“Abenomics” is Progressing!

The Latest Progress and Achievements of the Abe Administration

June 2014
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Recent Developments in the Implementation of Abenomics</td>
<td>P3</td>
</tr>
<tr>
<td>2. What are ‘three arrows of Abenomics’?</td>
<td>P21</td>
</tr>
<tr>
<td>3. Fundamental Principles of the Third Arrow and its Strategies for the Future</td>
<td>P26</td>
</tr>
<tr>
<td>4. Examples of Individual Measures of the Third Arrow</td>
<td>P29</td>
</tr>
<tr>
<td>5. Heading toward...</td>
<td>P50</td>
</tr>
</tbody>
</table>

Appendix: Improvement in Economic Conditions

(Primary economic indicators) P53
1. Recent Developments in the Implementation of Abenomics
Revision of the Japan Revitalization Strategy (P5–20)

To realize sustainable economic growth from the positive economic momentum being generated by the three arrows of Abenomics, the Government has formulated a revised growth strategy. This includes several breakthrough solutions for issues outstanding from the initial Japan Revitalization Strategy formulated last year, such as labor market reform, improving agricultural productivity, and transforming the health-related sector into a growth market.

In addition, the revised strategy provides direction on the resolution of important issues that Prime Minister Abe has promised to tackle at Davos Meeting in January, including further corporate tax reform, easing regulations in National Strategic Special Zones, forward-looking reform of GPIF’s management and the advancement of women’s roles in society.

Approval of 30 bills related to the Growth Strategy

Some 30 bills related to the Growth Strategy were approved during the ordinary diet session up to June 2014, including a bill for partial revision of the Electricity Business Act to liberalize the retail electricity sector, a bill for the establishment of a new agency to strategically manage R&D activities in medical and related areas, a bill for partial revision of the Employment Insurance Act to develop childcare leave benefits, and a bill for partial revision of the Companies Act to promote the appointment of external directors to improve corporate governance.
Overview of the Revision of Japan Revitalization Strategy

- Positive economic momentum following implementation of Abenomics’ “three arrows”.
  Examples:
  - **Growth in real GDP** for six consecutive quarters
  - Labor market in growth sector; **highest wage growth in the past 10 years**
  - Changes seen in corporate culture in Japan (e.g. increase in outside directors, substantial business restructuring, more capital investment)
- To put the Japanese economy on the path of sustainable growth, continued reforms in line with a constantly evolving Growth Strategy are essential.
- The aim of this revision of “Japan Revitalization Strategy” is to review the progress of already implemented policies and to provide basic guidance for remaining tasks, focusing on the 10 key reforms.

10 key reforms

1. Enhance corporate governance
2. Reforms for management of public and quasi-public funds
3. Promotion of venture business
4. Corporate tax reform
5. Stimulate innovation through science technology and a ‘Robotics Revolution’
6. Enhancing women’s participation and advancement
7. Enable flexible working practices
8. Attract talent from overseas
9. Aggressive agricultural policy
10. Healthcare Industry and High Quality Services

Growth to create ripple effect across the nation

- **Local revitalization and innovation of small and medium-sized enterprises (SMEs)**
- **Structural reforms in regional economies**
1. Enhance Corporate Governance  
—Aiming for sustainable growth in corporate value—

Sustained growth in corporate value through enhanced corporate governance as well as improved management and strengthened fundamentals supported by financial institutions.

Main initiatives to date:
- Industrial Competitiveness Enhancement Act
  - Established tax system to promote business realignment, creation of scheme that allows relaxing of regulations for business units, etc. [Enacted January 2014]
- Japan’s Stewardship Code [Published February 2014]
- Revised Companies Act
  - Promoted introduction of external directors [Revised June 2014]

New measures to be adopted:

Enhance Corporate Governance
- Support the Tokyo Stock Exchange to draft the Corporate Governance Code which outlines the principles of corporate governance for listed companies. [To be drafted in time for the season of general shareholders’ meetings next year]
  - The Code will outline the principles of corporate governance (the system which supports companies making timely entrepreneurial decisions with transparency and integrity and with due regards to the views of shareholders as well as customers, employees, local communities and other stakeholders).
  - Based on listing requirements of the Tokyo Stock Exchange, listed companies are asked either to comply with the principles or explain why they are not complied with.

Enhancing financial institutions’ functions for supporting businesses
- Encourage financial institutions to support improving the performance, productivity, and sustainability of their customers’ businesses, to provide financing taking well into considerations the growth potential of the debtor’s business pursuant to the supervisory policies of the Financial Services Agency.
- Review the legal system and operational practices relating to corporate restructuring.
2. Reforms for management of public and quasi-public funds

Steadily implement reforms for management of public and quasi-public funds, based on the recommendations presented by the expert panel.

Major Initiatives to Date:

• Recommendations compiled by the expert panel for sophisticating the management of public and quasi-public funds [November 2013]

• Implemented fund management reforms based on the expert panel recommendations
  Example: Government Pension Investment Fund (GPIF)
  ➢ GPIF decided to co-invest in infrastructure assets with the Development Bank of Japan (DBJ) and a Canadian pension fund [February 2014]
  ➢ Introduced new equity index (including the JPX-Nikkei Index 400) in passive investments [April 2014]
  ➢ Accepted Japan’s Stewardship Code [May 2014]

New measures to be adopted:

Revising the policy asset mix (basic portfolio) of GPIF
• To respond to long-term economic changes and secure sound pension finances over a extended period of time, appropriate revisions will be made to the policy asset mix as quickly as possible, based on the results of this year’s revaluation of pension finances.

Strengthening the governance structure of GPIF
• Immediately promote initiatives for strengthening the governance structure of GPIF, including the appointment of multiple full-time members to the investment committee and securing highly-skilled investment professionals. In addition, accelerate other necessary measures including discussions on the possible future amendment of legislation.
3. Promotion of Venture Business  
—Creating an entrepreneur-friendly environment—

A ‘Venture Ecosystem (virtuous cycle’ of venture funding and business creation) will lead to globally competitive companies.

Main initiatives to date:

- Established the Industrial Competitiveness Enhancement Act  
  ➢ Introduced tax system to promote venture funding in private enterprise [Effective January 2014]
- Revised the Financial Instruments And Exchange Act  
  ➢ Promoted crowd-funding [Amendments passed in May 2014]
- Improved operational efficiency of ‘Angel’ investment tax system  
  ➢ Reduced administration burden through reform of the application process [Effective September 2013]

New measures to be adopted:

Establishment of the ‘Venture Business Creation Council’

- The ‘Venture Business Creation Council’ is intended to encourage connections between start-ups and larger firms. [Expected to launch in Autumn 2014]

Acceleration of government procurement from start-up firms

- Review of current government procurement laws to promote government procurement from recently launched SME start-ups. [Bill to be presented at the next ordinary Diet session]
- Unemployment insurance provisions for entrepreneurs who are not currently employed. [Process to be expedited]
We will strengthen Japan’s competitiveness as a global business location by reforming the corporate tax rate to a globally competitive level.

Main initiatives to date:
• Taxation period of the special corporation tax for reconstruction from the Great East Japan Earthquake finished one year earlier than originally planned.
  ➢ As a result, the corporation tax was reduced by 2.4% since April 2014
• A special tax system to promote capital investment into productivity increase was launched in January 2014.
  ➢ As a result, approximately 10,000 capital investment have been recorded

New measures to be adopted:
Pro-growth corporate tax reform
• Aim to reduce the percentage level of the effective corporate tax rate down to the twenties in several years.
  ➢ First phase reductions will start from FY2015
• 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. (further discussion will be made towards the end of this year when conclusions on the specifics will be reached).
• In light of the need to achieve primary surplus in FY 2020 at the national and local level, the government will proceed with the implementation of the tax reform while checking the progress towards the fiscal consolidation target.
5. Stimulate Innovation through Science Technology and a ‘Robotics Revolution’ — Japan as a technology frontier —

Promote innovation of science and technology and develop infrastructure that links innovative technology with new business.

Main initiatives to date:
- Enhanced the administrative power of the Council for Science and Technology Policy
  - Revised the Act for Establishment of the Cabinet Office [Effective from May 2014]
- Established Cross-ministerial Strategic Innovation Program (‘SIP’) and Impulsing PAradigm Change through disruptive Technologies Program (‘ImPACT’)
  - Included in the 2013 supplementary budget and the 2014 budget

New measures to be adopted:

“Mediation” – Reform functionality of R&D Institutes
- The National Institute of Advanced Industrial Science and Technology (AIST) and New Energy and Industrial Technology Development Organization (NEDO) will enhance precursory activities to link universities with business (through what is called “Mediation”), with a focus on winning research projects from private companies [Starting from FY2015] (These activities will be adopted by other institutes later on).

