

“Abenomics” is Progressing!



**The Latest Progress and Achievements
of the Abe Administration**

April 2014

1. Recent Developments in the Implementation of the Third Arrow of Abenomics

What's new on 'Abenomics'

■ *A substantive agreement on the Japan–Australia EPA(P5)*

A substantive agreement was reached on the Japan-Australia EPA, which will be the biggest bilateral EPA for Japan. Both countries will remove tariffs on about 95% products (including cars into Australia) in ten years after the treaty goes to effect.

■ *GPIF efforts towards investment revision(P6)*

For GPIF's 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.

What's new on 'Abenomics'

■ ***Wage increases have reached levels hardly seen in recent years***

The number of companies raising wages is increasing. Following this year's 'Shunto' (the annual Spring wage renegotiation), the average monthly wage increase was 2.2% (compared with 1.8% in the previous year). Annual bonuses amount to around 5.19 months wages (compared with 4.62 months in the previous year). These results follow negotiations between workers and corporate management, based on a common understanding of the "Government-Labor-Management Meeting for Realizing Virtuous Cycles of the Economy."

■ ***Reduction of the effective corporate tax rate***

A bill to lower the effective corporate tax rate by 2.4% was approved at the Diet and have been implemented since April 2014.

■ ***'Front-loaded' implementation of FY2013 Supplementary Budget and FY2014 Budget***

The government will implement the FY2013 Supplementary Budget and the FY2014 Budget in a 'front-loaded' manner, using clear targets to mitigate against any negative effect of the consumption tax rate hike, and to address downside risks to the economy. The government is asking for the cooperation of relevant municipalities and organizations.

Targets: FY2013SB (340 million Yen): about 70% by the end of June, about 90% by the end of September

FY2014B (1.2 billion Yen): more than 40% by the end of June and more than 60% by the end of September

■ ***Selection of National Strategic Special Zones (P7)***

The first six proposed areas for special zones (Tokyo, Kansai, Niigata, Yabu, Fukuoka, and Okinawa) were selected in March 2014.

Employment guidelines for the zones have been formulated to ensure clarity and to address concerns raised by overseas companies. These guidelines take into account past court cases in relation to unclear employment regulations.

■ ***Acceptance of foreign workers in the construction industry (P8)***

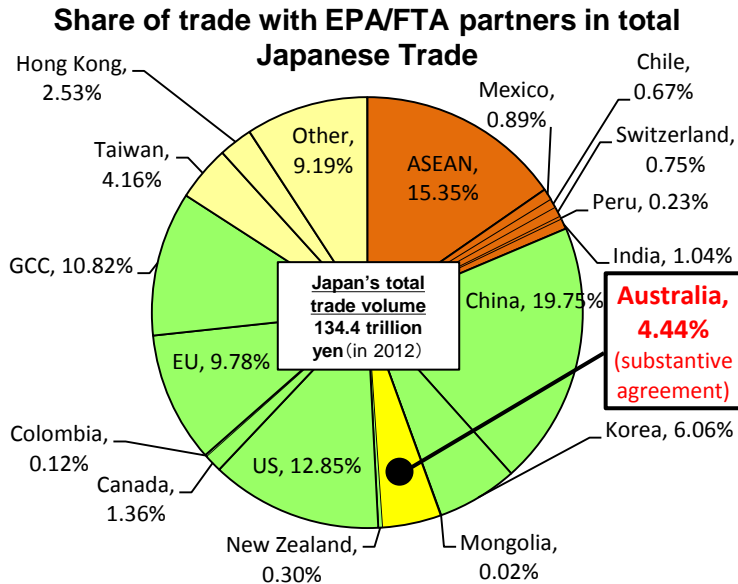
To accelerate reconstruction in northeast Japan and respond to the anticipated demand for construction in advance of the 2020 Olympics, Japan will accept skilled foreign construction workers as an urgent measure (up to FY2020).

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



(Source : Trade Statistics of Japan in 2012, Ministry of Finance) (Total volume for entered into force and under negotiation: 84.4%)

Entered into force: total 18.9%

Under negotiation: total 65.5%

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
*2013 basis

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
*2013 basis

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

Public Pension Funds Investment

- 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).

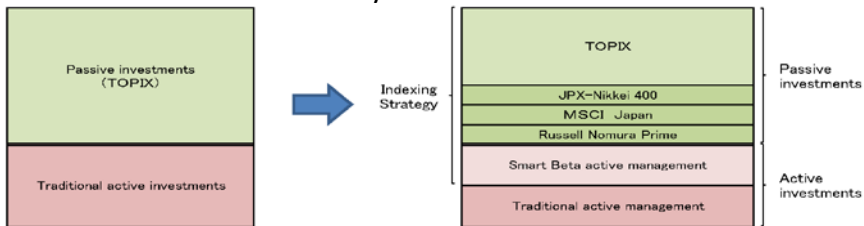
GPIF efforts towards investment revision

○ 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

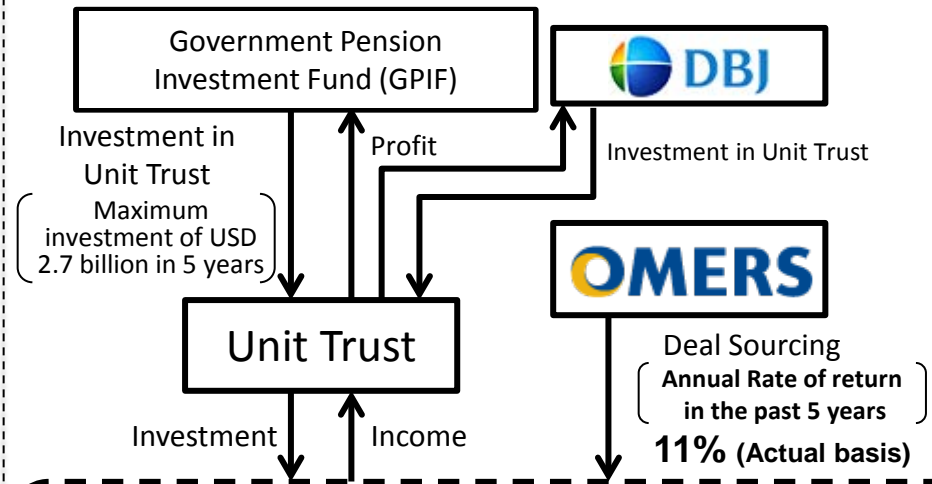
- For passive investment in domestic stocks, three indices including the JPX-Nikkei Index 400 were employed, in addition to the currently used TOPIX.



○ Investment in new types of assets

- Co-investment in infrastructure with DBJ and OMERS (see right).
- Purchase of inflation-indexed Japanese Government Bonds (JGBi) (starting from April 2014).
- Investment in J-REIT.

