METI
Ministry of Economy, Trade and Industry

(Provisional Translation)

Reference Materials for the Fourth Report of the Committee on New Direction of Economic and Industrial Policies

- Industrial Structure in 2040 Led by Growth Investment -

June 2025

Economic and Industrial Policy Bureau,

Ministry of Economy, Trade and Industry

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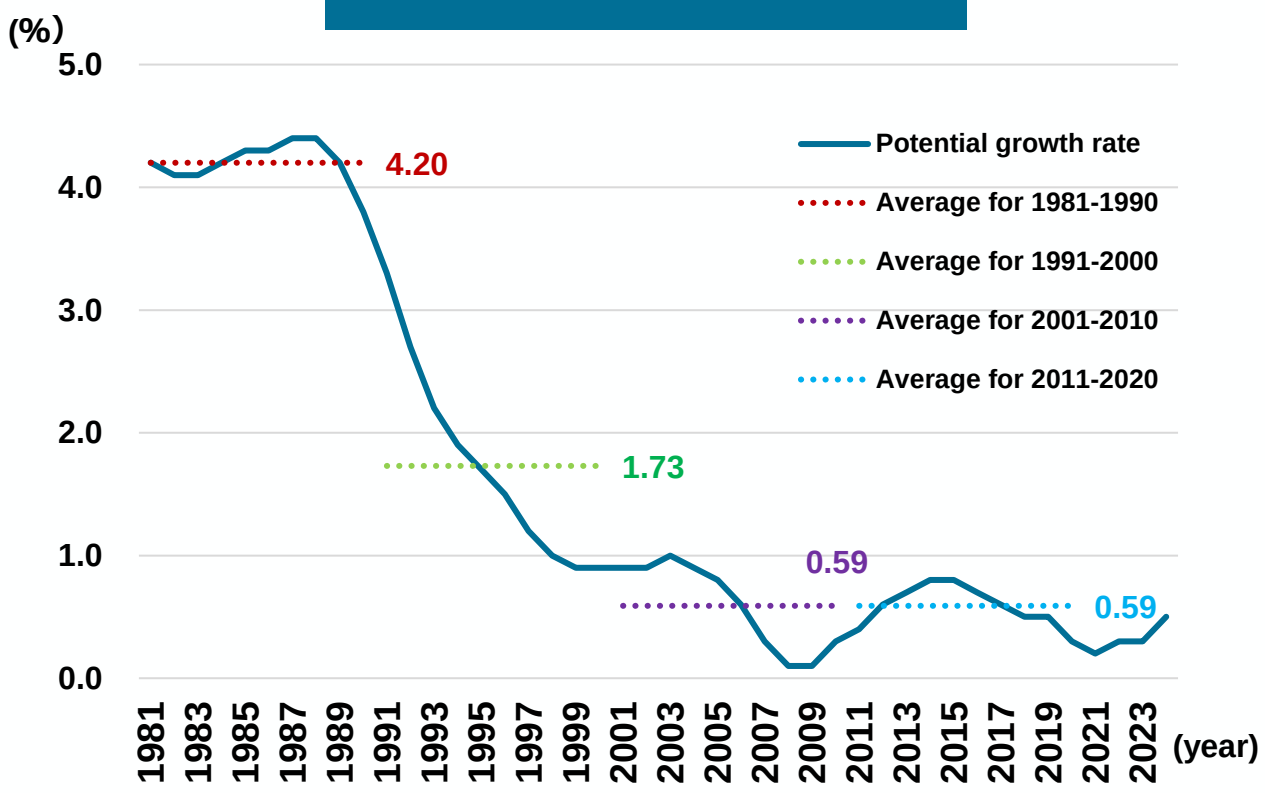
Decline in expected growth rate

- In the past 3 decades, the **medium to long term expected growth rates of corporations have declined**. The current figures are also nearly flat. Underlying factors include the spread of a deflationary mindset driven by population decline and pessimism about the future.
- The **potential growth rate** that was over 4% in the 1990s has **declined year after year** and has been **around 0.6%** since **the 2000s**.

Trends in expected growth rate of corporations

Trends in potential growth rate

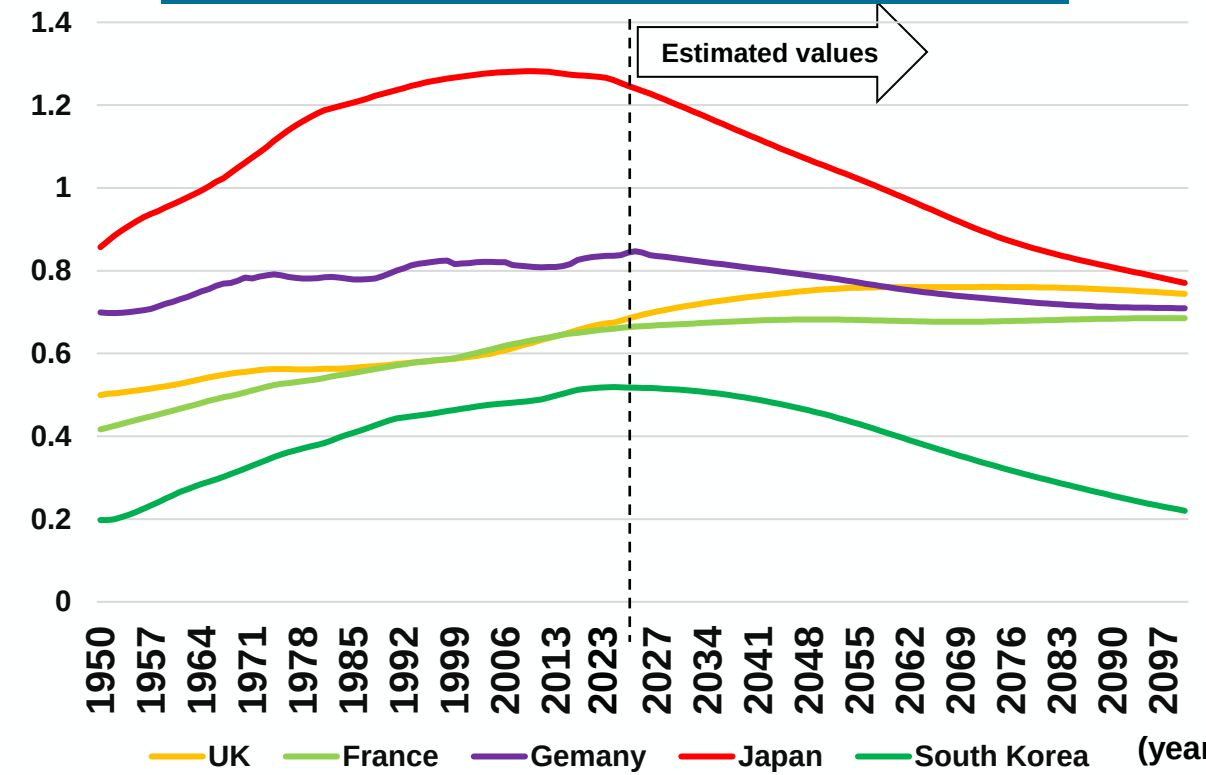


(Note) Left: Results of “Japan's real economic growth rate” for listed companies and all industries. Right: Potential growth rate for each year.
(Source) Left: the Ministry of Economy, Trade and Industry from the Cabinet Office's “Survey on Corporate Behavior" (February 28, 2025). Right: Cabinet Office's “GDP Gap, Potential Growth Rate” (March 18, 2025).

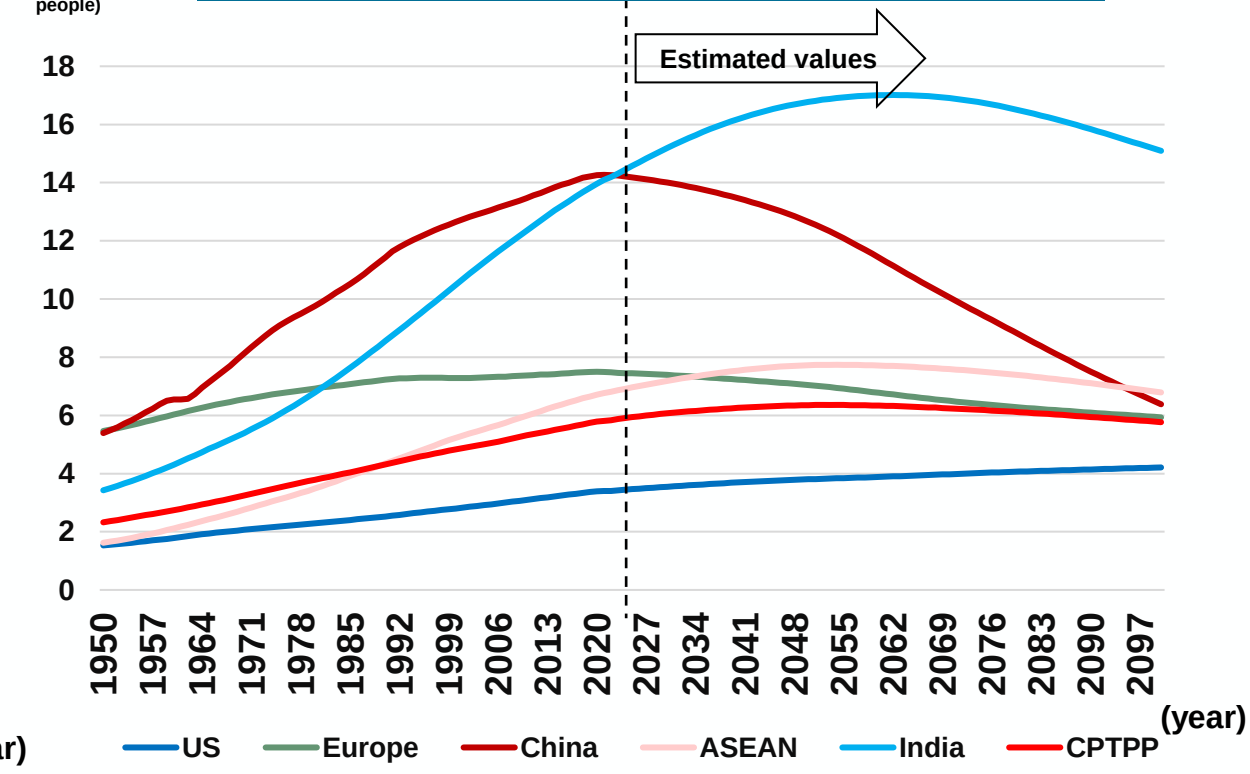
The absolute size of Japan's population. Population of its trade zone are on an increasing trend

- Although **Japan's absolute population size will decline, it will remain larger than that of key European countries** such as Germany and France **throughout the 21st century**.
- While the population by trade zone **such as Europe and China has already begun to decline, the population of CPTPP member countries is expected to increase until around 2050, and that of India and ASEAN until around 2060.**
- According to the United Nations' world population estimates, **countries that account for a quarter of the world's population have already reached their peak population**, and the **world's population overall is estimated to peak in the mid-2080s**.

Future population trends by country



Future population trends by trade zone



(Note) Figures from 2024 onward are estimates (all medium-variant estimates of births and deaths).
Right: ASEAN refers to the total of Indonesia, Cambodia, Singapore, Thailand, the Philippines, Brunei, Vietnam, Malaysia, Myanmar and Laos.
CPTPP refer to the total of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United Kingdom.
(Source) United Nations "World Population Prospects 2024" (data obtained in April 2025).

Relationship between population decline and the economy population decline is an inflationary factor, not a deflationary one

- **The view that population decline is a deflationary factor, including the "Secular Stagnation",** is gaining ground, and that **Japan's economy will not grow unless its population increases because the current inflation is only transitory and will return to deflation**.
- On the other hand, **population decline is an inflationary trend when both declining birthrates and aging populations are combined**, and **the view is emerging that the start of China's population decline will end the disinflationary trend that has continued since the 2000s, and that the world, including Japan, will become an inflationary structure**.

Experts' views on the relationship between population decline and the economy

"**Secular stagnation**" (Alvin Hansen, 1938; L.H Summers, 2013) ... Population decline is **a deflationary and disinflationary factor.**

- **The Great Depression of the 1930s** was basically caused by a **decline in investment demand due to lower population growth rates.**
- **The "secular stagnation" in developed countries after the 2008 financial crisis** was caused, like the Great Depression of 1938, **by lower population growth rates and other factors.**

(* Pointing to population "slowdown in growth rate" as the cause of "secular stagnation", not population decline.)

"**The Great Demographic Reversal**" (C.A.E Goodhart, 2020)... Population decline is an inflationary factor.

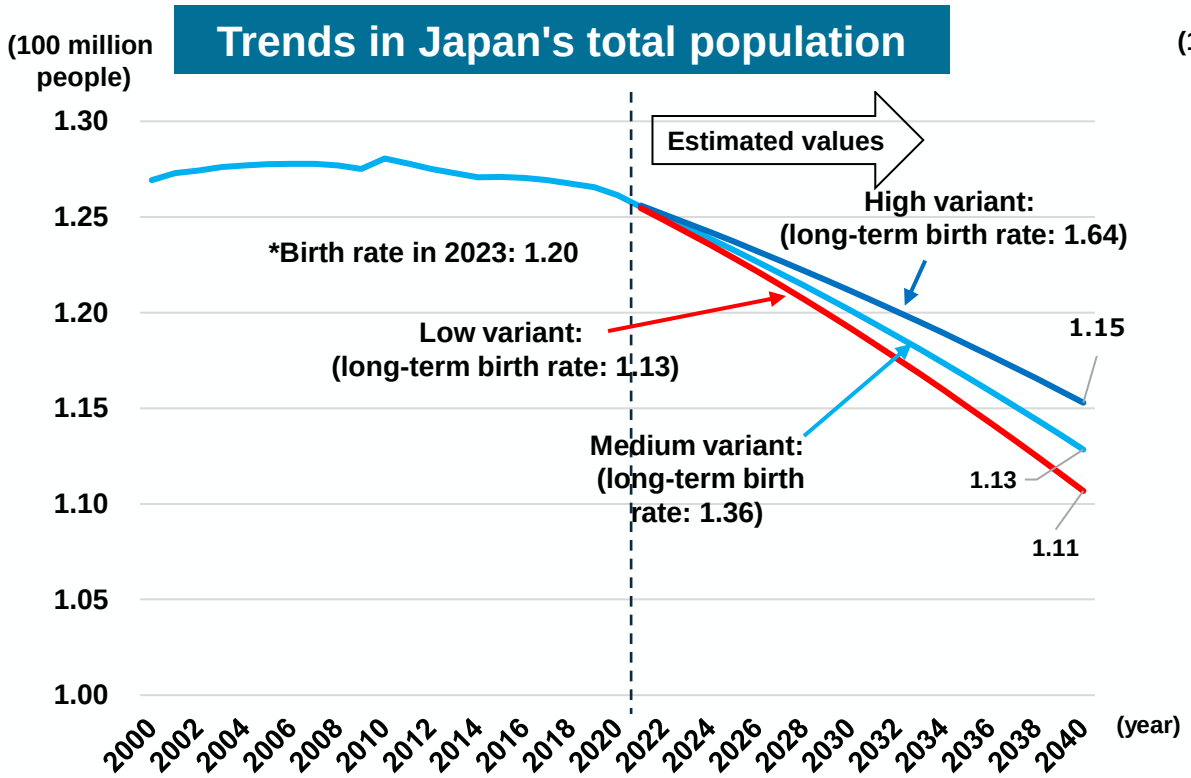
- The birthrate will decrease consumption from the current level and the labor supply in the next 20 years. The aging of the population will result in excess demand due to an increase in the number of individuals who consume but do not participate in the supply. **The combination of a declining birthrate and an aging population will lead to inflationary trends due to a shortage of supply.**
- **China's working population will decline, and the world will enter an inflationary age over the next 30 years.**
  (*China's working-age population will peak in 2013, and China's total population will peak in 2022.)
- **Japan**, which has also experienced an aging and declining population since the 2000s, **had deflation because it took advantage of cheap labor in China through foreign investment and suppressed wages by expanding non-regular employment under Japanese-style employment practices** against a backdrop of price competition with China and South Korea, not because of a declining population.

Japan's future population: It is inevitable that population decline will continue for the future

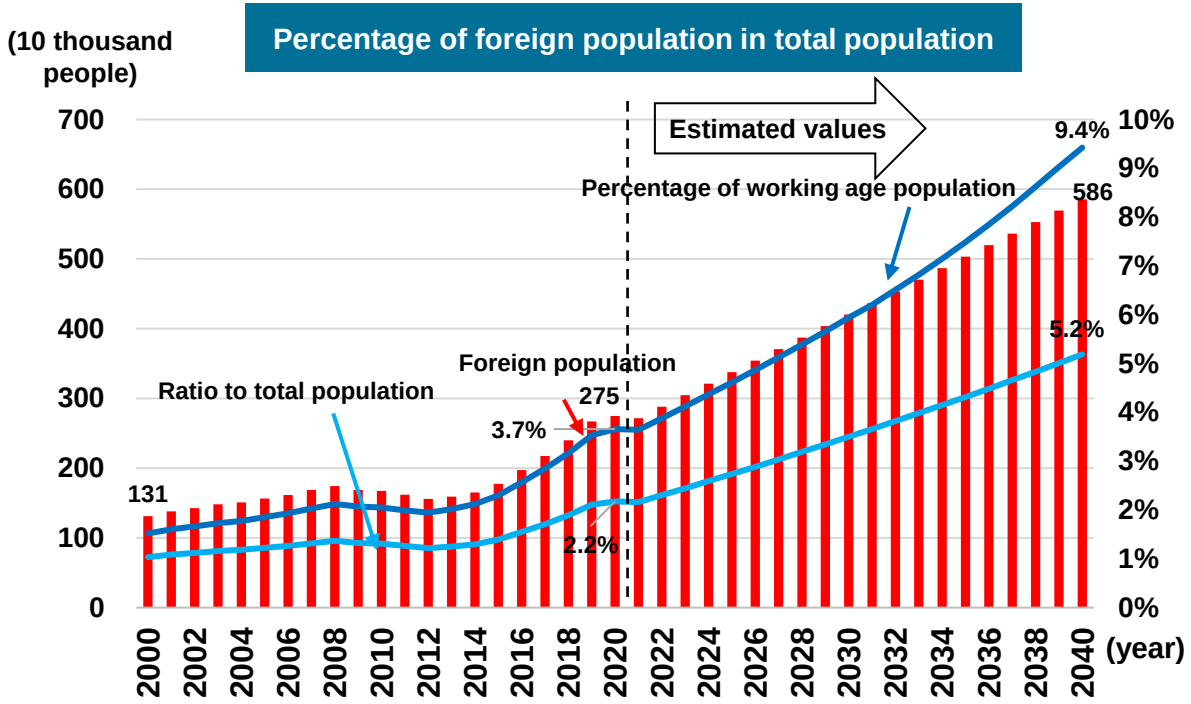
- The **long-term birth rate** of the projected future population is assumed to be **1.64 even in the case of high birth rate**, which is **approximately the same level as the current desired birth rate (1.6*) calculated mechanically**. Japan's total population is expected to **decline even in the case of high birth rate**.
  *From "Reference Materials for the Second Report of the Committee on New Direction of Economic and Industrial Policies"

- The foreign population **(the majority of whom will be workers*)** is expected to increase **from 2.75 million people in 2020 to 5.86 million people in 2040**.
  *According to the "Status of Reports on Employment of Foreigners" (Ministry of Health, Labour and Welfare), the number of foreign workers as of the end of October 2024 was approximately 2.3 million.
  Ratio to total population: Expected to increase from **2.2% in 2020 to 5.2% in 2040.**
  Ratio to working-age population: Expected to increased from **3.7% in 2020 to 9.4% in 2040 (Reference**: Ratio of foreigners in France as of 2023: Approximately 10.7%**)**

Trends in Japan's total population



Percentage of foreign population in total population



[Number of highly skilled professionals among the foreign population (unit: people)]

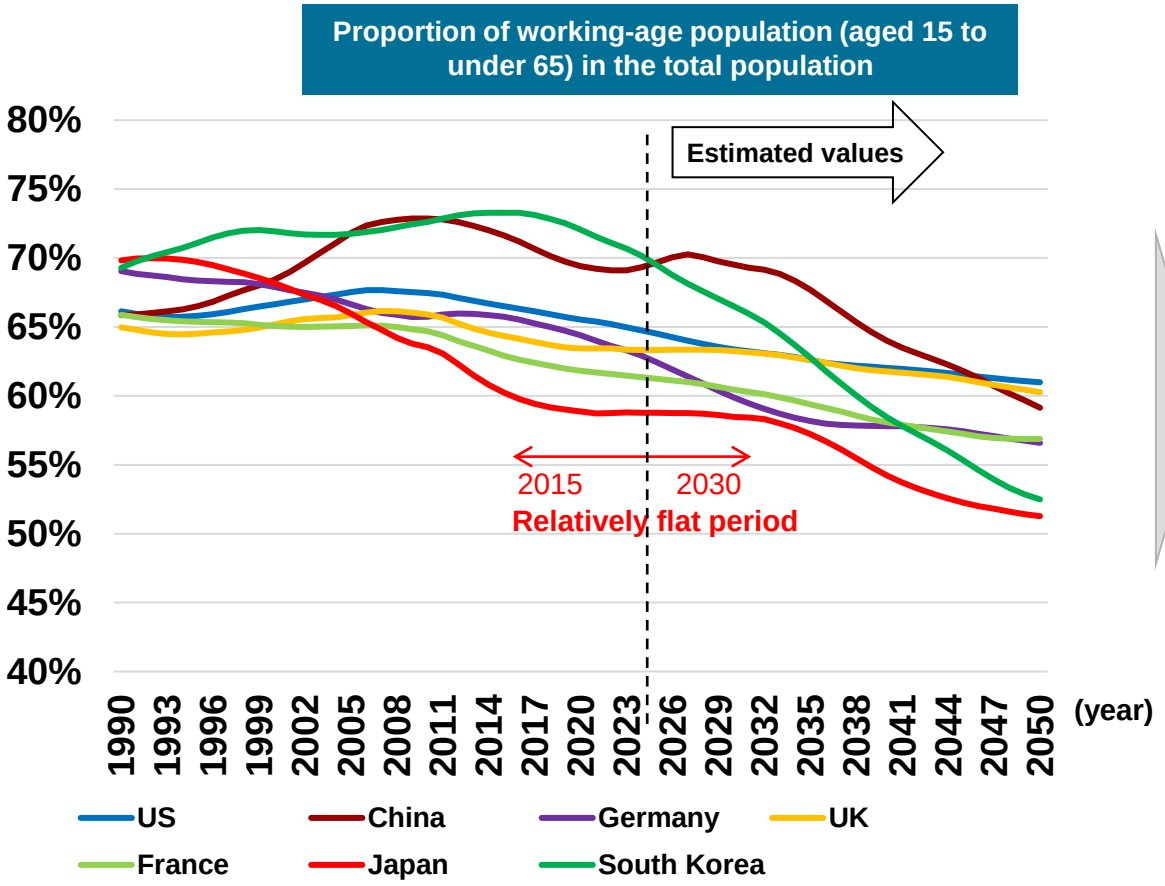
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1,508	3,739	7,668	11,061	14,924	16,554	15,735	18,315	23,958	26,803

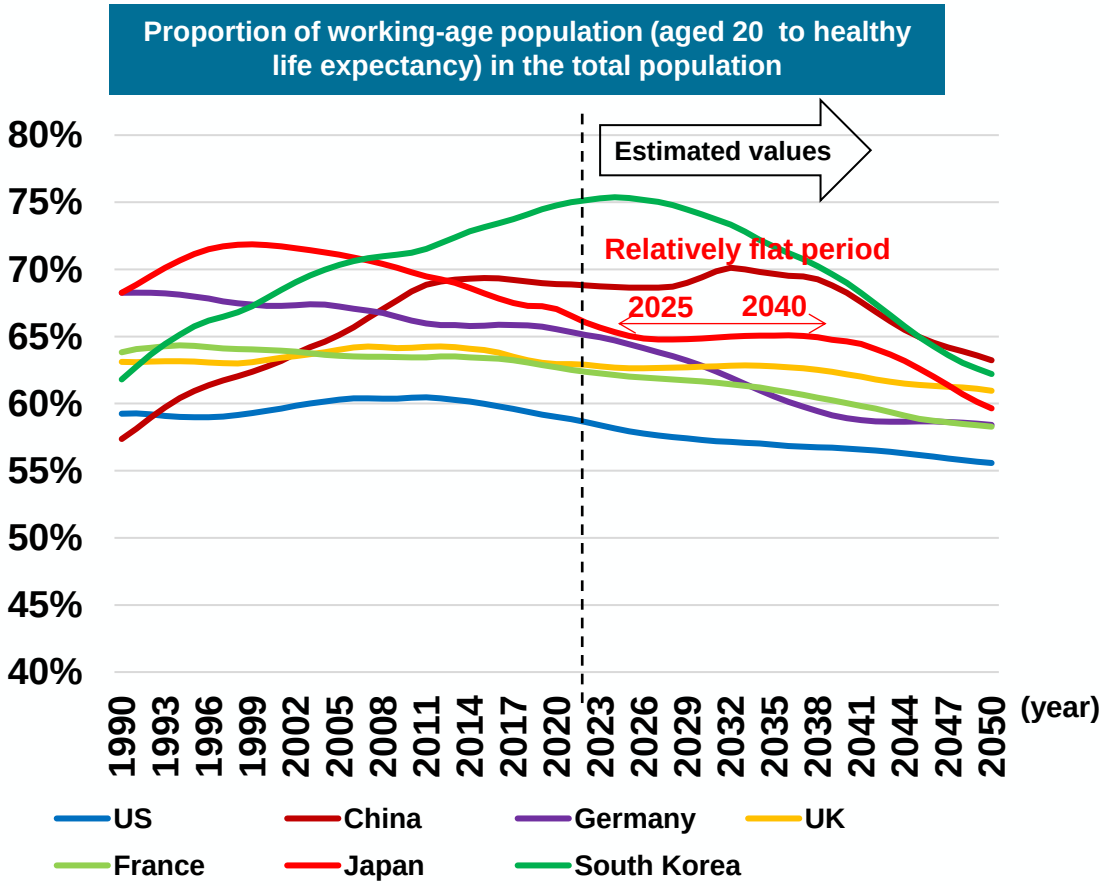
(Left) Estimation results for medium mortality estimate; and (Right) Estimation results for medium birth and medium mortality estimates.
The ratio of working-age population is calculated as the ratio of foreigners (all ages) to the total population (working age).
(Source) Ministry of Internal Affairs and Communications, "Population Estimates," for figures before 2020; and from 2021 onward: National Institute of Population and Social Security Research, Population Projection for Japan (2023 Estimates)," Ministry of Health, Labour and Welfare, "Vital Statics", Ministry of Justice, "Statistics on Foreign Residents."

*Figures are as of the end of June for 2024 only. Figures are as of the end of December for other years.

In terms of healthy life expectancy, the proportion of the working-age population will remain constant until 2040

- In terms of the **working-age population**, its proportion in the total population will **remain constant until 2030**.
- Furthermore, in terms of the **healthy working-age population**, its proportion in the total population will **remain constant until 2040**, and will also **be higher in proportion than in other key foreign countries such as the US and Germany**.





(Note) The healthy working-age population is defined as the population aged 20 or older and below the healthy life expectancy. **Healthy life expectancy** is the average number of years a person is expected to live in good health, excluding periods of illness or injury. As of 2021, this is expected to be **age 73 in Japan**, 72 in South Korea, 70 in France, 69 in Germany, 69 in the UK, 69 in China and **64 in the US**. Figures from 2024 onward are estimates (all medium-variant estimates of births and deaths).

(Source) WHO "World health statistics 2024" and United Nations "World Population Prospects 2024" (April 2025).

Macroeconomics and Corporate Management (Greenspan's View of a Deflationary Economy)

- Around 2000, when Alan Greenspan was the chairman of the FRB, it was said to be on the precipice of deflation, but aggressive monetary easing ultimately prevented the United States from falling into deflation. At that time, Greenspan talked about why monetary easing is necessary.
- Deflation tends to be regarded as a mere price change, in which prices decline or do not move. However, Greenspan understood **that the essence of deflation is not simply in falling prices, but in the economic disruption caused by stagnant prices, which prevents corporate vitality**.

Greenspan's View of a Deflationary Economy

Although the U.S. economy has largely escaped any deflation since World War II, there are some well-founded reasons to presume that deflation is more of a threat to economic growth than is inflation.

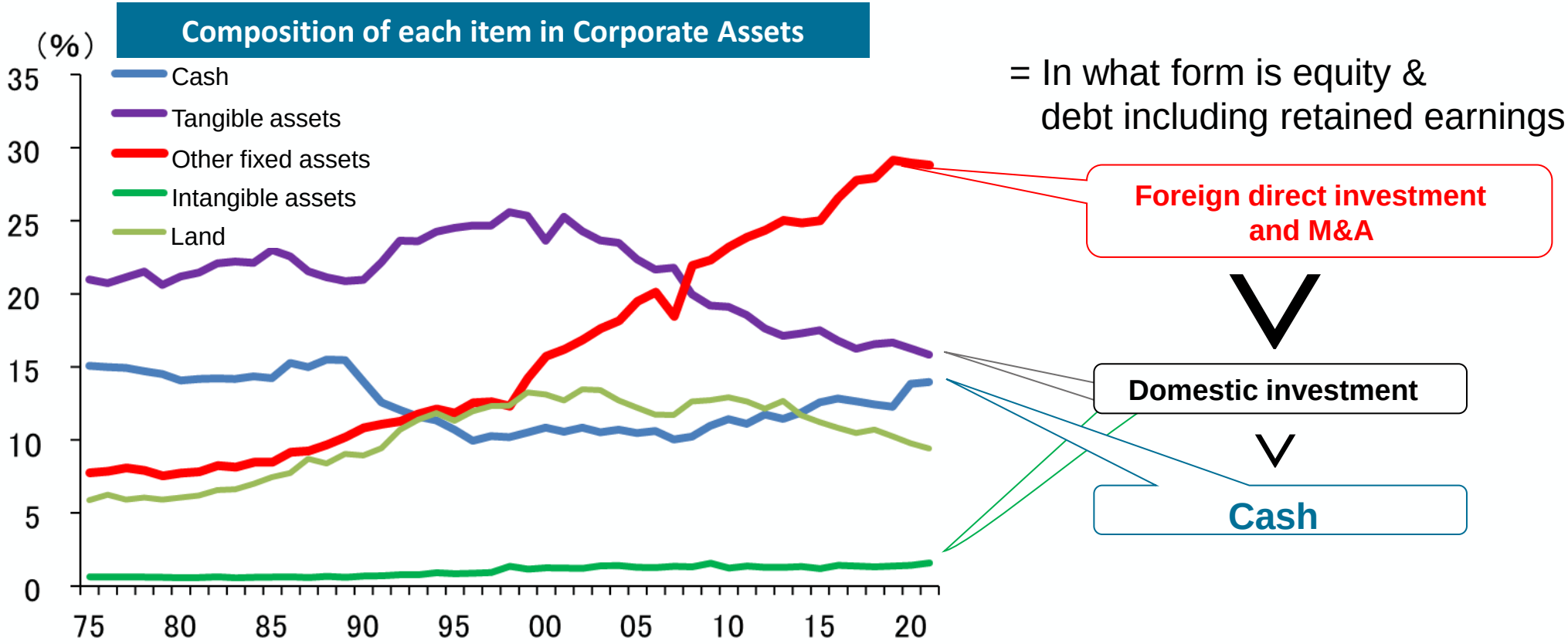
For one, the lower bound on nominal interest rates at zero threatens ever-rising real rates if deflation intensifies. Another concern about deflation resides in labor markets. Some studies have suggested that nominal wages do not easily adjust downward. In these circumstances, the effective clearing of labor markets would be inhibited, with the consequence being higher rates of unemployment. Taken together, these considerations suggest that deflation could well be more damaging than inflation to economic growth.

In the end, capital investment will be most dependent on the outlook for profits and the resolution of the uncertainties surrounding the business outlook and the geopolitical situation. These considerations at present impose a rather formidable barrier to new investment. Profit margins have been running a little higher this year than last, aided importantly by strong growth in labor productivity. But a lack of pricing power remains evident for most corporations. A more vigorous and broad-based pickup in capital spending will almost surely require further gains in corporate profits and cash flows.

(Source) Quoted from Monthly Capital Market (Oct 2023, Path to a “virtuous cycle of wages and prices" (Professor Tsutomu Watanabe, University of Tokyo)).

The Japanese Companies' earning was based on cost-cutting methods with utilizing existing businesses

- Japanese companies have expanded profits by **increasing overseas investment (reimporting at low production costs and horizontally expanding products and services already established in Japan to other countries) while maintaining existing facilities in Japan.**
- In order to **expand profits while minimizing risks,** it is possible that **these cost-cutting earning methods that effectively utilize existing businesses** have been chosen as a rational (at least in the short term) way of earning money.



(Note) Ratio relative to the entire balance sheet

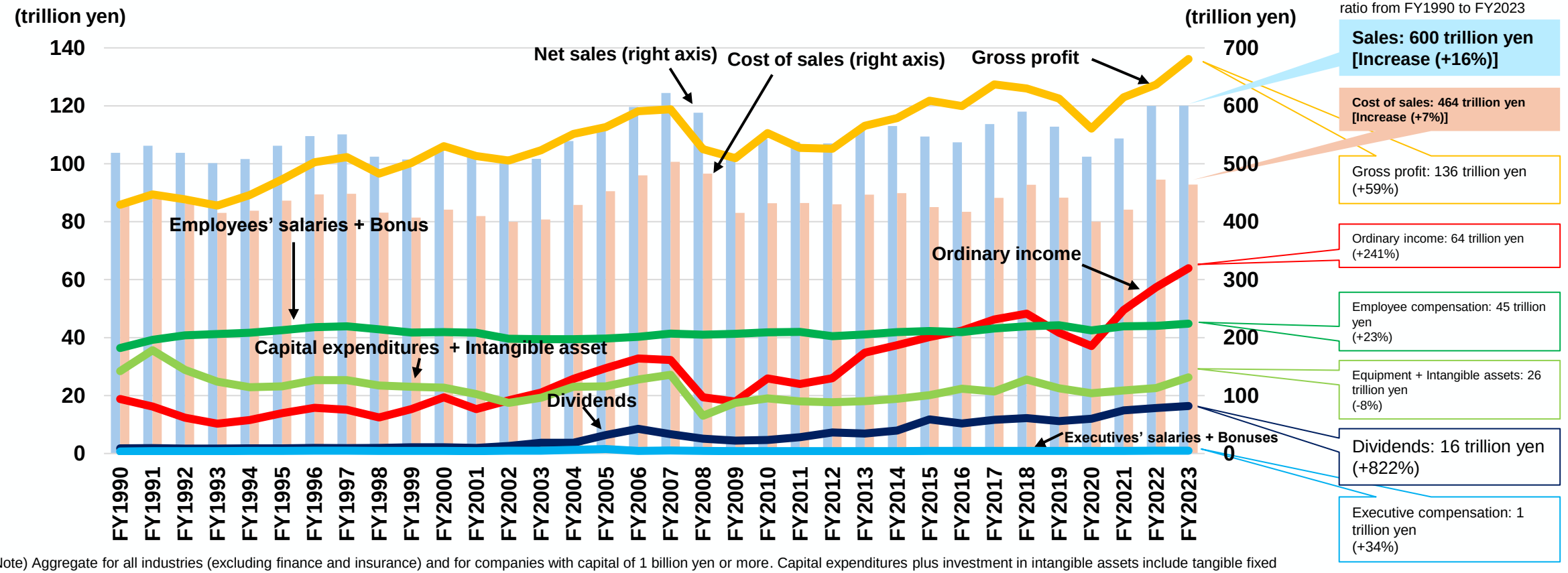
(Source) Ministry of Finance "Corporate Enterprise Statistics"

Source: Excerpted and partially edited from Document 3 of the 11th New Direction Committee (January 27, 2023), "Documents submitted by Mr. Kazuo Monma."

Japanese Companies' Current Profits have risen but Sales Remain Flat

- Large companies' **sales have increased, and cost of sales decreased** over 3 decades (until last year, cost of sales decreased slightly). Capital expenditures declined, labor costs(*) increased slightly and dividends expanded.
  *Total number of employees increased by 7% from 6.666 million (1990) to 7.132 million (2023)
- **As a result, current profits increased over the long term and is currently the highest**.

Sales, investment in equipment and intangible assets, employee salaries, dividends, etc.



* The increase or decrease in [ ] is the ratio from FY1990 to FY2023

Sales: 600 trillion yen [Increase (+16%)]

Cost of sales: 464 trillion yen [Increase (+7%)]

Gross profit: 136 trillion yen (+59%)

Ordinary income: 64 trillion yen (+241%)

Employee compensation: 45 trillion yen (+23%)

Equipment + Intangible assets: 26 trillion yen (-8%)

Dividends: 16 trillion yen (+822%)

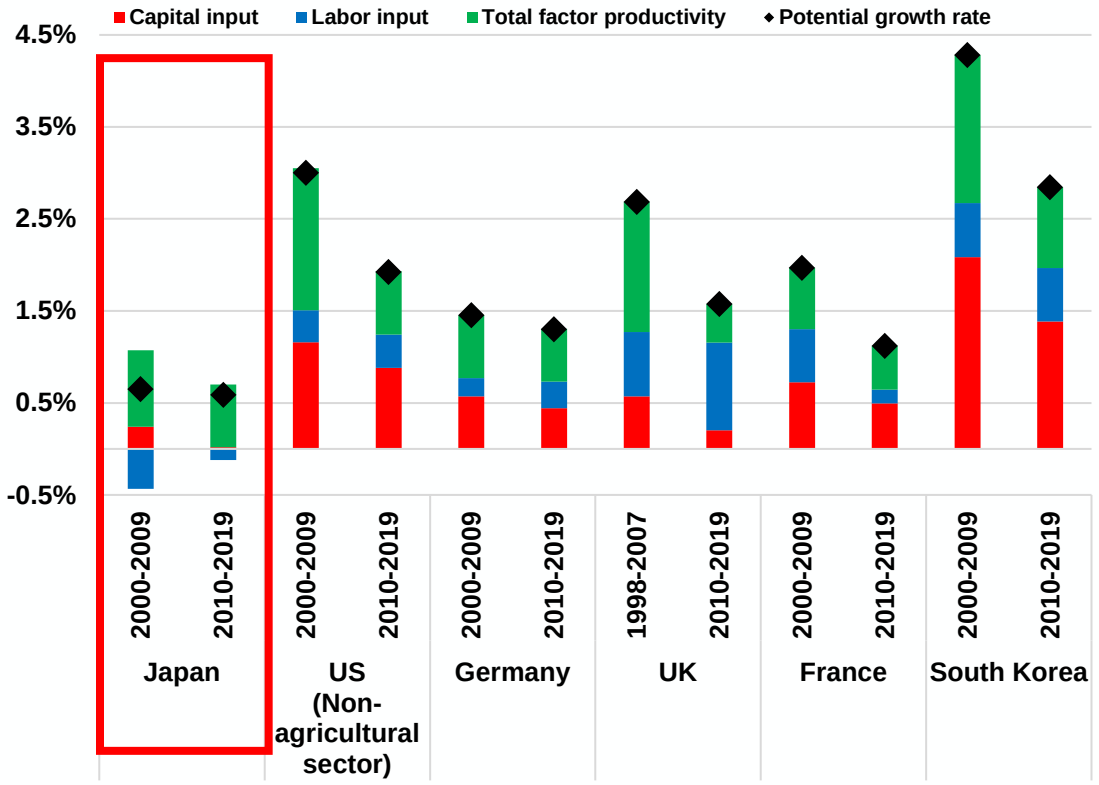
Executive compensation: 1 trillion yen (+34%)

(Note) Aggregate for all industries (excluding finance and insurance) and for companies with capital of 1 billion yen or more. Capital expenditures plus investment in intangible assets include tangible fixed assets excluding land, software, and intangible fixed assets excluding software (goodwill, patents, etc.). Intangible investment in intangible assets excluding software and software is calculated as the balance of fixed assets in the current year minus the balance of fixed assets in the previous year.
(Source) Ministry of Finance "Financial Statements Statistics of Corporations"

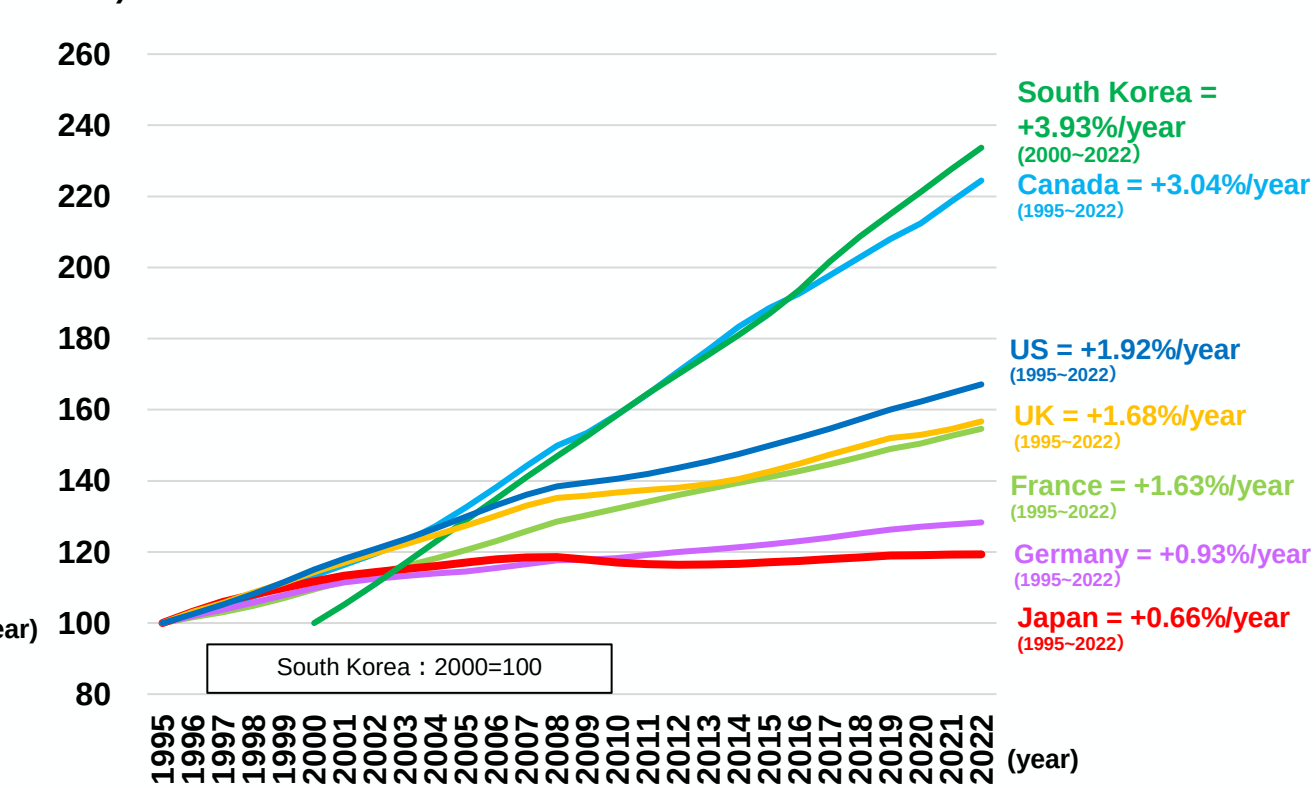
One of the factors for Japan's economic stagnation is investment

- When potential growth rate is broken down into factors, **total factor productivity is comparable to that of other countries**. **The biggest difference is the amount of capital input**.
- Especially since the financial crisis, **many Japanese companies have expanded their investments overseas while investment in Japan remained flat**.

Comparison of contribution of items to potential growth rate (average value for each period)



International Comparison of Trends in capital stock

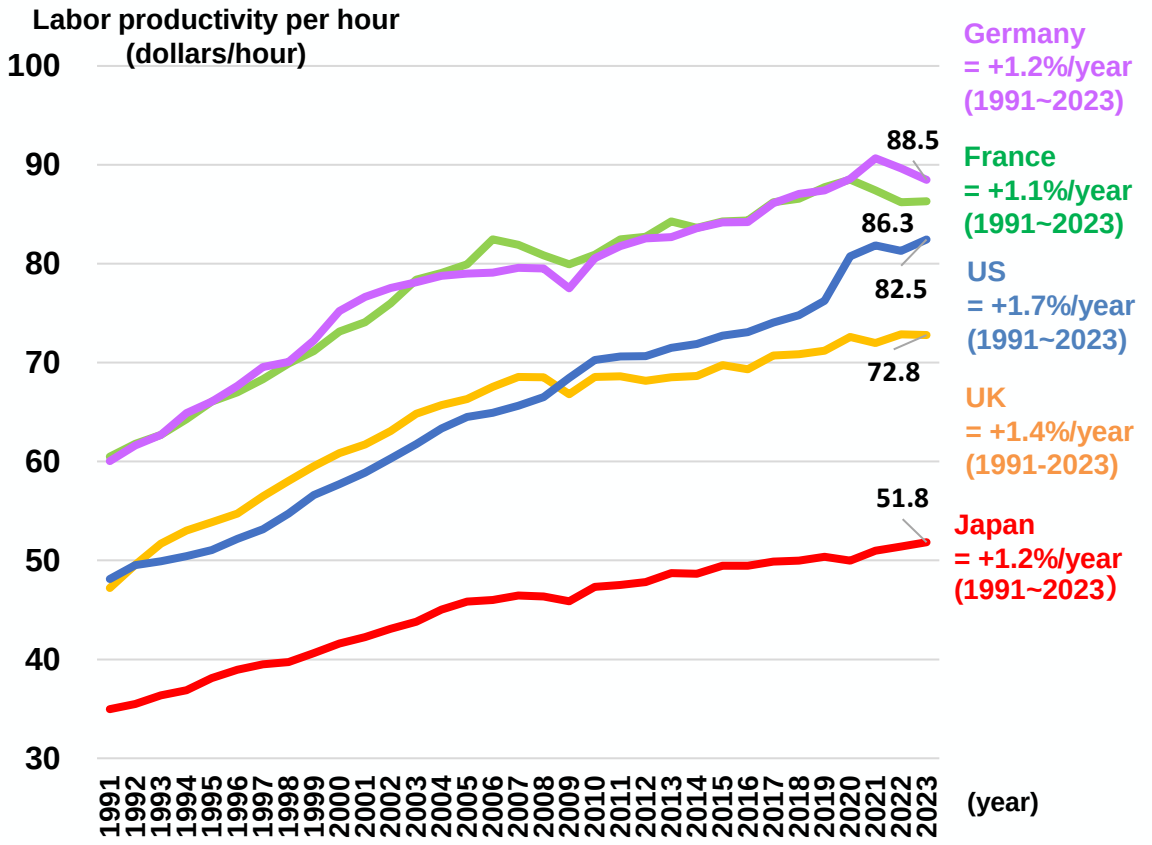


(Note) Left: Due to the nature of publicly available data from the Office for Budget Responsibility, the UK's decomposition of contribution for potential growth rates is shown from 1998 to 2007.
Right: Capital stock growth rate is calculated as (gross fixed capital formation - fixed capital depreciation) / fixed assets, with reference to Document 3 from the Ministry of Health, Labor and Welfare's "Second Meeting of the Expert Committee on Economic Assumptions for Pension Financing of the Pension Subcommittee of the Social Security Council" (February 24, 2023). Capital stock is calculated by multiplying the capital stock of the previous year by its growth rate, with 1995 set as 100. Due to data constraints, the base year for South Korea is 2020.
(Source) Left: Cabinet Office "GDP Gap and Potential Growth Rate" (March 18, 2025), US Congressional Budget Office "An Update to the Budget and Economic Outlook: 2019 to 2029" (August 21, 2019), "The Budget and Economic Outlook: 2022 to 2032" (May 25, 2022), German Council of Economic Experts "SPRING REPORT 2024" (May 15, 2024), UK Office for Budget Responsibility "Economic and fiscal outlook" (November 16, 2022 and March 26, 2025), and World Bank "A Cross-Country Database of Potential Growth" (March 27, 2023).
Right: OECD.stat and the Ministry of Health, Labour and Welfare's "Second Meeting of the Expert Committee on Economic Assumptions for Pension Financing of the Pension Subcommittee of the Social Security Council" (February 24, 2023).

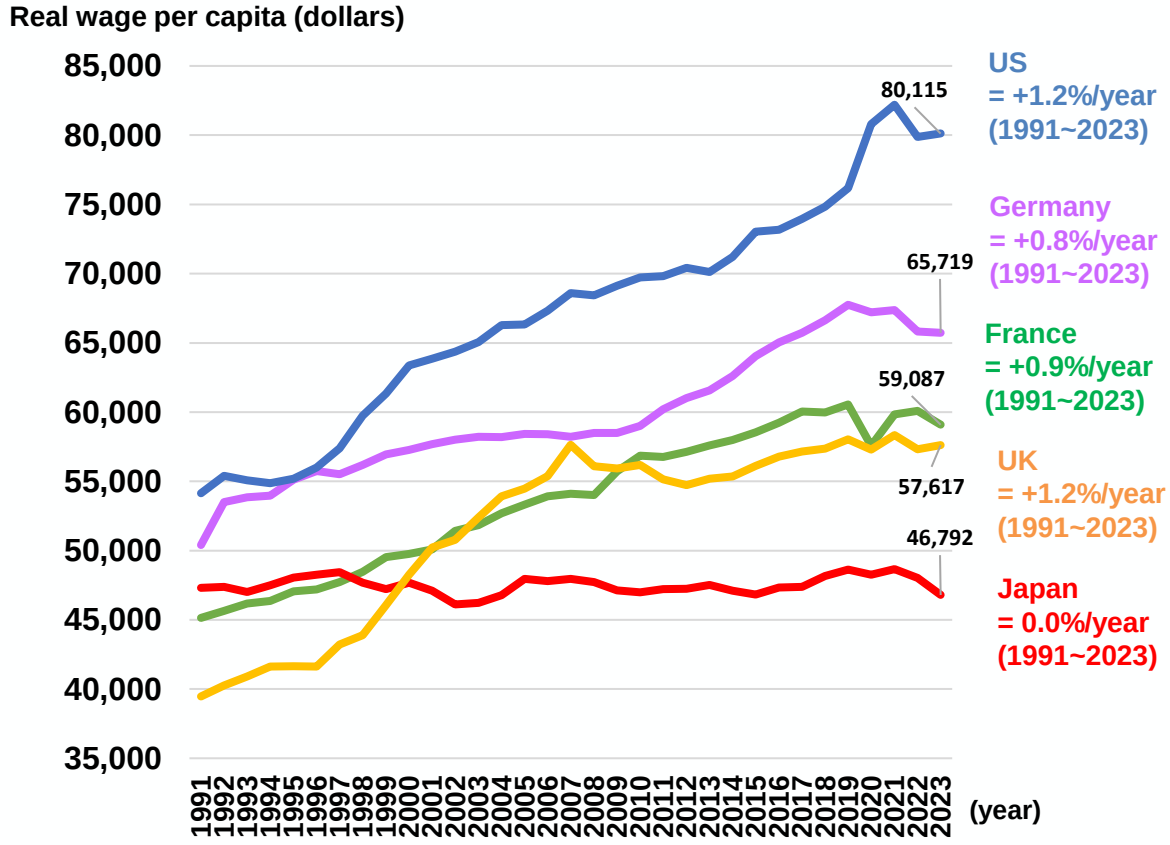
Why income growth?

- **Labor productivity: Japan's labor productivity has grown at an annual rate of more than 1% in the past 3 decades.**
- **Real wages: Real wages in Japan have remained flat for the past 3 decades.** As a result, **personal consumption has also struggled.**

Trends in labor productivity



Trends in real wages（absolute values）

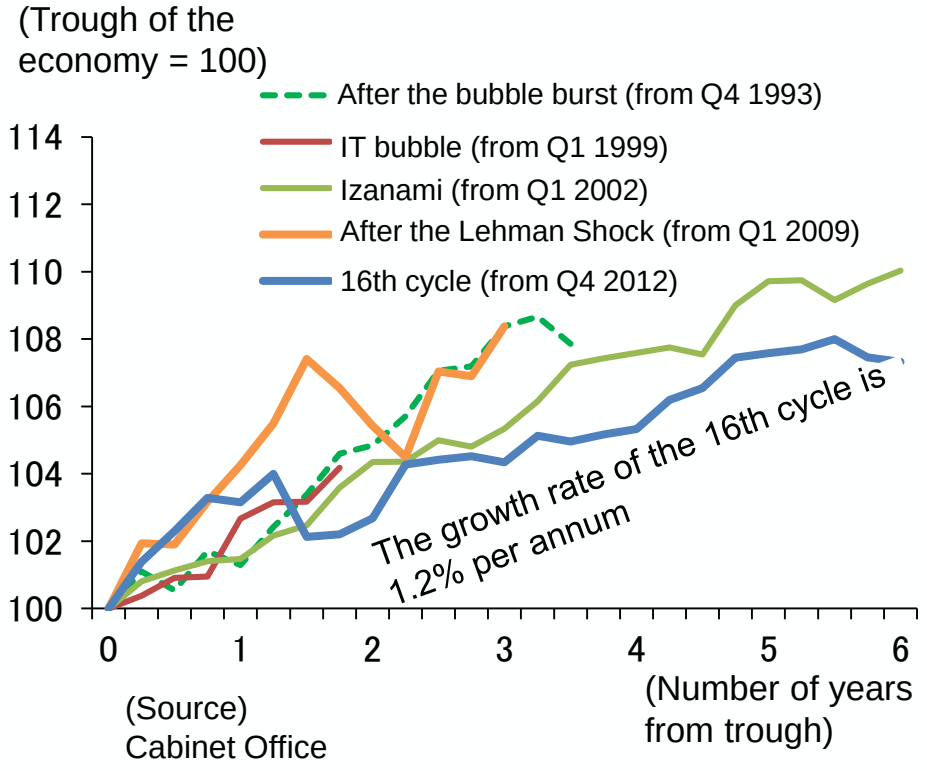


(Note) Left: GDP realized in 2020 US dollars (purchasing power parity basis) divided by total working hours (number of employed persons x average annual working hours). Right: Realized value in 2023 US dollars (purchasing power parity basis).
(Source) OECD stat.

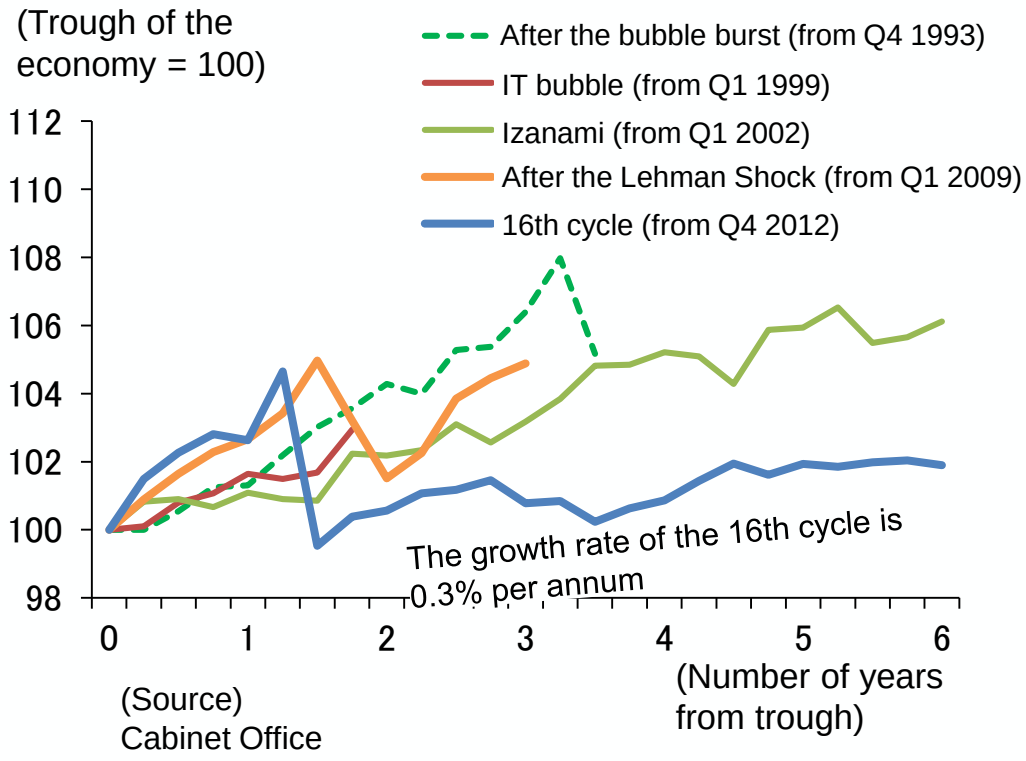
Amid economic downturn, growth in personal consumption in particular has stagnated.

- The economic cycle since 2012 (the 16th cycle) was the second longest since the war, at 71 months (just two months short of the Izanami boom), but the **growth rate was the lowest post-WW2, averaging +1.2% per year**.
- In particular, **personal consumption experienced almost zero growth, averaging only +0.3% per year**.

