

Third Report of the Committee on New Direction of Economic and Industrial Policies

June 2024

**Committee on New Direction of Economic and
Industrial Policies, Industrial Structure Council
Ministry of Economy, Trade and Industry**

Progress and Current situation (1)

- In 2021, METI started to strengthen industrial policies as “New Direction of Economic and Industrial Policies” based on the reflection on the domestic situation and the global trend.
- In June 2022, METI formulated the first report of the committee on New direction of Economic and Industrial Policies and strengthened industrial policies based on this.
 - METI regarded social issues as the engines of economic growth and showed the direction that METI would continue implementation of the policies and measures over the medium to long term (5-10 years), according to common framework across “Mission-oriented industrial policies” and “Updating socioeconomic operating-system (OS)”.
 - Also, METI showed the direction that it would mobilize all available means including subsidies, taxation systems, regulation and standardization in a large-scale, long-term, and planned manner in implementation of the strengthened industrial policy.
- GX Promotion act•the direction to support to the area of climate transition in the amount of 20 trillion yen、5 G act•the direction to support semiconductor sector, 5-Year Plan for Startup Development, the direction to support reskilling 1 trillion yen over 5 years, economic measures including “supporting domestic investment 7 trillion yen” etc.

Progress and Current situation (2)

- In June 2023, METI formulated the second report of the committee on New direction of Economic and Industrial Policies and shared the direction to strengthen industrial policies and set the goals among the private and public sectors.
 - The recognition that the combination of changes in the macro environment and policy has brought about a "turning point" from the "lost 3 decades"
 - To translate these changes into sustainable and continuous growth, METI showed the macro-economic direction of realizing the positive cycle of Domestic Investment, Innovation, and Income Growth over implementing "Mission-oriented industrial policies" and "Updating socioeconomic operating-system (OS)" together.
 - Establishing the Public-Private Partnership Forum on Increasing Domestic Investment and setting a public-private goal of 115 trillion yen for domestic investment in FY2027.
 - Formulating "Domestic Investment Promotion Package"(11 ministries and agencies 200+ measures and projects) and "Leading Medium Enterprises Growth Promotion Package"(190 measures from 12 ministries and agencies and 18 selected measures from them).
- Japan finally has a chance to change its economy to sustainable growth partly because of implementing industrial policies in recent years. However, it can be difficult to change pessimism including the cost-cutting mindset over 3 decades only in 2 years, so if the government slow down policies, Japan will miss the chance and it must be easily back to the same situation of this 3 decades. This is a crucial moment to the Japan's economy.
 - It is necessary to continue industrial policies including fiscal policies to support domestic investment to tackle with social issues to create future "bread and butter". It is required to enhance the predictability of private sector by clearly showing the messages and implementing measures.

- 1 . A Future Outlook around 2040**
 - (1) Necessity and purposes of the Future Outlook**
 - (2) Summary of the Future Outlook
- 2 . Past and Future measures for Future Japan in which each individual will enhance well-being

Necessity and purposes of the Future Outlook

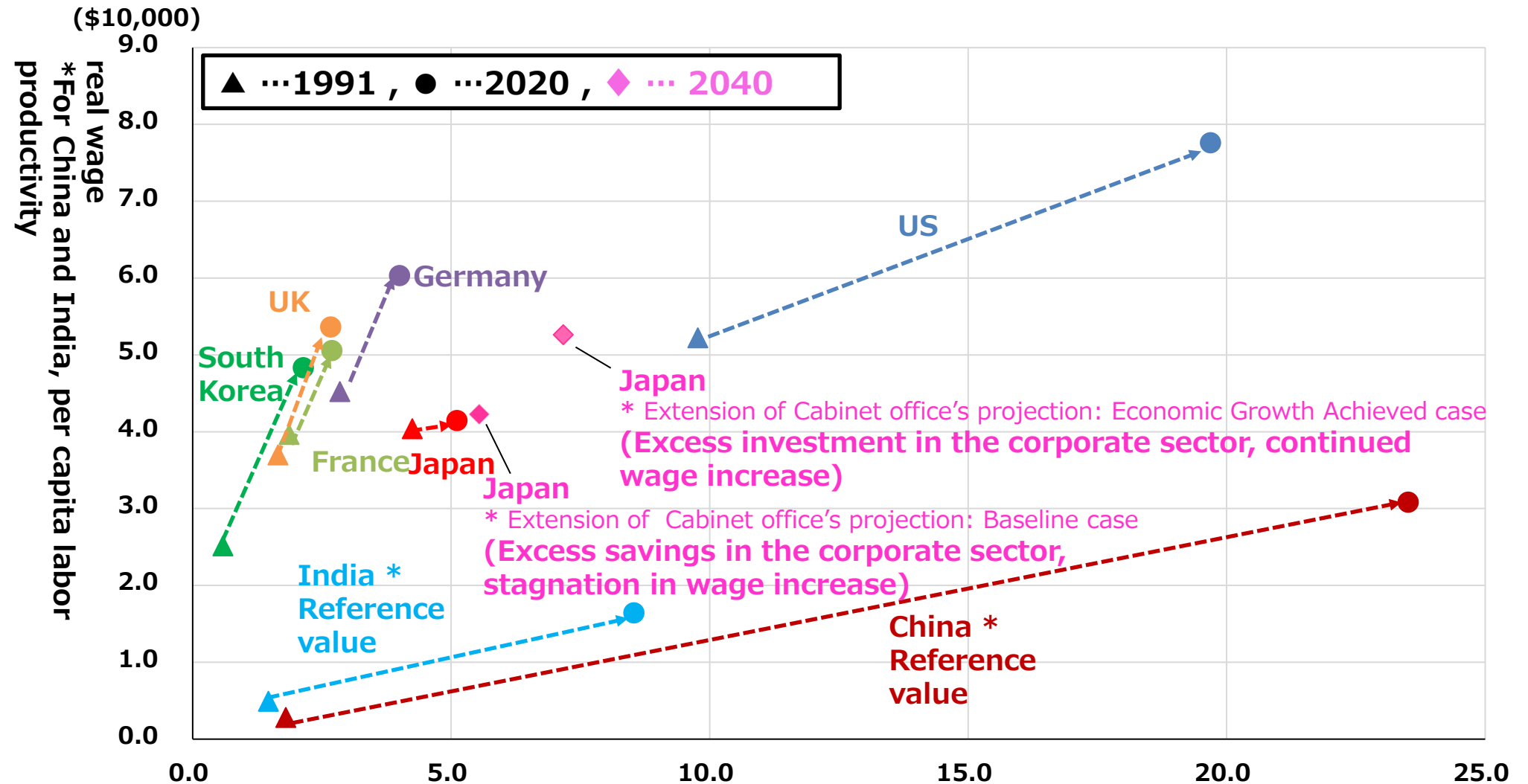
(Necessity to share the medium to long term and big-picture perspective)