Infrastructure Investment Schemes



Infrastructure (expected investment targets)

Power generation
Electricity transmission



Railways



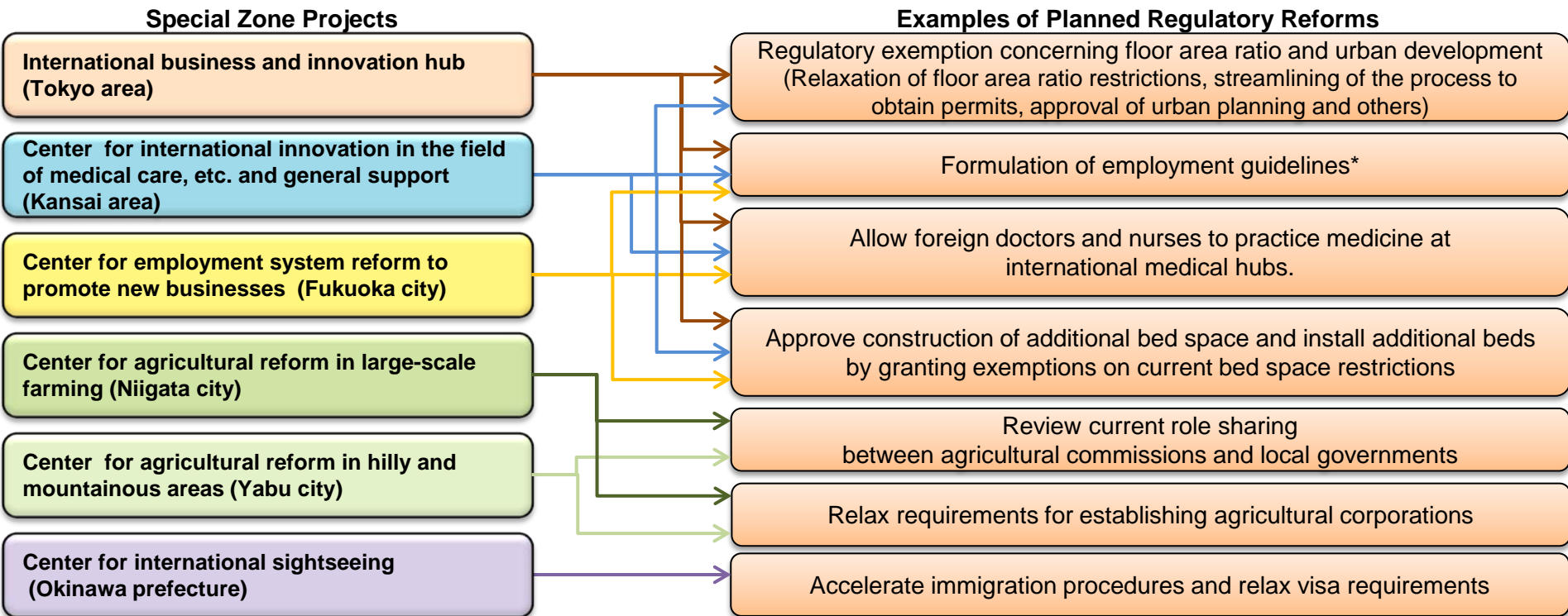
Gas pipelines



Establishment of National Strategic Special Zones

- In implementing the Growth Strategy, the Prime Minister has taken the initiative to establish National Strategic Special Zones that will serve as a gateway for enterprising regulatory reforms. The extraordinary Diet session in autumn 2013 approved the legal framework to facilitate this initiative.
- The first proposed special zones, Tokyo, Kansai, Niigata, Yabu, Fukuoka and Okinawa were selected in March 2014.
- Planned projects for some special zones will be agreed by summer 2014 at the earliest, following cooperation between national and local governments and the private sector.

Examples of regulatory reforms within the National Strategic Special Zones



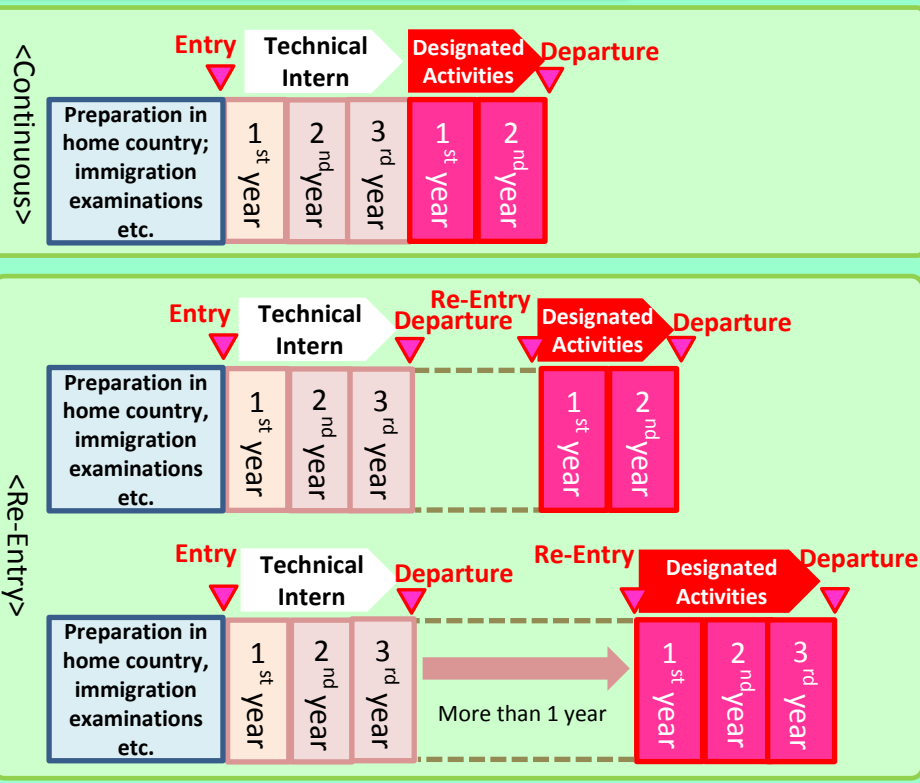
*Regulatory reforms concerning employment

- To ensure clarity and to address concerns raised by overseas companies, employment guidelines have been formulated, taking into account past court cases. An entity to provide businesses with contractual advice on employment issues will be established for each special zone to assist businesses with legal compliance.
- A bill is under deliberation in the current ordinary Diet session to review the duration of employment required before employees become eligible to apply for open-ended contracts. This applies to employees with specialized knowledge/skills on limited period employment contracts.

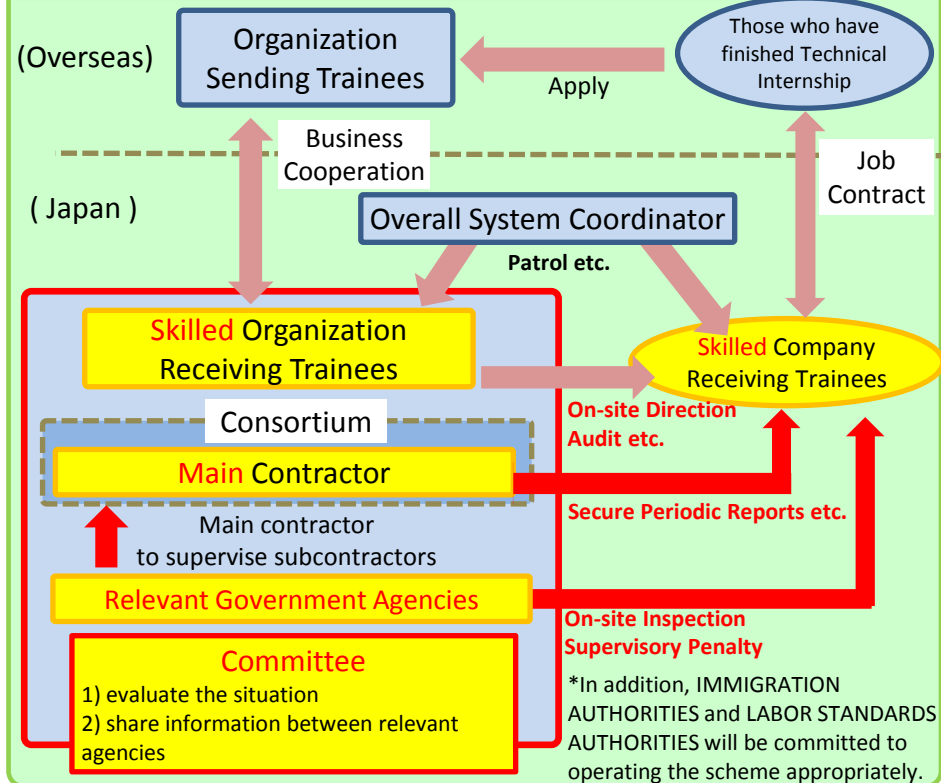
Acceptance of Foreign Workers in the Construction Industry

- 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.

