New Growth Strategy and Global Outreach Strategy

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Signs of Recovery in the Japanese Economy: An Economic Tidal Shift

GDP Growth Rate

The Japanese economy shifted from negative to positive growth after the change of government.

Improvement in the annual growth rate (in real terms)

July-September 2012		January-March 2013
Minus 3.6%	➡	**Plus 4.1%**

Exports

Exports increased due to the correction of the yen's appreciation.

Improvement in the contribution of net exports (in real terms) to GDP

July-September 2012		January-March 2013
Minus 2.5%	➡	**Plus 1.5%**

Consumption

Consumption is starting to pick up.

Improvement in the contribution of final consumption expenditures by households (in real terms) to GDP

July-September 2012		January-March 2013
Minus 1.1%	➡	**Plus 2.1%**

Capital investment

Although the margin of the decline in private capital investment has narrowed recently, the level of investment is around 10% lower than the pre-Lehman Shock level.

The margin of the decline in capital investment (in nominal terms) has narrowed.

July-September 2012		January-March 2013
Minus 13.5%	➡	**Minus 0.6%**

Private capital investment (in nominal terms)

Pre-Lehman Shock level		Fiscal 2012
Approximately ¥70 trillion	➡	**Approximately ¥63 trillion**

Realization of an Autonomous and Sustainable Economic Recovery through Increases in Private Investment and Income

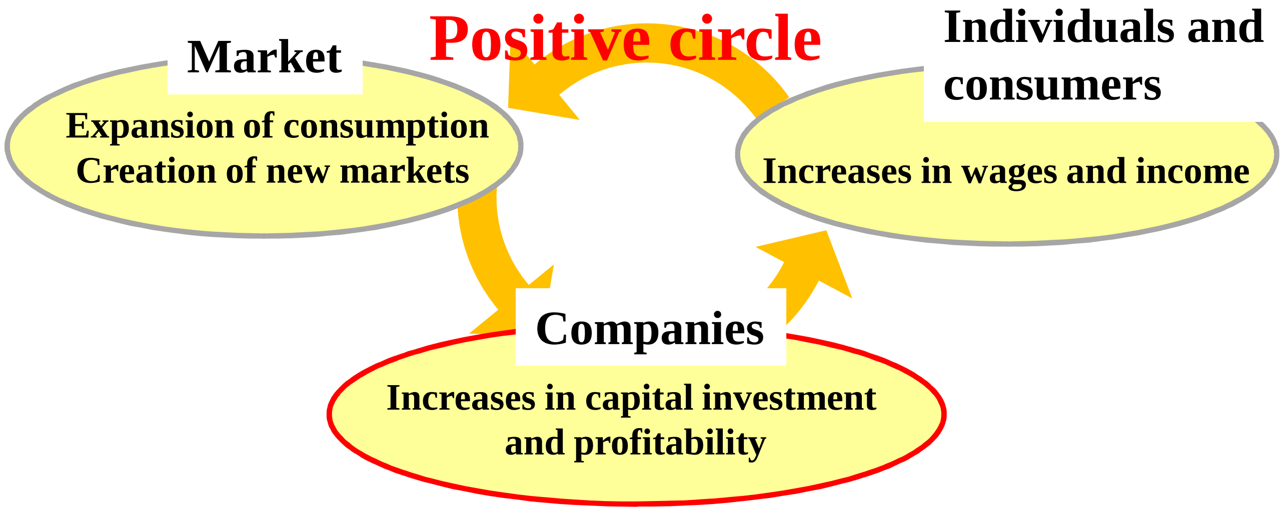
- *Resolution of three factors of "stagnation" (human resources, technology and financial resources problems)*
- *Reversing the vicious circle of deflation*

Correcting the three distortions

- **Investment shortage**
- **Excessive regulation**
- **Excessive competition (Surplus facilities)**

Three key points for a shift to a virtuous circle

1. **Expansion of private investment (equipment and R&D)**
2. **Advance into new markets**
   Opening of business fields close to public sector
   insurance to the private sector
3. **Promotion of business restructuring**



1. Correction of Investment Shortage <Expansion of Private Investment>

Improvement in the annual growth rate

Minus 3.6% (July-September 2012) → Plus 4.1% (January-March 2013)

Expand capital investment by 10% over the next three years

Surpass the pre-Lehman Shock level

(approximately ¥70 trillion/year)

Emergency Economic Package (¥10 trillion)

(i) Tax breaks for promoting investment in production and other facilities

→The capital investment amount is expected to increase by **approx. ¥800 billion.**

(ii) Tax breaks for promoting R&D

→The R&D investment amount is expected to increase by **approx. ¥140 billion.**

(iii) Subsidy programs to promote investment in advanced facilities

→The capital investment amount is expected to increase by **approx. ¥1 trillion.**

Policy changes under the new government

(i) Taking measures to overcome deflation and correct the yen's excessive strength.

