

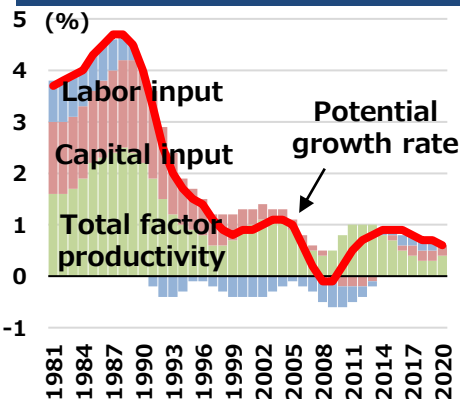
Interim Report for Committee on New Direction of Economic and Industrial Policies

Economic and Industrial Policy Bureau

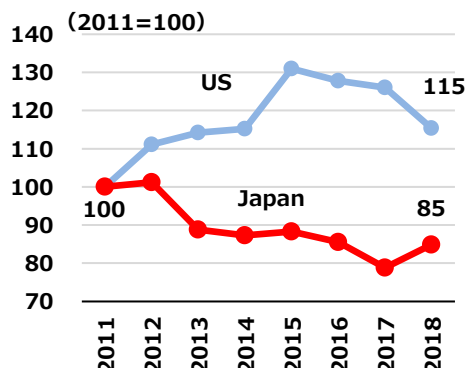
Issues about Japanese Economy

- Stagnant growth of Japanese economy for the past 30 years, sluggish capital and human capital investment, expected decline of GDP relative to the world, necessity to shift to an economic structure supported by income balance through investing globally.
- Decline of international competitiveness and value creation of Japanese companies. 40% of representative Japanese companies* have market caps below net assets (PBR < 1). *Assuming companies consisting TOPIX500
- Historical scale economic and social reforms are being sought in the world in order to solve social issues such as climate change and economic disparity.

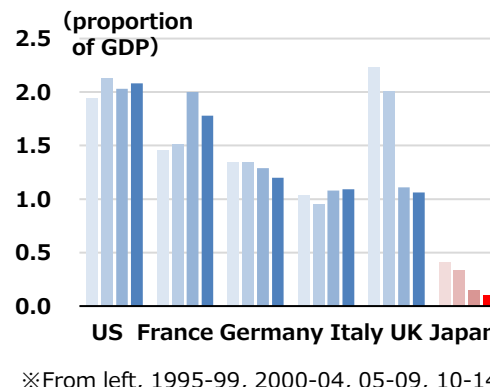
Potential Growth Rate



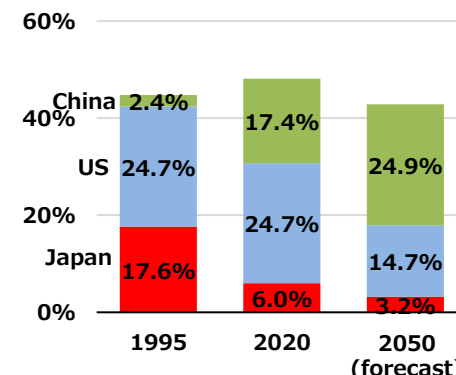
Ratio of Corporate Profits and Capital Investment (Indexed based on 2011)



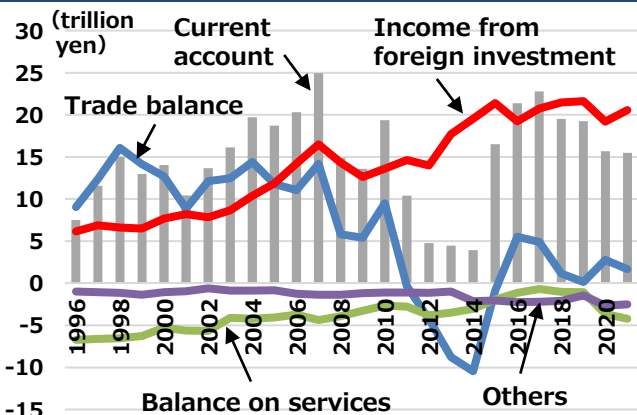
HR Investment (without OJT)



