements in business quality and business/corporate restructuring, financial institutions are expected to provide financing taking well into considerations the growth potential of the debtor’s business, as well as to cooperate with relevant stakeholders to improve the performance, productivity, and sustainability of businesses. Financial institutions are encouraged to

strengthen their functions and capacities to support this, and the government will appropriately supervise and support financial institutions pursuant to supervisory guidelines from such perspectives.

2) Reforming management of public and quasi-public funds

- To respond to the long-term changes in the economic and investment environment and secure sound pension finance over an extended period of time, the Government Pension Investment Fund (GPIF) will appropriately revise its policy asset mix as quickly as possible, based on this year's revaluation of pension finance.
- Along with the above-mentioned revision, initiatives for strengthening the governance structure of the GPIF will be immediately promoted, including the improvement of the investment committee structure and securement of investment professionals. In addition, other necessary measures including proceeding with discussions on the possible future law amendments will be accelerated.

3) Accelerating industrial restructuring and ventures and promoting provision of funds for growth

- A “Venture Creation Council,” consisting mainly of large companies cooperative in supporting ventures, will be established to build a platform to promote matching between venture businesses and large companies.

[Establishment by this autumn]

- The government will also implement fine-tuned measures including the promotion of venture companies' participation in government procurement and the provision of employment insurance benefits to people who prepare for or consider starting up new businesses during their job-seeking periods.

[Establishing relevant systems within this fiscal year]

- A forum will be created for relevant government ministries and agencies to discuss how to promote the provision of funds for growth including equity and mezzanine finance and medium to long-term loans to enhance growth-oriented business innovation and other medium to long-term measures for improving productivity.

[Establishing the forum this autumn]

(2) Changing the Country

1) Pro-growth Corporate Tax Reform

We will strengthen Japan's locational attractiveness and enhance competitiveness of Japanese companies. In this context, we aim to reduce the effective corporate tax rate to the internationally-comparable level and embark on corporate tax reform to be more growth-oriented.

To that end, we aim to reduce the percentage level of the effective corporate tax rate down to the twenties in several years. We will start the first phase reduction from the next fiscal year.

As regards the revenue sources to fund such rate reduction, including the fact that the Japanese economy is pulling out of the deflation and showing structural improvements, in order to be consistent with the FY2020 target to achieve primary surplus, permanent revenues will be secured through such measures as broadening the tax base and so forth. We will continue to discuss this issue towards the end of this year when we will reach conclusions on the specifics.

In light of the need to achieve primary surplus in FY 2020 at the national and local level, we will proceed with the implementation of the tax reform while checking the progress towards the fiscal consolidation target.

2) Robot revolution to promote innovation and solve social challenges

- Creating a mechanism to produce business with innovative technologies
 - Advanced public research institutes will be reorganized to enhance the system to bridge technology seeds at universities and other institutes to private sector companies. Specifically, the government will develop a mechanism or target giving priority to obtaining funds from contract research companies and introduce and utilize a cross-appointment system that will allow people to take positions and work at both universities and other entities.
[Designing a specific system for forerunning research institutes within this fiscal year]

- Robot revolution to solve social challenges
 - The government will launch a Council for Realizing Robot Revolution and promote technology development and deregulation to expand the robot market two-fold from the present size in the manufacturing area and 20-fold in the nonmanufacturing area including services by 2020.
[Launching the council by this summer]

2. Cultivating Human Resources -- Promoting women's social participation and reforming working styles

1) Promoting women's further active social participation

- Expanding after-school childcare services/programs, etc.
 - In order to break through the problem of the so-called “1st Grade Barrier” against children’s entrance into elementary schools and nurture human resources for coming generations, the government will create a “Comprehensive After-School Childcare Plan” in addition to “Plan to Accelerate the Elimination of Childcare Waiting Lists”, to secure the capacity of after-school childcare centers for about 300,000 children by the end of March 2020. At the same time,

after-school childcare services will be integrated with after-school childcare programs at more than 10,000 locations. To this end, the central government will request the local governments to create municipal action plans based on the Act on Advancement of Measures to Support Raising Next-Generation Children, within the current fiscal year.

[Implementing institutional measures within the current fiscal year]

- Reviewing tax, social security systems to be neutral with regard to how women choose to work
 - In order to realize social systems that are more neutral to the selection of ways of working, the Council on Economic and Fiscal Policy will comprehensively consider issues relating to tax, social security systems, spouse allowance and the like.

[Considering the issues by the end of this year]

- Enacting a new law to accelerate women's active roles
 - Towards attaining "women's share of leading positions at 30% in 2020," a new law will be enacted for leading national and local governments and companies to set women recruitment goals and action plans and for providing incentives to companies that proactively recruit women.