- There is a mix of bullish and bearish sentiment among companies and peoples toward the first changes in 3 decades (=turning points) centered by domestic investment, wage increase, inflation and increasing stocks.
 - It is necessary to reform Japan's economic and social structure to continue the changes and shift from "the inflation with rising import prices" to "the moderate inflation with wage increase and economic revitalization".
- It is required to share the medium to long term and big-picture perspective between companies and peoples, promote their challenges and reignite their own animal spirits.

(Purposes of the Future Outlook around 2040)

- Pessimism among Japanese companies and peoples is based on the anxiety to declining population.
 - The future projection of population around 2040 is less uncertain and will not change even if considering strengthening measures against declining fertility rate that is undertaken currently as the most important issue (since it takes 15 years for 0-year-old child to reach the working-age population).
- It is important to share the view that makes companies, peoples and government possible to feel that they will change their conventional ways of thinking and doing things.
 - The purpose of creating the Future Outlook is to share a single scenario in public and private sectors that is feasible through efforts that are an extension of the policy of the "New Direction" rather than to share an idealized vision.
 - This outlook is a stirring attempt to clarify how changes and challenges can lead to prosperity of companies and peoples. The challenges and results in this scenario may not be of a sufficient level, so we will continue update and quantify the scenario.

Real GDP and real wages in each economy



(Note) Vertical axis: Average wage in real terms in 2022 US dollars (purchasing power parity basis)

Horizontal axis: GDP in real terms in 2015 US dollars (purchasing power parity basis)

* As real wages are not listed in OECD.stat for China and India, per capita labor productivity was used as a reference value. Per capita labor productivity is expressed in 2015 US dollars (purchasing power parity basis).

Real GDP is divided by the labor force population (World Bank).

* METI estimated Japan's real GDP and real wages in 2040 are calculated using the real GDP growth rate, wage increase rate (consumer prices), and price increase rate for 2033 from the Cabinet Office's "Economic and Fiscal Projections for Medium to Long Term Analysis".

(Source) OECD.stat, World Bank, Cabinet Office

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Summary of the Future Outlook around 2040 (1)

(Changes in the world : Turning points of eras)

- The first change in 3 decades (=turning points) centered by domestic investment, wage increase, inflation and stock prices are the reflection of historic turning points of global trends.
 - Changes in international economic order :
The era of globalization that is based on common rules and norms has been changed to the era of uncertainty that is reflected different values.
→ Japan has been an important place for supply-chain due to relatively lower uncertainty.
 - Changes in global demographic trends :
Not only Japan, but also many high-income and quasi-high-income countries are facing declining population. (China, Europe and South Korea. In Japan, the labor force participant rate is about to be reaching its peak)
→ Due to declining correlation of population and economic growth, it will be mainstream of economic growth that “aggregate demand will increase through enhancing productivity and demand per capita by adding high values” in many countries.
→ The worldwide trends of declining fertility rate and aging population including China cause the situation “demand will exceed supply” for mid to long term which put the pressure on inflation globally.
- ⇒ These changes push Japan forward and make positive impacts on “domestic investment”, “innovation” and “income growth”. Especially, declining population will accelerate and change Japan’s society dynamically. This is a historic turning point of era and a chance for change.
- ⇒ It is necessary to shift the way of Japanese companies’ management from cutting cost to making high value, and change “next 15 years to reignite Japan”.

Summary of the Future Outlook around 2040 (2)

(Declining population as a root of Pessimism)

- **Pessimism** among Japanese companies and peoples is **based on the anxiety to declining population**. It is necessary to analyze **whether so called “lost 3 decades” is due to declining population** and consider whether **Japan can enhance affluence and well-being of people even in declining population**.