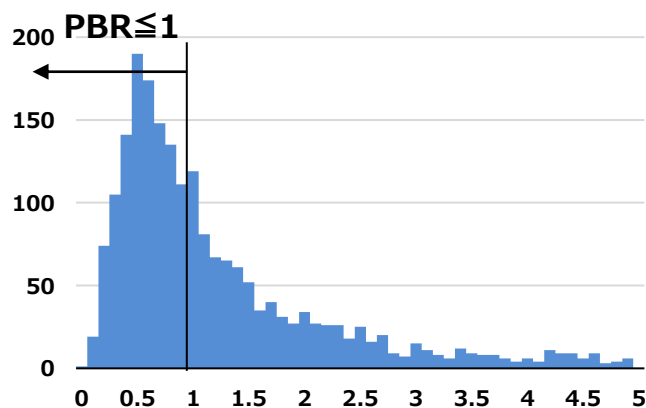
Proportion of World GDP



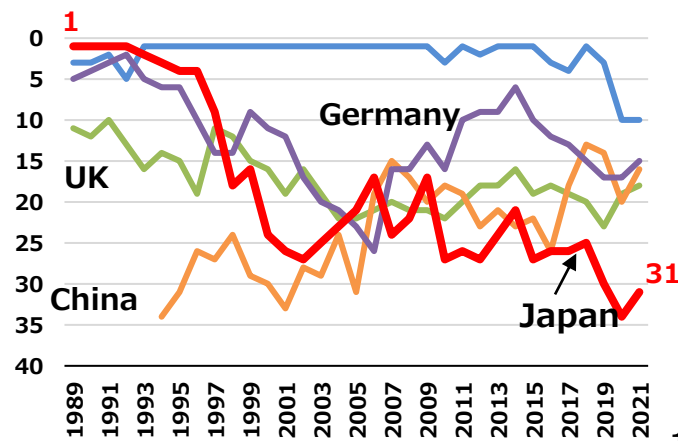
Breakdown of Japan's current account



PBR distribution of the companies listed on the First Section of Tokyo Stock Exchange (2,173 companies)



IMD World Competitiveness Ranking

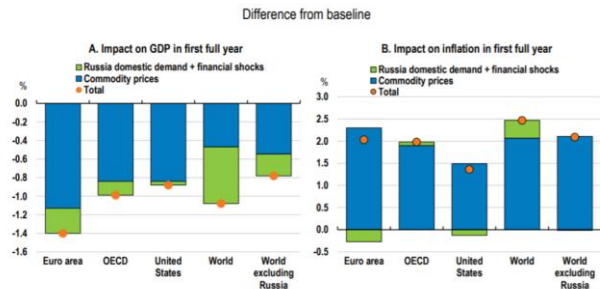


Further Structural Changes

- Russia's invasion of Ukraine impediments the world economy and increases inflationary pressure. Geopolitical instability may further increase in the future. The changing structure of globalization increases risks of supply constraints and inflationary pressure. While consumption may decrease due to soaring import prices, demand-side policies may become necessary.
- Web 3.0 is emerging in the digital world with social implementation of distributed ledger technology (blockchain technology, etc.).
- Efforts to realize a "circular economy" is emerging mainly in Europe, in addition to decarbonization.

OECD Economic Outlook (March 2022) World economic growth rate decreases more than 1%, and inflation rate increases more than 2.5%.

Figure 5. The conflict implies a substantial hit to global growth and stronger inflation



Note: See the Technical Appendix for full details of the shocks applied.
Source: OECD calculations using the NiGEM global macroeconomic model.

European Commission (March 2021) "New Circular Economy Action Plan" (Circular Economy)

1. Sustainable product policy framework

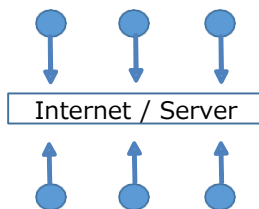
- (1) Designing sustainable products
- (2) Empowering consumers and public buyers
- (3) Circularity in production processes

2. 7 key product value chains

- (1) Electronics and ICT
- (2) Batteries and vehicles
- (3) Packaging
- (4) Plastics
- (5) Textiles
- (6) Construction and buildings
- (7) Food, water and nutrients etc.

