

Section 4 Promoting innovation by building a more open and attractive country

As it faces mid and long term issues of decreasing population, environmental and energy constraints, and intensifying international competition, for Japan to grow sustainably and increase its national wealth, it is necessary to raise productivity of the Japanese economy through innovation in various areas. To achieve innovation, Japan must overcome various factors thought to be obstructions (for example, inability to properly utilize globally the human resources, technology, and management capability in companies and research places, intellectual property is not properly protected, flow of goods and people is not smooth, etc.), and become a more open and attractive country. This section examines specific efforts needed for this.

1. Promotion of inward direct investment

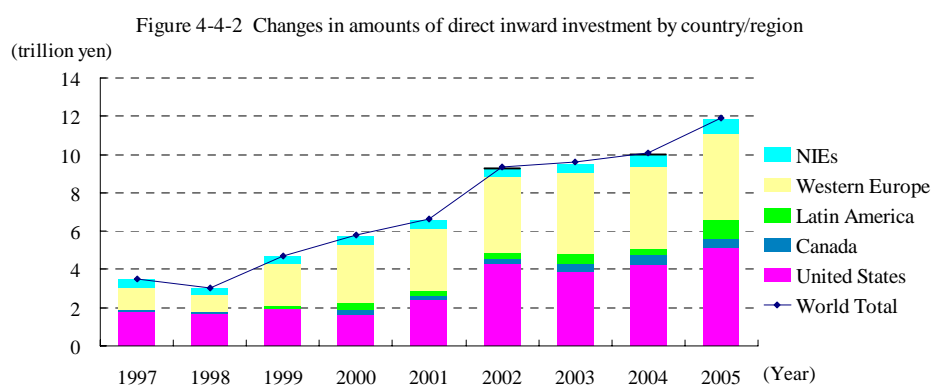
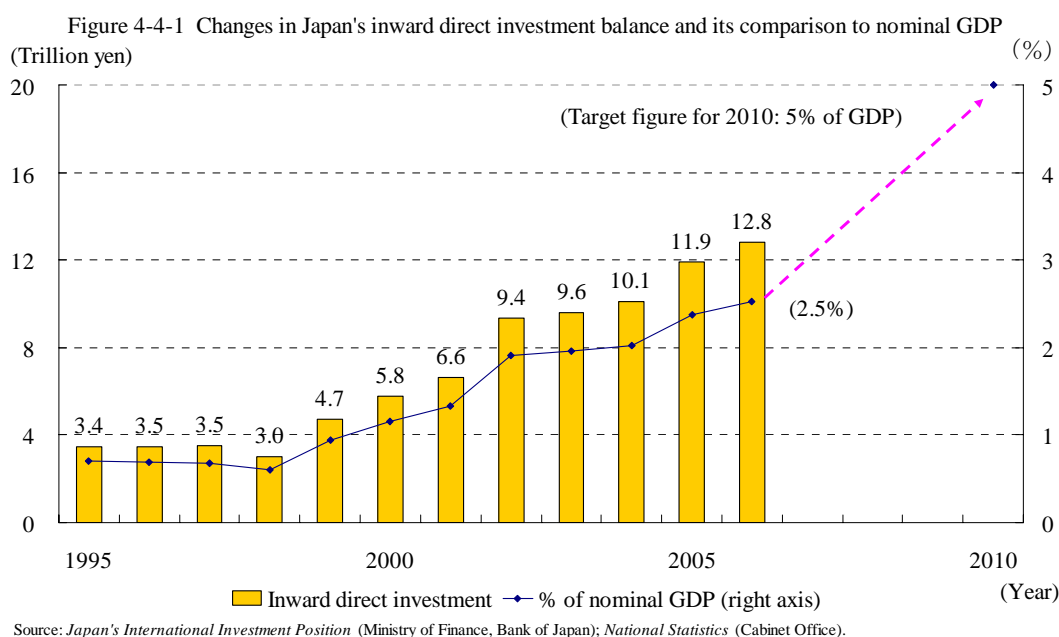
As one policy to stimulate innovation, there is a need to actively introduce and utilize various excellent resources from overseas (human resources, capital, technology, management capability, etc.). There are expectations that inward foreign direct investment (FDI) to Japan from overseas is an opportunity for this. The Japanese government has actively promoted inward FDI, as an important policy issue to renew the attractiveness of Japan. The Japan Investment Council⁴¹ held in March 2006 announced its “Aim to double the ratio of Japan’s inward FDI balance to GDP to about 5% by 2010”. The “Program for Promotion of Foreign Direct Investment in Japan” was put together in June 2006, and the decision was taken to carry out various efforts. Based on the current situation of FDI into Japan, the following will look at government efforts such as business environment improvements aiming at increased inward FDI, etc.

(1) Current status of inward FDI

Looking at the current status of Japan’s inward FDI, there has been work to promote entry of foreign companies, such as the amendments to the Foreign Exchange Law as part of the financial big bang (April 1998), deregulation of the foreign capital in the type 1 telecommunications industry (1998), etc. Inward FDI balance has steadily increased since 1999 (Figure 4-4-1). Viewed by investing country and region, the U.S. and European countries have a large share, but as a trend in recent years, investment is also increasing from newly industrialized economies (NIEs), etc (Figure 4-4-2). Inward FDI to Japan only comprises about 1% of the global total of inward FDI balances, lagging far behind those in the U.S. and European countries (Figure 4-4-3). Comparing the composition of inward FDI balances by industry (as a percent of GDP) in Japan, U.S., and UK, we see that the percent of investment in Japan’s service sector is small when compared to the U.S. and UK. In the service sector, investments are concentrated in specific industries such as finance and insurance, so promotion of inward FDI in other service industries is important (Figure 4-4-4). Japan’s

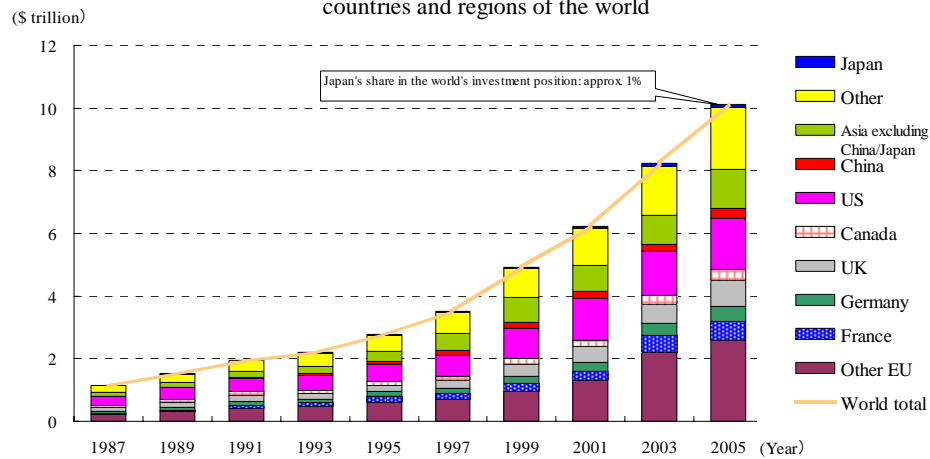
⁴¹ In 1994, a cabinet level council established with the aim of collecting opinions and disseminating investment promotion related policies concerning improvements to the investment environment (Prime Minister as Chairman, Minister of State for Economic and Fiscal Policy as Vice Chairman).

inward FDI balance as a percent of GDP is also low compared to the U.S. and major European countries (about 2.4% in 2005) (Figure 4-4-5). On the other hand, the rate of return on inward FDI is higher in Japan than in the U.S. and European countries (Table 4-4-7 and Figure 4-4-8). Considering that there are opportunities enabling foreign companies to achieve high earnings in Japan, it can be said that there is room for increased direct investment in Japan.⁴² Active efforts are needed towards further increases in direct investment in Japan, such as solid implementation of the “Program for Promotion of Foreign Direct Investment in Japan”.



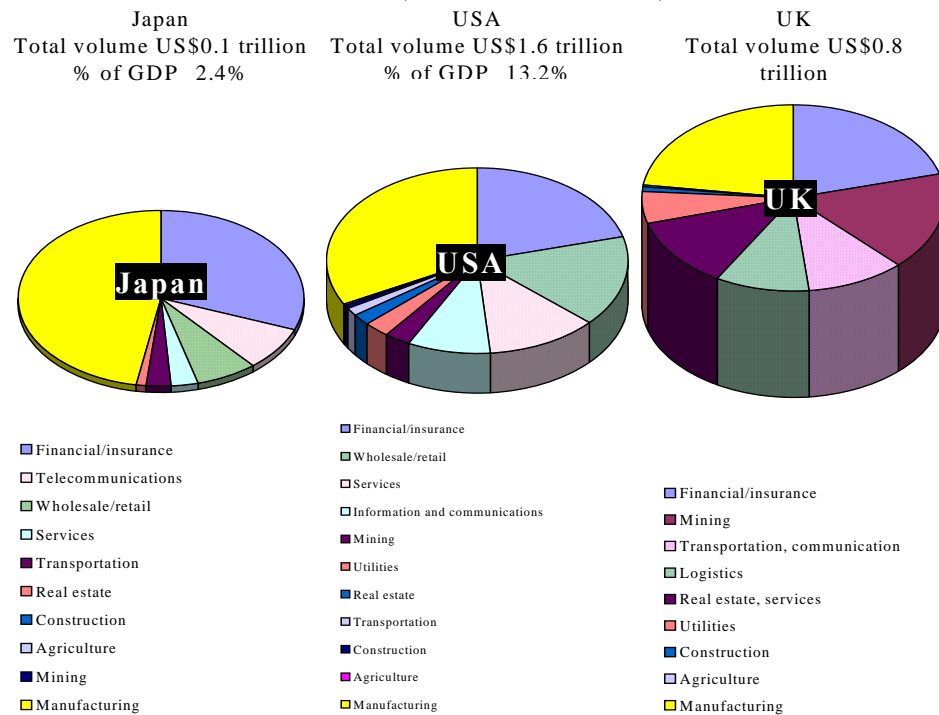
⁴² There is currently progress in large company restructuring related investments, such as purchase of Nikko Cordial Corporation by Citigroup (U.S.) (about ¥920 billion). There are expectations of further increases of FDI into Japan from 2007 onwards.

Figure 4-4-3 Changes in inward direct investment position in respective countries and regions of the world



Source: *World Investment Report 2006* (UNCTAD).

Figure 4-4-4 Inward direct investment balance by industry for Japan, US and UK (% of GDP for 2005)



Source: *SEKAI SHUYOU KOKU NO CHOKUSETSU TOUSHI TOUKEI SHUU* 2007(ITI); *National Statistics* (Cabinet Office); *Japan's International Investment Position* (Ministry of Finance, Bank of Japan); *WDI* (World Bank).