Comparison of real GDP by phase



Comparison of phases in personal consumption (real)



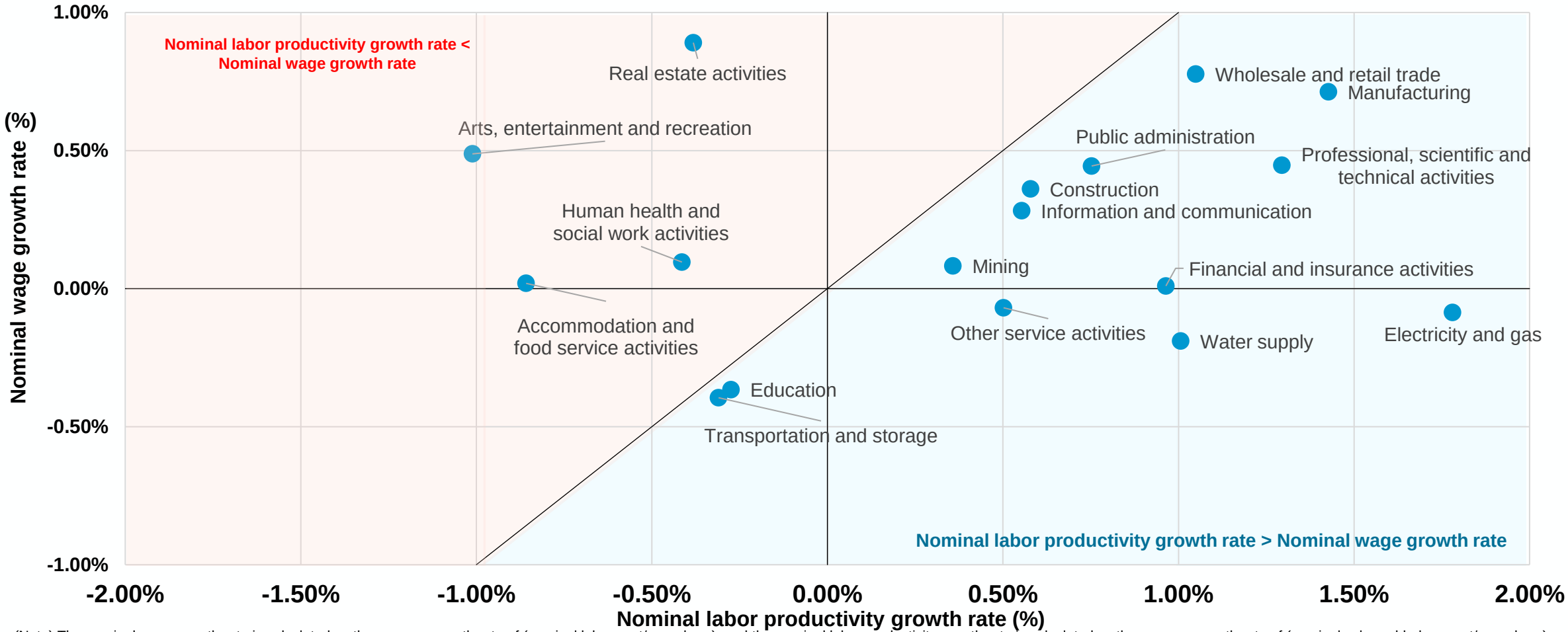
(Source) Mr. Monma's presentation materials at the 11th New Direction Committee meeting.

Labor productivity and wage growths by industry

- For **the manufacturing industry**, wage increases have not kept pace with **the increase in labor productivity**, and continued efforts are needed to **promote labor distribution**. Meanwhile, **non-manufacturing industries need to improve productivity** to secure the capacity to raise wages.

Wage growth rate by industry x Labor productivity growth rate (1996-2020)

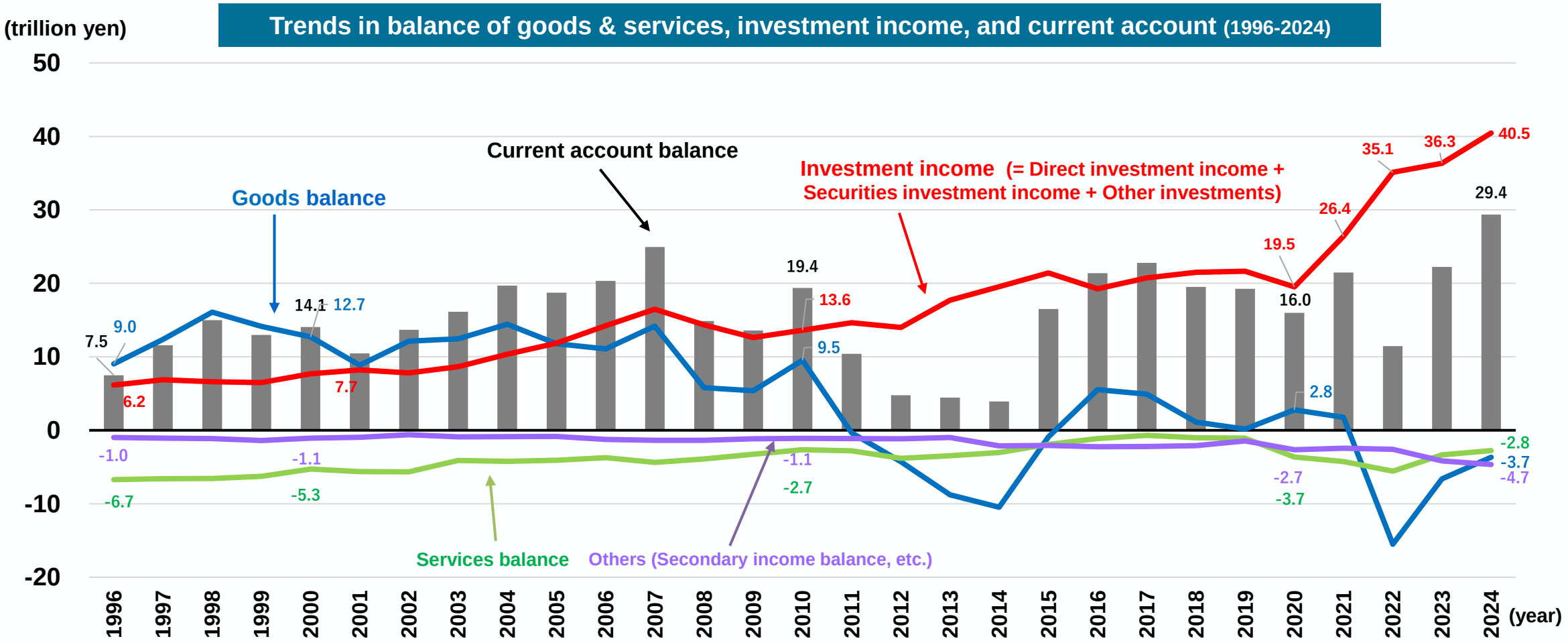
*Excludes agriculture, forestry and fisheries



(Note) The nominal wage growth rate is calculated as the average growth rate of (nominal labor cost/ man-hour), and the nominal labor productivity growth rate is calculated as the average growth rate of (nominal value added amount/ man-hour).
(Source) EU KLEMS data

Breakdown of Japan's current account balance

- Japan has transitioned from a domestic production and export economy to an overseas expansion through FDI economy. As a result, **goods balance surplus has shrunk and the current account surplus is supported by investment income**.

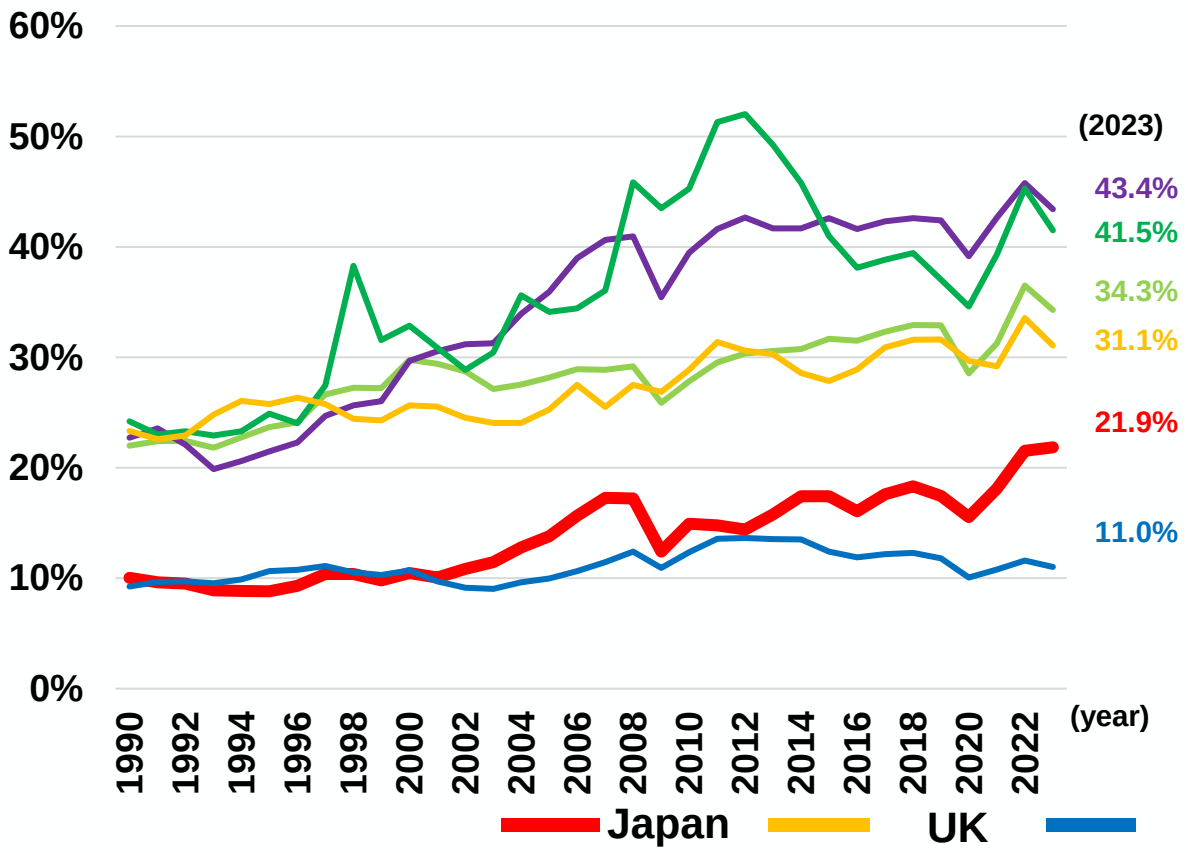


(Note) "Investment income" is included in the primary income and corresponds to the sum of direct investment income + portfolio investment income + other investment income.
(Source) Ministry of Finance's "Balance of Payments Statistics."

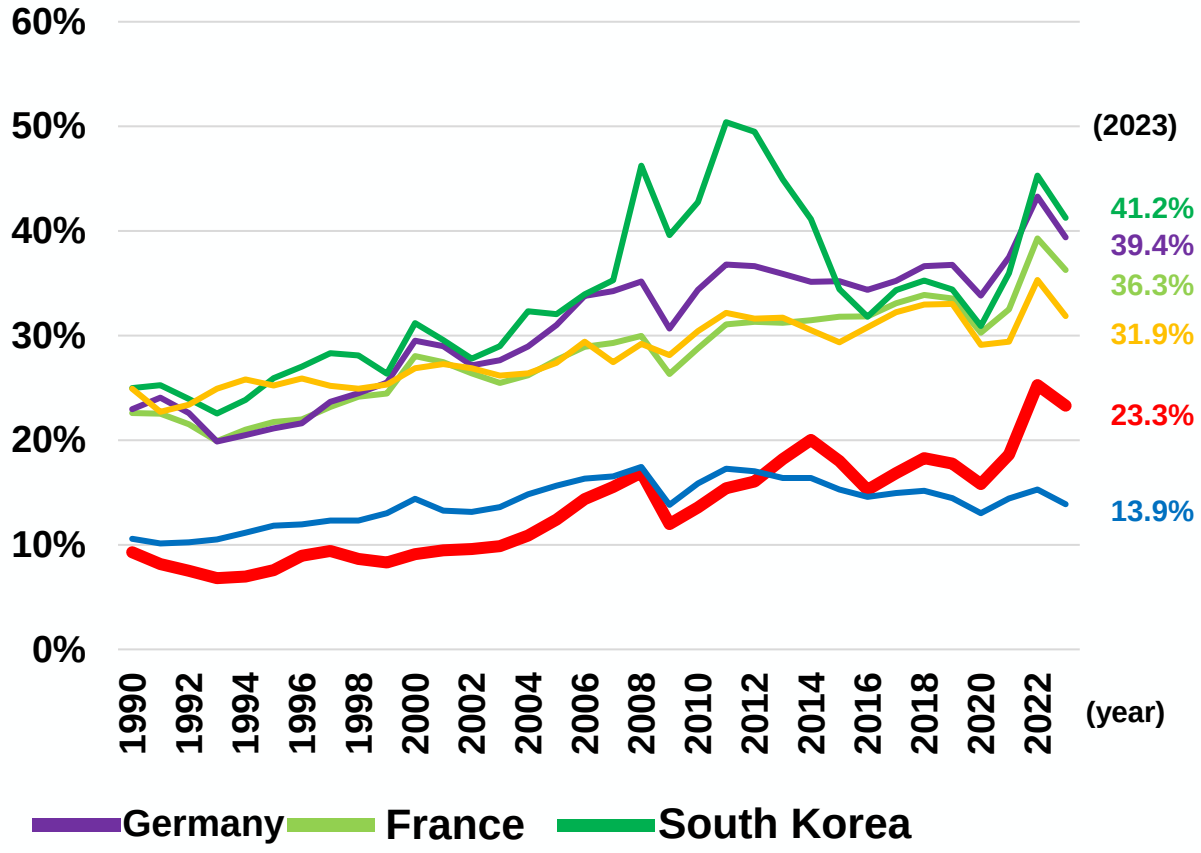
International comparison of trade dependence

- Japan has a low dependence on both imports and exports compared to other key countries.

Export dependency (ratio of total exports to GDP)



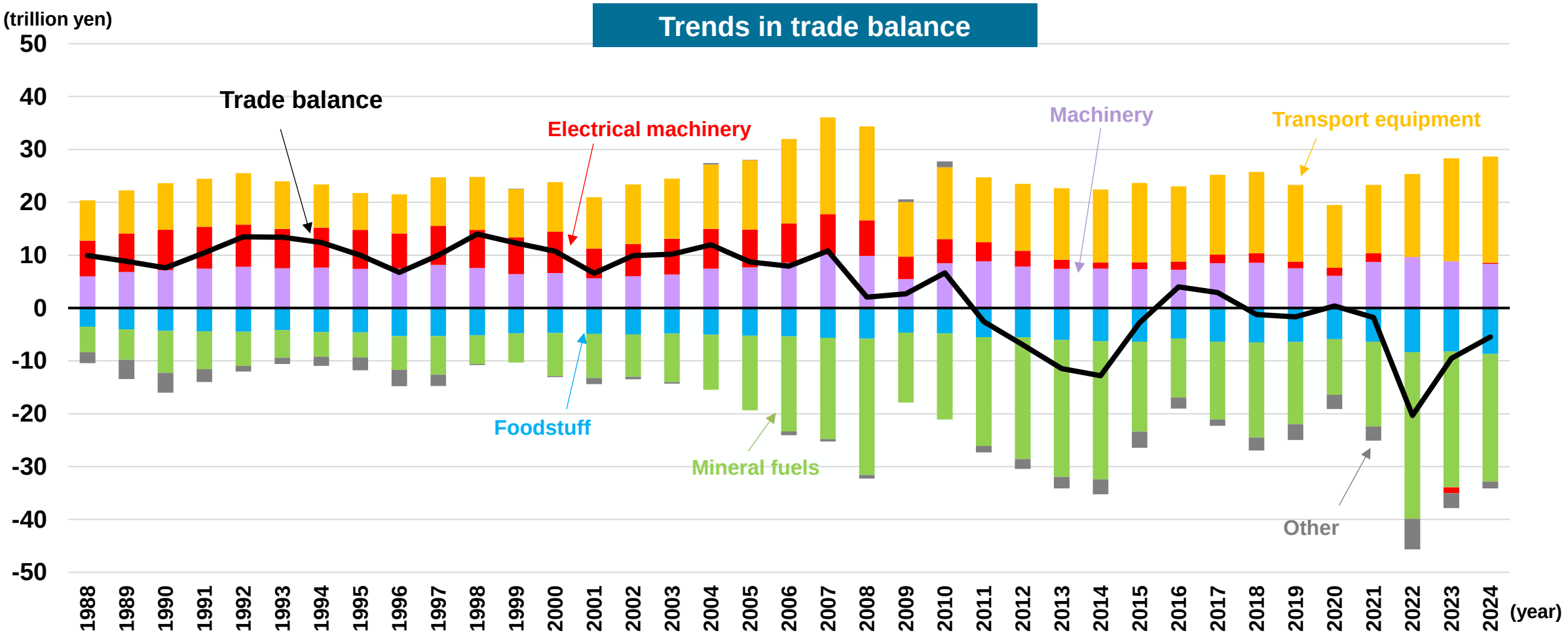
Import dependency (ratio of total imports to GDP)



(Note) GDP, export values and import values are all nominal values based on each country's currency.
(Source) OECD stat.

Trends in trade balance

- **The trade balance** has **been trending towards a deficit in recent years**. Exports are driven by transport equipment such as motor vehicles and general machinery such as **semicon machinery etc.** , but mineral fuels such as **oil, coal and natural gas**, which are susceptible to fluctuations in resource prices, and foodstuff are in the red.

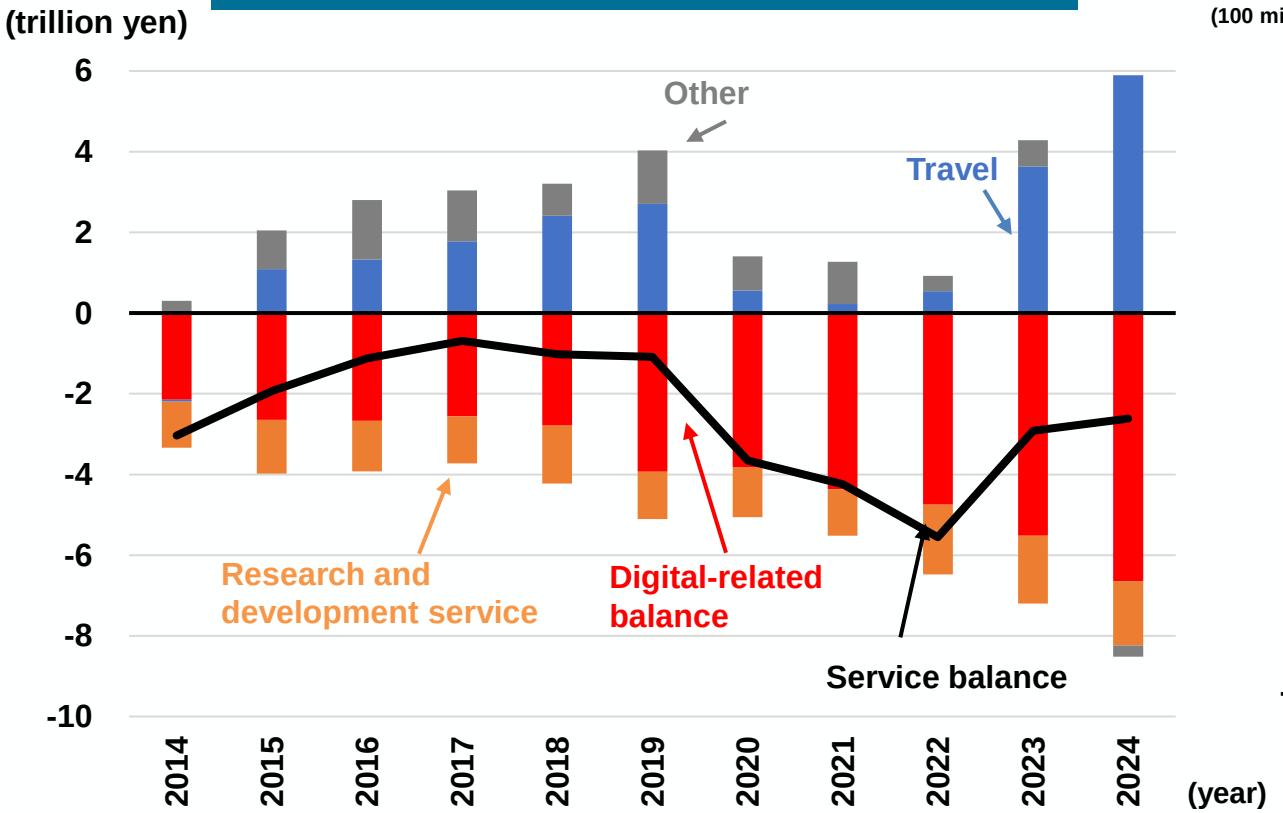


(Note) Trade balance by key products. Other is the total of "Raw materials," "Chemicals ," "Manufactured goods," and "Others." Values from 1988 to 2023 are fixed. Figures for 2024 are to be revised.
(Source) Ministry of Finance's "Trade Statistics of Japan."

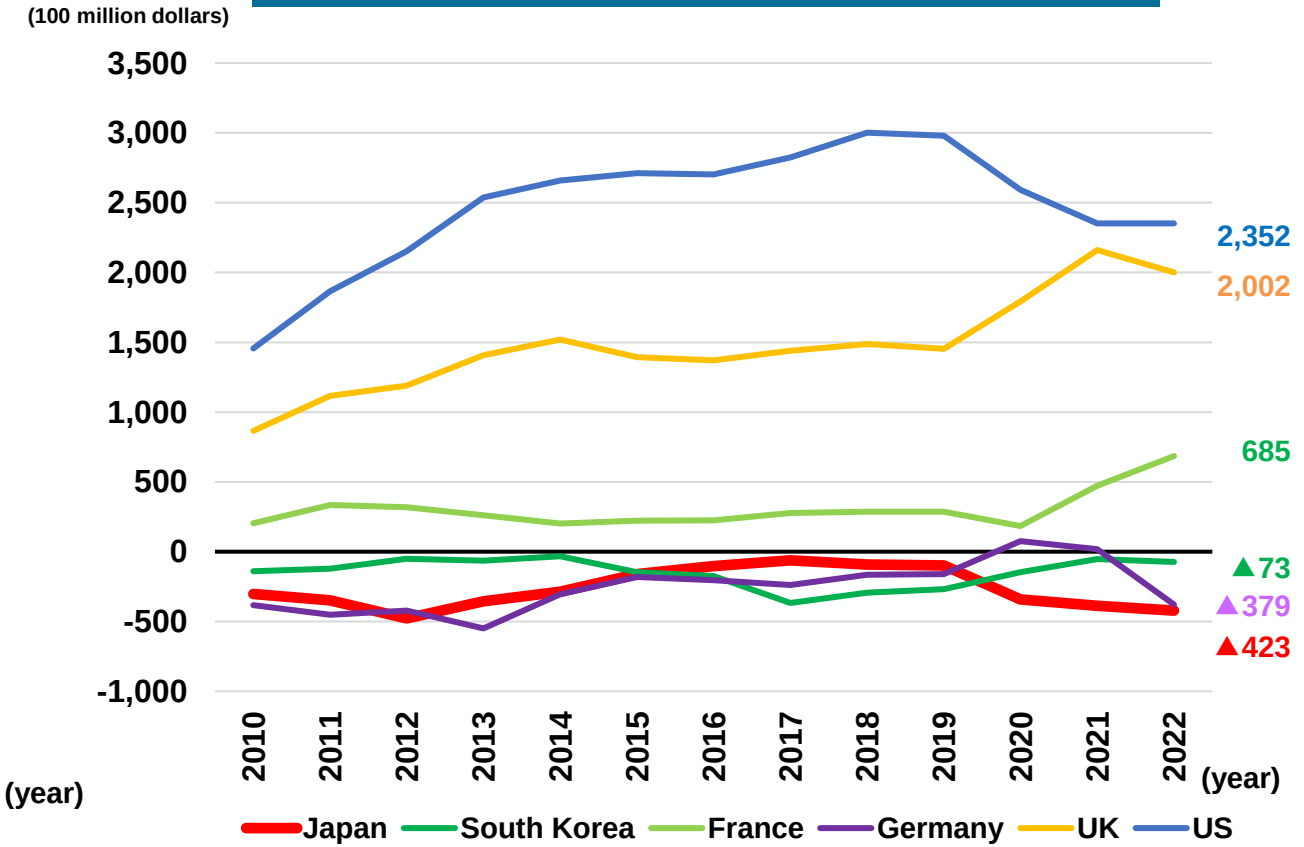
Trends in Japan's service balance and international comparison

- Regarding the services balance, although the travel balance is currently increasing due to inbound tourism, **the overall deficit is high compared to other countries due to the large deficit in digital-related fields.**

Trends in Japan's service balance



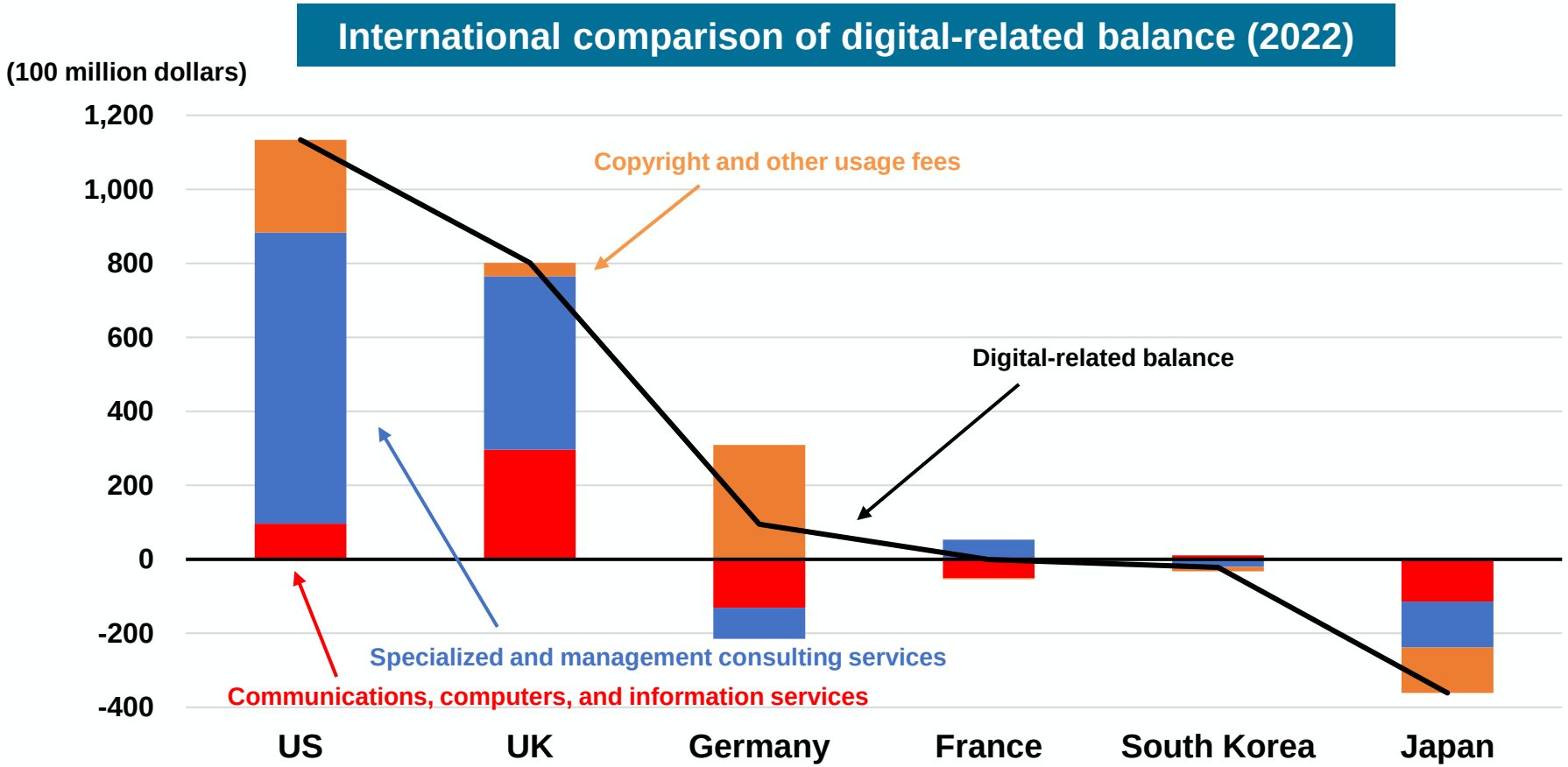
International comparison of service balance



(Note) Left: Digital-related balance is calculated as the sum of (1) to (3) based on the classification of the Bank of Japan Review.
(1) Communications, computer, and information services: Software contract development, cloud services, use of online conference systems, software subscription contract fees, etc.
(2) Professional and management consulting services: Transactions related to legal affairs, accounting and management consulting, public relations, advertising and market research; (3) Royalties for the use of copyrights, etc.: License fees for the reproduction and distribution (sale, free distribution, etc.) of copyrighted works (computer software, music, video, characters, literature, academic works, art, etc.).
Research and development service balance includes transactions of services related to research and development, as well as the buying and selling of industrial property rights that are the results of research and development
Travel balance includes goods and services acquired in a country by non-residents (travelers) for their own use or as gifts.
(Source) Left: Bank of Japan's "Balance of Payments Statistics" and the Bank of Japan's Review "Globalization of Services Transactions from the Perspective of Balance of Payments Statistics." Right: Created from OECD stat.

International comparison of digital-related balance

- **<u>Japan stands out for its deficit in the digital-related balance consisting of computer-related services, consulting services, and royalties such as copyrights.</u>**



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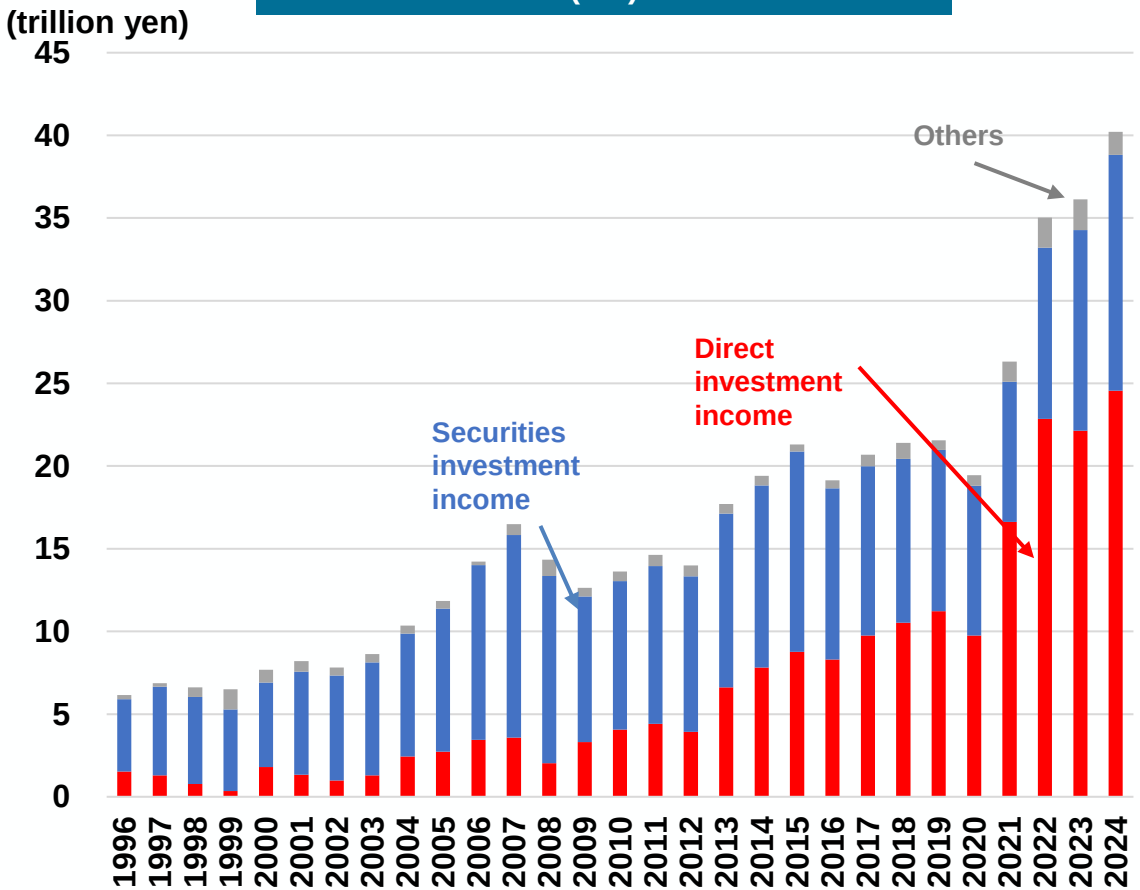
(3) Royalties for the use of copyrights, etc.: License fees for the reproduction and distribution (sale, free distribution, etc.) of copyrighted works (computer software, music, video, characters, literature, academic works, art, etc.) Copyright royalties in Germany and France are calculated for both copyright royalties and industrial property royalties, since the EU does not disclose the breakdown of intellectual property royalties.
(Source) Bank of Japan's "Balance of Payments Statistics," the Bank of Japan's Review "Globalization of Services Transactions from the Perspective of Balance of Payments Statistics" and OECD.stat.

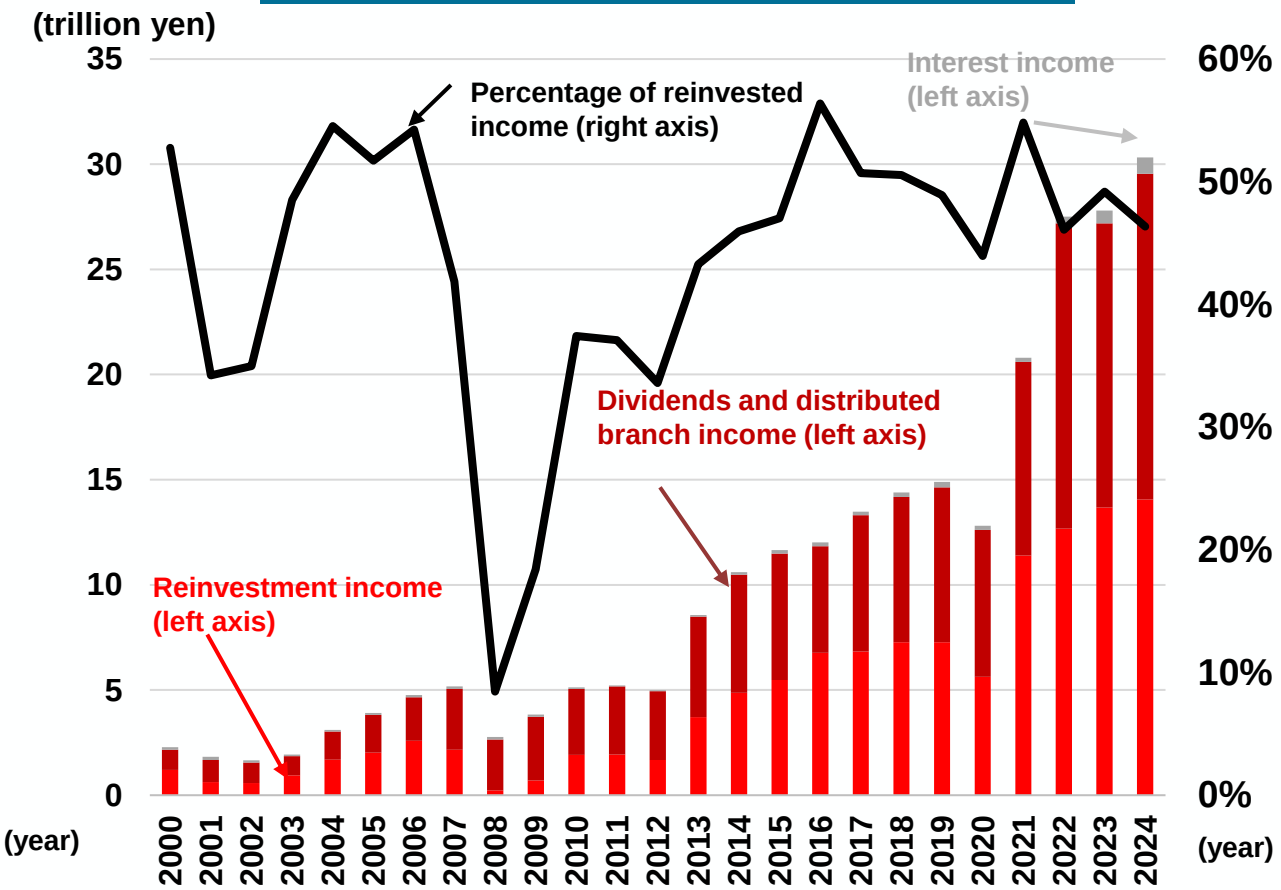
Primary income balance

- Japan's primary income balance has been on an **increasing trend mainly due to direct investment income**. On the other hand, about half of the direct investment income is **reinvested overseas , while about half returns to the domestic market.**

Changes in primary income balance (net)



Percentage of reinvested income in direct investment income (received)

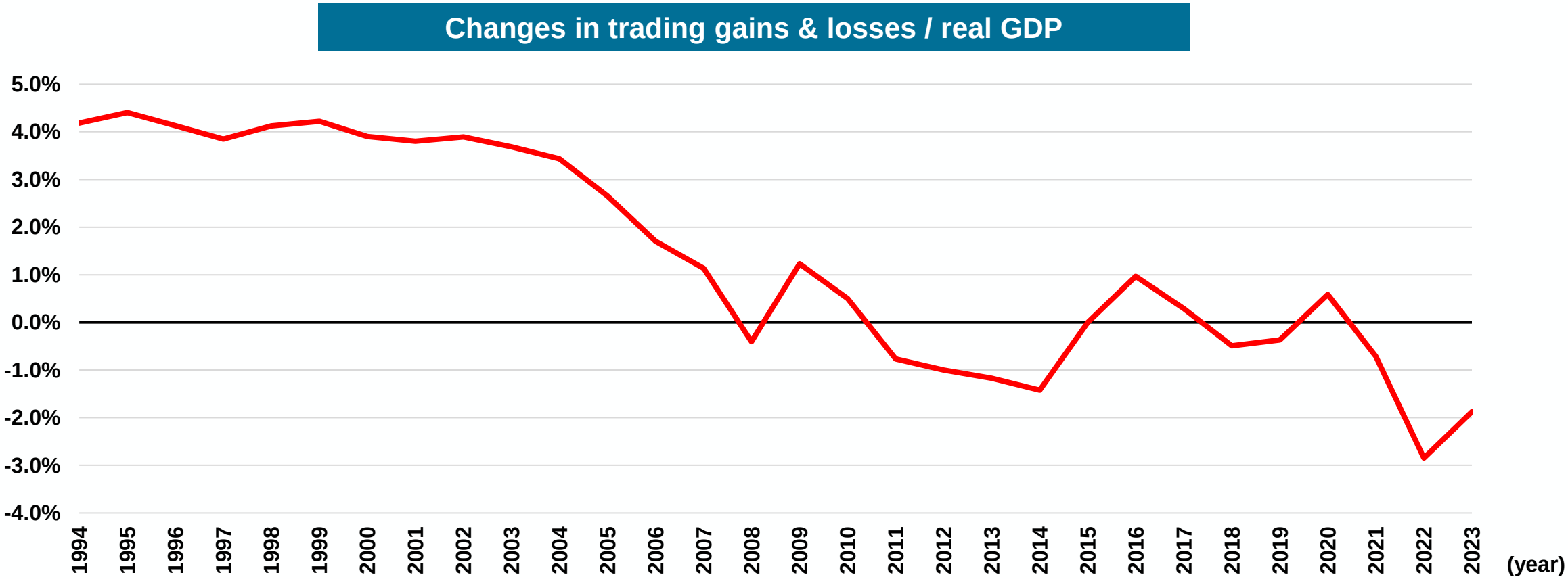


(Note) Left: Using the "net" frame. The other figures are the total of "employee compensation," "other investment income," and "other primary income." Right: Amounts "received" were used for all reinvested income (subsidiary retained earnings), dividends and branch income paid with dividends (profit dividends received and paid between parent and subsidiary companies and branch income that has been remitted to the head office), and interest income (interest on loans and borrowings and bond interest). Calculated as: Percentage of reinvested income = Reinvested income ÷ (Reinvested income + Dividends and dividend-earned branch income + Interest income).

(Source) Bank of Japan's "Balance of Payments Statistics."

Trading gains & losses

- Trade gain/loss **(= real gross domestic income - real gross domestic product)** shows how much the inflow and outflow of income between Japan and overseas has changed compared to the base year **due to changes in import and export prices (changes in terms of trade), the outflow of income has been accelerating since the first half of the 2000s** and is evident that it **has not yet returned to the level it was at the time**.

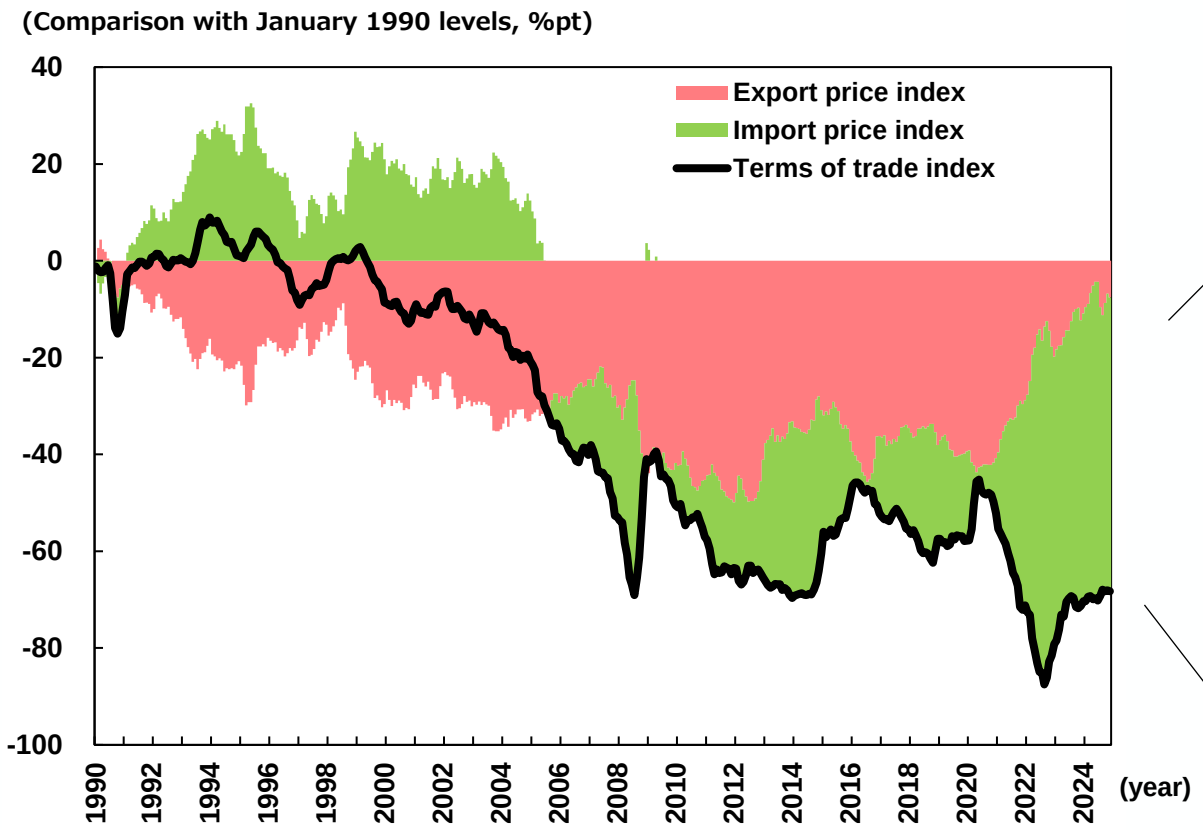


(Source) Cabinet Office's "Annual Report of National Accounts."

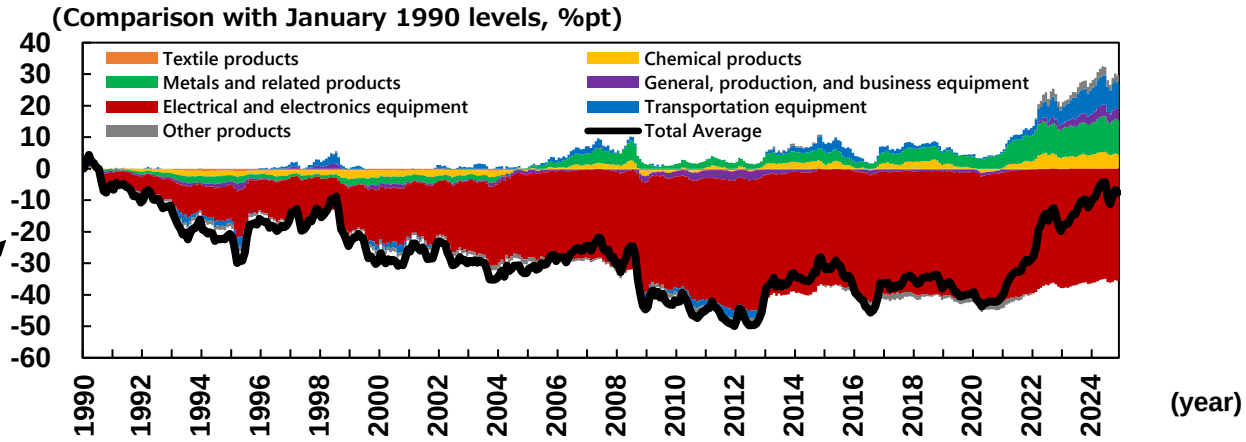
Factor decomposition of terms of trade

- A factor breakdown of the terms of trade index by category shows that **the majority of the decline in export prices was due to electrical and electronic equipment,** but electrical and electronic equipment also experienced a decline in import prices, indicating that this is **a highly price-competitive industry. The main source of the increase in import prices is mineral fuels**, the impact of which has been increasing in trend over the past decade.
  *Note that the GDP deflator included imports and exports of services, but the price index does not include services.

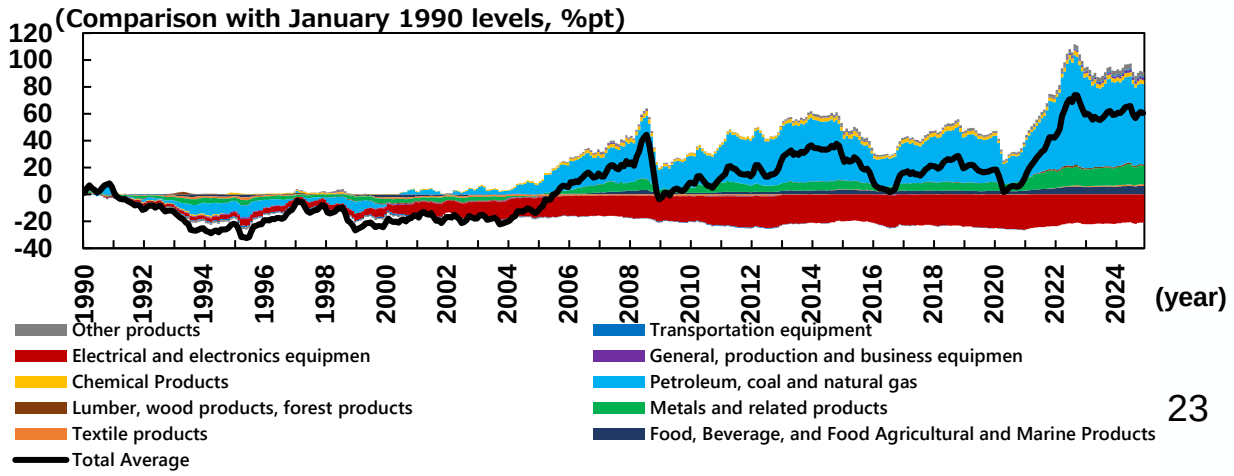
Factor decomposition of the terms of trade index



Factor decomposition of export price index by category



Factor decomposition of import price index by category



(Source) Bank of Japan, “Producer Price Index”

Decomposition of labor productivity growth rates in each country in the past 3 decades

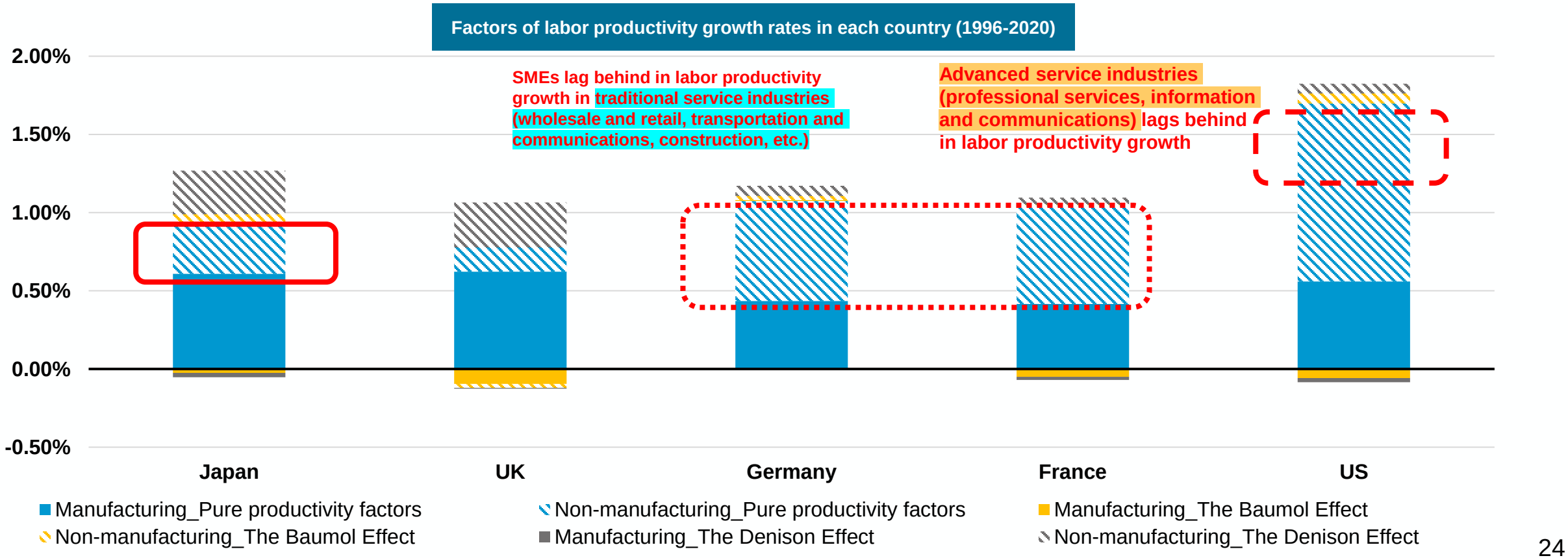
- In terms of labor productivity growth rate by industry, **manufacturing is comparable with those of the EU and the US**, but **non-manufacturing lags behind**.

Labor productivity growth rate = Net production factor + Baumol effect + Denison effect

Impact of productivity improvement by industry

Impact of changes in the share of nominal value added
(When the value added share of industries with high productivity growth increases, productivity on a macro level increases)

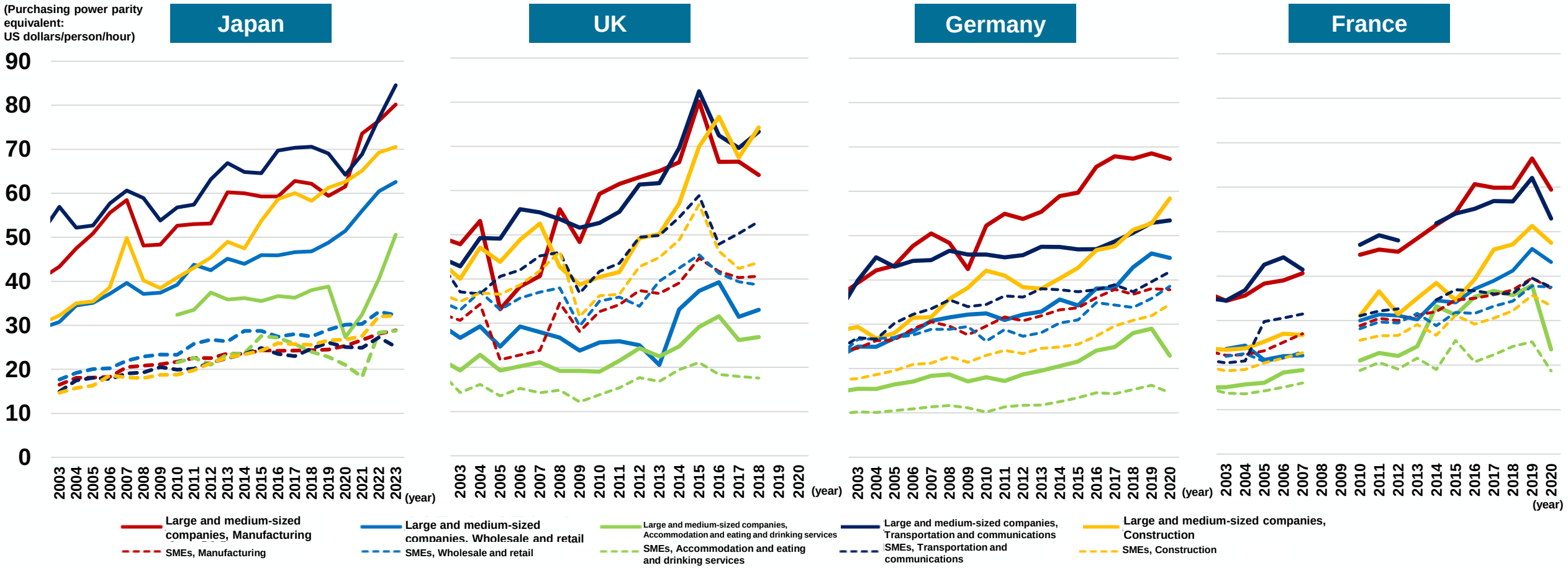
Impact of labor mobility between industries
(When labor moves to industries with high productivity, productivity on a macro level rises)



(Source) EU KLEMS.

Past labor productivity (compared to Europe)

- **Japan's** labor productivity shows **scale-specific characteristics across various industries**, while **SMEs do not exhibit industry-specific characteristics**.
- In terms of **company size**, labor productivity in **Europe** tends to be **lower in SMEs**, but even **among SMEs, labor productivity is at a high level depending on the industry**.

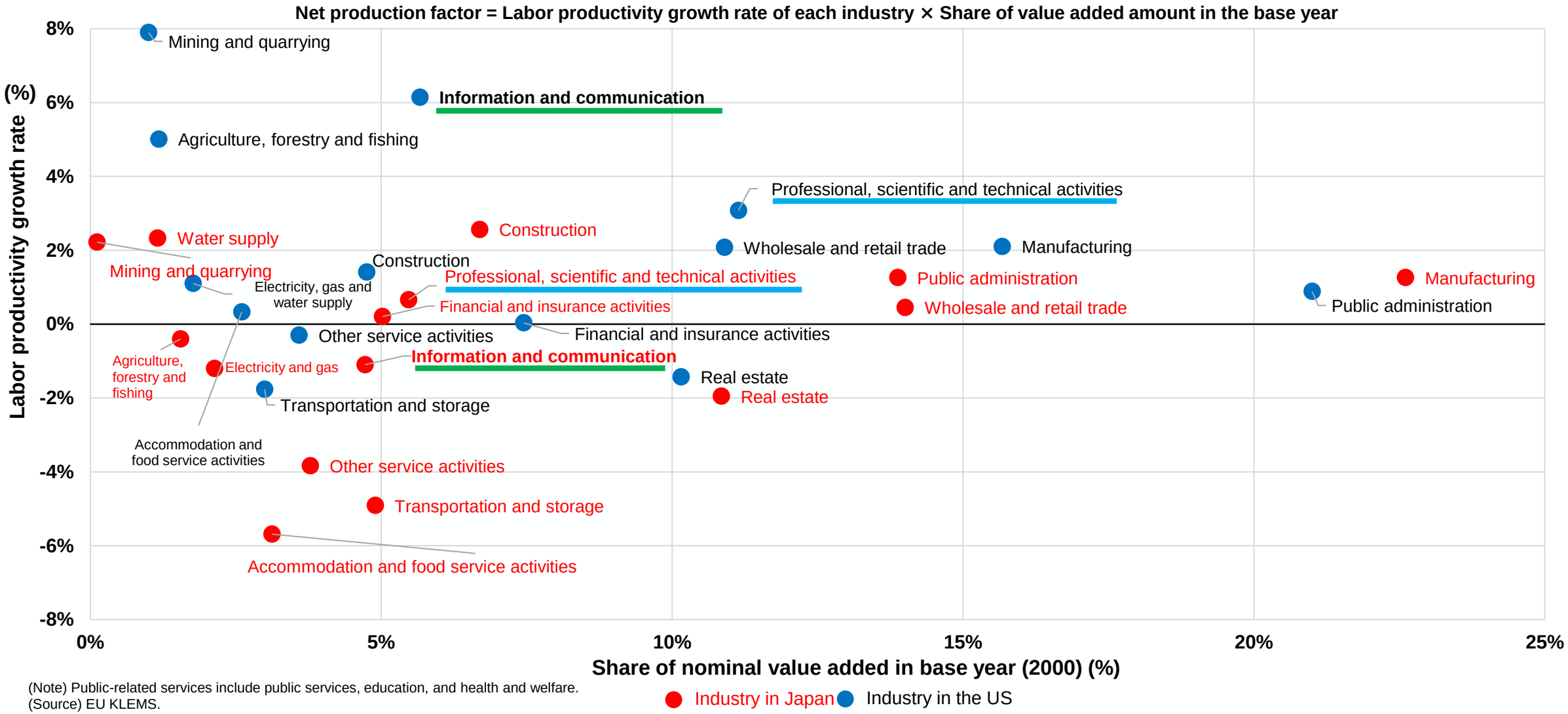


(Note) Labor productivity is calculated as gross value added/number of workers/total annual working hours per person. For company size, Eurostat defines companies with 250 or more employees as large or medium-sized companies, and companies with 250 or fewer employees as SMEs . Japanese companies classify those with capital of 100 million yen or more as large or medium-sized enterprises, and those with less than 100 million yen as SMEs. Eurostat does not provide working hours by company size and only by industry, so data on working hours used here are not categorized by company size. In line with this, Japanese companies also use total annual working hours by industry, regardless of company size, based on the Monthly Labor Survey data. Calculations on gross value added of Japanese companies are based on the following: Gross value added = Operating profits + Labor costs + Taxes and dues + Rent of movable property and goods + Depreciation. Labor costs = Employee salaries + Employee bonuses + Executive salaries + Executive bonuses. The figures are also converted using OECD.stat purchasing power parity.
(Source) Eurostat, the Ministry of Finance's "Financial Statements Statistics of Corporations" and the Ministry of Health, Labour and Welfare's "Monthly Labor Survey," using the Ministry of Economy, Trade and Industry's "White Paper on Small and Medium Enterprises in Japan" as reference.