Knowledge Integration utilizing the “Cross Appointment system”
- Build infrastructure to allow researchers to hold concurrent posts at universities and R&D institutes.
  - Requires clarification of medical insurance, pension and retirement allowance, as well as ownership of trade secrets and intellectual property. [Infrastructure preparations to be completed FY2014]

Reform Employee Invention System and Enhance Protection of Trade Secrets
- Reform employee invention system in order to incentivize both employees and companies jointly.
  [Bill will be submitted to the Diet by the next ordinary session]
- Create effective measures to prevent leakage of trade secrets (alleviation of the burden of proof on victims, etc.).
  [Bill will be submitted at the next ordinary diet session]

Realize an Industrial ‘Robotics Revolution’
- Set-up the “Robotic Revolution Initiative Council” to create a 5 year plan (to be completed by the end of 2014).
  - Set targets to increase the size of the Robot market: double the use of robots in manufacturing, and increase their use in nonmanufacturing including the service sectors by a factor of 20.
Main initiatives to date:
- Secured additional childcare capacity for approximately 200,000 children by FY2015 and 400,000 by the end of March 2018. [“Plan to Accelerate the Elimination of Childcare Waiting Lists” formulated in June 2013]

New measures to be adopted:

**Introduce Integrated after-school childcare services/programs and daycare centers**
- Prepare over 10,000 integrated after-school childcare services/programs for children by fully utilizing unused classrooms at public-school.
  - Joint-efforts between MEXT (Ministry of Education, Culture, Sports, Science and Technology) and the MHLW (Ministry of Health, Labor and Welfare) to address “1st Grade Barrier” issue and to foster the next generation of talent.
- Prepare after-school daycare centers for about 300,000 children by the end of March 2020.
- Plan to be formulated jointly by MEXT and MHLW by mid-2014

**Secure necessary nursery teachers**
- Set targets and timeframe to secure necessary number of nursery teachers
  - Formulate and implement “Plan to secure nursery teachers”, which includes measures such as improving working conditions of such teachers, providing financial support for training and certification, and offering assistance for certified nursery teachers off-work to get back to the career (estimated as over 600,000) to return to childcare) [To be formulated within 2014]

**Introduce “Official Childcare Supporters”**
- Introduce a nation-wide system to appoint mothers with child-rearing experience as “Official Childcare Supporters” and enable them to work at small-scale childcare, homecare and after-school daycare as support staff.
- Government to provide standardized training courses available anywhere in Japan.
- The system will be established along with the introduction of “New System for Children and Child-raising”.

Provide working environment conducive to women with/caring for children
6. Enhancing Women’s Participation and Advancement (2/2)

Main initiatives to date:
- Encouraged companies to disclose information concerning the promotion of women to executive and management positions.
- “Website visualizing women in executive and management positions” was launched, which covers 30% of listed companies to date.

New measures to be adopted:

**Visualize women on executive and management position**
- Oblige listed companies to disclose the number of women in executive positions in their financial reports. [Effective by March 2015]
- Request financial instruments exchanges to include information related to active utilization of women at work, such as the number of women in executive and management positions, as well as measures taken to promote the trend, into their corporate governance documentation. [Effective by the end of March 2015]
- Create new legislative framework to promote active use of women at work (or to help women take more active role at work) [Finalize by the end of March 2015 and submitted to the Diet]

**Review tax and social security system to be neutral with regard to how women choose to work**
(or, to encourage women to participate in the labor market)
- Issues relating to tax, social security and marital tax deduction (including the so-called “Policy Wall” of 1.03 million yen and 1.30 million yen incomes for marital deductions), to be considered comprehensively at the Council on Economic and Fiscal Policy by the end of 2014.
7. Enable Flexible Working Practices (1/2)
—Improving our talent pool—

Develop a more creative working practice where performance is evaluated over number of hours worked. Spread and promote model cases of “diversified regular employment” focusing on job duties etc. Develop a transparent and globally recognized labor dispute resolution system.

**Main initiatives to date:**
- Shifted government subsidy support away from retaining employees towards outplacement.
  - [30.1 billion yen assigned in 2014 annual budget, to be redressed in FY2015]
- Disclosing information on job offer/job seeking held by ‘Hello Work’ (public employment bureau).
  - [To be introduced from September 2014(job offer)/around FY2015(job seeking)]

**New measures to be adopted:**

**Review current working hours system**
- Strengthen measures to prevent overwork by fully enforcing supervision by the Labor Standards Inspection Office
- Review flextime system to make provisions for workers with child-care and nursing requirements to ensure that temporary reduction in hours worked does not result in decreased payment by taking a paid leave.

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<tr>
<th>Current Status</th>
<th>Outcome Following Review</th>
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<td>The maximum period in which flexible working hours are legally permitted is one month.</td>
<td>Extension of time period to allow the apportionment of flexible working hours.</td>
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- Reform Discretionary Working System in order to allow creative work habits and allow more people to have flexible working practices, the formal process and scope of the current system will be reviewed.

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<tr>
<td>Scope of the system is limited (e.g. people in strategic planning and analysis work) and the formal process is complex</td>
<td>Total scope to be reassessed (to include people working for company’s core divisions and R&amp;D), easing of formal procedures</td>
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- Develop a new system based on evaluation of work rather than working hours. This system will apply for those who satisfy fixed annual income conditions (for example, no less than 10 million yen annually) who have clearly defined responsibility and possess high skill levels (A draft bill will be presented at the next ordinary Diet session, following an assessment by the Labor Policy Council).
7. Enable Flexible Working Practices (2/2)
—Improving our talent pool—

New measures to be adopted:

**Spread and promote model cases of “diversified regular employment” focusing on job duties etc.*

* The scope of responsibilities for regular employment in Japan had not been clearly defined (i.e., duties are all-inclusive)

• Interpretation of labor contract laws will be coordinated and publicized. [To be implemented within 2014]
  ➢ The way of thinking about the clarification of working conditions, the promotion of mutual transformation between “diversified regular employees” and ordinary employees, the equal treatment etc.
    e.g. As much as possible, employer should define whether job duties are all-inclusive or not.

• Publish a list of key points for attention for introducing “diversified regular employee” management. [July 2014]

**Developing a highly foreseeable system to resolve labor conflicts**

• Develop a system to resolve labor conflicts which is globally recognized, fair, transparent and objective
  ➢ Will be based on research into various relevant systems (both domestic and international*) to be conducted this fiscal year.
    Following this, a discussion and evaluation of suitable elements for Japan will be expedited and implemented. [To be discussed in 2015]
    * e.g. Dissolution of the employment relationship through a court decision; severance payment for the employee
8. Attract Talent from Overseas
—A society where foreign workers play an active role—

Create an environment where skilled professionals from overseas can play an active role.
Conduct drastic review of the Technical Intern Training System for foreign workers in Japan.

Main initiatives to date:
• Eased /Expanded a scope of points-based system for skilled professionals from abroad
  ➢ Relaxation of approval requirements, shortening of residency requirements for permanents residency [Notice of revision December 2013; Amendment to law June 2014]
• Finalized urgent measures (up to FY2020) to enable workers who have completed Technical Intern Training to work in construction sector for 2 to 3 years [Scheduled to start in 2015]
  ➢ Similar fixed-term urgency measures are planned to be applied to shipbuilding industry

New measures to be adopted:
Review Current Technical Intern Training* Systems
• Drastically strengthen the management and supervisory structures: Introduce external officers to or making external audits mandatory for supervisory organizations;, newly establish public administrative authority. [Transition within 2015]
• Expand job categories covered by the system: Will be added accordingly.
• Extension of training period: From maximum 3 years to 5 years. [Enforced by the end of March 2016]
• Expansion of admission quota [Enforced by the end of March 2016]

Launch new systems to encourage active use of foreign talents in key areas

• Manufacturing
  ➢ Accept foreign workers at overseas subsidiaries of Japanese corporations.
  ➢ Limited to the cases meeting certain conditions, such as short-term transfer within corporate groups for technical training.
  ➢ Detailed system to be formulated by the end of March 2015

• Nursing
  ➢ Enable foreign nationals who have obtained the national nursing qualifications by learning at Japanese schools to work in the field of nursing care. [Detailed system to be formulated within 2014]
  ➢ Incorporation of “nursing” as a job covered by Technical Intern Training System to be considered. [Conclude within 2014]

• Home support
  ➢ Enable people from abroad to work as home support in National Strategic Special Zones.
  ➢ Private home support service companies will be the employers, whereas local municipality oversees the system.
  ➢ Necessary arrangement will be made immediately.
9. Aggressive Agricultural Policy (1/2)

Aim to double the income of farmers and farming communities by turning the agricultural sector into a growth industry. We will draw on corporate experience while accelerating private sector participation in agriculture.