Figure 4-4-5 Changes in direct investment(inward) position to nominal GDP

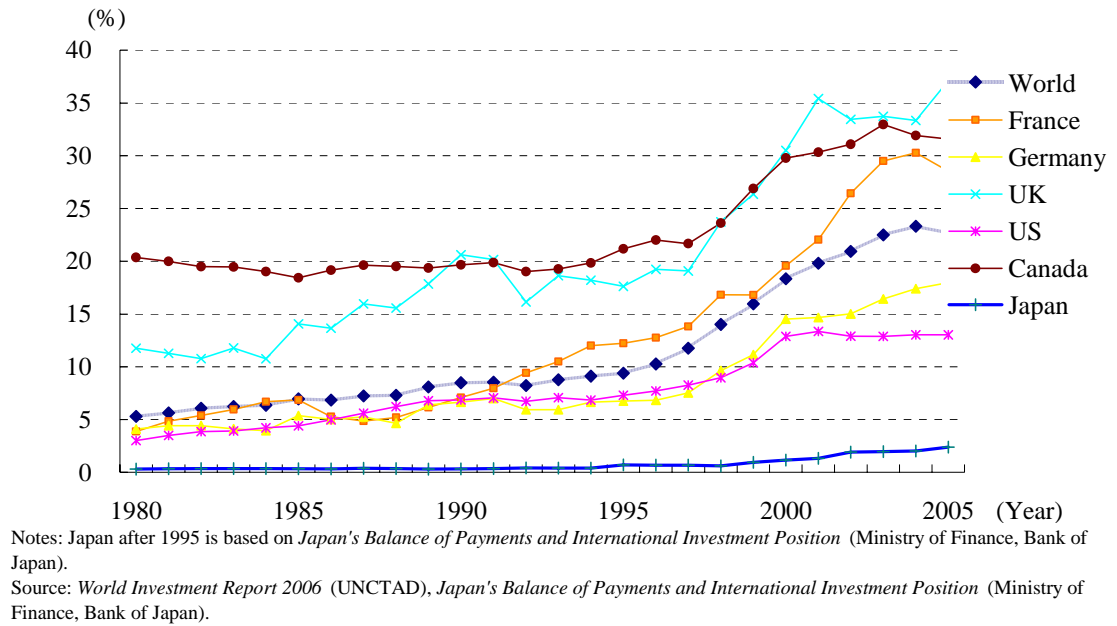


Figure 4-4-6 Direct investment balance by industry in Japan

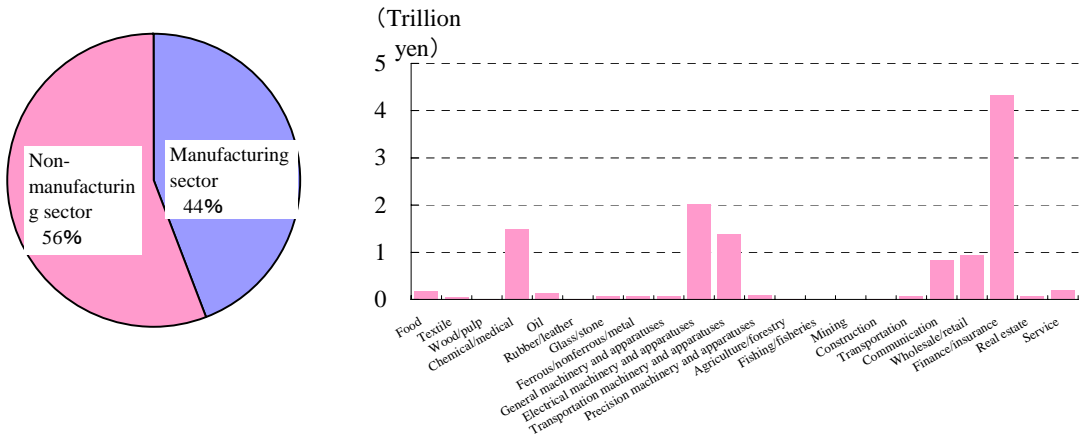


Table 4-4-7 Direct investment position and return on direct investment in respective countries (2005)

Direct investment in respective countries (\$ billion)			Return on direct investment in respective countries (%)		
1	US	1625.7	1	Ireland	19.2
2	UK	816.7	2	Luxembourg	16.9
3	France	600.8	3	Switzerland	16.9
4	Hong Kong	533.0	4	Chile	15
5	Germany	502.8	5	Russia	14.7
6	Belgium	492.3	6	Austria	11.3
7	Netherland	463.4	7	Australia	10.5
8	Spain	367.7	8	Poland	10
9	Canada	356.9	9	Hong Kong	9.5
•			10	Japan	9.4
•			11	Sweden	9
•			12	UK	7.7
22	Japan	100.9	13	South Africa	7.4
			14	US	7.2
			15	Canada	7.2
			16	Germany	7.1

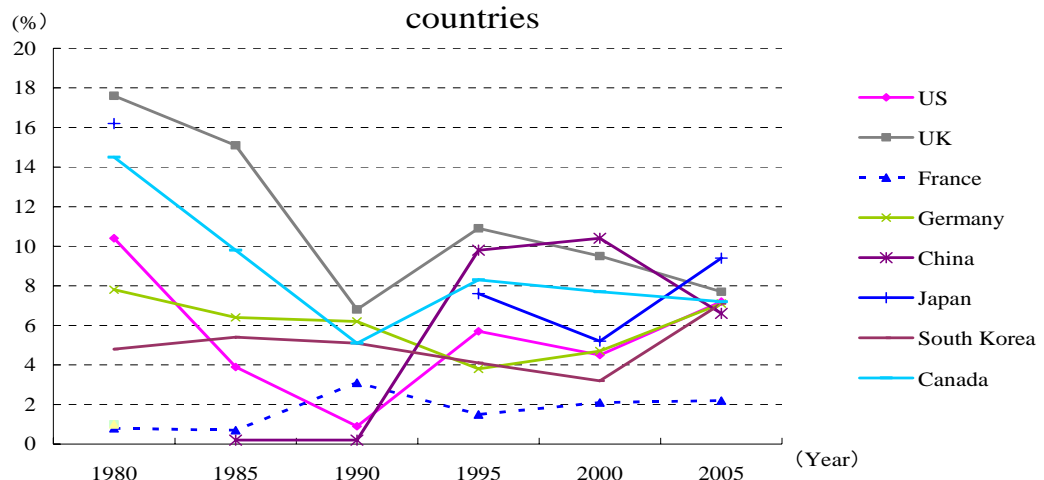
Notes: 1. The return of investment is calculated as: investment income (payment)/direct investment position.

2. The return of investment of the top 30 direct investment position countries are compared.

Source: *International Comparison Statistics* (ITI).

Original source: *BOP* (IMF), *World Investment Report 2006* (UNCTAD).

Figure 4-4-8 Changes in return on direct investment in major countries



Source: *International Comparison Statistics* (ITI).

Original source: *World Investment Report 2006* (UNCTAD).

(2) Business environment improvements to increase inward FDI

(Facilitating cross-border M&A)

The forms of inward FDI are broadly divided into greenfield investments (establish a new corporation, production facilities, etc., in the country receiving investment) and M&A (mergers and acquisitions). M&A comprised about 78% of total global inward investment in 2005, so smoothing cross-border M&A is said to be an important issue from the perspective of inward investment promotion (Figures 4-4-9 and 4-4-10). The number of M&A transactions in Japan is increasing in recent years, but many are between domestic companies, as M&A by overseas companies does not comprise a large share (Figure 4-4-11).

M&A has the advantage of enabling effective utilization of existing business resources, and is also thought to bring results such as greater efficiency by obtaining economies of scale through corporate reorganization, expanding research and development investments, sales network expansion, etc. In addition, by utilizing the mutual strengths of merged companies, there are expectations of achieving innovation in management, product development, and the production process, and also higher productivity in that entire industry.⁴³ As seen in Chapter 3, especially in the service sector, inward FDI leading to promotion of domestic competition and stronger competitiveness in Japan's service industry is now becoming an issue.

To promote inward FDI, and also to fully utilize the various effects expected from M&A as opportunities for new growth in the Japanese economy, it is necessary to make improvements in the environment for M&A.

⁴³ In the 2006 JETRO White Paper on International Trade and Foreign Direct Investment, investigation of the effects of M&A by foreign companies targeting Japanese companies showed that business results of foreign M&A companies (companies with over 50% foreign capital for which M&A was confirmed) in both manufacturing and service industries were better than in Japan's industries overall. Ensuring employment is also given as one of the results expected from entry of foreign companies. In addition to simple quantitative aspects, there are also expectations of impacts on qualitative aspects. For example, entry of foreign companies leading to introduction of new job types and ways of utilizing human resources, thereby expanding possibilities of being active in the economy and society for human resources which previously found it difficult or were unable to obtain the opportunity for employment despite having abilities and ambition, etc.

Figure 4-4-9 Changes in global cross-border M&A (sales)

