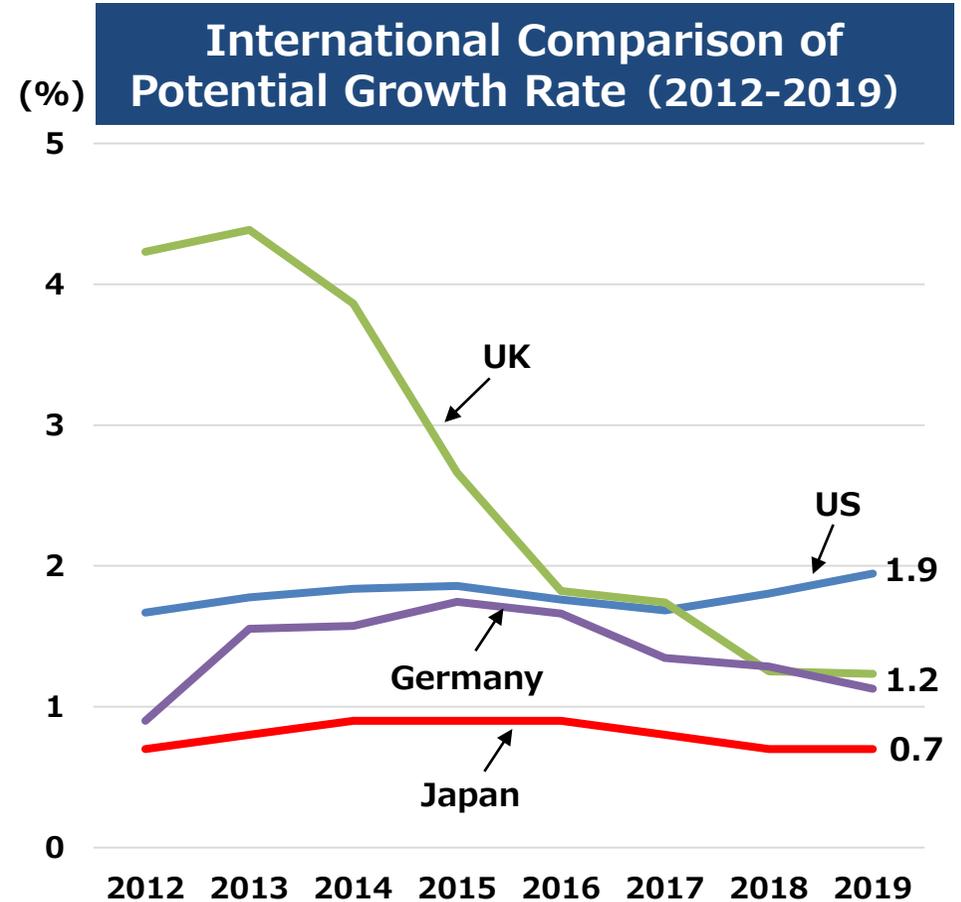
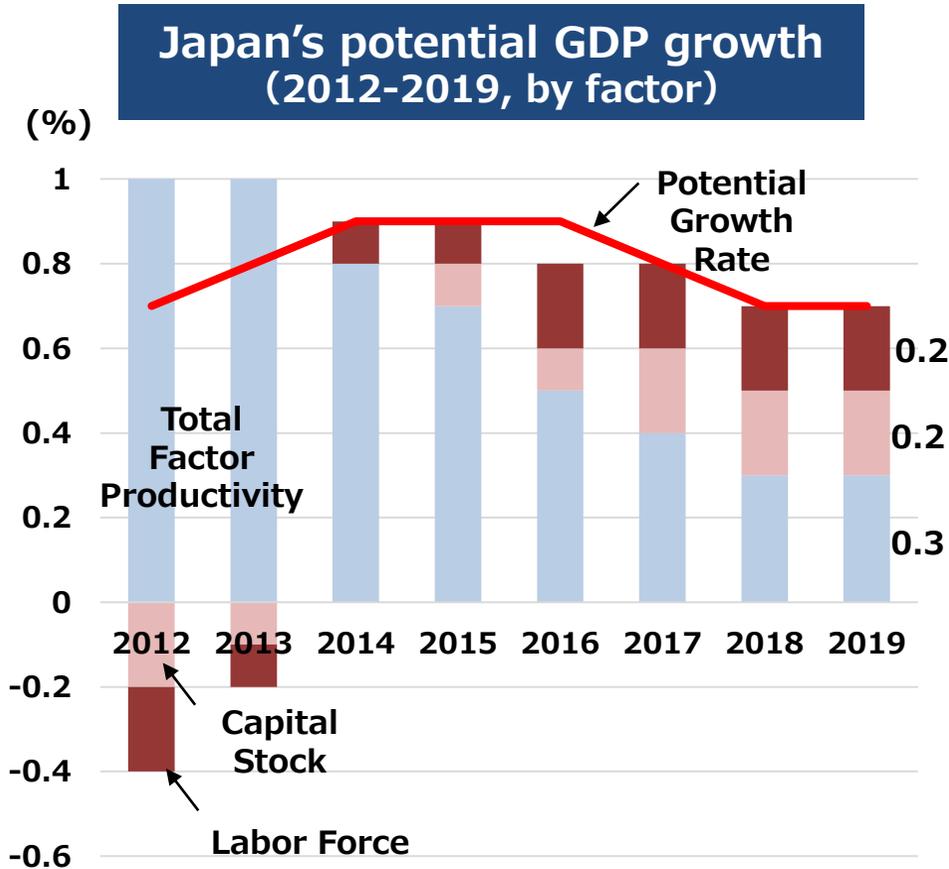