[Seeking to reach a conclusion within the current fiscal year and submitting a relevant bill to the Diet]

2) Realizing flexible and diversified ways of working

- Enhancing measures to prevent overwork
 - In order to correct long working hours, the government will enhance Labor Standards Inspection Offices' inspection and instructions for companies suspected of illegal practices and will diffuse the morning-oriented work style and will consider measures to restrain long working hours.
- Introducing a system to reward workers for performance instead of time

spent on work

- In order to meet the needs of workers who hope to be rewarded for their performance instead of the length of time spent on their work, a new working hour system will be created to break the link between the length of time spent on work and wages while achieving health and harmonizing work-life balance of workers who have specific job scopes and advanced vocational skills and meet a certain annual income requirement (e.g., no less than 10 million yen). After the Labor Policy Council studies and reaches a conclusion on the system, the government will take a necessary legislative action during the next ordinary Diet session.

[Taking a necessary legislative action during the next ordinary Diet session]

- Creating a more predictable labor dispute resolution system

- Given that major industrial countries have developed mechanisms for pecuniary remedies provided to workers through court decisions in line with their respective employment systems, the government will survey relevant systems and their operation at home and abroad. Based on the findings of the survey, the government will widely study the shape of globally accepted, transparent, fair and objective labor dispute resolution systems.

[To be discussed in 2015]

3. Developing a society where foreigners can fulfill their potential

- Review current Technical Intern Training Systems for foreign nationals

- While drastically strengthening the management and supervision schemes, the government will expand Technical Intern Training systems including job categories covered by the system, training period (from 3 years to 5 years at most), and admission quota on trainees.

[Implementation within FY 2015]

- Utilizing foreign human resources in construction and shipbuilding

- As an fixed-term urgent measure towards the 2020 Olympics and Paralympics and the like, the government will introduce a new system to promote the utilization of foreign human resources work-ready for the construction sector while making maximum efforts to secure domestic human resources by improving working conditions and workplace efficiency. Also, a similar measure will be taken for the shipbuilding sector.

[Launching the action at the beginning of FY 2015]

- Accepting housekeeping support workers in National Strategic Special Economic Zones
 - Foreign housekeeping support workers will be accepted in National Strategic Special Economic Zones to help reduce the housekeeping burden.

[Proceeding with a study for a quick relevant action]

- Foreign students working well in nursing care
 - The government will design a system to enable foreign nationals who have obtained the national nursing qualifications by learning at Japanese schools to work in the field of nursing care after graduation.

[Designing a relevant system by the end of the year]

3. Nurturing industries to become new growth engines and support regional communities

1) Developing aggressive agriculture, forestry and fisheries
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- Reforming rice production adjustment
 - Government promote improvement of the environment so that producers, etc. can undertake rice production in response to demand, based on their own management decisions without relying on production volume targets set by the government from 2018.
- Integrated reform of agricultural committee, agricultural production corporation and agricultures cooperatives

- An environment will be developed to allow farmers with ambitions and a business mindset to take advantage of various companies' knowledge to conduct powerful farming operations and perform well. In line with a regulatory reform implementation plan (Cabinet Decision on June 24th, 2014), the integrated reform will be implemented to revise the method for electing agricultural committee members and requirements for board members and voting rights at agricultural production corporations, to secure the independence and vitalization of local agricultural cooperatives and to shift from the Central Union of Agricultural Cooperatives system to a new autonomous system.

[Seeking to submit relevant bills during the next ordinary Diet session]

- Diversifying distribution channels for dairy products

- Institutional reforms for dairy farmers will be implemented, including a measure allowing dairy farmers to sell unique raw milk directly to milk companies in addition to organizations designated for present sales from the viewpoint of promoting ingenuity of dairy farmers..

[Implementing the measure from FY 2015]

- Domestic and overseas value chains (※AFFrinnovation(sixth industry) and promoting exports)

※AFFrinnovation(sixth industry) is based on collaboration between people in the Agriculture, Forestry, and Fisheries and diverse business operators.

- In order to accelerate collaboration between people in the Agriculture, Forestry, and Fisheries and diverse business operators through the Agriculture, forestry and fisheries Fund corporation for Innovation, Value-chain and Expansion in Japan (A-FIVE), the government will comprehensively study legislative and other actions for measures including a revision of agriculture, forestry and fisheries workers' capital contribution percentage to A-FIVE recipients.

[Completing the study in December 2015]

- In order to promote all-Japan efforts to promote exports, the

government will create export promotion groups respectively for such products as beef, Japanese tea and fishery products under an export strategy implementation committee created in June as a control tower for the export promotion.