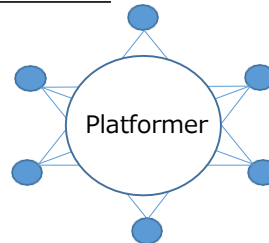
Structural Change of Digitalization (Web3.0)

【Web 1.0】Read-only



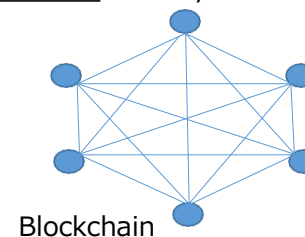
1990 – Early 2000s

【Web 2.0】Read and Write



Late 2000s - 2020

【Web 3.0】Read, Write and Own



2021 -

Main Service

HP, e-mail etc.

Search, SNS, e-commerce, etc.

Cryptocurrency assets, NFTs, Metaverse, etc.

Representative company

Yahoo, eBay, Netscape etc.

Google, Facebook, Amazon etc.

Still Developing

“New Direction” of Economic and Industrial Policies ~Economic and Social Vision~

- We shall realize “new capitalism,” a sustainable economic society, by creating a “virtuous cycle of growth and distribution.”
- We shall leverage Japan’s strengths (safety and security, abundant cultural resources, long healthy life expectancy, reliability of infrastructure, etc.) to realize economic growth and inclusive growth that maximizes regional and individual value.
- We shall realize a socioeconomic model where global companies and competitive startups contribute to solving global socioeconomic issues and driving economic growth, while creating an environment where diversity of regions and individuals are respected throughout Japan.
- We aim to realize changes in the industrial structure and social environment in the following directions over the mid-to-long term:

	AS IS	TO BE
Industrial Structure/ Management	<ul style="list-style-type: none"> •Sluggish investments in new growth fields and startups •Slow M&A •Focus on domestic market, cost reduction, and product out •Supply chain vulnerability (semiconductors, vaccines, etc.) 	<ul style="list-style-type: none"> •Bold investment in new growth fields and startups •High value-added and high wages of SMEs •Metabolism and business restructuring through active M&A on a global scale •Focus of global market, high value-addition, and market-in •Ensuring economic security (coordination with comrade countries as well as pursuit of domestic completion)
Human Resources	<ul style="list-style-type: none"> •Human resources concentrated in large companies and not sufficiently being trained. •Highly homogeneous, small inflow of foreign highly-skilled professionals 	<ul style="list-style-type: none"> •Safety net development, employment support, and human capital investment being carried out on the premise of labor mobility, and human resources being mobilized toward growth fields and startups. •Foreign highly-skilled professionals gathering from overseas, and diverse human resources being active in startups and companies
	<ul style="list-style-type: none"> •Premise of training Japanese employee •Uniform, unison and unilateral education 	<ul style="list-style-type: none"> •Inviting and nurturing overseas talents to Japan and playing an active role •Education that takes advantage of diversity of talents
Fund	<ul style="list-style-type: none"> •Assets being locked up in cash and deposits. 	<ul style="list-style-type: none"> •Personal assets, corporate pensions, etc. are invested in growth sectors through capital markets, and the fruits of growth are widely distributed.
Local Areas	<ul style="list-style-type: none"> •Concerns about sustainability due to declining birthrate and aging population •Lack of high value-added business and employment opportunity 	<ul style="list-style-type: none"> •A sustainable region which has its own unique high value-added business and employment opportunities, and attractiveness and centripetal force, utilizing the unique value of each region.

“New Direction” of Economic and Industrial Policies ~Basic Concepts Towards Realizing Visions~

- To correct market failures and negative externalities of capitalism to achieve "new capitalism, bold policies to promote investment in growing areas and human capital investment to solve social issues while achieving growth are necessary.
- For this purpose, we will mobilize all measures such as large-scale, long-term, and planned support to induce private investment towards growth (capital investment, infrastructure investment, intangible investment, human capital investment, and direct investment overseas) that has been stagnant for 30 years.