Current Situation: Low Potential GDP Growth

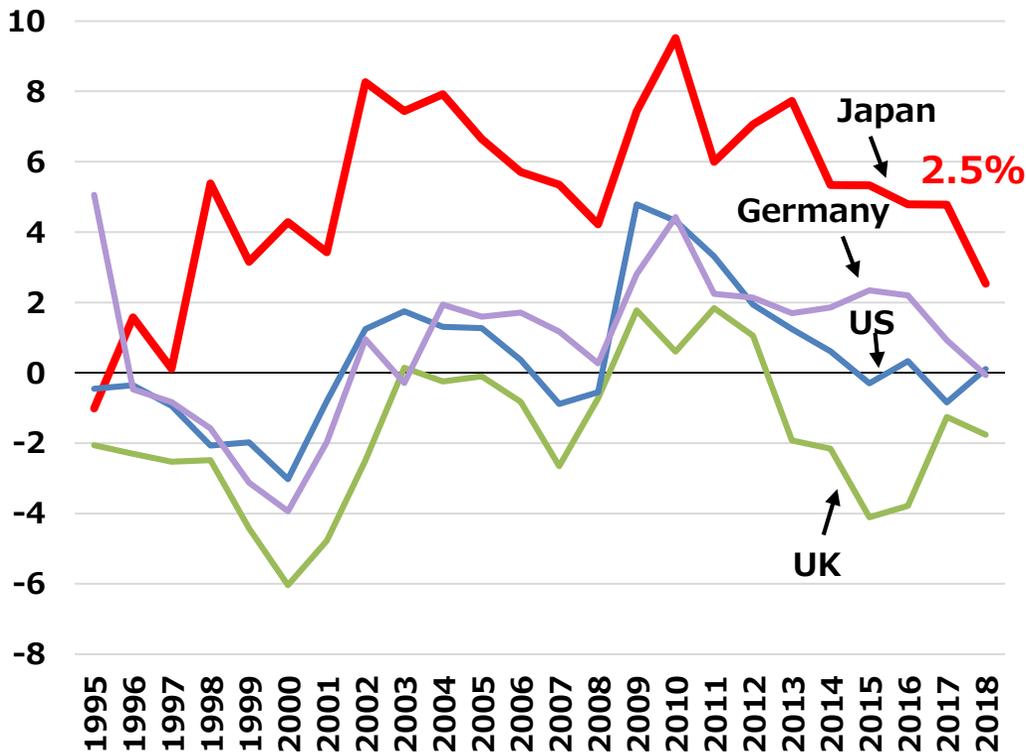
- Since the 1990s, Japan's potential GDP growth rate has consistently been lower than other developed countries.