Past labor productivity (compared to the US)

- Compared to the US, the **difference in the rate of labor productivity growth** in the "**professional services**" and "**information and communications**" industries is significant.

Net production factors by industry in Japan and the US (2016–2020)



(Note) Public-related services include public services, education, and health and welfare.
(Source) EU KLEMS.

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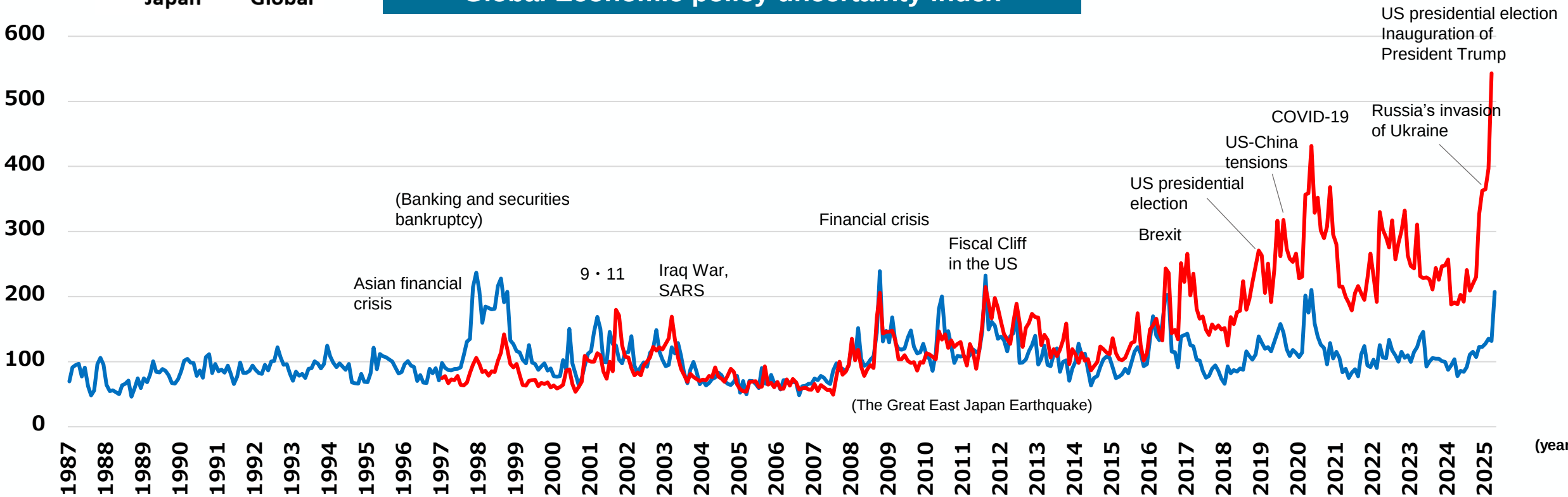
"Global uncertainty" that hinders business decisions such as capital investment is at a record-high level

- **Escalating uncertainty affects business decisions such as capital investment and new business development for companies**.
- **Global uncertainty is currently reaching its highest level since the COVID-19 pandemic.** The background includes widening domestic and international disparities, wealth concentration driven by digitalization, divisions caused by nationalism, frequent unilateral actions by major powers, the rift between Western developed countries and authoritarian states triggered by Russia's invasion of Ukraine, and most recently, developments in the United States, which have contributed to the persistence and escalation of global uncertainty. **To encourage domestic investment by companies, policy responses that enhance predictability are essential.**

Global Economic policy uncertainty index



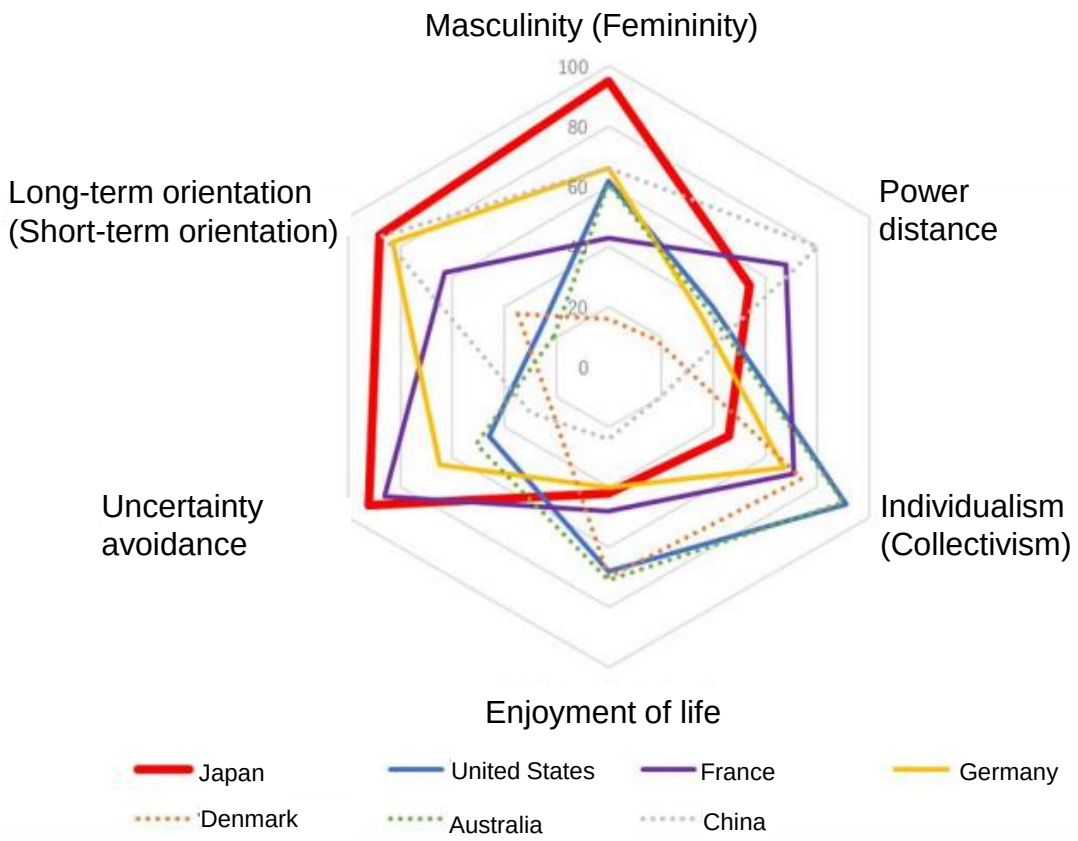
(Note) The policy uncertainty index is calculated by taking the percentage of articles discussing uncertainty about economic policy in newspapers in 21 countries, including the G7 and China, and averaging it weighted based on GDP each month. Global data is based on the Global Economic Policy Uncertainty Index, and Japanese data is based on the Japan Monthly Index. Events such as the "Asian financial crisis" in the graph were partially supplemented by the Ministry of Economy, Trade and Industry while referencing an IMF article.

(Source) https://www.policyuncertainty.com/
https://www.imf.org/ja/News/Articles/2021/01/19/blog-what-the-continued-global-uncertainty-means-for-you. (Data obtained in May 2025 (Japan: April 2025 Global: March 2025))

Japan has a strong long-term orientation and tends to avoid uncertainty

- Japan tends to strongly value “uncertainty avoidance,” “long-term orientation,” “collectivism” and “restrained enjoyment of life.” Policies that are in line with these values are needed.

International comparison of cultural values (Hofstede's six-dimensional model)



[Masculinity/Femininity] A meritocratic society is ideal, and the "strong" and "outstanding" are supported. Men must not cry. The ideal is a welfare society where people live to work and help the poor and vulnerable. A tolerant society. You must not fight

[Long-term orientation / Short-term orientation] Make persistent efforts until results are achieved and practice frugality. There is less emphasis on leisure time. The focus is on market position and emphasizes future growth and profits. Integrated thinking/People strive for immediate results and face strong pressure to consume. There is emphasis on leisure time. Thinking is analytical.

[Uncertainty avoidance] The extent to which members of a culture feel anxious about uncertain and unknown situations and develop beliefs and systems to avoid them. Strong avoidance leads to many detailed laws and unspoken understandings, and also makes laws that cannot be obeyed necessary.

[Individualism/Collectivism] Ties between individuals are loose, and one is only expected to take care of oneself and one's immediate family / Individuals are integrated from birth into strongly cohesive in-groups. As long as one remains loyal to their in-group, that group will protect them for the rest of their lives.

[Enjoyment of life] Whether people are indulgent or restrained regarding happiness, control over life, and the importance of leisure time.

[Power distance] The degree to which weaker members of a country's systems and organizations expect and accept that power is distributed unequally.

https://hofstede.jp/intercultural-management/
G.J. Hofstede, M. Minkoff, "Multicultural Society: Learning from Differences and Exploring the Way to the Future," Yuhikaku

(Source) materials submitted by member Nakamura for the 7th Meeting of the Study Group on New Ways of Working in the New Era, Ministry of Health, Labour and Welfare (May 25, 2023).

Policy uncertainty greatly impacts investment decisions

- When asked about business decisions that would be affected by policy uncertainty, the majority of companies cited "capital investment."

Business decisions affected by policy uncertainty

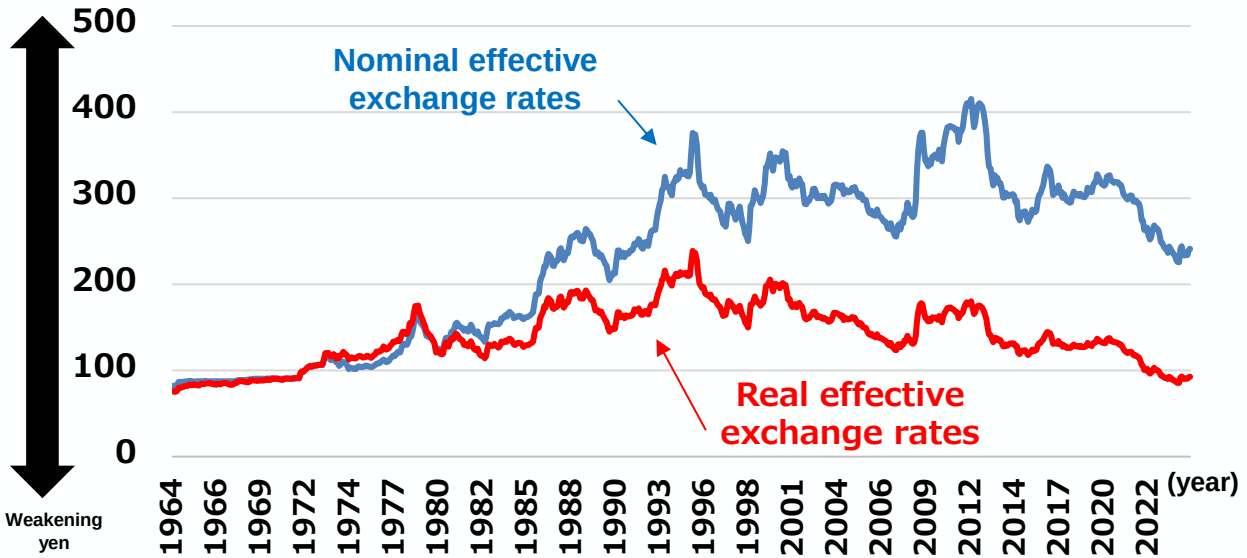
	Multiple response	First	Second
Capital investment	66.2%	50.7%	16.1%
R&D investment	13.0%	3.7%	9.6%
New business expansion	22.2%	9.7%	12.9%
Overseas expansion/withdrawal	9.6%	4.3%	5.4%
Organizational restructuring	8.5%	3.2%	5.5%
Full-time employee recruitment	56.3%	22.5%	34.9%
Non-regular employee recruitment	21.1%	5.9%	15.7%

(Note) Data from the "Survey on Economic Policy and Corporate Management" (2015) conducted by the Research Institute of Economy, Trade and Industry on behalf of Tokyo Shoko Research, Ltd. The survey was conducted by mail from October to December 2015 targeting 15,000 companies, broadly covering listed and unlisted companies, and manufacturing and service industries, with 3,438 companies responding (response rate: 22.9%). The table shows the results of a survey on business decisions that are significantly influenced by policy uncertainty, and the question involves choosing the first or second option out of seven options.
(Source) Masayuki Morikawa, RIETI, "Policy Uncertainty: Observational Facts Based on Corporate Surveys" (February 2016).

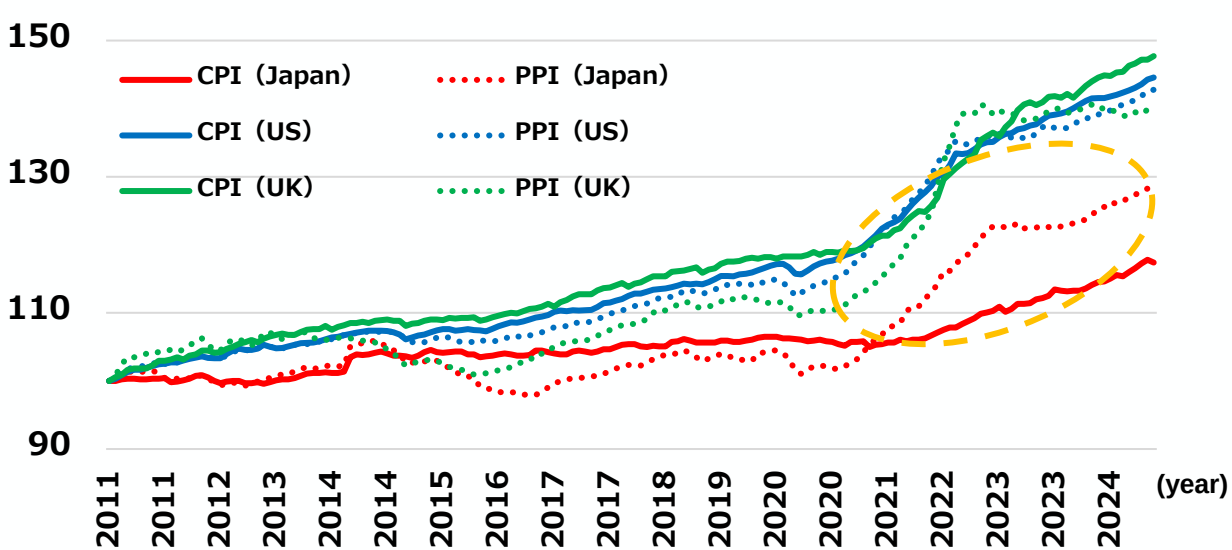
After "correcting high-cost structure," Japan is now a "country with competitive price levels"

- According to **the effective exchange rate of the yen**, it has been depreciating in recent years. In addition, **the gap between nominal and real values has widened** in recent years. Currently, the yen has **appreciated** compared to 1971, when **the nominal yen** was at a low level of 360 yen to the dollar, but **the real value** which takes into account changes in consumer prices in various countries, is the same as in 1971, that is, **the lowest level in 50 years.**
- This is due to a combination of two phenomena:（1）**the long-term and structurally low inflation rate** in Japan due to cost-cutting competition, and（2）in recent years, as inflation rates have surged and monetary policies have tightened in Western countries, Japan has maintained **relatively low inflation and continued accommodative monetary policies, resulting in a widening interest rate differential.**
- Additionally, in Japan, although Producer prices have risen due to soaring prices of imported goods, **companies have not been able to fully pass on prices, mainly to consumers,** resulting in a divergence between Producer prices and Consumer prices.

Trends in nominal and real effective exchange rates
(December 1971 = 100)



Consumer Price Index and Producer Price Index in Japan, US and UK
(January 2011 = 100)

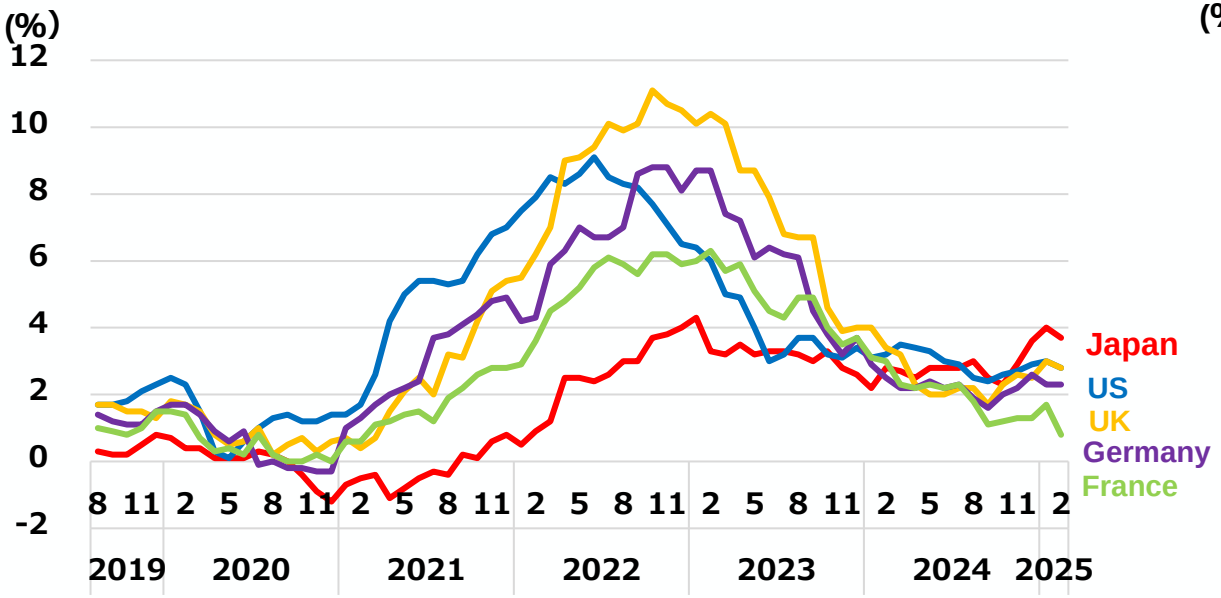


(Note) Left: Real effective exchange rates are an indicator showing the strength of multiple currencies such as the US dollar and the Chinese yuan. They are calculated using trade ratios with multiple countries, including the US and China. Nominal real effective exchange rates are calculated by taking a weighted average of fluctuations in nominal exchange rates with 27 countries, based on the amount of trade with each country. Real effective exchange rates are calculated by converting the nominal effective exchange rate into real terms based on the relative Consumer Price Index in each country. Indexed with December 1971 as 100 (displayed up to February 2025).
Right: Each index is calculated with the value in January 2011 set at 100, displayed up to February 2025. However, UK's Producer Price index is displayed up to January 2025.
(Source) Left: BIS "Effective Exchange Rates" (Nominal, Real). Right: Statistics Bureau of the Ministry of Internal Affairs and Communications, Bank of Japan, FRED, and the UK Office for National Statistics.

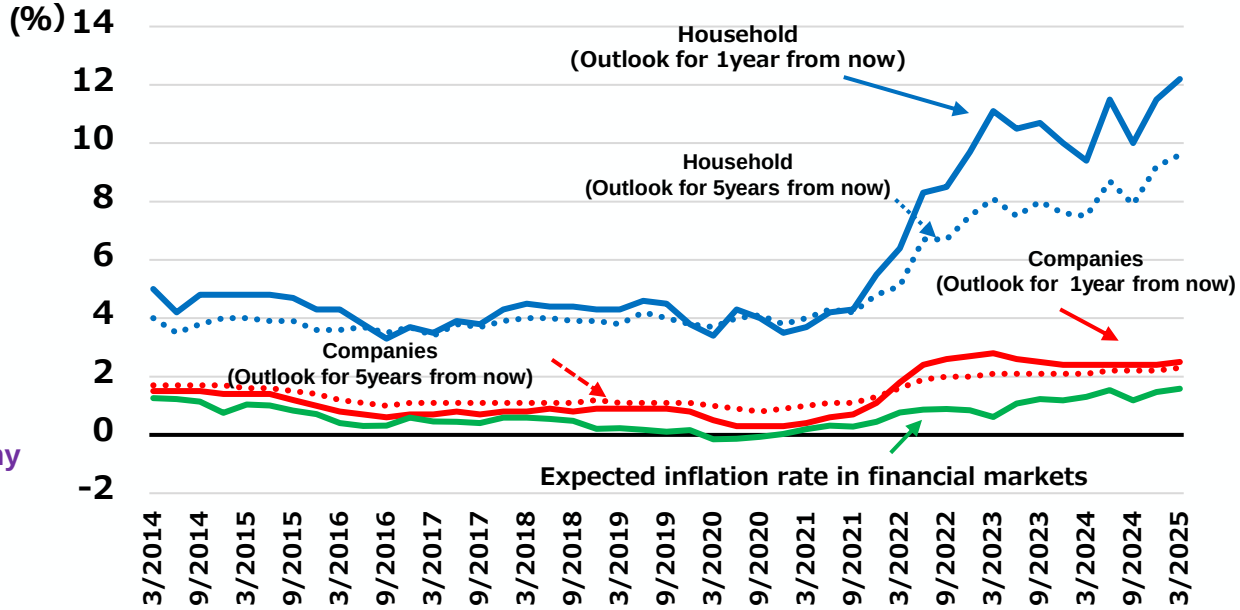
Predictions of rising price indexes are becoming established, marking a turning point for the transition to a high value-added economy

- Although inflation has calmed down from the period of rapid increase around the world, it continues to rise. In terms of the rate of change in the Consumer Price index, Japan currently ranks high among key countries.
- **It has been pointed out that it is easier for companies to focus on cost-cutting in deflation, while it is easier to focus on adding high values in inflation.** As **inflation becomes established in society** at present, **corporate management is also reaching a turning point**. *…From the Monthly Capital Market, October 2023 issue (Professor Tsutomu Watanabe, University of Tokyo)

International comparison of the rate of change in the Consumer Price Index (year-on-year comparison)



Household/corporate price outlook and expected inflation rate of the financial market

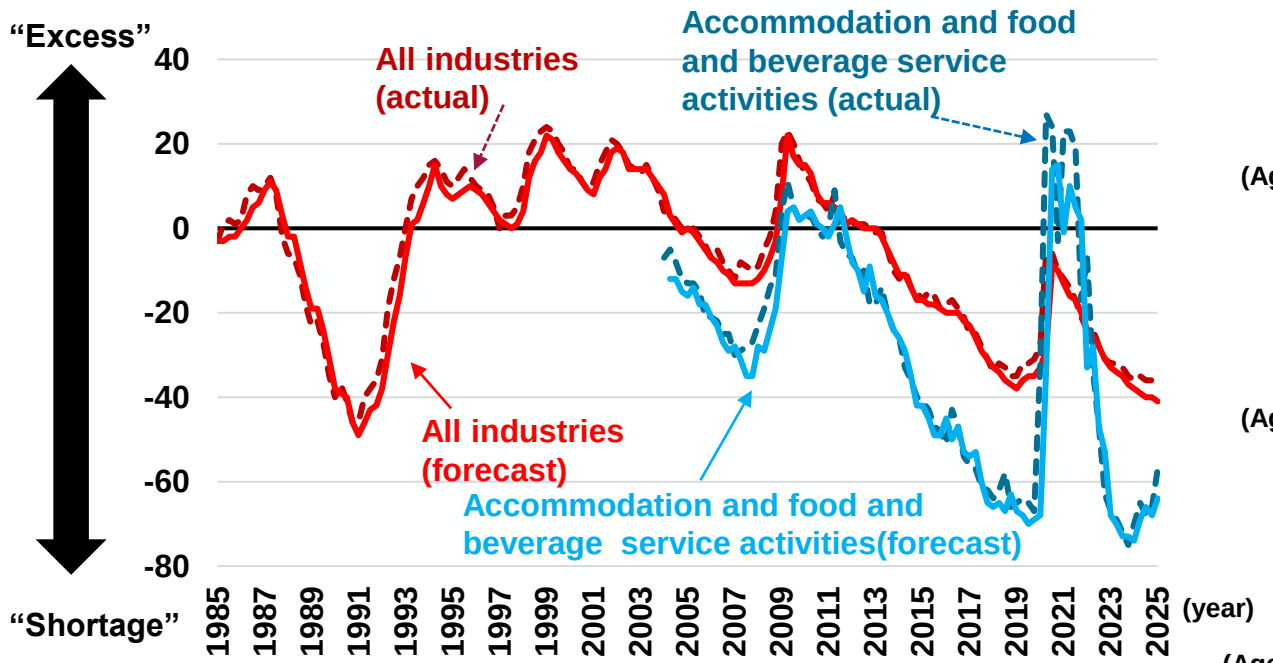


(Reference) Left: Percentage change in Consumer Price Index for key countries through February 2025 . Right: The price index outlooks of households and companies are plotted based on survey data conducted each year, showing how much each entity expects prices to rise one year and five years into the future. The annual average of survey results conducted four times each year is plotted. Household price indexes refer to "the total price of goods and services purchased," while corporate price indexes are answered in a format that gives the impression of the Consumer Price Index, and the Producer Price Index uses figures for all scales and industries. The expected inflation rate of the financial market is measured using Bloomberg's break-even inflation rate (BEI), calculated based on the compound interest yield on inflation-indexed government bonds and the compound interest yield on 10-year government bonds with the same remaining term, with each value being the BEI as of the end of the quarter.
(Source) Left: the Ministry of Internal Affairs and Communications' "Consumer Price Index." Right: Bank of Japan's "Opinion Survey on the General Public's Views and Behavior," "Short-term Economic Survey of Nationwide Enterprises" (April 1, 2025), and Bloomberg.

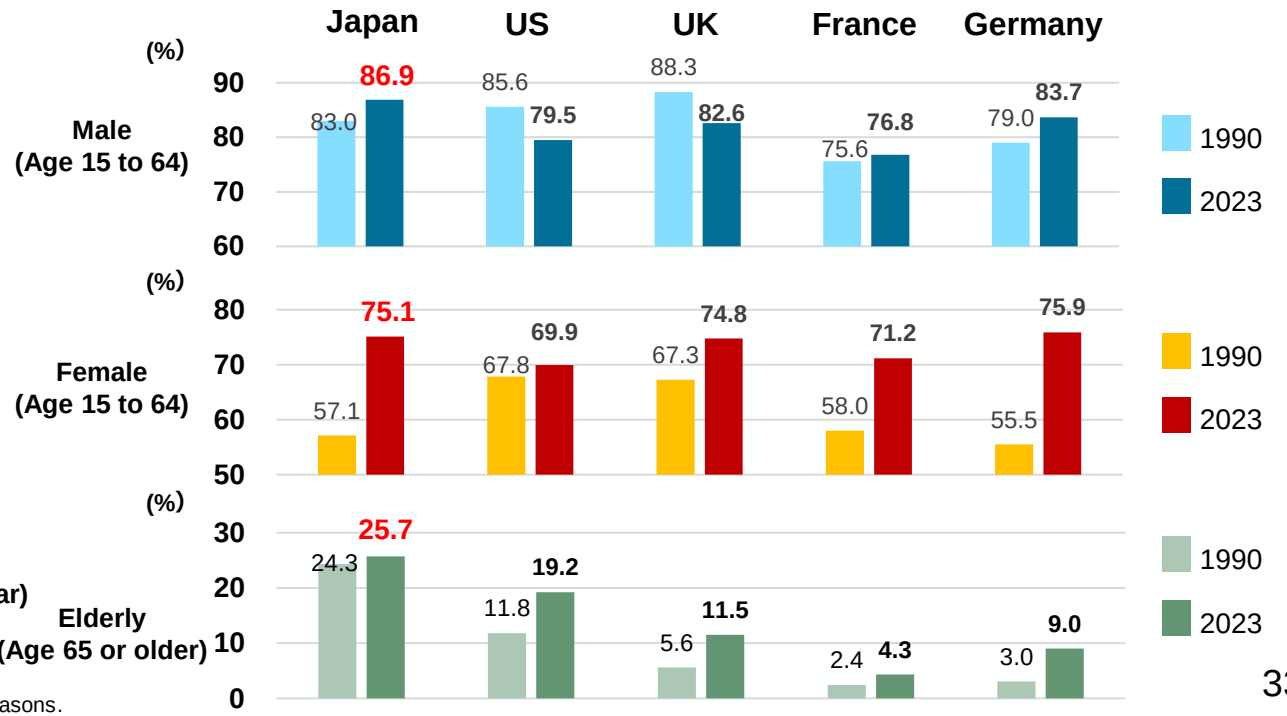
Structural labor shortages due to population decline: Japan's labor participation rate is among the highest in the world

- There is labor shortage in all industries, but the **feeling of labor shortage is particularly strong in the service industry, including accommodation, eating and drinking**. **The labor shortage DI has recently reached its highest level ever, comparable to that during the bubble period**.
- Currently, **Labor participation rates** of Japan by male, female, and elderly are all **among the highest in the world**, and **labor participation** may be **close to the upper limit**.
- Although the per capita working hours are expected to increase due to the elimination of the “annual income barrier,” the economy and industry must be managed based on that many part-time workers are subject to time constraints and the population will continue to decline.

Trends in employment judgment DI



Labor participation rates of men (age 15-64), women (age 15-64) and the elderly (age 65+)



(Note) Left: For accommodation and eating and drinking services, data has been collected from 2004 due to statistical reasons.
(Source) Left: Bank of Japan "Short-term Economic Survey of Enterprises Nationwide" (April 1, 2025); Right: OECD.stat.

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Industrial policies are becoming more active around the world

[Issues]
- **Widening inequality and exhaustion of the middle class**
- **Confrontation with China**
- Inflation

[Responses]

<Biden administration>

➢ **CHIPS Act: 52.7 billion dollars (approximately 7.1 trillion yen)** provided over five years <August 2022>
〇**Investment support of approximately 14 trillion yen, including tax credits**
(Calculated at the exchange rate of 1 dollar = 135 yen at the time)

➢ **Inflation Reduction Act: 437 billion dollars (approximately 65.1 trillion yen) over 10 years** <August 2022>

<Trump administration>

➢ Announced a move toward **corporate tax cuts (subject to domestic investment requirements; 21% to 15%) and the revival of 100% special depreciation on capital investments** (statement made in January 2025)

*In the 1st administration as well, **the corporate tax rate was reduced from 35% to 21%, and 100% special depreciation for capital investment (a 5-year temporary measure) was implemented**

➢ **Using tariffs to encourage domestic production**
〇**Tariffs and reciprocal tariffs on steel, aluminum, automobiles and automobile components were announced one after another**

[Issues]
- **Leading the way in climate change mitigation**
- Dependence on China/US for manufacturing and digital
- **Securing quality jobs within the region**
- Inflation

[Responses]

➢ **EU Recovery Plan** <July 2020>
Green and digital transition,etc: Approximately 1.8 trillion euros (292 trillion yen) over 7 years)

➢ **"The Future of European Competitiveness" (the so-called Draghi Report)**
<September 2024>
〇Proposal for consistent industrial, competition and trade policies as industrial strategies
〇An additional investment of €750–800 billion (approximately ¥122–130 trillion)/year by the public and private sectors

➢ **"Competitiveness compass"** <January 2025>
〇A five-year policy to strengthen competitiveness was announced.
〇In addition to creating a roadmap toward decarbonization, a **TechEU investment programme will be launched in cooperation with the private sector to promote innovation and scale up companies investing in innovative technologies.**

➢ **"Clean Industry Deal"** <February 2025>
〇Member states are encouraged to **introduce tax measures** such as **early depreciation of clean technology assets** and tax credits for companies in strategic sectors involved in clean transition

[Issues]
- **End of catch-up, export-led and high-growth economy**
- Opposition to the Western side, including the US and Europe

[Responses]

➢ **Made in China 2025** <July 2015>
Targeting **70% self-sufficiency in core basic components materials in 2025**

➢ **Issuance of special government bonds** <March and July 2024>
〇**Issued ultra-long-term special government bonds worth 1 trillion yuan (approximately 20 trillion yen)** in March. **Support for science and technology innovation, food and energy security, etc.**
〇**Issued ultra-long-term special government bonds worth 300 billion yuan (approximately 6 trillion yen) in July.**
Allocated 148 billion yuan (approximately 3 trillion yen) for equipment upgrades. Strengthening support for facility renovations (industry, environmental infrastructure, medical, energy, etc.) and replacement of consumer goods (cars, home appliances, remodeling of used houses, etc.). Provide interest subsidies and grants, etc.

(Note) Converted at exchange rates as of the end of March 2024: 1 dollar = 149 yen, 1 euro = 162 yen, 1 yuan = 20 yen

Recent trends in industrial policies in the US and Europe

- **International competition in industrial policies has intensified.** Countries are implementing bold government support measures with the aim of promoting and encouraging investment return to their own countries.

[US (Second Trump administration)]: Broad tax cuts regardless of investment field

- In addition to **imposing tariffs on foreign countries**, **the Trump administration has indicated a direction toward 100% special depreciation of capital investment and corporate tax cuts (from 21% to 15%)**, with a strong desire to promote and return investment to the US.
  - **In the State of the Union address at the joint session of the Congress on March** 4**, he stated**, "**we want to cut taxes on domestic production and all manufacturing.**" As an example of a specific measure, he announced that " **we will provide 100% expensing** . **It will be retroactive to January 20, 2025**."
  - It has been reported that at **a meeting with the Business Roundtable (a business lobbying group by major U.S. companies) on March 11,** Trump expressed his intention **to lower the corporate tax rate for companies producing in the US to 15%.**

[Europe]: Promoting investment mainly in the green sector

- In Europe as well, since the COVID-19 pandemic, public funding has been actively invested in key areas such as green industries.
- The September 2024 **"The Future of European Competitiveness" (Draghi Report)** and the January 2025 "**Competitiveness compass**" provided **comprehensive guidelines focused on strengthening the EU's competitiveness**. **In response to these developments, the "Clean Industry Deal"** of February 2025, which **focused on detailing decarbonization-related measures, recommended that EU member states shorten the depreciation period for clean technology assets to offset high initial investments**, and introduce **tax credits for companies in strategic sectors for the clean transition**.

Europe: A report titled "The Future of European Competitiveness"

- Former Italian Prime Minister and European Central Bank President Mario Draghi made the proposal to European Commission President von der Leyen.
- **The report identifies the causes behind the EU's declining position in strategic sectors and outlines a new direction for the EU's industrial strategy**, and is structured in two parts: Part A summarizes the overall strategy, while Part B details sector-specific and horizontal policies.

Strategy Overview (Part A)

➢ **Launching a "new industrial strategy" to address three structural changes**
To maximize productivity in the European region with a declining population, joint funding is needed to invest in Europe's key public goods.

(1) Closing the innovation gap with the US and China (= large-scale investment, regulatory reform)

(2) Responding to high energy prices (= decarbonization and strengthening competitiveness)

(3) Responding to geopolitical risks (= correcting excessive foreign dependence and strengthening the defense industry)

➢ **4 Building Blocks for achieving the "New Industrial Strategy"**

1. Full implementation of the single market
- Review of member state-specific regulations that hinder the use of the single market and regulations targeting companies in the digital technology sector, etc.

2. Mutual coordination between industrial policy, competition policy, and trade policy
- Competition policy: Further consideration of the impact on future technological innovation when deciding whether to accept mergers, etc.

3. Large-scale intra-regional investment
- Financial support needed for private investment; productivity increases reduce fiscal costs
- The need for additional investment of 750 to 8000 billion euros per year (approximately 122 to 130 trillion yen) by the public and private sectors, etc.

4. EU governance reform
- Reducing regulatory burdens using AI, etc.

(Note) 1 euro = 162 yen (exchange rate as of the end of March 2024)

Policy Details (Part B)

➢ **Sector-specific policies (10 areas)**

- ☐ Energy
- ☐ Important raw materials
- ☐ Digitalization and advanced technology policies
  - ✓ High-speed/large-capacity broadband networks
  - ✓ Computing and AI
  - ✓ Semiconductors
- ☐ Energy-intensive industries
- ☐ Clean technology
- ☐ Automobiles
- ☐ Defense industry
- ☐ Space
- ☐ Pharmaceutical
- ☐ Transport

➢ **Horizontal policies (5 areas)**

- ☐ Acceleration of innovation
- ☐ Closing the skills gap
- ☐ Sustaining investment
- ☐ Renewal of competition
- ☐ Strengthening governance

(Source) European Commission website

(Source) Created from the European Commission website.

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Shift in industrial policy in light of global trends = “New Direction of Economic and Industrial Policies”

- Reflecting global trends and Japanese macro-economic condition, **Japan’s Industrial Policy has re-started since 2021**, which is **not a traditional industrial policy** led by the government, **nor a neoliberal policy** where the government is committed to remove barriers for the private sector.
- The 3rd stage (“New Direction” of Industrial Policy) is **mission-oriented & public-private-partnership** approach to **promote investments for social issues, that is legitimate for both micro and macro** issues.

	“Traditional” Industrial Policy (～1980s)	**Neo-liberal Industrial Policy (1990s~2010s)**	**“New Direction” of Economic and Industrial Policy (2021～)**
Objective	Protecting and fostering certain industries	Organizing market environment	• Mission-oriented approach to **resolve socioeconomic issues**
Theoretical Basis	Correcting **market failure** & protecting **infant industries**	Emphasis on **market mechanism**, concern toward **government failure**	• **Reducing uncertainty** • **Market creation** by government • Risk taking by “Entrepreneurial State”
Policy Framework	Government-led supply side policies, avoiding excessive competition	Privately-led supply side policies, enhancing competition	• **Integration of Macro and Micro economic policy**(Combination of supply side and demand side policy) • **Ambitious target setting** • Full use of supportive and regulatory tools
Fiscal Policy	Mid-scale, mid-term	Small-scale, one-shot, short-term	• **Large-scale, long-term, well-planned**

Framework for New Direction of Economic and Industrial Policies

- Since 2021 General Meeting of the Industrial Structure Council, regarding **the resolution of social issues as the engine of growth**, we have proposed **large-scale, long-term, and well-planned** measures to strengthen industrial policies under the framework of "**Mission-Oriented industrial policies**" and "**Updating Socioeconomic Operating-System**."
- We have consistently aimed at realizing **the virtuous cycle involving three components: (1) domestic investment Expansion, (2) innovation Acceleration, and (3) Income growth**.

"Mission-Oriented" Industrial Policies (vertical:8 sectors)

Cultivate **domestic demand**, which is expected to **grow over the medium to long term even with a declining population**, based on **global social issues**. Accelerating world-class strategic investment by continuing to implement measures from both supply and demand perspectives, including overseas. **Government support is "national strategic investment" to expand national wealth**.

<Mission>

- **GX(green transformation)**: Over ¥150T of public-private investment for 10 years, with ¥20T of government support for this purpose.
- **DX(digital transformation)**: Demand for new services will arise from digitalization and increased capital investment, including software. By 2030, Japanese semiconductor companies aim for sales over ¥15T. ¥10T in public support for AI and semiconductors is expected to generate over ¥50T in investment over 10 years, resulting in an economic ripple effect of about ¥160T.
- **Globalization・Economic security**: Aims to maximize its global value by addressing global challenges while remaining a reliable economic partner through a rule-based international order. The target for inward direct investment is ¥120T by 2030 and ¥150T in the early 2030s, enhancing autonomy and securing superiority
- **Healthy Society**: Healthy life expectancy will be 75 years or older in 2040.¥77T in services outside of public insurance in 2050 with global market share to be captured.
- **Inclusive growth in the region that contributes to coping with a declining birthrate** : Through the creation of quality local jobs and a rich living environment (increased disposable income/time, etc.), the desired birth rate will be restored to 1.8 and further increase hope in the future.
- **Disastrous Resilience**: Adaptation market will grow to ¥70T in developing countries by 2050.
- **Bio-manufacturing**: Total market size of ¥92T in Japan and abroad by 2030.
- **Resource-Autonomous Circular Economy**: ¥80T by 2030 and ¥120T yen by 2050 for the circular economy market.

Updating Socioeconomic "OS"(horizontal:4 sectors)

The realization of missions also requires the development of a **cross-thematic economic and social structure infrastructure** as a complement to individual industrial policies. Even outside the scope of individual missions, contribute to the three positive cycles of domestic investment, innovation, and income growth.

<Socioeconomic Operating-System(OS)>

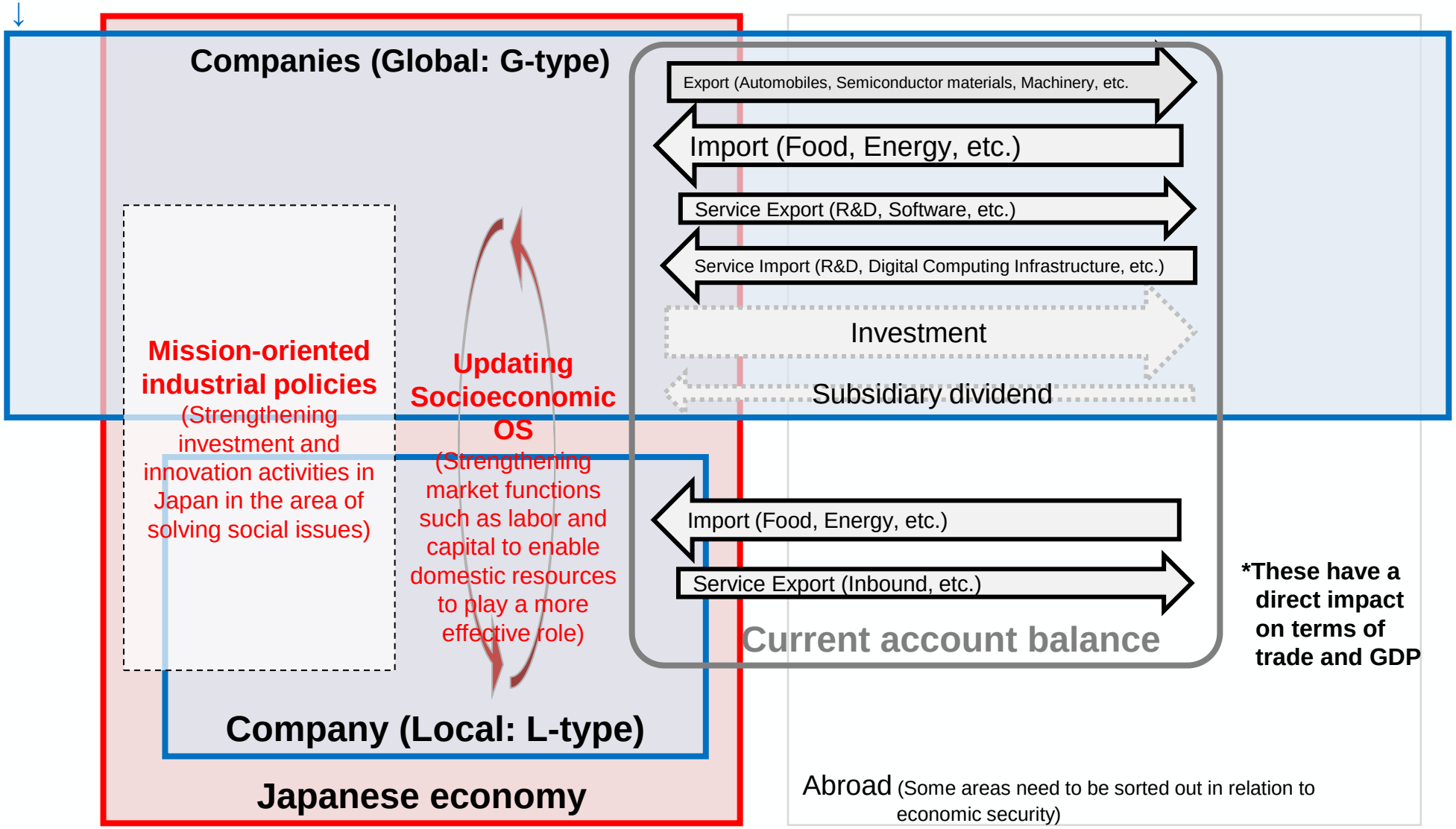
- **Human resources**: Sustained wage increases that exceed price increases
- **Innovation/Startup** : 10x investment in startups in the next 5 years
- **Value Creation Management**: Increasing the percentage of leading Japanese companies with PBR over 1 to 80% by 2030.
- **EBPM and Data-driven Administration**

Macro-micro linkage is necessary, with an awareness of the "difference in perspective" between business and government

Excerpted from the Third Report of the Committee on New Direction of Economic and Industrial Policies (June 7, 2024)

What "capital (shareholders)" wants to maximize (= (Returns to investors from) Corporate earnings worldwide)

↓



↑

What the "government" wants to maximize (= the affluence of the Japanese people's lives)

Progress

- **Industrial Structure Council in 2021：“New Direction of Economic and Industrial Policies”.**

- **The 1st report of the committee in June 2022**： Policy shift
  - ➢ **Based on “Solving social issues as a growth engine,” the framework of “Mission-oriented industrial policies” and “Updating socioeconomic Operating-System” was defined.**
  - → **GX Promotion act** (¥20T proactive government support for ¥150T investment for 10 years)
  - → **５G act** (inviting TSMC in Kyushu) and other subsidies for semiconductor investments
  - → Startup Development Five-year Plan , ¥1T **reskilling** support for 5 years, economic measures including “**supporting domestic investment worth ￥7T,**” etc.

- **The 2nd report in June 2023：**Expansion to whole-of-government and public-private partnerships.
  - ➢ Mission: Unlocking latent demand through micro policies enables realization of a macro cycle of **domestic investment, innovation, and income growth**
  - → Establishing the **Public-Private Partnership Forum on Increasing Domestic Investment** and setting a public-private goal of **¥115T for domestic investment in FY2027** (Nippon Keidanren).
  - → “**Domestic Investment Promotion Package**”(11 ministries and agencies 200+ measures and projects) , “**Medium Enterprises Growth Promotion Package**”(190 measures from 12 ministries and agencies), **Amendments to the Act on Strengthening Industrial Competitiveness.**

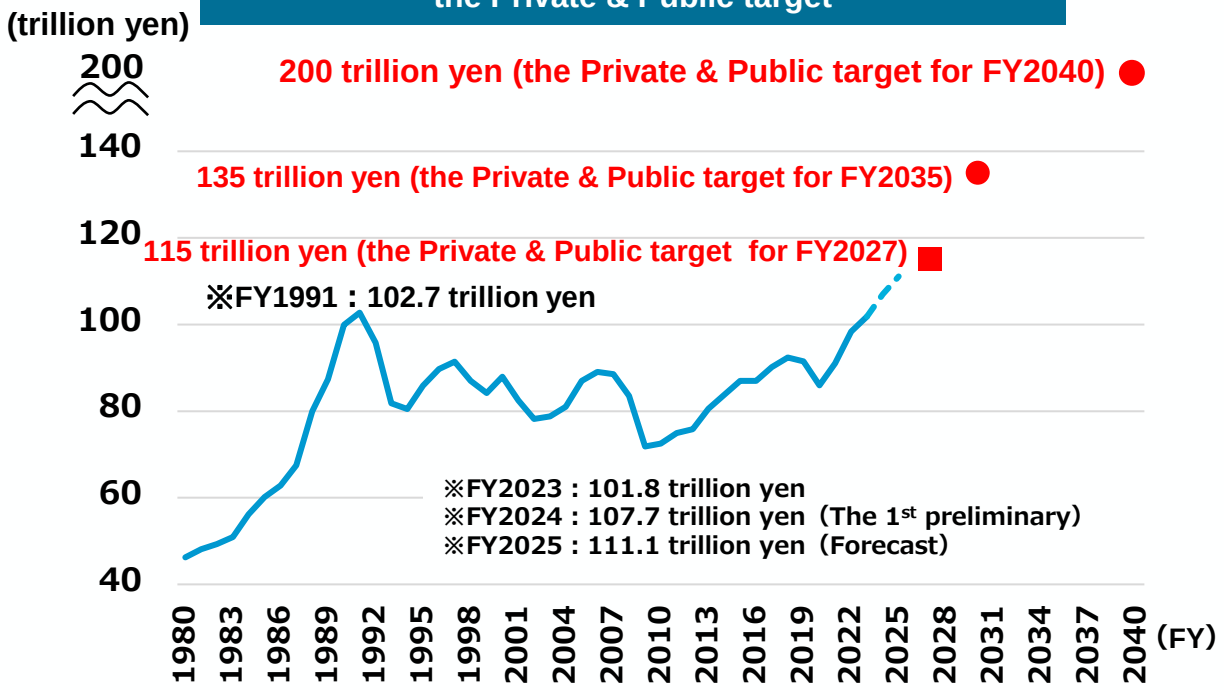
- **The 3rd report in June 2024：** Japan has a chance for sustainable growth, but now is a critical moment. — Predictability is crucial
  - ➢ Supporting future-generating domestic investment through **proactive industrial policy, including fiscal tools**, to **improve business predictability**.
  - → Presentation of a **future outlook for around 2040**(a qualitative scenario : “everyone can lead a well-being life even with a declining population”).
  - → Update a public-private **domestic investment goal of ¥135T in FY2030, ¥200T in FY2040**.
  - → **The Act on the Use of ICT in Government** ,**AI/semi-conductor multi-year fiscal support** (¥10T government support for ¥50T investment by 2030), **GX2040 vision, the 7th Strategic Energy Plan**(future energy demand: from decrease to increase)
    Amendments to the GX Promotion Act, Resource Utilization Act, Subcontract Act, and, and the Early Business Rehabilitation Bill.
    Formulation of “The Growth Vision of Leading Medium Enterprises” and ″Medium Enterprises Growth Promotion Package2025”(155 measures from 12 ministries and agencies,¥1.4T)

1. Japan’s Economic Environment of the Past 3decades
2. Changes in the Social and Macroeconomic Environment
3. Industrial Policies Becoming More Active Around the World As Well
4. Framework for New Direction of Economic and Industrial Policies
5. Situations and Challenges of “Turning Points”
6. Medium to Long Term Outlook and Policy Challenges
   (in response to the “A future outlook in 2040”)
7. Direction of Economic and Industrial Policies Going Forward

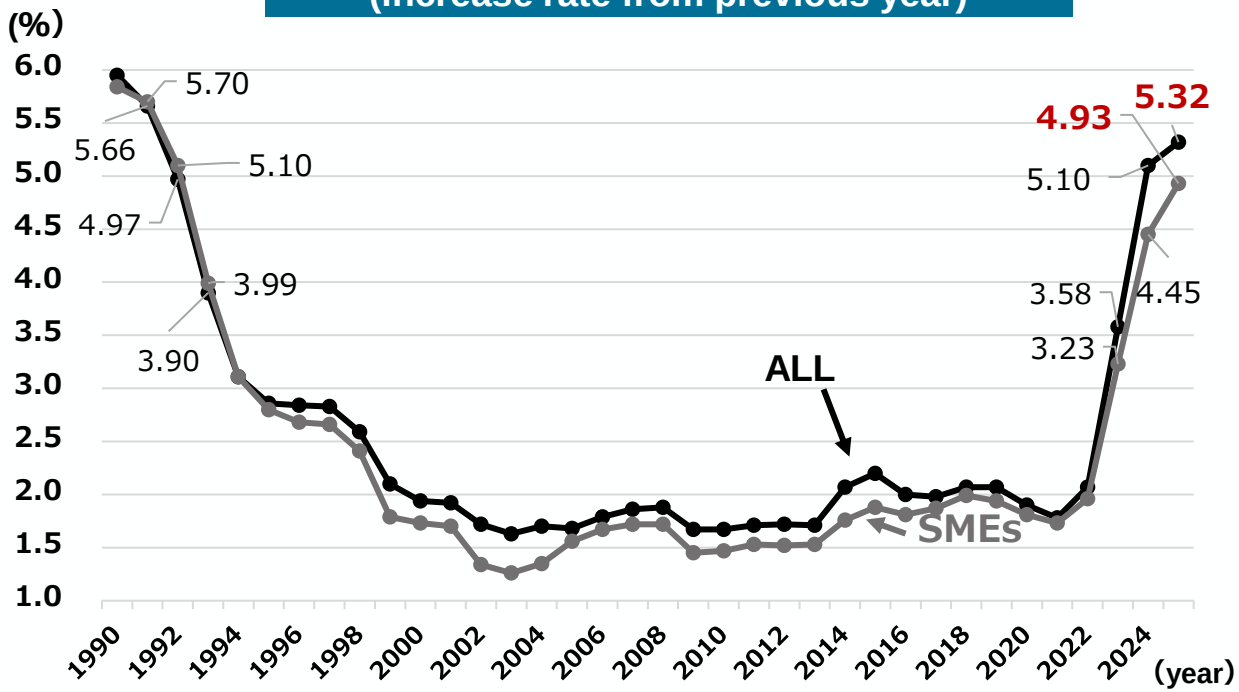
At a critical point where we need to make sure that the "turning points" can take hold and that we can be confident about our future growth trajectory as we move toward a “growth-oriented economy driven by wage increases and investment”

- The Keidanren has updated its initial target for capital expenditure of 115 trillion yen (FY2027), **setting targets of 135 trillion yen for FY2030 and 200 trillion yen for FY2040** (Public-Private Partnership Forum on Increasing Domestic Investment, January 2025). To achieve this goal, it is necessary for **both the public and private sectors to continue expanding domestic investment**.
- In addition, in the **annual wage negotiations between management and labor unions in 2025, responses that exceed those of last year, especially from major companies, are observed. It is important that this strong trend towards wage increases spreads to local small and medium-sized enterprises going forward**.

Changes in Private Capital Investment and the Private & Public target



Results of Wage Negotiations (increase rate from previous year)



(Note) Left： For the period 1980-1993, simplified retrospective GDP series on the 2015 base expenditure side are used.
Right： The survey covers unions of Rengo member companies. SME means unions with less than 300 members. Based on monthly wages. The figures for 1990 to 2024 are the final tally. The figure for 2025 is the 5th tally.

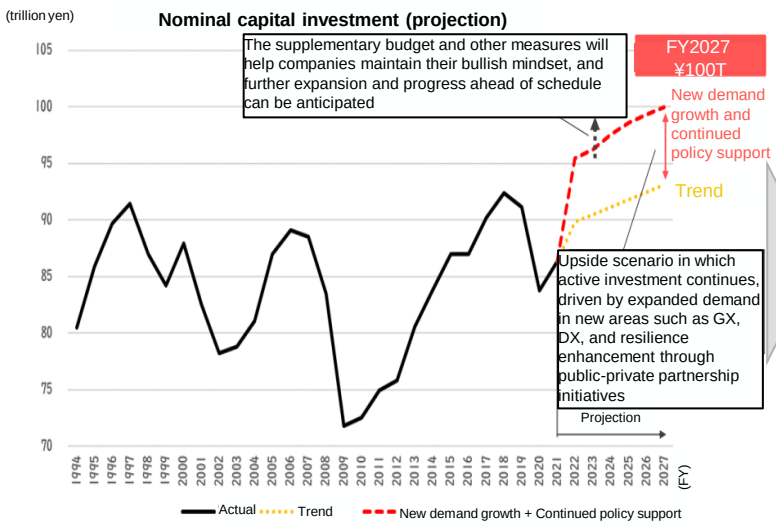
(Source) Left： Cabinet Office、Public-Private Partnership Forum on Increasing Domestic Investment (April 6, 2023 and January 27, 2025), submitted by Keidanren
Right：Rengo

A virtuous cycle created by "forward guidance" for expanding domestic investment

- As for domestic investment, **medium-term targets were set**, **achieved ahead of schedule** through public-private sector efforts, and **further ambitious targets have been established**.
- How can these efforts be expanded, **starting with domestic investment, to include wages, industrial structure, the macro economy, etc.**, and realize them in a comprehensive and consistent manner?