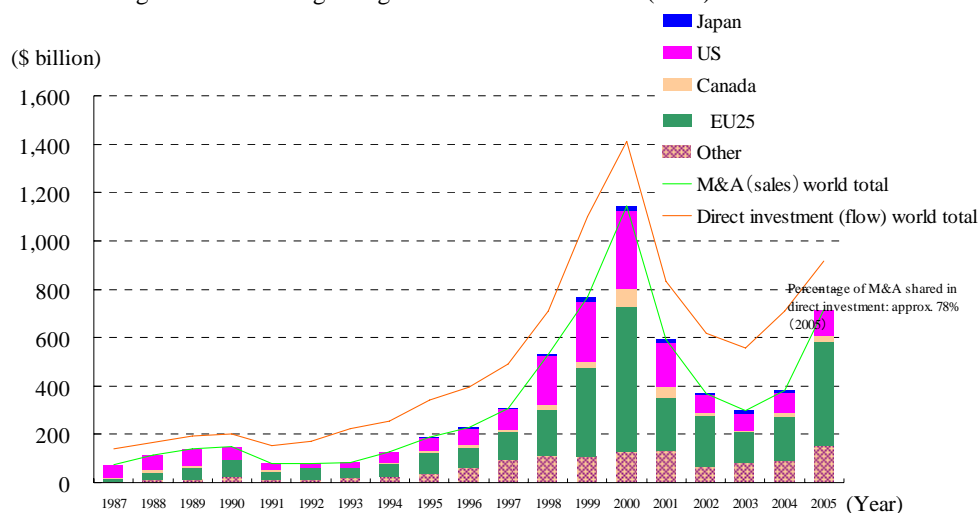


Figure 4-4-10 Changes in number of global cross-border M&A (sales) cases

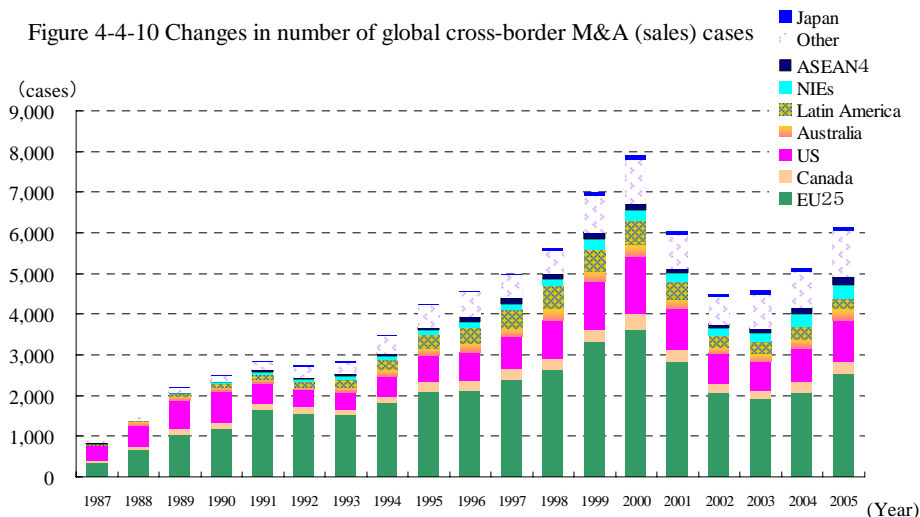
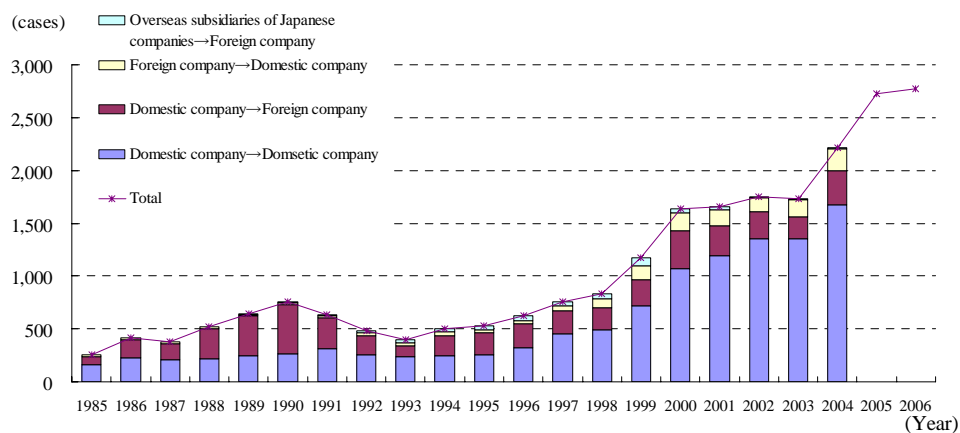


Figure 4-4-11 Changes in number of M&A cases in Japan



(Current status of system developments concerning company reorganizations)

Japan has implemented system reforms for company reorganizations, from the aspect of providing wider options for company management which rapidly and flexibly responds to changes in the economic environment. As progress at present in system reforms towards smoother company reorganizations, the following were implemented: removal of prohibition on holding companies (1997), introduction of a system for exchange and transfer of shares (1999), introduction of the Corporate Division System and accompanying development of company reorganization tax system (2001), enactment of the Revised Revitalization Law (2003),⁴⁴ formulation of the “Guideline on Takeover Defense Measures to Secure or Increase Company Share Price and Stockholder Joint Interest” by the Ministry of Economy, Trade and Industry and the Ministry of Justice (2005), enactment of the Corporations Act (2006), Revision of the Securities and Exchange Law (2006),⁴⁵ etc.

Also, since May 2007, enactment of the Corporations Act (more flexible means of payment for mergers, etc.) enabled triangular mergers which deliver parent corporation stock as payment for mergers, etc.⁴⁶ These efforts are also expected to contribute to promotion of inward FDI.

(3) Review of inward FDI regulations from the aspect of security

While developing a free and open international investment environment and actively attracting inward FDI, based on the large changes in recent years occurring in the security environment surrounding Japan such as activities of international terrorist organizations and problems of proliferation of weapons of mass destruction, proper regulation is required regarding inward FDI which threatens the national security of Japan. For example, if technology held by Japanese companies which is important to security is bought by foreign companies related to international terrorist organizations, specific countries of concern, etc., if information is or people are moved

⁴⁴ Adds business resource reutilization plans which raise productivity of the target business over from the other party, etc. to items subject to support by this law.

⁴⁵ Incorporating improvements in takeover bid (TOB) regulations.

⁴⁶ There were opinions in domestic industry seeking prudent handling of three-way mergers. For example, when the purchase price is other than by cash or securities listed in Japan (or securities meeting Japan’s listing criteria), the merger resolution is currently a special resolution at a general shareholders’ meeting (Corporations Act, Article 309, Clause 2, Item 12. Over half of the shareholder voting rights which can be exercised are required for a quorum at a general shareholders’ meeting, and 2/3 or more of the voting rights of shareholders present during the resolution). But some thought it should require a super-extraordinary resolution (Corporations Act, Article 309, Clause 3. The quorum is not determined, but the resolution requires large numbers: 50% or more of shareholders who are able to exercise voting rights and 2/3 or more of shareholder voting rights which can be exercised), etc. Regarding the tax system for three-way mergers, for taxes on capital gains that arise through transfer of assets and capital gains that arise through exchange of shares, the payment was not in shares of the merging corporation, so tax deferral was not permitted until now. But due to the fiscal 2007 tax system reform, regarding three-way mergers where only 100% parent corporation stock is delivered for the purchase price, according to the current framework of the company reorganization tax system, deferral of taxes on the capital gains mentioned above became possible (applied to mergers done on or after May 1, 2007). Still, regarding “business related” (and it’s prerequisite “business aspect”), which is a requirement to judge one of the allowed patterns for deferral of taxes (“Reorganization for the purpose of joint business”), the Ministry of Finance regulation announced on April 13, 2007 attempted to clarify specific judgment criteria.

within the company group, the technology can flow overseas in a manner which evades export management regulations, etc., creating fears of diversion to military use.

Japan imposes a prior notification obligation on inward FDI⁴⁷ of certain industries from the aspect of the country's security, etc, through its Foreign Exchange and Trade Control Law (Foreign Exchange Law). Japan will continue to apply this strictly to handle such issues,⁴⁸ while complying with the OECD Code of Liberalization of Capital Movements⁴⁹ which determines investment liberalization between OECD member countries (Figure 4-4-12). However, over 15 years have already passed without revision since the Amendment to Foreign Exchange Control Law in 1991, and there are concerns that it is not properly handling recent changes in the security environment and active international investment activities. Also, inward investment regulations in developed countries are being strengthened in recent years from the aspect of security (Table 4-4-13). Thus the Ministry of Economy, Trade and Industry established the "Research Group to Consider the International Investment Environment in the Global Economy" in December 2006. This group investigated revision of the regulations while referring to regulatory levels of developed countries, making consistency with international rules a prerequisite, and announced its interim conclusion in April 2007. In this interim conclusion, necessary revisions are proposed from the viewpoint of properly preventing outflow of technology which is important for security, for example, adding companies which manufacture products with a high probability of diversion to military use to companies subject to the prior notification mentioned above. Based on this interim conclusion, there are plans to make required revisions to the system in the future, in cooperation with related authorities.

⁴⁷ Definition of inward FDI in the Foreign Exchange Law: By a foreign investor, acquisition of shares of an unlisted company, or acquisition of 10% or more of the total outstanding shares of a listed corporation (Foreign Exchange Law, Article 26, Clause 2).

⁴⁸ Specifically, as determined by the Foreign Exchange Law and related regulations, regarding transactions which are judged to threaten the country's security, after hearing the opinion of the Council on Customs, Tariff, Foreign Exchange and other Transactions, a recommendation (or executive order when not following recommendations) can be made to change or halt the investment transaction.

⁴⁹ OECD (2006), *OECD CODE OF LIBERALISATION OF CAPITAL MOVEMENTS*, Article 3. "The provisions of this Code shall not prevent a Member from taking action which it considers necessary for: i) the maintenance of public order or the protection of public health, morals and safety; ii) the protection of its essential security interests; iii) the fulfilment of its obligations relating to international peace and security."

Figure 4-4-12 Overview of direct inward investment regulations based on foreign exchange law

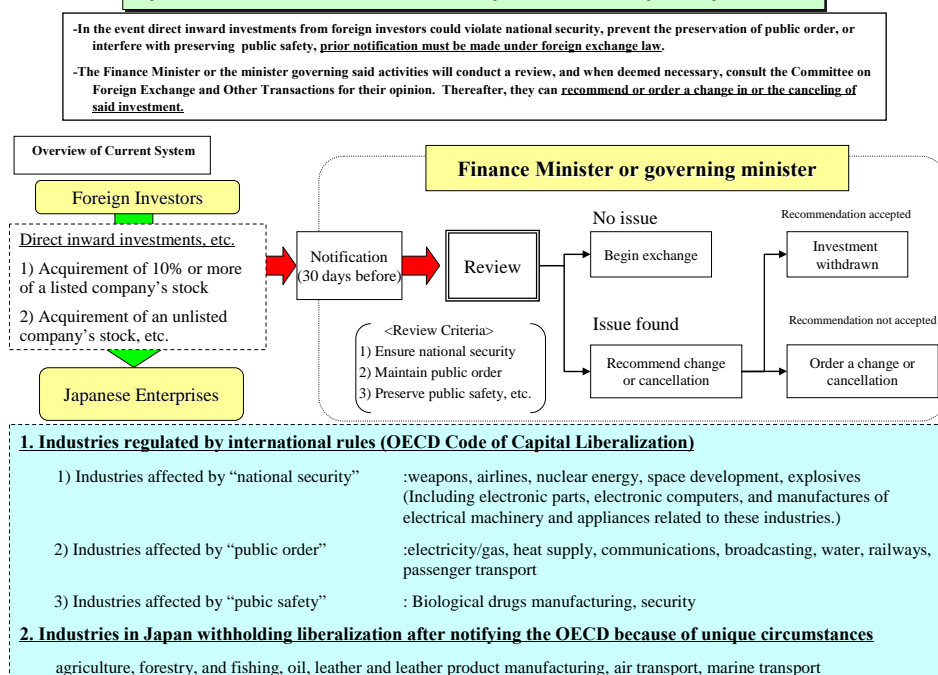


Table 4-4-13 Condition of direct investment regulation in foreign countries

	US	UK	France	Germany
Legislation	Defense Production Act (Exon-Florio amendment ^{*1})	Business Law	Code of Trade and finance	Foreign trade investment law
Target sector	All sectors	All sectors	11 sectoral strategy (military and civilian technology, weapons, etc.)	war weapons, code system, engine for tanks
Target transaction	More than 10% of share acquisition of the listed companies	Mergers of all sectors	Acquiring more than a third of the company's shareholder voting rights	Acquiring more than 25% of the company's shareholder voting rights
Examination criteria	National security	Public benefit (including national security)	Benefits of national defense	Benefits of security guarantee
Recent movement	After the UNOCAL bid ^{*2} (2006), there is an amendment bill (incorporation of a longer examination period) under examination in the Congress	Reform Competition Law (improve intervention by the Secretary of State for Trade and Industry (2002)	After the Danone bid ^{*3} (2005), laws were reviewed. 11 sectoral strategy was specified	After the HDW bid ^{*4} (2002), laws were reviewed (2004). Regulations for companies manufacturing things such as weapons and engine.