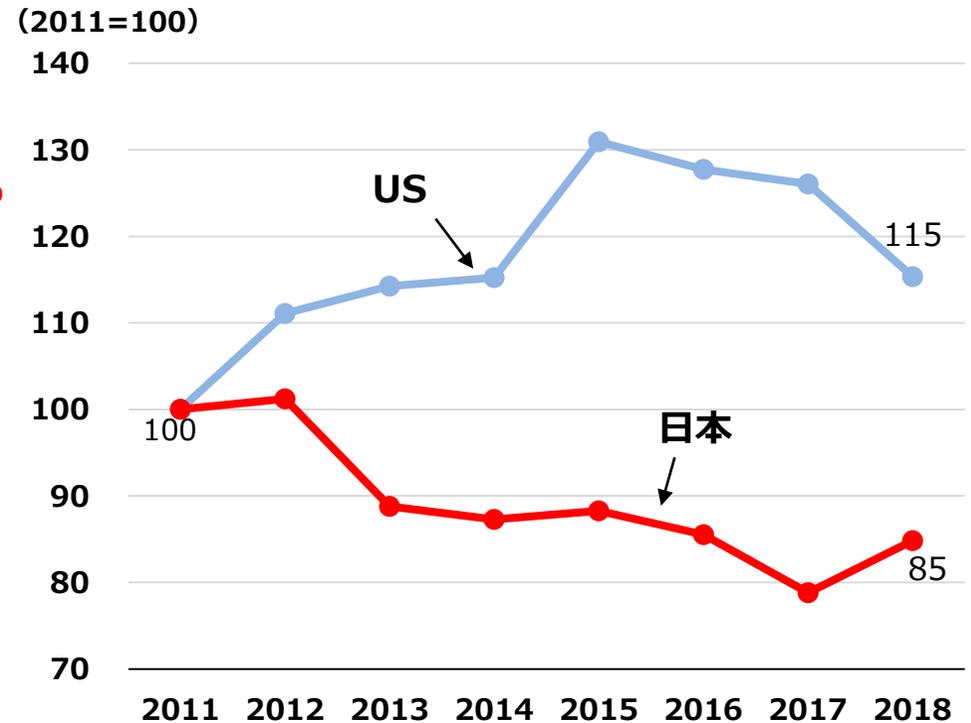
Current Situation: Abundant Capital in Corporate Sector

- Capital in the corporate sector has been maintained at a high level, while investment towards future growth lags behind.

International Comparison of Net Lending in the Corporate Sector (% of GDP)



Ratio of Corporate Profits and Capacity Investment (Japan-US Comparison, Indexed based on 2011)



Past Economic and Industrial Policy Measures

- Despite the implementation of necessary policies (i.e. structural reform in the 90s and overcoming “Six Suffers” after the 2011 Earthquake), Japan’s economic growth and industrial competitiveness remains insufficient.
- Japan needs a bold economic policy with a global post-COVID growth in mind.