December 2022: 1st Public-Private Partnership Forum on Increasing Domestic Investment

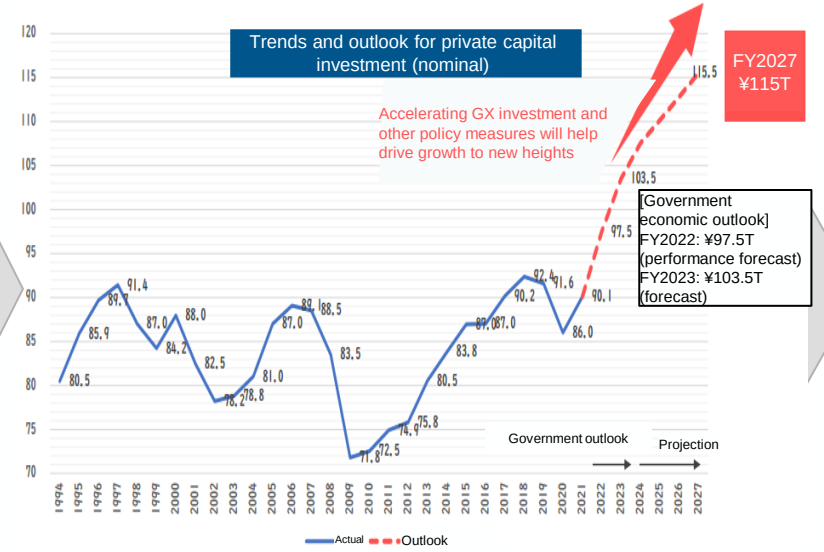
- Announced the forecast of 100 trillion yen for FY2027



(Source) materials submitted by Keidanren to the " Public-Private Partnership Forum on Increasing Domestic Investment" on December 8, 2023

April 2023: 2nd Public-Private Partnership Forum on Increasing Domestic Investment

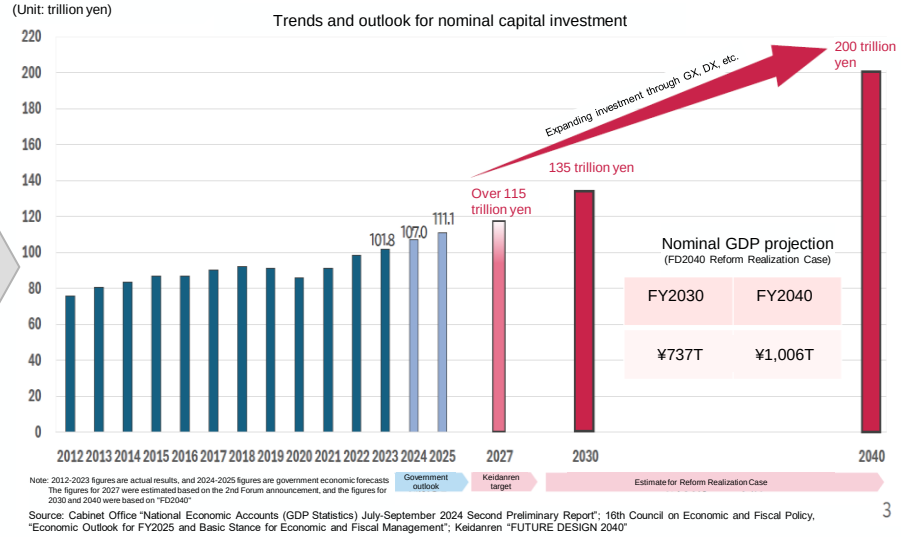
- Possibly attaining 100 trillion yen around FY2024, ahead of initial schedule.
- Set a target at 115 trillion yen for FY2027



(Source) materials submitted by Keidanren to the " Public-Private Partnership Forum on Increasing Domestic Investment" on April 6, 2024

April 2023: 6th Public-Private Partnership Forum on Increasing Domestic Investment

- Possibly attaining 115 trillion yen around FY2026, ahead of initial schedule
- Plans to attain 135 trillion yen for FY2030 and 200 trillion yen for FY2040



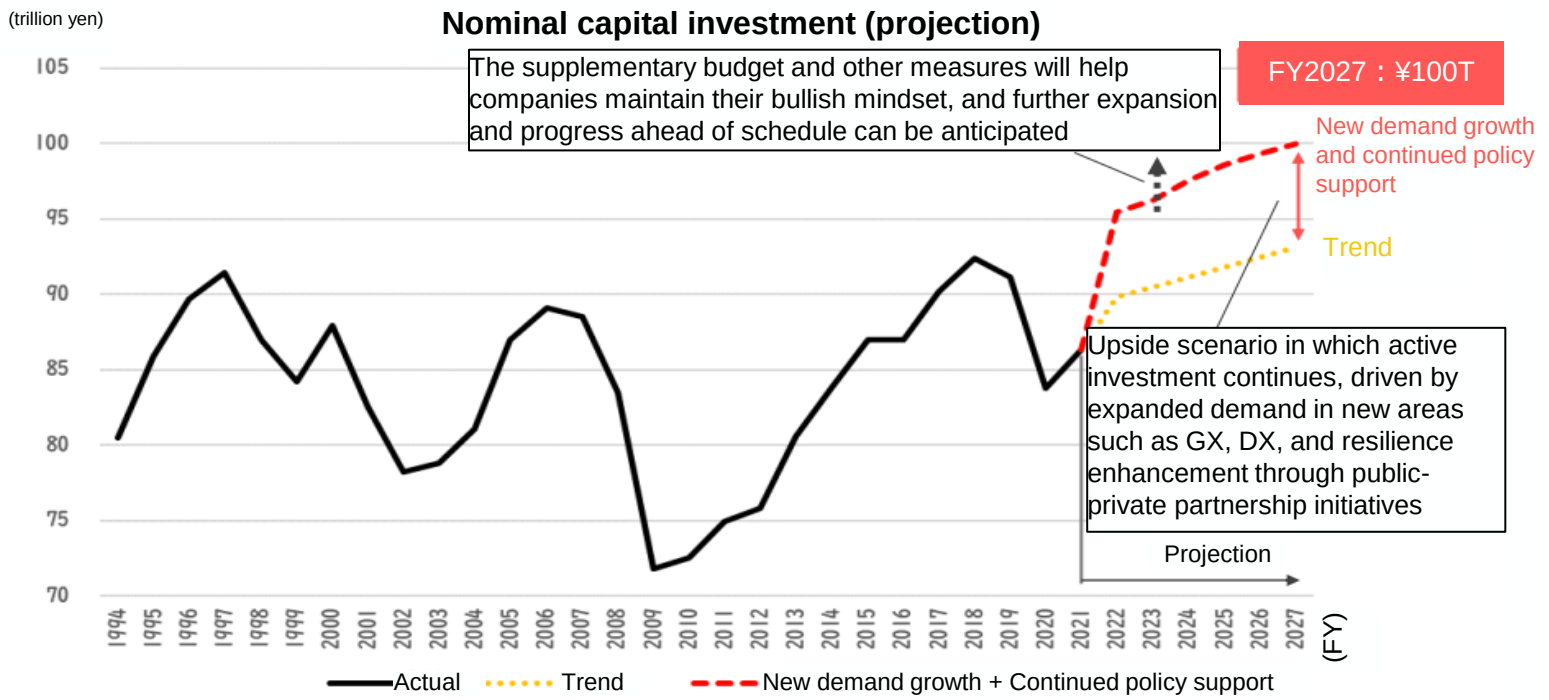
(Source) materials submitted by Keidanren to the " Public-Private Partnership Forum on Increasing Domestic Investment" on January 27, 2025

“Public-Private Partnership Forum on Increasing Domestic Investment” (December 8, 2022)

- Amid economic conditions such as the weak yen and the emergence of international factors such as decarbonization and geopolitical constraints on supply chains, the forum was held for the first time with the aim of accelerating efforts to expand domestic investment, particularly in regional areas, by viewing these developments as a prime opportunity to increase investment within Japan.
- Keidanren Chairman Tokura announced a domestic investment **forecast** of “**100 trillion yen in FY2027**” in private capital investment(*).
- Prime Minister Kishida echoed this, stating that “expanding domestic investment is the core of Japan's growth strategy,” and that “all possible measures will be considered to create an environment that is more predictable and favorable for domestic investment.”

(*) Current outlook in the government's economic outlook at the time (Cabinet decision on January 18, 2021): 86.4 trillion yen in FY2021

Excerpts from materials presented by Keidanren Chairman Tokura on the day of the Forum (excerpt)



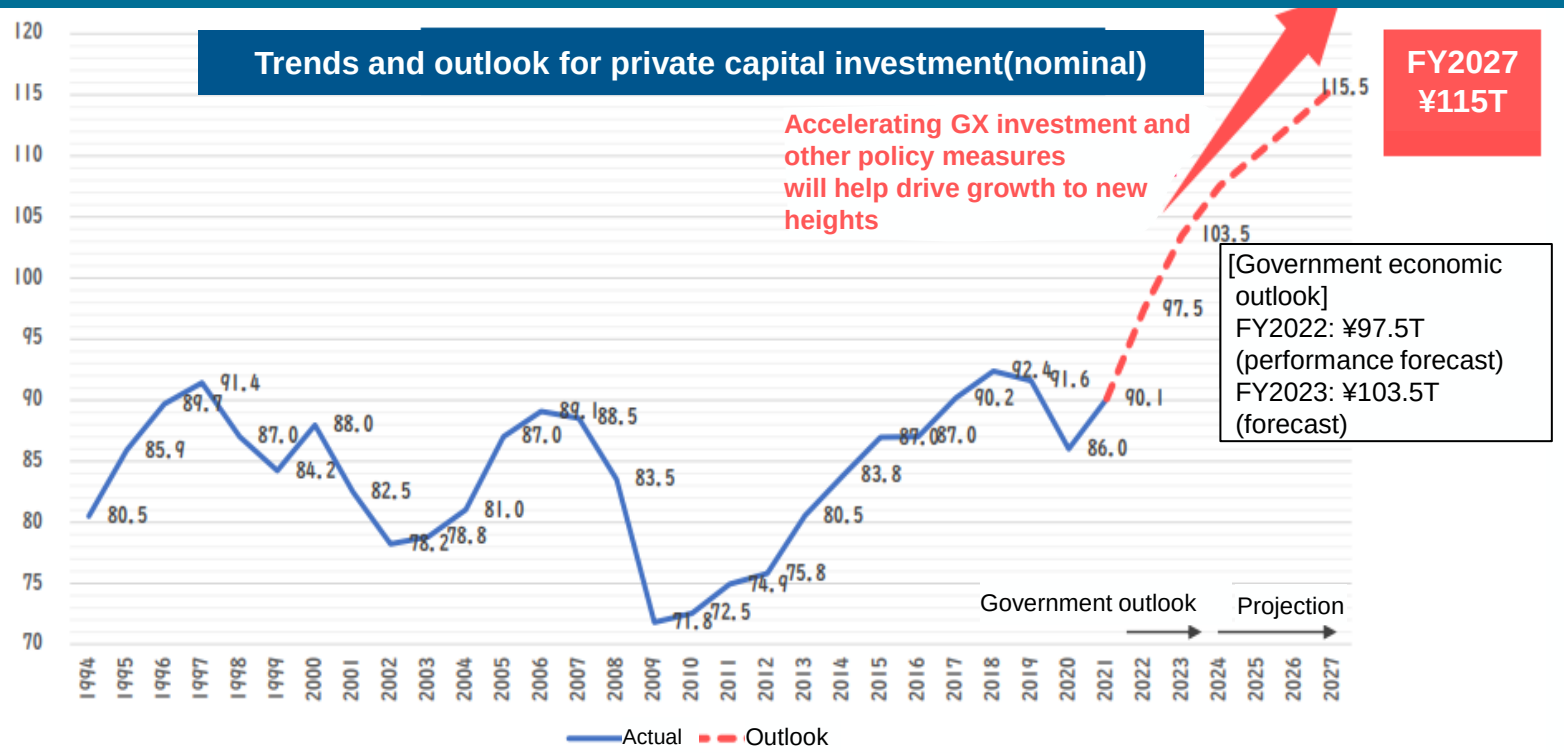
(Source) Keidanren “ Public-Private Partnership Forum on Increasing Domestic Investment” on December 8, 2022

“Public-Private Partnership Forum on Increasing Domestic Investment” (April 6, 2023)

- 2nd forum was held with the domestic investment outlook presented at the forum in December of the previous year expected to be achieved ahead of schedule (*).
- Keidanren Chairman Tokura announced a domestic investment **target** of “**115 trillion yen in FY2027**” in private capital investment.
- Prime Minister Kishida echoed this, stating that "further acceleration of domestic investment is necessary to achieve sustainable wage increases, regional revitalization, and measures to combat the declining birthrate," and stated measures will be implemented to expand investment.

(*) Current outlook in the government's economic outlook at the time (Cabinet decision on January 23, 2023): 103.5 trillion yen in FY2023

Excerpts from materials presented by Keidanren Chairman Tokura on the day of the Forum (excerpt)



(Source) Keidanren “ Public-Private Partnership Forum on Increasing Domestic Investment” on April 6, 2023

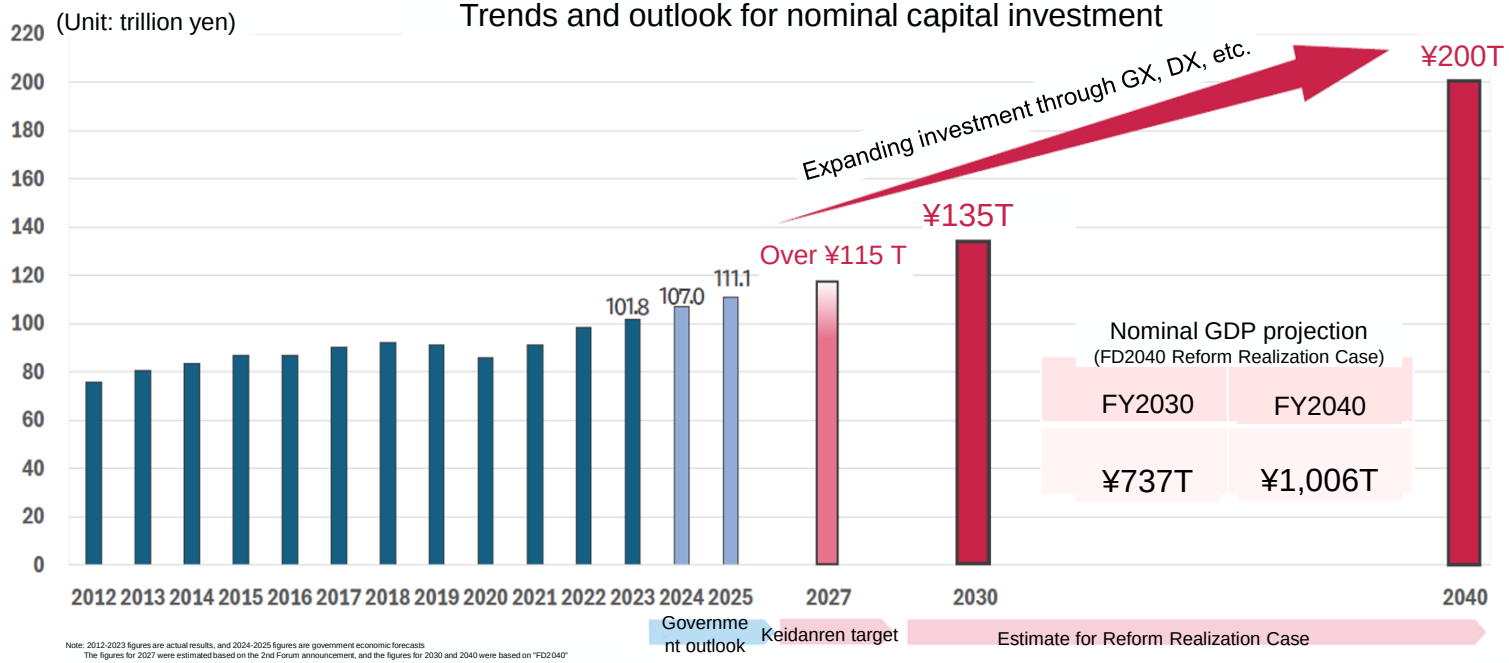
“Public-Private Partnership Forum on Increasing Domestic Investment” (January 27, 2025)

- With the public-private domestic investment target presented at the forum in April of the previous year expected to be achieved ahead of schedule (*), the 6th forum was held for the first time under the Ishiba administration.
- Keidanren Chairman Tokura announced that the domestic investment **target would be updated and increased** to “**135 trillion yen by FY2030 and 200 trillion yen by FY2040**” for capital investment amount in the private sector.
- Prime Minister Ishiba responded by announcing his intention to expand domestic investment.

(*) Current outlook in the government's economic outlook at the time (Cabinet decision on January 24, 2025): 111.1 trillion yen in FY2025

Excerpts from materials presented by Keidanren Chairman Tokura on the day of the Forum (excerpt)

Trends and outlook for nominal capital investment



Source: Cabinet Office “National Economic Accounts (GDP Statistics) July-September 2024 Second Preliminary Report”; 16th Council on Economic and Fiscal Policy, “Economic Outlook for FY2025 and Basic Stance for Economic and Fiscal Management”; Keidanren “FUTURE DESIGN 2040”

(Source) Keidanren the “ Public-Private Partnership Forum on Increasing Domestic Investment” on January 27, 2025

Major Domestic Investments Underway with Government Support (FY2020&FY2021)

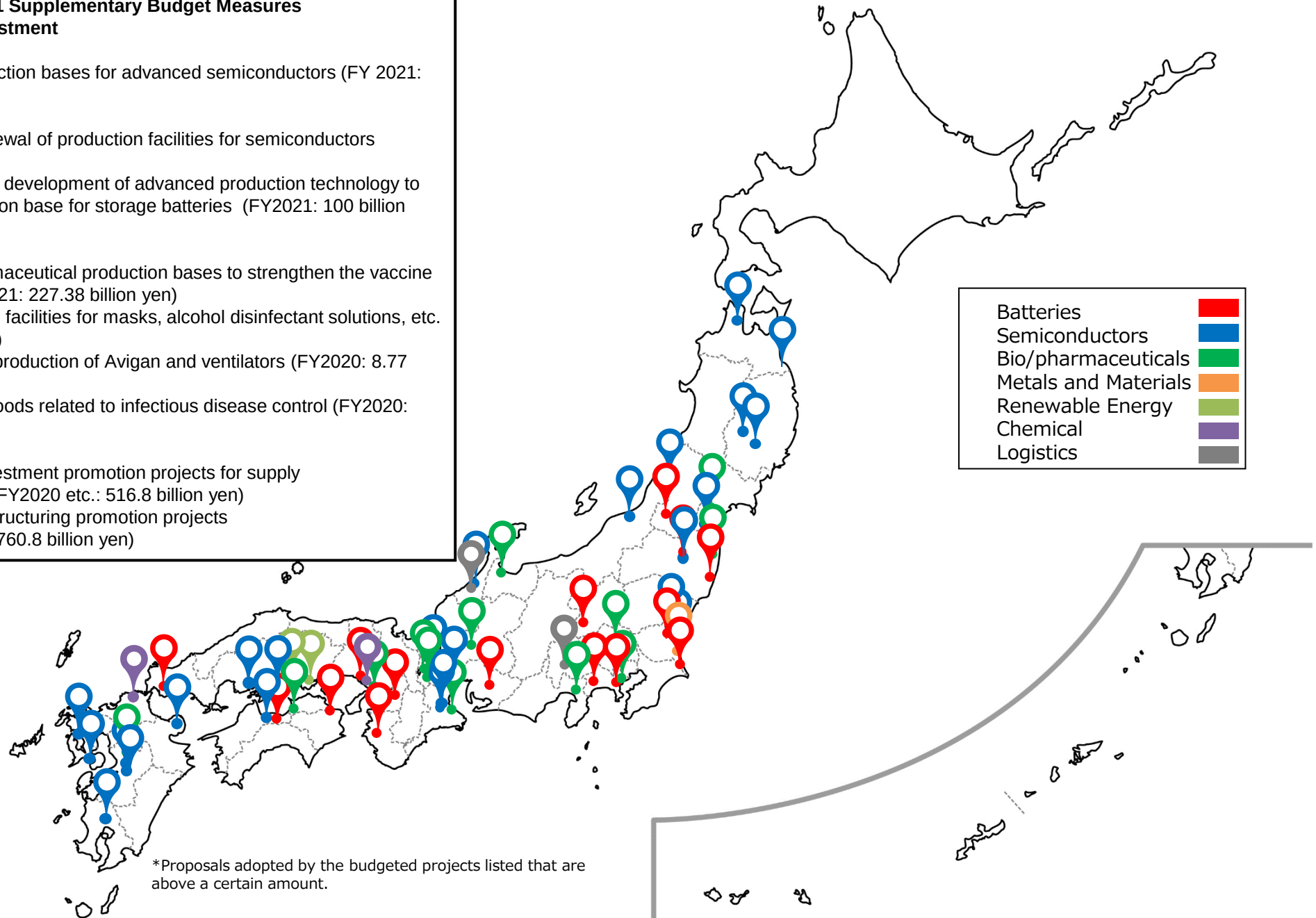
METI's FY2020 and FY2021 Supplementary Budget Measures to Support Domestic Investment

<DX>
- Securing domestic production bases for advanced semiconductors (FY 2021: 617 billion yen)

<GX>
- Decarbonization and renewal of production facilities for semiconductors (FY2021:47 billion yen)
- Promote introduction and development of advanced production technology to secure domestic production base for storage batteries (FY2021: 100 billion yen)

<Health>
- Development of biopharmaceutical production bases to strengthen the vaccine production system (FY2021: 227.38 billion yen)
- Introduction of production facilities for masks, alcohol disinfectant solutions, etc. (FY2020: 2.91 billion yen)
- Improve facilities for the production of Avigan and ventilators (FY2020: 8.77 billion yen)
- Production facilities for goods related to infectious disease control (FY2020: 2.21 billion yen)

<Others>
- Subsidy for domestic investment promotion projects for supply chain countermeasures (FY2020 etc.: 516.8 billion yen)
- Subsidy for business restructuring promotion projects for SMEs (FY2020,21: 1,760.8 billion yen)



*Proposals adopted by the budgeted projects listed that are above a certain amount.

Major Domestic Investments Underway with Government Support (FY2022)

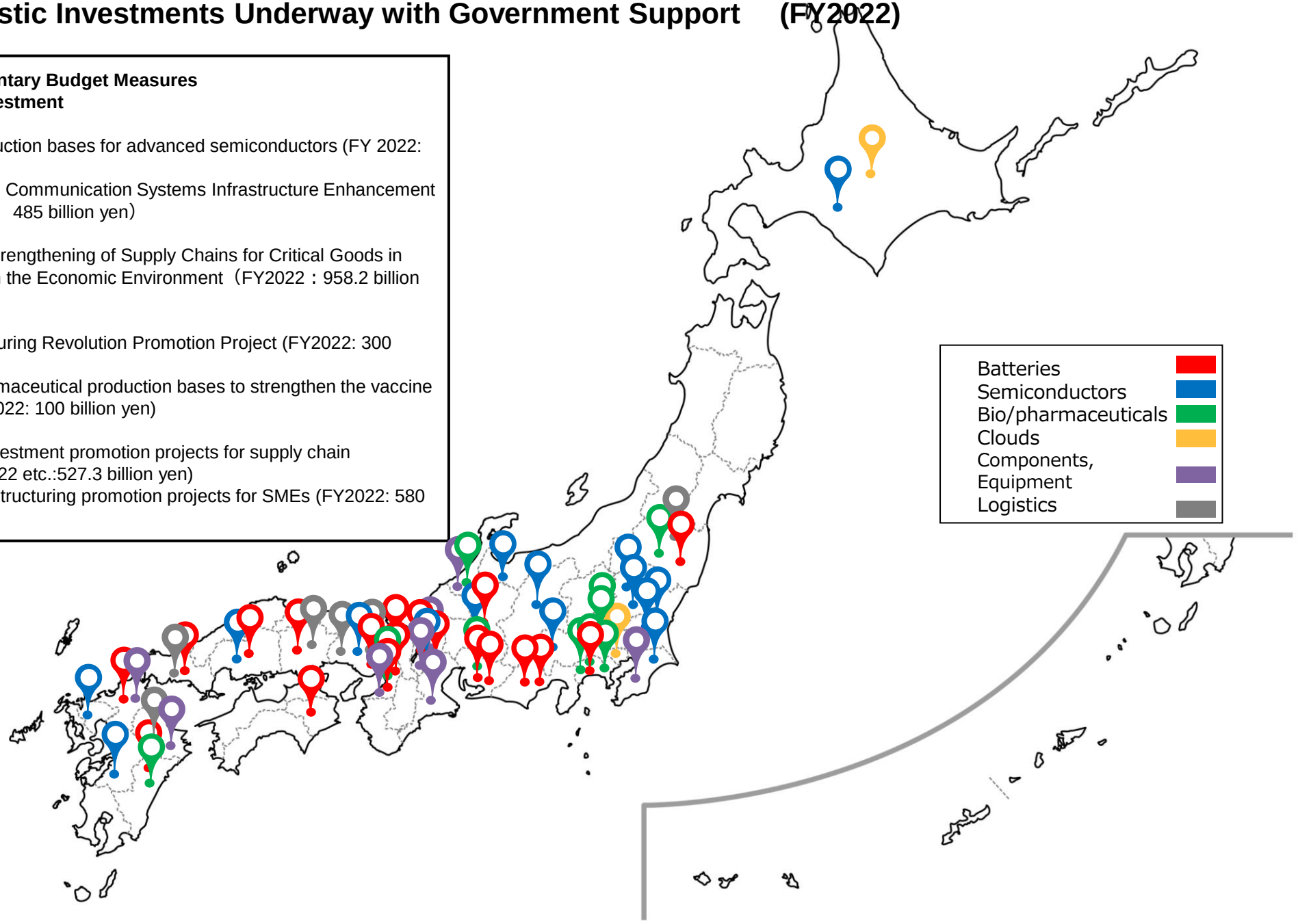
METI's FY2022 Supplementary Budget Measures to Support Domestic Investment

＜D X＞
- Securing domestic production bases for advanced semiconductors (FY 2022: 450 billion yen)
- Post-5G Information and Communication Systems Infrastructure Enhancement R&D Project （FY2022： 485 billion yen）

＜Economic Security＞
- Project to Support the Strengthening of Supply Chains for Critical Goods in Response to Changes in the Economic Environment（FY2022：958.2 billion yen）

＜Health＞
- Biotechnology Manufacturing Revolution Promotion Project (FY2022: 300 billion yen)
- Development of biopharmaceutical production bases to strengthen the vaccine production system (FY2022: 100 billion yen)

＜Others＞
- Subsidy for domestic investment promotion projects for supply chain countermeasures (FY2022 etc.:527.3 billion yen)
- Subsidy for business restructuring promotion projects for SMEs (FY2022: 580 billion yen)



(Note) Proposals adopted by the budgeted projects listed that are above a certain amount. Mapping is by prefecture and does not reflect locations below the municipality.
(Source) Document 2, "Public-Private Partnership Forum on Increasing Domestic Investment," October 4, 2023.

Major Domestic Investments Underway with Government Support（FY2023）

METI's FY2023 Supplementary Budget Measures to Support Domestic Investment

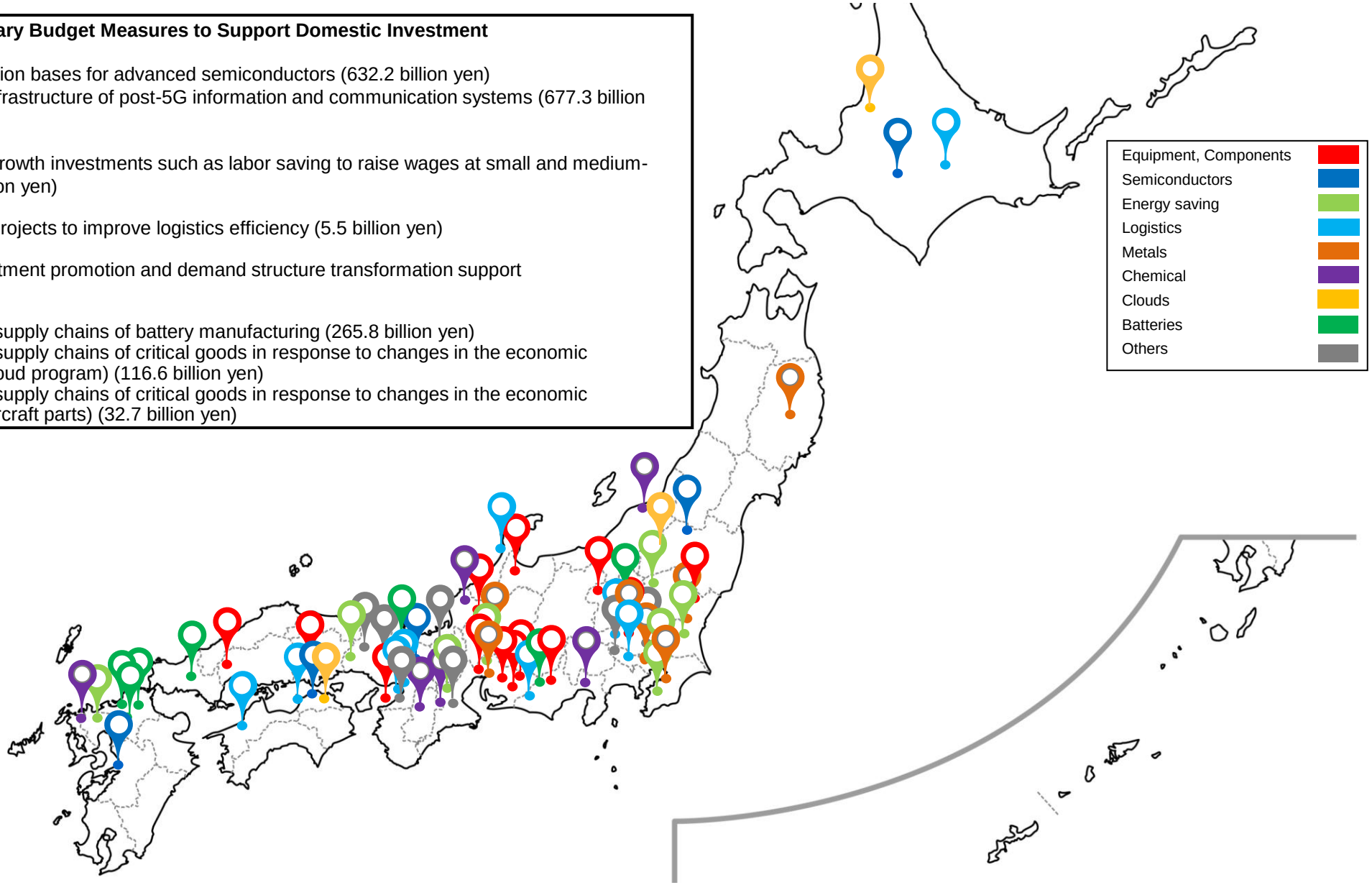
<DX>
- Securing domestic production bases for advanced semiconductors (632.2 billion yen)
- R&D project to enhance infrastructure of post-5G information and communication systems (677.3 billion yen)

<SMEs>
- Subsidies for large-scale growth investments such as labor saving to raise wages at small and medium-sized enterprises (100 billion yen)

<Logistics>
- Advanced demonstration projects to improve logistics efficiency (5.5 billion yen)

<GX>
- Energy conservation investment promotion and demand structure transformation support (91 billion yen)

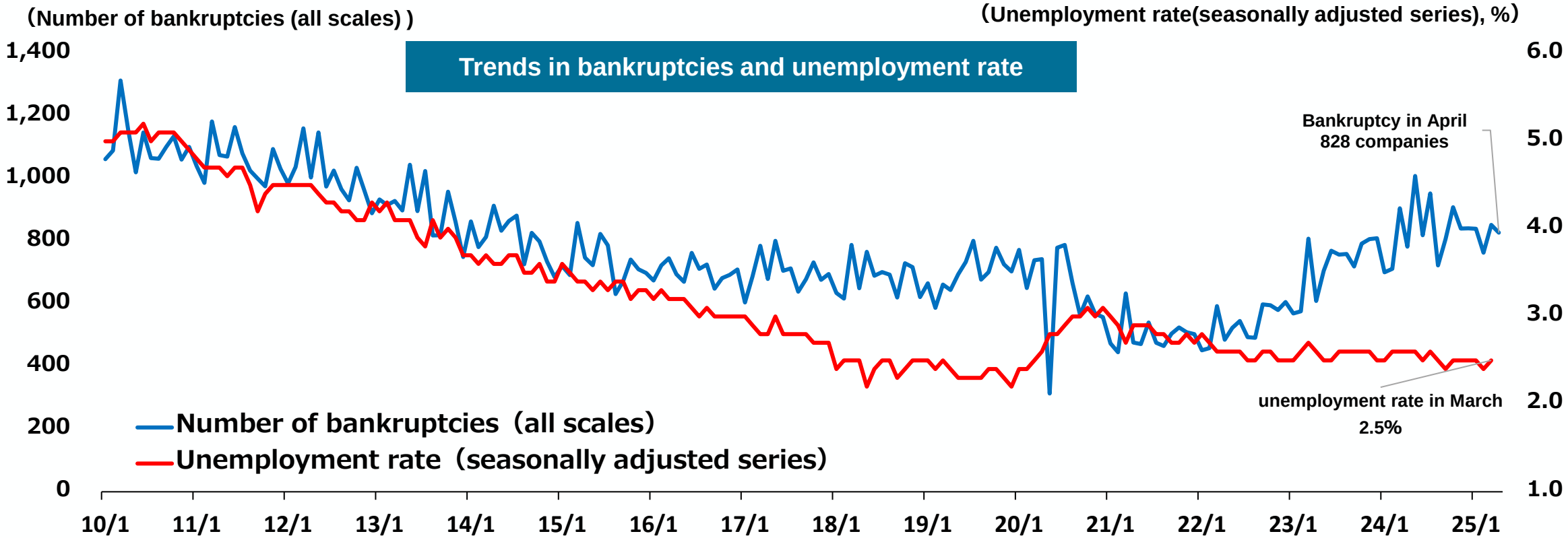
<Economic Security>
- Support for strengthening supply chains of battery manufacturing (265.8 billion yen)
- Support for strengthening supply chains of critical goods in response to changes in the economic environment (cloud program) (116.6 billion yen)
- Support for strengthening supply chains of critical goods in response to changes in the economic environment (aircraft parts) (32.7 billion yen)



*Of all the budgeted projects, only publicly available projects above a certain amount are presented.
*The mapping is by prefecture, and does not reflect locations such as cities, towns, and villages.
*Projects with investments in multiple prefectures are mapped to the prefecture with the largest investment.
*For projects subsidized by the “Subsidies for large-scale growth investments such as labor saving to raise wages at small and medium-sized enterprises,” the name of the company is underlined.
*The initial budget for FY2024 is included in the financial resources for the projects subsidized by the “Support for strengthening supply chains of battery manufacturing.”

Trends in the number of bankruptcies and the unemployment rate

- From 2017 to 2018, from 2019 to 2020, and from 2021 to 2025, the unemployment rate declined and remained at a low level without a decrease in the number of bankruptcies.
- **Although the number of bankruptcies is currently increasing, the unemployment rate remains at a low level as labor shortages make more use of the workforce.**



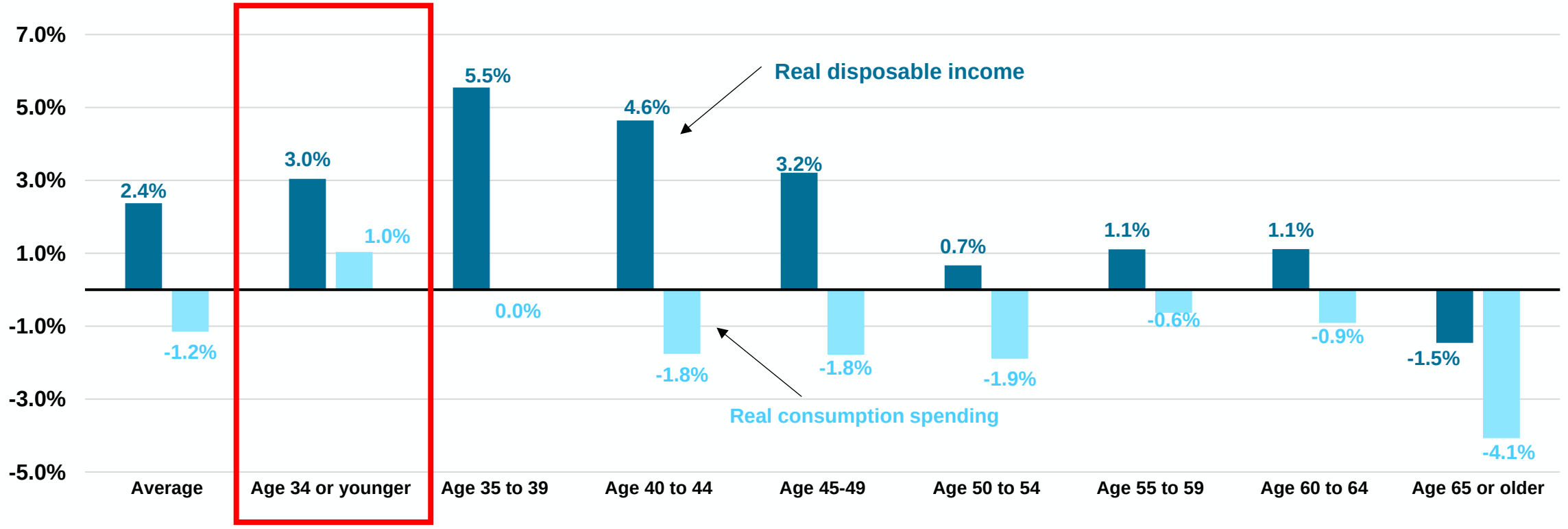
(Source) Ministry of Internal Affairs and Communications “Labor Force Survey” and Tokyo Shoko Research “Bankruptcy Monthly Report.”

Real consumption spending and disposable income by age group

- **Younger segments who have experienced high wage increases and have increasing disposable income** are **engaging in active consumption**.
- **Expanding wage increases that exceed inflation to broad segments** will lead to a **sustainable increase in consumption**.

Real consumption spending and disposable income by age group

(Compared to previous year in 2024)

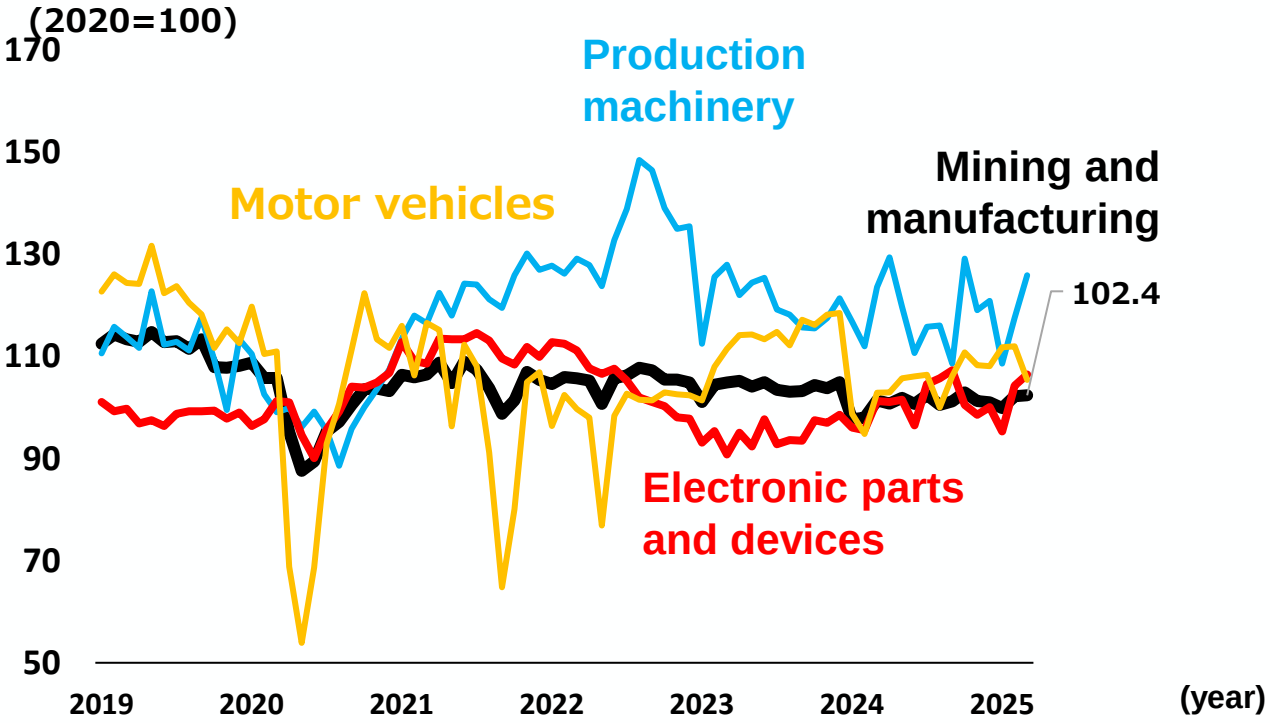


(Note) Working household with two or more people. Consumption expenditure and disposable income are adjusted for inflation using the Consumer Price Index "Comprehensive index excluding imputed rent for owned houses."
(Source) Ministry of Internal Affairs and Communications' "Household Survey" (released March 11, 2025) and "Consumer Price Index" (released March 21, 2025).

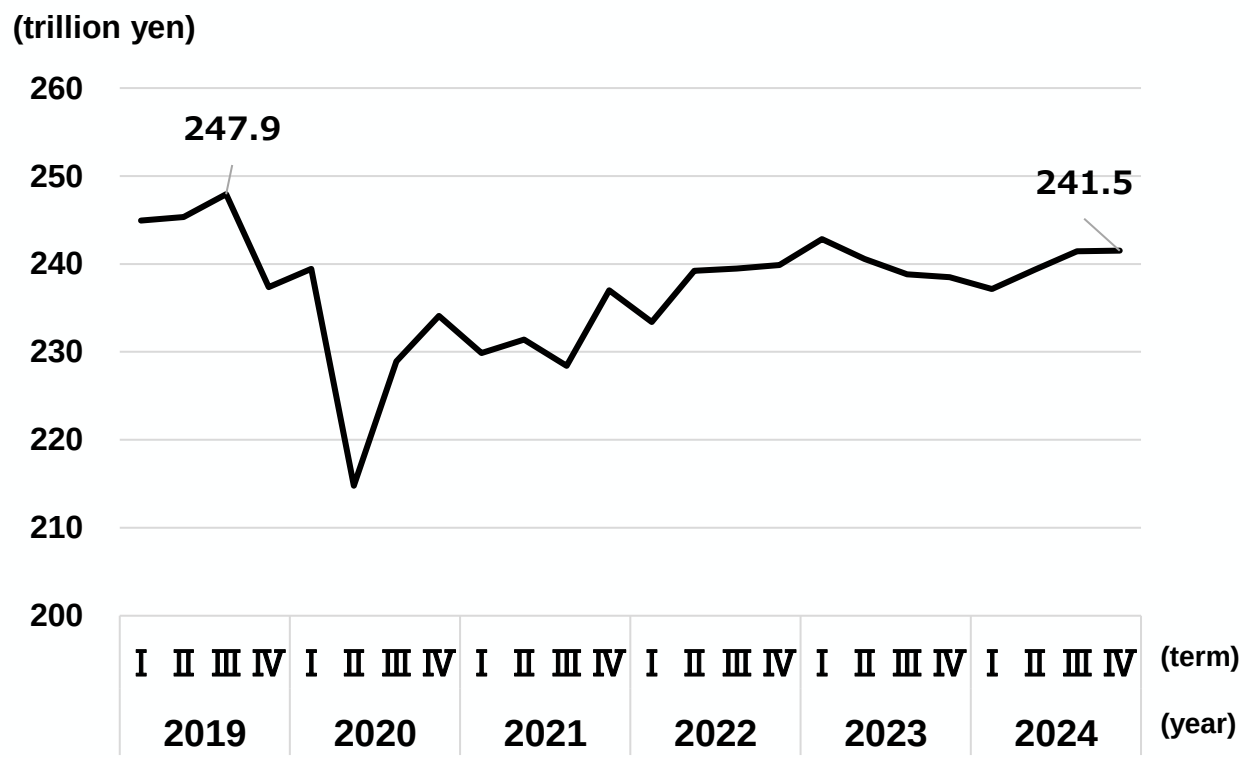
Production and consumption currently have not yet shown a sustained upward trend

- The turning points continues, but **now is the critical moment to see whether production and consumption will continue to improve**.
- **This is a pivotal moment to shift away from the cost-cutting and contraction-focused mindset that has prevailed for the past 3decades, and it is crucial to ensure that wages are expected to continue rising, backed by sustained and robust growth investment.**

Industrial production



Changes in consumption of households (real)

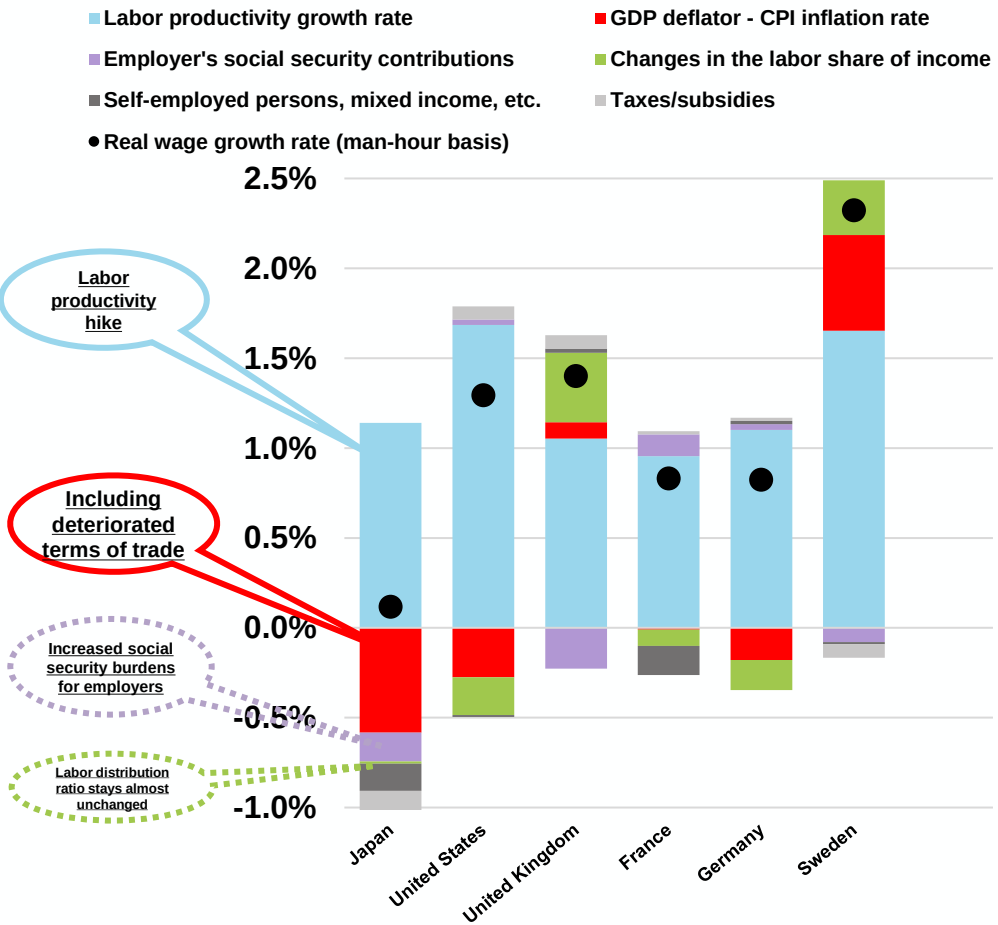


(Note) Left: Seasonally adjusted values. Up to preliminary figures for March 2025 (released on May 19, 2025). Right: Real seasonally adjusted series excluding imputed rent for owned housing.
(Source) Left: Ministry of Economy, Trade and Industry's " Indices of Industrial Production" Right: Cabinet Office's "National Accounts."

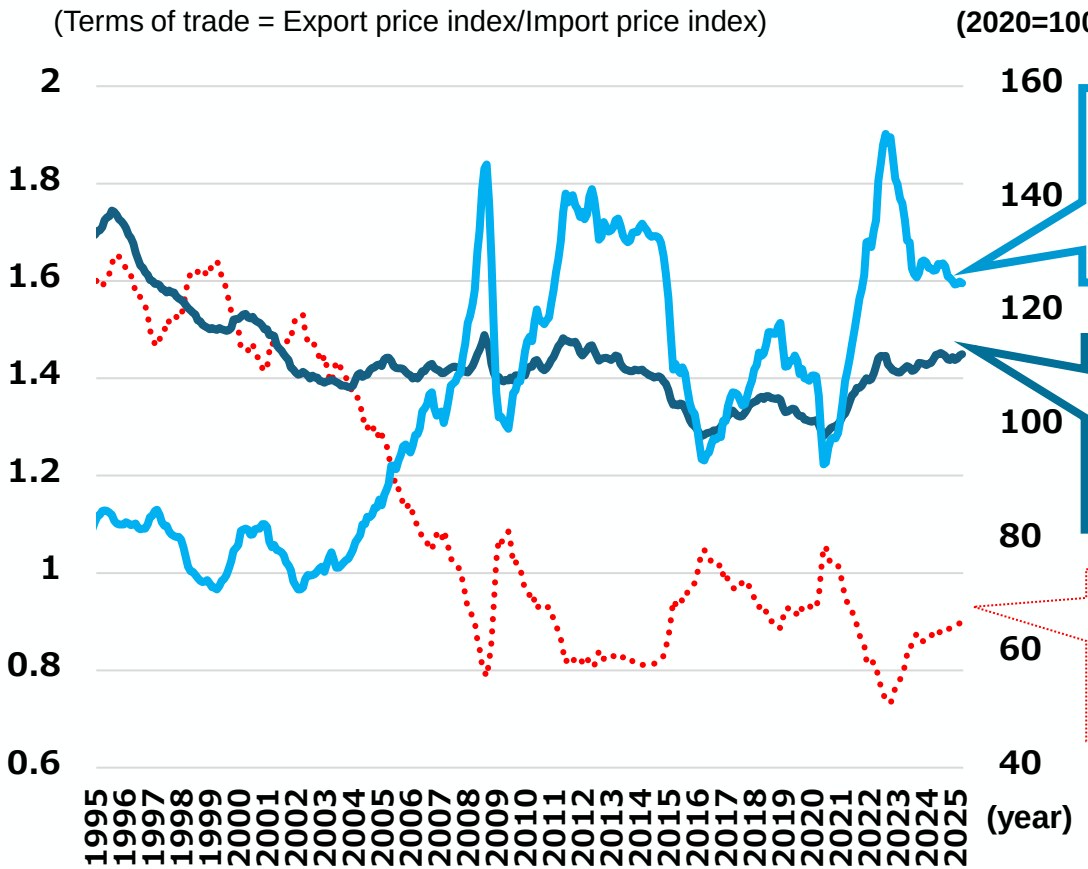
For real wage hike, it is necessary not only to improve labor productivity but also to improve terms of trade (price pass-through of the entire Japanese economy).

- **Labor productivity growth has been on par with major advanced economies to date, but real wages have stagnated, significantly affected by deteriorating terms of trade (i.e., higher import prices for resources, and decreased export prices for products/services).** Terms of trade is posing larger negative impacts than the labor share or social security burdens.
- It is necessary to **increase value added through growth investment**, etc. so that the export price index will increase (price pass-through of the entire Japanese economy) .

Analysis of factors contributing to real wage growth (26-year average from 1995 to 2021)



Changes in terms of trade (based on contract currencies) (1995 - 2025)



Import price index (right axis)
January 1995: 84.3
⇒March 2025: 125.3
= Increasing

Export price index (right axis)
January 1995: 134.5
⇒March 2025: 112.8
= Decreasing

Terms of trade (left axis)
January 1995: 1.6
⇒March 2025: 0.9
= Deteriorated

(Note) Left: The difference between the GDP deflator and the CPI inflation rate is caused not only by terms of trade but also by differences in the methods used to calculate the indices themselves. Taxes/subsidies mean “taxes imposed on production/imports minus subsidies.”
(Source) Left: the Ministry of Economy, Trade and Industry based on the Ministry of Health, Labour and Welfare, "Expert Committee on Economic Assumptions in Pension Finance, Pension Subcommittee of the 3rd Social Security Council" (April 5, 2023). Right: Bank of Japan, “Producer Price Index”

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(in response to the “A future outlook in 2040”)

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Achieving prosperity despite population decline: toward Japan in 2040

- By dispelling the deep-rooted **pessimism about the future** that exists within Japan due to factors such as the declining population, and **reaching a common understanding of a bright, achievable outlook for the future**, it is necessary to increase predictability for companies, the public and the government, and **establish expanded domestic investment and wage increases through public and private cooperation**.
- Rather than a vision that shows a discontinuous picture of what the future should look like, a scenario that is **fully achievable by continuing the "New Direction" economic and industrial policies** that has started showing achievements through initiatives rolled out in the past few years (“A future outlook in 2040”) has been started for development.
- As a two-year project, **qualitative scenarios were created and productivity, wages, industrial structure, GDP, etc. were quantified**. To achieve this future outlook, the **policies required at present moving forward will be continued and considered**.

- Global demand will expand through **providing value for solving social issues (GX, etc.)** and **data-driven new value creation (DX, etc.)**.

⇒ Even if the volume of goods decreases, **demand will expand even with a declining population** by adding high values and developing new demand.

- **Japan**, which has no choice but to import food, resources, etc., **will earn in the world through innovation**. The importance of medium-sized companies and startups will increase.

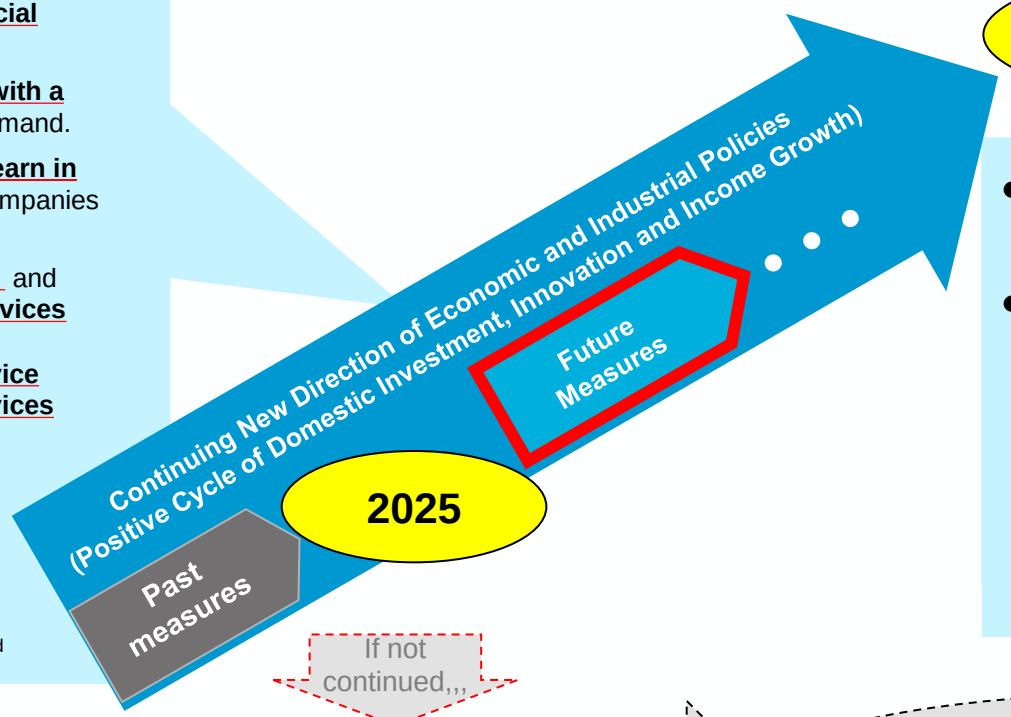
⇒ **Compete globally by “Transition to Manufacturing industry X ”** and **"Turning information and communications and professional services into growth industries."**

⇒**Take on challenges to improve the quality of life by making "service industries that are essential to daily life advanced essential services Industry" through labor-saving measures** by the information and communications industry and specialized service industries.

*Details of **15 individual industries**, including "Semiconductors and Computing Resources," "Automobiles and Mobility," and "Healthcare" are provided

⇒ Continue industrial policies that will make both domestic and foreign companies select Japan as the investment destination.

*Detailed explanation of **8 missions** such as "GX" and "DX" and **4 OS** such as "human resources" and "innovation and startups"



Japan in 2040 that can remain prosperous despite a declining population

- Each individual's **disposable income and time will increase**. To make the lives of the people smoother and **more comfortable**.
- On IS balance:
  - **Companies** will eliminate excess savings through expanding domestic investment, **leading to excess investment.**
  - Households maintain a savings surplus.
  - The current account surplus structure will be maintained.
  - The **government** eliminates its excess investment, backed by increased tax revenues associated with economic growth.