Main initiatives to date:
- Established “Public intermediate organization for farmland consolidation” [Established in 43 prefectures, as of June 1, 2014]
- Decision to review rice production regulations [November 2013]
- Promoted development of the “sixth industry” by fully utilizing the Agriculture, forestry and fisheries Fund corporation for Innovation, Value-chain and Expansion Japan (A-FIVE) [Investment already made to 23 entities, as of May 2014]

New measures to be adopted:
Unified regulatory reform of Agricultural Committee, agricultural production corporation, Agricultural Cooperatives
- Undertaking comprehensive reform from the viewpoint of making suitable environment for farmers who are highly-motivated and business-minded can take aggressive production and operation with taking advantage of knowledge of companies. [Related bills will be submitted to the ordinary Diet session in 2015]

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<tr>
<th>Agricultural Committee</th>
<th>Agricultural Production Corporation</th>
<th>Agricultural Cooperatives</th>
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<tbody>
<tr>
<td>Shift to system of appointees by mayors for committee members</td>
<td>Reduce number of farm working required as Board Members (Current: approximately 25%; After: minimum 1 person)</td>
<td>Local individual agricultural cooperatives will be more independent and active (promoting highly-motivated farmers in board members)</td>
</tr>
<tr>
<td>Establish “committee for promotion of optimized use of agricultural land(tentative)”</td>
<td>Deregulation of requirements for voting rights (Current: non-farmers’ rights under 1/4 in principle; After: less than 1/2)</td>
<td>Allow National Federation of Agricultural Cooperative Association (ZEN-NOH) and its prefectural level organizations (KEIZAIREN) to be turned into a joint-stock company invested in by local individual agricultural cooperatives.</td>
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<td>The Central Union of Agricultural Co-operatives (JA-Zenchu) will become an organization under a new self-governing system.</td>
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</tbody>
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New measures to be adopted:

**Diversify distribution channels for dairy farmers**
- Leverage the ingenuity of dairy farmers by establishing a system where farmers can select and sell their products to vendors of their choosing, in addition to the conventional designated vendors. [From FY2015]

**Connect national and international value chain (promote the “AFFrinnovation (sixth industry)” and exports**
- To accelerate promotion of the “AFFrinnovation(sixth industry)” the current capital contribution percentage rule to A-FIVE recipients will be reviewed. [Measurements including law amendment to be addressed by December 2015]
- Form organizations of exporters that handle specific products, especially for beef, Japanese tea and fishery products. [From FY2015]

※ AFFrinnovation(sixth industry) is based on collaboration between people in the Agriculture, Forestry, and Fisheries and diverse business operators.
Secure a sustainable social security system and revitalize the healthcare industry by establishing a structure to provide efficient and high quality services as well as streamlining insurance benefits coverage.

Main initiatives to date:
- Removed grey zones in relation to the healthcare industry (example: private sector guidance on physical exercise to prevent lifestyle-related diseases)
- Enabled online sales of nonprescription drugs (except for 5 items designated as dangerous) [Law enforced June 2014]
- Created ‘control tower’ for R&D in medical area
  - Headquarters for Healthcare and Medical Strategy Promotion and Japanese National Institutes of Health) [Law enacted May 2014]

New measures to be adopted:

Creation of non-profit holding company system
- Allow multiple medical and social welfare corporations to be managed in an integrated manner through general meetings of members, etc. [Measures taken within 2015]
- Design system required to allow university hospitals to be spun off as separate entities in order to be managed in an integrated manner with other hospitals by utilizing the above-mentioned new holding company system [Discussions to be concluded in FY 2014 and measure to be taken in FY 2015]

Provision of incentives to individuals to stay healthy and prevent disease
- Clarify conditions under which each insurer of the public healthcare insurance system can provide healthcare points or cash benefits to individuals. [Measures to be taken within FY 2015]
- Consider to introduce the public health insurance premium system under which the premiums can differ in fiscally neutral manner based on individual’s efforts for health and diseases prevention [Measures to be taken within FY 2015]

Considerable expansion of the system for mixed use of medical treatments covered and not covered by public insurance (the mixed medical treatment system)

| Treatment requested by patients [Newly created] | • Create expedited scheme for the mixed medical treatment system, requested by patients, to expand options for patients when selecting medical treatments (related act to be submitted to the next ordinary diet session) |
| Evaluation treatment | Advanced medical treatment | • Speed up the evaluation process for regenerative medicine and medical equipment in addition to anticancer drug |
| | | • Consider the scheme that allows the continued use of certain technologies even if they are evaluated as less effective under cost benefit analysis system that is experimentally planned to be introduced around FY 2016 |
| | Clinical trial | • Establish a scheme under which patients not qualified for clinical trials can use investigational new drugs [Starting in FY 2015] |
| Selective treatment (incl. amenities etc.) | | • Establish a scheme that includes continuous review of the system, including the expansion of coverage |
Local Revitalization and Structural Reform

Creating a platform to revitalize local economies

Main initiatives to date:
• In January 2014, in an effort to eliminate ‘stovepipes’, promising projects proposed by municipalities were selected by the public and a “platform for revitalizing local economies” was launched, encompassing all relevant ministries and agencies working together. [33 projects selected as reform model cases in June 2014]

New measures to be adopted:
• Leveraging the Local Revitalization Law, create a one-stop platform for planning and implementing regional revitalization efforts [To be submitted in the next ordinary Diet session]

Support for hometown specialty products

Main initiatives to date:
• Expanded the topics eligible for regional collective trademark registration (Revision of the Trademark Law) [Law enacted April 2014]
※The system facilitates registration of trademarks to relax requirements when the trademark consists of a region name + brand name

New measures to be adopted:
• Help businesses promote tourism and development and expand sales channels of hometown specialty products to inspire consumer confidence through the revision of the SME Local Resource Utilization Promotion Act.
• Promote branding of local resources through the development, dispatch and training of human resources such as “Local Economic Development Corps”

Promoting PPP/PFI to strengthen international competitiveness and develop new markets

Main initiatives to date:
• Introduced concession system for airports administered by the national government [Law established July 2013]
• Established the PFI Promotion Fund [Established October 2013]
• Enabled integral revitalization of cities and highways [Law revised May 2014]
• Set the next 3-year period as intensive period to formulate policy initiatives [Decision by PFI Promotion Council in June 2014]

New measures to be adopted:
• Accelerate target period (from 2022 to 2016) for PFI project concessions, and set goals for the next 3 years
  ➢ 2-3 trillion yen target projects
  ➢ Priority areas: Airports (6), Water Supply (6), Waste Water (6), Roads (1)

Overall policy development system reforms

New measures to be adopted:
• Show long-term and comprehensive vision to overcome demographic challenges and aging society and to build dynamic local economic structure with local economic structural reform.
• Develop a system to set up a headquarters functioning as a control tower for the promotion of a comprehensive policy aimed at government, working together to:
  ➢ Maintain regional economic vitality and networking consolidation and integration of industry, employment and urban functions to slow the outward migration to Tokyo
  ➢ Overcome the declining population and birth rate.
Accelerated development of National Strategic Special Zones

- The first six special zones, Tokyo, Kansai, Niigata, Yabu, Fukuoka and Okinawa, were designated on May 1, 2014.
- These special zones will soon establish Regional Councils on National Strategic Special Zones. Planned projects for some special zones will be launched from as early as fall 2014.
- Legislative measures in the Act on National Strategic Special Zones will be taken in order to achieve further regulatory reform, including during the next Diet session.

Examples of regulatory reforms within National Strategic Special Zones

<table>
<thead>
<tr>
<th>Special Zone Projects</th>
<th>Examples of Planned Regulatory Reforms</th>
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<tbody>
<tr>
<td>International business and innovation hub (Tokyo area)</td>
<td>Regulatory exemption concerning floor area ratio and urban development</td>
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<tr>
<td>Center for international innovation in the field of medical care, etc. and general support (Kansai area)</td>
<td>(Relaxation of floor area ratio restrictions, streamlining of processes required to obtain permits, approval of urban planning and others)</td>
</tr>
<tr>
<td>Center for employment system reform to promote new businesses (Fukuoka city)</td>
<td>Formulation of employment guidelines</td>
</tr>
<tr>
<td>Center for agricultural reform in large-scale farming (Niigata city)</td>
<td>Allow foreign doctors and nurses to practice medicine at international medical hubs</td>
</tr>
<tr>
<td>Center for agricultural reform in hilly and mountainous areas (Yabu city)</td>
<td>Approve construction of additional bed space and install additional beds by granting exemptions on current bed space restrictions</td>
</tr>
<tr>
<td>Center for international sightseeing (Okinawa prefecture)</td>
<td>Review current role sharing between agricultural commissions and local governments</td>
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<td>Relax requirements for establishing agricultural corporations</td>
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<td>Accelerate immigration procedures and relax visa requirements</td>
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Example of further regulatory reform matters

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<tr>
<th>Strengthens and improves access to diverse human resources, trade and investment, etc</th>
<th>① Simplify and accelerate procedures for incorporation ② Strengthen global financial supervisory functions</th>
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</thead>
<tbody>
<tr>
<td>Improve environment to support the activity of women and young people (e.g. start-up support)</td>
<td>③ Relax bus-related regulations to further improve access to/from airports ④ Promote the establishment of integrated ‘bonded areas’ ⑤ Accelerate immigration procedures</td>
</tr>
<tr>
<td>Establish advanced models from local areas (e.g. innovative agricultural practices)</td>
<td>⑥ To enhance women’s participation, utilize foreign assistance in response to housework support needs ⑦ Promote greater entrepreneurialism and establish a new scheme for acceptance of diverse and skilled foreign talent ⑧ Reforms to promote evaluation based on results, not amount of working time spent ⑨ Open operation of public schools to the private sector (commission private sector to operate publicly-established schools) ⑩ Strengthen measures to tackle the shortage of nursery teachers ⑪ Study new mechanisms to further promote the reform of university governance</td>
</tr>
</tbody>
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⑫ Further promote transformation of agriculture as “the sixth industry” and exports
2. What are ‘three arrows of Abenomics’?
Japan is seeking to get rid of deflation and, at the same time, to steadily reduce government debt, while we are faced with a unique challenge—a society aging at an unprecedented rate, with a consequent reduction in the nation’s work force.