[Creating these groups from FY 2015]

2. Vitalizing the health industry and providing high-quality healthcare services

- Creating a nonprofit holding company-type corporation system (as tentatively called)
 - A nonprofit holding company-type corporation system (as tentatively called) will be created, allowing such corporation to integrally manage multiple medical and social welfare corporations.
[Seeking to take relevant institutional actions within CY 2015]
 - Necessary institutional arrangements will be formulated to allow a university hospital to be separated from its affiliated university for the integrated management of the hospital and others under the above-mentioned new corporation system.
[Seeking to take relevant institutional actions within FY 2015]
- Providing individuals with incentives for health promotion and disease prevention
 - Conditions will be specified and diffused for providing individuals with healthcare points and cash benefits under the public health insurance system, to increase incentives for health promotion and disease prevention. It will also be considered to set different health insurance premiums based on individuals' health promotion and disease prevention efforts in a manner neutral to public finance, with due consideration given to the objectives of the public health insurance system.

[Taking necessary measures within FY 2015]

- Substantial expansion of the system for combining insured and uninsured medical services
- Measures will be implemented to appropriately satisfy various patient needs, enhance the healthcare industry's competitiveness and maintain the sustainability of the health insurance system
 - Creating a new system for combining insured and uninsured medical services (“patient-requested cure system” as tentatively called)
 - Improving access to cutting-edge medical services (setting-up institutional arrangements specialized in evaluating regenerative medicine and medical devices)
 - Tentatively introducing the viewpoint of cost-benefit performance into the assessment of the scope of insured medical services by FY 2016 and considering measures to make medical services with lower cost-benefit performance continuously available for the combination of insured and uninsured medical services.
 - Introducing a system (Japanese-version compassionate use system) in FY 2015 to expand access to investigational new drugs for patients who cannot participate in clinical trials

4. Regional Revitalization and Innovation of Small and Medium-sized Enterprises/Regional Economic Structure Reform

<h5>1) Regional Revitalization and Innovation of Small and Medium-sized Enterprises</h5>

- Building a support platform to realize regional revitalization measures in one package
 - The Local Revitalization Act will be revised to integrally operate various regional revitalization measures of various government ministries and agencies and concentrate policy resources in motivated regional communities.

[Seeking to submit relevant bills during the next ordinary Diet session]
- “Hometown specialty support” led by regional small and medium-sized

enterprises and nurturing strategic industries led by regional medium-sized enterprises.

- The development and commercialization of “hometown specialties” using regional resources including tourism resources and agriculture-forestry-fishery goods will be promoted with consideration given to the viewpoint of consumers.
 - Industrial, academic, government and financial sectors will cooperate to support research and development, commercialization, sales channel development and overseas expansion to nurture regional strategic industries.
- Regional collaboration among primary, secondary and tertiary industries and dairy farmers’ creativity
- Regional collaboration among primary, secondary and tertiary industries using regional resources involving various business operators will be promoted. The Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion in Japan (A-FIVE) will be proactively used as the core for the promotion.
 - As for livestock and dairy farming, arrangements will be developed for supply, processing and distribution of regional feed resources including feed rice to promote the differentiation and branding of products. At the same time, livestock clusters will be created for regional efforts to improve earnings.
- Developing world-class attractive tourism areas
- Visa issuance requirements will be eased in line with an “Action Program toward the Realization of Japan as a Tourism-Oriented Country 2014”
 - Wider-area cooperation between regions will be enhanced to strengthen the communication capacity. Various wider-area tourism routes rich with stories and themes appealing to target markets will

be developed and provided and proactively communicated to foreign countries.

- Multi-language services will be promoted in art galleries, museums, natural parks, tourist spots, roads and public transportation systems.
- Under the consumption tax-free system for foreign tourists, the number of tax-free shops in Japan will be doubled to 10,000 towards 2020.
 - Realizing private sector players' infrastructure management using PFI and PPP initiatives
 - Three years to the end of FY 2016 will be designated for intensive efforts to implement PFI projects for private entities given infrastructure concessions. Numerical targets (six airport, six water system, six sewage and one road projects) will be set for the period. The target of implementing 2 trillion to 3 trillion yen worth of projects over 10 years to 2022 will be achieved over three years to the end of FY 2016.

2) Promoting regional economic structure reform

- Developing comprehensive policy promotion arrangements
 - It is important to promote a comprehensive policy to maintain regional vitality, prevent excessive concentration in Tokyo and overcome the declining birthrate and population while attempting to intensify and accumulate urban functions, industries and employment. A headquarters for such promotion will be created to develop government-wide arrangements.