Japan

Around 1990 → Neo-liberal industrial policy → Around 2021

If not continued,,,

Continuing neo-liberal industrial policy → A stable but stagnant society will continue Japan in 2040

The world

-World economic order: Globalization
-Global demographics: Only Japan declining

⇒ Increasing Uncertainty
⇒ China, EU and Korea declining . The labor force participant rate in Japan at its peak

Comparison table of visions and other economic calculations made previously by the Ministry of Economy, Trade and Industry

	"A virtuous cycle of innovation and demand" March 2002	"New Industry Creation Strategy" May 2004	"New Economic Growth Strategy" May 2006	"Industrial Structure Vision" June 2010	"Economic and Social Vision" May 2014	"New Industrial Structure Vision" May 2017
Purpose of projection	●The reason that Japan has experienced prolonged stagnation without autonomous recovery since the 1990s is because **individuals have been unable to hold optimistic hopes about their current situation and future**. ●This calculation was made in order to share a "future vision of an economic society that gives people a sense of security and hope," and **to dispel anxiety about the future and restore confidence**.	●While there are voices expressing that the economic recovery is not being felt and some regions and industries remain uncertain about the future, **now is the time for forward-looking action after having cleared past debts and emerged from a prolonged period of stagnation.** ●To achieve this, Japan's industries and the systems that support them have been reviewed to **outline a national strategy for the future** to instill in the Japanese economy the dynamism that will give rise to new industries.	●By steadily implementing each policy of the New Economic Growth Strategy, **estimation on what the future holds beyond the reforms will be made** to treat this as **a type of policy goal rather than a prediction**.	●In order to make a "transition" to address social issues such as environmental and energy constraints, and an aging population with a declining birthrate, **it is necessary for governments, companies, and industry to take action toward change**. ●This is **an estimate to share the ideal future and prescription** for building new relationships between the public and private sectors and for solving social issues, with the goal of "every individual feeling a sense of prosperity."	●In order to quickly break through the bottlenecks in "corporate strategy/industrial structure" and "employment structure," it **is necessary to reconnect national growth with individual prosperity and shift to growth that allows people to feel a sense of prosperity**. ●**To shift to such economic and industrial policies**, a vision was created and projections were made of the industrial structure and employment structure within it.	●In Japan where prolonged stagnation has been excessive, this outlines a **path for how to leverage the country's strengths to drive economic growth** in the 2030s, a period expected to see successive technological breakthroughs from the Fourth Industrial Revolution, and also **presents the kind of economic and social transformation needed**. ●In this context, **projections were made to render the medium- to long-term future vision that should be aimed for in order to attain a winning strategy for Japan**.
Estimation results **Macro**	●In **2010** (1) Status Quo Case: **Real GDP growth of 0.8%** **(2) Virtuous Cycle Case: Real GDP growth of 3.1%**	●Average annual growth rate **of total production value** by 2.1% **in 2025** * A vision that takes into account the growth of related industries through the implementation of action programs in the seven strategic areas* *…Fuel cells, information appliances, robots, content, health and welfare equipment and services, environmental energy equipment and services, business support services	●**Real GDP grew 2.2%** in **2015** *TFP of around 1.3% will be on par with the US since 1990 *Considering the policies outlined in the new economic growth strategy, contributions to economic growth are expected through improvements in TFP, revitalization of the service industry, productivity gains via IT, strengthened technological innovation, enhanced labor quality through investment in human capital, and productivity improvements driven by international industrial strategies.	●None (A vision anticipating **2020**).. *Took into consideration the transformation of industrial structure from a one-legged automobile-based approach to the "Yatsugatake Structure" with five strategic areas*. *…The five strategic areas are infrastructure-related/system exports (nuclear power, water, railways), environmental and energy issue-solving industries (smart grids, next-generation automobile services, etc.), medical, nursing care, health, and child-rearing services, a cultural industry nation (fashion, content, food, tourism, etc.), and cutting-edge fields (robots, space, etc.).	●In **2020** **(1)**Hollow Out Case: **Real GDP growth of 0.3%** *Automobile production for export halved through 2020 while re-imports increased (2) Policy Achievement case: **Real GDP growth of 1.2%** *Of the domestic potential demand, three areas (healthcare and child-rearing, new energy industries, and creative industries) are expanding and revitalizing consumption. In addition, while automobile production for export is being maintained, direct investment overseas is also expanding	●In **2030** **(1)** Status Quo Scenario: **Real GDP growth of 0.8%, Nominal wage growth of 2.2%** *As domestic industries became subcontractors for overseas platform providers, they were unable to create new added value in services, and have become sectors of low added value and low growth. A society in which the workforce is concentrated in low-value-added, low-growth occupations and many people earn low wages **(2) Reform Scenario: Real GDP growth of 2.0%, Nominal wage growth of 3.7%** *Provide new services and capture high value-added, high-growth sectors globally. Overcome the decline in the labor force population by improving productivity and increasing labor participation rates
By industry	●Published **by about 10 industry classifications**	●Published **by about 30 industry classifications**	●**Market scale is also calculated for potential new industry groups** while **publishing by about 20 industry classifications**	●Market scale (production value) for the **five strategic areas** in 2020 and the increase in production value from 2007, taking into account the **ripple effect on other industries (not by industry)**	●Published **by about 7 industry classifications**	●**Published based on unique classification of goods and services production activities**
By employment	●Published **with about 10 industry classifications**	●Published **with about 30 industry classifications**	●Published **with about 20 industry classifications**	●Only the increase in employment in the **five strategic areas** since 2007	●**Created about 10 industrial classifications that are slightly different from the industrial classification and published the number of employees by classification.**	●**Published based on unique classification of goods and services production activities** ●**Also published data by occupation in addition to employed persons**
Estimation method	●After calculating production values with a **macro model that estimates from the demand side of the economy**, the final demand amount for each industry is determined based on past trends for each demand item (consumption, investment, imports and exports, etc.). ●After that, the **production value of each industry was calculated using the trend-extended 2010 edition of the input-output table**. ●In addition, **labor productivity by industry is predicted** based on past trends and technological trends, and the **number of employed persons is calculated by subtracting it from production value.**	●Economic growth rates (real, 1.5-2%) and **demand items (consumption, investment, imports and exports, etc.) are predicted** with a macro model. ●The production value **of that** value **is** calculated by industry using the input-output table, and then the market scale and ripple effects of the seven strategic areas are added separately to calculate the macro and individual industry production values. ●In addition, the number of employed persons is **calculated taking into account productivity improvements** in the seven strategic areas.	●GDP, etc. are calculated based on certain assumptions on the **supply-side macro model** (labor, capital, TFP, etc.). ●The assumptions take into account each policy's contribution to TFP and economic growth, as well as productivity improvements. ●Based on that value and making certain assumptions, the **added value of each industry is calculated**. ●In addition, **the number of employed persons is calculated by industry, taking into account the labor productivity of each industry**.	●The **market scale of the industries corresponding to the five strategic areas is estimated** and then **analyzed using an input-output table**. ●The employment structure is calculated based on various related data for the five strategic areas.	●**Estimates are made using a macro model that calculates GDP, etc. and takes into account potential demand in the three identified areas**. ●Using the GDP, etc. obtained there, the **input-output model is used to calculate production values, etc. by industry**. ●The **number of employed persons is then calculated based on trends in labor productivity** by industry, etc.	●The rough estimate is the same as that of the Economic and Social Vision.

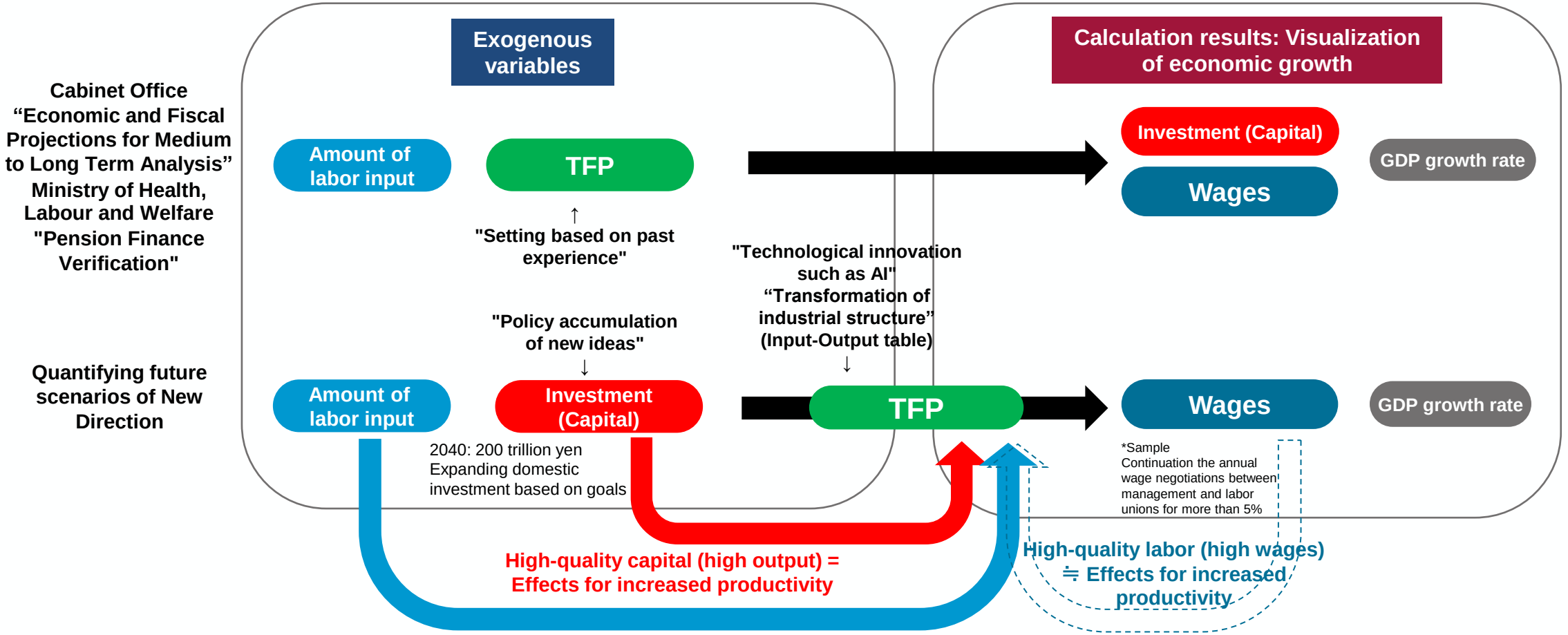
Approaches on the quantification of “A Future Outlook in 2040”

Revised upon excerpting from the 24th Committee on New Direction of Economic and Industrial Policies (October 29, 2024)

- The Cabinet Office and the Ministry of Health, Labour and Welfare use labor input and **total factor productivity (TFP)** as the starting point to calculate investment (capital) and wages to describe economic growth.

- In the Ministry of Economy, Trade and Industry’s “New Direction,” economic growth is described from the perspective of **materializing a “virtuous cycle of domestic investment, innovation, and income growth,”** starting with an expansion of labor input and **investment (capital)**, while taking into account **improvements in capital quality through changes in the composition of capital goods, and improvements in labor quality through changes in wage disparities by labor attributes and employment status**, and then **calculating TFP growth and wage increases that are consistent** with these factors.

→ Focus on domestic investment **(ΔK + ΔTFP** (capital quality) **and investment),** **wage increases** (ΔTFP (labor quality) **and consumption)**, **which affect both supply and demand**.



A future outlook in 2040
based on expanding Domestic Investment & Changes in Industrial Structure

Collaborate research with FUKAO Kyoji (the chairman of the Research Institute of Economy, Trade and Industry (RIETI)) et al

Assumptions

- Demographics : **Total population**[*1] **-0.6% & Working age population**[*1] **-1.0%**

***1** : Estimation results for median mortality and median birth (Source : National Institute of Population and Social Security Research , "Japan's Future Population Projections (Reiwa 5 Estimates),"

Inputs

- **Industrial Structure : "the estimated 2040 IO (Input-Output) table"**[*2]
  (Ex : Transitioning to decarbonization including Electric vehicles (EVs) and transforming to Software Defined Vehicles (SDVs).
  *2:Taking into account **"A future outlook around 2040(qualitative) "**(June 2024) , **"GX 2040 Vision"** and **"the 7th Strategic Energy Plan"**.
- **Domestic Investment : CAGR +4%** (200 Trillion yen at FY2040[*3]) ※Base case : CAGR 0.7%
  *3: The Private & Public target proposed at Public-Private Partnership Forum on Increasing Domestic Investment (Jan, 2025)
  →**Innovative investment (R&D, Software/Robots/IoT equipment, etc.) : ×1.8** (in Capital stock)
  →Traditional investment (Buildings and Structures , etc.) : Constant
- Total Factor Productivity (TFP) : **The improvement of the quality of Capital & Labor** and **the impact of technological innovations on various industries such as AI**
- CPI : CAGR 2.0% ※Base case : CAGR 0.9%

Outputs

- **Nominal GDP growth** : CAGR +3.1% (Real : +1.7%)
- **Nominal Labor Productivity growth** : CAGR +3.7% (Real : +2.3%)
- **Nominal Wage growth : CAGR +3.3%**[*4] **(Real : +1.3%)**

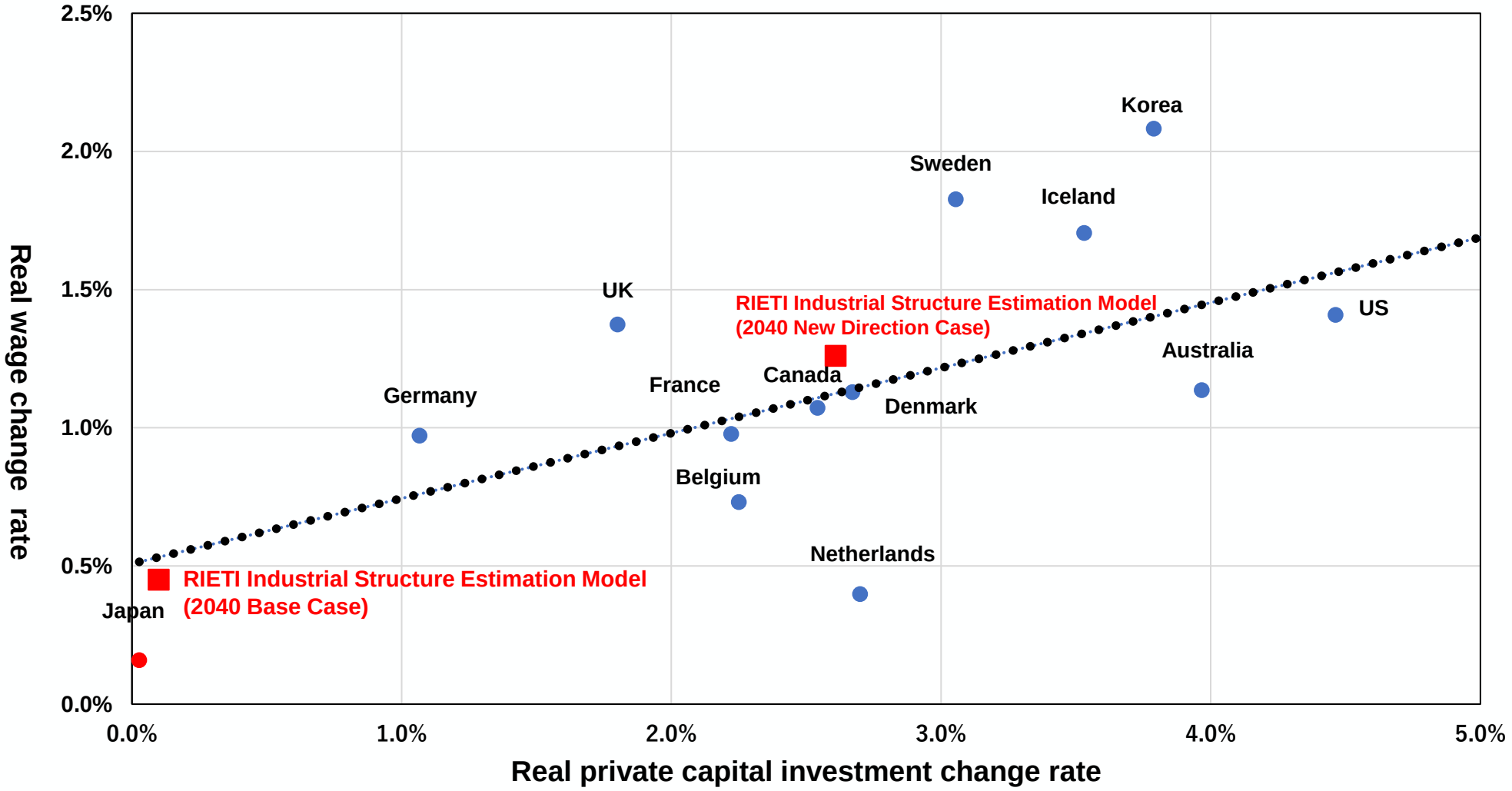
*4 : The wage increase rate for 2024 spring wage negotiations was 5.1%. the nominal wage increase 2.8% at FY2024.

【Base case without industrial policy】

- Nominal GDP : +0.5% (Real : +0.1%)
- Nominal Labor Productivity : +1.7% (Real : +1.2%)
- Nominal Wage : +1.5% (Real : 0.6%)

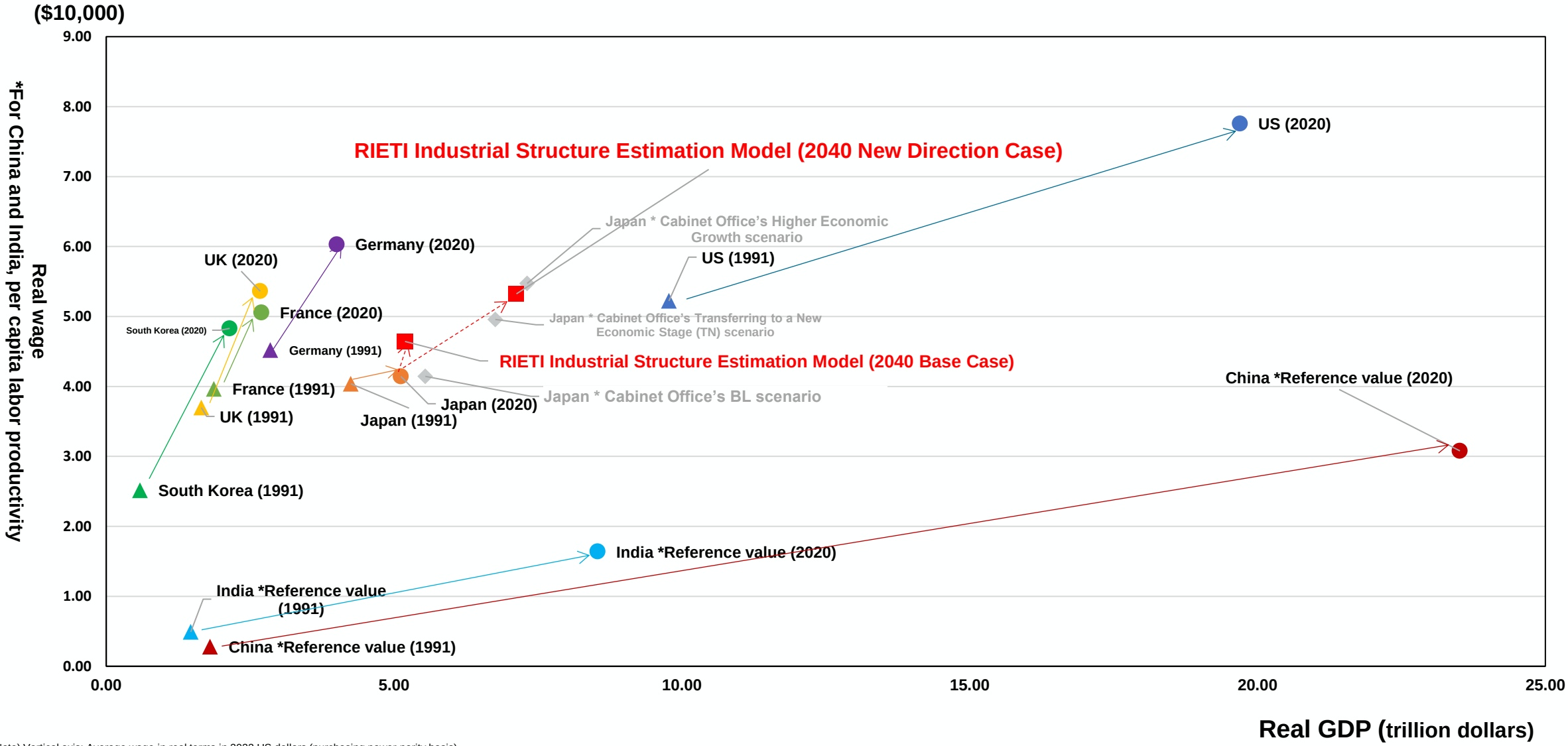
Increased domestic investment leads to higher wages

Correlation between wages and private capital investment
(1991-2021 average annual percentage change and RIETI Industrial Structure Estimation Model calculations)



(Note) Real wages (vertical axis) is total employee compensation (in real terms) divided by the number of employees and multiplied by "average hours worked by regular workers/average hours worked by all workers.
In other words, it shows the trends after removing the effect of changes in the average hours worked by workers. Private capital investment (horizontal axis) is the real value of private-sector capital investment excluding housing.
Annual growth rates from 2021 to 2040 are used for real private-sector capital investment and real wages in the RIETI Industrial Structure Estimation Model calculation for Japan in 2040.
(Source)OECD stat.

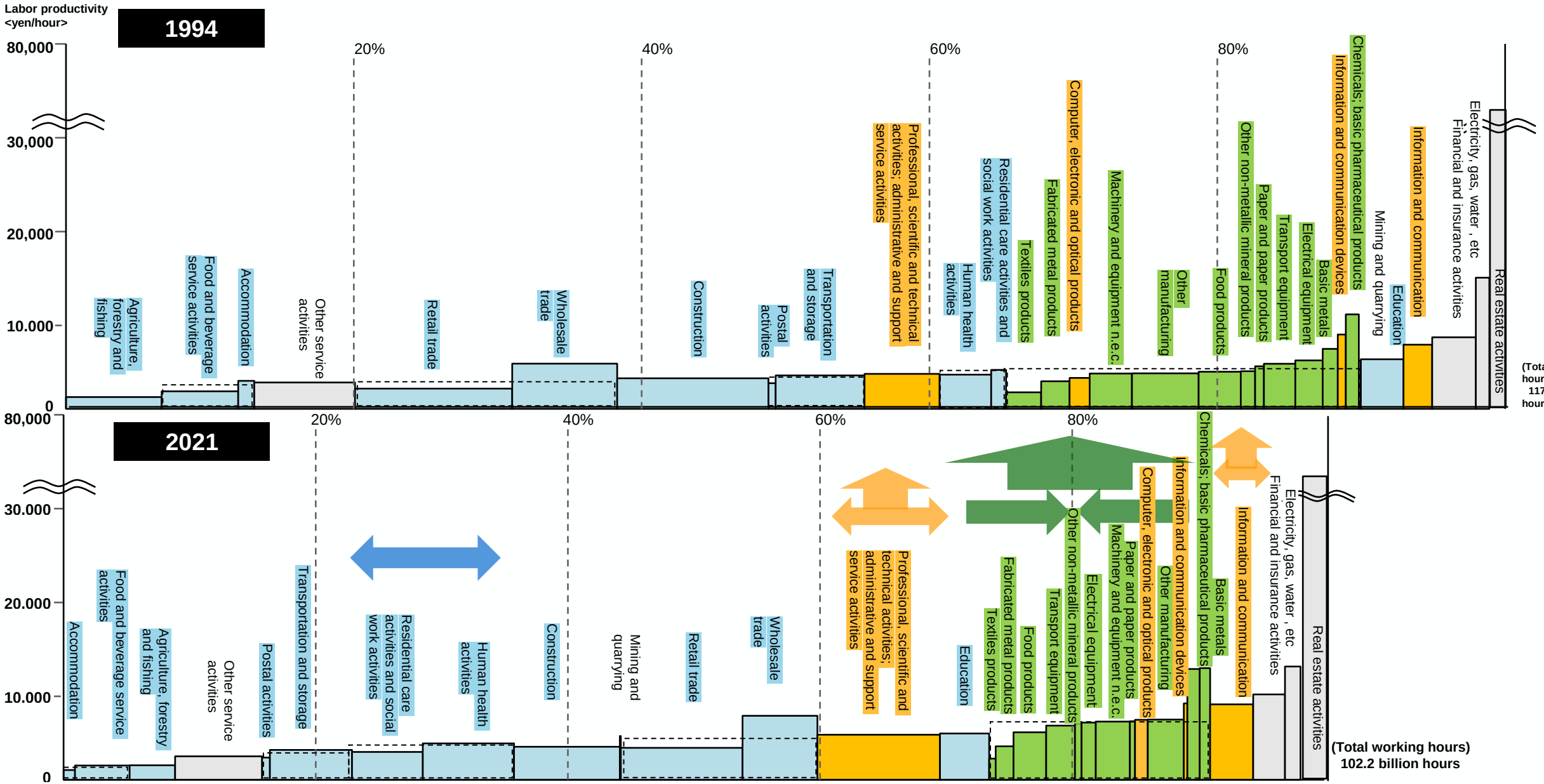
International comparison of long-term trends of real GDP and real wages



(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 is used as a reference value. Per capita labor productivity is real GDP expressed in 2015 U.S. dollars (purchasing power parity basis) divided by the labor force population (World Bank).
* Japan's real GDP and real wages in 2040 are:
・The real GDP growth rate, wage increase rate (consumer prices), and inflation rate for FY2034 from the Cabinet Office's "Economic and Fiscal Projections for Medium to Long Term Analysis"; and
・In RIETI Industrial Structure Estimation Model calculation, METI estimates real GDP and real wages, using annual growth from 2021 to 2040, and extending the OECD.stat values of the year 2021.
(Source) OECD.stat , World Bank, Cabinet Office.

Industrial structural transformation in the past (labor productivity = nominal value added/hour)

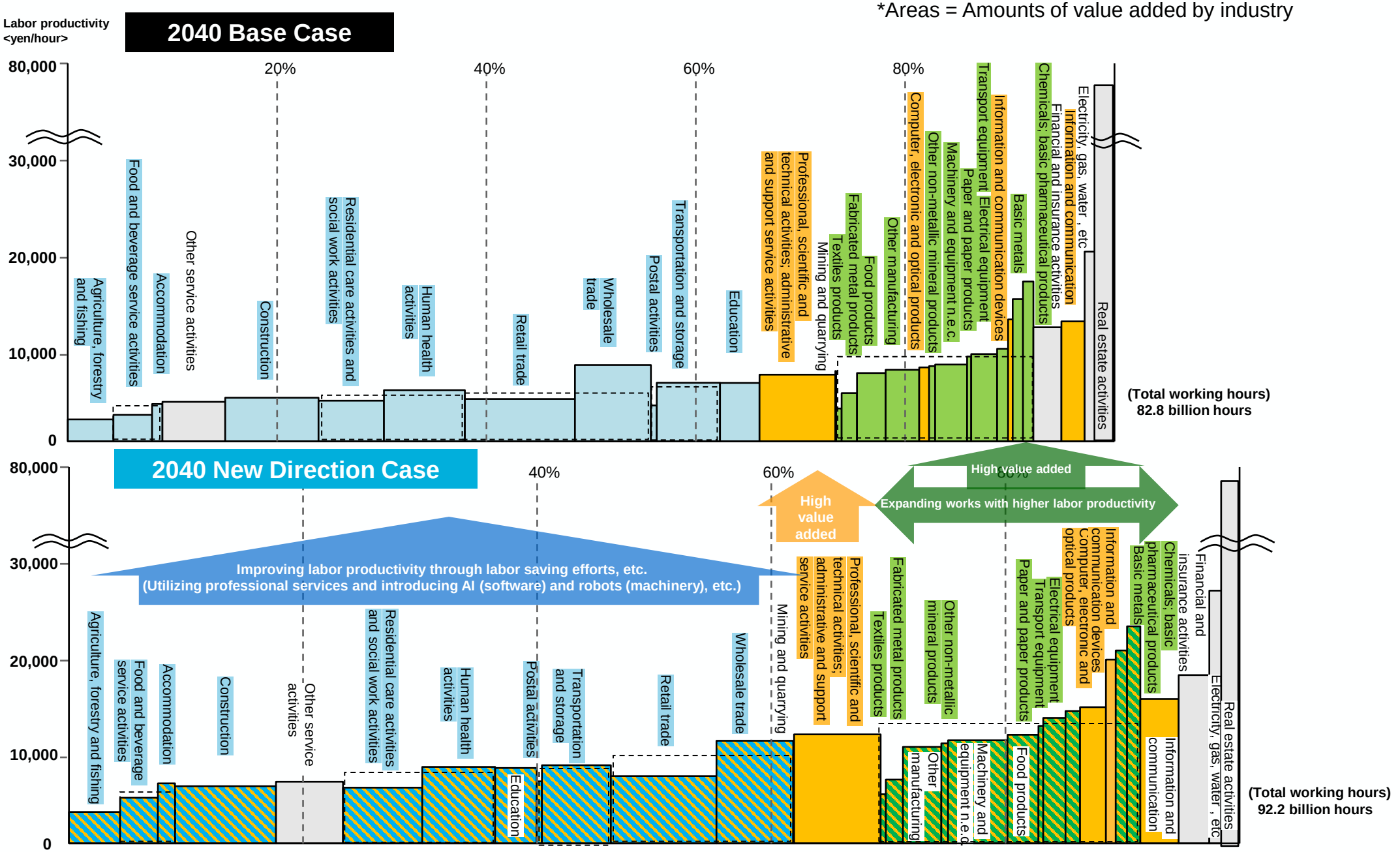
*Areas = Amounts of value added by industry



(Note) In order to utilize private sector trends for policy implications, industry-specific data do not include government sector, with a focus on the market economy.
(Source) REITI, “JIP Database 2023”

Industrial structural transformation in the future (labor productivity = nominal value added/hour)

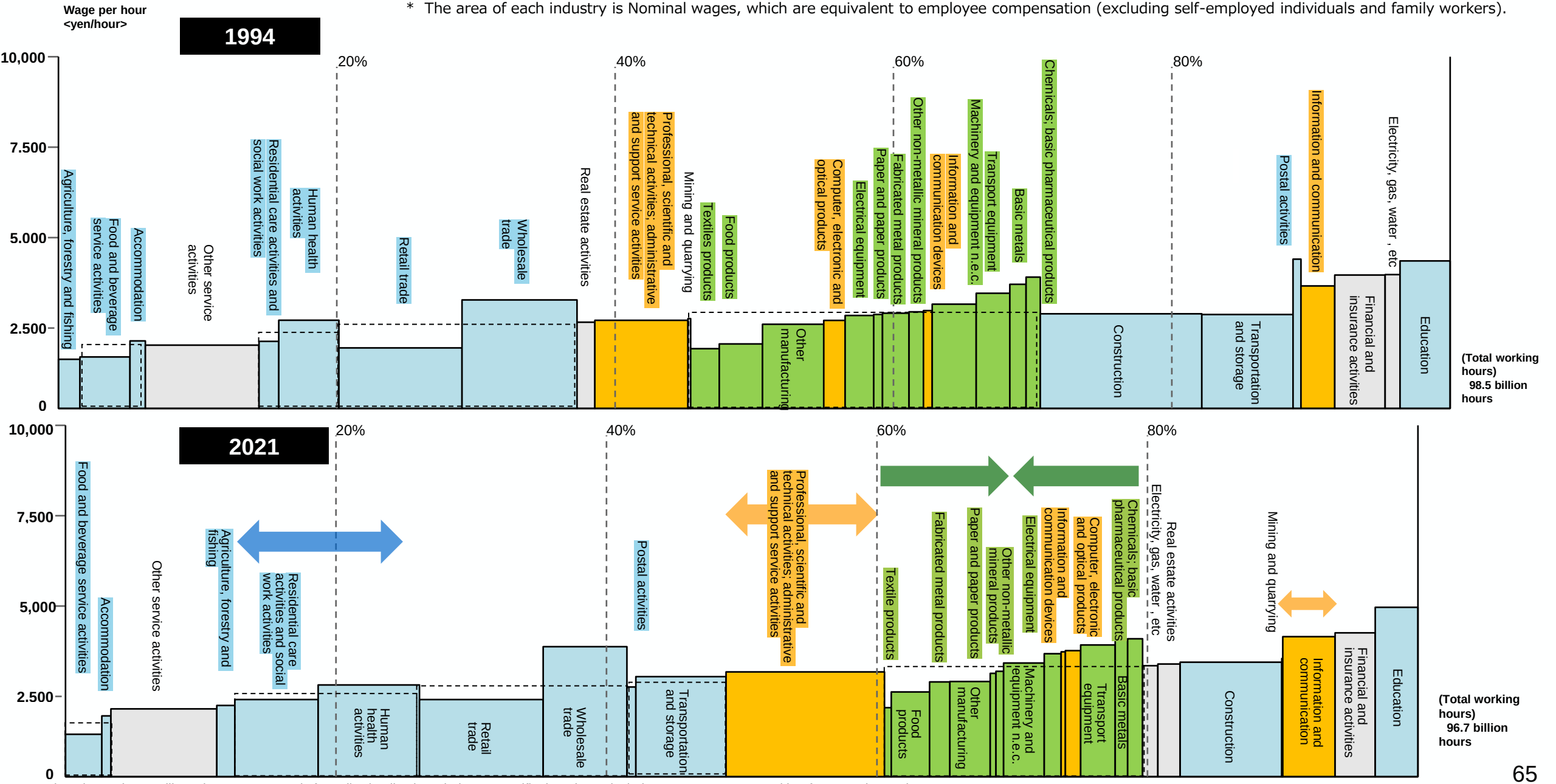
*Areas = Amounts of value added by industry



(Note) In order to utilize private sector trends for policy implications, industry-specific data do not include public sector activities, with a focus on the market economy.

Industrial structural transformation in the past (wage = nominal employee compensations/hour)

* The area of each industry is Nominal wages, which are equivalent to employee compensation (excluding self-employed individuals and family workers).



(Note) In order to utilize private sector trends for policy implications, industry-specific data do not include government sector, with a focus on the market economy.
(Source) REITI, "JIP Database 2023"

Industrial structural transformation in the future (wage = nominal employee compensations/hour)

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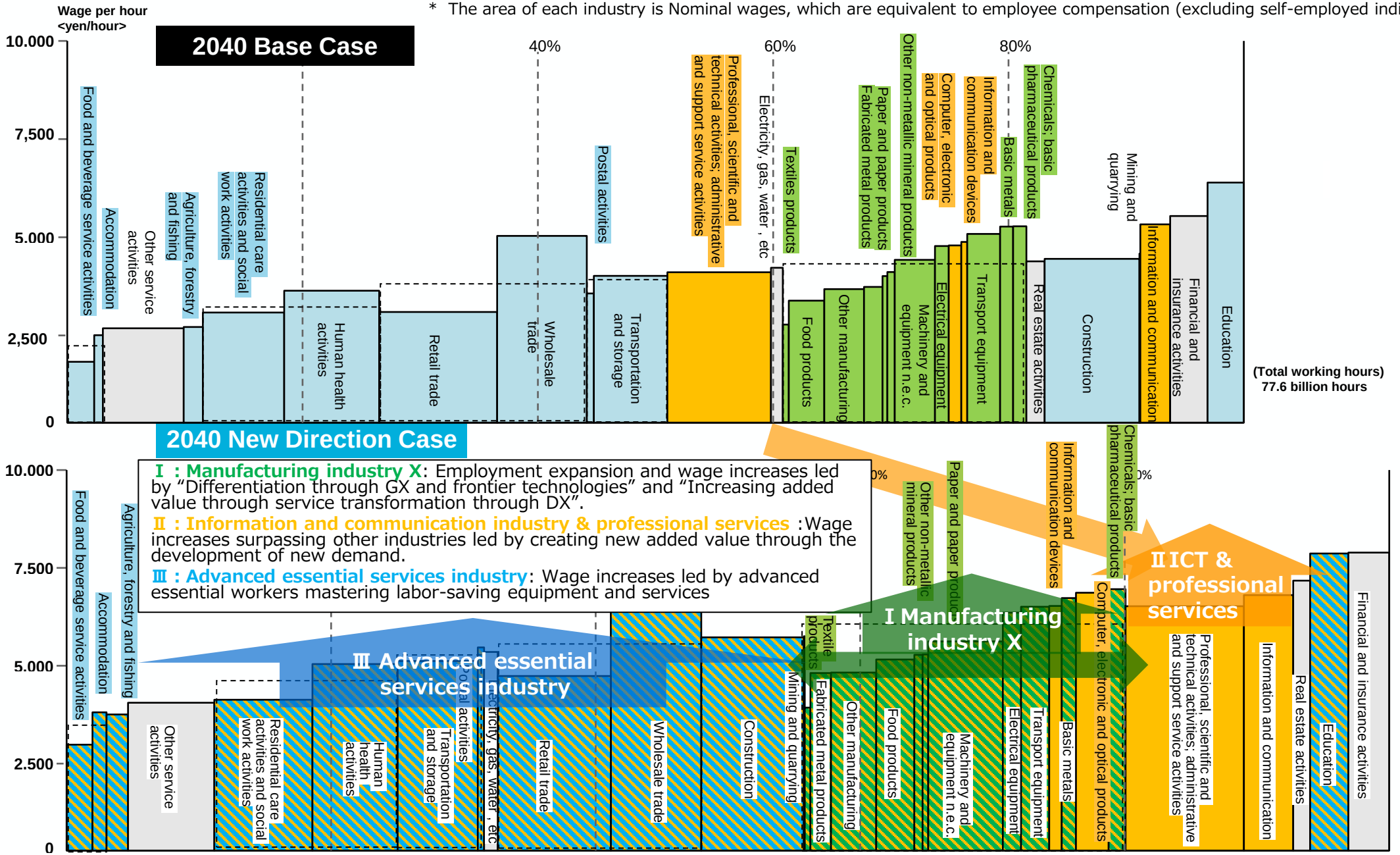
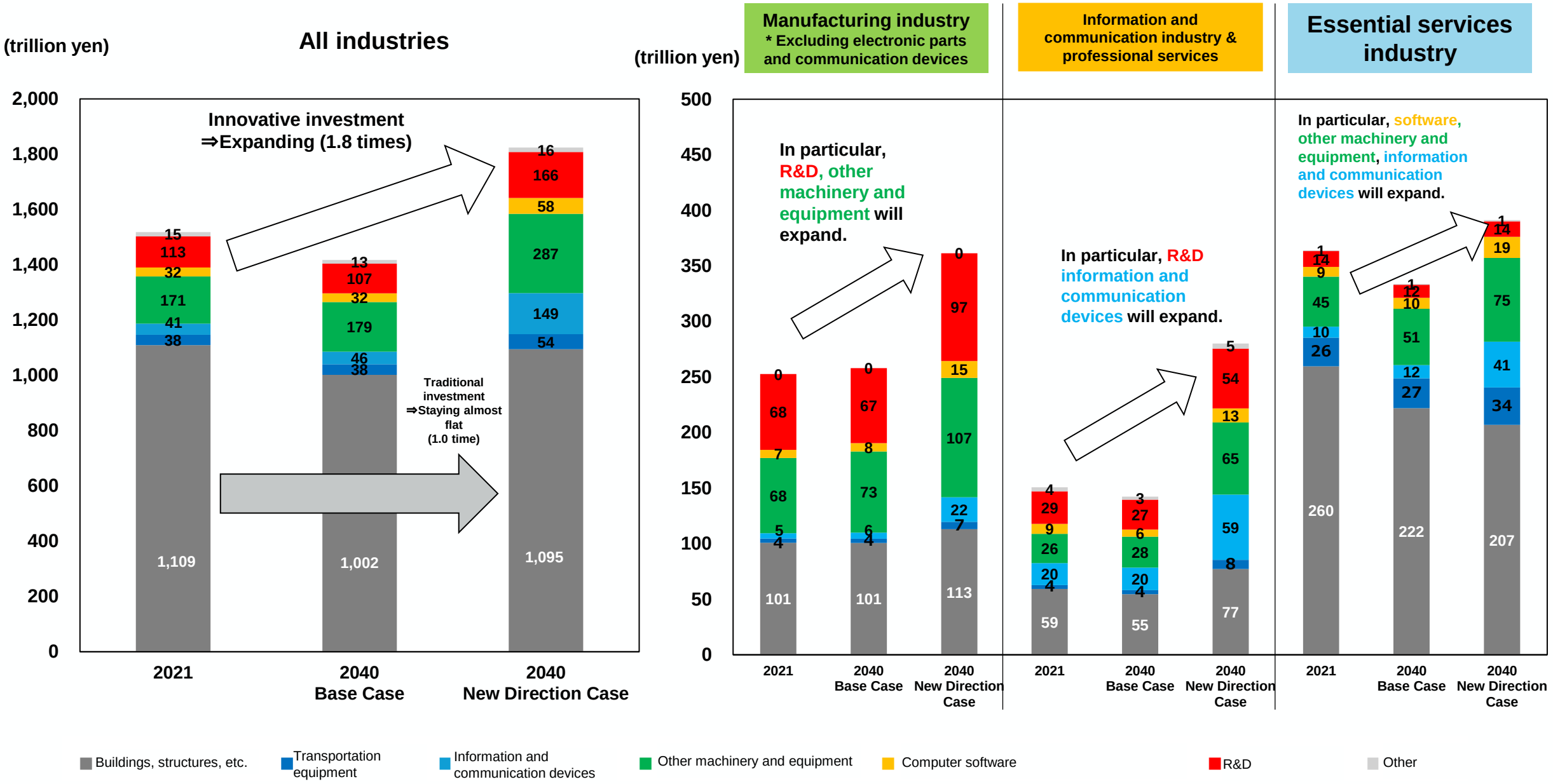


(Note) In order to utilize private sector trends for policy implications, industry-specific data do not include public sector activities, with a focus on the market economy.

Structural change in domestic investment (private-sector capital stock by expenditure item and industrial classification)



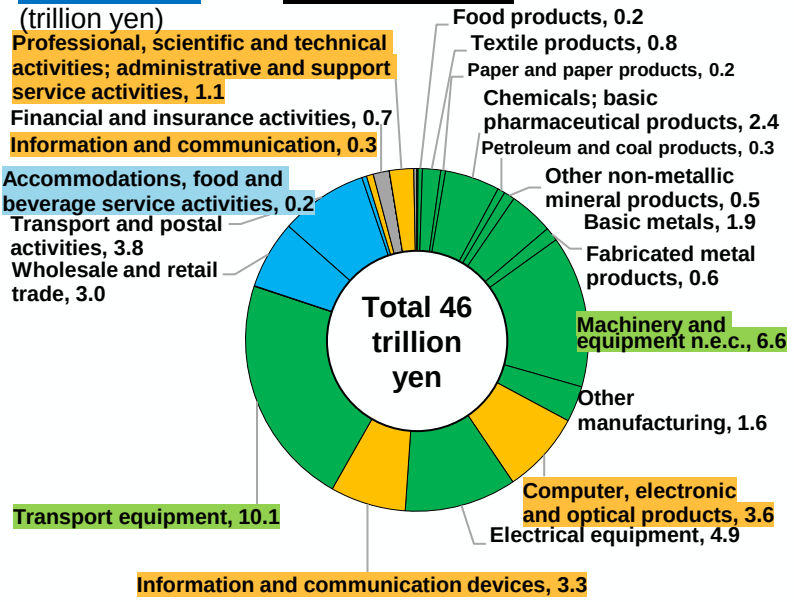
(Note) Data for all industries do not include housing, as we put focus on the corporate sector in the private sector. Traditional investment includes buildings, structures, etc. while next-generation investment means other investment than buildings and structures.
(Source) The data for 2021 come from RIETI, "JIP Database 2023."

Trade = Change in nominal export/import by industry (Base Case)

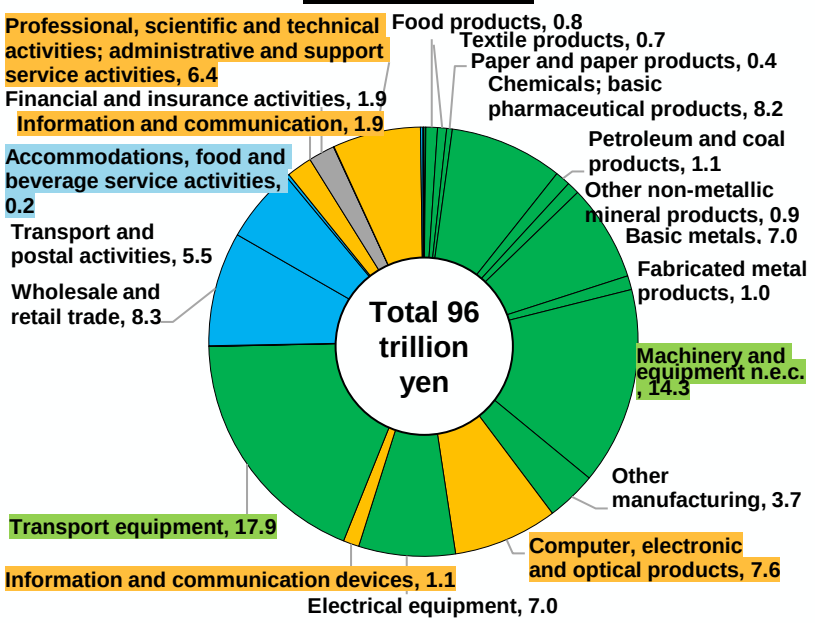
Export

(trillion yen)

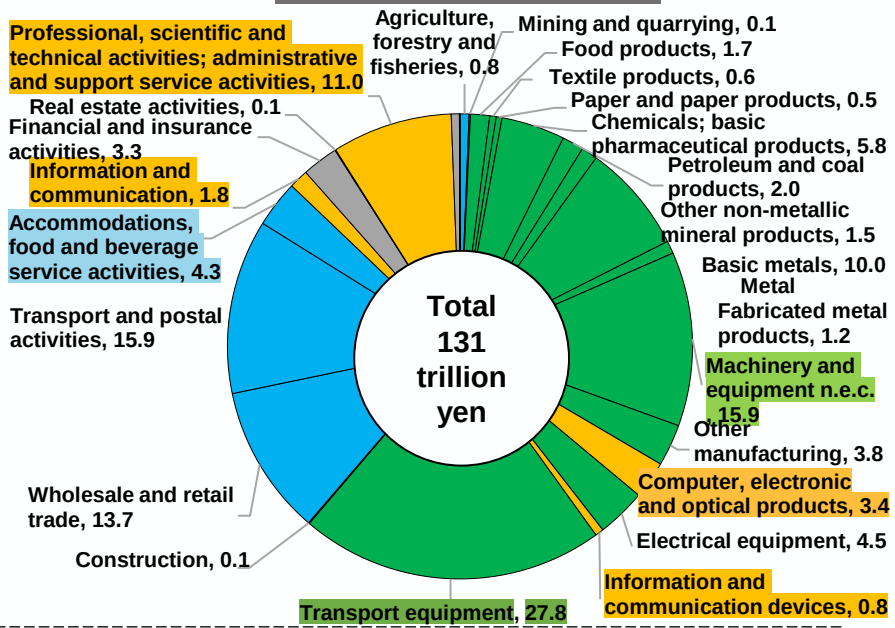
1994



2021

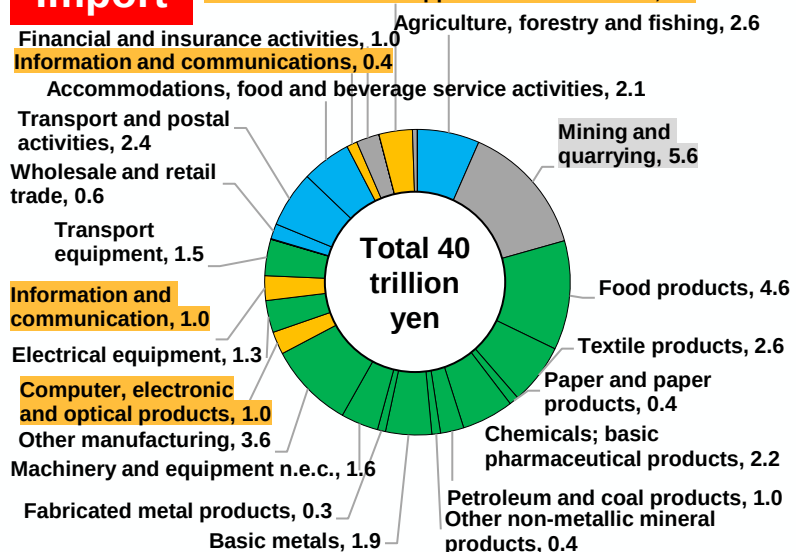


2040 Base Case

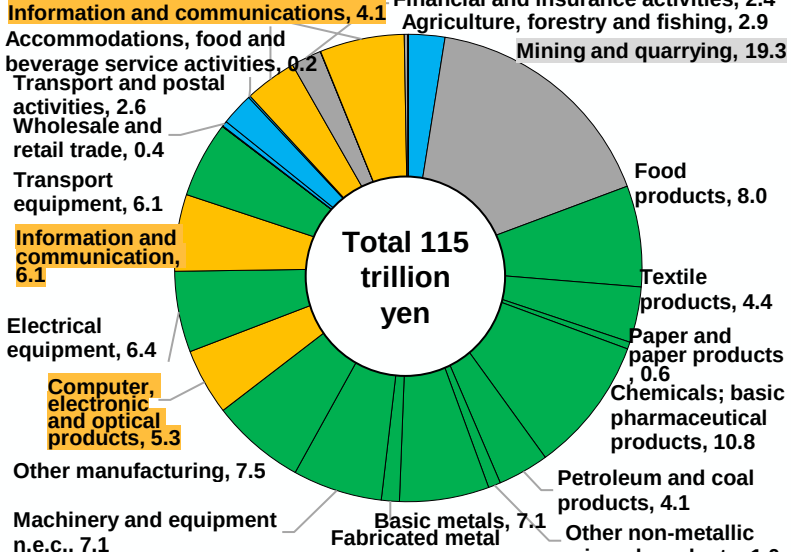


Import

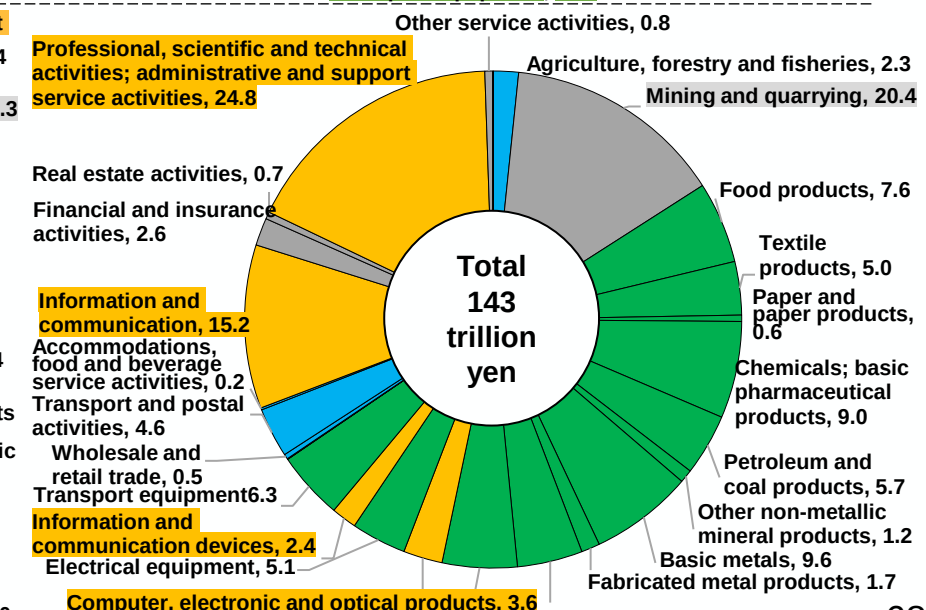
1994



2021



2040 Base Case



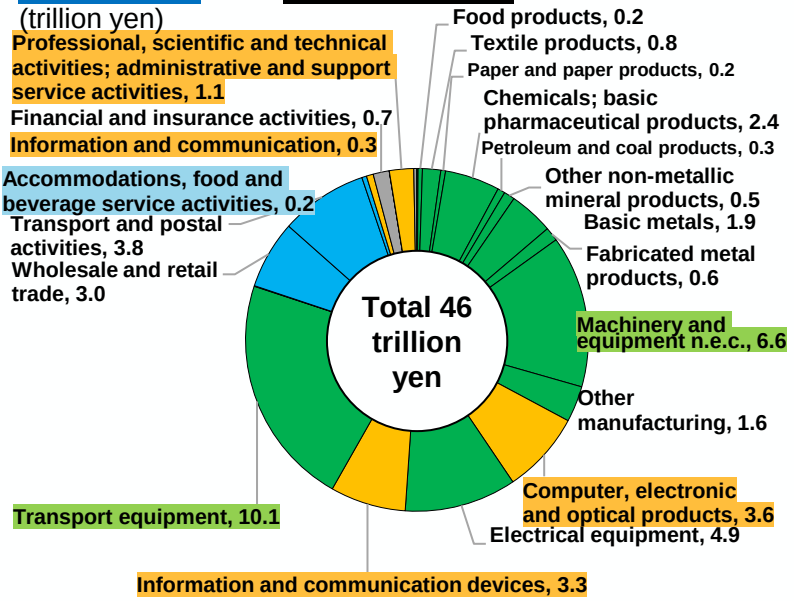
(Source) The data for 1994 and 2021 come from RIETI, "JIP Database 2023."