New System to accept foreign workers



New special Scheme for Supervision *In case of <Re-Entry>



2. Achievements of the Abe Administration

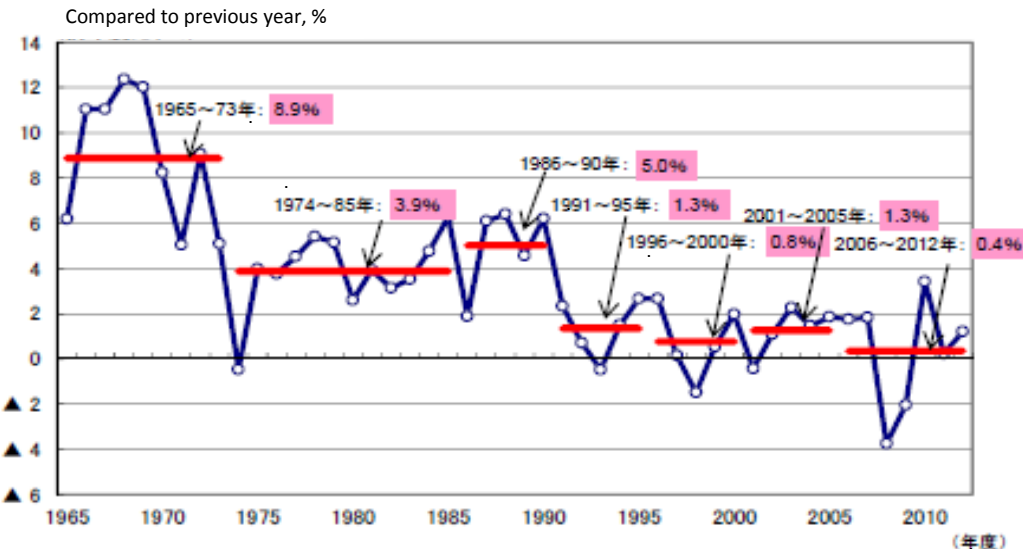
Fundamental Principles of the Economic Policy

- 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 Challenges of Abenomics

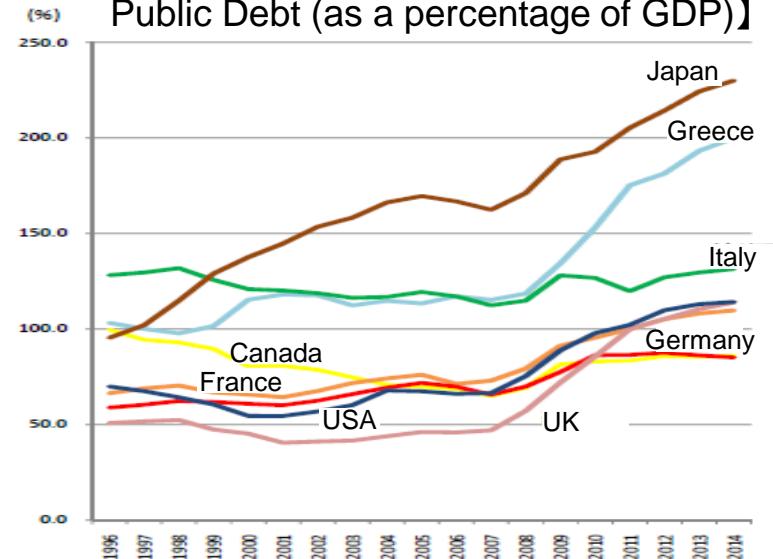
- The past 15 years of deflation have not only caused Japan's economy to stagnate, but also—more fundamentally— have made people lose hope in the future. People feel discouraged to invest, to take on new projects or to engage in new activities. In a vicious circle, this mood has worsened the recessionary 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.

【Transition of Real GDP Growth Rate in Japan】



Source: Fiscal System Council

【International Comparison of Accumulated Public Debt (as a percentage of GDP)】



Source: OECD "Economic Outlook 92"
*total of Central government debt, Local government debt and Social security funds.

The First and Second Arrows of Abenomics

- 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):

Following the bold monetary easing initiatives, the Government is currently closely monitoring market prices and the economy.

- 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):

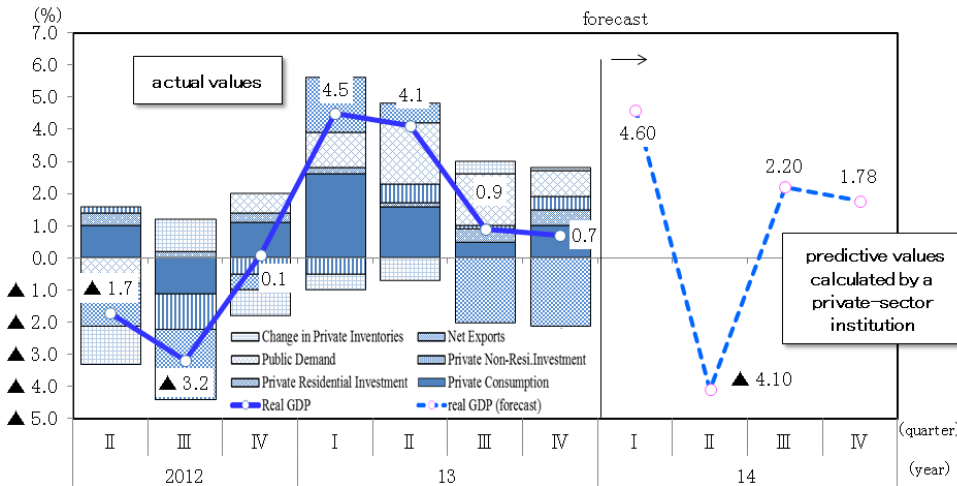
The Government aims to achieve both an end to deflation and fiscal soundness

- In January 2013, the government formulated an economic stimulus package, with an additional budget of 10 trillion yen (an 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.

Economic Upturn

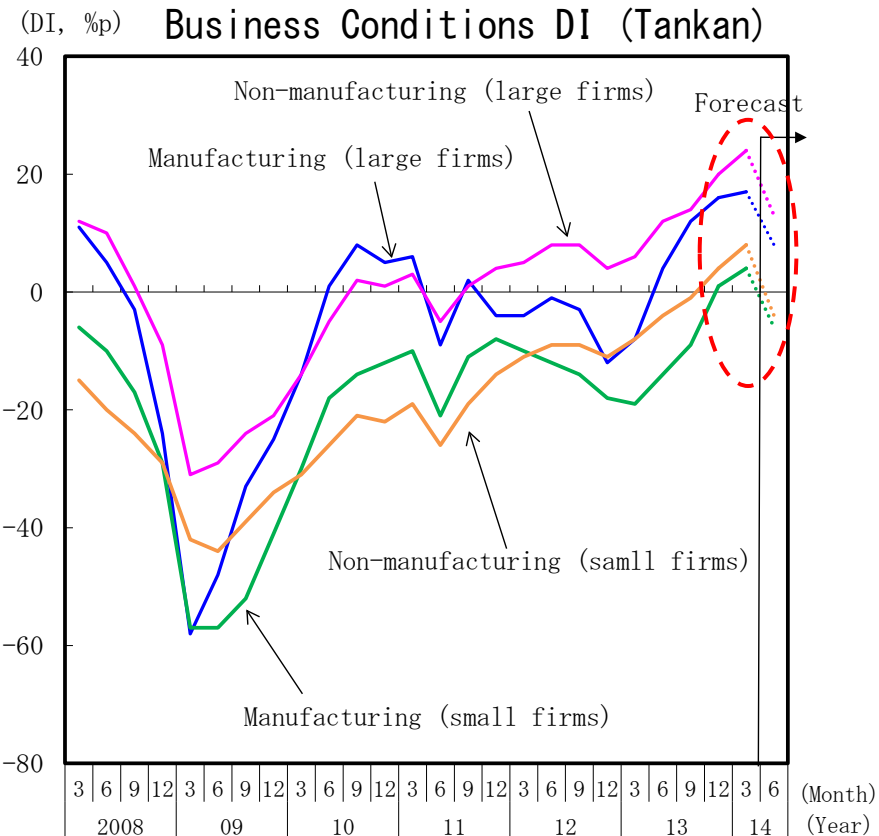
- Since the inauguration of the Abe Government, the Japanese economy has achieved five consecutive quarters of positive growth. Numerous economic indicators have trended positively including consumption, employment, and stock prices.