(In the past : Japan's long-term deflation was not caused by declining population)

- Due to **the balance sheet recession in 1990s**, it caused to **decrease domestic investment, decrease demand, and was hard to increase prices**.
 - Then, **companies utilized relatively cheap labor force of China**. (Shifting to global investment from domestic investment.) Also, they have **utilized women and the elderly as part-time worker** (wage was stagnated) .
 - The working age population decreased from 1996 and the total population decreased from 2008.
- ⇒ **Japan's long-term deflation was caused by increasing global investment and utilizing part-time workers, not by declining population**.

(In the future : Japan will enhance well-being even facing declining population)

- **The future projection of population is less uncertain**. Based on policies tackling with low fertility rate and aging population, METI prospects **2040** that there are **not huge changes on projection of population**.
 - **Declining fertility rate** : The effect of strengthening measures against declining fertility rate that is undertaken currently as the most important issue will not affect the working age population until 2040 (it takes 15 years until 0year-olds reach the working-age population).
 - **Aging population** : The baby boomer juniors, a large mass of population, will be at the later aging stage in 2040s. The dependency ratio will be steady until 2030 and regarding working age population as healthy life expectancy (74 years in 2023, 75+ years in 2040) , the ratio of working age population will be steady until 2040.
 - **Foreign labor force** : **The number will increase by several times**. They will **contribute to innovation(TFP)** by knowledge and skills. But they will not affect largely in population composition.

Summary of the Future Outlook around 2040 (3)

(The case if Japan continues the same way it did in so called “lost 3 decades”)

- The Japanese economy over the past 30 years has been characterized by ①real wages remaining flat, ②the labor productivity rising at a rate comparable to main developed countries by making profits by utilizing cheap goods from overseas, ③shrinking domestic investment, and ④slightly increasing GDP.
 - Companies have been conducting cost-cutting by using global bases to manufacture goods. They balked at investing in Japan as they perceived the market to be shrinking due to a decline in the number of customers and the demand of goods were decreasing. Although the income balance was in the black, domestic investment demand was scarce and profits in global bases were reinvested there, with limited return to Japan domestically.
 - Looking at the macroeconomy, the corporate sector was in excess savings and government supported the economy by filling the demand for funds through budget deficits, mainly as social expenditure, and the reality was not a “Private Sector-led economy.”
 - Japan’s economy and society didn’t make enough changes for growth, but it was stable. Under the situation the world order was uncertain, Japan had top class score in social items such as unemployment rate, rate of low score student and security, according to IMD international competitiveness ranking.
- Japan will be stable for a while if it does the same way it did. After that, it will “not be relatively affluent anymore” because emerging countries will catch up to Japan while Japan will not increase real wages and GDP. If Japan will be poor, it’s hard to compete with other countries by shortage of economic resources and infrastructure and delay of technologies. As a result, it will lead to lose Japan’s social stability.

Summary of the Future Outlook around 2040 (4)

(The case if Japan changes the way of thinking and doing to the one the “New Direction” showed)

- What is necessary for sustainable and continuous growth is creating positive cycle that increasing demand leads to strengthen supply then it increases demand again, and it is investment and innovation that connects demand and supply. It is necessary to stimulate new demands in high value-added fields, triggered by solving social issues, as well as to make investment and innovation on the supply side to satisfy these demands. Sustained income growth based on higher value-added productivity will also stimulate demand for consumer consumption.
- The “New Direction” has initiated “Mission oriented industrial policies” which are different approaches from the past 3 decades, where the government takes proactive role to address social issues through large-scale, long-term, and planned investment, and integrates macro and micro economic and industrial policies.
 - As indicated in the Second Report, from the macro perspective, the government has been oriented toward positive cycles: domestic investment, innovation, and income growth. It is necessary for Japan's economic growth and for improving the affluence of its people.
 - It is important for companies and individuals to be able to sustain the efforts required on the macro level and to integrate them with the micro policy agenda.
- If companies and individuals take up the challenge and the government continues to pursue the “New Direction” policies in light of the turning point of the era of changes in the international economic order and global demographics trend, we will realize a genuinely private sector-led economy in the future, and even with a declining population, each individual's income will increase, and disposable time will increase through digitalization and automation, etc. Detailed services that meet individual needs will be provided with less worker, and the people's lives will develop into a new, smoother, more comfortable lifestyle and a more well-being society. Many foreigners will also visit Japan to experience this.

Summary of the Future Outlook around 2040 (5)-1

(Changes in global demand and supply according to 5 mission-oriented policies (GX, DX, Globalization/Economic Security, Health and Inclusive Growth))

- Changes in demand structure around the world

- Population decline areas (Japan, Europe, China, etc.): Demand for existing products and services will decline as the quantity of goods declines as long as the business continues to be an extension of the past, but demand will increase through increasing prices, as “good products & services come at a price,” and by ① making solving social issues profitable and ② developing new demand through new value creation in a data-driven manner.

① Solving social issues (GX, Economic Security, etc.) : Although it is difficult to connect solving social issues to purchasing behavior naturally, possible demand will be converted into real economic value through the government’s policy enforcement in each country.

② Data-driven new value creation (DX, Health, Inclusive growth, etc.): Providing new value based on various data acquired from customers. Creating new demand by easing time and space constraints. Efficiency and automation needs, especially in areas of declining population and labor shortage.