Trade = Change in nominal export/import by industry (New Direction Case)

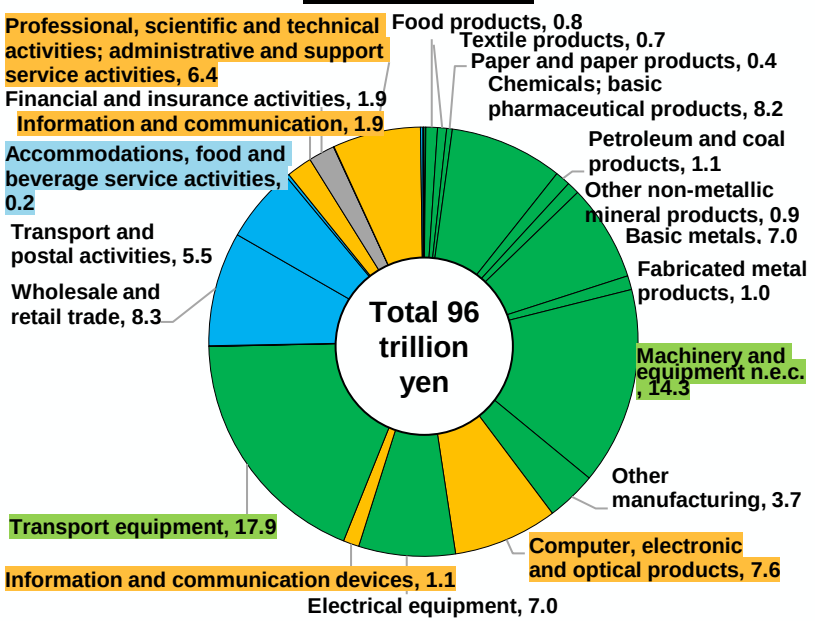
Export

(trillion yen)

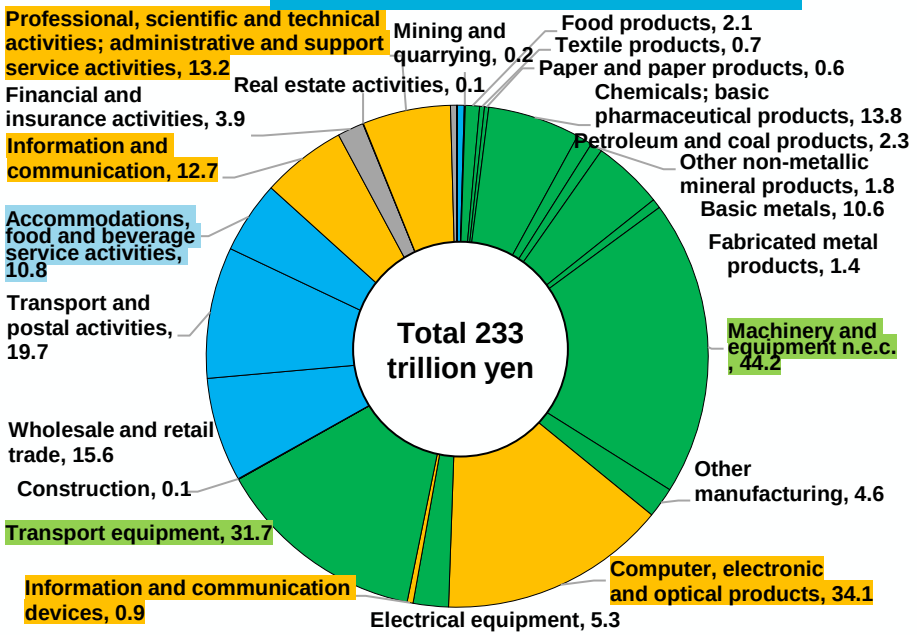
1994



2021

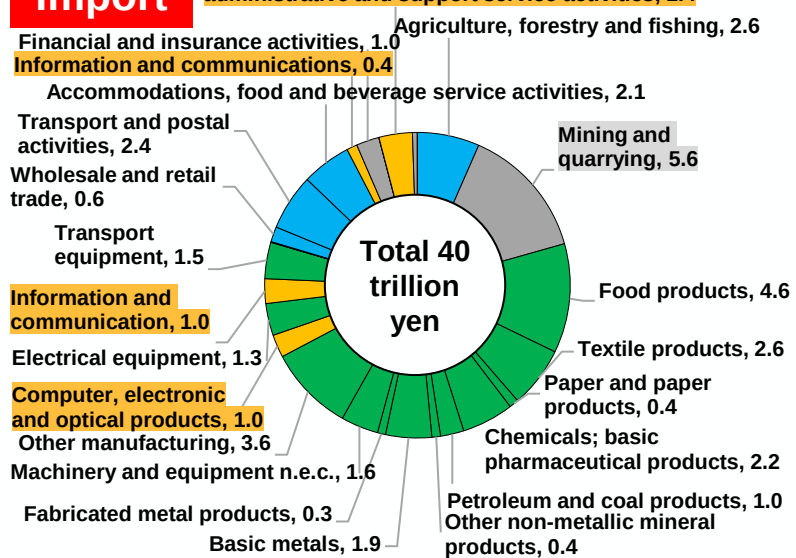


2040 New Direction Case

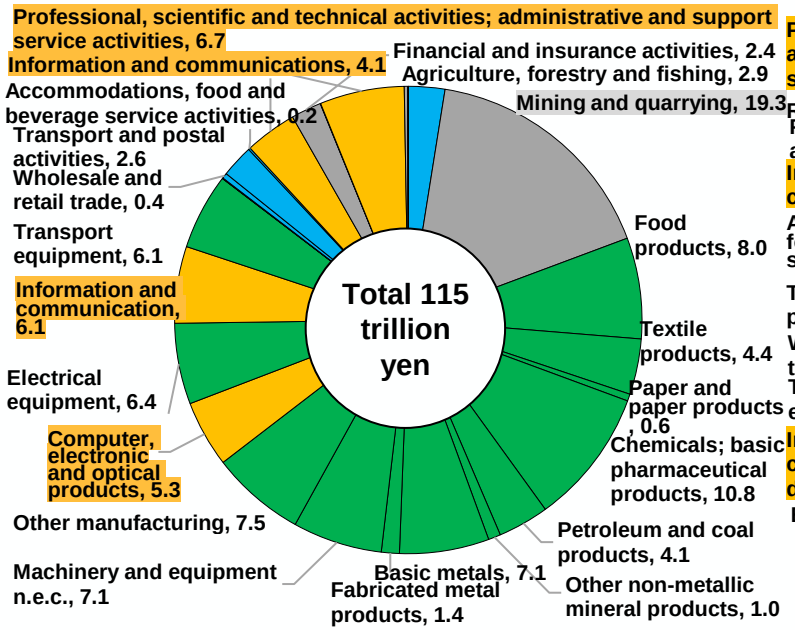


Import

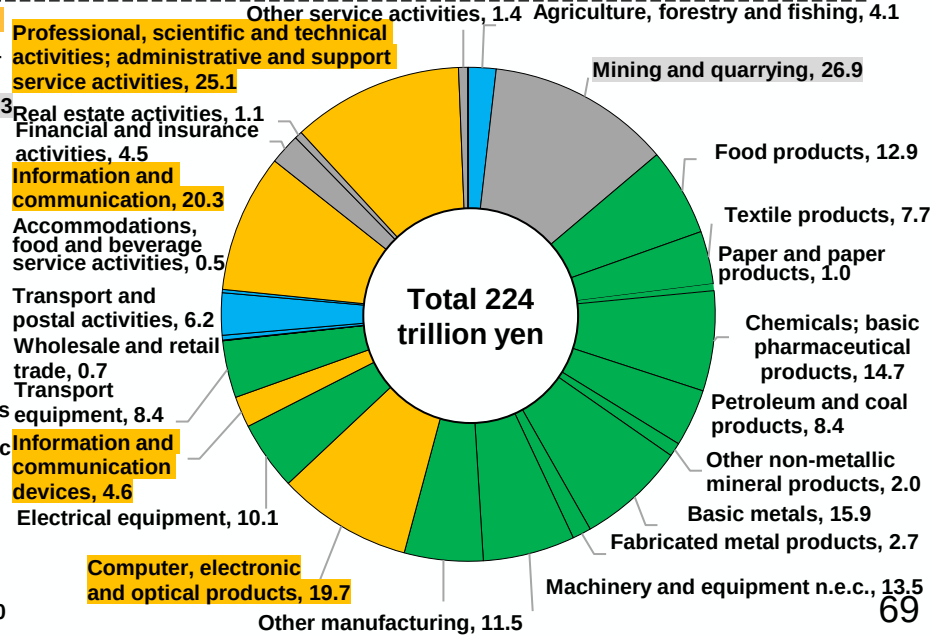
1994



2021



2040 New Direction Case



(Source) The data for 1994 and 2021 come from RIETI, "JIP Database 2023."

Quantifying “A future outlook in 2040”: Industrial structure, investment, exports/imports

- **In the Base Case, there is no change in the industrial structure, leading to emergence of some problems. In the New Direction Case, it is necessary to address three types of changes.**

Base Case

[1] **Manufacturing industry**

- As seen in the past 3 decades, the industry will continue competing on quantity and quality. Productivity will rise to a certain extent, but **employment will not increase**.

[2] **Information and communication industry & professional services**

- In line with the accelerating trend of the past 3 decades, **service imports will expand, but productivity will suffer sluggish growth, and employment will also decline.**

[3] **Essential services industry** (tourism (food, beverage and accommodations services), retail/wholesale, human health and residential care activities, transportation, construction, etc.)

- As seen in the past 3 decades, **labor-saving and digitalization are insufficient.** Amid a labor shortage, **supply will not keep up with demand** due to sluggish productivity.

New Direction Case

[1] **Manufacturing industry**
(Manufacturing industry X will revolutionize the society)

- Attaining higher value added, supported by **differentiation based on GX and frontier technologies, and DX- or maintenance-related servitizations.**
  (**Competing with the global markets not only in terms of quantity/quality, but also in terms of higher value added through creating new demand**).
- Production and **exports will grow**. Wages will rise to almost the average of all industries.
- **Employment** will increase, **backed by workforce composition shift(information processing technicians etc.will increase, while the number of production process workers will stay almost flat).**

[2] **Information and communication industry & professional services**
(Becoming a growth industry, backed by new demand for manufacturing and services)

- Creating **new value added by cultivating new demand through frontier technologies, etc. (higher value added in the manufacturing sector, labor saving in the service sector, etc.)**
- **Value added will rise**, backed by expansion of production and exports as well as by **increased imports necessary for intermediate inputs to each industries.**
- Employment structural changes (**improved quality of information processing technicians, etc.) will send up the wage level stronger than other industries.**

[3] **Essential services industry**
(Advanced essential services industry)

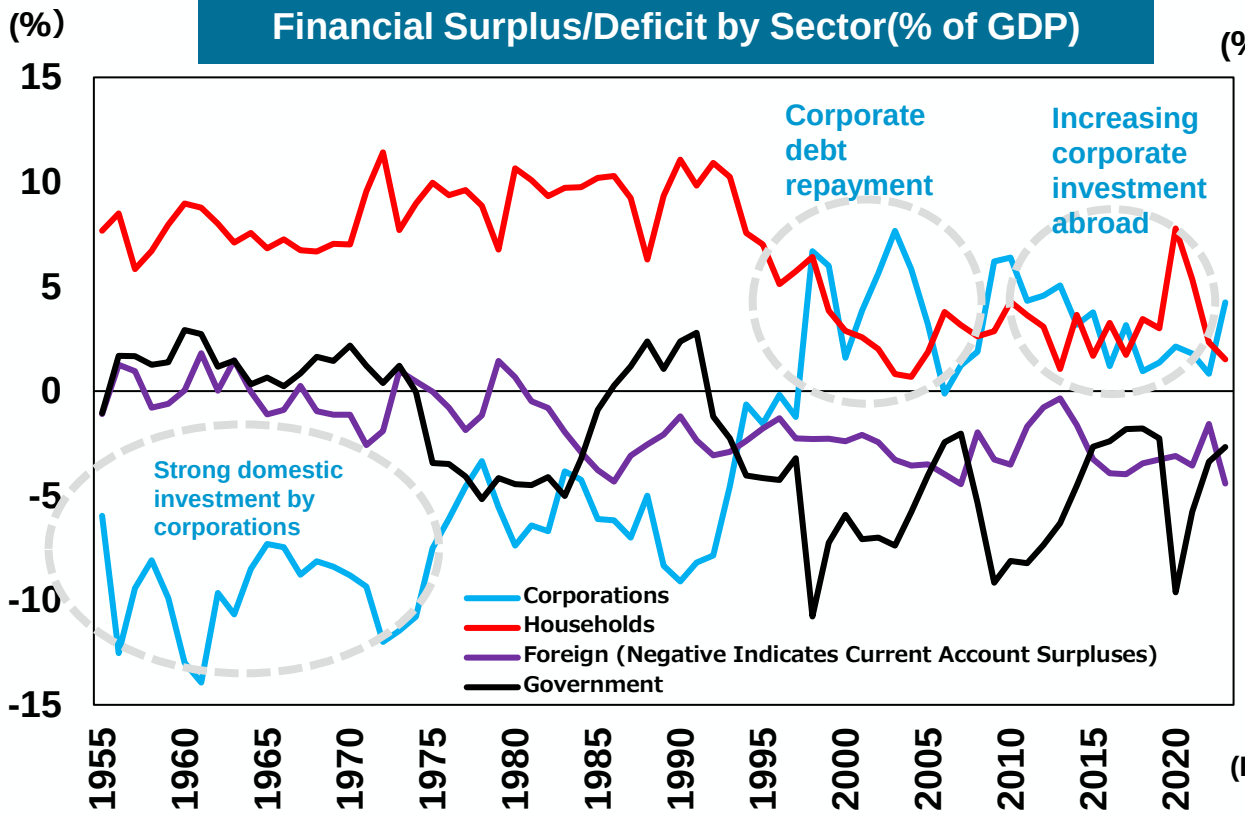
- Productivity improvement through **high value-added by inbound, local resources/culture, etc., and complemented and upgraded by labor-saving, digitalization**, etc.
- Wages will increase to catch up with other industries and play **a main role in expanding domestic demand through consumer spending**.
- As for employment, **advanced essential workers** capable of using labor-saving and digital technologies **(information processing technicians, etc. will increase, while service workers will not expand, but their quality will improve as they become more multi-skilled)** will absorb the middle class workers.

- In private-sector domestic investment, **innovative investment (R&D, software, and labor-saving investment) will expand.**
- As for imports and exports of goods and services, **mining (natural resources and energy, etc.)** and **manufacturing industry**, as well as **information and communication industry and professional services will increase.**

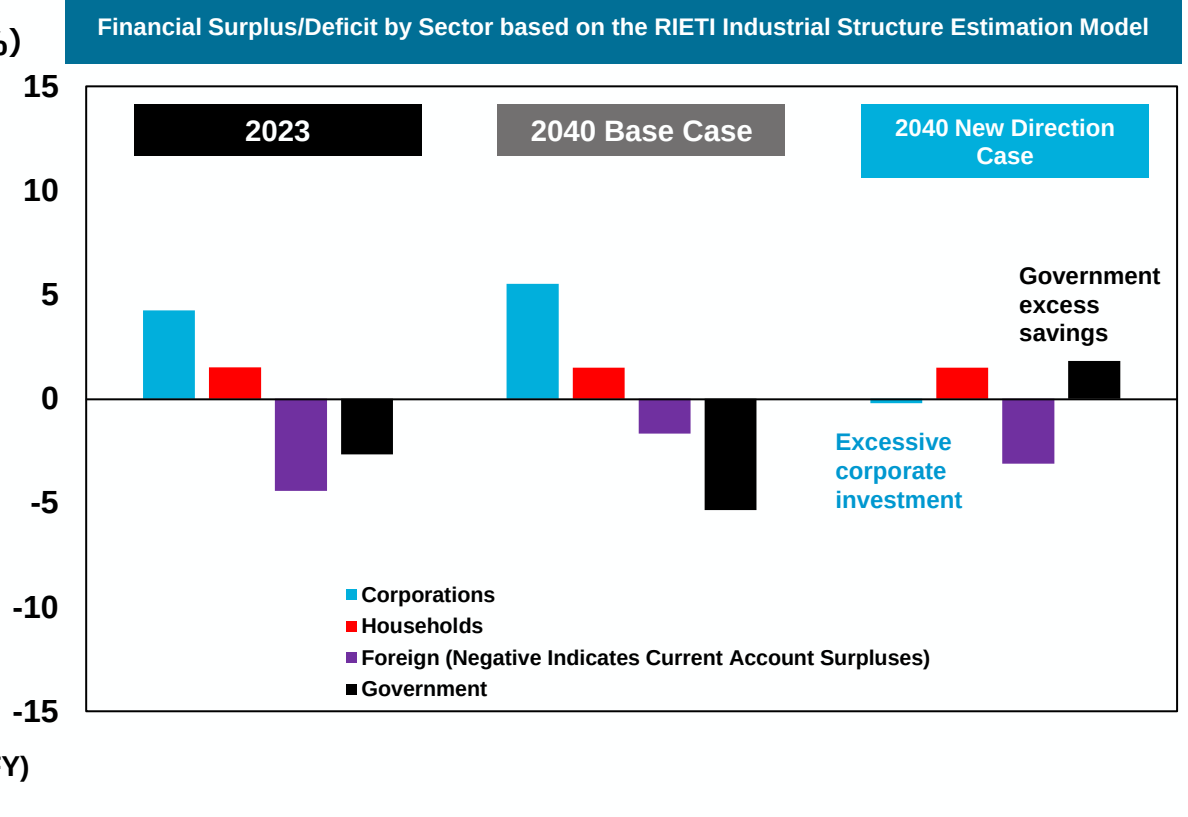
Saving-investment balance: Dynamics of Households, Corporations, Government

- Since the late 1990s, nonfinancial corporations have also been in surplus, while the government has consistently run a financial deficit.
- On the other hand, in the New Direction Case, the **corporate sector will have an investment surplus**, and the **government sector** will have a **savings surplus**, even if non-social insurance government spending is assumed expand at the same rate as the GDP growth rate as “strategic government investment.”

Financial Surplus/Deficit by Sector(% of GDP)



Financial Surplus/Deficit by Sector based on the RIETI Industrial Structure Estimation Model

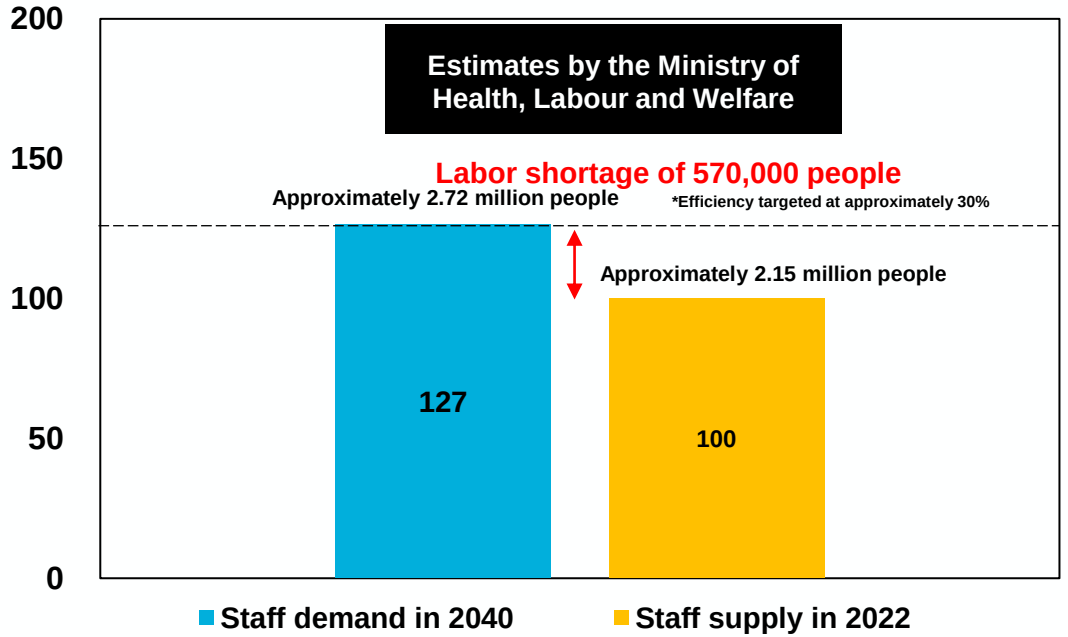


(Note) From FY1955 to 1979: 68SNA; from FY1980 to 1993: 93SNA; from FY1994 onward: 08SNA.
The funding surplus and deficit by sector in 2040 is estimated based on assumptions from RIETI research results, assuming the New and Base Case macroeconomic conditions estimated by the RIETI Industrial Structure Estimation Model.
(Source) Cabinet Office's “National Accounts.”

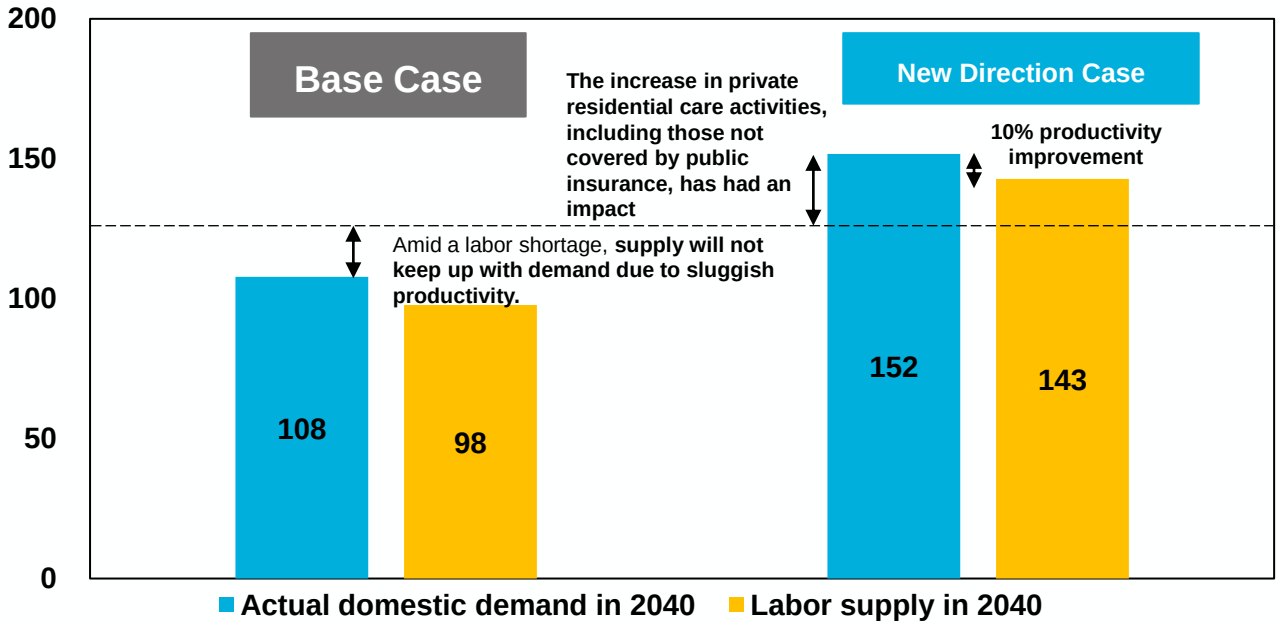
Demand and supply in the residential care activities in 2040

- Based on the Ministry of Health, Labour and Welfare's 9th Long-Term Care Insurance Business Plan, the **number of care workers needed is estimated to be approximately 2.72 million in FY2040**, **a difference of approximately 570,000** from FY2022.
- In the New Direction Case, **private residential care activities, including those not covered by public insurance, are increasing and real demand is also increasing, but improved productivity has ensured the supply of services to meet the necessary demand**.

Number of staff needed in the residential care activities (current supply set at 100)



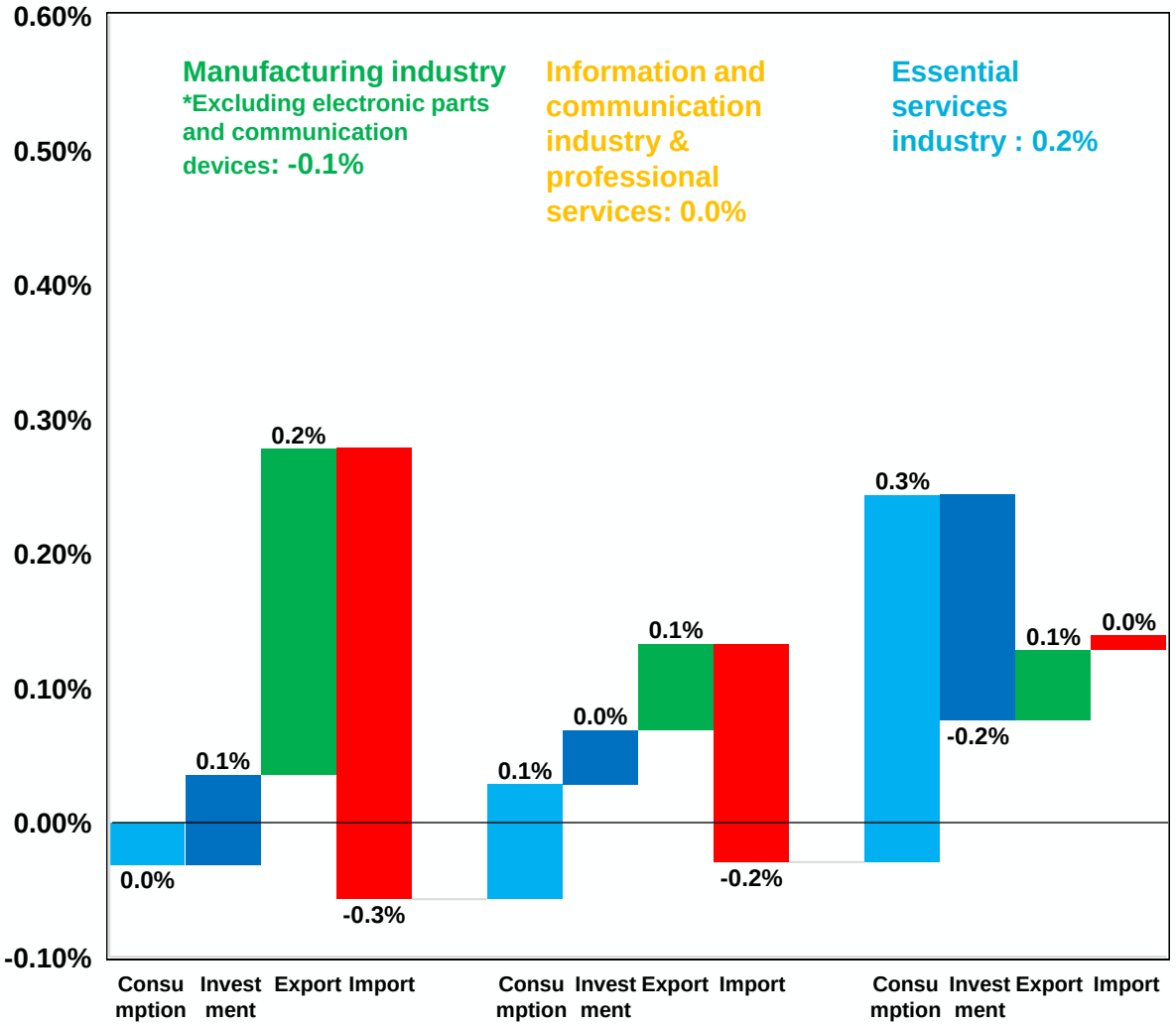
Demand and supply in the residential care activities (current supply set at 100)



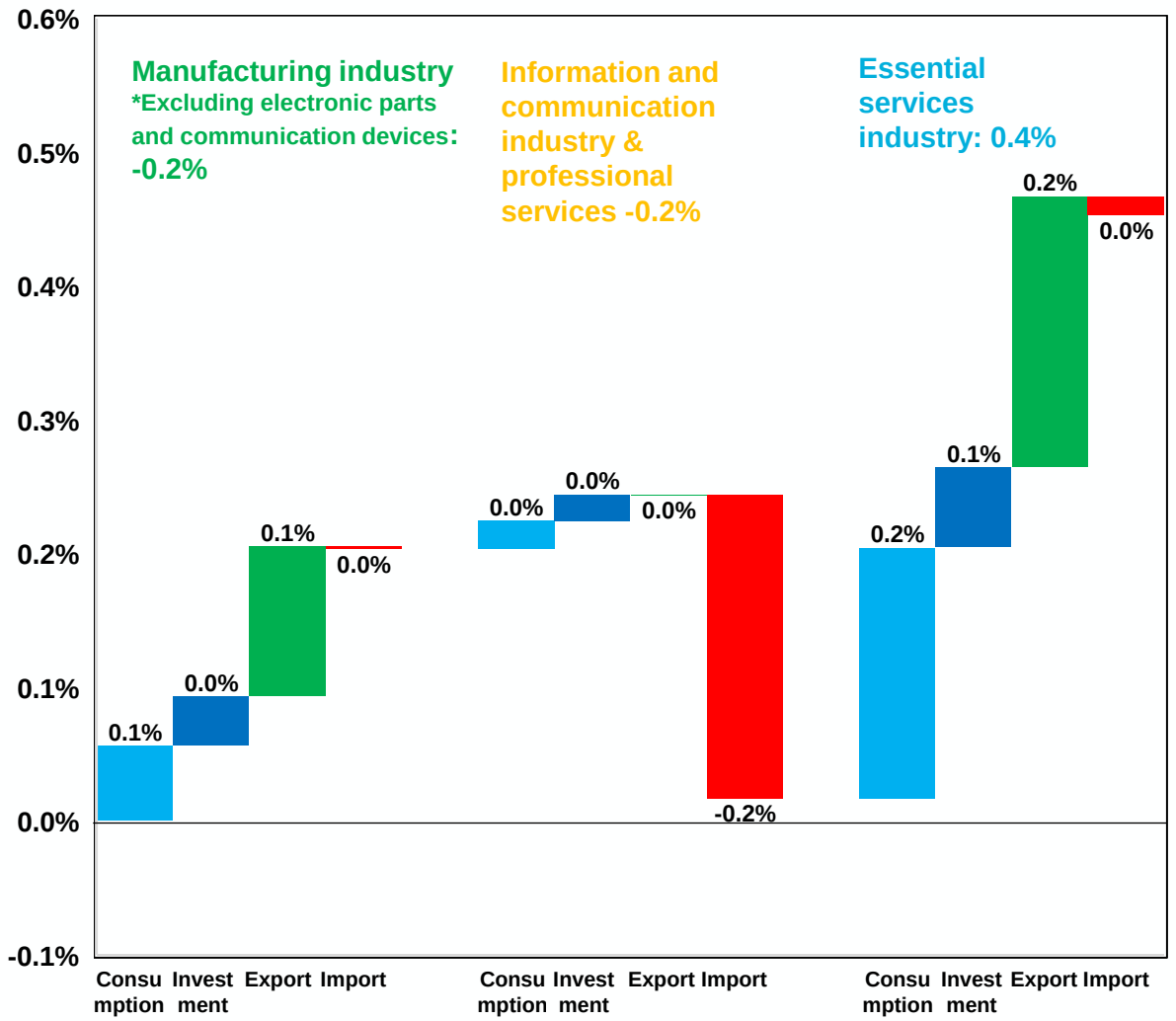
(Note) Based on the Ministry of Health, Labour and Welfare's "Estimated Number of Care Workers under the 9th Long-Term Care Insurance Service Plan (Appendix 1)," demand is calculated by taking the number of care workers in FY2022 as 100 based in the number of care workers estimated by prefectures that are needed and using the projected volume of care services in the insurance plan estimated by each prefecture.
Supply in 2040 is calculated as being the same as in 2022. The KPIs for the nursing care sector decided by the Digital Administrative and Financial Reform Council aim to achieve approximately 30% efficiency improvement in facility-based services by 2040.
For the New Direction Case and Base Case, demand and supply in 2040 were calculated based on 2021, using real domestic demand and total working hours in the nursing care industry from estimates of the RIETI Industrial Structure Estimation Model.
Because productivity is calculated by dividing total demand by labor input, it is defined differently from general labor productivity
(Source) Ministry of Health, Labour and Welfare "Number of care workers needed based on the 9th Long-Term Care Insurance Project Plan (Appendix 1)"

Decomposition of demand contribution to nominal GDP growth rate (Base Case)

1994-2021



2021-2040 Base Case

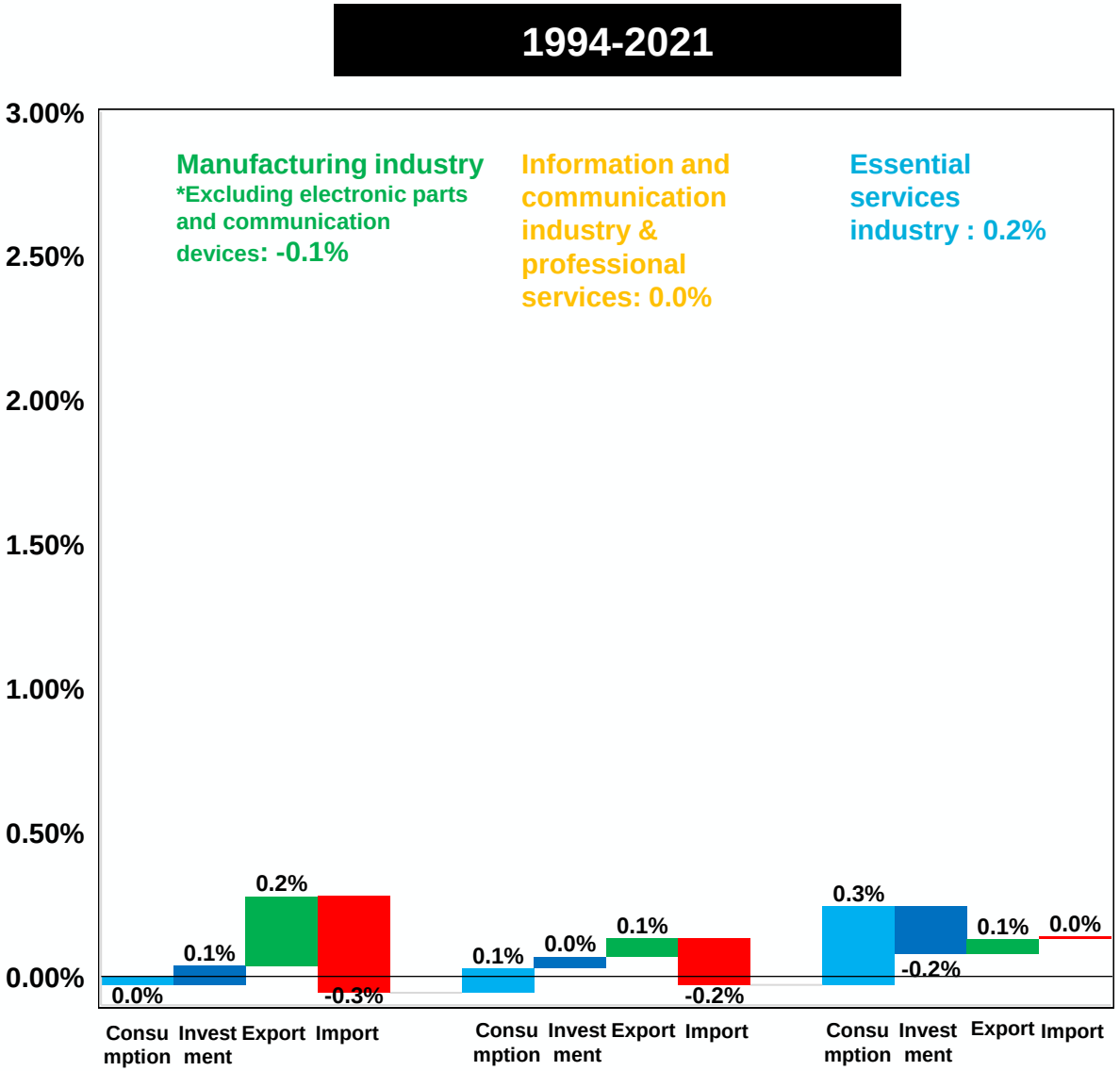


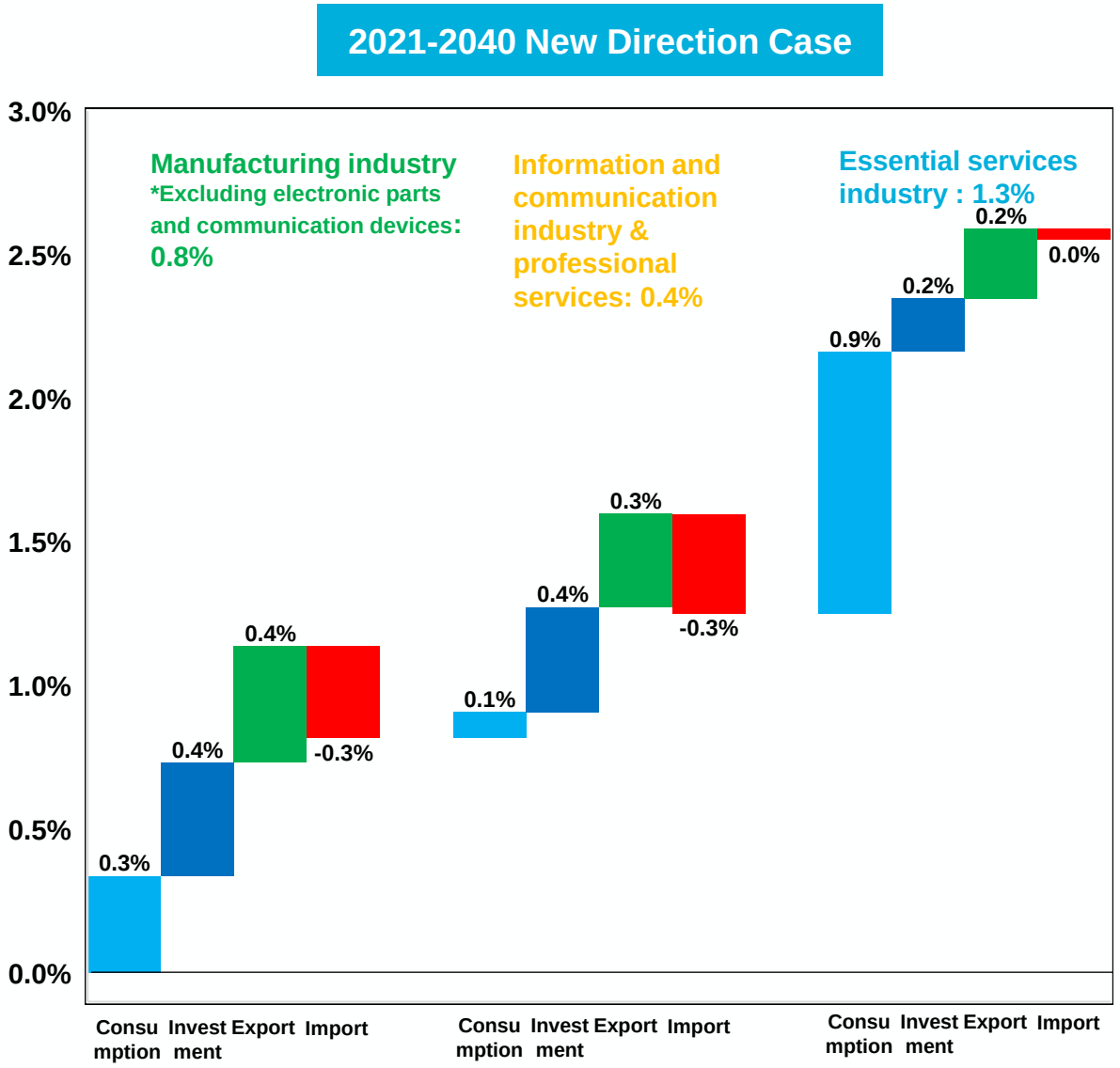
(Note) Calculated by breaking down the change in demand amount by industry and item into contribution rates based on the share of GDP in the target year. Due to changes in the components of the target year, the total of industry figures does not necessarily match the macro nominal GDP growth rate.

As industry-specific figures will be used for policy implications, figures for industries other than manufacturing, information and communications, professional services, and essential services are excluded. The 2040 figure uses the annual growth rate from 2021 to 2040 based on RIETI's macro model projections.

(Source) REITI, "JIP Database 2023."

Decomposition of demand contribution to nominal GDP growth rate (New Direction Case)





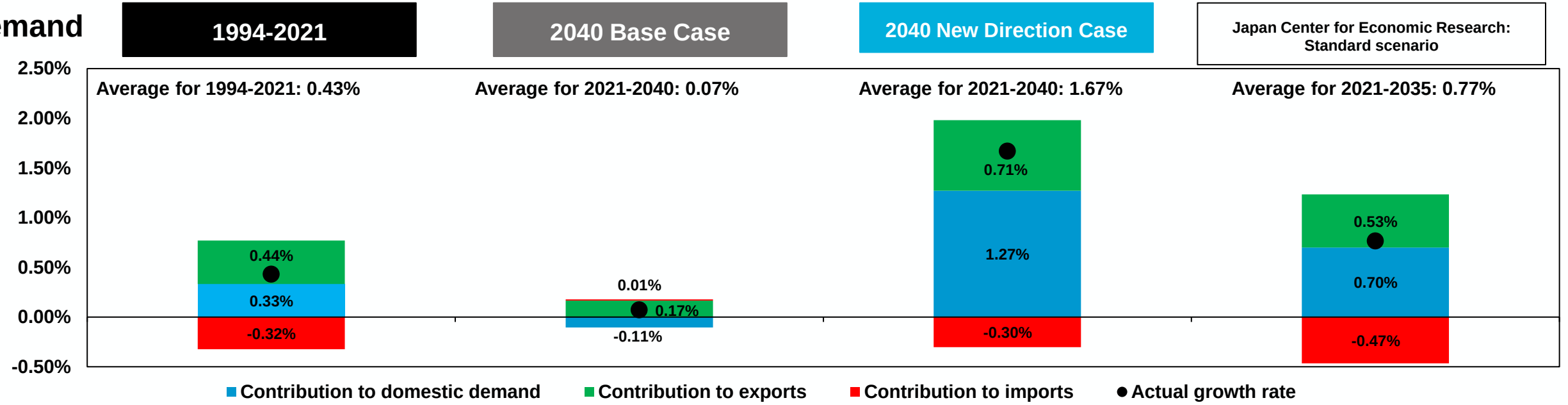
(Note) Calculated by breaking down the change in demand amount by industry and item into contribution rates based on the share of GDP in the target year. Due to changes in the components of the target year, the total of industry figures does not necessarily match the macro nominal GDP growth rate.

As industry-specific figures will be used for policy implications, figures for industries other than manufacturing, information and communications, professional services, and essential services are excluded. The 2040 figure uses the annual growth rate from 2021 to 2040 based on RIETI's macro model projections.

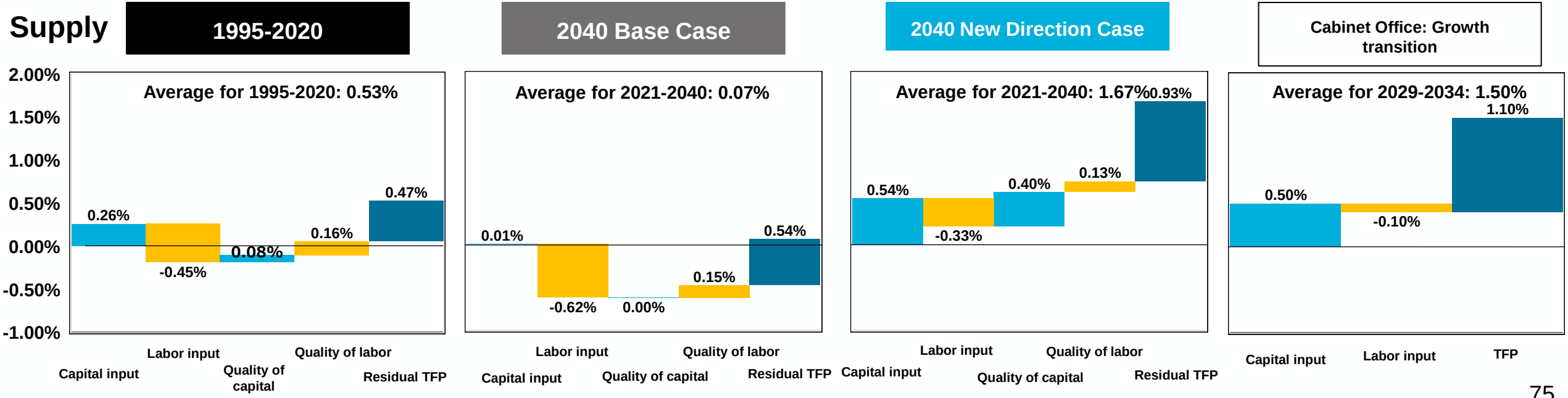
(Source) REITI, "JIP Database 2023."

[Reference] Breakdown of the contribution of demand and supply sides to real GDP growth rate

Demand



Supply



(Source) Past figures are from the RIETI's "JIP Database 2023," and each estimated figure is based on the Japan Center for Economic Research's "51st Medium-Term Economic Forecast" and the Cabinet Office's "Economic and Fiscal Projections for Medium to Long Term Analysis."

(Reference) Projection results from the RIETI Industrial Structure Estimation Model

		2021	2040 Base Case		2040 New Direction Case	
		Amount	Amount	Growth rate (annual rate)	Amount	Growth rate (annual rate)
GDP (trillion yen)	Nominal	547	607	0.5%	975	3.1%
	Real	547	554	0.1%	750	1.7%
Labor productivity (yen/hour)	Nominal	5,139	7,047	1.7%	10,260	3.7%
	Real	5,139	6,441	1.2%	7,892	2.3%
Wage (yen/hour)	Nominal (macro)	2,885	3,800	1.5%	5,366	3.3%
	Nominal (Manufacturing industry) * Excluding electronic parts and communication equipment	3,003	3,950	1.5%	5,316	3.1%
	Nominal (Information and communication industry & professional services)	3,171	4,157	1.4%	6,362	3.7%
	Nominal (Essential services industry)	2,702	3,582	1.5%	4,918	3.2%
	Real	2,885	3,208	0.6%	3,702	1.3%
Private gross fixed capital formation (trillion yen)	Nominal	94	106	0.7%	200	4.1%
	Real	94	94	0.0%	154	2.6%
Exports (trillion yen)	Nominal	102	131	1.3%	233	4.4%
Imports (trillion yen)	Nominal	117	143	1.0%	224	3.5%
Net exports (trillion yen)	Nominal	-15	-12		9	

(Note) The RIETI Industrial Structure Estimation Model uses 2021 as the base, and the nominal and real figures for 2021 are the same.
(Source) Past data come from REITI, “JIP Database 2023.”

Regarding the growth of household disposable income (take-home pay)

- Estimated the household disposable income in 2040 based on the economic assumptions of the RIETI Industrial Structure Estimation Model. However, social insurance premiums are based on the Cabinet Office's "Long-term Estimates of the Economy, Finances, and Social Security" and the Ministry of Health, Labor, and Welfare's "2024 Financial Review."

- As a result, **in the New Direction Case, disposable income (take-home pay) will grow at an annual rate of nominal +2.9% to +3.2% (+0.9% to +1.2% in real terms)** even if social security burdens are assumed to increase**, and will grow at a nominal +3.0% to +3.3% (+1.0% to +1.3% in real terms) if efforts are made to reduce the burden through social security (medical and long-term care) reform. In contrast, in the Base Case** where growth does not materialize, even if efforts are made to curb the burden**, growth will only amount to a nominal +1.2 to +1.3% (+0.3 to +0.4% in real terms)**.

<Outline of estimation method>

***All estimated with nominal values**

Disposable income (take-home pay) = **Total employee compensation** − **Direct taxes paid by households** − **Social insurance premiums**

RIETI Industrial Structure Estimation Model

*About direct taxes paid by households

- ✓ It is assumed that tax revenue in FY2021 ("current taxes levied on income, wealth, etc." in the SNA) will increase at a certain tax revenue growth rate until FY2040.
- ✓ The tax revenue growth rate is calculated in a range by **multiplying the nominal GDP growth rate of the RIETI industrial structure estimation model by 1 to 1.2**, based on the **tax revenue elasticity value (1.2) estimated by the Ministry of Finance.**

<Pensions>

Employees' pension and national pension insurance premiums for FY2040 in the Ministry of Health, Labour and Welfare's "FY2024 Financial Review"

<Medical and residential care

The total amount of insurance premiums is calculated by multiplying the ratio of medical and long-term care insurance premiums to GDP for FY2040 in the Cabinet Office's "Long-term Estimates of the Economy, Finance, and Social Security" by nominal GDP in the RIETI Industrial Structure Estimation Model

(Note) Each figure has been mechanically estimated based on certain assumptions and should therefore be interpreted with a considerable margin.
(Source) Ministry of Finance "Estimated impact of the FY2025 budget on future expenditures and revenues," Cabinet Office "Long-term estimates on the economy, finances, and social security," Ministry of Health, Labor and Welfare "Financial verification for FY2024 (relevant estimates of the current state and outlook for finances related to the National Pension and Employees' Pension Insurance (detailed results))."

(Reference) Correspondence of economic assumptions related to social insurance premiums

◆ <Human health and residential care > Cabinet Office "Long-term Estimates of the Economy, Finance and Social Security" (Medical and long-term care insurance premium burden)

- **Economic assumptions** (**Nominal GDP growth rate (annualized)**) :**(1) 0.6%** in the **Past Projection Scenario** ⇔ **0.57% in the Base Case of the RIETI Industrial Structure Estimation Model**
  (2) 2.8% in the **Growth Transition Scenario** ⇔ **The New Direction Case marked 3.1%**
  (3) 3.3% in the **High Growth Realization Scenario**

⇒ Based on this, the Base Case was mechanically **made to correspond to the Past Projection Scenario, and the New Direction Case to the Growth Transition to High Growth Realization Scenarios.**

- **Insurance premium burden:** In each of the cases of **(1) excluding the reform effects, and (2) including the reform effects)**, the total amount of insurance premiums is calculated by multiplying the ratio of medical and long-term care insurance premiums to GDP in FY2040 by nominal GDP from the RIETI Industrial Structure Estimation Model.
  - An **increase in benefits** are expected from **(1) Reform effects not included: Growth due to aging factors + growth in unit costs** (linked to prices and wages) + **Other factors** (advancement of medical care, etc.) Other factors are **estimated to have an annual growth rate of 1% taking into account past performance**.
  - **(2) Including reform effects** : **When reforms to benefits and burdens are implemented to offset increases due to "**other factors" (advances in medical care, etc.).

◆ <Pensions> Ministry of Health, Labor and Welfare "2024 Financial Review " (Insurance premium burden for pensions)

- **Economic assumptions (Actual GDP growth rate (annualized)):**

*Because the Financial Review does not provide nominal GDP growth rates, real growth rates are used for comparison.

(1) -0.1% in **the Past 3 Decade Projection Scenario** ⇔ **0.07% in the Base Case of the RIETI Industrial Structure Estimation Model**
(2) 1.1% in the Growth-oriented Economy Transition/Continuation Case
(3) 1.6% in the **High Growth Realization Case** ⇔ The **New Direction Case** marked **1.7%**

⇒ Based on this, the Base Case was mechanically **made to correspond to the Projection of the Past 3 Decades Scenario, and the New Direction Case to the High Growth Realization Cases.**

(Note) The nominal GDP growth rate in the Cabinet Office's "Long-term Estimates for the Economy, Finance, and Social Security" is the average growth rate from FY2025 to FY2060. Nominal/real GDP growth rates in the RIETI Industrial Structure Estimation Model are average growth rates for FY2021 to FY2040. The real GDP growth rate in the Ministry of Health, Labor and Welfare's "2024 Financial Review" is the average growth rate over the 30 years from FY2034 onward.
(Note) Estimated medical and nursing care benefits in The Cabinet Office's "Long-term Estimates of the Economy, Finance, and Social Security" are estimated based on two cases of the growth rate of "other factors," including the advancement of medical care, etc. there are two options: a 1% annual rate case, taking into account past performance, and a 2% annual rate case, assuming an accelerated advancement of medical care. However, since the proportion of insurance premiums and public funds in benefits is clearly stated as a 1% annual rate case, the case in which "other factors" grow at a 1% annual rate was adopted for this estimate.
(Source) Cabinet Office "Long-term Estimates for the Economy, Finances, and Social Security," Ministry of Health, Labor, and Welfare "Financial Verification for 2024 (Related Estimates of the Current State and Outlook of Finances Related to the National Pension and Employees' Pension Insurance (Detailed Results))," Cabinet Office "National Accounts,"Ministry of Health, Labor, and Welfare "Social Security Cost Statistics for 2021."

(Reference) Projection results

(Unit: trillion yen) *Growth rate and expansion rate are annualized. All nominal values

RIETI Industrial Structure Estimation Model	(1) Nominal GDP 2021	(1) Nominal GDP 2040	(2) Nominal GDP Growth rate (2021-2040)	(3) Total employee compensation 2021	(3) Total employee compensation 2040	(4) Total employee compensation growth rate	(5) Total employee compensation growth rate (Hourly wage base)	(6) Tax revenue elasticity	(7) Tax revenue growth rate * (2)×(6)	(8) Tax revenue 2021 *SNA results (direct taxes on households)	(8) Tax revenue 2040 *2021 actual x (7)			(17) Disposable income 2021 *(3)-(8)-(12)	(17) Disposable income 2040 *(3)-(8)-(12)	(17) Disposable income Growth rate (2021~2040)	(17) Disposable income Growth rate (Hourly wage base)
Base Case	547.4	606.7	0.5%	288.6	305.2	0.3%	1.5%	1.2 (1.0)	0.7% (0.5%)	62.4	70.6 (69.2)	Past Projection Scenario	(1) Not including reform effects	150.7	152.9 (154.4)	0.1% (0.1%)	1.2% (1.3%)
													(2) Including reform effects		154.7 (156.2)	0.1% (0.2%)	1.3% (1.3%)
New Direction Case		974.6	3.1%		477.7	2.7%	3.3%		3.7% (3.1%)		124.4 (111.1)	Growth Transition Scenario	(1) Not including reform effects		232.9 (246.2)	2.3% (2.6%)	2.9% (3.2%)
													(2) Including reform effects		234.8 (248.1)	2.4% (2.7%)	3.0% (3.3%)
												High Growth Realization Scenario	(1) Not including reform effects		233.8 (247.2)	2.3% (2.6%)	2.9% (3.2%)
													(2) Including reform effects		235.8 (249.1)	2.4% (2.7%)	3.0% (3.3%)

Long-term estimates by the Cabinet Office

		(9)2040 Medical and long-term care insurance premiums to GDP ratio	(10)2040 Medical and long-term care insurance premiums *(1)×(9)
Past Projection Scenario	(1) Not including reform effects	5.7%	34.6
	(2) Including reform effects	5.4%	32.8
Growth Transition Scenario	(1) Not including reform effects	5.1%	49.7
	(2) Including reform effects	4.9%	47.8
High Growth Realization Scenario	(1) Not including reform effects	5.0%	48.7
	(2) Including reform effects	4.8%	46.8

Pension finance verification

	(11)2040 Pension insurance premiums (Total of Employees' Insurance and National Pension)
Projection Case for the past 3 decades	47.1
High Growth Realization Case	70.7

(12)Social insurance premiums

	2021 *Actual social security expenditure statistics (total value for medical care, long-term care and pensions)	2040 *(10)+(11)	Growth rate (2021~2040)
Past Projection Scenario	75.5	81.7	0.4%
		79.9	0.3%
Growth Transition Scenario (Pensions in the High Growth Case)		120.4	2.5%
		118.4	2.4%
High Growth Realization Scenario		119.4	2.5%
		117.5	2.4%

(Note) Each figure has been mechanically estimated based on certain assumptions and should therefore be interpreted with a considerable margin.
(Source) Created from Cabinet Office "National Accounts," Cabinet Office "Long-term Estimates for the Economy, Finances, and Social Security," Ministry of Health, Labor, and Welfare "Financial Verification for 2024 (Related Estimates of the Current State and Outlook of Finances Related to the National Pension and Employees' Pension Insurance (Detailed Results))," Cabinet Office "National Accounts," Ministry of Health, Labor, and Welfare "Social Security Cost Statistics for 2021."

Estimation Method for Employment Structure Projections

A Future Outlook in 2040 and New Direction Case

<Assumptions>

- ✓ **Domestic investment :** Aiming for 200 trillion yen in fiscal year 2040 with **a nominal growth rate of +4% (as per the public-private target of the Domestic Investment Forum)**
- ✓ Taking into consideration **A future outlook around 2040(qualitative) * , the GX2040 Vision, and the 7th Strategic Energy Plan,** among others
- ✓ Taking into account the impact of the promotion of AI and robotics utilization, as well as improvements in labor quality through reskilling and other measures.

* June 2024, Industrial Structure Council - Committee on New Direction of Economic and Industrial Policies 'Third Report

<Future outlook by industry>

○ Manufacturing industry X

- ➢ Differentiate through GX and frontier technologies, and create new demand through service transformation via DX, leading to high value-added employment expansion and wage increases

○Information and communication industry・Professional services industry

- ➢ Create new added value by developing new demand, resulting in wage increases that surpass other industries.

○ Advanced essential Service

- ➢ Utilize labor-saving equipment and services effectively to achieve wage increases

the Estimation of the Employment Structure in 2040

Using the output (industrial structure) under the New Direction Case.

<Human Resource Demand>

✓ Employment figures by industry under New Direction Scenario are disaggregated using the ratios for **industry , occupation ,and educational background based on the latest data (2020).**

✓ Based on that, we consider the following:

1. Changes in job types due to the impact of automation by industry.

2. Changes in the educational composition of job types.

Analyze the differences between the two are analyzed as a mismatches.

<Human Resource Supply>

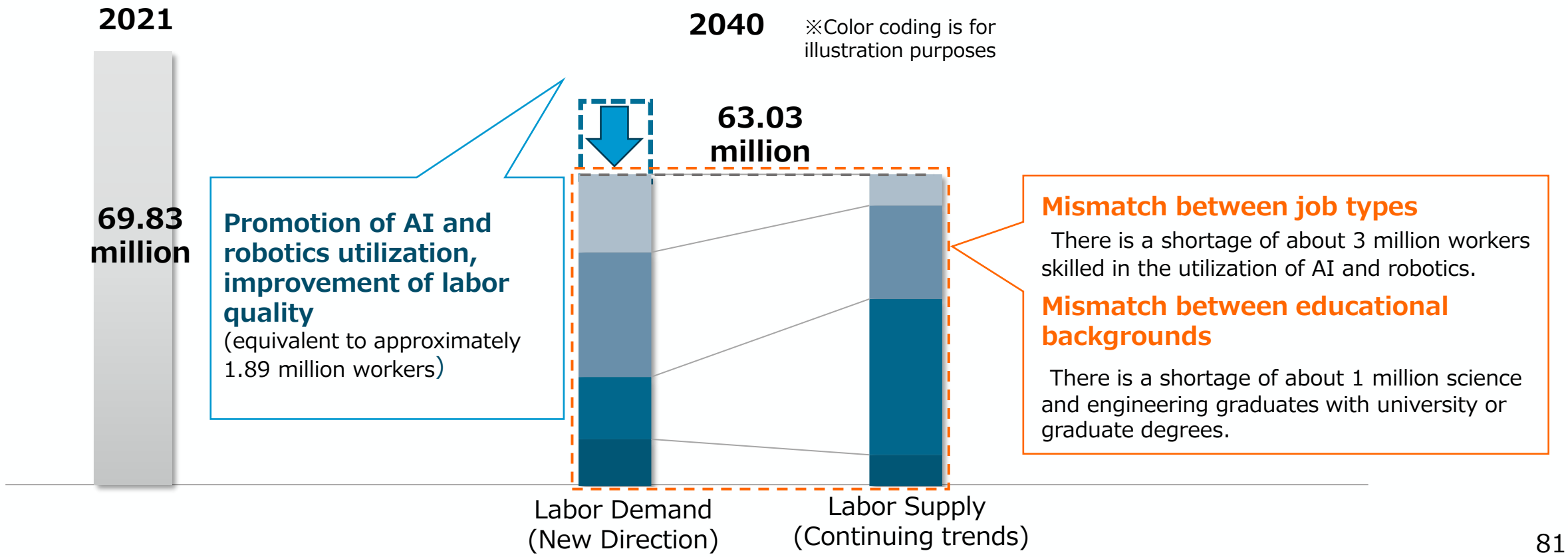
✓ Assuming that **the latest trends of employment figures by industry and occupation continue**, we estimate and disaggregate the ratios for industry , occupation ,and educational background for employment figures in 2040. *

※Regarding education, under the assumption that there will be no significant changes in the last school completed, adjust the current ratios (2020) will be adjusted according to age groups while taking into account the rising university enrollment rates。

*Utilization of the 2023 Labor Supply and Demand Estimates (JILPT) Labor Participation Gradual Scenario

the Estimation of the Employment Structure in 2040

- In the "A Future Outlook in 2040 and New Direction Case," it is projected that while labor supply will decrease due to population decline caused by low birth rates and an aging population, significant shortages will not occur thanks to **the promotion of AI and robotics utilization, as well as improvements in labor quality through reskilling (covering a shortfall of approximately 2 million workers)**. Moving forward, policy responses will be necessary to realize this scenario.
- On the other hand, if the current trends in labor supply continue, **there is a risk of mismatches occurring between different job types and educational backgrounds**. **This necessitates strategic human resource development and the promotion of smooth labor mobility**.