Structural Reform

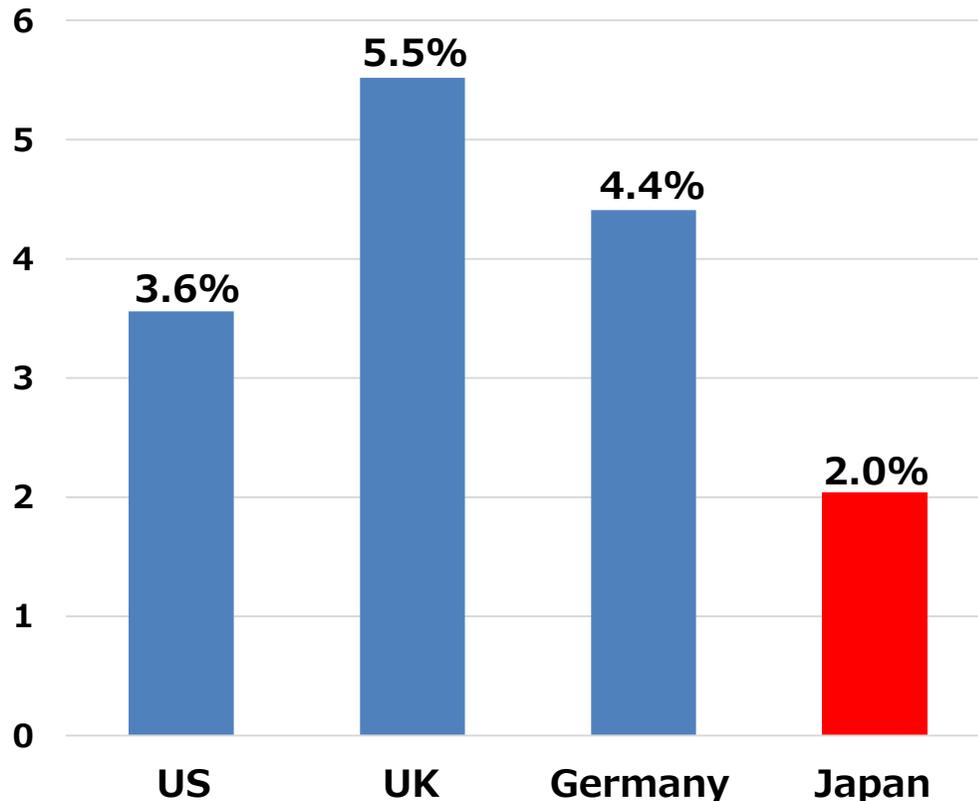
“Six Reforms” under the Hashimoto Cabinet
Reform of economic structure, financial system, etc

Structural Reform under the Koizumi Cabinet
Bad debt disposal, industrial revitalization, deregulation to improve market function, etc

Response toward “Six Suffers”

- (1) **Yen Appreciation : Abenomics**
2012: ¥86.3/\$ → 2021.8: ¥109.8/\$
- (2) **Corporate Tax : Lowered in 2012**
2014: 34.62% → Current: 29.74%
- (3) **Labor/Dismissal Regulation :**
Labor-related law amendments (2018)
- (4) **Economic Partnership Agreements :**
Japan-EU (2019) , CPTPP (2018)
Japan-US (2020) , RCEP (Signed 2020)
- (5) **Environmental Regulations**
- (6) **Electricity shortage and high cost**

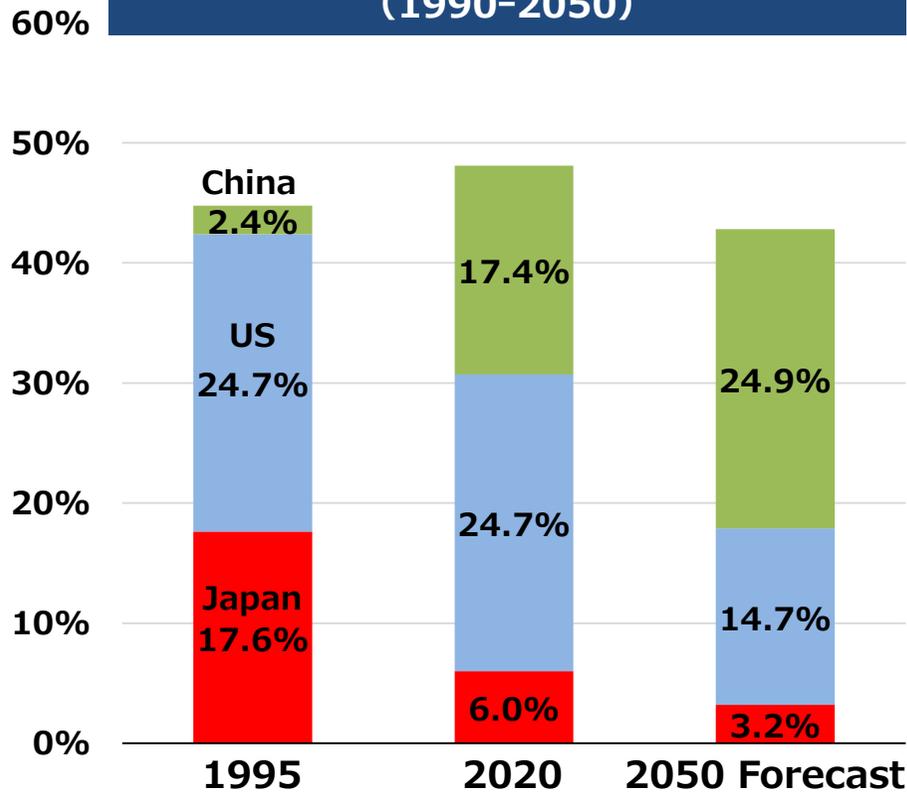
2022 GDP Growth Outlook (OECD)