- Population growth areas (U.S., emerging/developing countries, etc. Global South): In addition to the above-mentioned new demand development, demand will increase due to higher transaction volume and unit prices resulting from population growth and increased purchasing power.

Summary of the Future Outlook around 2040 (5)-2

(Changes in demand and supply according to 5 mission-oriented policies (GX、DX、Globalization/Economic Security、Health and Inclusive Growth))

- Changes in supply structure around the world

- Addressing to the needs to solve social issues: Based on the assumption that differences and uncertainties exist in each country, each companies promote to acquire unique technologies (e.g., CO2 reduction technologies for high emitting industries) , business know-how and business partners to secure competitive advantage, implement rapid and large-scale capital investment to earn first-mover advantage (including data accumulation), and establish agile corporate management and business models to be able to respond to unexpected changes.
- DX : Competition to capture customer data, Customer experience competition for leisure satisfaction, Winner-take-all through network effects, pursuit of thorough automation.
- Industrial policies by governments: Companies will select locations based on a comprehensive comparison of not only tax and other social burdens, but also subsidies and other policy support, geopolitical location, and access to business resources (clean energy, water, land, highly skilled human resources, living environment, etc.)

Summary of the Future Outlook around 2040 (6)

(Changes in Japan's industrial structure according to 5 mission-oriented policies (GX, DX, Globalization/Economic Security, Health and Inclusive Growth))

- Changes in Japan's industrial structure (demand and supply) by “New Direction of Economic and Industrial Policies”
 - It is necessary to make profit by innovation for Japan that has no choice but import foods, energy resources and materials. While people all over the world seek for solving social issues, it is a chance for Japan as the advanced country facing many issues.
 - Japanese companies will take on the challenge of competing with the rest of the world and enriching people's lives by leveraging Japan's strengths, such as a full-line manufacturing network, the attractiveness of lifestyle, culture, and content, and a national character that has made Japan a stable society, as the Japanese economy becomes a medium-sized country in the world. While expanding exports and investments overseas more than ever, they will position Japan as the “Global Creative Base” and continuously expand domestic investments (including software and R&D), wage increases, and innovation, commensurate with the return and utilization of profits earned around the world in Japan.
 - The importance of leading medium enterprises, SMEs and start-ups, which have growth potential and are playing important role to change, will increase, and these agents of change will also provide the stimulus for change in large companies.
 - The Japanese economy, defined in the physical realm, as one of the regions with a declining population, will attract domestic and foreign companies, generate investment and consumer consumption, led by the attraction of high values created, not by “the strength of total demand driven by population growth”.
 - From this perspective, the government will continue industrial policies as national strategic investment that will make both domestic and foreign companies select “Japan” as the investment destination.

Summary of the Future Outlook around 2040 (7)-1

(Japan's industrial structure based on 5 mission-oriented industrial policies (GX, DX, Globalization/Economic Security, Health and Inclusive Growth)

○ Change in Japan's industrial structure (demand and supply) by “New Direction of Economic and Industrial Policies”

➤ Competing on the world stage (becoming a “Global Creative Base”)

- Becoming a Global Headquarters: As a result of “selection and concentration” mainly to solving social issues, the high value-added creation functions such as management, business, and product/service strategy planning and the most important R&D base to continue creating high value-added products and services will be retained and strengthened in Japan. To this end, profits earned around the world will be continuously returned to the domestic market as a source of funds for further future investment.
- Global Factory: Establish a collaborative system to collect and analyze unstructured data from manufacturing sites widely within the industry and apply them to the next stage of R&D. Become a global center that continues to provide products and services, both domestically and internationally, that deeply understand customer needs, have higher added value, and are sought after as indispensable products and services by people around the world.
- Business in Japan will survive only in areas where companies can procure the industrial infrastructure and human resources necessary for high value-added businesses in the face of international competition.

Summary of the Future Outlook around 2040 (7)-2

(Japan's industrial structure based on 5 mission-oriented industrial policies (GX, DX, Globalization/Economic Security, Health and Inclusive Growth))

- Change in Japan's industrial structure (demand and supply) by “New Direction of Economic and Industrial Policies”

➤ Challenge to improve Quality of Life

- Value-added creation (good products and services come at a price): New products and services will emerge one after another that are optimized for individuals (e.g., PHR) or that free individuals from time and space constraints (e.g., AR, VR, automated driving, etc.) by utilizing digital technologies and data linkages with zero marginal cost. In addition, high value stem from Japan's lifestyle, culture, content power, etc. will be appealed in inbound and outbound markets.
- Labor-saving: Through digital investment (AI, robots, etc.), supply constraints caused by structural labor shortages will be eliminated, and a system will be established to meet growing demand for services such as medical care, nursing care, and tourism without losing sight of the need for such services.
- Companies that can improve productivity through value-added creation and labor-savings will be able to hire, invest in, and continue to operate with valuable young human resources as companies that can continue to raise wages.

Summary of the Future Outlook around 2040 (8)

【Challenges of Companies, Peoples and Government toward 2040(1)】

(Domestic investment : Expansion of the quantity)

- Continuous expansion of domestic investment (e.g., above the expansion speed to achieve 115 trillion yen in investment in FY2027)
- Inward FDI in Japan will increase significantly in terms of ratio to GDP and the imbalance with outward FDI will improve due to the importance of its position in the supply chain, the maturation of the startup ecosystem and its connection to global capital markets, and the improvement of the market environment for increasing domestic investment.