To overcome these challenges, Prime Minister Shinzo Abe has taken an initiative of a decisive economic strategy consisting of three pillars, dubbed “the three arrows”. These three arrows consist of aggressive monetary policy, flexible fiscal policy and structural reform of the economy.

In the 12 month period after the inauguration of the Abe administration, economic growth indicators have shown that the Japanese economy has seen substantial improvement. This recent Japanese economic growth has been one of the strongest in the world.

On October 1, 2013, Prime Minister Abe decided to increase consumption tax rate from 5% to 8% beginning April 1, 2014. The objective of this increase is to cover social security expenses, which are expected to grow significantly. The Government also formalized 5.5 trillion yen economic stimulus package, which will counter possible negative influence that the increased consumption tax rate in April 2014 may have on the economy. The Government has remained accountable to the public and has consequently retained public support for its decision to increase the consumption tax, which will no doubt cause some degree of financial pain.
The past 15 years of deflation have not only caused Japan’s economy to stagnate, but also—more fundamentally—have made people lose hope in the future. People feel discouraged to invest, to take on new projects or to engage in new activities. In a vicious circle, this mood has worsened the recessionary trend and has deprived young people of opportunities.

Due to its long-lasting economic stagnation and large national debt, Japan must find a way to achieve sustainable economic growth and improve its fiscal situation.

Sustainability is key. Japan must manage its national debt while maintaining its social security system, which is under growing pressure due to the aging population. Robust economic growth is therefore essential to resolve this dilemma.

**The Challenges of Abenomics**

- Transition of Real GDP Growth Rate in Japan
- International Comparison of Accumulated Public Debt (as a percentage of GDP)

*Source: Fiscal System Council*
Abenomics started from changing people’s negative mindset, which had been fixed by prolonged deflation and economic stagnation by implementing the first arrow of bold monetary policy and the second arrow of flexible fiscal policy.

### The First Arrow (bold monetary policy):

- In January 2013, the government and the Bank of Japan (BOJ) released a joint statement introducing a “price stability target” aimed at achieving 2% inflation. In April, the BOJ introduced Quantitative and Qualitative Monetary Easing (QQME).
- The Government views current market prices as being in the process of ending deflation. Bank of Japan Governor Kuroda stated that "if anything were to arise that poses a risk to meeting the price stability target, I will without hesitation make the necessary alterations to our policy.”

### The Second Arrow (flexible fiscal policy):

- In January 2013, the government formulated an economic stimulus package, with an additional budget of 10 trillion yen (approximately 20 trillion yen in project-size).
- To counter the impact of the April 2014 consumption tax increase (5% to 8%), additional economic stimulus package of 5.5 trillion yen was formulated in December 2013 (around 19 trillion yen in project-size).
- At the same time, the Government will continue to retain its fiscal consolidation target, which includes the halving of the primary deficit by FY2015. The new economic stimulus will also be implemented without issuance of additional Government bonds.
Since the inauguration of the Abe Government, the Japanese economy has achieved five consecutive quarters of positive growth. Numerous economic indicators have trended positively including consumption, employment, and stock prices.

Corporate Business Sentiment

Positive business sentiment has been seen for the first time in 22 years for non-manufacturers, and in 6 years for manufacturers including large companies and SMEs.
3. Fundamental Principles of the Third Arrow and its Strategies for the Future
1) Promotion of Investment

- Corporate investment is to be encouraged to maximize the potential of the private sector.
  - Bold regulatory and institutional reform, bold tax incentives for capital investment.

○ Major Key Performance Indicators (KPI)
  - Return capital investment to the pre-global financial crisis level within three years (target: 70 trillion per year; FY2012: 63 trillion yen).
  - Enhance the ratio of business startups to exceed the ratio of business closures and bring those ratios to a level comparable to the U.S. and UK, which is above 10% (current rate in Japan is around 5%).

2) Strengthen Utilization of Human Resource

- Increase workforce participation of women, youth and the elderly.
  - Support the advancement of women's roles in the workforce and support youth in their search for employment.

○ Major Key Performance Indicators (KPI)
  - Improve female (25 to 44 years of age) participation in the workforce from the current rate of 68% to 73% by 2020.
  - Reduce by 20% the number of long-term unemployed (more than 6 months) over the next five years and increase the rate of employment change and new hiring from 7.4% in 2011 to 9%.
  - Double the number of international students by 2020 (university students and other students from 60,000 to 120,000).
Fundamental Principle of the Third Arrow ②

3) Creation of New Markets

- Create new markets while also addressing common global challenges
  - Streamline the approval process of leading edge medical equipment, and establish an institution that comprehensively manages leading-edge research and development comprehensively.

<table>
<thead>
<tr>
<th>Major Key Performance Indicators (KPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Expand the market size of health care, disease prevention and other life-related industry to 10 trillion yen in 2020 (currently 4 trillion yen).</td>
</tr>
<tr>
<td>- Expand the market size of pharmaceutical products, medical equipment, regenerative medicine and other medical-care-related industry to 16 trillion yen in 2020 (currently 12 trillion yen).</td>
</tr>
<tr>
<td>- Expand the size of PPP/PFI projects to 12 trillion yen over the next 10 years (currently 4.1 trillion yen).</td>
</tr>
</tbody>
</table>

4) Global Economic Integration

- Promote integration with the global economy through encouraging overseas expansion of Japanese companies and foreign direct investment.
  - Promote economic cooperation such as TPP and the Japan-EU EPA, create the most business friendly environment through regulatory reform driven by the establishment of the National Strategic Special Zones, and enhance foreign direct investment.

<table>
<thead>
<tr>
<th>Major Key Performance Indicators (KPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Increase the trade conducted under FTAs to 70% by 2018 (currently 19%).</td>
</tr>
<tr>
<td>- Double the amount of direct investment in Japan by foreign companies to 35 trillion yen by 2020.</td>
</tr>
<tr>
<td>- Attract 10 million international tourists annually in 2013 and 30 million in 2030.</td>
</tr>
</tbody>
</table>
4. Examples of Individual Measures of the Third Arrow
Private Sector Structural Reform

- Enhancing Corporate Governance
  - In order to encourage positive business management, company boards must in principle include external directors (Companies Act was amended in June 2014). They must also clarify the requirement for the inclusion of external directors as a requirement for being listed on the Tokyo Stock Exchange.
  - Establish principles for institutional investors to fulfill their fiduciary duties or Japanese version of “Stewardship Code.” (February 2014).
  - Tokyo Stock Exchange and Nikkei announced a new stock price index, the JPX-Nikkei Index 400, which accounts for profitability and the quality of corporate governance. The new index is to be used from January.

- Revitalizing Private Sector Investment
  - Establish a scheme that provides special depreciation or tax deductions for capital expenditure on leading edge equipment and facilities.

- Promoting Business Realignment
  - A scheme that makes contingency reserves a tax deductible expense for those businesses that realign their businesses to improve profitability will be introduced.

- Developing an Environment that Allows People to take on Challenges
  - Establish a system that grants regulatory exemptions for individual companies which conduct field-tests.
    - Examples of fields to which the system will be applied: Field testing of fuel cell vehicles and road testing of electricity assisted bicycles for logistics, and so on.

- Promoting Venture Capital Investment
  - A bill to establish a legal system for fund-raising through crowdfunding was approved at the Ordinary Diet Session.
Japan’s Stewardship Code

- Japan’s Stewardship Code was established in February 2014. It defines principles for institutional investors to fulfill their fiduciary responsibility and to promote the sustainable growth of investee companies.
- Investors’ Action based on this stewardship code will enhance both mid-to-long term corporate value and investment return, and will also contribute to the growth of the Japanese economy as a whole.
- 127 institutional investors announced their intention to accept the Code by the end of May 2014, including public pension funds, major insurance companies, and trust banks.

Summary of the Code’s Principles

Institutional investors should:

1. Disclose a clear stewardship policy
2. Properly manage conflicts of interest
3. Monitor the status of investee companies
4. Seek common understanding with investee companies and solve problems through engagement
5. Have a clear voting policy and disclose voting activity
6. Report to clients/beneficiaries
7. Have skills and resources necessary for engagement

Features of Japanese Version

- Importance placed on “sustainable growth of investee companies”
- Stresses ‘constructive engagement’ between institutional investors and investee companies
- In-depth knowledge of the investee companies and their business environment required to conduct meaningful dialogue with companies
- A list of institutional investors who publicly disclose their intention to accept the Code was published in June 2014 (To be updated every three months)

Financial Services Agency Homepage

Utilizing the ‘System of Special Arrangements for Corporate Field Tests’ and the ‘System to Remove Gray Zone Areas’

- The Government of Japan has created the System of Special Arrangements for Corporate Field Tests and the System to Remove the Gray Zone Areas, with the aim of encouraging entities to start new businesses. (Based on the Industrial Competitiveness Enhancement Act, which came into effect in Jan 2014)
  - The System of Special Arrangements for Corporate Field Tests allowed companies to test new products and technology for preferential measures only if they ensured safety measures by themselves.
  - The System to Remove the Gray Zone Areas ensures the legality of businesses operating in “gray areas”, where applicable rules aren’t necessarily clear.
- 10 applications (including 6 points outlined below) have been accepted so far.
- Dozens of inquiries have been received regarding the new systems, indicating it will be easier for new businesses to be established as a result of the changes.