(ii) Establishing a network of economic partnership through such measures as participating in TPP (Trans-Pacific Partnership) negotiations.

(iii) Reviewing the energy and environmental policies from scratch.

(iv) Taking measures to correct the rigidity of the employment system

Additional measures to be taken during the period of emergency structural reform

(i) Promote building and closure of production facilities (through tax and other measures)

(ii) Promote investment in new facilities using leasing arrangements

Promote the use of leasing arrangements to encourage bold capital investment in advanced facilities such as those for 3D printers.

(iii) Creating a financing program for clean energy

Promote new businesses that enable households and small and medium-size enterprises to introduce solar panels and storage batteries without incurring initial costs.

(iv) Maintain and strengthen the R&D and advanced manufacturing functions in Japan

Japanese companies' return to Japan <Back>

Improvement in the environment for locating business operations in Japan <Change>

Improvement in investment, profit and income <Up>

Matters concerning Requests for Tax System Reforms (related to the growth strategy)

1. Expansion of private investment

Increase the investment amount back to the pre-Lehman Shock level (¥70 trillion/year) over the next three years.

○Tax breaks for promoting building and closure of production facilities

2. Promotion of creation of new businesses

Increase the business start-up rate to a level higher than the business closure rate and close to the levels in the U.S. and the UK (higher than 10%).

○ Tax breaks for promoting investment in venture businesses
○ Tax breaks for companies carrying out business restructuring to advance into new business sectors

3. Promotion of business restructuring

Produce a number of leading global companies (in major and niche markets) and highly profitable companies.

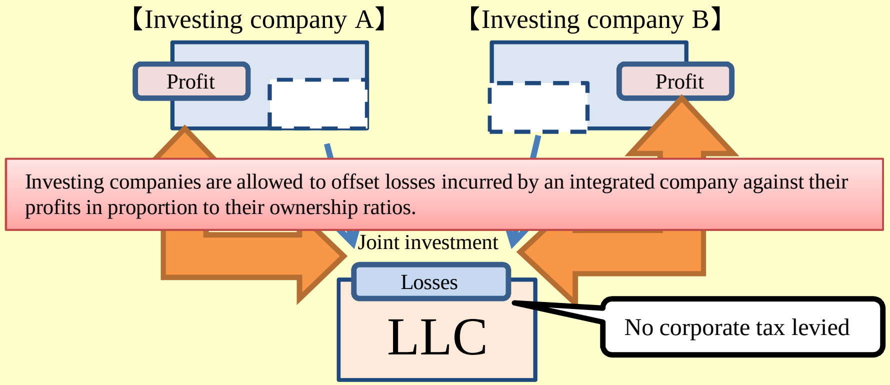
○ Tax breaks for companies carrying out business restructuring to advance into new business sectors (previously mentioned)

2. Correcting Excessive Competition <Promotion of Business Restructuring>

Implement bold tax measures and institutional reforms to encourage business managers to make decisions

(i) Use of LLCs (limited liability companies) to support business restructuring

Enable bold restructuring by allowing investing companies to record losses arising at the start of new businesses on their account books.



Treatment of profit-loss offsetting regarding LLCs and similar organizations				
	U.S.	**UK**	**Germany**	**Japan**
Presence or absence of profit-loss offsetting	○	○	○	×

(ii) Realization of labor mobility without job losses

(A major shift in employment policy from excessive focus on maintaining jobs to support for labor mobility)

Shift funds drastically from the **employment adjustment subsidy program** (**¥113.4 billion** in fiscal 2012) to the **labor mobility support subsidy program** (**¥240 million** in fiscal 2012) to reverse the budget amounts of the two programs.