(Innovation/Replacement of industries : Improvement of the quality)

- For companies competing with the rest of the world, only high-value-added headquarters functions (including R&D functions) and production functions will retain in Japan as a “Global Creative Base”. As a result, the terms of trade will improve.
- The innovation ecosystem, including start-ups, universities and research institutes, and human resource development, will be strengthened and innovation will continue to expand.
- In the era of structural labor shortages, people will move to jobs that offer better conditions in terms of wages and working styles. Companies will challenge themselves to survive as “good jobs” that offer continuous wage raising, flexible working conditions and rewarding are the ones that can be supported by young people and hire them.
- Local infrastructure for industry and community and lifestyle-related services will be integrated and operated using digital, automated driving, drones, and other technologies to ensure high quality even in low-density areas, which is difficult to sustain under the current system. However, compact urban planning and land use can be a viable option in the face of extreme depopulation and the potential for higher costs of public services that support individual and social life. Advances of this option, coupled with the use of technology, will make it possible to maintain infrastructure and services that support people's lives.
- Individuals must adapt to the changes of the era and society by using digital technologies. Also, it'll be more popular for peoples to start a business and individuals will be a driver of changes.

Summary of the Future Outlook around 2040 (9)

【Challenges of Companies, Peoples and Government toward 2040(2)】

(Income Growth : Circulation of generated wealth)

- Under a structural labor shortage and international competition for human resources, companies to retain the human resources needed will not only raise wages, but they will also provide employees' additional reasons for living (a sense of social contribution and flexible work styles).
 - The unemployment rate will remain low, especially in rural areas and among working-age workers in structural labor shortages.
 - The social security burden will not increase as much as it has experienced over the past 30 years, since the dependency ratio will remain relatively flat for the time being.
 - To increase wage for essential workers, drastic labor saving (improvement of operation processes and labor-saving investments) and creation of new added value not bounded by public prices through the promotion of services in public uninsured services will be required.
- Individuals engaging in reskilling can easily increase their wages by continuing to relearn regardless of age.

(Macroeconomic policy)

- By realizing a genuinely Private sector-led economy, private corporate will become the main source of demand for funds, thereby achieving economic growth and raising people's incomes while also maintaining fiscal sustainability.
- To transform to a Private sector-led economy, the government will move forward and mobilize all its policies and measures, including goal setting, subsidies, taxation, regulatory reform, standardization, and financing, to enhance the predictability of businesses, in accordance with the manner of “large-scale, long-term, and planned” positioned in “New Direction of Economic and Industrial Policies”. For the Private sector-led economy to take off and continue, the government will encourage the challenging enterprises through the continuation of necessary productive government spending, such as infrastructure investment and industrial policy, as national strategic investments.

Summary of the Future Outlook around 2040 (10)

[The Result of the Challenges: Well-being of the people and the macroeconomic situation]

- Continuous wage increases comparable to those in major developed countries will raise incomes. (e.g., continuation of nominal wage increases in Japan over the last two years)
- Population density will decrease and two-location living will become more common. Disposable time will increase as digitalization reduces mandatory work hours. The world's healthiest population (healthy life expectancy is 75 years), and everyone (elderly, challenged, etc.) can lead an active life.

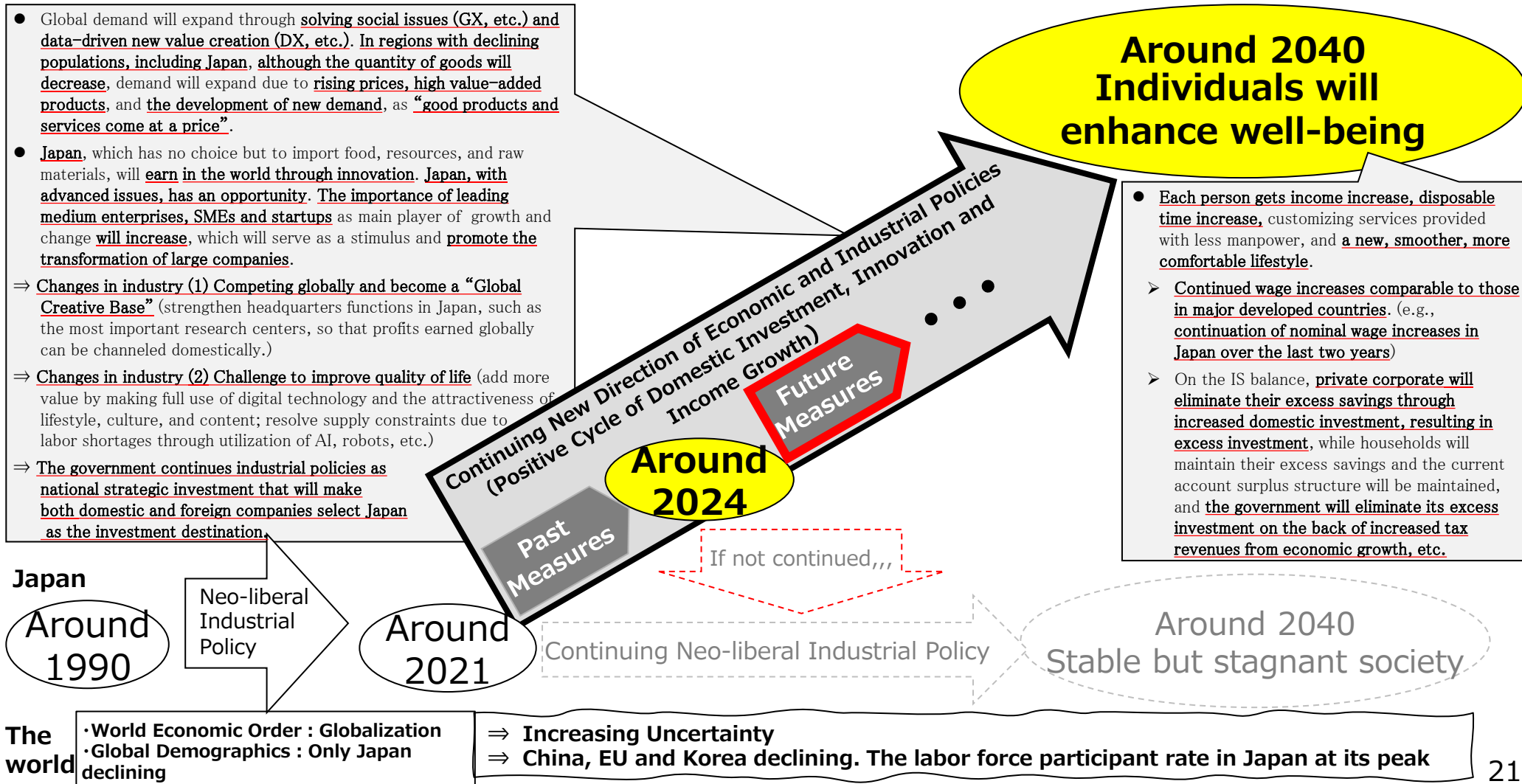
(Macroeconomic situation)