Examples of the “System to Remove Gray Zone Areas” being applied

1. Non-medical entities providing exercise instructions for preventing lifestyle-related diseases
2. Non-medical entities providing health related information based on simple blood tests
3. Driving tests on public roads by driverless cars with emergency stop systems

Examples of the “System of Special Arrangements for Corporate Field Tests” being applied

1. An advanced inspection method for gas containers used in manufacturing semiconductors
2. New models of hydrogen tanks for fuel cell forklifts
3. Using electric motor-assisted bicycles in delivery services

Power Assisted Bicycles

Existing Regulations
Up to **two times** pedal power

Preferential measure
Up to **three times** pedal power

Create new special measures

E.g. non-medical entities providing exercise instructions

By ensuring the legality of exercise instructions provided by non-medical facilities, healthcare services will increase in non-medical sectors.

Instructions/Advice

Consultation / Payment

User

Payment

Exercise Instructions

Medical institution

Non-medical entity

E.g. electric bicycles used in delivery services

Allowing delivery companies to use more powerful electric motor-assisted bicycles, enables more women and elderly to work easily.
Reform of Public and Quasi-Public Fund Investment

- The investment of public and quasi-public funds including GPIF and other funds that amount to assets totaling in excess of 200 trillion yen will be revised as per the below policies.
- The cabinet decided to reinforce the governance of GPIF, introducing flexibility to its staff number and remuneration system as the panel proposed.

Overview of recommendations by an expert panel chaired by Dr. Takatoshi Ito, a professor of the Graduate School of University of Tokyo (November 20, 2013)

1. Investment Targets and Policies
   - Considering the current situation of the Japanese economy which is shifting from deflation to a mild inflationary environment, current investment portfolios investing heavily in domestic bonds need to be revised.
   - It is necessary to appropriately set investment return targets, as well as to consider the risk tolerance.

2. Portfolios
   - Portfolios should be diversified by investing in new types of assets (including real estate investment trusts, real estate, infrastructure, venture capitals, private equities and commodities).
   - Consideration should be made to increase the ratio of active investments.
   - Higher returns should be aimed at by selecting benchmarks ingeniously. Funds should consider improvements including using other indexes that enable more efficient investment (e.g. the use of a new stock index that takes into account factors such as return on equity (ROE)).

3. Improving Governance and Risk Management Structure
   - Decisions on key investment should be made under a collegial decision-making system, where full-time experts with consideration given to conflict of interest, play a central role in collegially making decisions.
   - In order to diversify investments and to enhance risk management, it is essential for each fund to introduce leading experts and take measures such as dedicated pay systems for those experts.

4. Maximizing Returns on Equity Assets
   - On the basis of the ongoing consideration of the Japanese Stewardship Code, each fund needs to publish a policy about close dialogues with investment targets and appropriate exercise of voting rights.
The policy asset mix and investments of Japan’s public pension fund (worth approximately 130 trillion yen) will be revised, based on the results of this year’s pension finance revaluation. In addition, new benchmarks have been employed and diversification of investments has been further promoted.

For passive investments in domestic stocks, three indices (including the JPX-Nikkei Index 400) were employed, in addition to the currently used TOPIX. Moreover, J-REIT has been added to the portfolio.

The GPIF (Government Pension Investment Fund) has decided to co-invest in infrastructure with the Development Bank of Japan (DBJ) and the Ontario Municipal Employee Retirement System (OMERS).

GPIF has accepted the Japan’s Stewardship Code (principles for institutional investors to fulfill their fiduciary).

### GPIF efforts towards investment revision

- **Revision of the asset mix policy**
  - The basic portfolio will be revised based on the results of this year’s revaluation of pension finance.
  - GPIF will invest flexibly within the permissible range of deviation.

- **Benchmarks**
  - For passive investment in domestic stocks, three indices including the JPX-Nikkei Index 400 were employed, in addition to the currently used TOPIX.

- **Investment in new types of assets**
  - Co-investment in infrastructure with DBJ and OMERS (see right).
  - Investment in J-REIT.

---

**Infrastructure Investment Schemes**

- **Government Pension Investment Fund (GPIF)**
  - Investment in Unit Trust
  - Profit

- **DBJ**
  - Investment in Unit Trust
  - Maximum investment of USD 2.7 billion in 5 years

- **OMERS**
  - Deal Sourcing
  - Annual Rate of return in the past 5 years 11% (Actual basis)

### Infrastructure (expected investment targets)

- Power generation
- Electricity transmission
- Railways
- Gas pipelines
In April 2014, the Minister of Health, Labor and Welfare appointed 6 new members of investment committee of GPIF (and reappointed 1 member), most of whom are experts on asset management and/or international business.

Three of the members, including chairman Yonezawa, were appointed from the members of the expert panel.

The members of Investment Committee of GPIF

(Reappointed)  Hiromichi OONO
Member of the Board & Corporate Vice President, Ajinomoto Co., Inc.

(New)  Setsuya SATO
Professor at Department of English Communication, Faculty of Letters, Toyo. University

(New)  Jyunko SHIMIZU
Professor, Faculty of Economics, Gakushuin University

(New)  Isao SUGAYA
Managing Director JTUC Research Institute For Advancement of Living Standards. (RENGO-RIALS)

(New)  Yoko TAKEDA  (the term of the member : by 10 July 2014)
Chief economist at Mitsubishi Research Institute Inc.
Kimikazu NOUMI
President and CEO at Innovation Network Corporation of Japan.

(New)  Sadayuki HORIE  [Deputy chairman]
Senior researcher at Nomura Research Institute Ltd.

(New)  Yasuhiro YONEZAWA  [Chairman]
Waseda University’s Graduate School of Finance, Accounting & Law.
Promotion of the Advancement of Women's Roles in the Workforce

- Mobilize all policies to improve female (25 to 44 years of age) participation in the workforce to 73% (68% in 2012) by 2020 and increase the percentage of women in leadership positions to 30%.

(1) Infrastructure development that supports the advancement of women in the workforce (zero childcare waiting-list project)

- Secure additional childcare capacity for approximately 200,000 children by 2015 and 400,000 by 2017.
  *The current childcare center situation: There are approximately 24,000 centers with a total of 2.22 million children using the care facilities. There are approximately 23,000 children on childcare waiting lists.

Support Package

1. Open more childcare centers by utilizing a rental system and Government-owned land (infrastructure)
2. Secure childcare workers to sustain the growing demand (human resources)
3. Advanced implementation of new schemes including subsidies for small scale childcare businesses (create additional childcare capacity swiftly)
4. Assistance for unregistered childcare centers that are seeking registration
5. Support for on-site childcare centers on business premises

(2) Incentives designed to promote the advancement of women’s roles in the workforce

- Support companies that encourage female employees to pursue both career and a family through subsidies or tax measures.
- Encourage companies to disclose information concerning the promotion of women to executive and management positions. “Website visualizing women’s active roles” (http://www.gender.go.jp/policy/mieruka/company/mierukasite.html) was launched in January 2014, putting out the information on women's participation in executive and management positions of private sector and the like.
- In April 2013, Prime Minister Abe himself asked company leaders to proactively promote women within their companies.

(3) Initiatives taken by the Government

- The Government is taking the initiative and being an example in recruiting and promoting women within the workforce and supporting women as they balance both their career and family life (multiple women have been promoted to top-ranking national public servant positions).
The points-based preferential immigration system introduced in 2012 will be revised, being expected to increase the number of skilled foreign professionals entering Japan (May 2012 - April 2013: approximately 430 people).

A greater number of international researchers will be employed as part of the national university reforms. Full-time positions of around 1,500 will be offered to young domestic and international researchers over the next three years.

Policy for the revision of the points-based preferential immigration system

Current scheme

- The categories of the activities of foreign human resources are classified into: (1) academic research, (2) advanced specialties and technical activities, and (3) management and administration. Each criterion (academic background, employment history, income, research achievement) has been set according to the nature of the activity and individuals are given points accordingly.
- When individuals reach the predetermined point level, they will be eligible for preferential immigration treatment (shortened permanent residency waiting times from 10 years to 5 years, permission to bring parents and housekeepers).