Notes: 1. The Exon-Florio amendment (Section 721 of the Defense Production Act of 1950). For a direct investment that has the potential to threaten national security, if the President recognizes it as necessary, the respective investment can be stopped.
2. June 2005, a bid of \$18.5 billion was raised by CNOCC for the US Oil company UNOCAL (the bid was dropped due to the strong opposition from the US Senate).
3. July 2005, speculation spread that US PepsiCo would buy a French food company Danone, but the purchase did not take place.
4. July 2002, a German shipbuilding company, HDW (Howaldtswerke-Deutsche Werft AG) was bought by a US investment company, One Equity Partners. (Later in July 2003, it was bought by a German shipbuilding company ThyssenKrupp).

Source: METI.

2. System and environment improvements: tax system and financial aspects

The following are becoming important issues: improve the environment for Japanese companies to smoothly progress with their overseas expansion, make Japan's financial markets more open and easier to utilize for companies in East Asia and other countries, improve the investment efficiency of domestic financial assets and promote their effective utilization, etc. Based on these points, here we look at issues concerning improvements in the system and environment of the tax system and financial aspects, and recent developments.

(1) Transfer pricing tax system

The transfer pricing tax system is meant to prevent transfer to country B of income which should

originally be taxed in country A, which can occur through a transaction of country A's corporation with a related company of country B. For example, when a transaction price with a related company (transfer price) differs from the usual transaction price (price between independent companies), the transfer price is replaced with the price between independent companies, and income is recalculated for taxation by country A.

In recent years, in a background of increased international expansion of Japanese companies, the number of transactions taxed and amount of taxable income based on the transfer pricing tax system by Japan's tax authorities is in an increasing trend (Figure 4-4-14). Also, increases in so-called "out-out transactions"⁵⁰ are becoming an important problem for the transfer pricing tax system. For example, increased profits of overseas subsidiaries accompanying the increasing and more involved international expansion of Japanese companies, and increased intangible asset transactions from Japanese parent corporations to their foreign manufacturing and sales subsidiaries (i.e. product manufacturing based on manufacturing technology and know-how developed by the parent corporation, sales which use the parent corporation's brand),⁵¹ etc.

Ensuring transparency and speed of execution of the transfer pricing tax system and improving its predictability are important issues for facilitating the international business expansion of Japanese companies. Thus the Ministry of Economy, Trade and Industry established the Transfer Pricing Tax System Research Group in November 2006, and is carrying out investigations for clarification of application criteria of this tax system, etc.

There were efforts in the fiscal 2007 tax system reform to improve the execution system and to clarify application of transfer pricing taxes. A tax payment deferment system⁵² was established to reduce the burden on companies associated with double taxation, along with smoothing of prior

⁵⁰ Indicates a transaction for which the domestic parent corporation does not intervene in the supply chain, and the overseas affiliate corporation handles work from manufacturing to sales. Originally, the parent corporation was able, at each stage in the flow of goods between the parent corporation and overseas subsidiary, to recover the price of intangible assets and services (business planning, accounting, tax work, legal work, capital raising, currency risk management, marketing, labor management, etc.) which the parent corporation provides to its overseas subsidiary. But the parent corporation does not intervene in the flow of goods for out-out transactions, so it is becoming difficult to recover the price of intangible assets and services provided by the parent corporation. For intangible assets and services provided by the parent corporation, it is easy for problems to arise in the transfer pricing tax system regarding how to evaluate the portion contributing to profits of the overseas subsidiary, and to what degree profit is recovered as price.

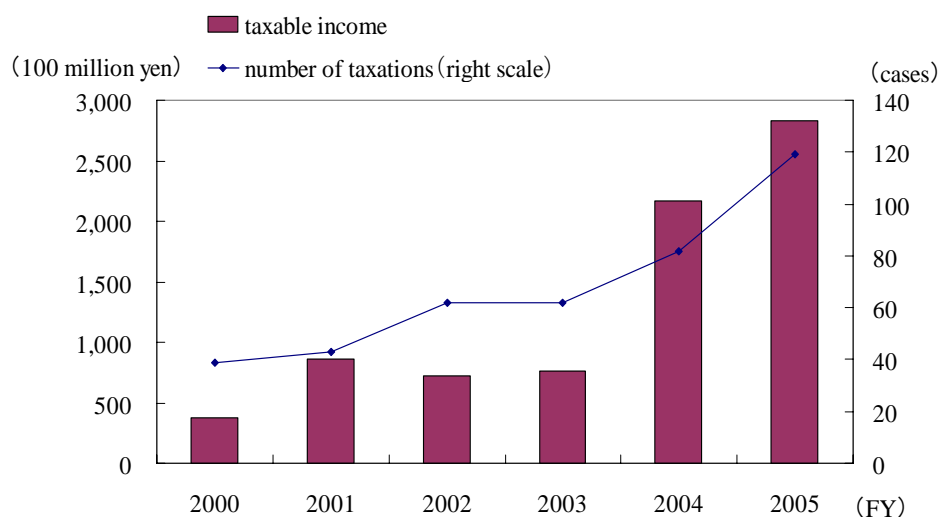
⁵¹ To begin with, many intangible asset transactions are "invisible" transactions, and comparable equivalent intangible assets generally do not exist, so it is difficult to find companies and transactions to compare for calculation of "price between independent companies". It is also easy for problems to arise in a transfer pricing tax system as to what degree intangible assets provided by the parent corporation contributed to profits of the foreign subsidiary, whether an appropriate price or royalty is being paid which corresponds to such value, etc.

⁵² When Japan applies transfer pricing taxation, if there is no decrease in the income in the other country which corresponds to Japan's increased taxable income, international double taxation occurs. To eliminate this double taxation, a framework is prepared to adjust the taxable income itself of both countries, through mutual discussions based on tax treaties. Through this tax system reform, based on an application from a taxpayer which received a revision or decision through the transfer pricing tax system, during the period until agreement can be obtained in mutual discussions, payment of Japan's tax (amount of increase) became deferred, with delinquent tax exempted during the deferral period.

confirmation procedures to increase predictability for companies.

In recent years, there is also increasing application of transfer pricing tax systems among overseas tax authorities, so from the perspective of smoothing international expansion of Japanese companies, it is important to make efforts to improve the transparency of transfer pricing tax systems both in Japan and in other countries.

Figure 4-4-14 Changes in number of taxations and taxable income based on transfer price taxation



Source: *National Tax Agency Report* (National Tax Agency), agency press releases.

(2) Efforts towards building more open financial markets

Amid the rise of markets such as Singapore and Hong Kong from companies expanding in East Asia, it is pointed out that Japan's financial markets are difficult for foreign companies to utilize. For example, on the Tokyo Stock Exchange and other exchanges, there are problems of low level of recognition, application of Japan's unique accounting standards, obligation for disclosure in the Japanese language, and the examination period for listing taking a long time.

To further raise the position of Japan's financial markets in the global economy, and also from the viewpoint of promoting more efficient investment and effective utilization of Japan's financial assets, there should be efforts to promote listing of shares of foreign corporations in Japan's markets. Also, as some countries such as India have systems which do not allow direct listing of original shares in foreign countries, Japan's financial markets should be more open, and utilization of Japanese Depository Receipts (JDRs)⁵³ should be promoted to make it an attractive financial market, especially for East Asian and other growth companies to smoothly raise capital in Japan.

⁵³ A depository receipt (DR) is created to distribute shares of a foreign corporation domestically. A domestic depository institution (bank, etc.) issues substitute securities domestically which correspond to original shares in custody in the original country. The Japanese Depository Receipt (JDR) is a Japanese version of the DR.

[Column17]: Asia Industrial Finance Zone Initiative

1. Current status: globalization of economies and industrial finance

Full scale globalization is steadily moving forward, as large companies steadily move financial management overseas in addition to their production bases, and small and medium companies expand their production bases overseas, especially to East Asia. On the other hand, in regions such as East Asia, with the after-effects of the currency crisis, financial regulations exist which obstruct local capital raising and recovery of investment earnings, and many financial markets are underdeveloped. Also, out of the approximately ¥1,500 trillion of Japan's individual investor financial assets, foreign investments mainly flow into European and U.S. securities investments, with few investments in East Asia, etc.. On the other hand, East Asian and other companies are looking toward listings in Hong Kong, Singapore, and New York, with limited listings on the Tokyo Stock Exchange.

2. Necessity of the Asia Industrial Finance Zone Initiative

Japan's economy has the following "assets": (1) Individual investor financial assets reaching about ¥1,500 trillion, (2) Intellectual property, particularly in technology, and (3) High quality human resources. It is important to utilize these assets in global markets and link them to economic growth, but of the above assets, high quality human resources contribute to the export competitiveness of Japan's industries through manufacturing, but one cannot say that individual investor financial assets and intellectual property are being utilized sufficiently.

Considering the status of globalization of Japan's industries and the economic situation of East Asia in recent years, it is essential to build a framework to enable Japan's companies to recover appropriate profits from East Asia, etc. Support for the financial aspect of this framework requires implementation of a method of financial environment development for integrated industrial development with East Asia, etc (Asia Industrial Finance Zone Initiative). In other words:

- (1) Development of domestic and foreign financial environments for smoother expansion of Japanese companies into East Asia, etc., and repatriation of resulting profits (dividends from business investment and financing, royalties for provision of intellectual property, etc.)
- (2) Development of the environment of Japan's financial markets, to incorporate the growth and activity of businesses expanding in East Asia, etc., for Japan to achieve economic growth
- (3) Development of fundamentals to achieve the above

3. Main specific efforts to achieve the Asia Industrial Finance Zone Initiative

From the perspective described above, the Ministry of Economy, Trade and Industry established the Global Industrial Finance Study Group. It carried out investigations and made the following recommendations.

(1) Development of the domestic and foreign financial environment for smooth expansion of Japanese companies into East Asia, etc., and for return of resulting profits

(Support capital raising for companies entering local markets (ABS and ABCP))

Utilize credit support by Nippon Export and Investment Insurance or Japan Bank for International Cooperation, and issuance of ABS and ABCP to make accounts receivable liquid should be supported.

(Support for modernization of financial and capital markets of East Asia, etc.)

Modernization of civil law (provision of know-how and harmonization of system improvements) should be supported, along with support for credit information and rating information database infrastructure development for East Asia, etc., and providing know-how of the Japanese industrial and financial system, etc.

(Improvements in financial regulations and tax systems of East Asia, etc.)

Regarding financial regulations concerning capital movements, foreign exchange, etc., when these are obstacles to repatriation of profits by Japanese industry, the aim should be to resolve them by bilateral discussions, etc. Currently, the Business Environment Development Subcommittee should be utilized in the Economic Partnership Agreement (EPA) framework. Regarding tax systems, efforts should be made towards greater predictability of transfer pricing tax systems.

(Promotion of risk finance)

To support advanced risk management for companies, risk finance techniques should be utilized, and development of an internationally competitive environment should be investigated.

(2) Development of financial market environments to incorporate the growth of East Asia, etc., into Japan's economic growth

(Promotion of Japanese Depository Receipts (JDRs))

Details of operational aspects of related systems should be investigated, along with creation of a JDR issuance guide, and holding fora overseas.

(Improve attraction of and develop system infrastructure for the Tokyo Stock Exchange, etc.)

While investigating promotion of JDRs, the kinds of institutions which Tokyo Stock Exchange and other exchanges ought to be should also be investigated, considering opinions of companies from East Asia and other countries. Also, the required environment which meets industry needs should be developed, to promote efforts based on a work schedule aiming at convergence of Japan's accounting standards and international accounting standards by 2009.