- GDP will grow at a positive rate by a higher level of labor productivity than the rate of decline of the working-age population and maintaining the labor participation rate.
- Prices will experience mild inflation due to changes in the international order and supply shortage pressure from the declining falling fertility rate and aging population including China.
- Interest rates are rising, but the extent of increase in real interest rates will be limited when price increases are taken into account.
- The current account balance will remain in surplus structure.
 - The trade balance will shrink from a large deficit to a smaller deficit due to increased exports on the back of increased domestic investment, including direct inward investment, and an improvement in the deficit due to increased energy self-sufficiency through GX.
 - The income account balance remains in the black despite an increase in inward direct investment, due in part to past accumulation, including the world's largest net foreign assets, and increased investment in local subsidiaries as companies expand their overseas operations.
 - The balance of services improved due to an increase in the digital deficit as well as an increase in the surplus from the expansion of inbound travel.
- I-S balance,
 - Private corporates will become the main source of demand for funds (excess investment) by eliminating their excess savings as they continue to expand domestic investment,
 - Households will maintain their excess savings even as the ratio of elderly citizens increases due to higher wages, financial income, and improved income distribution through tax and social security,
 - The government eliminated its excess investment, backed by increased tax revenues associated with economic growth.

- 1 . A Future Outlook around 2040
- 2 . **Past and Future measures for
Future Japan in which each
individual will enhance well-being**

Strengthening “Future Policies” which is needed now along with the Future Outlook

- In the current pessimistic perception with declining population and other factors, it is necessary to draw **“A Future Outlook around 2040”** in which each individual can lead to enhance well-being even with a declining population, which can be **fully realized** if **“New Direction of Economic and Industrial Policies”** that have been implemented for the **past several years continue**, rather than a vision of what the future should be like discontinuously. In line with this, it is **necessary to strengthen future measures that are needed now and in the future**.



Proposed Main measures along the Future Outlook around 2040 [Domestic investment]

[Challenges of Companies, Peoples and Government toward 2040]

(Domestic investment : Expansion of the quantity)

- **Expanding domestic investment and Increasing Inward FDI in Japan**

Proposed Main Measures

- To strengthen the semiconductor supply chain, the government continue to develop domestic production bases and human resource development, aiming to supplement missing pieces in Japan. In particular, the government will consider necessary legislative measures and provide R&D support for the mass production of next-generation semiconductors.
- With achieving the goal of establishing a domestic manufacturing base for 150 GWh/year, and the government provide necessary support for the practical application of next-generation batteries.
- Regarding GX, improving the predictability of the business environment and promoting domestic investment that will maintain and strengthen high-value-added industrial processes essential for growth, the "GX2040 Vision" will be presented from a longer-term perspective by comprehensively examining industrial structure, industrial location, and energy.
- Coping with the risk of energy price hikes and supply disruptions, and getting rid of the worsening balance of trade, in addition to thorough energy conservation, the government take measures to improve the business environment to expand the supply of decarbonized energy sources such as renewable energy and nuclear power, which will contribute to improving energy self-sufficiency, as well as promote the social implementation of low-carbon hydrogen and other technologies such as CCS.
- Considering how to support the development and expansion of contract development and manufacturing bases in the fields of biopharmaceuticals, regenerative medicine, cell therapy, and gene therapy.
- Maintaining and developing Japan's industrial and technological base, the government will establish a system for threat and risk analysis, provide investment support for acquiring technological advantages, strengthen technology management measures including a framework in new trade controls, and strategically collaborate with industry and major countries.
- Considering strengthening support for upstream development overseas and other measures to strategically secure base metals and important minerals, such as copper resources, necessary to respond to electrification associated with the progress of GX and DX and to promote related domestic investment.
- To realize the effects of these domestic investments, the effective utilization and development of basic infrastructure such as industrial water supply and the effective utilization, development, and accumulation of industrial sites in each region will be promoted, while further addressing supply constraints such as labor shortages, including the promotion of the use of AI and robots.
- Strengthening efforts to attract FDI projects in Japan that contribute to innovation and regional revitalization, promote collaborative partnerships with overseas companies, and provide accompanying support to regions that attract such projects.