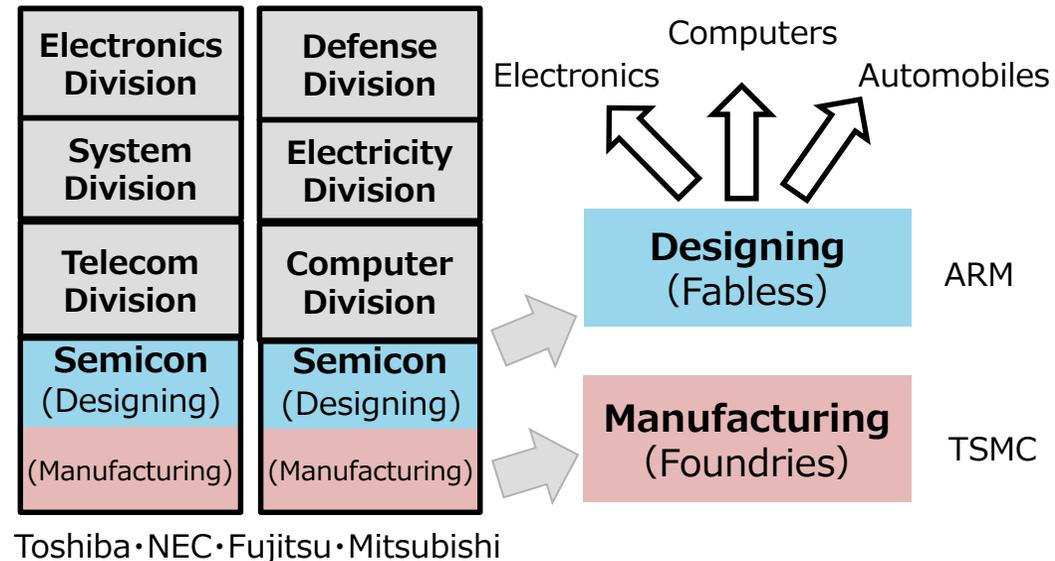
Declining Competitiveness : Change in backgrounds

- Japan's business strategy was to first grow domestically and then expand overseas. As the domestic market shrinks, it becomes difficult to develop scale internally and gain global competitiveness.
- Japan's traditional competitiveness in "alignment" has deteriorated due to the rapid progress of horizontal specialization, which changed competition rules.

Proportion of World GDP (1990-2050)



Change in Industrial Structure (Example of semiconductor industry)



~1990s : Vertical integration
Component of final product

2000s: Horizontal specialization
Specializers in design and manufacturing dominate the market