Post-reforms

- Expand the scope of compensation recognized as salary (compensation received from foreign offices can now be added to the salary)
- Raise points ceiling in the category of research achievement and award merit points for certain professional degrees (MBA and MOT)
- Loosen income requirements following the change to allow migration of parents and housekeepers
- Shorten permanent residency waiting times from 5 years to 3 years, and so on
Acceptance of Foreign Workers in the Construction Industry

- To accelerate reconstruction in northeast Japan and to respond to the anticipated demand for construction in advance of the 2020 Olympics, Japan will accept work-ready foreign construction workers as an urgent measure (up to FY2020), while simultaneously encouraging Japanese workers to enter the construction industry.

- Foreign workers who have already finished Technical Intern Training in construction will be allowed to work in the construction industry for up to 2 years (up to 3 years for foreign workers who have stayed in their country for more than 1 year after finishing the training) on the visa-status of “designated activities”.

- The measure will be implemented around the beginning of 2015, when foreign workers will enter Japan.
Strengthening R&D Capacity

- Strengthen the leadership of the Council for Science and Technology Policy in order to eliminate vertical segmentation within the Government, and facilitate resource allocation as per the Growth Strategy.
- Prioritize resource allocation as per the roadmap, which accounts for complete procedures from foundational research to practical application.
- Develop a system that guarantees stable career paths for researchers.

- **Cross-ministerial Strategic Innovation Promotion Program (SIP)**
  - A cross-ministerial program that facilitates cooperation across the boundaries of ministries and fields.
  - The Council for Science and Technology Policy identifies challenges and allocates a budget accordingly.

- **Impulsing Paradigm Change through disruptive Technologies (ImPACT)**
  - Drives high risk, high impact research and development that will bring huge paradigm change to Japan's industry, economy and society.

- **Improve the career development environment for researchers**
  - The period of time that researchers, engineers, and so on* at universities or private companies have to work before they are eligible for an open-ended employment contract will be extended from 5 to 10 years.
  - This allows young researchers and engineers to pursue their careers at multiple research institutions and take a path that is complicit with international standards where researchers and engineers and engineers are evaluated after five years (the R&D Reinforcement Act was enacted during the extraordinary Diet session in Autumn 2013).

*Researchers at private companies must be engaged in full-time joint research with a university or other institution to be eligible for this change.
The utilization of ICT in the fields of medicine, aged care and preventative healthcare will be accelerated. Preventative healthcare and optimization of healthcare spending are encouraged.

An ID system will be introduced in 2016 for taxation and social security purposes. The efficiency and speed of administrative services are to be enhanced.

The Government CIO will drive digital administrative services. Public information such as geospatial data and statistics will be made easily accessible to support the creation of new businesses.

Example initiatives in the field of medical services: Digitalization of medical practitioners’ health insurance claims, creation of the Data Health Plan

- Medical practitioners’ health insurance claim and specific health checkup data base (National Data Base)
- *Medical Practitioners’ health insurance claim: 6.9 billion (April 2009 to September 2013) *More than 1 billion annually
- *Data on specific health check-ups and health counseling: around 90 million consultations (consultations completed between 2008 and 2011)

Example initiatives of the digitalization of medical practitioners’ health insurance claims:
- Initiatives of Kure City (population of approximately 240,000)
  - Patients who receive multiple and frequent consultations are identified and given health counseling
    - Some patients were able to reduce their medical costs by as much as 100,000 yen
  - Services to notify and encourage the use of generic medicines
    - In FY 2008, the city was able to reduce medical expenses by around 100 million yen
  - Provision of cooking classes introducing low-carb and reduced sodium diets for those with diabetic nephropathy who do not require dialysis. Provision of consultations and over-the-phone counseling by disease management nurses

The possibility of encouraging private corporations to utilize the national Government database on medical practitioners’ health insurance claims will be explored.

*Excerpts from the 2012 Annual Health, Labour and Welfare Report*
Expansion of Utilization of PPP and PFI

- Funnel private sector funds and expertise into the development of infrastructure that is traditionally dominated by the public sector. This will not only allow for effective and efficient development and management, but it will also provide private companies with a huge market and opportunities to strengthen their international competitiveness.
- Focus will be on altering the perception that owners and managers must be the same. Concession agreements that enable independent management of public facilities by private enterprises will be promoted.
- Expand the size of PPP/PFI to 12 trillion yen over the next 10 years (currently 4.1 trillion yen).

Expanding Eligibility for Concession Agreements
The introduction of a public facility management rights scheme (concession agreements) that allow private enterprises to run public facilities will be encouraged.

Examples:
- Kansai International Airport
- Osaka International Airport
- Sendai Airport, others

Using private funds to counter the issue of the dilapidation of the Metropolitan Expressway
Promote PPP projects by for instance, utilizing space above roads to address the issue of dilapidation of the Metropolitan Expressway and encourage private sector urban development simultaneously (a pilot project is underway for the section of the Metropolitan Expressway near Tsukiji River).
Electricity System Reform

- The first fundamental reform in 60 years. The reform will involve three steps and is expected to be completed by 2020 at the latest.
- Entry of businesses from other industries and regions into the electricity industry is encouraged to expand options for customers and opportunities for businesses. It is also expected that this will lower electricity prices and contribute to stable supply.

**Step 1: Expand use of the nationwide grid (to be undertaken approximately by 2015)**

This will allow more flexibility in balancing power needs between regions in order to ensure supply when power demand and supply is tight.

(A bill was passed during the extraordinary Diet session in Autumn 2013)

**Step 2: Complete liberalization of the retail electricity sector (to be undertaken approximately by 2016)**

This will allow consumers to choose their supplier and charging system.

(A bill was passed during the ordinary Diet session in 2014)

**Step 3: Establish legal separation between electricity generators and distributors and abolish retail price regulation.**

(to be undertaken approximately between 2018 and 2020)

Separate the generators and distributors into independent and neutral entities to allow an accessible and independent power grid. Furthermore, the retail price of electricity will be completely liberalized to ensure competitive electricity pricing.

(A bill is sought to be submitted to the ordinary Diet session in 2015)
Utilization of Highly Efficient Thermal Power Generation

- Enhancing the efficiency of coal-fired thermal power generation is the key to ensuring sufficient electricity supply throughout the world and contributing to minimizing global warming. In 2010, coal-fired thermal power generation accounted for more than 40% of the world's electricity generation.
- The coal-fired thermal power generation technology used in Japan is some of the most advanced in the world and facilitates efficient electricity generation.
- Clarify of requirements and streamline the procedure of environmental impact assessments to create an environment that facilitates smooth investment by private enterprises in highly efficient thermal power generation (e.g. shorten the duration of procedures required for the replacement of thermal power plants from approximately three years to a little over one year).

**Overseas:** Contribute to the reduction of global CO₂ emissions and countering global warming through the introduction of highly efficient coal-fired thermal power generation plants

**Example:**
Applying the efficiency of Japan's latest coal-fired thermal power generators in the U.S., China and India would enable...

- A reduction of CO₂ emissions (approximate 1.5 billion ton per year) exceed to Japan's total emissions

**Breakdown:**
- US: 1.82 billion tons → 1.44 billion tons (-380 million tons)
- China: 35.46 billion tons → 27.81 billion tons (-765 million tons)
- India: 776 million tons → 465 million tons (-311 million tons)

**Domestic:** Reduction of CO₂ emissions and power generating cost through introduction of most advanced thermal power generation

**Aging of domestic thermal power generation plants**
Almost 20% of electricity plants have been in operation for over 40 years.

**Advance of electricity generation (enhancing the efficiency of thermal power generation)**
- coal-fired thermal power generation
  - Aging plants: 37% (around 1980)
  - Latest plants: 43%
- LNG-fired thermal power generation
  - Aging plants: 38% (around 1980)
  - Latest plants: 52%

**Announcement of thermal generation introduction plan by general electricity utilities**
(almost 1.1 million kW)
The revised Pharmaceutical Affairs Act was enacted during the extraordinary Diet session in the previous autumn which enabled the online sale of all non-prescription drugs with a few exceptions*. This will provide consumers with greater purchase options and enhanced convenience. Establishing the internet as the new element of economic infrastructure will create new industries and spur innovation.

* Exceptions include (1) 23 items that have recently been transferred to non-prescription drugs.; and (2) five dangerous drugs. However, the former 23 items will be eligible for online sales within three years after their safety has been confirmed. The latter 5 items must be sold over-the-counter, four of which are medications to improve sexual dysfunction, and their convenient sales may not be welcomed.

### Category 1 Drugs
- High risk
- <Approximately 100 items>
- E.g. gastrointestinal medication, analgesics, pain relief

### Category 2 Drugs
- Medium risk
- <Approximately 8,290 items>
- E.g. analgesics, pain relief medication, cold and flu medication, and so on.

### Category 3 Drugs
- Low risk
- <Approximately 2,950 items>
- E.g. vitamin supplements, probiotics, and so on.

### Pre-reform
- Online sales prohibited

### Post-reform
- 5 of approximately 11,000 items (0.04%)
- Online sales prohibited
- Online sales permitted
Promotion of the Commercialization of Regenerative Medicine

- The 2013 Autumn extraordinary Diet session approved a bill to ensure the safety of regenerative medicine and other relevant bills. They have enabled the creation of an environment that facilitates the swift and safe commercialization of various regenerative medical technologies.