Proposed Main measures along the Future Outlook around 2040 [Innovation/Replacement of industries(Competing on the world stage)]

[Challenges of Companies, Peoples and Government toward 2040]

(Innovation/Replacement of industries : Integration of the quality)

● Global Creative Hub and the Innovation Ecosystem

Proposed Main Measures

- To improve the performance of AI and formulate computing power, the government will promote R&D to secure computational resources, develop data in promising fields, create an environment to utilize data which is obtained through AI utilization to improve performance, increase the efficiency of computational resources, and encourage innovation by excellent companies and human resources from Japan and abroad. In addition, the AI Safety Institute will play a central role in formulating safety standards through international collaboration, while also considering rules and regulations.
- To promote the creation of new value through digitalization, we will create specific examples of the Ouranos Ecosystem, a cross-industrial data sharing initiative, and promote global collaboration.
- Regarding GX, the government will consider the concrete design of the emissions trading system (GX-ETS), which is scheduled to be launched full-scale FY2026. The government will combine support measures with regulatory and institutional measures to form a market, including collaboration with like-minded countries. In addition, the government will establish GX supply chains with like-minded countries through coordination of GX investment promotion measures, etc., and further develop AZEC.
- To strengthen economic partnerships with the Global South, a framework for developing third country partnerships with the Middle East, Africa, etc. in an areal manner will be established together with India, and strategic initiatives in priority sectors and countries will be developed from this starting point as a package, including infrastructure construction and strengthening of financing (strengthening NEXI functions, etc. will be considered).
- To promote innovation in cutting-edge fields, the government will consider how to provide policy support for biotechnology, quantum, space (further utilization of the Space Strategy Fund at JAXA), etc.
- To create globally successful startups, etc., the government will strengthen support for growth stage, promote M&A through flexible asset evaluation of goodwill, etc., strengthen criteria for maintaining listing on the TSE Growth Market, etc., improve the market environment for startups to grow significantly, such as the secondary market, etc., and develop a market environment where large companies and universities can develop their businesses. Consider institutional reforms to promote the mobility of innovation resources such as dormant human resources and facilities in large companies and universities.
- To promote companies' replacement of businesses, the government will consider legislation on a pre-insolvency proceeding that allows the reduction of financial debts through a majority vote without requiring the consent of all lenders and will review the corporate reorganization tax system, including tax treatment on partial spin-offs (a special treatment for tax on built-in gains on the transferred assets and dividends to shareholders in spin-offs in which the parent company retains a minor portion of shares of the SpinCo). In particular, in order to promote the structural transformation of SMEs, the budget, taxation system, and other related policies will be reviewed in the direction of strengthening the support for growth-oriented SMEs.

Proposed Main measures along the Future Outlook around 2040 [Innovation/Replacement of industries(Challenge to improve quality of life)]

【Challenges of Companies, Peoples and Government toward 2040】

(Innovation/Replacement of industries : Integration of the quality (Challenge to improve quality of life))

- **Companies** will continue to raise wages and challenge themselves to **survive as “good jobs” that are challenging and rewarding with flexible working conditions are those that can be adopted and supported** by young people.
- **Local industrial and lifestyle infrastructure and lifestyle-related services will be integrated.**
- **Each individual** needs to **adapt the changes of times and society** by utilizing digital technologies. Also, **each individual will be a driver of changes.**

Proposed Main Measures

- To promote the growth of SMEs that create quality jobs in the region, **the budget, taxation system, and other related policies will be reviewed** in the direction of **strengthening the support for growth-oriented SMEs.**
- To promote the industrialization of healthcare (health, medical care, and nursing care), which has great potential amid the aging of the population, **develop PHRs, etc., which will serve as a foundation for linking healthcare data on an individual base, create new businesses by providing companion support for healthcare startups, and establish a mechanism to promote nursing care businesses according to regional characteristics, including collaboration with work areas.**
- To promote the creative industry, the government will **promote strategic overseas expansion using local overseas offices, etc., assist in realizing international standard production, support contract negotiations with platform companies, etc., and foster creators.** Through these efforts, we will also **enhance the earning power of tourism and inbound tourism** by increasing the added value of other industries.
- Based on the “Digital Lifeline Development Plan,” the government will **promote the nationwide development of digital lifelines (hardware, software, and rules) that conform to common specifications, etc., and fundamentally promote the use of automated driving, drones, and other digital services** by the public.