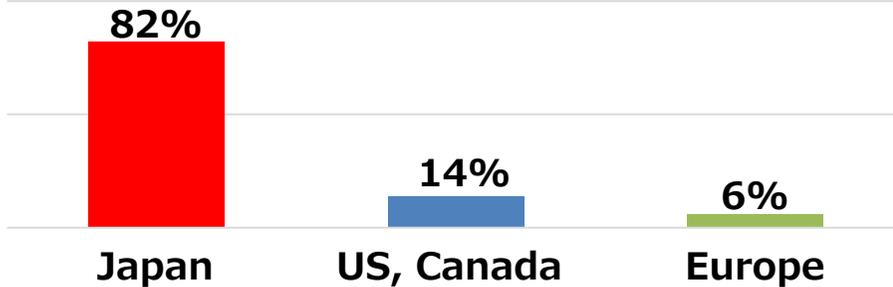
Japan's share: +50%

Japan's share: 10%

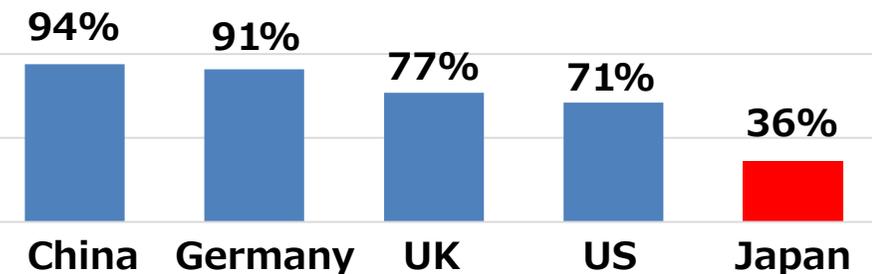
Declining Competitiveness : Corporate Management

- Corporate management in Japan, supported by institutions and customs (e.g. lifetime employment, periodic recruiting of new graduates, promotion of “natives”), has inhibited necessary reform of business and HR portfolio, and strategic investment necessary to respond to rapid industrial structure change.
- Delay in investment towards growing areas such as climate change and digitization may bring further stagnation of Japan’s economy and industry.

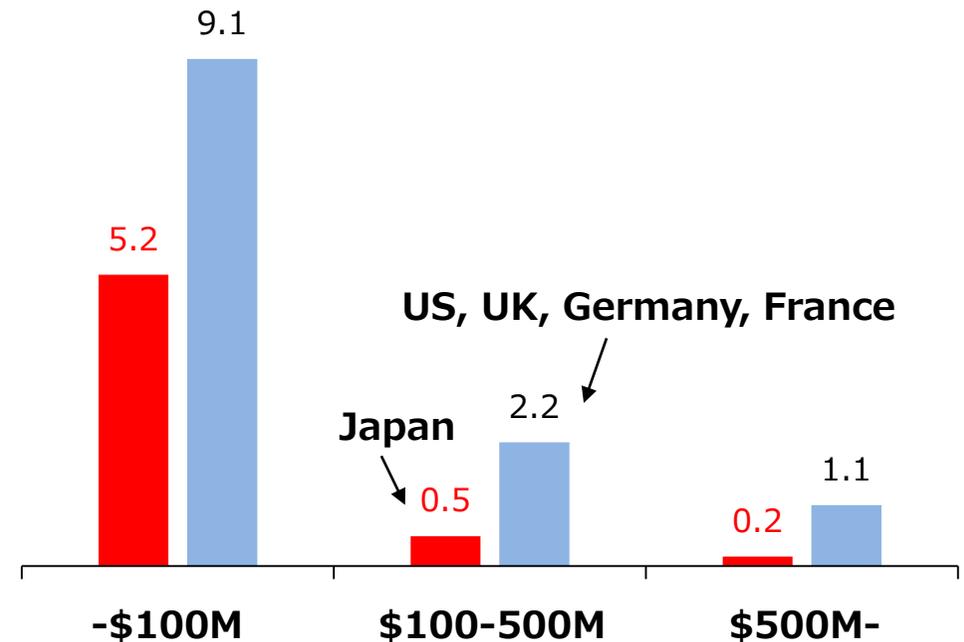
Newly appointed CEOs having no experience in other companies (2018)



Managers answering that their company is digitized and is agile toward change (2018)



M&A cases by company (per listed company)



We aim to consider policy responses based on the following recognitions:

<Background>

- Countries are strengthening industrial policy toward post-COVID, investing in unprecedented scales and forms in areas such as climate change, digitization, etc.