Support for Labor Mobility

○ Shift the focus of employment adjustment from the "maintenance of jobs" to "job switching" and take measures to enable workers in mature industries to move smoothly to growth industries without losing their jobs.

Now

- Significant decrease in sales and production volume
- Maintenance of jobs through employment adjustment subsidy (three years at the maximum)
- Failure due to delay in business restructuring
- Loss of job
- Vocational training
- "Hello Work" public employment security office
- Re-employment

After the execution of the growth strategy

- Significant decrease in sales and production volume
- **Job switching supported by labor mobility support subsidy**
  - Vocational training to prepare for job switching
  - Matching of job seekers and employers by private companies
- **Successful job switching without loss of job.**

Drastic shift of funds from the employment adjustment subsidy program to the labor mobility support subsidy program

Improvement of the labor mobility support subsidy program

- Provide subsidy when companies from which workers move use training conducted by private staffing businesses
- Providing subsidies for training (including OJT) conducted by companies receiving workers

- **Draft a “Bill to Strengthen Industrial Competitiveness (tentative name)” for submission to an extraordinary Diet session this autumn**
- **Implement a new policy package intended to stimulate the restructuring of the economy, with the following measures as its pillars, so as to realize smooth shifts of human resources, technologies and financial resources to growth sectors:**

  1.Expansion of private investment

  2.Advance into new markets

  3.Promotion of business restructuring

3. Two Pillars of the Strategy for International Expansion

1. Establish a worldwide network of "economic partnerships"

Promote multiple layers of economic partnerships, including not only TPP (Trans-Pacific Partnership) but also RCEP (Regional Comprehensive Economic Partnership), Japan-China-ROK FTA and Japan-EU EPA.

⇒ **Aim to establish a network of economic partnerships that covers most of Japan's trading partners.**

2. Strategic approach to emerging countries

Emerging countries' circumstances differ, such as how economically developed they are, how many Japanese companies are operating there and what the status of competition between domestic and Japanese companies and between domestic and foreign companies is.

⇒ **It is necessary to identify priority sectors and adopt a strategic approach that avoids treating all emerging countries in the same way.**

*Although an in-bound strategy relating to matters like direct investment in Japan is also important as another pillar of international expansion, it will not be on the agenda this time.

Strategic Approach to Emerging Countries (Overview)

・Make a strategic advance into new markets by classifying emerging countries into three types.

・Make strategic and intensive efforts to A) support Japanese companies' international expansion, B) export infrastructures and systems and C) secure the supply of resources from emerging countries in accordance with the characteristics of each type and each country.

1) China and ASEAN

Number of Japanese companies: Approx. 30,000 companies

(i) Although Japanese manufacturers have formed industrial clusters and gained a substantial market presence, China and South Korea are catching up. It is necessary to build infrastructures in order to create more advanced supply chains.
(ii) The consumption market has expanded. It has become more significant to gain market shares.

Full-fledged advance

(i) Further strengthen competitiveness in sectors into which Japanese companies have already advanced.
(ii) Gain market shares in a broad range of industries, including non-manufacturing ones (e.g., the "Cool Japan" initiative).

2) Southwest Asia, Middle East, Russia, CIS and Latin America

Number of Japanese companies: Approx. 3,000 companies

(i) The wealthy and middle classes have grown, the market size is large and the growth rate is high, but Japanese companies have lagged in advancing into these regions.
(ii) There are many resource-rich countries, so it is necessary to establish and strengthen broad economic relationships from the perspective of securing resources as well.

Reaching critical mass

(i) Make full-fledged advances into promising sectors and gain some market share and presence.
(ii) Strengthen relationships with resource-rich countries by increasing investment and promoting technical cooperation.

3) Africa

Number of Japanese companies: Approx. 500 companies

(i) There are high expectations of population growth and market expansion, making it necessary to advance into the region as soon as possible, but Japan is lagging so much that it is losing out before competing with other countries.
(ii) There are many resource-rich countries, and resource development and infrastructure building have proceeded.

Creating successful cases of advance into the region

(i) Create as many successful cases of advance into the region as possible.
(ii) Win contracts for (carry out) specific projects relating to resources and infrastructures

A) Support Japanese companies' international expansion

B) Export infrastructures and systems

C) Secure the supply of resources from partner countries