(Attempts towards becoming a financial hub for Asian industry)

For measures to attract financial management corporations to Japan, there should be an investigation of how to achieve a system and market infrastructure which is competitive with other countries.

(3) Develop fundamentals to achieve the above

(Measures to develop and utilize advanced financial human resources)

From the viewpoint of developing the financial environment for Asian industry, an “Industry-Academic Committee on Advanced Financial Human Resources” should be established with the cooperation of universities, companies, and financial institutions, to boost international competitive strengths and investigate development and utilization of human resources.

[Column 18]: Improving the business environment and system infrastructure to ensure international equal footing

Through each country's progress in globalization, vigorous economic activities are developing which cross the barriers of national borders, and an international division of labor which utilizes each region's characteristics is developing. In the current situation, Japan has advantages in many fundamental technologies it has built up and in the technical aspects of many advanced parts and materials, while China and other countries have advantages in the aspect of their low cost labor force. But through the improved technological strength of East Asian countries and higher wages accompanying economic development, this gap is said to be shrinking each year. In this environment, the type of business environment, legal and tax systems, etc., in each country and region will have a large impact on the future investment and location strategies of companies.

For example, according to JETRO's "Survey on Attitudes of Foreign-Affiliated Companies toward Direct Investment in Japan", many foreign companies carrying out business activities in Japan mentioned difficulty of securing human resources (69.6%) and high business costs (68.5%), etc., as the main obstacles to business in Japan.⁵⁴ Also, for effective measures to increase direct investment in Japan, they mentioned reduced tax burden (77.9%), system reforms such as of commercial law (61.7%), labor market reform (61.2%), etc.⁵⁵ This shows that when companies make investments, they are very interested in the business environment and various systems such as the tax system and business legal system.

For investment and location, if one considers the fact that companies pay attention to the business environment and systems where they invest and locate, improving Japan's business environment and ensuring equal footing of systems from an international perspective is said to be important from the aspect of strengthening Japan's international competitiveness. As stated in the January 2007 cabinet resolution "Japan's New Path and Strategy – the Road to 'New Creation and Growth' ", from the aspect of ensuring equal footing when seen from an international perspective tax system, it is necessary to promote improved system infrastructure such as the company legal system, and make Japan's investment environment attractive.

⁵⁴ JETRO (2007), The 12th Survey on Attitudes of Foreign-Affiliated Companies toward Direct Investment in Japan.

⁵⁵ JETRO (2004), The 9th Survey on Attitudes of Foreign-Affiliated Companies toward Direct Investment in Japan.

3. More efficient distribution

In an era when each country's companies are choosing global locations, efficiency of various procedures and the state of development of international distribution points (ports, airports) as nodes in cross-border supply chains are important keys when companies choose locations. On the other hand, for Japanese companies moving forward with international expansion, lagging improvements of such infrastructure and systems become the main reasons pushing up costs in supply chains, so more efficient distribution is becoming a great matter of interest from the perspective of ensuring and improving international competitive strength.

(1) Current situation of Japan's international distribution bases

With the progressing development of international distribution infrastructure (ports, airports) in nearby Asian countries, there are concerns regarding reduced status of Japan's distribution hubs.

For example, regarding ports, as seen from a ranking of container volume handled by major world ports (2006 early report), the Asian ports of Singapore, Hong Kong, and Shanghai take top ranks, while Japan's major ports of Tokyo, Yokohama, etc., are resigned to 20th place or below (Figure 4-4-15). Japan's major ports are lagging behind Asia's major ports in cost and service aspects such as lead time, so for main international routes originally arriving, departing, and passing through Japan's major ports, there is an increasing trend towards direct links between high freight volume major Asian ports and European and U.S. major ports. Distribution between Japan and the East Asia region has grown remarkably in recent years, as the volume of port export freight handled from Japan to the East Asia region in 2004 was 3.2 times exports in 1980, while imports grew 2.2 times.⁵⁶ Also, the distance from Hakata to Tokyo is 1,138km, but Hakata-Shanghai is 907km, and Hakata-Busan is 222km, so there are not large differences between distances in this zone and Japan's domestic distribution.⁵⁷

Also, regarding airports, developments of large scale airports are currently progressing in the East Asia region such as China and South Korea,⁵⁸ and it is thought that they will increase their status as international distribution hubs in the future. Supply of advanced function and high value added goods such as semiconductors and electronic parts rely on air transport considerably, and it is thought that air transport will be increasingly important in international distribution, but if Japan's airports are left as they are, it is feared that a situation similar to that of ports will develop.

⁵⁶ Ministry of Land, Infrastructure and Transport (2007), White Paper on Land, Infrastructure and Transport in Japan, 2006. East Asia as referred to here signifies China, Taiwan, South Korea, Hong Kong, and ASEAN.

⁵⁷ Ministry of Land, Infrastructure and Transport (2007), White Paper on Land, Infrastructure and Transport in Japan, 2006.

⁵⁸ Comparing the development status of runways (as of October, 2006), in Japan: Narita [4000m, 2180m (planned extension to 2500m by fiscal 2009)], and Kansai (3500m, plus development of a second 4000m runway planned by the summer of 2007). In contrast, for example capital city Beijing (3200m, 3800m, plus development of a third 3800m runway planned by 2007), Incheon (two 3750m runways, plus development of a third 4000m runway planned by 2008) (Ministry of Land, Infrastructure and Transport,

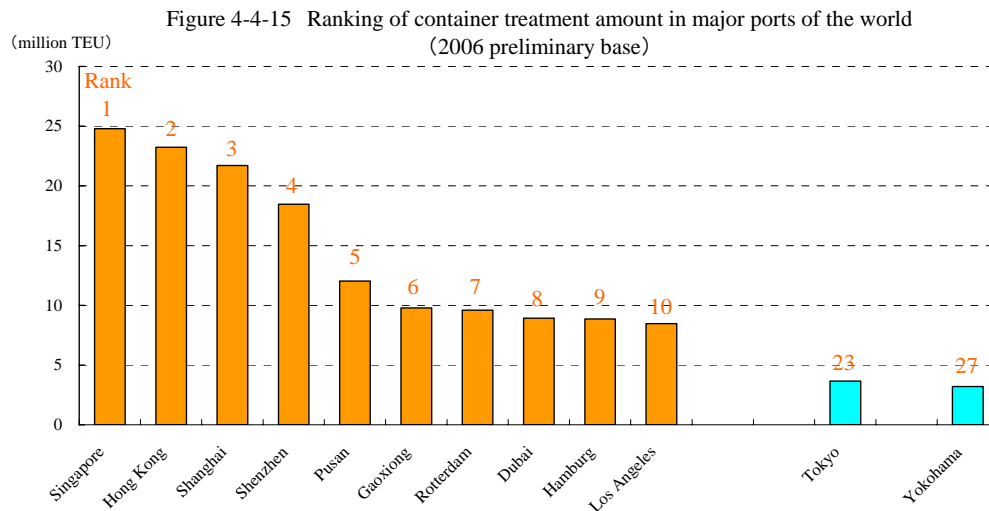
(2) Issues to work on

Measures pointed out to strengthen port functions are: construction of next generation high specification container terminals and port terminal public corporation reform, promotion of a super central port project by coordinated efforts on integrated infrastructure and systems, etc. Also, to provide faster distribution with East Asian countries such as China and South Korea which are a short distance from Japan, for example, there should also be efforts to develop ports which can handle international ferries and RORO ships which carry a container for each truck chassis (abbreviation of Roll-On/Roll-Off ship. Ships which enable vehicles to directly drive in and drive off the ship). Regarding airports, there is a need for example to make Haneda Airport into an international airport (starting international freight flights in the late night and early morning hours), with an accompanying shift to 24 hour customs service, improved transport access to the airport, improved logistics functions in the airport, etc.

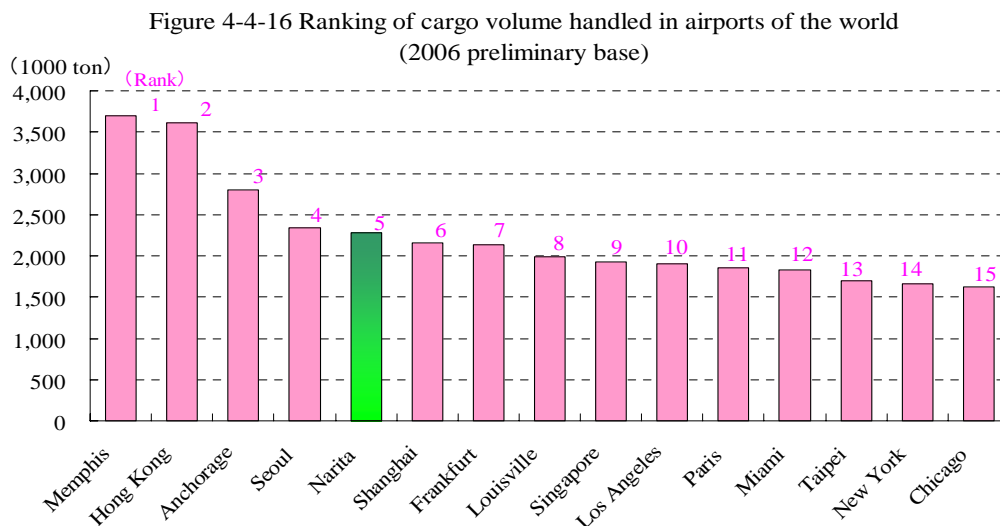
In addition to improving infrastructure of seaports and airports, Japan should aim at achieving integrated international and domestic distribution, by promoting electronic procedures for import/export procedures, utilization of electronic tags, standardization of transport equipment such as containers and pallets, etc. Regarding reforms to foreign trade procedures, it is important to work for higher efficiency in Japan's distribution towards strengthening international distribution functions. This is by solid implementation of the "Trade Procedures Reform Program",⁵⁹ incorporating reform of the customs clearance system in the May 2007 "Asian Gateway Initiative", determined by the government's Asian Gateway Strategy Council.

Discussion Group on the Future Status of International Hub Airports (October 24, 2006), data).

⁵⁹ Comprised of (1) Review of regulations, integration and simplification of procedures, (2) Building of a Japanese AEO system (Authorized Economic Operators: authorize businesses with excellent compliance to do customs work, and provide the convenience of simplified customs clearance procedures, etc.), and (3) Review of Next Generation Single Window.



Source: Ministry of Land, Infrastructure, Port and Harbour Bureau, "Future policies on port and harbours for realizing Asia Gateway Initiative (draft)" (Ministry of Finance, Council on Customs, Tariff, Foreign Exchange and other Transactions, Customs Section Meeting, Planning Session Materials).
Original source: CONTAINERISATION INTERNATIONAL YEARBOOK 2007 (The National Magazine Co. Ltd.)



Source: Website of Airports Council International.

4. Expand receipt of advanced human resources, trainees, and interns from overseas

With the decreasing population, securing a young labor force is becoming more difficult, and securing excellent human resources is becoming an urgent issue. Above all, as Japanese companies accelerate their global business expansion focused on Asia, it is necessary to increasingly utilize and promote advanced human resources who can work globally.