【Real GDP Growth Rate】



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.



【Employment】



3. Fundamental Principles of the Third Arrow and its Strategies for the Future

Fundamental Principle of the Third Arrow ①

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.

○ Major Key Performance Indicators (KPI)

- Expand the market size of health care, disease prevention and other life-related industry to 10 trillion yen in 2020 (currently 4 trillion yen).
- 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).
- Expand the size of PPP/PFI projects to 12 trillion yen over the next 10 years (currently 4.1 trillion yen).

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.

○ Major Key Performance Indicators (KPI)

- Increase the trade conducted under FTAs to 70% by 2018 (currently 19%).
- Double the amount of direct investment in Japan by foreign companies to 35 trillion yen by 2020.
- Attract 10 million international tourists annually in 2013 and 30 million in 2030.

Strengthening the Growth Strategy

- The Growth Strategy is not merely words on paper. It (1) places the highest priority on putting strategies into action and (2) continue to evolve to achieve further reforms.
- For that purpose, following two documents were formulated in January 2014.

“Action plan for the implementation of the Growth Strategy”

- The action plan was developed by the end of January 2014 to facilitate steady implementation of Japan Revitalization Strategy policies.
- The action plan will outline implementation periods for major policies and the ministers responsible for the respective policies. Implementation of the policies will be managed through a PDCA cycle.

“Agenda for the Revision of the Growth Strategy”

- Pursuing further evolution of the Growth Strategy, a revised Growth Strategy will be developed in mid 2014.
- Leading up to that, the Industrial Competitiveness Council (chaired by Prime Minister Abe) developed a “Direction for consideration of further reforms” that focused on structural reforms in the fields such as employment, human resources, agriculture, health care and nursing care.

4. Examples of Individual Measures of the Third Arrow

Private Sector Structural Reform

- Promote business realignment of companies and create an environment that encourages innovative startup companies and new businesses in order to improve productivity and enhance corporate earnings.
- Support companies that shift to making proactive moves through decreasing the burden on corporations by, for instance, providing tax incentives.

○ Enhancing Corporate Governance

- In order to encourage positive business management, company boards must in principle include external directors (revised Companies Act bill was submitted to the Diet in November 2013). 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.



The Industrial Competitiveness Enhancement Act was enacted during the extraordinary Diet session in autumn 2013.

○ Promoting Venture Capital Investment

- A bill to establish a legal system for fund-raising through crowdfunding was submitted to this Diet.

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

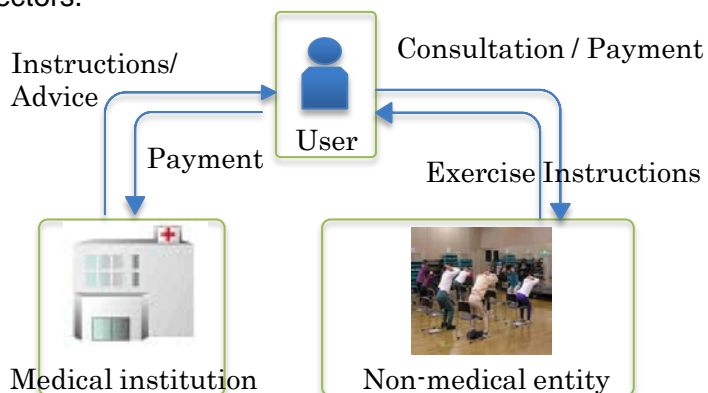
- The Government of Japan has created the System of Special Arrangements for Corporate Field Tests and the System to Remove the Gray Zone Areas, with the aim of encouraging entities to start new businesses. (Based on the Industrial Competitiveness Enhancement Act, which came into effect in Jan 2014)
 - 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
- } To be found legal

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.

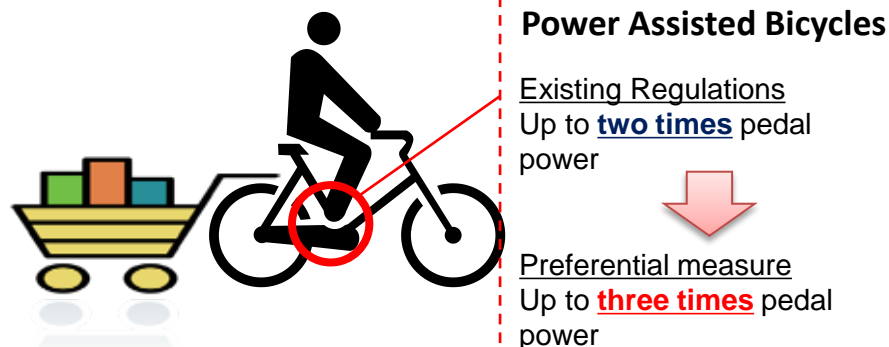


Examples of the "System of Special Arrangements for Corporate Field Tests" being applied

- 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
- } Create new special measures

e.g. electric bicycles used in in delivery services

Allowing delivery companies to use more powerful electric motor-assisted bicycles, enables more women and elderly to work easily.



Japan's Stewardship Code

- Japan's Stewardship Code has now been established. 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.

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 is published
(to be released in early June, and updated every three months)

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.**

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)

*The number of facilities and children are those of authorized childcare centers.

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).

Sourcing High-Skilled Human Resources from Overseas

- 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

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.

Utilization of ICT in Healthcare and Medical Services

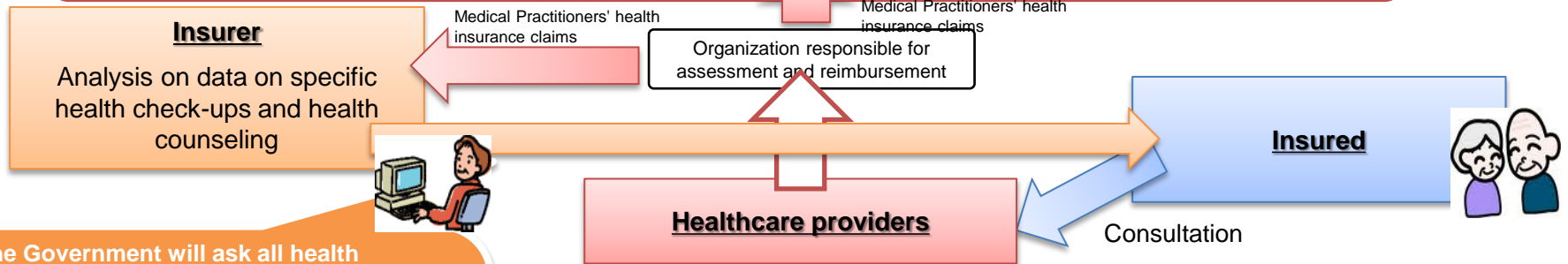
- The utilization of ICT in the fields of medicine, aged care and preventative healthcare will be accelerated. Preventative health care and optimization of health care spending are encouraged.
- An ID system will be introduced in 2016 for taxation and social security purposes. The efficiency and speed 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 publicly 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**)

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

*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)



The Government will ask all health insurance societies to conduct analysis on medical practitioners' health insurance claim data, and create and disclose project plans (Data Health Plan) to maintain and enhance the health of all members based on the analysis. Health insurance societies will be asked to undertake projects and conduct assessment of their effectiveness as per the Data Health Plan.