→We shall increase Japan's growth investment at a faster pace than other developed countries and aim to increase the annual investment amount in 2030 to about 1.5 times the current level.

- At the same time, we shall update our economic and social foundations such as human resources and the ecosystem of startups to maximize results from these policies.
- **The policies are set as "New Direction of economic and industrial policy" consisting of the following two pillars, and we will lead global economic and social transformation through a new public-private partnership.**

Two Pillars of the “New Direction”

“Mission-Oriented” Industrial Policies

<Concept>

- **Shared long-term vision and goals** between government and private sector.
- Government **providing large-scale, long-term and well-planned support.**

<Target Issues>

- ① Carbon Neutral Society
- ② Digital Society
- ③ Economically Secure Society
- ④ New Health Society
- ⑤ Disaster-Resilient Society
- ⑥ Sustainable Society through Biomanufacturing

Updating Socioeconomic System

<Goals>

- Improving **global competitiveness** amidst rapidly changing industrial structure
- Achieving **inclusive growth** through maximizing the value of individuals and local regions.

<Focuses>

- ① Human Resources
- ② Startups/Innovation
- ③ Value-Creating Management
- ④ Globalization of Japanese Society
- ⑤ Inclusive Growth
- ⑥ EBPM/Data-Oriented Governance

Mission-oriented Economic and Industrial Policy

- The socio-economic issues that we face provide opportunities to generate huge global demands and markets. Capturing that market provides opportunities for the Japanese economy. For that purpose, we shall establish “mission-oriented industrial policies” that pursue both solving socio-economic issues and achieving economic growth.

Goal

Solving socio-economic issues & Achieving economic growth

Mission Setting

- ① **Necessity of problem solving in Japan**
- ② **Necessity of problem solving in the world**
- ③ **Possibility of Japan's contribution**

Direction to pursue

- **Global:** oriented towards the global market, partnership with foreign players
- **High value creation:** diverging from Japan's over-focus on cost competitiveness
- **Involvement of startups:** free from existing industrial structure, focusing on resolving social issues

Policy Tools

- **Shared strategy between public and private sector:** necessary for making bold investments
- **Large-scale, long-term, and planned support:** mitigating risk towards achieving a shared purpose
- **Designed regulation and system:** market creation of areas serving to resolve socio-economic issues

Goals and Directions of “Mission Oriented” Industrial Policies

	Long-term Goal	Policy Direction
① Realization of a Carbon Neutral Society	<ul style="list-style-type: none"> • Carbon neutrality by 2050, 46% reduction of GHG emission by 2030 → Increase investment towards CN to ¥17 trillion/year (currently ¥5-6 trillion/year) 	<ul style="list-style-type: none"> • Technology development to acquire GX-related markets newly created in the world, GX-based new industry creation for social implementation • Structural transformation of industry
② Realization of a Digital Society	<ul style="list-style-type: none"> • “Digital Garden City Nation” (revitalizing local areas while utilizing digital technology) → Increase annual investment to semiconductors (¥3 trillion), batteries (¥0.6 trillion) and data centers (¥0.5 trillion) 	<ul style="list-style-type: none"> • Accelerate digital investment by fostering human resources for digital promotion, developing next-generation computing infrastructure, digitizing social infrastructure, etc. • Digital-oriented regulation, system, and system reform
③ Realization of Economic Security	<ul style="list-style-type: none"> • Comprehensive economic security 	<ul style="list-style-type: none"> • Large-scale, long-term, and systematic support for securing technologies and production bases that should be maintained and strengthened for security reasons • Securing an appropriate business environment to respond to globalization of corporate activities and the expansion of risk factors, and construction of a risk information management system
④ Realization of a New Healthy Society	<ul style="list-style-type: none"> • Achieving a future healthy society utilizing digital technology → Enabling health-related data sharing between patients and doctors by 2030 	<ul style="list-style-type: none"> • Development of PHR (Personal Health Record), business creation by ensuring the reliability of healthcare services, promotion of health management • Overseas expansion integrated with market creation in emerging countries centered on Asia
⑤ Realization of a Disaster-resilient Society	<ul style="list-style-type: none"> • Resilient society against natural disasters → Double the number of cases where Japanese businesses contribute to in developing countries (currently 39 cases) 	<ul style="list-style-type: none"> • Infrastructure development for market creation, international expansion support, and resilience enhancement
⑥ Realization of Biological Manufacturing Revolution	<ul style="list-style-type: none"> • Establishing sustainable society through bio-manufacturing → Increase annual investment in bio-manufacturing to ¥3 trillion by 2030 	<ul style="list-style-type: none"> • Promotion of design and development of new microorganisms that form the basis of product development • Promotion of sophistication of product development process using microorganisms • Securing demand for products in collaboration with volunteer countries