Global competition to secure human resources is intensifying. In Europe and the U.S. where companies are working hard to acquire excellent human resources throughout the globe, foreigners with advanced expertise who originally studied abroad are working at many sites at the cutting edge of innovation in IT business, financial services, etc. In the case of Japan, one cannot say that there is

progress in promotion of foreigners in Japanese companies.⁶⁰ Also, the ratio of foreign workers with advanced skills is lower than in the U.S. and European countries.⁶¹ There is a need to work to increase the attraction of Japan as a place for human resources with strong qualities to study, research, and work, regardless of nationality.

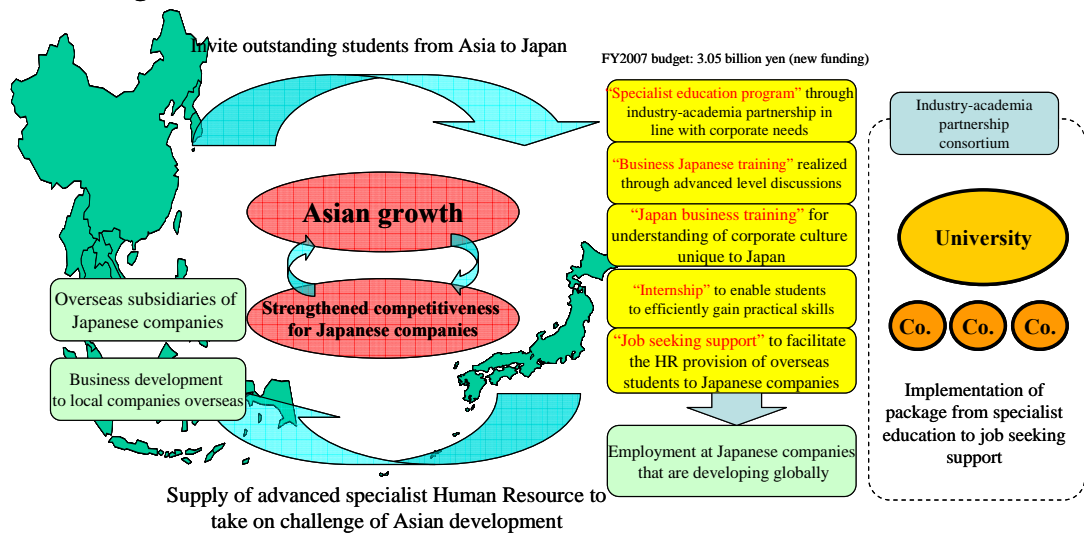
(1) The Asia Human Resources Fund

Based on these points, the Ministry of Economy, Trade and Industry is cooperating with the Ministry of Education, Culture, Sports, Science and Technology to implement the Asia Human Resources Fund (Figure 4-4-17) starting in fiscal 2007. In this initiative, a consortium is formed in cooperation with industry and academia. Based on company needs, this brings excellent youth from Asia and other regions to Japan, and promotes development of specialized innovative human resources to work in industry by providing a package of specialized education, Japanese language training, and job search support such as internships. In the Advanced Specialized Foreign Student Development Project, universities and industry cooperate to invite excellent students in each specialized field from overseas, and create and implement a human resource development program which provides specialized education, Japanese language education, etc. In the Advanced Training Foreign Student Development Project, excellent students are selected from among foreign students already in Japan, in each regional bloc such as Hokkaido and Tohoku, and the region's industry and multiple universities create and implement human resource development programs which provide Japanese language education, etc. This project has a goal of supporting about 1,000 foreign students in the first fiscal year. Asia is the world's growth center where many Japanese companies are expanding. By implementing a human resource development program for foreign students from Asia and other regions, a larger and closer human network is built between Japan and Asian regions. This is expected to contribute to growth in both Japan and East Asia overall.

⁶⁰ According to a questionnaire survey of companies by the Ministry of Economy, Trade and Industry, Global Human Resource Management Research Committee (Survey commissioned by the Ministry of Economy, Trade and Industry. About 450 companies with the most employees were randomly selected out of about 3,550 stock market listed companies and other companies in the manufacturing industry). Regarding questions on promotion policies for skilled foreigners in Japanese headquarters, and regarding actual hires of recently graduated skilled foreigners, 77.6% of companies replied that they hired none as office staff in the past five years, and 75.1% hired none as technical staff. To the question as to whether they continually hired such foreigners over the past five years, 76.6% of companies replied they "Did not hire" office staff, and 74.9% "Did not hire" technical staff.

⁶¹ Ministry of Economy, Trade and Industry (2006), Global Economic Strategy.

Figure 4-4-17 Overview of The Asian Human Resource Fund



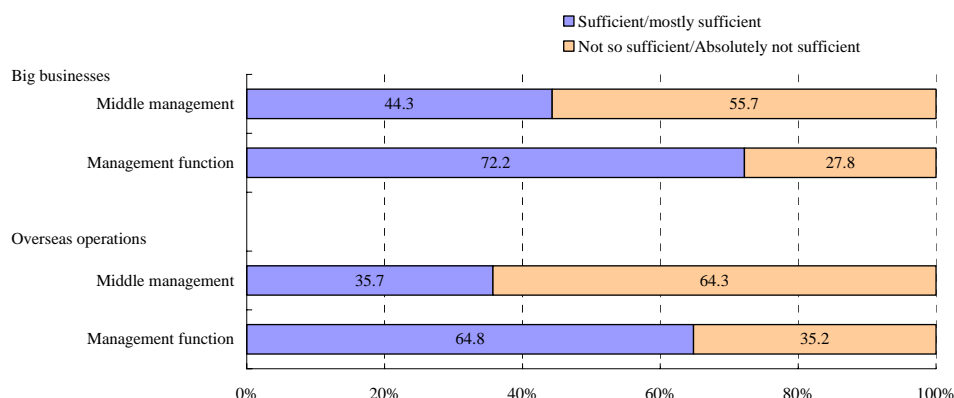
Source: Ministry of Economy, Trade and Industry.

(2) Internationalization of human resource management of Japanese companies

For excellent overseas human resources to work at Japanese companies as supporters of innovation, it is also necessary to develop human resource management systems of Japanese companies. Many Japanese companies now think that they can only secure human resources with advanced capabilities and expertise from among Japanese (Figure 4-4-18). Many companies feel they cannot risk starting to promote excellent foreigners, because of vague unease towards promotion of foreigners (due to culture, language, attachments, etc.), lack of clear foreigner utilization strategy, etc. On the other hand, foreigners also strongly sense negative aspects, such as not being able to see their career path in Japanese companies, and compared to international companies of other countries, promotion of foreigners is not progressing, foreigners are paid low salaries, etc. Many foreigners refrain from or give up hopes of working at Japanese companies.

Due to these defects in human resource management systems, opportunities are lost to acquire excellent human resources. This is a large loss both to the companies and to Japan's economy, so urgent efforts are required towards establishment of human resource management which handles internationalization. From this perspective, the Ministry of Economy, Trade and Industry started the Global Human Resource Management Study Group in October 2006, and it provided its conclusion in May 2007. This analyzed the environment in which Japanese companies are placed, and confirmed that a move towards internationalization of human resources is inevitable and necessary. While referring to leading examples, it recommended measures to promote internationalization of human resources at Japanese companies, the necessity of developing an environment which supports efforts by companies, etc.

Figure 4-4-18 The Need for Advanced Foreign Human Resources Recognized by Japanese Corporations
[Responses to the question "Are there sufficient human resources when only looking for Japanese people?" (survey of companies)]



Notes:

1. Questionnaire survey (contracted by the Ministry of Economy, Trade and Industry) done in January 2007, randomly selected from about 3,500 listed companies (Tokyo Stock Exchange 1st section & second section, regional stock exchanges, JASDAQ) and about 450 other manufacturing companies with the most employees, for a total pool of 4,000 companies (valid responses from 406 companies).
2. "Large companies" are companies with 1,000 or more employees. "Overseas operations" are companies with 30% or more of their sales overseas.

(Source) Ministry of Economy, Trade and Industry, Global Human Resources Management Study Group data.

(3) More advanced and complete system of training and technical internships for foreigners

In Japan's system of training and technical internship for foreigners, workers from developing countries and other countries are received in Japan. This system supports acquisition of technology, skills, and knowledge in Japan's industry and employment. The number of trainees and interns received through this system is growing each year. To contribute to the human resource aspect of development of East Asia and other countries and regions, this support for learning technology and skills in industry and employment should be expanded and improved. The necessity to increase the efficacy of the current system has been pointed out. For example, to enable trainees and interns to learn sufficient skills, opportunities should be provided to learn more advanced skills based on the status of technical progress, etc., job classifications introduced which correspond to multiple skills based on the actual situation of work sites, etc.⁶² Also, recently, in some institutions which receive trainees and interns, inappropriate problems are being pointed out such as nonpayment of overtime compensation during technical internships, unjust management such as taking away passports, etc., so there is also a need for more appropriate system management.

Based on these points, the Ministry of Economy, Trade and Industry established the Study Group on Industrial Training and Technical Internship Program for Foreigners in October 2006. This group investigated measures for a more proper training and technical internship system (specifically, management of improper institutions which receive trainees/interns, more proper group management type reception of trainees/interns,⁶³ etc.), measures for an improved system which is desirable for both trainees/interns and the companies receiving them (for example, introduction of an Advanced

⁶² Ministry of Economy, Trade and Industry, Foreigner Training and Technical Internship System Study Group, etc.

⁶³ System where trainees are received by companies via their chambers of commerce and industry, societies of commerce and industry, small business associations, foundations, associations, agricultural cooperatives, etc.

Internship System (provisional name),⁶⁴ adding technical internship job types, etc.), etc. The group provided its conclusions in May 2007 (Table 4-4-19).

Table 4-4-19 Summary of the Industrial Training and Technical Internship Program Study Group

(Basic thoughts)

●Industrial Training and Technical Internship Programs are settling in Japan as a goal to transfer skills to human resources in developing countries, and a program that stimulates Japanese companies through international contributions on a private level. This idea of "international contribution by skill transfers" is suitable to be continued in the future.

(The direction of revising the program)

●This program cannot work out without the efforts and enthusiasm of accepting companies. Assuming appropriate operations take place, inducing the following are important.

(1)Let trainees and technical interns learn from personal work experience, the outstanding manufacturing work in Japan.

(2)Rather than a systemic internship or a training program using assessment examinations of skills, improve the level of skill, and connect it to success and improving their career after they return to their home country.