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

*Excepts 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).

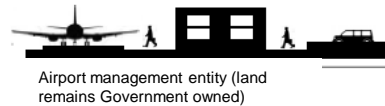
○ Expanding Eligibility for Concession Agreements

The introduction of a public facility management rights scheme (concession agreements) that allow private enterprises to run public facilities will be encouraged

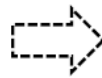
Examples:

•Kansai International Airport •Osaka International Airport •Sendai Airport, others

Utilization of concession agreements at Government-run airports

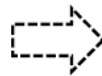


Lack of a sense of community focus and business management due to management by the Government.



Leveraging public sector funds and management expertise.

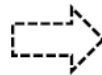
In principle, standardized landing fees across Japan are determined by the Government.



Management tailored to the needs and the respective region.

Runways (Government) and airport buildings (private sector) are managed by separate entities.

*Unique to Japan

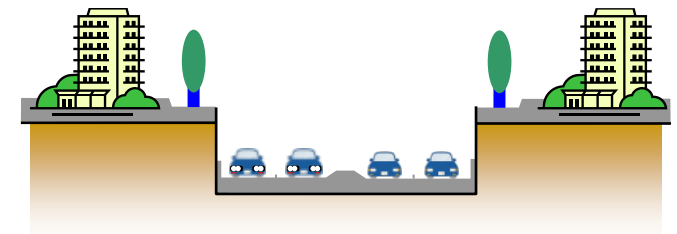


Integrated management of runways, buildings and car parks.
*Global standard

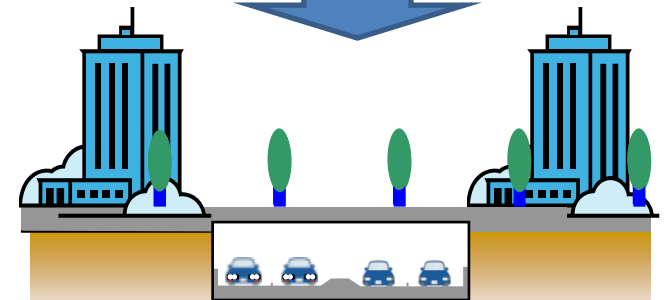
○ Using private funds to counter the issue of the dilapidation of the Metropolitan Expressway

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).

Example of the utilization of the space above an expressway



* A section of lowered roadway owned by Japan Expressway Holding and Debt Repayment Agency



* An expected development based on current land usage above the Metropolitan Expressway Inner Circular Route.

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 is expected to be submitted to 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)

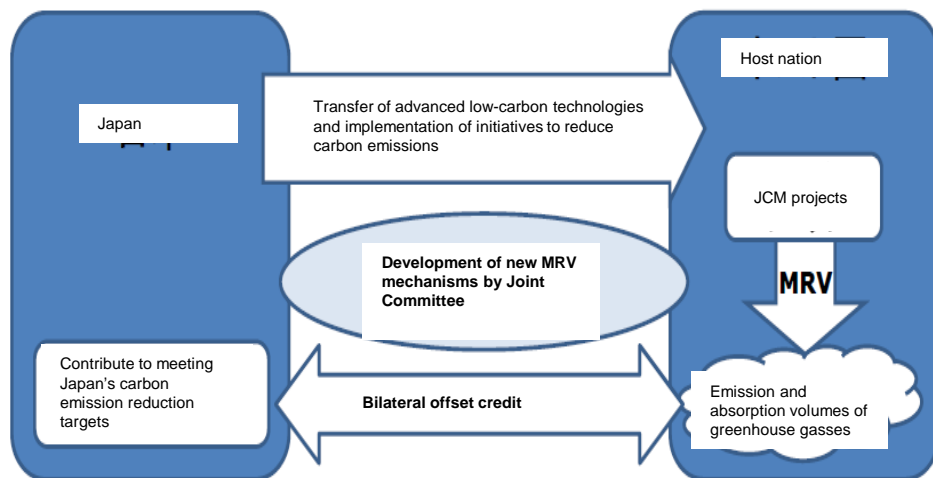
Separate the generators and distributors into independent and neutral entities to allow an accessible and independent power grid. Furthermore, the retail price of electricity will be completely liberalized to ensure competitive electricity pricing.

(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. The Government will proactively export this technology to other parts of the world. The greenhouse gas emission reduction target for COP19 (3.8% reduction of FY 2005 emissions) accounts for the bilateral offset credits that will be earned through the transfer of energy-saving technologies to other countries.
- Clarify and expedite environmental impact assessment procedures to create an environment that facilitates smooth investment by private enterprises in highly efficient thermal power generation (e.g. reduce the duration of procedures required for the replacement of thermal power plants from the usual three years to one year).

Joint Crediting Mechanism (JCM)



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 equivalent to Japan's total emissions (approximate 1.3 billion ton annual decrease)

Breakdown:

US: 1.95 billion tons → 1.56 billion tons (-390 million tons)
 China: 2.27 billion tons → 1.49 billion tons (-780 million tons)
 India: 570 million tons → 390 million tons (-180 million tons)

Review of the Ban on Online Sales of Non-prescription Drugs

- 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	Category 2 Drugs	Category 3 Drugs
Pre-reform	High risk <Approximately 100 items> E.g. gastrointestinal medication, analgesics, pain relief	Medium risk <Approximately 8,290 items> E.g. analgesics, pain relief medication, cold and flu medication, and so on.	Low risk <Approximately 2,950 items> E.g. vitamin supplements,
	Online sales prohibited		Online sales permitted
	5 of approximately 11,000 items (0.04%)		
Post-reform	Online sales permitted		

Promotion of the Commercialization of Regenerative Medicine

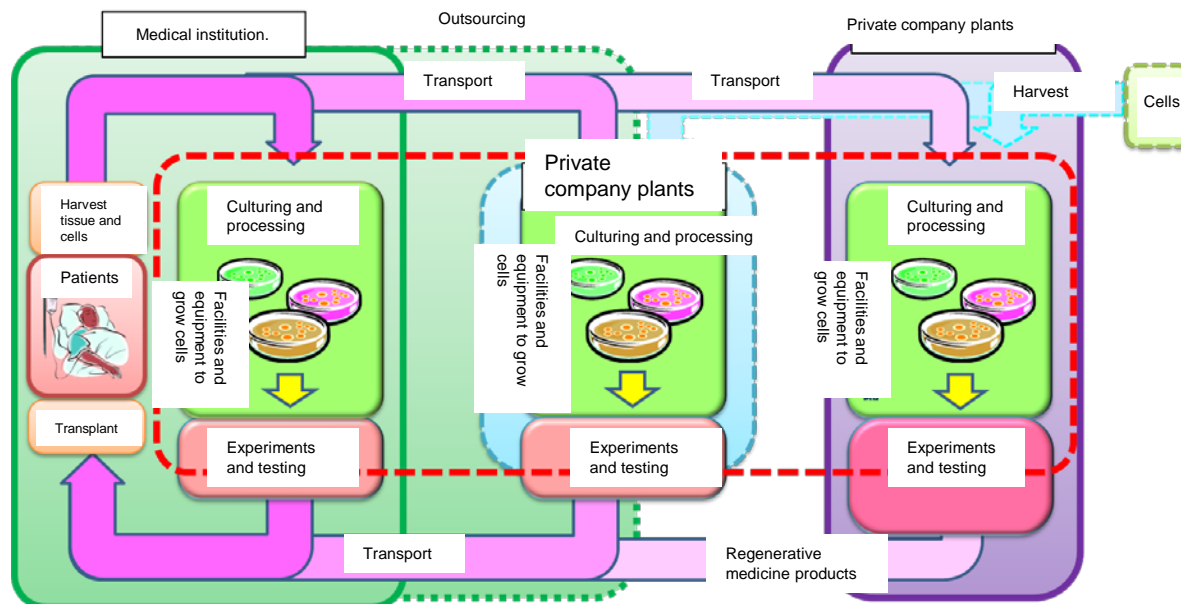
- The 2013 Autumn extraordinary Diet session approved a bill to ensure the safety of regenerative medicine and other relevant bills. They have enabled the creation of an environment that facilitates the swift and safe commercialization of various regenerative medical technologies.