<Japan's current situation>

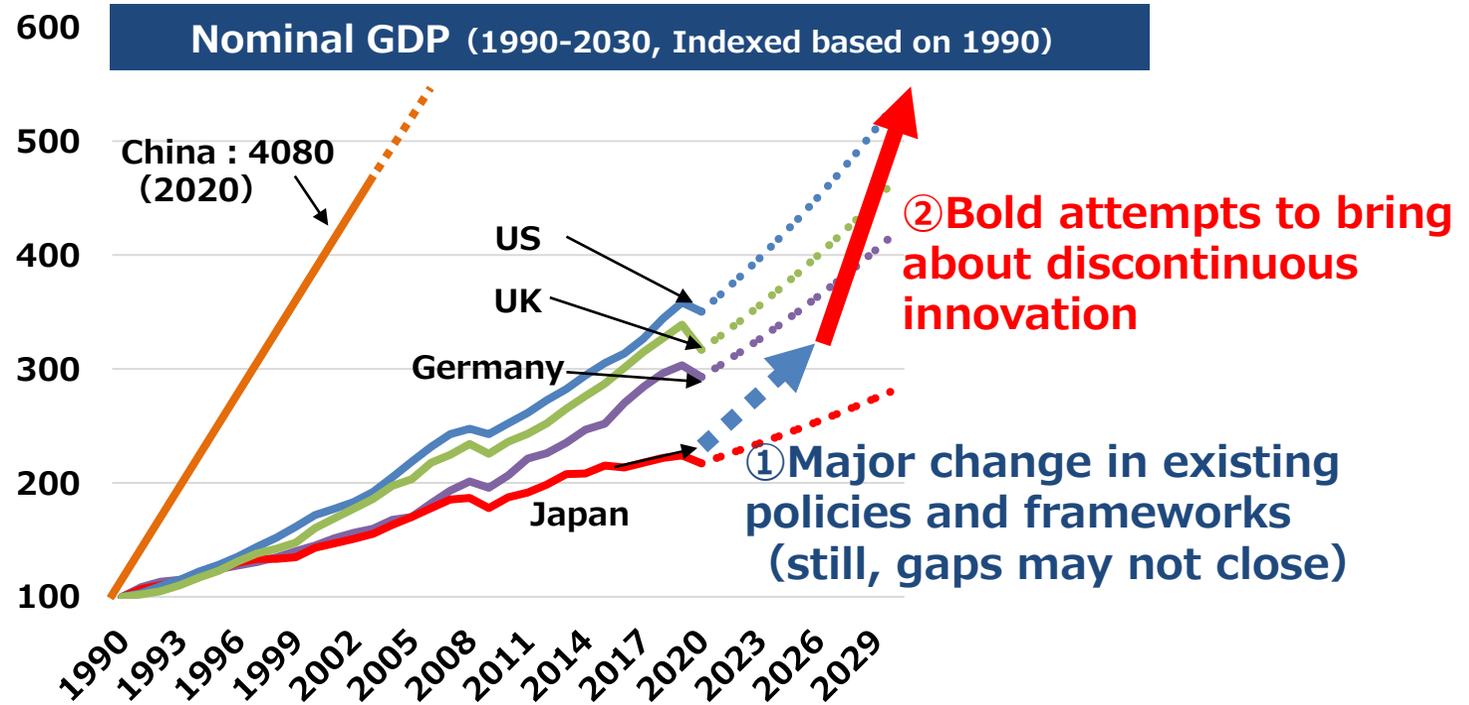
- For the past 30 years, Japan's economy has stagnated and industrial competitiveness has consistently fallen.
- Despite necessary policies (i.e. structural reform in the 90s and overcoming "Six Suffers" after the 2011 Earthquake), investment towards future growth and rise in wages lag behind, while abundant capital remains in the corporate sector.
- Insufficient communication of HR demand between industries, the labor market and education institutions, lack of a system to foster innovative talents, and corporate management in Japan supported by institutions and customs (e.g. lifetime employment, periodic recruiting of new graduates, promotion of "natives"), have inhibited necessary reform of business and HR portfolio and strategic investment necessary to respond to rapid industrial structure change.

<Major structural change in the future for Japan and the world>

- Global shifts such as US-China confrontation, global crises such as pandemics and climate change, further digitization, economic disparity, rise of energy and resource prices, and Japan's aging society and shrinking population/economy are conceived.