Step	Related organizations		New measures
Sending country	Sending organization		○Request for improving deposit collected by sending organizations (government level, business level)
Early after entering the country	JITCO Primary accepting organizations		○Oblige trainees to enroll in "Initial guidance" ○Issue cards for trainees
Training	Primary accepting organization	Company	○Intensify certification systems for trainees and technical intern, if acceptance is stopped by the responsibility of the company, implement a measure where trainees can continue ○Oblige implementation of Japanese education and health and safety education by decree ○Implement external evaluation and well standing authorization system for accepting companies and primary accepting organizations ○Intensify punishments for inappropriate accepting organizations
Technical internship	Primary accepting organization	Company	○Implement management obligations for affiliated companies of primary accepting organizations (Currently it is only during training period) ○Implement an application obligation for skill evaluation (such as assessment evaluation) after the technical internship
Return to home country once	Work at a company at home country		
High technical internship	Primary accepting organization	Company	○Recognize acceptance only in well standing companies (if it is well standing, it can be a small, medium or large size company) ○Only well standing primary accepting organizations can be involved in acceptance
Other			○Review of implementing sectors that deal with requests of multiskilled workers
(Long-term agendas)			○For technical interns who completed especially well, review a working visa

Source: Study Group on the Industrial Training and Technical Internship Programs (Ministry of Economy, Trade and Industry).

(4) Development and receipt of specialized human resources within the frameworks of economic cooperation agreements

In addition, within frameworks of economic partnership agreements with Asian countries, there are arrangements for human resource development cooperation with the country and reception in Japan of specialized human resources. Regarding receipt of specialized human resources, for example, in the Japan-Philippine Economic Partnership Agreement (signed in September 2006), there was approval of training, employment, etc., for nurses and care workers⁶⁵ to acquire Japan's national qualification. In the Japan-Thailand Economic Partnership Agreement (signed in April 2007), the

⁶⁴ Framework for another internship to provide the opportunity to acquire more advanced technology and skills. This would consider factors such as the intern's technical progress. For example, for excellent technical interns who have acquired certain certified skill qualifications, if (depending on the field) sufficient transfer of technology and skills did not take place in the current number of allowed years of residency (one year in the training system, maximum three years in the technical internship system including the training period), interns who wish to would enter Japan again after returning to their country.

⁶⁵ As requirements for candidates, regarding nurses, people who have a nurse qualification based on Philippine laws and regulations (people who passed the Philippine Nursing Licensure Exam) and have at least three years work experience as a nurse. Regarding care workers, people who obtained a university degree and graduated from a higher education institution which requires at least four years to graduate, and certified as a care worker by the Philippine government in compliance with Philippine laws and regulations or graduated from nursing school (higher education institution recognized by the Philippines government which operates a nursing studies program).

entry visa requirements were relaxed for Thai chefs,⁶⁶ and negotiations will begin regarding the possibility of receiving spa therapists and care workers. In the Japan-Indonesia Economic Partnership Agreement (major elements agreed to in November 2006), there was planned approval for receipt of nurses and care workers, in a framework similar to the Japan-Philippine Economic Partnership Agreement. Also, as related cooperation, cooperation in the training and technical internship system for the hotel related service sector will be investigated in a positive light. Still, regarding time extensions for technical internships, work after training ends, and receipt of spa therapists, it was not possible to reach conclusions in the framework of these negotiations, but there were requests from the counterparty to reopen discussions in the future.

5. Intellectual property

To increase Japan's international competitive strength through innovation, and to also increase the attraction of Japan's market, it is important to properly protect and utilize results of research activities and creative activities as intellectual property, and develop an environment which brings forth innovation. In particular, it is essential for innovation's creativity to "quickly turn inventions into rights"; thereby promoting technology development by more efficient research and development and eliminating duplicate research, and also easing rapid commercialization of original inventions. Thus faster and more efficient patent examination is becoming an urgent issue.⁶⁷ Also, in a situation of progressive globalization of the economy, there must be work to smooth acquisition of rights overseas by Japanese companies, by harmonizing the patent systems of each country and region, promoting cooperation with countries in examinations, etc.

The Ministry of Economy, Trade and Industry (Japan Patent Office) formulated the Advanced Measures for Accelerating Reform toward Innovation Plan in Patent Examination (AMARI Plan 2007)⁶⁸ in January 2007. This plan is composed of four areas and 26 items covering efforts to develop and strengthen the intellectual assets system, such as closer cooperation with foreign patent offices, promotion of international harmonization of systems, promotion of global rights acquisition and stronger intellectual assets protections by stronger counterfeit goods countermeasures, etc., faster and more efficient examinations by the patent office, promotion of strategic intellectual assets management in companies, stronger support for utilization of intellectual assets of the regions and in

⁶⁶ Activities which require specialized skills in Thai cooking, based on residency qualification of "skill", with the scope determined in the Immigration Control and Refugee Recognition Act. This necessitates meeting requirements such as: five years or more of work experience as a Thai chef, obtained a certificate of first rank or higher skill level as a Thai chef, etc.

⁶⁷ In the Intellectual Property Strategic Program 2006 and in the Economic Growth Strategy Outline (Decided by July 2006, Council for Comprehensive Financial and Economic Reform), mid and long term goals are to reduce examination wait times to 11 months in 2013, the world's fastest pace.

⁶⁸ Preceding this, after inauguration of the Abe cabinet, the Ministry of Economy, Trade and Industry held the Second Patent Examination Acceleration and Efficiency Promotion Headquarters in October 2006. This formulated the Advanced Measures for Accelerating Reform toward Innovation Plan in Patent Examination (AMARI Plan), which is the new basic policy for patent administration, based on basic policies of the Abe cabinet, the Economic Growth Strategy Outline, etc. The AMARI Plan 2007 further develops this.

medium and small companies, etc.

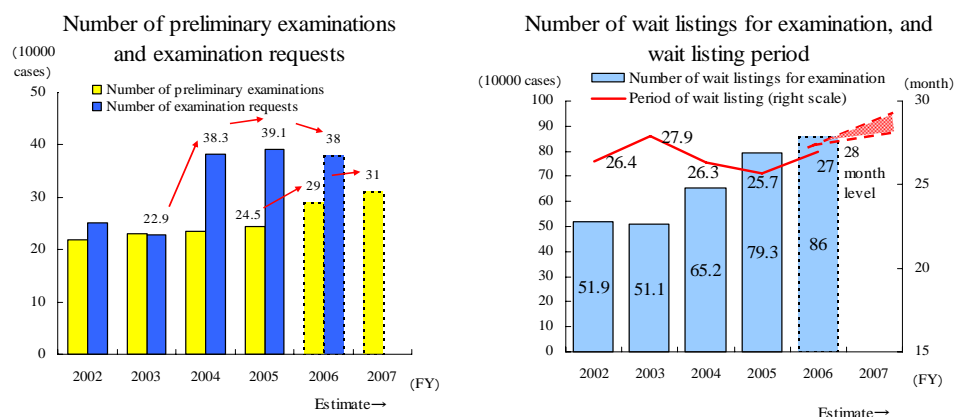
(2) More efficient and rapid patent examinations

In Japan in October 2001, the period one is able to request examination after the patent application is submitted was reduced from seven years down to three years. Thus since fiscal 2004, the number of requests for patent examinations greatly increased, exceeding the number of primary examinations (There were about 790,000 pending patent examinations at the end of fiscal 2005, with a wait time of about 26 months). In the future, considering the large increase in the number of examination requests launched for fiscal 2004 examinations, it is feared that this wait time will become even longer (Figure 4-4-20).

In the AMARI PLAN 2007, based on this situation, regarding reducing examination waiting times by increasing the number of fixed-term patent examiners and greater private outsourcing of prior art examinations, the goals for fiscal 2007 are to hold waiting times to 28 months,⁶⁹ and increase from the fiscal 2006 goal of about 290,000 primary examinations to about 310,000. Regarding more efficient examinations, the goals are to increase the number of items processed per examiner each year (requested items basis) to 1,300 items or more in fiscal 2007 and about 1,400 items in fiscal 2010 (about 30% more than in fiscal 2005), increase private outsourcing of prior art examinations to 226,000 in fiscal 2007 and about 240,000 in fiscal 2010 (about 25% more than in fiscal 2005), and reduce examination cost (direct costs of each item requested) to ¥23,000 or less in fiscal 2007, then to about ¥22,000 in fiscal 2010.

⁶⁹ Full scale examination work begins in fiscal 2007 on the examination requests which greatly increased in fiscal 2004, so even assuming hard work to increase the number of primary examinations; significant difficulties are foreseen associated with reducing examination wait times.

Figure 4-4-20 Situation of patent examination



Notes: Figures after 2006 FY are estimates.
Source: Japan Patent Office.

(2) Promotion of international harmonization of the intellectual property system and cooperation with each country's patent office

(Efforts at system harmonization in the Japan-U.S.-Europe Trilateral Patent Office Meeting)

At the Japan-U.S.-Europe Trilateral Patent Office Meeting held in November 2006, there were agreements to unify application forms, begin electronic exchange of priority documents between Japan and the U.S. in July 2007, promote mutual use of searches and examination results of other patent offices with a working group established to further strengthen and develop work sharing, the start of trilateral comparative research on entries and progress in examination work, investigation to improve access to China's patent documents, etc.

(Patent Examination Highway Scheme)

To enable Japanese companies to obtain patents smoothly in multiple countries, construction of a "Patent Examination Highway" framework which enables receipt of rapid examinations by taking examination results of an application patented in a first country and submitting them to a second country is becoming an important issue. Japan first began a trial with the U.S. from July 2006. Next it began with South Korea from April 2007, start of a trial is planned in July 2007 with the UK, and there are also plans to implement this with other developed countries.

6. Boosting Japan's presence in the world economy

To promote FDI into Japan in an environment of interest focused on Asian countries which are achieving remarkable economic growth, in addition to business environment development, development of system infrastructure, and improved convenience, it is becoming important to deliver publicity overseas on Japan's attractions, and raise the level of recognition and sense of presence of Japan in the global economy. Here we investigate efforts for Japan to actively publicize its own attractiveness.

(1) Increase Japan's publicity abilities overseas using strong salesmanship, etc.

Making Japan's attractiveness widely recognized overseas is thought to have various effects, such as increasing investment in Japan from overseas, increasing business opportunities of Japanese companies in overseas markets, etc. For example, publicizing the strengths of Japan's technical abilities and actively showing that Japan wants to become an important partner for support and cooperation in economic development of countries is one way to improve opportunities for stronger mutual long term economic relations.

From this perspective, Japanese government leaders and related cabinet ministers, heads of regional and local governments, etc., cooperate with Japanese industry to directly influence government and industry of foreign countries (so-called "top sales"). This is said to be very significant. For Japan, these efforts are relatively new experiments. On the occasion of the official visit of Prime Minister Abe to Vietnam in November 2006, the economic mission of 130 people from Japanese industry which accompanied him was notable as a pioneering example. A meeting⁷⁰ of the leaders of both countries with that mission was held in Vietnam, the Prime Minister attended the Japan-Vietnam Economic Seminar,⁷¹ etc., as public and private sectors united to appeal for stronger bilateral trade and investment relations, etc. Also during Prime Minister Abe's official visits from April to May 2007 to five Middle Eastern countries (Saudi Arabia, United Arab Emirates, Kuwait, Qatar, Egypt), a 180-member economic mission traveled with the Prime Minister; some of the members attended discussions of the Prime Minister with each country's leader, and the mission joined the Prime Minister in attending business fora where opinions were exchanged with local business leaders.