Mismatch Between Job Types

- With the advancement of generative AI and robotics, there is a possibility of **an excess of approximately 3 million workers in administrative, sales, and service roles**. In many industries, there is a trend toward shortages of researchers and engineers.
- In particular, there is a risk of **a shortage of about 3 million workers across various industries who are responsible for the utilization of AI and robotics**.

		Administrative and managerial workers	Professional and engineering workers	Personnel responsible for the utilization of AI and robotics	Administration officer	Sales workers	Service workers	Manufacturing process workers	Transport and machine operation workers	Carrying, cleaning, packaging and related workers, etc.
All Industries	**Labor Demand in 2040** (Labor supply in 2040, assuming current trends continue)	124 (175)	1387 (1338)	498 (172)	1166 (1380)	735 (786)	714 (724)	865 (583)	193 (169)	415 (269)
	Mismatch with Supply *Current Employment Figures as of 2021	**51** *143*	**-49** *1281*	**-326** *196*	**214** *1420*	**51** *834*	**10** *880*	**-281** *885*	**-24** *244*	**-146** *516*
Breakdown of Labor Demand by Major Industries in 2040	**Manufacturing**	24	206	130	196	52	0.7	642	10	52
	Information and communications	3.9	131	46	43	14	0.3	3.9	0.2	0.8
	Wholesale and retail trade	25	58	28	186	489	5.8	102	4.3	106
	Construction	19	42	13	84	23	0.6	38	14	5.7
	Accommodations	1.8	6.9	5.6	4.9	3.9	86	1.0	0.3	6.5
	Eating and drinking services	2.6	2.8	1.0	7.4	8.7	172	1.9	0.5	12
	Transport and postal activities	5.8	21	18	68	5.8	2.9	6.4	128	81
	Medical, health care and welfare	5.5	450	94	107	1.6	255	6.5	10	14

(Note) The industry classifications are based on the Japan Standard Industrial Classification, and the occupational classifications are based on the Japan Standard Occupational Classification. Additionally, there are occupational classifications not included in the table, so the total mismatch does not equal zero. Only the major classifications of industries and occupations are listed.

(Unit: Ten Thousands)

Mismatch between educational backgrounds

- There is a risk of **a shortage of over 1 million science and engineering graduates, particularly among researchers and engineers**. Additionally, there is a risk of **a shortage of nearly 1 million high school graduates, particularly in production processes, including those from junior colleges and technical colleges**.
- While demand for administrative positions is decreasing, there is **a possibility of an excess of approximately 300,000 graduates in the humanities**, as their supply is currently on the rise.

		High School Graduates	Junior College / Technical College Graduates	University Graduates (Science and Engineering)	Graduate School Graduates (Science and Engineering)	University Graduates (Humanities)	Graduate School Graduates (Humanities)
All Industries	**Labor Demand in 2040** (Labor Supply in 2040, assuming current trends are extended)	2112 (2075)	1212 (1160)	685 (625)	227 (181)	1545 (1573)	83 (90)
	Mismatch with Supply **Current Employment Figures as of 2021*	**-37** *2735*	**-52** *1240*	**-60** *563*	**-47** *154*	**28** *1332*	**7** *70*
Breakdown of Labor Demand by Major Industries in 2040	**Administrative and managerial workers**	27	13	23	4.0	50	1.6
	Professional and engineering workers	190	311	210	151	438	57
	Personnel responsible for the utilization of AI and robotics	94	52	78	87	155	27
	Administration officer	295	251	157	31	397	12
	Sales workers	214	122	76	7.5	271	3.9
	Service workers	277	196	39	2.0	119	1.7
	Manufacturing process workers	442	147	82	23	107	3.8
	Transport and machine operation workers	110	21	8.2	1.1	28	0.3
	Carrying, cleaning, packaging and related workers, etc.	214	60	17	1.2	56	0.6

(Note) The occupational classifications are based on the Japan Standard Occupational Classification, and the educational classifications are based on the categories from the 2020 National Census. There are educational classifications (Others) not included in the classification table, so the total mismatch does not equal zero. Only the major classifications of occupations are listed.

(Unit: Ten Thousands)

1. Japan’s Economic Environment of the Past 3decades
2. Changes in the Social and Macroeconomic Environment
3. Industrial Policies Becoming More Active Around the World A
4. Framework for New Direction of Economic and Industrial Policie
5. Situations and Challenges of “Turning Points”
6. Medium to Long Term Outlook and Policy Challenges
(in response to the “A future outlook in 2040”)

7. Direction of Economic and Industrial Policies Going Forward

Direction (1): Structural reforms to encourage growth investment that will generate new value added
Direction (2): Local economies/industries capable of sustainable growth even under higher prices and labor shortages
Direction (3): Enhancing economic infrastructure to actualize growth investment

Policy direction[1] - Structural reforms to encourage growth investment that will generate new value added - ⇒Adding high values through public-private investment in highly strategic sectors and cross-sectoral structural reforms

(1) Encouraging high-value-added growth investment

⇒Creating a new social framework that will encourage companies to completely actualize growth investment, with their **main business focus placed on next-generation investment** that will contribute to higher value added

- **Investment under public-private partnership in strategic areas,** such as GX, DX, economic security, health, biomanufacturing, and contents sectors
- Encouraging companies to **make growth investment or reorganize their business portfolio by creating the social system and policy system centered on corporate growth strategies** (**taking policy actions, including corporate tax incentives, to encourage R&D and capital investment toward growth investment-oriented structures; amending the Companies Act for expanding options for companies and making dialogue with investors more substantive and efficient; providing ample risk money supply; taxation system related to organizational restructuring; competition policies**, etc.)

(2) Creating higher value-added industrial structure through digitalization and servitization

⇒Creating business environment **capable of competing in the global markets, supported by higher value added as well as production volume** through digitalization and servitization (**Manufacturing industry X, etc.**)

- Creating appropriate basic infrastructures such as semiconductors and computing resources **(**utilizing the **AI and Semiconductor Industry Foundation Strengthening Framework**, etc.); Creating new players and new industries that **make use of AI/data** (**creating data linkage use cases, protecting industrial property rights, cyber security,** etc.); **enhancing international competitiveness of the contents industry**

(3) Establishing new ecosystem for generating innovations persistently

⇒Creating a social system that can restore **R&D supporting differentiation through frontier technologies** to the world's highest level

- Identifying **strategic technological areas** and providing **comprehensive support** through to commercialization (human resources, R&D, innovation hub creation, capital investment, startup, standardization, etc.)
- Beefing up **basic research capabilities** through intensive support to **"growing universities" (making university management more flexible, drastically enhancing industry-academia-government collaboration, etc.)**
- Pushing ahead with and beefing up **startup policies** (**strengthening global connectivity, providing seamless support through to commercialization, promoting public/private procurement, promoting M&A, etc.**)

(4) Restructuring human resources system in response to industrial structural transformation

⇒**Sharing possible future demand for human resources between the public and private sectors** under structural workforce shortages, **aiming to encourage investment in human resources with main focus put on next-generations** and eliminate mismatch

- **Clarifying the demand for human resources** based on employment structure estimation and **fostering/utilizing on-site specialists and top human resources in highly strategic areas such as GX and DX** in cooperation with related ministries/agencies based on such analytical findings
- Promoting **labor market reforms**, including facilitating labor mobility to growing sectors through reskilling, and grasping and reviewing the situation in the government based on the passage of five years since the enforcement of the Act on the Arrangement of Related Acts to Promote Work Style Reform, etc.

Aggressive management, investment and innovation: The evolution of corporate governance in Japan

- **Until the** 1980s**: Main bank system of governance was the norm** (Banks also held the position of major shareholders)

(= Centered on “insider-type governance” through loose mutual monitoring among stakeholders such as main banks)

- **1990s and 2000s**: Financial liberalization and an increase in non-performing loans led to a contraction of the main bank system

(= **The importance of "outsider-style governance" that emphasizes external shareholders gradually increased**)

- From **the 2010s** onward: Taking into consideration the efforts of other countries that have already taken the lead and in order to improve capital efficiency, **efforts on reforming corporate governance (Stage 1) accelerated.**

Example: Amendments to the Companies Act to encourage the introduction of outside directors, formulation of the Corporate Governance Code and Stewardship Code, etc.

- **Today**: **Progress in formal system development**, **but issues remain regarding** effectiveness in encouraging mid- to long-term growth investment, etc.

Example 1) The percentage of companies listed on the Tokyo Stock Exchange Prime Market in which independent outside directors make up at least one-third of the board of directors will be 98.1% by FY2024 (6.4% in FY2014).

Example 2) The variable compensation ratio for CEOs of large companies will be approximately 70% in FY2022 (approximately 40% in FY2015)

- From here, **Stage 2 will be to put growth investment into practice**

The need for a social system and policy system centered on corporate growth strategies

Partially edited version of Document 4 from the 1st Value Creation Management Subcommittee Meeting (February 4, 2025)

- In transitioning from a cost-cutting economy to a growth-oriented economy driven by wage increases and investment, it is **essential to build a social and policy systems centered on corporate growth strategies**. The aim is to enable companies to adopt a "growth-oriented management approach", in which they take risks and, **strive for sustainable growth and enhance corporate value**. In other words, build growth expectations with **a growth strategy based on a medium- to long-term perspective**, optimizing their business portfolio, and making aggressive **growth investments**.

Sustained growth and medium- to long-term enhancement of corporate value (Resulting in high PBR)

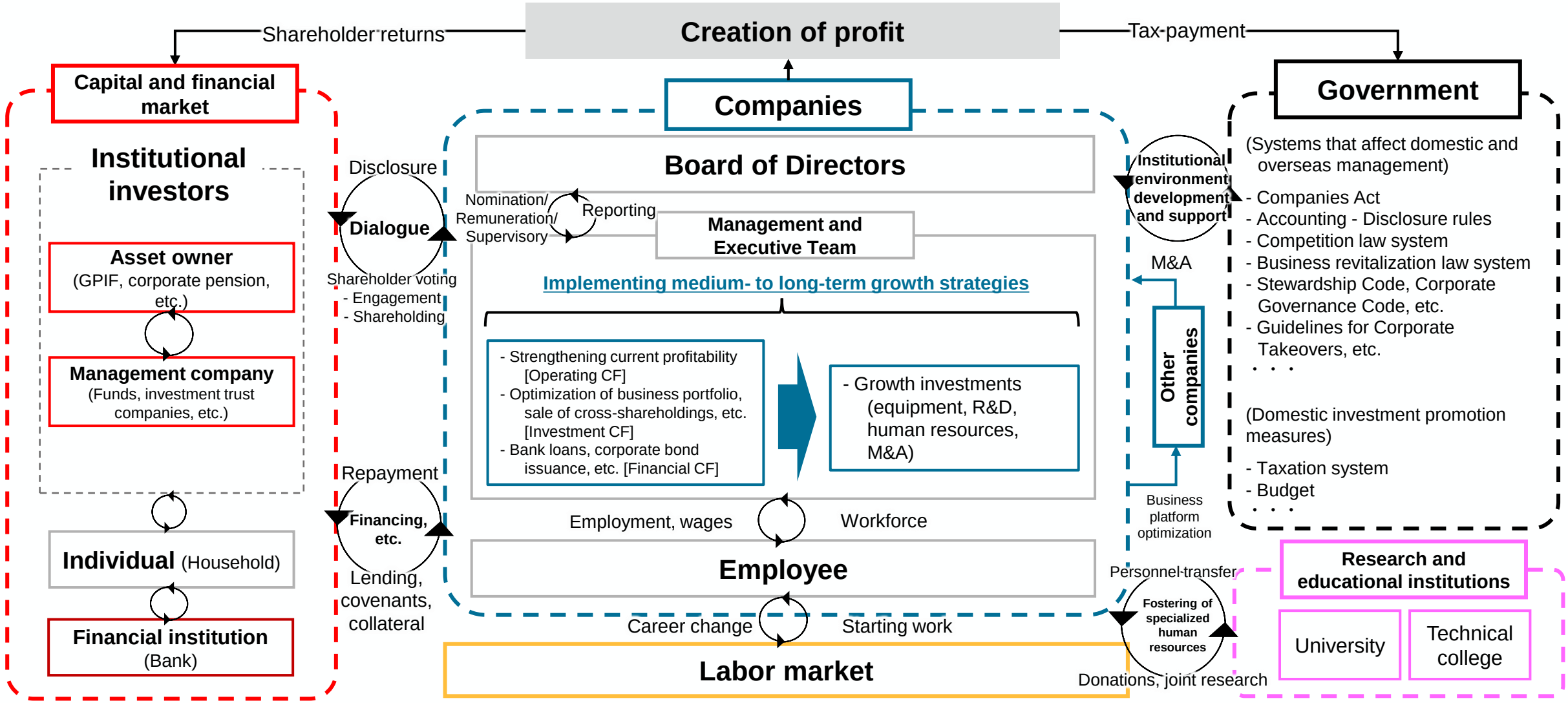
Greater profitability and capital efficiency (ROE) and fostering of future growth expectations (PER)

Business management that builds growth expectations with growth strategies based on a medium- to long-term perspective, optimizes business portfolio, and makes aggressive growth investments
(Growth-oriented management approach)

Social and policy systems centered on corporate growth strategies
(e.g., systems for corporate governance, capital markets, and business portfolios)

The overall image of a social system and policy system centered on corporate growth strategies

Partially edited version of Document 5 from the 2nd Value Creation Management Subcommittee Meeting (March 4, 2025)



Future Directions of Amendment of the Companies Act to Encourage Companies' Investment for Growth

Corporate Governance Study Group: Report on the Revision of the Companies Act (Summary) (January 17, 2025), Excerpt

- **From the perspective of encouraging corporate management to take bold risks and invest for growth** to **enhance companies' earning power**, it is important to amend promptly, as **part of the integrated reform of corporate management and capital markets**, the corporate law system, which is the foundation of business activities, in a way that contributes to **increasing options that companies can choose from in carrying out their value creation story** and **promoting meaningful shareholder engagement (by making dialogue more substantial and efficient)**.
- In addition, it is necessary to **further enrich integral discussions on how the regulations should be regarding the design of organizations and shareholders' meetings, which are closely related to the corporate governance system**, while taking into consideration future changes in the corporate management of Japanese companies as well as in the capital markets.

Issues related to the reform of corporate management (increasing options that companies can choose from)

Execution of a value creation story

- **Promoting human-resource investment by utilizing stocks**: Allowing companies to issue shares without contribution to their employees and their subsidiaries' officers and employees (in addition to directors and executive officers).
- **Promoting M&As by utilizing shares**: Allowing companies to deliver their shares as consideration even in cases where companies acquire foreign companies (in addition to cases where they acquire domestic companies).
- **Creating an environment for encouraging investment for growth by utilizing corporate bonds**: Allowing companies to virtually hold bondholder meetings in a flexible manner.
- **Encouraging management to appropriately take risks**: Allowing management (directors and executive officers) to enter into agreements limiting liability (in addition to outside directors).

Establishment of a value creation story

- **Reviewing the design of organizations**: In companies with nominating committees, etc., vesting in their board of directors, rather than respective committees, the authority to finally decide on the appointment (or remuneration), only in cases where the majority of the directors are outside directors. [Discussions on future directions involving this issue should be continued, including whether or not this review is necessary.]

Shareholder engagement (making dialogue more substantial and efficient)

- **Improving information disclosure**: Encouraging companies to enhance shareholder engagement through information disclosure of both the company and the shareholders:
  - ✓Helping companies to acquire information on beneficial shareholders who are subject to dialogue (those who give instructions to exercise voting rights but are not listed in a shareholder register) (establishment of a system for the right to request disclosure)
  - ✓Creating an environment in which companies seek solutions to duplicated preparation of documents for disclosure under the Companies Act (e.g., business reports) and disclosure under the Financial Instruments and Exchange Act (annual securities reports), and striking a balance between enhancing the efficiency of information disclosure by companies and improving the quality of information acquisition by investors [Discussions on this issue should be continued, including obstacles in business practices.]
- **Introducing virtual shareholders' meetings and enhancing the efficiency of shareholders' meetings**: Encouraging companies to utilize human resources and time in holding constructive and effective dialogue outside shareholders' meetings.
  - ✓Realization of virtual-only shareholders' meetings: Allowing companies to hold virtual-only shareholders' meetings under the Companies' Act instead of the Act on Strengthening Industrial Competitiveness (aiming to remove the process of confirmation from the competent minister)
  - ✓Relaxation of the requirements for omission of resolutions: Relaxing the requirements for the omission of resolutions at shareholders' meetings by non-listed companies and helping such companies to flexibly make decisions.

- Issues to be discussed further -

Issues related to the reform of corporate management

- **Ideal design of organizations for companies seeking to adopt the monitoring model**: Holding further discussions on whether or not the three designs of organizations under the current Companies Act provide appropriate options for companies to realize optimal corporate governance, in particular, discussions on ideal design of organizations for companies seeking to adopt the monitoring model, while taking into consideration future changes in corporate management as well.

Shareholder engagement

- **Further enhancement of efficiency and rationalization of shareholders' meetings**: Further holding discussions on ideal approaches to a system for enhancing the efficiency and rationalization of shareholders' meetings, in the cases where the deliberations on the date of the meeting can be considered less important.
- **Rationalization of shareholders' right to propose**: Further holding discussions on whether or not the requirements for shareholders' right to make proposals should be limited in companies whose board of directors fully exercises its monitoring function.

For more accurate and detailed information on each item, please refer to the Japanese version at the link below.
◆Study Group on Corporate Governance toward the Enhancement of Earning Power: Report on the Amendment of the Companies Act
https://www.meti.go.jp/shingikai/economy/earning_power/20250117_report.html

Outline of the Bill on Financial Debt Adjustment Procedures for Enterprises to Facilitate Business Recovery (Early Business Recovery Bill)

Background

- ✓ Corporate debt in Japan has **increased by over 120 trillion yen since before the COVID-19 pandemic**. With ongoing challenges such as rising raw material costs and labor shortages, the **number of bankruptcies** in 2024 **has surpassed 10,000 for the first time in 11 years**. Given the continued depreciation of the yen, inflation, labor shortages, and potential increases in borrowing interest rates due to monetary policy revisions, there is a growing concern that the **debt burden** will become a **hindrance to business activities to improve profitability**, causing companies to miss opportunities for business growth and leading to increased bankruptcies
- ✓ In response to these economic and social circumstances, it is important **to establish a framework that enables enterprises at risk of falling into financial distress to pursue early business recovery and avoid the damage to business value and the loss of technology and human resources, and to enhance economic dynamism**.

Challenges in the current debt restructuring procedures (in-court restructuring procedures such as civil rehabilitation and out-of-court restructuring procedures such as Turnaround Alternative Dispute Resolution (ADR))

- ✓ **In-court restructuring procedures** are **publicly announced** and **all claims, including trade debts, are subject to debt adjustment, which may likely have a significant impact on the damages to business value and profitability**.
- ✓ **Out-of-court restructuring procedures, which are not publicly announced and have less impact on commercial transactions, require unanimous consent from all relevant creditors**, which can **hinder further business recovery**.

To facilitate an early business recovery for enterprises at risk of financial distress, it is necessary to establish a new procedure that allows for the adjustment of debt obligations, limited to financial debts*, with the involvement of a neutral third party designated by the Minister of Economy, Trade and Industry. The adjustment must be approved by a majority vote of relevant creditors, such as financial institutions (i.e., those holding more than 3/4 of the total voting rights) and is subject to court approval.

*In European countries, there are frameworks in place that **allow for debt adjustment prior to insolvency based on majority vote of creditors and subject to court approval**, separate from formal insolvency proceedings. Japan, however, does not currently have such a framework.

*Trade claims, labor claims, and other non-financial claims are not included.

Main steps of the procedure for adjusting debt obligations of enterprises for early business recovery

[1] Application for the procedure

The enterprise (debtor) applies for the procedure to a third-party organization (designated organization)*

* The Minister of Economy, Trade and Industry designates a neutral third-party organization to supervise the procedures. The designated organization must meet certain requirements, such as having the capacity to appoint appropriate professionals for each case who possess expert knowledge and practical experience in business recovery.

[2] Confirmation by a third-party organization

The third-party organization confirms, based on documents submitted by the enterprise, including written materials outlining the proposed changes to the financial claims held by financial institutions, etc. and the direction of business recovery, and a list of the relevant claims, whether the requirements are met such as the necessity of debt adjustment (the enterprise is at risk of falling into financial distress), the likelihood of a resolution being approved at the relevant creditors' meeting, and the likelihood of conformity with the general interest of the relevant creditors (satisfying the liquidation value test).

[3] Resolution at the relevant creditors' meeting

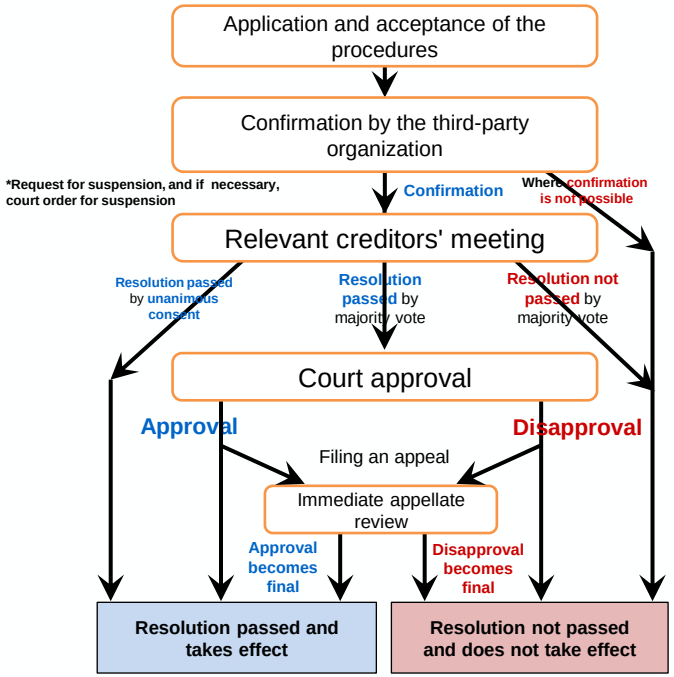
At the relevant creditors' meeting, after the enterprise provides information and the creditors are given an opportunity to express their opinions, a resolution to modify the unsecured portion of the relevant claims is passed by a majority vote, specifically, consent of creditors holding at least 3/4 of the total voting rights. If a single creditor holds 3/4 or more of the voting rights, the consent of a majority in number of the voting rights creditors is also required.

* An early business recovery plan, containing projections of the enterprise's assets, liabilities, and other relevant information, is presented to assist in deciding whether to approve or reject the proposed adjustment of rights.
* Before a resolution is passed, the third-party organization investigates the matters provided by laws and regulations, such as the calculation of the business operator's assets and liabilities, regarding the modification of the relevant claims and the early business recovery plan, and then report the results

[4] Court approval of the resolution adopted at the relevant creditors' meeting

The court, acting in a supervisory capacity, determines whether to approve or disapprove the resolution after examining whether there are any defects such as procedural violations of laws and regulations or any elements that undermine the fairness of the resolution, and whether the liquidation value test is satisfied, while hearing the opinions of the third-party organization and the creditors.

* Immediate appeal against court approval is possible (ensuring an opportunity to file an objection)



Corporate Governance Guidance for Enhancement of Earning Power: Overview

Main Target: Companies Constituting the TOPIX 500

Objective: To support companies in their efforts to engage in corporate governance initiatives aimed at enhancing their earning power* rather than to merely comply with the principles of the Corporate Governance Code in a formal manner.

*This refers to the improvement of profitability and capital efficiency not in the short-term, but **in the medium- to long-term in a sustainable manner**.

Note: The guidance shows examples of corporate governance initiatives aimed at strengthening earning power for each company, and it does not require uniform implementation of the initiatives described.

■ Summary of the Concept of Corporate Governance

Corporate Management Aimed at Enhancement of Earning Power

✓ It is important **to establish and execute a value creation scenario* that aligns with the company's competitive advantages**.

*This refers to a series of scenarios regarding the enhancement of long-term corporate value through establishment of the business model and the resolution of social issues.

<< Specific Actions>>

1. **Executing business portfolio restructuring and investment for growth.**
2. **Establishing effective corporate governance systems that support the CEO and the management team**, in establishing and executing the value creation scenario.
3. **Engaging in dialogue with shareholders and investors** to establish the value creation scenario, build trust and foster future expectations.

(Excerpt of a Key Message)

Five Principles for Board of Directors to Enhance "Earning Power"

✓ **The board of directors and the management team, including the CEO, should consistently be aware of and act according to these principles:**

Principle 1	Establishment of Value Creation scenario
Principle 2	Promotion of Appropriate Risk-Taking by Management
Principle 3	Promotion of Medium- to Long-Term Perspective Oriented Management
Principle 4	Ensuring an Appropriate Decision-Making Process and Structure
Principle 5	Ensuring Effectiveness in Nomination and Compensation

■ Consideration of Corporate Governance Initiatives of each Company

Consideration of the Corporate Governance Systems for each Company

✓ Present key d**iscussion points and examples of initiatives** which help discussions in each company

- Clarification of **the roles of corporate governance and allotment of such roles.**
- **A common understanding among all directors and the CEO along with the management team.**
- Selection of **the form of corporate organization.**

*An English translation of the overview of the guidance mentioned above and the Five Principles is scheduled to be published later by the Study Group on Corporate Governance toward the Enhancement of Earning Power.

Understanding Corporate Governance for Enhancement of Earning Power

✓ **Foundation for transparent, fair, timely, and decisive decision-making**

✓ **Ensuring the rationality and transparency of the decision-making process while granting discretion and responsibility to management.**

Overall Picture of Corporate Governance Initiatives

✓ **Initiatives for** enhancing **earning power through corporate governance**

1. Establishing **a board of directors** that supports the CEO and the management team, in executing operations in various ways.
2. Organize **a robust management team** capable of establishing and fulfilling the value creation scenario.
3. Establishing **a system for evaluation and verification** that ensures the effectiveness and sustainability of corporate governance.

✓ Relationship between the **value creation scenario and corporate governance**

➢ It is crucial to establish corporate governance systems where overall mechanisms function effectively, composed of **the establishment of a value creation scenario, the execution of business operations to realize that scenario, and the evaluation and verification processes.**

✓ **Actions for companies to gain earnings**

➢ **Properly reflecting the voices of shareholders and investors**: Refine the value creation scenario, build trust, and foster future expectations.

➢ **Concentrating valuable management resources on strengthening core businesses and investing in businesses expected to grow in the future, considering** the future **business model** and the corresponding **business portfolio.**

✓ How to address **corporate governance initiatives for enhancing earning power**

➢ It is important to thoroughly **discuss the corporate governance systems for each company** and establish effective structures and systems under **a consistent framework**, in order to ensure that **the board of directors and the management team fulfill their respective roles and function effectively in a balanced manner**.

Consideration of Corporate Governance Structures and Systems

✓ Identify the structures and systems that are considered particularly important from the perspective of enhancing earning power and present key discussion points and examples of initiatives which help discussions in each company.

➢ **The board of directors** (building agendas, fostering active discussions, delegating authority to the management team, evaluations of the board effectiveness (including evaluation of individual directors)

➢ **Nominating committee** (CEO succession planning, and determination as to whether the CEO should be reappointed (including CEO evaluation))

➢ **Compensation committee** (the structure of the compensation committee and compensation policies).

➢ **Management team including the CEO** (the structure of executive officer team such as C-suite executive team, the system and structure of the management meeting, and selection and training of executive candidates).

➢ **Secretariat of the board** (the structure and system of the secretariat of the board).

Five Principles for Board of Directors to Enhance "Earning Power"

①Principles for the Board of Directors

(Even executive directors, who belong to the management team, are expected to take actions in accordance with these principles, when they act as board members.)

- It is desirable for the board to **act in accordance with the Five Principles for board to Enhance "Earning Power".**
- **Directors need to establish a board** that contributes to the enhancement of "earning power" **by ensuring that actions based on these principles are continuously taken, while conducting evaluations and examinations through evaluations of the board effectiveness.**

Principle 1: Establishment of Value Creation Scenario
The board is expected to establish a value creation scenario that aligns with the company's competitive advantages.

- Discuss the proposed value creation scenario developed by the management team, considering the following points, provide feedback to the management team, and encourage further consideration by the management team as necessary.
  - Whether the content is linked to the company's strengths (including latent ones).
  - Whether social issues and stakeholders have been considered.
  - Whether multiple scenarios based on a proper analysis of long-term changes in the business environment have been considered.
  - Whether medium- to long-term capital efficiency and growth potential have been considered.
- In accordance with the changes in the business environment, continuously refine the value creation scenario in collaboration with the management team while engaging in dialogue with shareholders and investors as needed.

Principle 2: Promotion of Appropriate Risk-Taking by Management
The board is expected to promote the management team in undertaking appropriate risk-taking, such as business portfolio restructuring and investments for growth, aimed at fulfilling the value creation scenario.

- If the management team's actions toward fulfilling the value creation scenario are insufficient, encourage further actions, confirming the reasons for inaction.
- Regarding business portfolio restructuring and investments for growth, ensure that sufficient considerations are made, monitor the progress and results, and mitigate excessive risk-taking.

Principle 3: Promotion of Medium- to Long-term Oriented Management
While being mindful not to be a short-term oriented, the board is expected to promote the management team to adopt a medium- to long-term perspective and pursue growth-oriented management.

- Considering the valuation by the capital markets, assess whether the management team has made trade-offs that sacrifice medium- to long-term growth for short-term achievements and encourage corrective actions if such a situation arises.

Principle 4: Ensuring an Appropriate Decision-Making Process and Structure
The board is expected to encourage the management team to ensure that the decision-making process and the structure can contribute to its timely and decisive decision-making while being mindful to avoid micromanagement.

- Review the management team's decision-making process and structure, and if they are insufficient for establishing and fulfilling the value creation scenario, encourage the management team to improve the structures and systems.
- Take actions, being mindful of the roles expected for the board, and avoiding micromanagement, that hinder the creativity of the management team and create ambiguity in responsibility.

Principle 5: Ensuring Effectiveness in Nomination and Compensation
The board is expected to appoint the optimal CEO and establish a compensation policy, while conducting an annual evaluation of the CEO based on the contents of Principles 1 to 4 and determine whether the CEO should be reappointed.

- Develop a succession plan to appoint the optimal CEO as the top management and establish a compensation policy aimed at fulfilling the value creation scenario, while dividing roles with the management team.
- Annually evaluate the CEO to verify whether they are delivering the expected performance, including the status of medium- to long-term initiatives.
- Thoroughly consider who would be the optimal person to entrust with the CEO position, taking into account the company's desired vision, the business environment, and the results of the evaluation of the current CEO.

*An English translation of the Five Principles mentioned above is scheduled to be published later by the Study Group on Corporate Governance toward the Enhancement of Earning Power.

Five Principles for Board of Directors to Enhance "Earning Power"

②Actions to be Taken by the Management Team

- It is also desirable **for the CEO and the management team to take appropriate actions** in alignment with each principle.

Five Principles for the Board of Directors	Actions to be Taken by the Management Team
Principle 1: Establishment of Value Creation Scenario The board is expected to establish a value creation scenario that aligns with the company's competitive advantages.	✓ Develop the value creation scenario, focusing on the overall optimization perspective that leverages the group's strengths. ✓ Engage in discussions not only from the profit-and-loss (P/L) perspective but also from the balance sheet (B/S) and cash flow (C/F) perspectives.
Principle 2: Promotion of Appropriate Risk-Taking by Management The board is expected to promote the management team in undertaking appropriate risk-taking, such as business portfolio restructuring and investments for growth, aimed at fulfilling the value creation scenario.	✓ Execute business portfolio restructuring and investment for growth while considering the capital efficiency and the growth potential of the businesses to fulfill the value creation scenario.
Principle 3: Promotion of Medium- to Long-term Oriented Management While being mindful not to be a short-term oriented, the board is expected to promote the management team to adopt a medium- to long-term perspective and pursue growth-oriented management.	✓ Avoid an excessive focus on short-term achievements and execute operations with a medium- to long-term perspective based on the value creation scenario. ✓ Consider executing shareholder returns, taking into account shareholders' interests that stem from medium- to long-term growth.
Principle 4: Ensuring an Appropriate Decision-Making Process and Structure The board is expected to encourage the management team to ensure that the decision-making process and the structure can contribute to its timely and decisive decision-making while being mindful to avoid micromanagement.	✓ Organize a robust management team for the establishment and fulfillment of the value creation scenario. ✓ Establish systems that enable multi-faceted discussions and decision-making that account for changes in the business environment while avoiding sticking to biases in the company.
Principle 5: Ensuring Effectiveness in Nomination and Compensation The board is expected to appoint the optimal CEO and establish a compensation policy, while conducting an annual evaluation of the CEO based on the contents of Principles 1 to 4 and determine whether the CEO should be reappointed.	✓ Establish a system for appointment and development of suitable CEO candidates for the company's top management. ✓ Execute businesses aimed at fulfilling the value creation scenario while appropriately reporting progress to the board. ✓ Execute businesses for the following years taking into account the result of the evaluation by the board.

*An English translation of the Five Principles mentioned above is scheduled to be published later by the Study Group on Corporate Governance toward the Enhancement of Earning Power.

Ministry of Economy, Trade and Industry Semiconductor-related Supplementary Budget Project

- **FY2021 supplementary budget: 774 billion yen**
  - Advanced Semiconductor Fund: 617 billion yen
  - Semiconductor production equipment renewal subsidy: 47 billion yen
  - Post-5G Fund: 110 billion yen

- **FY2022 supplementary budget: 1.3036 trillion yen**
  - Advanced Semiconductor Fund: 450 billion yen
  - Economic Security Fund: 368.6 billion yen
  - Post-5G Fund: 485 billion yen

- **FY2023 supplementary budget: 1.9867 trillion yen**
  - Advanced Semiconductor Fund: 765.2 billion yen *Includes the remaining balance of existing funds
  - Economic Security Fund: 575.4 billion yen
  - Post-5G Fund: 646.1 billion yen

AI and semiconductor-related FY2024 supplementary budget summary

The budget for AI and semiconductors, including the use of existing funds, totals 1.6 trillion yen.

<Major budget items included in the supplementary budget>

- **Post-5G Information and Communication Systems Infrastructure Enhancement R&D Project, etc.**
  (AI/semiconductor related) [991.6 billion yen]

Will work on the development and demonstration of design and manufacturing technologies for cutting-edge semiconductors, as well as basic models for generative AI in the field of robotics.

- **Securing domestic production bases for advanced semiconductors [471.4 billion]**

From the perspective of strengthening the industrial base and improving its strategic autonomy and indispensability, ensuring a stable supply will be aimed for by supporting the development of domestic production bases for advanced semiconductors and encouraging businesses to make investment decisions.

*Established the "AI and Semiconductor Industrial Infrastructure Strengthening Framework," providing more than 10 trillion yen in public support over the seven years leading up to FY2030.

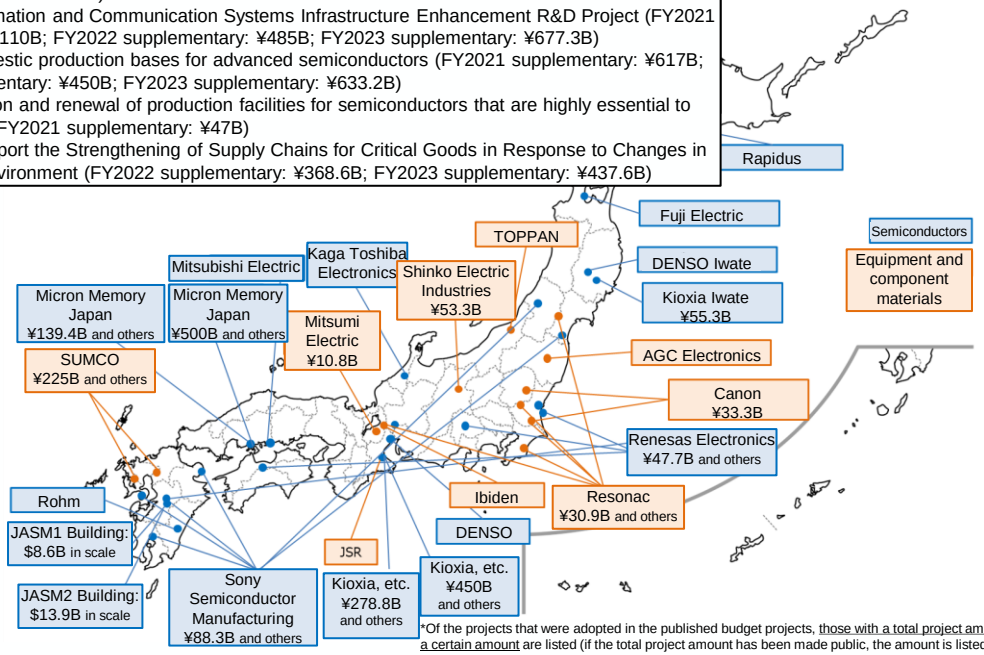
Excerpt from Document 6 of the 13th Council on Economic and Fiscal Policy (November 1, 2024)

Policy on AI and semiconductor-related support measures

- **Investment in AI and semiconductors is essential for the development of all other industries and for solving social issues such as GX, and will have a broad and significant impact, including on local SMEs**.
- To this end, **large-scale, strategic support will be provided for new AI and semiconductors over multiple fiscal years while securing the necessary financial resources**.
- Through this, **related capital investment of approximately 50 trillion yen in total will be induced from the public and private sectors** to exceed the sales target of 15 trillion yen in 2030, **and attain an economic ripple effect of approximately 160 trillion yen from semiconductor production, etc.**
- In addition, the **competitiveness of industries overall by enhancing domestic supply of AI and semiconductors will be strengthened**.

Large-scale domestic investment projects underway with government support (Semiconductor-related)

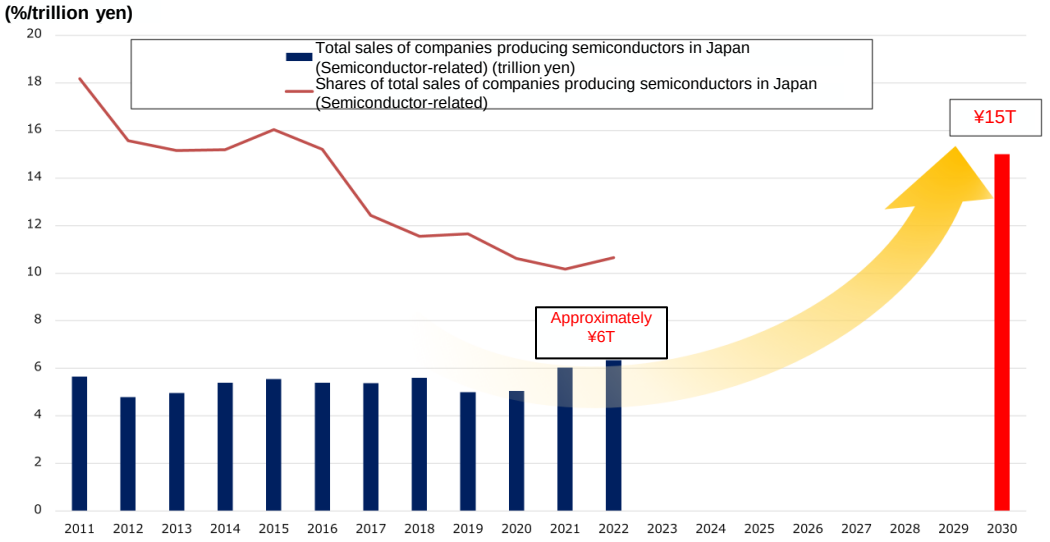
Applicable budget projects (semiconductor-related)
■ Subsidy for domestic investment promotion projects for supply chain countermeasures (FY2022 supplementary, etc.: ¥516.8B)
■ Post-5G Information and Communication Systems Infrastructure Enhancement R&D Project (FY2021 supplementary: ¥110B; FY2022 supplementary: ¥485B; FY2023 supplementary: ¥677.3B)
■ Securing domestic production bases for advanced semiconductors (FY2021 supplementary: ¥617B; FY2022 supplementary: ¥450B; FY2023 supplementary: ¥633.2B)
■ Decarbonization and renewal of production facilities for semiconductors that are highly essential to the supply chain(FY2021 supplementary: ¥47B)
■ Project to Support the Strengthening of Supply Chains for Critical Goods in Response to Changes in the Economic Environment (FY2022 supplementary: ¥368.6B; FY2023 supplementary: ¥437.6B)



*Of the projects that were adopted in the published budget projects, those with a total project amount above a certain amount are listed (if the total project amount has been made public, the amount is listed).

Trends and targets for domestic semiconductor-related sales

- **By 2030, the total sales (semiconductor-related) of companies producing semiconductors domestically will be over 15 trillion yen**, securing a stable supply of semiconductors in Japan.



(Source) With regard to actual results, global sales are calculated from OMDIA, and domestic sales in Japan are calculated from the values of shipment amounts by item from the Ministry of Economy, Trade and Industry's "Statistical Survey of Manufacturing Industry," "Economic Census," and "Survey of Economic Structure." The shipment value is the total of semiconductor-related items (semiconductor elements, photoelectric conversion elements, integrated circuits) and semiconductor-related items among "electronic parts, devices, and electronic circuits N.E.C," apportioned based on shipment value.

Outline of the Act for Partially Amending the Act on Facilitation of Information Processing and the Act on Special Accounts

Background and Summary of the Act

- ✓ Since the **rapid expansion of the use of generative AI** has led to a **significant increase in the amount of computation required of computers**, it is necessary to secure advanced semiconductors and **install enough servers, etc. to fully meet the computational demands** of generative AI, to further promote information processing in the future.
- ✓ In addition, to **capture the growing demand for semiconductors and AI, and to strengthen the international competitiveness of respective industries**, it is necessary to **increase the predictability for private sector businesses of public support for the semiconductor and AI sectors and to stimulate large-scale public and private investment**.
- ✓ Based on this background, to **arrange the environment for promoting the advancement of information processing, measures concerning**

(1) support for businesses' efforts necessary for the stable production of designated semiconductors for high-speed information processing[*1],

(2) support of introduction of equipment with advanced information processing capabilities[2],

(3) development of digital human resources,

(4) additional services of the Information-technology Promotion Agency, Japan (IPA) related to the measures in (1) through (3), and

(5) measures concerning the issuance and redemption of new government bonds[*3] to secure the financial resources necessary for initiatives involving semiconductors and AI are provided for in **the Act on Facilitation of Information Processing**, **and measures concerning the establishment of new accounts, etc. to clarify the accounting related to (5)** are provided for **in the Act on Special Accounts.**

Support for designated semiconductors for high-speed information processing [Act on Facilitation of Information Processing]

(1) Subjects to support (selected through public solicitation)

- **A business which may most appropriately implement efforts necessary for the stable production of designated semiconductors for high-speed information processing,** designated by the Minister of Economy, Trade and Industry.

(2) Additional services for IPA

- **Contribution of funds** or **in-kind contribution of facilities or equipment** necessary for the efforts*, and **guarantee of bonds or borrowings related to the funds**, etc.

*Establishment of production facilities, development of demand, etc.

Support for facilities with advanced information processing capabilities [Act on Facilitation of Information Processing]

(1) Subjects to support

- **a business engaging in the information processing services** that intends to **introduce equipment with advanced information processing capabilities.**

(2) Additional services for IPA

- **Guarantee of bonds or borrowings** related to the funds necessary to **introduce equipment with advanced information processing capabilities.**

Development of digital human resources [Act on Facilitation of Information Processing]

○ **Additional services for IPA**

- Developing digital human resources and services for improving qualities in those resources are added.

Securing necessary financial resources [Act on Facilitation of Information Processing and Act on Special Accounts]

- As **"AI and Semiconductor Industry Foundation Strengthening Framework"**, **over 10 trillion yen of public support** in total **for the semiconductor and AI sectors** by **fiscal year 2030 (subsidies, outsourcing, etc. of approximately 6 trillion yen, and financial support of more than 4 trillion yen)** is scheduled, and since it is expected that this support will require a large amount of funds all at once**, public bonds financed by the Special Account for Energy Measures may be issued**.
- (1) **That funds may be transferred from the investment account of the Special Account for the Fiscal Investment and Loan Program to a new account**, to secure the financial resources needed for the redemption of the government bonds and the costs of semiconductor and AI measures,
  (2 **that funds may be transferred from the energy supply and demand account of the Energy Measures Special Account to a new account** to cover the costs of semiconductor and AI measures, and
  (3) **that funds may be transferred from the general account (money returned to the national treasury from the funds under the jurisdiction of METI) to a new account** to cover the costs of semiconductor and AI measures, are prescribed.
- To clarify accounting related to the above, **new accounts and measures in the Special Account for Energy Measures are established and revenue and expenditure items, etc. are prescribed.**

*1 Semiconductors that are capable of processing extremely large amounts of information at extremely high speeds, whose production and supply are not stable in Japan but are particularly indispensable for the advancement of information processing
*2 Introduction of large-scale servers and cooling equipment, etc.*3 Bridging bonds to secure the necessary financial resources to pay for measures, etc. to improve the performance of semiconductors, etc.

Innovation policy in the era of "Science and Business, getting ever closer "

Global trends surrounding innovation

(1) "Science and Business, getting ever closer "
Huge capital invested in science will accelerate the pace

(2) Global “innovation base competition”
Companies globalize R&D in search of the world's best knowledge
Competitiveness of cities, regions and networks
Countries compete to attract investment, focusing on strategic sectors

(3) Development of growing universities
Universities will grow and strengthen its scientific capabilities through diverse financial sources, including industry-academia collaboration, intellectual property, startups, and donations

(4) Startups as a mechanism for implementing science and technology in society
The importance of startups in deep tech

Japan's current situation and challenges

(1) Current status as Japan's innovation hub
Until now, large companies have led the way, and large cities have been a strong base
Meanwhile, the R&D services balance is in deficit
Necessity of dialogue with the market and corporate governance to promote growth investment

(2) Japan’s decline in scientific capabilities
Declining research output and university rankings among Asian countries

(3) Delays in sophisticating human resources and acquiring talents globally
Lack of training and utilization of human resources with doctoral degrees, delays in securing highly skilled global talent in areas such as AI

(4) Expanding global connections and funding for startups
The need to attract investment and talent from overseas, procure growth capital of significant scale, and conduct more M&A, public and private procurement, creation of demand, etc.

Directions for measures

(1) Providing comprehensive support to strategic technological areas
Identify important technological fields as a nation and mobilize policies for human resource development/ acquisition, research and development, capital investment, startups, and rule-making in providing support

- ✓ Strengthening incentive measures (budgets, R&D tax system, etc.) to encourage companies to expand R&D investment in strategically important technologies such as quantum technology, AI and biotechnology
- ✓ Strengthening incentive measures (budgets, R&D tax system, etc.) to ensure a competitive environment for innovation locations that is comparable to international standards
- ✓ Establishing a research and development infrastructure centered on star scientists and testbeds, improving human resources and acquiring global talent, government-led strategic standardization, etc.

(2) Focused support for universities that are competing and growing on a global scale, promoting the expansion and globalization of industry-academia-government collaborations

- ✓ Examining accounting and management practices to strengthen the university's financial base through the expansion of industry-academia-government collaborations, intellectual property, and the establishment and development of startups
- ✓ Strengthening incentive measures (budgets, R&D tax system, etc.) to encourage companies to deepen collaboration with universities, etc. over the medium to long term
- ✓ Strengthening and promoting the university's ability to attract collaboration with overseas companies, etc.

(3) Formation of the largest startup ecosystem in Asia

- ✓ Strengthening efforts to attract investment and talent from overseas, update investment contract practices, and promote the dispatch of talent overseas to expand growth capital and strengthen ties with the global ecosystem
- ✓ Promoting M&A and motivating growth after listing, with a view to diversifying exit and growth paths for startups, etc.
- ✓ Enhancing support for commercialization and social implementation, and promoting public and private procurement to achieve the growth of deep tech and the formation of regional ecosystems

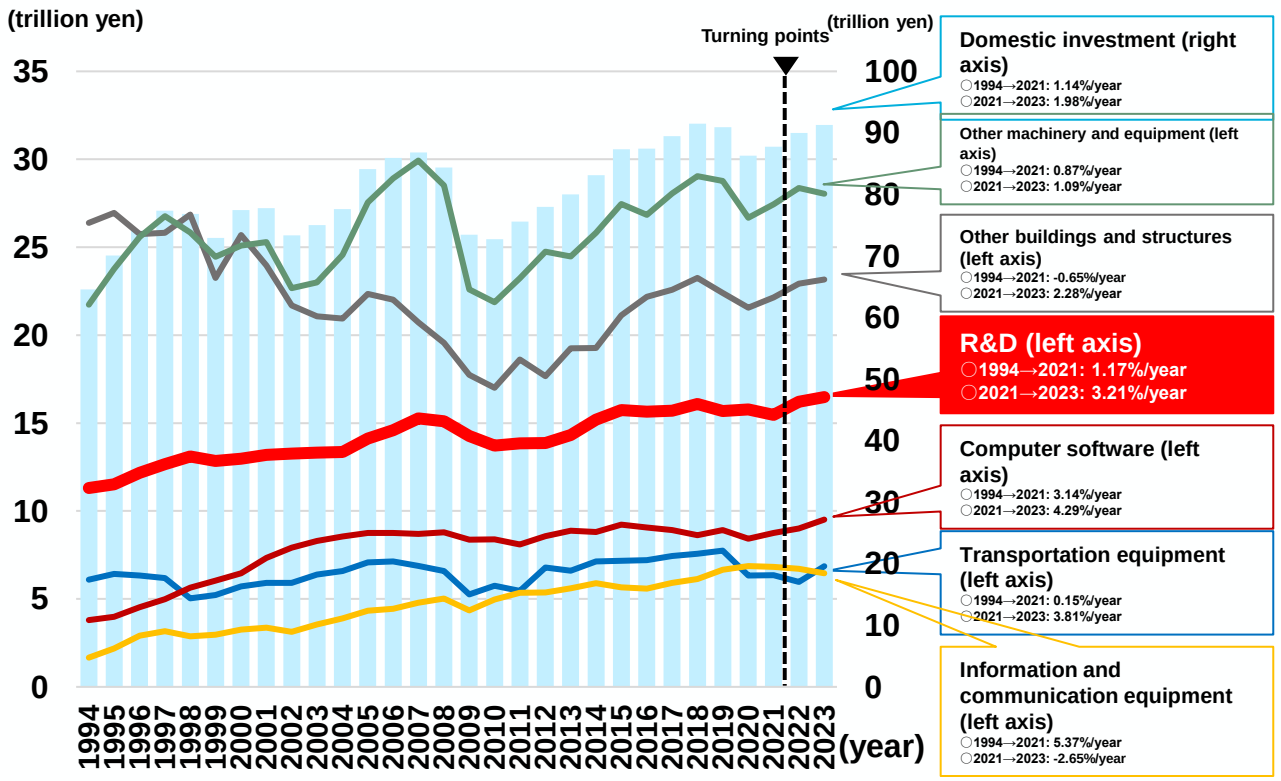
(4) Establishing appropriate investment environment by addressing globalization, digitalization and corporate governance
Intellectual property policies that respond to the changing times, dialogue with the capital market to promote growth investment by companies, and strengthening connections with the global innovation environment

- ✓ Establishing an intellectual property rights system that is compatible with digital and AI, implementing corporate governance in real terms to promote growth investment, balancing open innovation with economic security, etc.

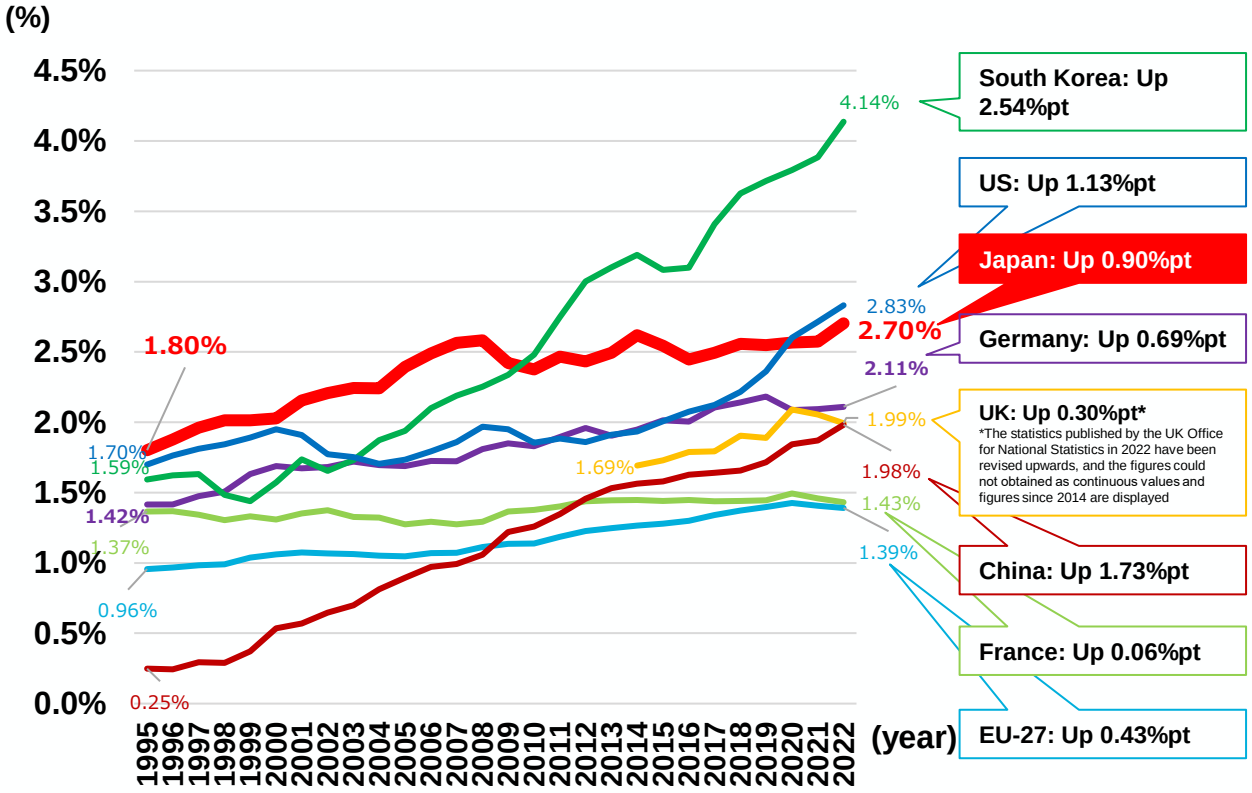
An increase in R&D investment is needed

- Compared to the past 3 decades, **R&D is currently growing at a faster pace**. Meanwhile, **its growth compared to GDP lags behind that of the US, China and South Korea**.
- In order to transition to high added value and an innovation economy, **further expansion of such research and development investment is necessary.**

Trends in the breakdown of domestic investment (real)



Trends in the ratio of R&D expenditures in the corporate sector to GDP in key countries

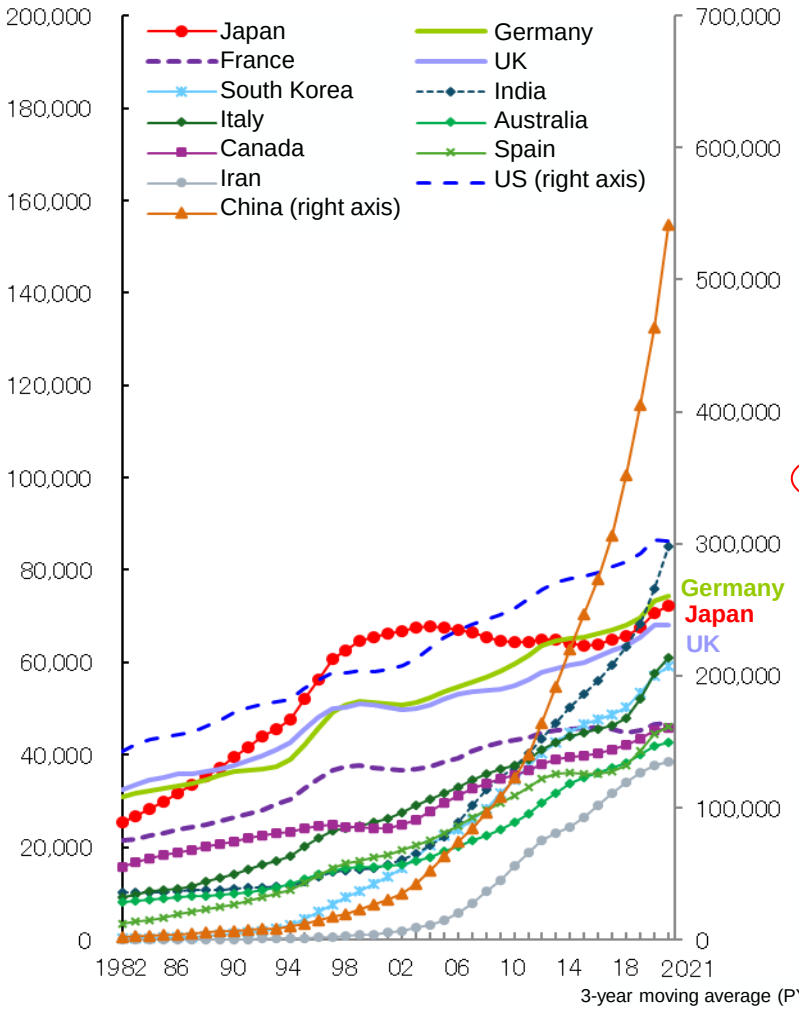


(Reference) Left: Domestic investment refers to private corporate equipment. "Other machinery and equipment" refers to commercial machinery such as measuring instruments and medical machinery, production machinery such as construction machinery, machine tools, agricultural machinery, general-purpose machinery such as boilers and turbines, instruments and fixtures, etc. "Other buildings and structures" refers to buildings and structures other than residential ones, such as schools, hospitals, hotels, factories, and commercial buildings (excluding residential sections).
(Source) Left: Cabinet Office "National Accounts" and "Explanation of National Accounts Terminology;" Right: OECD "Main Science and Technology Indicators (MSTI database)," Ministry of Education, Culture, Sports, Science and Technology, National Institute of Science and Technology Policy, "Science and Technology Indicators 2024."