Example initiative: Agenda items adopted by the Highway Program for Realization of Regenerative Medicine (commencement of clinical trials on these agenda items is targeted within one to three years)
- The development of treatments for age-related macular degeneration by transplanting iPS cell-derived cells of the retinal pigment epithelium
- The regeneration of knee meniscus by using synovium stem cells
- The development of minimally invasive treatments for liver regeneration by using cultured human bone marrow cells
- The development of corneal endothelium regeneration treatments by transplanting cultured human corneal endothelium cells

Development of regulation that accounts for the nature of regenerative medicine

Enable medical institutions to outsource the growth and maturation of cells. Also, introduce an accelerated approval scheme that enables the conditional and limited time commercialization of medicines once their effectiveness and safety has been confirmed by a certain number of case studies.

Reference: Number of regenerative medicines on the market by country and region (numbers in brackets indicate medicines undergoing clinical trials)

- Japan: 2 (4)
- Republic of Korea (ROK): 14 (31)
- Europe: 20 (42)
- US: 9 (88)
Review of Rice Production Regulations

- Rice production regulations, which have been in place for more than 40 years, will be reviewed and production allocations and volume targets will be abolished within five years.
- Furthermore, production of strategic crops such as wheat, soy bean and feed rice will be promoted, as will the establishment of a Japanese-style direct payment system that focuses on multilateral functions of rice paddies such as flood control.
- All policies will be mobilized to increase the competitiveness of the agriculture industry and double the incomes of the agriculture industry and agricultural communities.

Revision of Rice Production Regulations

The Government gives each farmer a rice production target and provides subsidies to achieve these goals.

Production allocations and volume targets will be abolished within five years to enable each farmer to produce rice at their own discretion.

Promotion of Strategic Crops

Due to production regulations, crop conversion from rice for human consumption is being encouraged.

Led by concept of market-in production, the Government will assist improvements in productivity and value of wheat, soy bean, feed rice and other crops. Active utilization of rice paddies that have been underutilized due to production regulations will be sought.
Efficient use of Farmland (consolidation and aggregation of farmland)

- Pursue consolidation and aggregation of farmland for the next generation of farmers including agricultural corporations, large-scale family farms, community farms, and enterprise-run farms. Through these initiatives, the Government will aim to increase the number of farms run by corporations by a factor of four compared to 2010 over the next 10 years.

- In order to advance agricultural reforms and reduce production costs, prefectural intermediary institutions that manage farmland will be established in each prefecture in order to consolidate the fragmented farmland ownership. The extraordinary Diet session in autumn 2013 approved the legal framework to facilitate this.

Target

- Ensure that at least 80% of all farmland in Japan is used by next-generation farmers over the next 10 years (reduce costs through the aggregation and consolidation of farmland).

Scheme

The Farmland Intermediary Management Institutions (“Farmland Bank”)

Consolidation of farmland (Image)

- The entrance of general companies into agriculture through the leasing of farmland was fully liberalized in 2009. In the three years following, 1,071 companies began agricultural businesses through leasing (approximately five times more than prior to the liberalization).
Attract Foreign Visitors to Japan

- Attract foreign visitors, particularly from ASEAN nations, through the loosening of visa requirements. By this summer, finalize draft of a scheme to enable foreign nationals (particularly high-income individuals) who meet certain criteria to stay in Japan for extended periods of time.
- Through these initiatives, the Government successfully attracted an annual figure of over 10 million foreign visitors in 2013 for the first time, and is working toward attracting more than 20 million foreign visitors annually by 2020.

### Recent Relaxation of Visa Requirements

<table>
<thead>
<tr>
<th>Commenced</th>
<th>Country</th>
<th>Prior to relaxation</th>
<th>New visas (Length of stay)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 July 1</td>
<td>Thailand</td>
<td>Multiple-entry visa (90 days)</td>
<td>Visa exemption (15 days)</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>Multiple-entry visa (90 days)</td>
<td>Visa exemption resumed (90 days)</td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td>Single-entry visa (90 days)</td>
<td>Multiple-entry visa (15 days)</td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>Single-entry visa (90 days)</td>
<td>Multiple-entry visa (15 days)</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>Multiple-entry visa (15 days)</td>
<td>Multiple-entry visa (30 days)</td>
</tr>
<tr>
<td>October 15</td>
<td>United Arab Emirates</td>
<td>Single-entry visa (90 days)</td>
<td>Multiple-entry visa (90 days)</td>
</tr>
<tr>
<td>November 18</td>
<td>Cambodia</td>
<td>Single-entry visa (90 days)</td>
<td>Multiple-entry visa (15 days)</td>
</tr>
<tr>
<td></td>
<td>Laos</td>
<td>Single-entry visa (90 days)</td>
<td>Multiple-entry visa (15 days)</td>
</tr>
<tr>
<td>November 25</td>
<td>Papua New Guinea</td>
<td>Single-entry visa (90 days)</td>
<td>Multiple-entry visa (15 days)</td>
</tr>
<tr>
<td>2014 January 15</td>
<td>Myanmar</td>
<td>Single-entry visa (90 days)</td>
<td>Multiple-entry visa (15 days)</td>
</tr>
</tbody>
</table>

### Consumption Tax Exemptions for Foreign Visitors

Beginning in October 2014, items exempt from consumption tax for foreign visitors will be expanded to include consumer goods such as food and cosmetics. Tax exemption procedures were also simplified. Also, towards 2020, the number of tax-free shops will be doubled to around 10,000.
Promoting Economic Partnership Negotiations

○ Raise Japan’s ratio of FTA trade from 19% to 70% by 2018, by promoting a wide-range economic partnerships such as the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Japan-China-ROK FTA.

○ In April 2014, a substantive agreement was reached on the Japan-Australia EPA. This comprehensive trade deal with Japan’s biggest bilateral EPA partner, will contribute to the competitiveness of Japanese companies in the Australian market, and to securing a stable supply of the energy, mineral resources and food products for Japan.

○ Negotiations on the TPP have entered the final stages. The government of Japan will continue negotiations with a view to maximizing Japan’s national interests.

**Current status of the Japanese economic partnerships**

13 EPAs mainly with ASEAN countries have entered into force

**Share of trade with EPA/FTA partners in total Japanese Trade**

- **ASEAN, 15.35%**
- **China, 19.75%**
- **Australia, 4.44%**
- **US, 12.85%**
- **EU, 9.78%**
- **GCC, 10.82%**
- **Mexico, 0.89%**
- **Switzerland, 0.75%**
- **Peru, 0.23%**
- **India, 1.04%**
- **Other, 9.19%**

**Japan’s total trade volume 134.4 trillion yen (in 2012)**

**Agreement on Japan-Australia EPA (April 2014)**

**Improved access to the Australian market, for example by removing taxes on approximately 99.8% of Japanese goods**

- **Industrial products**
  - Remove most tariffs immediately
  - Automobiles (currently 5% tariff)
    - For approximately 75% of exported whole vehicles, remove tariffs immediately
    - For other whole vehicles, remove the 5% tariff over 3 years

- **Agricultural products**
  - Remove all tariffs immediately

**Improved access to the Japanese market, for example by removing taxes on approximately 93.7% of Australian goods**

- **Industrial products**
  - Remove most tariffs over a 10 year period

- **Agricultural products**
  - Beef (currently 38.5% tariff)
    - Frozen beef: Reduce tariffs to 19.5% over the next 18 years
    - Chilled beef: Reduce tariffs to 23.5% over the next 15 years

*Introduce safeguards restricting imports if the beef import volume increases beyond a certain point

(Source: Trade Statistics of Japan in 2012, Ministry of Finance)
5. Heading toward...
Today, according to Mr. Richard Haass, the United States faces a raft of formidable challenges as follows;

- The government deficit and the debt.
- Energy
- Immigration
- Politics

- Education
- Infrastructure
- Economic Growth

― “Foreign Policy Begins at Home” (Basic Books 2013)

Many developed countries including Japan face similar challenges. In particular, challenges relating to demographics, government debt, immigration and economic growth.

Given the rapidly aging population, Japan will be the first developed country to address many of these issues. Fortunately, the political resolution and public support seen since the last election has allowed Japan to take significant steps forward.

By pursuing the three arrows strategy of Abenomics and by ensuring that these arrows hit their targets, the Abe administration will successfully prepare Japan to overcome the challenges it faces.

In the process, Japan aims to be a paragon for other developed nations facing similar challenges in the near future.
Based on ‘Japan Revitalization Strategy’ which was formulated in June 2013, viable policies has been implemented swiftly at unprecedented speed. In particular, many related bills were submitted to the Diet in autumn 2013 extraordinary session (First Initiatives) and 2014 ordinary session (Second Initiatives).