Issues and Goals of Updating Socioeconomic System

	Issues and Quantitative Goals	Policy Direction
① Human Resource	<p>【Issues】 Failure of Japanese labor practices (new graduate recruitment and lifetime employment, seniority etc.) Limitation of uniform, unison and unilateral education → Increase mid-career recruitment from 30% to 40%, enable side businesses at all companies by 2030 (currently 55%)</p>	<ul style="list-style-type: none"> • Shift from the traditional Japanese employment system: promotion of human capital management, active utilization of internships, promotion of side jobs etc. • Shift to education that allows you to be absorbed in what you like: Further flexibility in curriculum organization, establishment of a mechanism that allows diverse human resources to participate in education, promotion of third places, etc.
② Startups/ Innovation	<p>【Issues】 Shortage of entrepreneurs, risk money, entrepreneurial mind, exiting opportunities and public procurement → Expand investment to domestic startups by 10 times by 2026</p>	<ul style="list-style-type: none"> • Entrepreneurship education, and expansion of development and excavation programs of diverse talents • Abolition of personal guarantees and strengthening of risk money supply before commercialization • Attracting overseas investors and leading VCs with know-how for overseas expansion • Promotion of M&A for startups • Drastic expansion of SBIR system to startups etc.
③ Management of Global Company: Value-Creating Management	<p>【Issues】 Insufficient value creation, resulting in low price-to-book ratio of companies → Increasing the rate of representative companies whose PBR is over 1 from about 60% to 80% by 2030 ※Assuming TOPIX500</p>	<ul style="list-style-type: none"> • Promotion of value creation management (balance sheet management reform, back-casting type long-term management, and management style reform, etc.) • Linkage with large-scale, long-term, and planned support • Capital market reform
④ Thorough Globalization of Japanese Society	<p>【Issues】 Further outward/inward direct investment, and globalization of Japanese society → Double inward direct investment to 80 trillion yen by 2030 (currently 43.5 trillion yen), increase foreign management HR from 95 thousand to 200 thousand</p>	<ul style="list-style-type: none"> • Promoting the growth of Japanese companies that capture overseas markets • Accelerating the globalization of society • Thorough implementation of internal and external trade policies
⑤ Inclusive Growth (Local Areas, SMEs, Culture, and Sports etc.)	<p>【Issues】 Decreasing disparity between urban and rural areas, establishing cultural creating ecosystem of arts, sports etc. → Balancing moving in and out between rural areas and Tokyo areas by 2024FY</p>	<ul style="list-style-type: none"> • Realization of sustainable regions / SMEs (strategic territory setting, utilization of digital technology, promotion of appropriate price pass-through, etc.) • Promotion of cultural, economic and industrial policies (art, content, sports, education)
⑥ Government: EBPM/ Data Driven Government	<p>【Issues】 Constructing a framework of policy evaluation utilizing data → Digitalization of whole government procedure by 2025FY (2023FY in SME Agency)</p>	<ul style="list-style-type: none"> • Deepening of EBPM (policy evaluation process) (establishment of EBPM center) • Conversion to an administrative organization (data-driven administrative organization) that can utilize data and reflect diverse opinions