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.



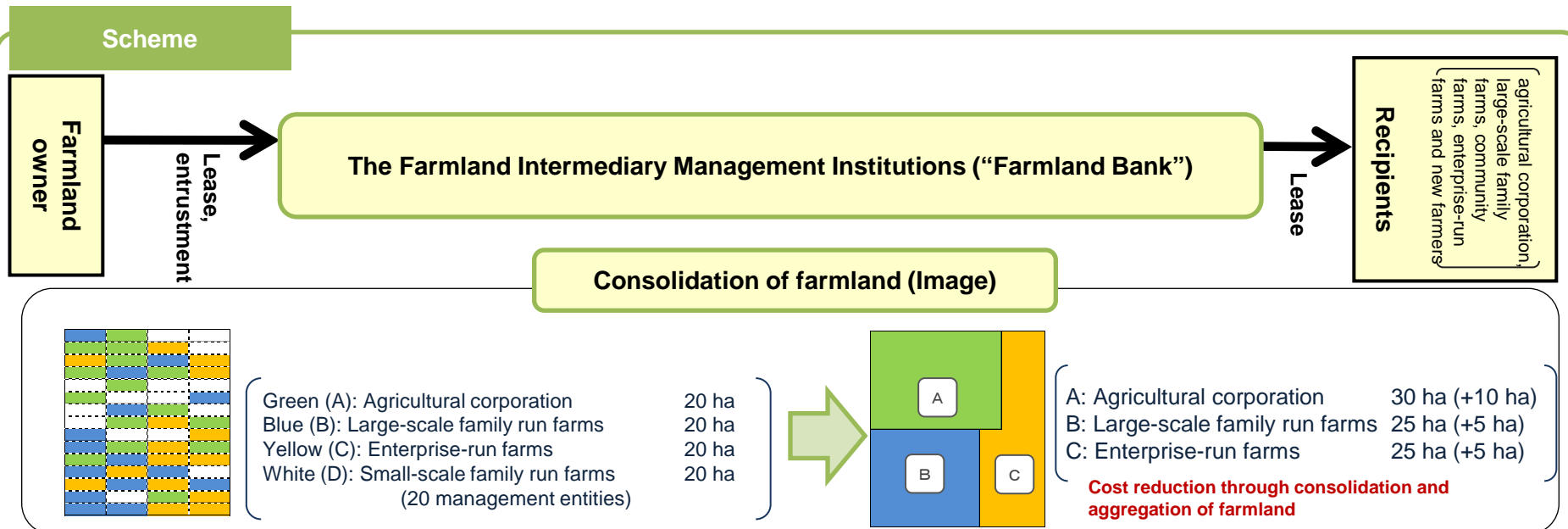
Led by concept of market-in production, the Government will assist improvements in productivity and value of wheat, soy bean, feed rice and other crops. Active utilization of rice paddies that have been underutilized due to production regulations will be sought.

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).

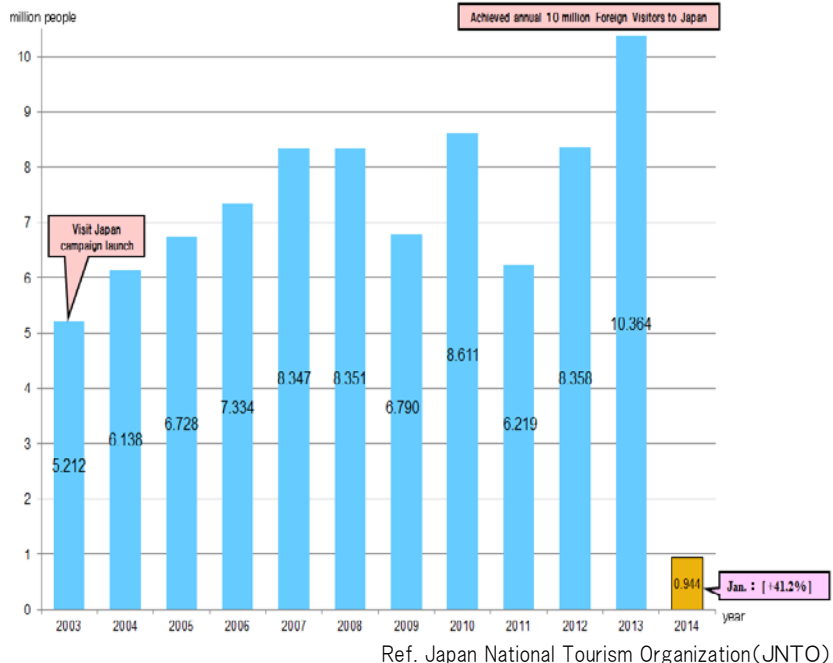


- The entrance of general companies into agriculture through the leasing of farmland was fully liberalized in 2009. In the three years following, 1,071 companies began agricultural businesses through leasing (approximately five times more than prior to the liberalization).

Attracting Foreign Visitors to Japan

- Attracting foreign visitors, particularly from ASEAN nations through the loosening of visa requirements. Finalize a draft concerning a scheme that enables foreign nationals (particularly wealthy individuals) who meet certain criteria to stay in Japan for an extended period of time by this summer.
- Through these initiatives, the Government has successfully attracted 10 million foreign visitors in 2013 for the first time and is working toward attracting more than 20 million foreign visitors annually by 2020 from now on.

Foreign Visitors to Japan



Note: Square brackets are year on year change.

Recent Relaxation of Visa Requirements

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

Consumption Tax Exemptions for Foreign Visitors

Beginning in October 2014, items exempt from consumption tax for foreign visitors will be expanded to include consumable goods such as food and cosmetics. Tax exemption procedures were also simplified.

Current duty free items

- Home electronic appliances
- Bags
- Clothing
- And so on



New duty free items



- Food
- Beverages
- Medicinal products
- Cosmetics
- Other consumable goods

5.Heading toward...

Heading toward...