Proposed Main measures along the Future Outlook around 2040 [Income Growth]

[Challenges of companies, peoples and government toward 2040]

(Income Growth : Positive cycle of the wealth)

- **Companies retaining** the human resources needed by their companies will **not only raise wages, but they will also provide employees with additional reasons for living (a sense of social contribution and flexible work styles).**
 - **The unemployment rate remains low**, especially in rural areas and among working-age workers in structural labor shortages. **The insurance burden will not increase as significantly as experienced in the past 30 years**, as the dependent age population ratio will remain flat for the time being. Wage increases for essential workers will require drastic labor saving (improvement of work processes and labor-saving investments) and the **acquisition of new added value not bound by public prices through the promotion of services in public uninsured services.**
- Individuals who engage in **reskilling** can easily **increase their wages** by continuing to relearn without being tied to their age.

Proposed Main Measures

- **Fostering local leading medium enterprises and SMEs that can provide quality employment through wage increases and work style reforms** and putting them on a further growth.
- Considering measures to strengthen price shifting by **enhancing enforcement of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (e.g., through cooperation with the JFTC and ministries and agencies with business jurisdiction)** and **thorough price shifting of labor and other costs in public sector demand.**
- **Promoting further measures to address supply constraints such as labor shortages, including promotion of the use of AI and robots.**
- To promote the industrialization of healthcare (health, medical care, and nursing care), which has great potential amid the aging of the population, **develop PHRs, etc., which will serve as a foundation for this, create new businesses by supporting accompanying healthcare startups, and establish a mechanism to promote nursing care businesses according to regional characteristics, including collaboration with work areas to promote the industry of nursing care.**

Main policies within the macroeconomic framework

	From Second Report to Now	After Third Report	Long-term goal
Investment Domestic	<p>● Increased willingness for investment</p> <p><u>World-class, long-term, large-scale support for strategic areas</u> (<u>Domestic investment promotion package</u>, including the determination of 13 trillion yen in GX Economic Transition Bonds and the establishment of a tax system to promote domestic production in strategic sectors)</p> <p><u>Leading Medium Enterprises Growth Promotion Package</u>, <u>promotion of labor-saving investment as a measure against labor shortages</u></p>	<p>→ ¥115T investment in FY2027, and higher</p> <p>Expanding domestic investment·Increasing Inward Direct Investment : Developing production bases for advanced semiconductors, practical application of next-generation batteries, expanding development and manufacturing bases for biopharmaceuticals, etc., investment support for risk analysis and acquisition of technological superiority in the economic security field, support for overseas upstream development of copper resources, etc., effective utilization and development of industrial water and industrial sites, and response to supply constraints such as labor shortages.</p>	<p>Expanding domestic investment (e.g., FY2027 More than 115 trillion yen investment expansion speed to achieve)</p> <p>Promoting private investment based on future growth expectations</p> <p>+</p> <p>Revitalizing the domestic economy and develop overseas demand by adding high value, developing new demand, and thoroughly saving labor, even in declining population and the volume of goods is decreasing</p>
Innovation	<p>● Signs of labor shortage and industry replacement</p> <p><u>Start-up: Promote/strengthen the 5-year development plan</u> (Extending JIC operation deadline, expanding LPS investment targets and relaxing of requirements for foreign investment restrictions)</p> <p><u>World-class support for innovation in strategic areas</u> (innovation box system)</p> <p><u>World-class support for innovation in strategic areas</u> (GX, semiconductors, AI, quantum, space, biotechnology, health)</p> <p><u>Reform business structure for value creation, promote replacement of industries</u>(Tax incentives for multiple M&As, Spin-offs, etc.)</p>	<p>→ Promote inflow of labor and capital into growth areas, Domestic repatriation of overseas earning → Startup investment: ¥10T in FY2027</p> <p>Competing on the world stage (World Creation Hub) : Securing computing resources to improve AI performance, etc., study of AI safety standards and rules, study of ETS, strategic initiatives with Global South.</p> <p>Strengthening the innovation ecosystem, including Startups: Support for biotechnology, quantum, and space; Development of a market environment for M&A, secondaries, etc. to encourage the creation of global startups; Consider of the legislation on a pre-insolvency proceeding and review the corporate reorganization tax system including tax treatment on partial spin-offs to promote companies' replacement of businesses.</p> <p>Challenge to improve the QoL: Review the budget and taxation system in the direction of strengthening growth-oriented SMEs, develop PHR, promote strategic overseas expansion of creative industries, foster creators, and strengthen earning power of tourism and inbound travel.</p>	<p>Simultaneous Realization</p> <p>Progress toward solving social issues</p> <ul style="list-style-type: none"> • GX: Carbon neutral in 2050 • DX: Realization of a Digital Society • Achieving Economic Security • Extension of healthy life expectancy • Resilient Society to Natural Disasters • Resource autonomy: Freedom from resource constraints • Reversal of the declining birthrate trend: recovery of the desired birthrate to 1.8, and further improvement of the desired birthrate in the future. <p>Continuing wage increases (e.g., continuation of nominal wage increases in Japan over the last two years)</p>
Income Growth	<p>● Largest wage increase in 30 years</p> <p>Improvement of the wage increase environment (<u>price pass-through measures for SMEs</u>, <u>expansion of tax measures to promote wage increase</u>, support for business restructuring, etc.)</p>	<p>→ A positive cycle of rising prices and wages</p> <p>Raising wages and providing a sense of fulfillment: Fostering local SMEs that can provide quality employment, strengthening enforcement of the Subcontract Act, thorough price shifting of labor costs, and mechanisms to promote nursing care businesses according to local characteristics.</p>	<p>Individual will be well-being</p>