In January 2014, ‘Agenda for the Revision of the Growth Strategy’ was compiled to tackle with left over issues including bed rock barriers for business. The Growth Strategy will be revised in mid-2014 through intensive discussion on this agenda. (Third Initiatives)

First Initiatives
- Stimulate business investments
- Accelerate business restructuring
- Establish inter-regional electricity grid system
- Consolidate agricultural farmland
- National Strategic Special Zone

Second Initiatives (Completed by 2017)
- Lower corporate tax
- Crowd funding
- Abolish rice supply control
- Abolish regional monopoly of electricity

Third Initiatives
- Left Over Issues Including Bed Rock
- Barriers for Business
- Further reform corporate tax
- Deregulate employment system
- Separate electricity transmission and distribution

Extraordinary Diet Session
- 9 related bills enacted
  - Industrial Competitiveness Enhancement Act
  - National Strategic Special Zone Act

1st Growth Strategy (Cabinet Decision)
- Development
- Start discussion

“Growth Strategy Action Plan” (Cabinet Decision)
- Related bills to be submitted
  - Reduce the effective corporate tax rate
  - Create ‘the Japan Medical Research and Development Agency’
  - Liberalize entry into electricity retailing

Ordinary Diet Session
- Intensive discussion

“Agenda for the Revision of the Growth Strategy” (Compiled at the Industrial Competitiveness Council)
- Implementation phase
- Intensive discussion

Revised Growth Strategy
- Total Implementation phase
Appendix: Improvement In Economic Conditions (Primary economic indicators)
1. Steady Economic Growth

**Real GDP**

- Under the Abe administration, Japan’s real GDP has achieved **positive growth for 6 quarters**.
- Real GDP growth rate in FY2013 was 2.3%.

(Notes)
1. (Source) Cabinet Office “National Account”
2. The latest peak was 530 million yen in 2008 Q1. Compared with the level at the inauguration of Abe administration (2012 Q4), real GDP level has increased by 4.0%.
2. The Benefits of Rising Stock Prices Are Spreading Widely

**Stock Price**

- The Nikkei 225 index has risen dramatically, reflecting the effects of Abenomics. This performance is especially strong compared with the US and Euro areas.
- The benefits of this stock price rise are widely diffused, not only to households holding stocks but also to the other through insurance and pensions.

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- Nikkei: 50%
- NY Dow: 24%
- DAX: 23%
- Shanghai: -4%

**Accumulated capital gain from holding stocks (trillion yen)**

- Household: 66 trillion yen
- Investment fund: 10 trillion yen
- Insurance: 13 trillion yen
- Pension fund: 7 trillion yen
- Pension: 14 trillion yen

(Source) Bloomberg

(Notes) 1. (Source) Bank of Japan
2. Accumulated from 2012 Q4 to 2013 Q4
3. "Pension" includes part of special account, GPIF, mutual aid pension, etc.
3. Progress Towards Ending Deflation

**Consumer And Land Prices**

- CPI is rising at a moderate pace, and the economy is no longer in a deflationary state. Currently the year-on-year rate of increase is as high as in the US and Euro areas.
- Both commercial and residential land prices have been rising since mid-2013.

**Consumer Price Index (Feb. 2014, year-on-year)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Month</th>
<th>Core Core</th>
<th>Core Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>2013m7-2014m1</td>
<td>-0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>USA</td>
<td>2013m1-2013m7</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>UK</td>
<td>2013m1-2013m7</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Euro Area</td>
<td>2013m7-2014m1</td>
<td>0.3</td>
<td>0.8</td>
</tr>
</tbody>
</table>

**Monthly changes**

- Feb core: 0.0%
- core-core: 0.1%

---

(Notes) 1. (Source) Ministry of Internal Affairs and Communications "Consumer Price Index" (SA)
2. "General, excluding fresh food, petroleum products and other specific components" (core core) is derived by excluding petroleum products, electricity, gas and the other public charges from "general, excluding fresh food (core)."
Business Conditions

Business conditions for firms are improving broadly. Among SMEs, sentiment levels are at their highest in 6 years 9 months for manufacturers, and 22 years 4 months for non-manufacturers.

(Source) Bank of Japan “Short-Term Economic Survey of Enterprises in Japan (Tankan)”
5. Business Trends Suggest Increased Activity

**Investment, Number of New Businesses Established**
- Business investment **rose to 69 trillion yen (nominal)** in the 1st quarter of 2014.
- The number of new businesses established has increased **5.1% (year-on-year)** in 2013.

(Source) Cabinet Office “National Account” (nominal, SA)
6. Economic Recovery is Widespread

**Regional Economies**

- Comparing Nov. 2012 and Feb. 2014, we see economic conditions improved dramatically in every region.

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• The economic recovery has become more gradual — Okinawa</td>
<td>• Recovering steadily — Okinawa</td>
</tr>
<tr>
<td>• In a weak tone — Hokkaido, Tohoku, Hokuriku, Kinki, Chugoku, Shikoku</td>
<td></td>
</tr>
<tr>
<td>• Showing weakness — South Kanto, Kyushu</td>
<td>• Recovering — Tohoku, Tokai</td>
</tr>
<tr>
<td>• Weakened further — North Kanto</td>
<td>• Recovering at a moderate pace — Hokuriku</td>
</tr>
<tr>
<td>• Getting worse — Tokai</td>
<td>• On the way to recovery at a moderate pace — North Kanto, South Kanto, Chugoku, Shikoku, Kyushu</td>
</tr>
<tr>
<td>• Picking up — Hokkaido, Kinki</td>
<td>• Picking up — Hokkaido, Kinki</td>
</tr>
</tbody>
</table>

(Source) Cabinet Office “Regional Economic Trend”
7. Labor Market Is Revitalized

Employment Conditions

- The ratio of effective job offers to applications has risen to 1.08, the highest level in 7 years 9 months. The unemployment rate has fallen to below 4%, the lowest level since October 2008.
- The number of employees is increasing and now exceeds pre-Lehman Shock levels. The participation rate of women in the labor force is increasing dramatically.

Unemployment rate and Ratio of effective job offers to application

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment Rate</th>
<th>Ratio of effective job offers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>4.1%</td>
<td>0.82</td>
</tr>
<tr>
<td>2009</td>
<td>3.6%</td>
<td>1.08</td>
</tr>
</tbody>
</table>

Unemployment rate and labor participation rate of women (3MA)

<table>
<thead>
<tr>
<th>Year</th>
<th>Labor Participation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>47.0%</td>
</tr>
<tr>
<td>2009</td>
<td>48.0%</td>
</tr>
<tr>
<td>2010</td>
<td>48.5%</td>
</tr>
<tr>
<td>2011</td>
<td>49.0%</td>
</tr>
<tr>
<td>2012</td>
<td>49.5%</td>
</tr>
</tbody>
</table>

Notes:
1. Ministry of Health, Labor and Welfare, Ministry of Internal Affairs and Communications
2. Each data is seasonally adjusted
3. (Source) Ministry of Internal Affairs and Communication (SA, 3MA)
8. Wage Increase Becoming More Widespread

**Wage Increase**

- According to this year’s *Shunto* (the annual Spring wage renegotiation), in accordance with the common understanding reached by the “Government–Labor–Management Meeting,” the rate of both average monthly wage increases and the bonuses is at the highest level of the past 10 years, compared at the same period.

![Average monthly wage increase](chart)

![Bonuses](chart)

(Notes) 1. (Source) Japanese Trade Union Confederation
   - The data of 2014 is surveyed on Mar. 31th 2014.
   - Data is compared at the nearest time to 31st Mar. of each year.
   - Objective union is different in each year.
   - Objective union of value-based bonuses is different from that of month-based bonuses.
Building Vacancy Rates, Asset Purchases by J-REIT

- Vacancy rates of large buildings in the Tokyo metropolitan area have shown improvement since the end of 2012, both in the central 5 wards and the 23 wards. Recently it has improved to 5% level in 23 wards for the first time since Sep. 2009.
- The ratio of rural areas in asset purchases made by J-REIT (value based) increased to 18.2% in 2013, the highest rate ever.

Vacancy rates of large bldgs. in the Tokyo metropolitan area

<table>
<thead>
<tr>
<th>Year</th>
<th>Central 5 wards (%)</th>
<th>23 wards (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>5.78%</td>
<td>5.61%</td>
</tr>
</tbody>
</table>

Asset purchases by J-REIT (value based)

- The ratio of rural areas in asset purchases made by J-REIT (value based) increased to 18.2% in 2013, the highest rate ever.

(Notes) 1. (Source) Ministry of Land, Infrastructure, Transport and Tourism based on the Association for Real Estate Securitization’s data
2. Urban area includes Tokyo, Kanagawa Pref, Saitama Pref, Chiba Pref, Osaka, Kobe city, Kyoto city, Nagoya city. Regional area includes the other cities.
10. Japanese companies repatriate more overseas profits

**Repatriated Profits from Overseas Subsidiaries**
- Repatriated profits gained on foreign direct investments by overseas subsidiaries showed a y/y increase of 59% and reached a record high in 2013.
- It is expected that the repatriated cash will be funneled to capital investments in Japan.

**Trends of repatriated profits and retained earnings of overseas subsidiaries**

- Repatriated profits (JPY 3.5 trillion) and retained earnings (JPY 1.8 trillion) have increased significantly over the years.
- The percentage of repatriated profits has increased by 59%.

(Notes) (Source) "Balance of Payments" Ministry of Finance, Japan