Japan, from a forerunner full of challenges of developed economy to a trailblazer of finding their solutions

➤ Today, according to Mr. Richard Haass, the United States faces a raft of formidable challenges as follows;

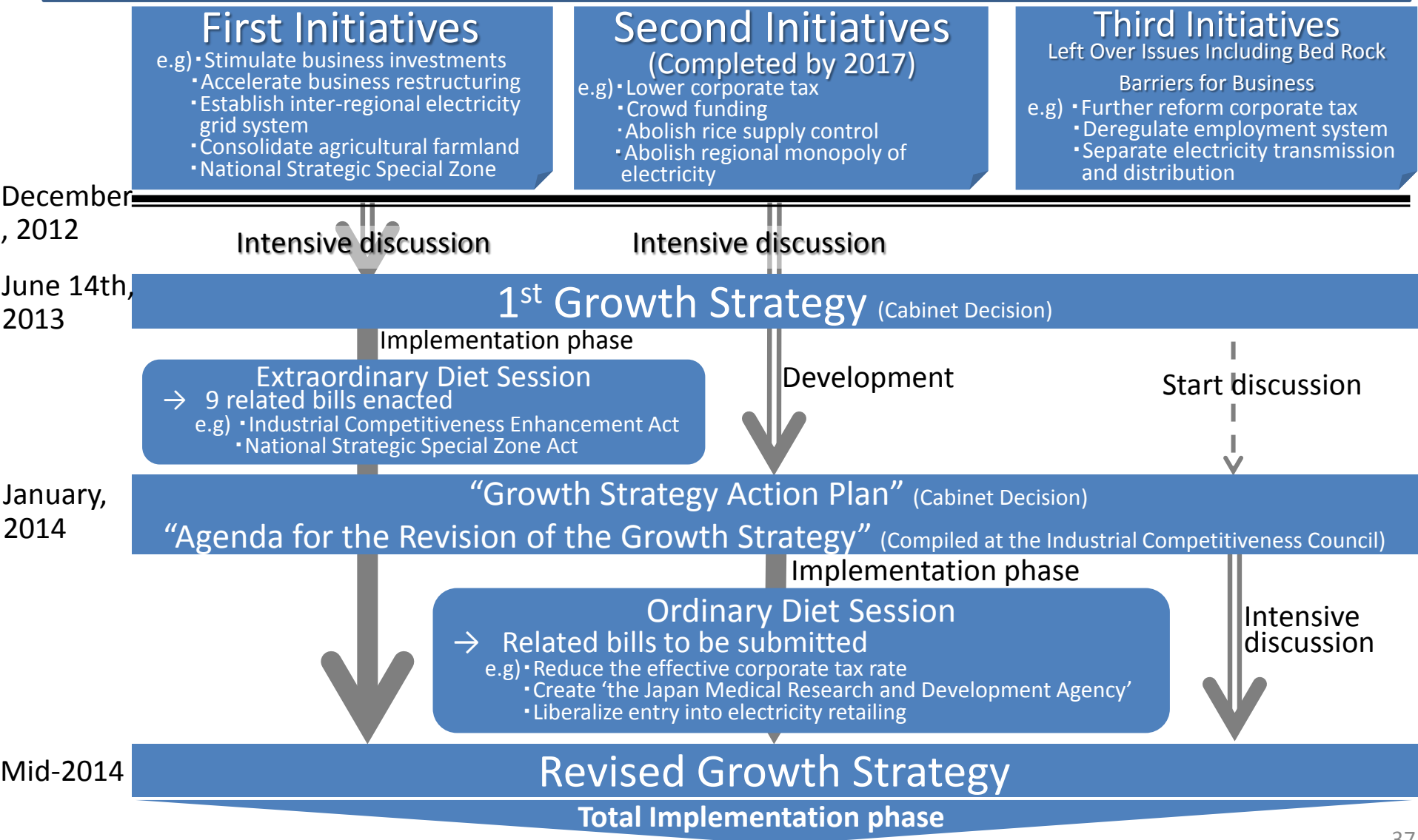
- **The government deficit and the debt.**
- **Energy**
- **Immigration**
- **Politics**
- **Education**
- **Infrastructure**
- **Economic Growth**

— *“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.

Growth Strategy Road Map

- 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)



6.FAQ about Abenomics

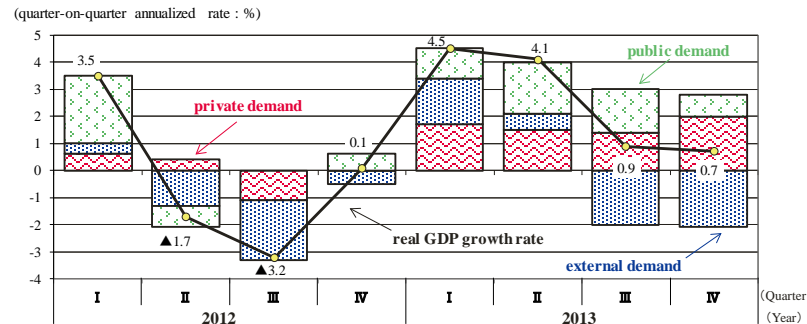
FAQs regarding Abenomics

Q1. The annualized GDP growth rate in Q4 2013 (second preliminary figure) was only about 0.7%. Is Japan's economic growth slowing down?

A. Abenomics produced a steady flow of successful results.

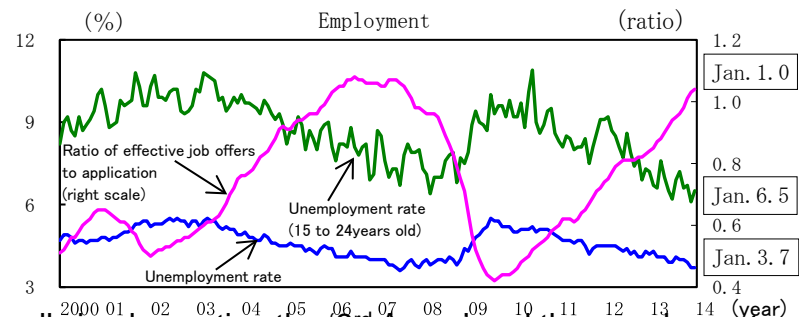
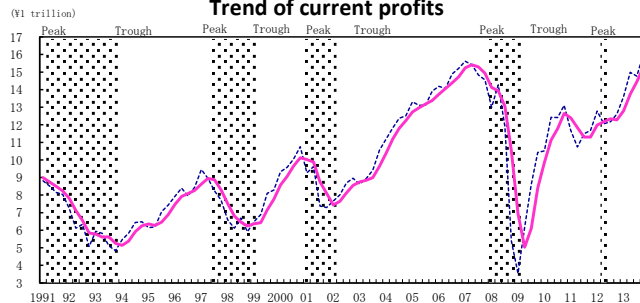
- The annualized GDP growth rate in Q4 2013 (the second preliminary figure) was the fifth consecutive positive quarter, although the rate was revised downward slightly from 1.0% (real rate) and 1.6% (nominal rate) of the first preliminary figure to 0.7% (real rate) and 1.2% (nominal rate).
- Private-sector demand, which consists of consumption and capital spending, contributed more to growth than public-sector demand. Economic conditions have been recovering steadily, as seen in the annualized domestic demand growth of 2.8% (real rate) and 4.2% (nominal rate), while external factors such as the increase of imports negatively impacted the rate.

Trend of real GDP growth rate



- Numerous economic indicators have trended positively, related to employment and corporate performance.

Trend of current profits



- The Japanese government will ensure economic growth by soundly implementing the '3rd Arrow' and the supplementary budget for economic reduction after the consumption tax rate increase in April.

Q2. Are regulatory reforms making progress ?

A. The Abe administration has decided on a policy of numerous reforms, and has submitted relevant bills to the Diet.

○ Since the 'Japan Revitalization Strategy' was established last June, the Abe administration has developed policies relating to multiple reforms, including the following examples:

- Review of rice production regulations, which have been in place for more than 40 years
- Establishment of prefectural intermediary institutions, which manage and consolidate fragmented farmland ownership
- Electricity System Reform, such as the complete liberalization of the retail electricity sector
- Liberalization of online sales of non-prescription drugs
- Promotion of the advancement of women's roles in the workforce (Early realization of zero waiting-lists for childcare)

○ To implement these reforms, nine related bills were enacted in the extraordinary Diet session last autumn and many bills have been submitted and discussed in the current ordinary Diet session.