From April to May 2007, on the occasion of the visit of Minister of Economy, Trade and Industry Akira Amari to the four countries of Uzbekistan, Kazakhstan, Saudi Arabia and Brunei, public and private sectors also joined together, aiming at stronger economic relations with those countries, achieving large results. For example in Kazakhstan, a 150-member public/private mission traveled with Minister Amari, and in discussions with Kazakhstan government leaders, agreed to move forward with strategic cooperation and industrial diversification cooperation in the field of peaceful use of nuclear power. Companies and government institutions also agreed on 24 specific nuclear power related cooperation projects including securing uranium interests (interests equivalent to 30-40% of Japan's total uranium demand).⁷²

⁷⁰ At the meeting, Japan's Prime Minister expressed that the mission which accompanied him showed the strong interest of Japan's business community in Vietnam, that Japan's public and private sectors will work together to promote bilateral cooperation in the areas of development of IT human resources, energy, nuclear power, infrastructure, etc., and the desire to investigate support for projects for Vietnam's economic development which utilize Japan's technology and know-how. The economic mission also expressed expectations for promotion of a Japan-Vietnam Economic Partnership Agreement, promoting liberalization of goods trade, requests for protection of intellectual property rights, etc. From the Vietnam side, Prime Minister Dung stated that they would strive to develop the environment for expanded trade and investment in Vietnam.

⁷¹ Jointly sponsored by Vietnam Ministry of Planning and Investment with Nippon Keidanren. About 600 people from Japan and Vietnam participated.

⁷² Also, agreement with Uzbekistan to hold a Second Government and Private Sector Business Forum in

Interest in inviting companies is also increasing among regional and local governments, with their leaders attending JETRO's Invest Japan Symposiums.

High level direct exchange of opinions by public and private leaders of Japan and various countries at these meetings, seminars, fora, etc., is also said to be significant to facilitate mutual understanding at various levels between Japan and other countries.

"Top sales" and other public/private cooperation is common in Europe and the U.S. To increase the level of interest of other countries towards Japan, Japan should also continue to seek effective methods of public/private cooperation.

(2) Establishment of Japan Brand and publicity overseas

In the future, for Japan to progress as an attractive country which is open to the world, in addition to strengths in hardware aspects such as advanced production capabilities and cutting edge technologies, it is important to establish a new "Japan Brand" which utilizes special qualities of intangible aspects and strong points which incorporate various cultural values historically fostered in Japan, and actively publicize such a "Japan Brand" overseas while considering the needs and values of people overseas.

(Efforts toward establishing "Japan Brand")

Regarding efforts required to establish a "Japan Brand", various investigations by the government including the Intellectual Property Strategy Headquarters have targeted this topic, and specific efforts are progressing. The Ministry of Economy, Trade and Industry also established an advisory panel to the Brand Promotion Council for a New Japanese Style (Japanesque*Modern) in May 2005. It investigated methods of public/private cooperation towards forming a newer Japan Brand (Japanesque*Modern), to reevaluate Japan's diverse traditional culture within modern lives, and to link this culture with development of new products and media content which match modern lifestyles and social needs. That July, a three year action plan⁷³ was formulated, comprised of six campaigns which included 28 action programs. The Japanesque Modern Committee was established in January 2007 to push concrete steps to implement the action plan. Its efforts include various seminars held in

Autumn 2007 was reached, and specific discussions were held with Saudi Arabia on how to proceed with future public/private cooperation, such as the Public/Private Industry Cooperation Framework (April 2007, proposed by Prime Minister Abe during his visit to Saudi Arabia). Also, in Brunei, Minister Amari exchanged opinions with Brunei's related cabinet ministers on cooperation towards diversification of Brunei's industries, and Minister Amari attended the finance agreement signing ceremony for capital raising for construction of Brunei's first methanol plant by the Japan Bank for International Cooperation (JBIC), private financial institutions, and Brunei Methanol Company, creating an impression of strong public and private interest in creation and development of Brunei's new industry.

⁷³ Efforts to promote the Japanesque*Modern campaign are based on network building, creation of specific products and media contents, creation of an evaluation system for brand management, a campaign to increase recognition of Japanesque*Modern ("Sense Japan" campaign), brand leader development, and six overseas promotional campaigns. Also various events are held, selections for Japanesque Modern 100 Awards are made, and human resource development is promoted, etc.

Japan and overseas, and using the Japanesque Modern 100 Awards⁷⁴ to introduce existing products, media content, etc., which are thought to express Japan's cultural values while uniting them with leading technologies and proposing ideas for modern lives, and which at the same time serve to promote industries which increase Japan's international competitive strength.

Also, the Ministry of Economy, Trade and Industry is developing and promoting regional brands through support of the JAPAN Brand Development Support Project,⁷⁵ etc. These efforts are expected to unite the special qualities of Japan's intangible aspects with its strengths in production, and lead to development of regional economies.

(Promotion of overseas publicity through media content, fashion, etc.)

Media content (movies, music, animation, games, comics, TV programming, etc.) combine elements such as traditions, lifestyles, and cultural sense, and function to deliver information. Media content will be a large force for promotion when publicizing Japan Brand. However, looking at the current situation of Japan's media content industries, the focus is on business targeting the domestic market, with little progress towards expansion to overseas markets,⁷⁶ with only weak capabilities to deliver information such as advertising and publicity targeting overseas. Strengthening international competitiveness of Japan's media content industries and promoting strategic international development are becoming important issues for publicizing Japan's attractions overseas.

Regarding promotion and strengthening of international competitiveness of media content industries, building an "Intellectual Property-Based Country" is one issue incorporated in the government's Intellectual Property Strategic Program, and efforts by government and industry are progressing.⁷⁷ The environment for media content industries is rapidly changing, with advances by other countries in each media content sector (especially progress in Asia: China, South Korea, etc.), diversification of contents distribution routes accompanying the move to broadband Internet, etc.

⁷⁴ Fifty-three products were selected as of May 2007.

⁷⁵ To increase the value of products which utilize combined strengths of each region (resources, technology, etc.), and to create a Japan Brand which both expresses "Japan" and is relevant overseas, various efforts by chambers of commerce and industry, societies of commerce and industry, etc (market surveys, brand strategy creation, new product development, displays at exhibitions (in Japan and overseas), etc.).

⁷⁶ According to Ministry of Economy, Trade and Industry calculations based on survey data from the Digital Content Association of Japan, the degree of dependency on overseas markets for Japan contents industries (ratio of overseas sales to total sales) is 1.9%, compared to 17.8% for the U.S.

⁷⁷ For example, (1) At the Tokyo International Film Festival (Co-hosted by the Ministry of Economy, Trade and Industry, supported by the Agency for Cultural Affairs, and presented under the auspices of the Ministry of Foreign Affairs of Japan, Ministry of Internal Affairs and Communications, etc.), expansion of international media content markets (in addition to films, events will also be held related to character branded goods, TV programs, video games, animation, and comics. Fiscal 2006 results: 1,970 business negotiations, 58 contracts), (2) Introduction of Japanese films by JETRO at international film markets (fiscal 2006 results: 271 business negotiations, 65 contracts planned), (3) Asian Content Industry Seminar held [Aims to strengthen cooperation in media content industries in the East Asia region. Cabinet level meeting for 14 East Asia countries (Japan, China, South Korea, ASEAN, India) were held. First held in Tokyo in October 2005. The second held in the Philippines in May 2006], and (4) Piracy countermeasures, etc.

Considering these changes, it is necessary to improve and accelerate efforts for promotion of Japan's media content industries.

The Ministry of Economy, Trade and Industry established the Japan International Contents Festival to implement the Outline of Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2006 approved by the cabinet in July 2006, and also based on the International Contents Carnival Initiative⁷⁸ which was proposed in the Economic Growth Strategy Outline. By holding the previously separate exhibitions and markets of each media content industry in the same period as far as possible, this event aims to promote cooperation between media content sectors, business negotiations, and increased synergies in international distribution. A festival period of over one month is planned in 2007, from the Tokyo Game Show held in September, through events with themes of animation, comics, music, computer graphics, etc., until the Tokyo International Film Festival in late October.

Also, in recent years, considering the great changes in the environment of the media content industry, due to rapid innovation and expansion of global media content markets, including in developing countries, the Ministry of Economy, Trade and Industry has held the Contents Global Strategy Study Group since December 2006, with the aim of investigating measures to promote globalization of Japan's media content industries. This group is collecting many opinions from businesses on site and actual examples of overseas expansion, and investigating with an emphasis on the industry's perspective. It plans to produce a conclusion with a strategy for efforts of government and industry which are required to promote globalization of Japan's media content industries.⁷⁹

Stimulation of industrial sectors with strong ability to communicate culture such as the fashion industry is also important to increase and deepen Japan's attraction, and to help people overseas to know about Japan. Japan's fashion industry has strong potential for growth, such as being rich in the foundations of craftsmanship in producing areas which bring forth excellent materials. On the other hand, the industry is not fully utilizing its strengths, as imports continue to exceed exports, and although there is refined taste and excellent technical strengths, there are few exports of fashion products, and only a small share is taken of value added, etc. Also, the preference for imports and tendency to follow trends stifle new creations, bringing about an outflow of human resources which were involved in design and manufacturing, so securing human resources is becoming even more difficult. For the Japanese fashion industry to appeal to the world more effectively, it is essential to develop human resources with refined taste and pass on techniques of artisans in producing areas to the next generation, and more accelerated efforts are required to strengthen international competitiveness of the fashion industry. The Ministry of Economy, Trade and Industry cooperated with JETRO, etc., to support the first Japan Fashion Week in Tokyo,⁸⁰ thereby working for industry

⁷⁸ By actively expanding the Tokyo International Film Festival, Japan's diverse media content is collected for one event, to facilitate showing it to the world.

⁷⁹ As of May 2007.

⁸⁰ Government and industry worked together to strengthen Tokyo Collection, which had a dispersed event schedule. The strengthened event was held in October 2005 as the first Japan Fashion Week in Tokyo. The locations were more concentrated, the schedule was shortened, and it is held once each six months, paying

to strengthen fashion's international publicity role, promote human resource development and inter-company cooperation, etc.

Table 4-4-21 Examples of efforts towards the establishment of a "Japan Brand"

Contents	○ Expansion of the international contents market at Tokyo International Film Festival (FY2006 results: 1,970 business consultations); Introduction of Japanese films at international film sampling market (FY2006 results: 271 business consultations)
Fashion	○ Enhanced public-private cooperation for the "Tokyo Collection" and "Japan Fashion Week in Tokyo" the dates for which have been extended. These events have now been held on four occasions, up to end of March 2007.
Promoting the creation of a regional brand	○ In order to capitalize on regional strengths (resources, technologies, etc.) and realize a "Japan Brand" that will be popular throughout the world, support is being provided for the various efforts of Japanese Chambers of Trade and Commerce (market surveys, branding strategies, new product development, etc.). Since the launch of the program in FY2004, 107 projects have been adopted.
New Japan style	○ With the aim of supporting the creation of products that fuse Japanese traditional culture with cutting-edge technology, the committee of "Japanesque Modern" was launched. In FY2006 the "Japanesque Modern" 100 initiative was launched and so far 53 products have been selected, and a number of exhibitions and sales promotions have also been implemented.

Source: METI.

close attention to the global fashion calendar. It had been held four times by March 2007.