We shall consider policy responses in the following manner:

- Backcasting from the future that we aim for in the long-term, and considering necessary responses as a “New Direction” of economic policy, while employing every policy tool and overcoming traditional limits.
- Extending past policies, or a mere shift in corporate/university mindsets are not enough. A “New Direction,” aiming for a “great reset” and “transformation” includes:
 - ① A major change in existing policies and frameworks. Still, as other countries are striving toward further economic growth, this may not be enough to close the gap.
 - ② Bold attempts to bring about discontinuous innovation, including fostering future talents.



We shall consider the “New Direction” based on the following methods:

- ① Set clear long-term goals and visions (aiming for 2030 and 2050)
- ② Identify issues/areas where government should take a “mission-oriented” approach
 - Take a “mission-oriented” approach towards climate change, digitization, economic security and globalization, inclusiveness, healthcare and resilience, and promote policies in personnel, startups and innovation, corporate transformation, and refining government tools and organization as a basis for those efforts.
- ※ While mission-oriented approaches are stressed in climate change and inclusiveness overseas, Japan is lagging in digitization and globalization and therefore needs proactive efforts.
- ③ Set clear goals for each field while considering foreign policies and situations.
- ④ Backcast from each goal and form actions by government/industry, including new forms of government involvement and large-scale, long-term, and well-planned support.

	Traditional Policies		Structural Reform		“New Direction” of Economic/Industrial Policy
Purpose	Protect/foster industries	→	Market organization	→	“Mission-oriented”: solving various social and economic issues in the mid-to-long term
Theoretical Rationale	Correcting market failure Protecting infant industries	→	Market-oriented Concern for gov’t failure	→	Coping with uncertainty (market creation by gov’t) Concern for “gov’t omission”: gov’t taking risks as “entrepreneur state” Crowding in: attracting private investment
Fiscal Measures	Mid-scale Mid-term	→	Small-scale One-shot	→	Large-scale, Long-term, Well-planned

We shall consider responses for the following areas and issues.

Mission-Oriented Policies

※Subject to revision based on circumstances

Climate Change

- Coping with the rise of energy cost due to decarbonization becoming a bottleneck for industrial competitiveness.
- Overcoming delay in green investment and innovation, and the situation of losing in implementation whilst winning in technology

Digitization

- Improving digitization in companies and government services, which is inhibiting competitiveness of our entire industry. Digitization has the potential to resolve various issues due to our aging society.

Economic Security/ Globalization

- Globalizing companies and government to develop necessary speed and scale. Developing a system to manage technology/expertise while accepting foreign personnel and capital, thereby taking advantage of technology, management methods and talents in a timely manner.
- Simultaneously, coping with risk due to supply chain vulnerability and rising unilateralism.

Inclusive Society

- Overcoming disparity between urban/rural areas through digitization.

Healthcare

- Creating new businesses in healthcare to cope with various issues due to our aging society and the pandemic, while utilizing data.

Resilience

- Mitigating operational risk through improving resilience toward disasters and of maintenance of infrastructure and other facilities.

We shall consider responses for the following areas and issues.

Policy issues to overcome as a basis for other areas

Human Resources

- A virtuous cycle between improving productivity and inducing investment toward personnel is not created.
- HR demand from industries is not being conveyed to the labor market and education institutions. Human resources are not being fostered and secured based on forecasted change in industrial structure, and innovative talents are not being fostered.

Startups/ Innovation

- New businesses are oriented to the domestic market, and are separated from the global startup ecosystem including personnel and capital. Supporting mechanisms are premised on this as well, resulting in few unicorns and large startups.

Corporate Transformation

- Management in Japanese companies lack speed and scale necessary to respond to rapid industrial transformation. Future leaders who fit global standards are not being fostered. Profit is distributed to shareholders rather than strategic investment, workers' wages and HR investment, and disregard the perspective of sustainability.

Refining Government Tools and Organization

- Policy decisions are myopic and insufficiently based on data. Government organization is siloed and rigid. Top-class students are beginning to avoid membership-typed organizations.