(Reference) Examples of related bills submitted to this Diet session include:

- Bill for Partial Revision of the Electricity Business Act to liberalize completely the retail electricity sector
- Bill for the establishment of a new agency to strategically manage R&D activities in medical areas
- Bill for Partial Revision of the Employment Insurance Act to develop childcare leave benefits and to support recurrent education by working adults (enacted)
- Bill to encourage companies to invest in state-of-the-art equipment and venture companies (enacted)

○ Furthermore, in January the Industrial Competitiveness Council revealed an agenda that the government will use to discuss further regulatory reforms in medical services, labor, and agriculture. At the same time Prime Minister Abe asked related ministers to tackle the agenda.

(Reference) Examples of regulatory reforms requested by the Prime Minister include:

- Reform of labor time, incorporating inhibition of prolonged work, leave privileges, and flexible work style
- Significantly broadening the scope of advanced healthcare services

○ Further deregulation will be on the table in the framework of 'National Strategic Zones', which Prime Minister Abe described as a gateway of regulatory reforms and 'a drill-bit to break through bedrock regulations'. Along with ongoing nationwide reforms, the government will also address and tackle even bolder regulatory reform.

Q3. How will the corporate tax reform proceed?

A. Approaching an optimal form of corporate tax and taxation base.

- The effective corporate tax (national and local) rate was lowered by 2.4% and various measures to support business activities (including the new tax system to promote effective capital investment) were introduced in the FY2014 tax system revision from April. The bill proposing this revision was approved at the Diet process and enforced.
- Furthermore, the Government has set about further reform of corporate tax. To deliver a technical study, the Government Tax Commission established a discussion group where Ms. Hiroko Ohta (the former Minister of State for Economic and Fiscal Policy) presides*. The government is approaching an optimal framework for corporate tax and the taxation base, considering policy effects, the relationship to other tax items, and competitiveness in the global economy.
 - * In the first meeting on March 12, the chairperson proclaimed that ‘It is necessary to reduce the corporate tax rate.’

Q4. How is reform of the GPIF progressing?

A. The Government is already implementing reforms, based on expert panel proposals.

- Last year, the expert panel of the Cabinet Secretariat proposed that public and quasi-public funds should revise their fund management and governance.
- The cabinet decided to reinforce the governance of GPIF, introducing flexibility to its staff numbers and remuneration system as the panel proposed. The Industrial Competitiveness Enhancement Action Plan (Jan, 2014, Cabinet Decision) also noted that ministries concerned with public funds would implement required measures swiftly and steadily in the light of this proposal.
- The advisory committee in the MHLW, based on the proposal of Cabinet Secretariat, reported that ‘it is not necessary to instruct GPIF to focus on domestic bonds’ and that ‘GPIF should consider new investment assets on the basic premise of securing the benefits of insured persons’.
- The GPIF will decide on a new asset mix policy based on the results of the revaluation of pension finances. The fund is also preparing to implement required measures and is launching infrastructure investments with the Development Bank of Japan Inc.(DBJ) and the Ontario Municipal Employee Retirement System (OMERS).

7. Appendix :

Overview of the “Action Plan” and the “Agenda for the Revision” formulated in January 2014

Overview of the “Action Plan” and the “Agenda for the Revision” Formulated in January 2014

Growth Strategy Action Plan (January 24th, 2014)

- The plan has been drafted **to accelerate and deepen the implementation** of priority growth strategy policies, based on “Industrial Competitiveness Enhancement Act”. The plan **specifies the deadlines for and ministers in charge of regulatory reforms to be implemented over the next three years.**
- **Concrete actions are provided to implement the measures** such as: tax reforms to promote highly productive equipment investment, establishment of the Japan Medical Research and Development Agency, and bold electricity system reform (liberalization of entry into electricity retailing), etc.

Agenda for the Revision of the Growth Strategy (January 20th, 2014)

- The government **had been tackling with left over core issues** to help Japan’s economy evolve and grow since last June. The results were compiled as **“Agenda for the revision of the Growth Strategy”** this January.
- Further discussions **will be continued in line with this agenda and the result will be reflected to the revision of its strategy mid-year.**

(Notice 1) The following charts show major policies decided in “Growth Strategy Action Plan (Draft)” and “Agenda for the Revision of the Growth Strategy”

(Notice 2) This is the draft of latest developments of the growth strategy of the 2nd Abe administration. Details are found at the following site.
<http://japan.kantei.go.jp/letters/message/abenomics/1.html> (“Abenomics is Progressing!” on the website of Prime Minister’s Office)

(Notice 3) ☆ marks in the following charts indicate;
☆ : The related bill has been enacted last autumn.
☆☆ : The related bill will be submitted to the Ordinary Diet Session this spring.
☆☆☆ : The related bill will be submitted to the Ordinary Diet Session next spring.

1. Industrial Competitiveness

-Improve the industrial competitiveness environment by reforming the corporate tax and business regulatory frameworks

-Stimulate innovation through venture enterprises, etc.

-Improve corporate governance to enhance the industrial competitiveness

Policies underway (completed by 2017) ("Action Plan")

- **Reduce the effective corporate tax rate**
(Abolishment of tax increase for reconstructing Tohoku district.) (☆☆)
- **New tax system to promote business restructuring** (☆☆)
- **New tax system to promote venture investments** (☆☆)
- **"The System to Eliminate Regulatory Gray Zones" and "the Special System for Corporate Field Tests"** (☆)
- **Promote the appointment of independent board members to improve corporate governance**
(The related bill was submitted last autumn.)

Policies in design (completed by mid-2014) ("Agenda")

- **Reform the effective corporate tax rate**
- **Develop policies to stimulate innovation**
 - Improve the R&D environment
 - Promote cooperation among venture enterprises and larger corporations
- **Promote the use of Information Technology**

2. Finance

-Revitalize the financial and capital markets by effectively managing Japan's financial assets

-Generate higher values by fostering the positive interaction between financial markets and real economic activities

- **Improve the management of public/quasi-public funds such as GPIF**
(The direction of the reform was decided last autumn)
- **The Japanese Stewardship Code**
(This code will be finalized no later than this spring)
- **Promote crowd-funding, etc.** (☆☆)

- **Direct household assets to investments in growing markets**
- **Develop concrete policies to raise Japan's standing as an international financial center**
- **Enhance direct inward investment to Japan**

3. Special Zones

• Create the best business environment in the world

• Boldly promote regulatory reform

Policies underway (completed by 2017) ("Action Plan")

- **The bill was enacted last autumn. The PM will designate "National Strategic Special Zones" to drastically reduce regulations. (☆)**
- **Examples of regulatory reform**
 - Promote medical examination by foreign physicians
 - Ease regulations on land use, such as the size of buildings
 - Clarify employment rules in the area by introducing new guidelines

Policies in design (completed by mid-2014) ("Agenda")

- **Further deregulations in the "National Strategic Special Zones"**

4. Labor

• Build a society where woman, youth, and the elderly can work

• Expand options for employment

- **Reform employment system to enable the shift of labor force from matured industries to growing areas in a seamless way (☆☆)**
- **New employment system to enable highly skilled workers to choose longer fixed-term contracts (☆☆)**
- **Provide additional childcare services to improve the working environment for women caring for children**
(This policy will be completed by the end of FY2017)

- **Increase transparency of employment rules in Japan**
- **New employment system based on clear and concrete job descriptions**
- **Appropriately ease regulation on working hours**
- **New framework to reduce the cost for employers to grant employees' childcare leaves**
- **New afterschool childcare system for elementary school students to enable their mothers to work**