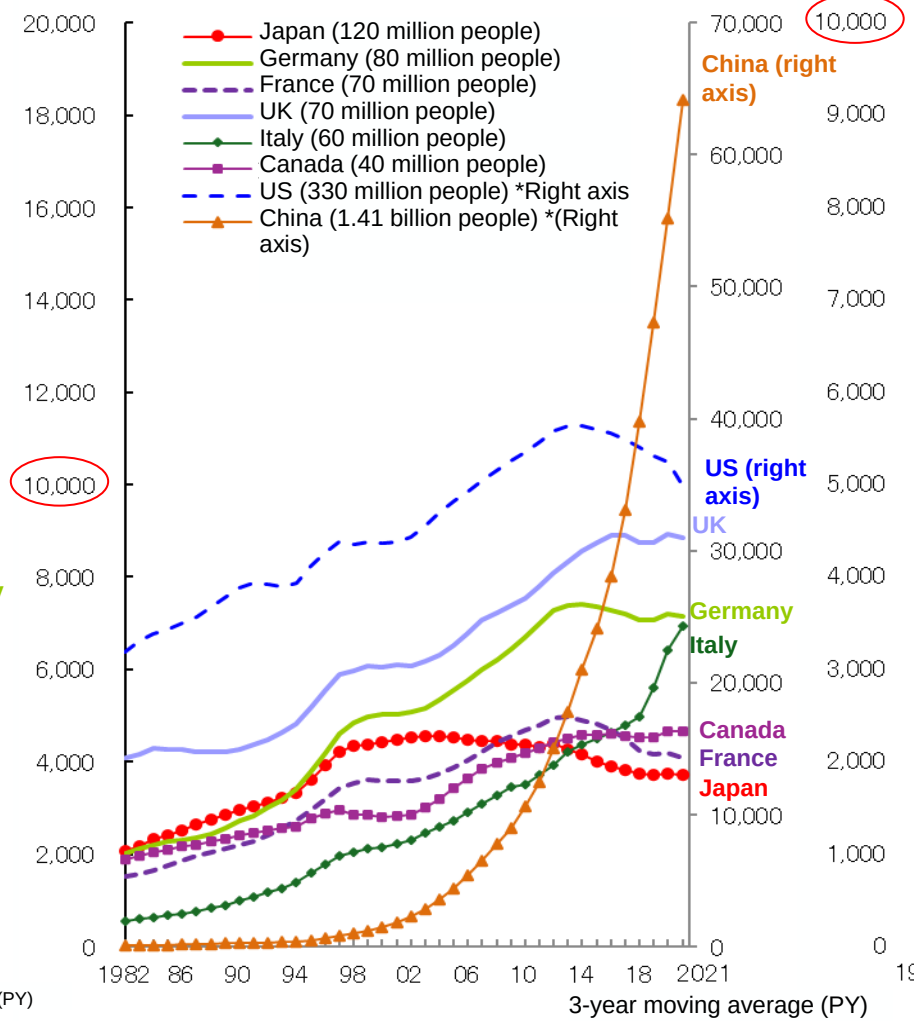
Decline in scientific capabilities, the source of innovation

- The number of top 10% adjusted papers lags behind not only the US and China but also Italy, Canada, South Korea and Australia.

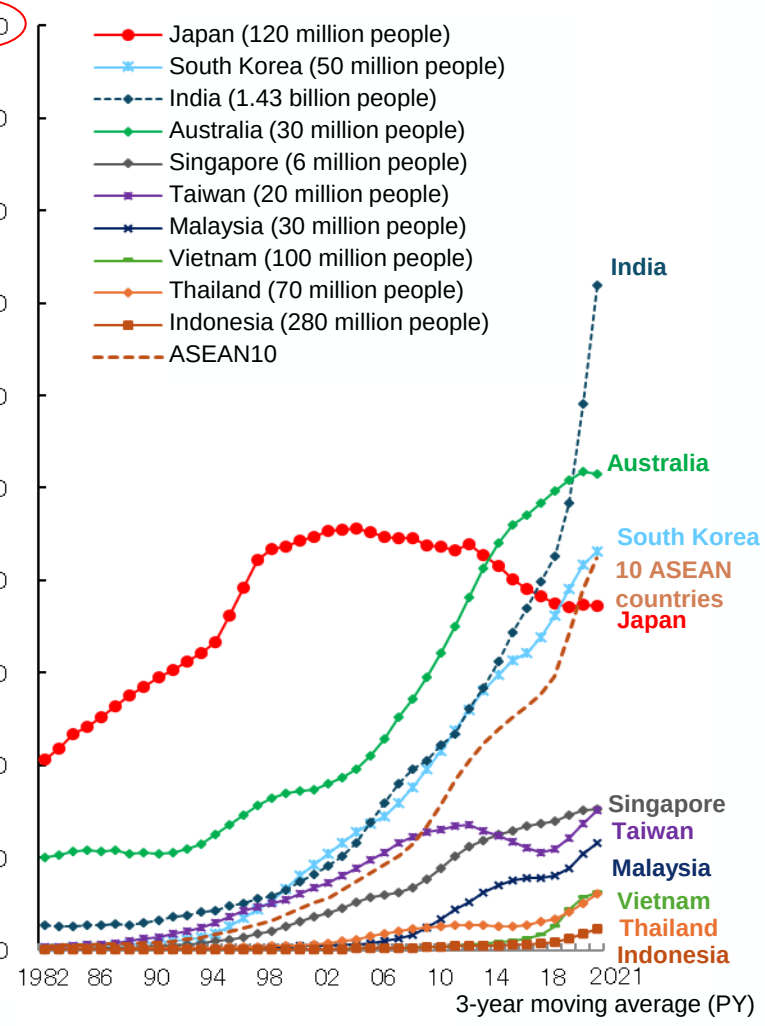
Number of papers (fractional counting method, all fields)



**Number of top 10% adjusted papers (fractional counting method, all fields)
G7 and China**



**Number of top 10% adjusted papers (fractional counting method, all fields)
Asia and Oceania**

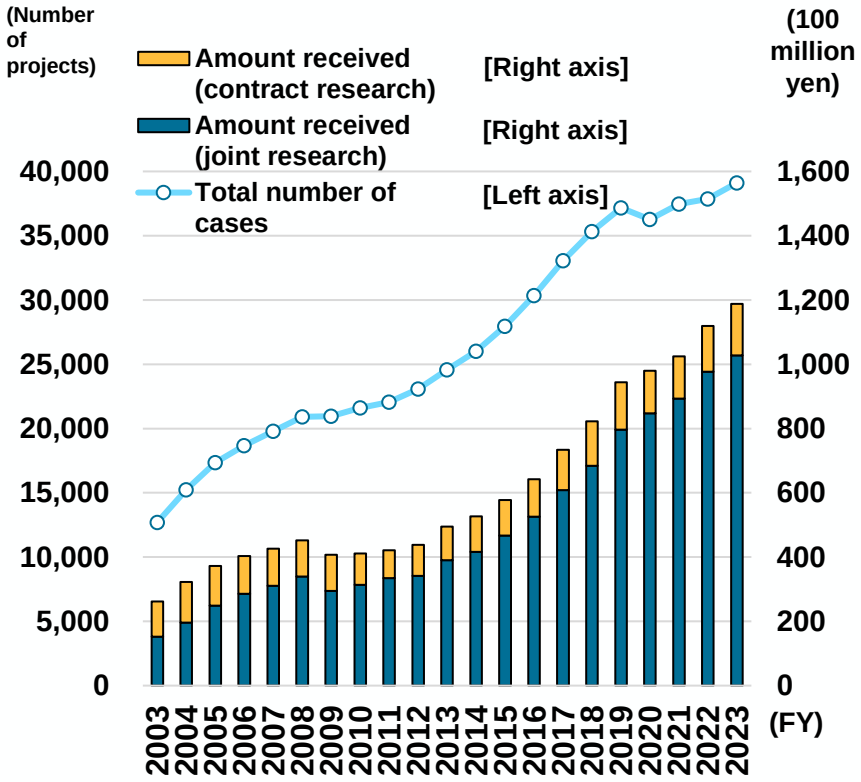


*"PY" is an abbreviation for publication year. Articles and reviews were analyzed. Results from fractional counting method.
*The number of papers that are cited in the top 10%efers to those whose citation counts (as of the end of 2023) fall within the top 10% for each year and each of the 22 academic fields. *The number in parentheses is the approximate population as of 2023.
(Source) Ministry of Economy, Trade and Industry based on information provided by the Ministry of Education, Culture, Sports, Science and Technology's National Institute of Science and Technology Policy.

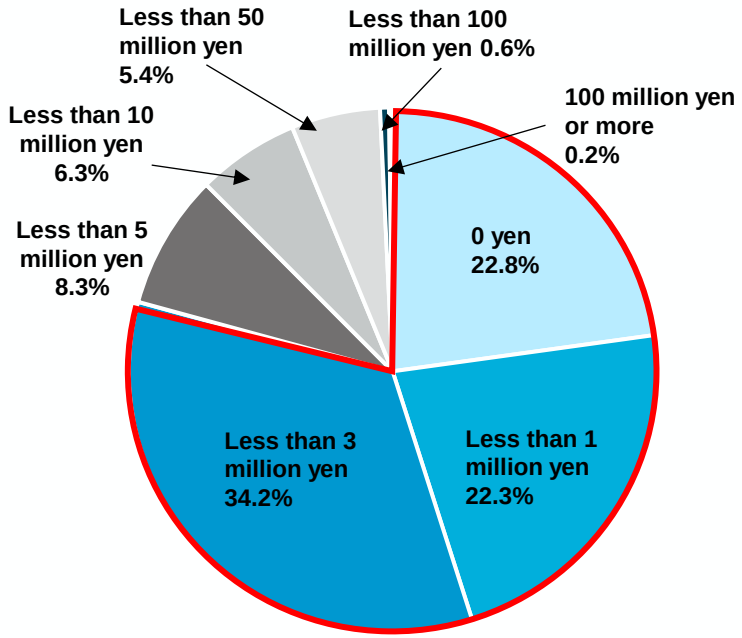
Progress and challenges of industry-academia collaboration

- **The number of** joint and commissioned research projects between universities and Japanese private companies **has been increasing**.
- On the other hand, **small-scale projects with joint research expenses per project in universities, etc. of less than 3 million yen account for 80%**, and **compared to other countries, a key issue is the low proportion of funding from domestic companies to higher education institutions**.

Collaborative and commissioned research between universities and domestic private companies

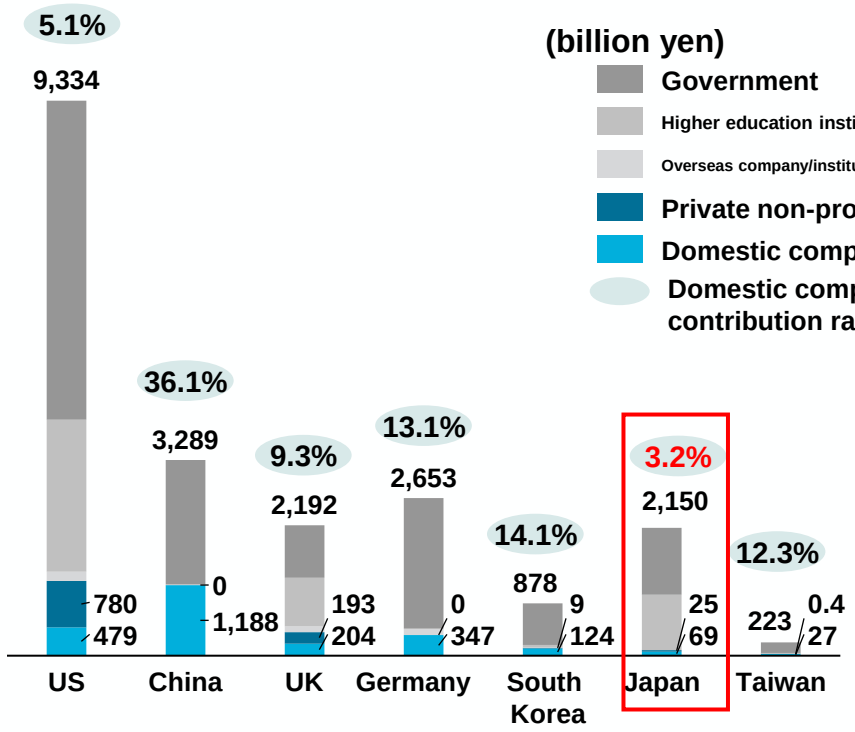


Joint research expenses per project at universities, etc.



*Less than 3 million yen: 79.2%

R&D budgets for higher education institutions and percentage of contributions from domestic companies (2021)



(Reference) Right: R&D investment amounts converted into yen at the average annual TTB rate for 2021
(Source) Left and center: Ministry of Education, Culture, Sports, Science and Technology "Status of Industry-academia Collaboration at Universities in FY2023;" Right: OECD "Research and Development Statistics"

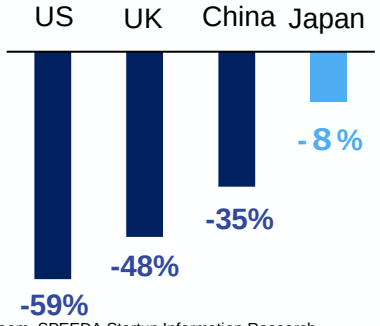
Status after formulating the Startup Development Five-year Plan: Expanded the ecosystem's “reach”

- Policies are being enhanced in a concentrated manner. Even as the global fundraising **environment becomes tougher, the ecosystem's "reach,"** such as the number of startups, is expanding. **The “seeds” of startups are steadily growing**, with large IPOs occurring and the number of unicorn companies gradually increasing.

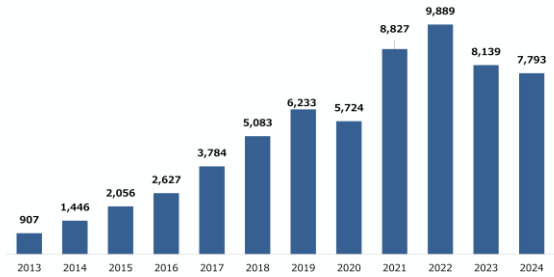
Funding amount of domestic startups

Key countries overseas are showing a strong performance despite a large decline compared to 2021

(2021: **882.7** billion yen → 2023: About **813.9** billion yen*)



(Source) dealroom, SPEEDA Startup Information Research



(Source) INITIAL “Japan Startup Finance” (As of January 21, 2025)

Multiple large-scale IPOs took place

Despite a decline in the number of IPOs compared to 2021, large-scale IPOs took place

(2021: **125** companies → 2023: **96** companies)

Major startup IPOs from 2021 to 2024

Year	Company name	Initial market capitalization (100 million yen)
2024	**Timee**	**1,760**
2024	**Astroscale Holdings**	**1,448**
2023	**ispace**	**804**
2021	Visional	2,545
2021	Safie	1,646

(Source) Japan Exchange Group
Uzabase, Inc. “SPEEDA Startup Information Research”
(As of January 23, 2024)

Number of startups

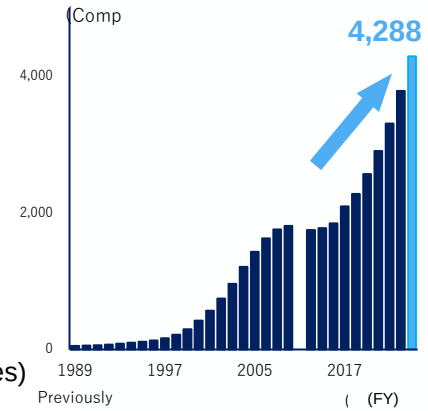
Increased by about 1.5 times compared to 2021

(2021: **16,100** companies → 2023: **22,000** companies)

Number of university startups*

The number is increasing every year, with 2023 seeing the highest growth to date.

(2021: **3,305** companies → 2023: **4,288** companies)



(Source) Uzabase, Inc. “SPEEDA Startup Information Research”; Calculated as the cumulative number of startups created since 2012.
*Based on university-launched ventures that had been established as of the end of October 2023. (Source) Ministry of Economy, Trade and Industry, “FY2023 Survey on the Actual Conditions of University-Launched Ventures”

Number of unicorn companies in Japan

Unicorn companies with market capitalizations of over 1 billion dollars is increasing

(2021: **6** companies → Current: **8** companies)

When totaled with listed companies, the cumulative total of unicorn companies is just over **70**.
(As of 2022; Of the 463 startups listed between 2013 and 2022, 68 companies temporarily exceeded market capitalization of 100 billion yen.)

Number of unicorn companies in Japan

-	Company name
1	Preferred Networks
2	SmartNews
3	Playco
4	SmartHR
5	Spiber
6	Opn
7	**GO**
8	**Sakana AI**

(Source) CB Insights; “Current” figures are as of December 2024.
Cumulative total including IPOs: JVCA materials (PR materials for overseas institutional investors: Japan’s Rapidly Growing Startup Market)

Implementation of support tailored to the characteristics and growth stage of deep tech, and promotion of development

- From startup creation to commercialization, **enhance measures tailored to each stage of growth.** **Proceed to** the full-scale implementation phase.

Stage of business development

Pre-startup → Post-startup/seed → Early → Middle and beyond

Research and Startup Preparation	Practical Application Research and Development	Mass Production Demonstration	Business Development
Research, entrepreneur development, management human resources matching, etc.	Research and development of elemental technologies, etc. for practical application	Demonstration of mass production and scaling	Commercial capital investment, software investment, large-scale user verification, etc.

Support for securing entrepreneurs and management human resources for deep tech startups, etc. Approximately 1.5 billion yen (R7 initial budget)

Support for accelerating the carve-out of innovative technologies, etc., owned by operating companies, approx. 1 billion yen (R5 supplementary budget)

Deep tech startup support program: approx. 100 billion yen (fund established by NEDO)

First call for proposals: 23 projects selected (August 2023)
Second call for proposals: 17 projects selected (December 2023)
Third call for proposals: 15 projects selected (March 2024)
Fourth call for proposals: 12 projects selected (September 2024)
Fifth call for proposals: 7 projects selected (December 2024)
Sixth call for proposals: Under review

Business development support for deep tech startups: approx. 7.6 billion yen (R6 supplementary budget)

- ✓ **Mother plant maintenance**
- ✓ **Realizing massive scaling with an eye on the market and demand**

Deep tech startup support program in the GX field: 41 billion yen (NEDO grant)

First call for proposals: 5 projects selected (September 2024)
Second call for proposals: 4 projects selected (December 2024)
Third call for proposals: Under review

- ✓ **Uncovering knowledge**
- ✓ **Fostering StoS momentum** at universities, research institutions, etc.

Pilot/demonstration plant

(Source) Euglena Co., Ltd. website (biofuel manufacturing plant)

Commercialization and continuous revenue generation

- ➡ **Creation and expansion of new demand**
- ➡ **Further business collaboration with operating companies**
- ➡ **Large-scale financing from venture capitalists, financial institutions, etc.**

Strengthening higher education (highly specialized human resources, including Ph.D.)

- It is important to **further promote the strengthening of the functions of universities and technical colleges in conjunction with domestic investment (DX, GX, etc.).**
- It is important to reform the human resources recruitment and treatment systems of both industry and academia **to facilitate the circulation of highly specialized human resources between the two sectors.**

Best practices in strengthening university functions (semiconductors)

The national government has decided to provide approximately 1.2 trillion yen in support for Kumamoto Prefecture's capital investment through JASM from FY2022 to FY2023

Kumamoto University (supported by the Ministry of Education, Culture, Sports, Science and Technology through a fund project (300.2 billion yen))

- ✓ Master's program: 50 students → 120 students, Doctoral program: 5 students → 22 students, etc.
- ✓ Cultivating highly skilled information and semiconductor human resources through collaboration with global companies such as TSMC and Microsoft, overseas universities, and technical colleges
- ✓ Integrated reform and strengthening from undergraduate to graduate programs
  - Newly established Department of Semiconductor Device Program, Faculty of Engineering, and School of Informatics
  - Master's and doctoral programs in semiconductor and information science will be newly established in the Graduate School of Science and Technology.

Creating an environment for the recruitment and active participation of highly specialized human resources in companies

[Job-based Human Resources Guidelines]

- ✓ Promote the recruitment of highly specialized personnel, including those with doctoral degrees, by introducing job-based human resources**, which involves recruiting and managing personnel based on their duties and skills.**
- ✓ In August 2024, the Cabinet Secretariat, the Ministry of Economy, Trade and Industry, and the Ministry of Health, Labour and Welfare compiled guidelines. Twenty companies' best practices in introducing job-based human resources were announced to encourage other companies to follow suit.

[Guidebook for promoting the active participation of human resources with doctoral degrees in private companies]

- ✓ [Guidebook for promoting the active participation of human resources with doctoral degrees in private companies]

Development of specialized human resources in growth fields

- Focusing on fields where medium- to long-term human resources development is an issue, such as semiconductors, batteries, and offshore wind power, we will strengthen human resources development in each field and promote the resolution of labor shortages through improved labor productivity in the workplace. To this end, **we will organize the direction of specialized human resources development across industries**, build a cooperative framework with relevant ministries and agencies, and aim to develop projects and expand initiatives.

Directions for developing specialized human resources in growth fields

Clarification of medium- to long-term industrial structure and employment structure
(human resources profiles (fields, skills) based on industrial and science and technology policy directions)

<Image of direction>

(1) Clarification of key industry fields and necessary skills and abilities
(Ministry of Economy, Trade and Industry, industry organizations)

(2) Development of skill development and education programs
(Ministry of Economy, Trade and Industry, relevant ministries and agencies, industry organizations, educational institutions)

(3) Implementation of skill development and education programs
(Ministry of Economy, Trade and Industry, graduate schools, universities, technical colleges, specialized high schools)

<Examples of specific initiatives>

[Batteries]
Organized skill-sets required for technical and skilled positions in the Kansai Storage Battery Human Resource Development Consortium

[Semiconductors]
Developed a curriculum **for semiconductor education through the COMPASS 5.0 project (part of the National Institute of Technology operating subsidy) implemented by the National Institute of Technology**

[Offshore wind power]
Opened training facilities **to develop engineers and specialized workers for offshore wind power project development**

Realizing the supply of human resources necessary for strengthening Japan's industrial competitiveness

Activating human capital investment by companies and promoting three-pronged labor market reforms

Partial revision of the 14th Committee on New Direction of Economic and Industrial Policies (April 19, 2023)

Activating human capital investment by companies centered on

(1) Promoting human resource system reforms and human capital investment through human capital management

- Expanding the activities of the Human Capital Management Consortium and enhancing disclosure of human capital investment by companies

(2) Introducing a Japanese-style job-based pay system based on labor market reform guidelines

- Publishing the “Job-Based Human Resource Guidelines,” which compiles case studies from 20 leading companies as reference information for introducing a “job-based” system where skills are appropriately evaluated

(3) Promoting diversity management to enable human resources with the knowledge and experience necessary for the realization of management strategies to thrive

- Organizing initiatives for diversity management that contribute to competitiveness (revision of the Diversity 2.0 Action Guidelines), and expanding the base of companies actively promoting women's advancement

Maximizing individual capabilities and motivation through perso

(1) Integrated promotion of reskilling and labor mobility

- Comprehensive support through career counseling, reskilling, and job change, all facilitated by career ~~advancement~~ development support program through reskilling

(2)Strengthening the development of specialized human resources in various fields

- Clarification of necessary skills and abilities, development and implementation of educational programs
- Nationwide expansion of human resources development schemes formed through collaboration between industry, academia, and government in various fields and regions

Policy direction [2] - Local economies/industries capable of sustainable growth even under higher prices and labor shortages - ⇒Unleashing potentials of local economies that will serve as a catalyst for Japan's economic growth

(1) Drastically beefing up growth potentials of leading medium enterprises /SMEs that will drive the local economy

⇒Actualizing improved productivity and wage hike of **leading medium enterprises and SMEs that play important roles for growth of local economies**

- Further intensifying **price pass-through and appropriate business practices** by **amending the Subcontract Act and beefing up law enforcement**, aiming to secure necessary resources for wage hike. Pushing ahead with **labor-saving/digitalization efforts** to get over labor shortages. Pushing ahead with **accompaniment support and protection** to encourage for leading medium enterprises and SMEs **to utilize intellectual properties**.
- **Supporting growth potentials of leading medium enterprises and SMEs** that will drive regional growth and wage hike (creating **leading medium enterprises**/ 10 billion yen firms, boosting R&D/exports, etc.)
- Beefing up support for **business succession and M&A**. Encouraging well-disciplined operations of SME finance and supporting early-stage **management improvement, business revitalization, and re-challenge**

(2) Creating local economic zones that will remain sustainable even under structural labor shortages

⇒Maintaining and fostering **essential services supply at local communities, even with decreased population,** by improving productivity (Transition to **advanced essential service industry**)

- Encouraging intensified labor-saving investment, especially in industries that suffer serious labor shortages (**developing/implementing "Labor-Saving Investment Plan"** at the government level)
- Providing support for mutual assistance-type enterprises (**regional cooperative platforms**) that will work on labor-saving, digitalization, and collaboration and stay profitable by avoiding permanent deficit, **aiming to maintain and develop local essential services** at local communities where it is difficult for profit-seeking companies to supply these services.

(3) Promotion of industrial locations at local communities

⇒**Eliminating constraints on industrial location sites/infrastructure that could impose bottlenecks for attracting investment**, with Japan's attractiveness as a location increasing against the backdrop of geopolitical risks, etc.

- Providing **matchmaking services to cope with industrial location site shortages,** and making effective land use based on **expediting land use adjustment procedures and considerations regarding the inspection/review of the Soil Contamination Countermeasures Act**; strengthening **infrastructure support for industrial locations as well as support for industrial location site development projects carried out by local governments themselves or through public-private partnerships**; and promoting **GX industrial locations**, such as utilization of decarbonized power sources, and fostering industrial human resources on a regional basis
- Strengthening efforts to **decentralize and strengthen headquarters functions and attract overseas companies**

(4) Promotion of innovation at local communities

⇒**Realizing high value-added local economies** by promoting creation of innovation in each region

- Contributing to the "**Regional Innovation Creation Initiative**" (**startup development (promotion of local government procurement, etc.), innovation hub development, nationwide expansion of best practices for Fukushima reconstruction, etc.**)

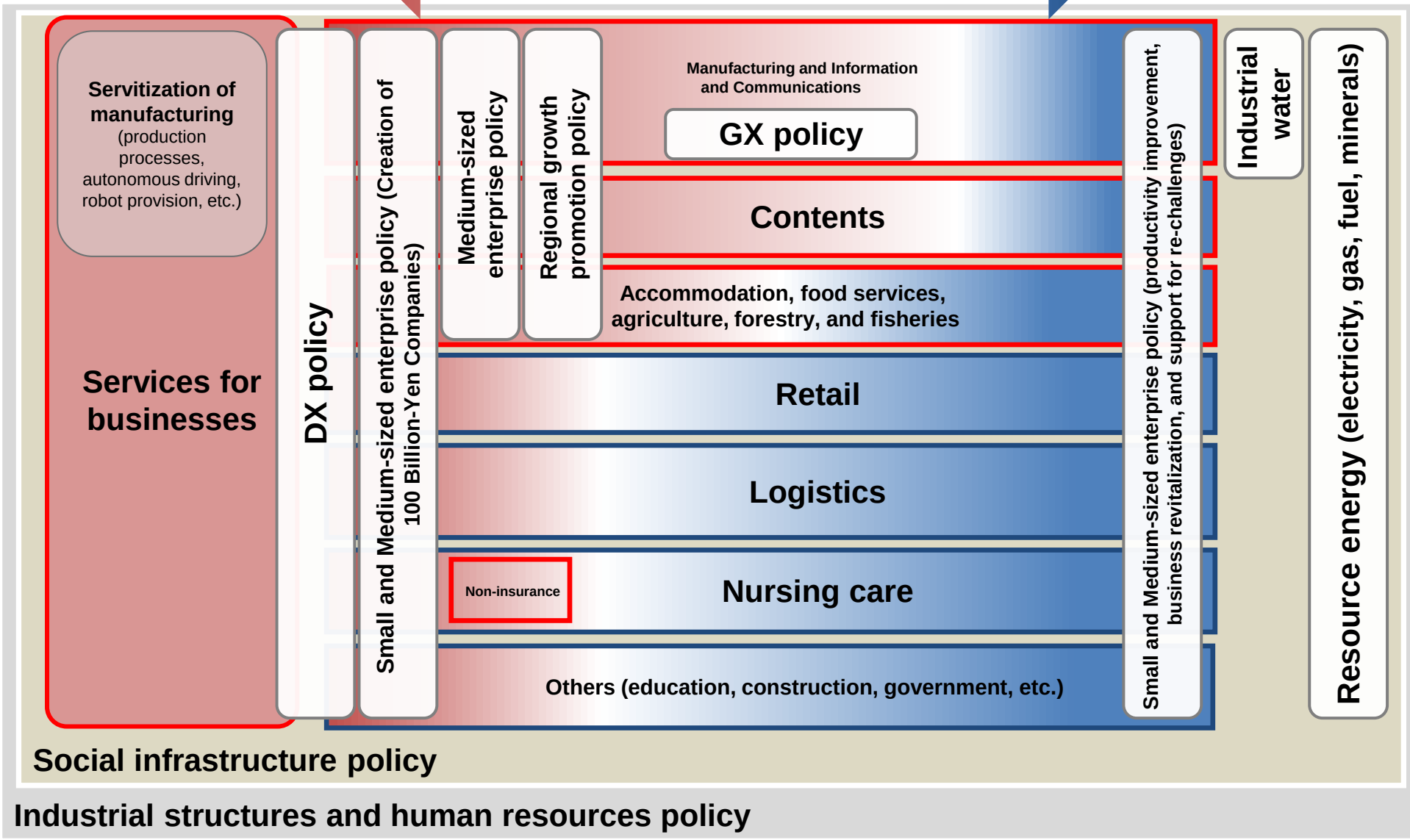
Image of the regional industrial structure

"Expansion beyond the region" = something out of the ordinary
World-class salaries even in regional cities outside of Tokyo

Toward a global hub for creativ (competing on the global stage

Improving quality of life (maintaining services)

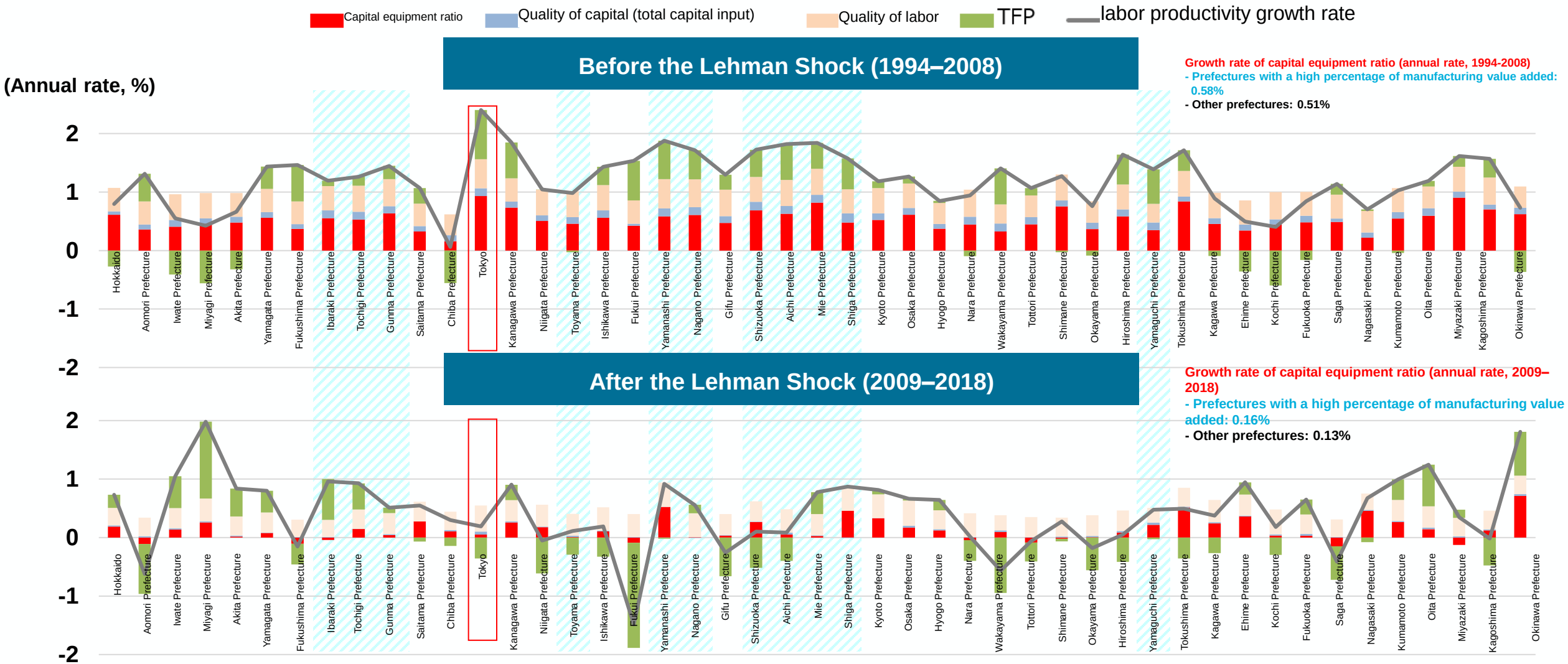
"Circulation within the region" = business as usual
Stable, upward trend in compensation
Flexible work styles as desired



National perspective	Regional perspective (theory)	However, until now (in reality)
Want to have many unique things in the end that other countries don't have. (Image: dot painting)	It is good to have at least one unique feature that cannot be found in other regions.	Completely emulate best practices from other regions. Want to try everything.
Want to achieve the same high quality standards nationwide. Full lineup is necessary.	A full lineup of measures is needed to universalize and emulate good practices from other regions.	Hesitant to launch new initiatives due to regional characteristics and being small in scale. Full lineup is necessary.

As a result of corporate investment going overseas, the capital equipment ratio in regions did not increase

- Capital investment has declined significantly before and after the Lehman shock.



(Note) Prefectures where the manufacturing value added ratio of GDP exceeded 30% as of 2018 are highlighted.
(Source) "Regional-Level Japan Industrial Productivity Database 2021" published by the Research Institute of Economy, Trade and Industry.

The Act to amend the Subcontract Act and the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises

Background and Overview

- In response to the rapid increases in labour, raw material, and energy costs in recent years, it is important to achieve “structural price pass-through” based on an equal client-contractor relationship and ensuring appropriate price shifting throughout the supply chain.
- For this reason, measures such as prohibiting the determination of payment amounts without proper negotiation, prohibiting payment of amounts by promissory notes, adding transportation consignment to transactions subject to regulation and promotion, and supporting collaborative efforts among multiple parties involved in multi-stage transactions will be implemented to ensure price pass-through and fair trade practices thoroughly.

1. Amendments of Regulations (Subcontract Act)

[Additional Regulatory Content]

(1) Prohibition on Determination of Price without Proper Negotiation [Addressing Fixed-Price Transactions]

- The Act prohibits unilateral price determination in the covered transaction without responding to price negotiations or providing necessary explanations or information during the negotiations.

(2) Prohibition of Payment by Promissory Notes, etc.

- The Act prohibits payment by promissory notes in the covered transactions. It also prohibits payment methods that make it difficult to receive the full amount of the purchase price by the payment date.

*As a result of the prohibition of promissory note payment, regulations on promissory notes that are difficult to discount have been abolished.

[Additional Regulatory Targets]

(3) Inclusion of Transport Consignment in the Scope [Addressing Logistics Issues]

- Consignment of transport necessary for the delivery of the object of manufacture, sale, etc. is included in the scope of the Act.

(4) Additional Employee Criteria [Additional Applicable Criteria]

- The scope of regulation and protection is expanded with new criteria of 300 employees (100 employees for outsourced services, etc.).

[Strengthening Enforcement]

(5) Strengthening Extensive Enforcement

- New provisions have been established regarding guidance and advice from relevant administrative agencies, mutual information sharing, etc.

*Other necessary amendments have been made.

- Wooden moulds and other articles exclusively used in the manufacture of goods are added to the list of goods subject to manufacturing consignment.
- In the obligation to deliver documents, etc., the provision of such documents by electromagnetic means is permitted, regardless of whether or not consent is given.
- Addition of cases where the price has been reduced to the subject of interest for delay.
- Provisions are developed for recommendations in cases where no violation has already been committed, for example.

2. Enhancement of Promotion (Act on the Promotion of Subcontracting SMEs)

(1) Support for Collaborative Efforts by Multi-Level Operators

- Added provisions allowing approval and support for business promotion plans created by businesses operating at two or more stages of a multi-stage supply chain.

(2) Expanded Scope

- (i) The consignment of transport necessary for the delivery of the object of manufacture, sale, etc. is included in the scope of the Act.
  (ii) Cases involving differences in the number of employees between legal entities are included in the scope of the Act.

(3) Strengthening Cooperation with Local Governments

- New provisions have been established regarding: the responsibility of national and local governments for taking measures to promote businesses throughout Japan in cooperation with each other; and tied collaboration of relevant agencies including information sharing, etc.

(4) Strengthened Enforcement by Competent Ministers

- New provisions have been established to urge improvement by presenting more specific measures to business operators who have not improved despite guidance and advice by the competent minister.

3. Review of Terms such as “subcontractor” (Subcontract Act and Act on the Promotion of Subcontracting SMEs)

- Regarding terminology, “subcontractors” is revised to “small and medium-sized entrusted business operators”, “main subcontracting business operators” to “entrusting business operators”, etc.
- Regarding the official title of the Acts, “Act Against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors” is revised to “Act Against Delay in Payment of Fees, etc. to Small and Medium-sized Entrusted Business Operators in Manufacturing and Other Specified Fields”, and “Act on Promotion of Subcontracting Small and Medium-sized Enterprises” is revised to “Act on Promotion of Entrusted Small and Medium-sized Enterprises”.

Effective Date	January 1, 2026 *Certain provisions shall come into force on the date of promulgation of this Act.

High-level request for fair transactions and correction of business practices in each industry

- At the "**Roundtable Discussion to Support Small and Medium-Sized Enterprises (SMEs) in Addressing Challenges** Such as Price Pass-Through and Wage Increases" held in January 2025, participating companies reported on the harsh realities of price negotiations and pass-through, as well as business practices that undermine the profits of SMEs.
- **Prime Minister Shigeru Ishiba instructed relevant ministers to take further measures to thoroughly implement price pass-through and fair trade practices.**
- To enable SMEs to pass on price increases, **high-level requests were made by the relevant ministries and agencies** to relevant industry associations to "conduct a self-assessment of compliance with the Subcontract Act and review business practices that hinder price pass-through" with a view to **eliminating business practices that hinder price pass-through.**

Implementation status and outlook

○Implementation status in industries under the jurisdiction of the Ministry of Economy, Trade and Industry

Request details:
[1] Self-assessment of compliance with the Subcontract Act, [2] Dissemination of information on proposed revisions to the Subcontract Act, [3] Review of business practices that hinder price transfers, [4] Price determination that takes into account suppliers beyond immediate business partners, [5] Compliance with voluntarily established action plans, and [6] Compliance with labor cost guidelines.

- **Direct requests from the government to industry associations and top executives of companies in industries that have a wide supply chain and thus a significant impact on the fair trade practices of small and medium-sized enterprises (SMEs), such as the automotive, electrical and electronics, and industrial machinery industries (seven associations).**
- **Issuance of request documents in the name of the Minister** to approximately 960 other organizations under the jurisdiction of the Ministry of Economy, Trade and Industry.

→ The above was **implemented by the end of April.**

○Coordinate with ministries and agencies responsible for construction, trucking, food manufacturing, and other industries to make requests to a wide range of industries.

→ Plans to follow up **on the status of initiatives in each industry through relevant ministries and agencies (June).**

Prime Minister Ishiba and roundtable discussion with participating companies (January 16)

Request to industries by Parliamentary Vice-Minister Takeuchi (March 25)

Price negotiation and transfer in government procurement (national and local)

- Based on the **Act on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium-sized Enterprise**, which stipulates that efforts should be made to **increase the opportunities for small and medium-sized enterprises (SMEs) to secure contracts** in government procurement, the government has established a "**Basic Policy**" that includes **measures to enhance such opportunities**. This policy is **adopted annually by the Cabinet**. **Local governments are also encouraged to implement measures aligned with those of the national government** (as stipulated in the Act on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium-sized Enterprise).

- Every year, the "Deputy Ministerial Conference on Government Procurement" is held before the start of the new fiscal year (around March) to **thoroughly communicate the contents (draft) of the "Basic Policy" to each ministry at a high level in advance**. (In 2025, the conference was held on March 17.)

- Additionally, in FY 2024, based on **the Prime Minister's instruction to all ministries and agencies to "appropriately engage in price negotiations and pass on cost increases in contracts for government and local government commissions and contracts,"** discussions were also held on **"price negotiations and cost pass-through in government procurement" and "appropriate bidding procedures."**

⇒ Based on the above, the **2025 "Basic Policy" approved by the Cabinet on April 22, 2025** includes **further measures regarding price negotiations and price transfers**. In addition, information had already been shared with local governments from the draft stage this year.

(Examples of measures related to price negotiations and cost pass-through)

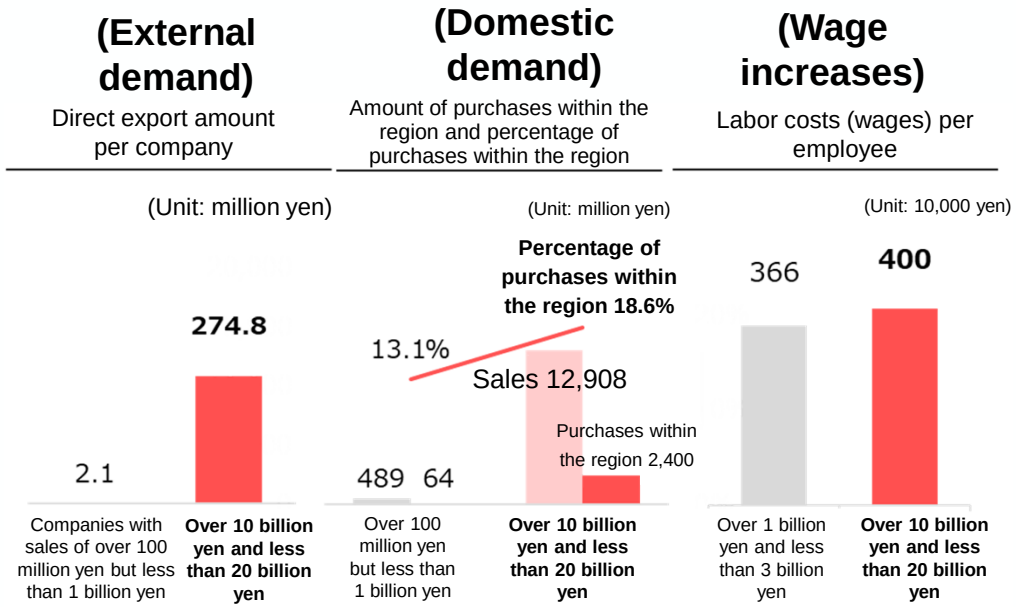
- For service contracts with a term exceeding one year, even if the contractor does not request a review, the government, etc. **shall confirm at least once a year whether a review of the contract amount is necessary**
- Obligation to respond in good faith to requests for consultation **regarding sharp increases in material prices, etc.** (e.g., requests for consultation shall not be refused on the grounds of "budget shortages," etc.)

⇒ Regarding "**understanding the actual situations reported by contractors and small and medium-sized enterprises"** in government procurement, measures will be taken in cooperation with relevant ministries.

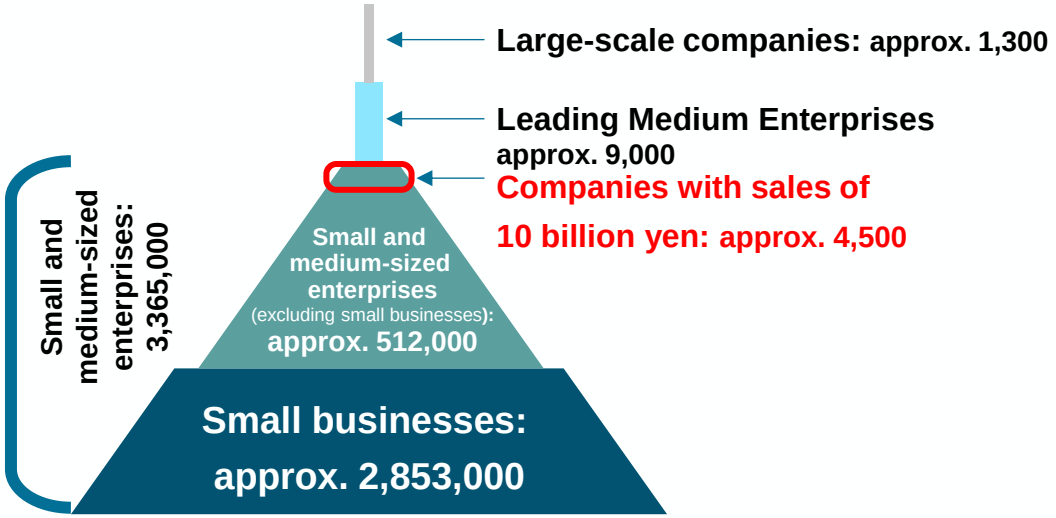
Growth and expansion of growth-oriented SMEs

- Among SMEs , **companies with annual sales of 10 billion yen** are a “trump card” that contributes significantly to Japan's economic growth by **dramatically boosting the regional economy and raising wage levels** through domestic and overseas demand development and aggressive investment.
- **To sustainably create SMEs with annual sales of 10 billion yen (currently approximately 4,500 companies), it is essential to foster the growth aspirations of business leaders and encourage bold expansion of investments.** To this end, **new support measures will be established** for companies aiming for growth and expansion, including **support for bold investments in buildings and facilities** and **diverse management challenges** (such as M&A and overseas expansion) **tailored to their scale**.

Companies with sales of 10 billion yen that are successfully capturing external and domestic demand and achieving high wage increases



There are currently around 4,500 companies with sales of over 10 billion yen (SMEs).



(Source) “Direct export value”: Basic Survey on the Actual Conditions of Small and Medium-sized Enterprises. Target: Approximately 1,728,000 companies
Purchases within the region/purchase ratio: Survey for interim evaluation of companies driving the future of the region. Target: 2,249 companies
“Wages": Reorganized and processed data from the “2021 Economic Census for Business Activity” conducted by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry

(Source) Reorganized and processed data from the “2021 Economic Census for Business Activity” conducted by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry

The Growth Vision of Leading Medium Enterprises (overview)

- Recognizing the importance of leading medium enterprises in the transition to a "growth-oriented economy driven by wage increases and investment", we have formulated **"The Growth Vision of Leading Medium Enterprises," which summarizes the roles and challenges of leading medium enterprises and the issues that need to be addressed by the public and private sectors**.
- Based on this vision, **we will promote the establishment of a framework for the integrated enhancement of governance and support for leading medium enterprises and SMEs, including unlisted companies.**

1 The role of leading medium enterprise

Three potentials

- **[1] Growth potential**: The ability to leverage existing strengths to achieve growth in different areas
- **[2] Change potential**: The ability to respond flexibly with strong ownership.
- **[3] Social contribution potential**: Providing social value to business partners and other stakeholders

Three roles

- **[1] Expansion of domestic investment**: Bold growth investment within Japan
- **[2] High-quality employment**: Bold wage increases and smooth labor mobility through M&A
- **[3] Wide-ranging ripple effects**: Driving regional economies and price pass-through, etc

●KGI (2030 onwards)

Achieve growth of leading medium enterprises at more than four times the government target
(real growth rate of 4% or more per year)

●KPI (until 2030)

- Approximately 10% of leading medium enterprises will achieve a productivity improvement of 10% or more
- The number of M&A deals involving leading medium enterprises will approximately double (1,000 deals per year)
- The number of leading medium enterprises will increase by approximately 20% (+2,000 companies)

2 Growth paths of leading medium enterprises

[1] Industrial machine manufacturing: Refine core technologies and expand overseas to become a global niche leader
⇒ Challenges include large-scale R&D and capital investment, securing industrial land, etc.

[2] Food products manufacturing: Collaboration with agriculture and retail to reduce labor and increase added value
⇒ Challenges include securing overseas expansion human resources and partners, and passing on price increases

[3] Retail trade: Creation of high added value in specialized fields or expansion of community-based services
⇒ Challenges include a shortage of management human resources and expertise in DX and M&A.

[4] Information services: Secure market share in specific areas and expand by leveraging network effects
Challenges include securing IT human resources and high barriers to international expansion

[5] Accommodations service: Utilize external capital to enhance operational capabilities and expand through franchising, etc.
⇒ Challenges include securing long-term financing and complying with local ordinances and regulations that vary from region to region And so on.

3 Challenges for autonomous growth and issues to be addressed by the public and private sectors

(1) Growth vision and governance

[1]Growth vision

- Due to a lack of growth vision and management structure, companies are struggling to acquire and effectively utilize funds and human resources
- ➢ We will focus our measures on growth-oriented companies and build a seamless policy framework to support the growth of SMEs to leading medium enterprises and beyond. We will also disseminate information on the initiatives and growth visions of supported companies to society at large.

[2]Governance

- Family businesses have strengths such as a long-term perspective and quick decision-making, but they also face challenges such as the self-serving behavior of managers, family disputes, and a lack of successors
- ➢ Establish family governance norms and reform systems that hinder the enhancement of corporate value

(2) Accompanying support and soft infrastructure

[1] Fundraising

- Fundraising for large-scale investments through the selection of optimal methods and partners is an issue, and the utilization of funds is also insufficient
- ➢ Establish a framework to promote competition and coordination among government-affiliated and private financial institutions, such as subsidies for large-scale growth investments for leading medium enterprises and SMEs
- ➢ Develop engagement funds and create an equity utilization guidebook (tentative name)

[2] Securing human resources

- The flow of management human resources from large companies to leading medium enterprises is not necessarily increasing, and there is a shortage of human resources on the front lines
- ➢ Financial institutions are promoting initiatives (such as the "REVICareer" initiative) to support leading medium enterprises in securing management human resources
- ➢ Regional expansion of the Human Capital Management Consortium
- ➢ Creation and universalization of model cases for labor-saving investments.

[3] M&A

- Lack of integration expertise on the part of buyers, regular amortization of goodwill
- ➢ Consideration of tax systems for medium-sized and medium-to-small groups, and financial reporting methods that include non-amortization of goodwill

[4] Innovation

- Challenges in investing in ambitious research and development
- ➢ Utilization of tax systems that promote innovation

[5] Overseas expansion

- Challenges include searching for overseas expansion partners
- ➢ JETRO hands-on support and expansion of NEXI support menu

[6] Utilization of experts

- Access to highly skilled experts is limited in regional areas
- ➢ Establish a network of experts and identify highly skilled experts

[7] GX・DX

- Lack of human resources and expertise to promote GX/DX
- ➢ Support for the introduction of energy-saving equipment and training of digital human resources

“Small and Medium-sized M&A Market Reform Plan (tentative name)” (Three pillars for promoting healthy growth)

- **Improving management capabilities of business owners** is critical for small and medium-sized enterprises (SMEs) in order to address urgent issues such as **improving productivity, resolving labor shortages, and realizing wage increases. Business succession to promote the rejuvenation of business owners and M&A to strengthen management foundations** are effective means to achieve these goals.

- To further promote M&A in the future, it is necessary to **enhance the discipline of the M&A market, increase the number of sellers, and attract new buyers.** In this regard, **there are challenges in three areas, namely sellers, the market, and buyers.**
  [1] **[Sellers] There are concerns about M&A**, such as job security and the release of owner guarantees.
  [2] **[Market]** Along with the revitalization of the M&A market, **there has been an increase in inappropriate transactions.**
  [3] **[Buyers] Support for high-quality buyers** with entrepreneurial spirit and sound management capabilities is insufficient.

- To address these challenges, the **“Small and Medium-sized M&A Market Reform Plan (tentative name)” (Three pillars for promoting healthy growth)** shall be implemented.

[1] Sellers:
Alleviating concerns and forming market price expectations

(1) In the event of a breach of contract, such as the release of owner guarantees after an M&A, **consider and promote clauses that allow the seller to repurchase or cancel the contract at their discretion**

(2) Ensure that financial **institutions take measures in accordance with** supervisory **guidelines regarding measures related to the release of owner guarantees during M&As.**
* Ensure thorough implementation **in cooperation with the Financial Services Agency.**

(3) **Support for identifying sellers by** support organizations (commerce and industry associations, financial institutions, etc.) **and symposia by public institutions (M&A Caravan)**

(4) Concentrated implementation **of support for understanding the actual financial** condition of sellers

(5) **Formation of market price expectations for transfer prices** through aggregation and disclosure of transaction data in the small and medium-sized M&A market

And so on.

[2] Market:
Increase in high-quality M&A support institutions

(6) Consider **establishing a qualification system for individual** M&A advisors **related to their knowledge and skills**

(7) Strengthen the structure of business succession and transfer support centers **by accepting human resources from financial institutions and professionals**

[3] Buyers:
Increase in new high-quality buyers

(8) **Strengthen support for search fund-type funds, etc. that** support **succession by individuals (employees and searchers)**

(9) Strengthen support for business succession funds **that provide capital for small-scale projects**

Package to facilitate support for regeneration and re-challenges

March 17, 2025
Ministry of Economy, Trade and Industry
Financial Services Agency
Ministry of Finance

Package to facilitate support for regeneration and re-challenges
1/2

1. One year has passed since the “Comprehensive Measures for Business Revitalization Support” were formulated in March 2024. **The number of consultations received by the Small and Medium-sized Enterprise Revitalization Support Center (hereinafter referred to as “the Center”) has reached a record high**, and the need for business revitalization support is increasing.
2. Currently, **early business revitalization bill through debt relief for financial liabilities through creditor majority decision and court approval has been approved by the Cabinet.** For SMEs, it is also **necessary to further enhance** support utilizing the Council and the “Guidelines on Business Revitalization of Small and Medium-Sized Enterprises.” In particular, considering the **increase in cases requiring fundamental revitalization and re-challenge**, **we will strengthen the system to provide necessary support promptly without missing the opportunity.**

1. Strengthening efforts toward early consultation

- While bringing cases from credit guarantee associations to the Center has begun to yield some results, **we will promote this further** in light of the growing need for business revitalization support.
- In light of the increase in businesses for which credit guarantee associations have effectively become the main source of support due to the COVID-19 pandemic, we will encourage the establishment of mechanisms to **enhance the monitoring of management information** in order to implement effective support for businesses, such as strengthening early warning management systems through collaboration between credit guarantee associations and private financial institutions.
- As support for re-challenges increases, we will work with relevant agencies to **foster an awareness of the importance of consulting at an early stage before business conditions deteriorate.**

[1] **Thorough implementation of PDCA following revisions to supervisory guidelines for credit guarantee associations**

→ Confirm support status based on understanding of credit guarantee associations' submission status to the Center and proactive consideration [Summer 2025]

[2] **Expansion and extension of financial institutions' “Early Management Improvement Plan Formulation Support Program”**

→Following the expansion of support requirements and extension of the deadline implemented by private financial institutions in February 2025, the program's common name will be changed from POST-COVID-19 Program to V-Up Program [April 2025~]

[3] **Organize and publish “key points for early warning management” regarding the business conditions of SMEs and small businesses.**

→Promotion of efforts for predicative management of borrowers with credit guarantees [March 2025]

[4] **Organize and publish guidelines for information sharing and collaboration when early warning signs of deteriorating business conditions are detected**

→Collaborate with certified business innovation support organizations such as tax accountants to consider ways to utilize monitoring results of business conditions [March 2025]

[5] **Concretize incentives for SMEs and small businesses to provide certain business information**

→Consider introducing support measures that require SMEs to provide business information as a condition for enhanced early warning management and monitoring [by the end of FY2025]

[6] **Publication of case studies on re-challenges**

→Utilize to foster awareness of the importance of early decision-making for smooth re-challenges [April 2025]

2. Strengthening the business revitalization support system

- In response to the growing need for business revitalization support, **we will further promote the development of experts in business revitalization support in each region**, including collaboration with government-affiliated financial institutions.
- We will expand re-challenge support content **so that target businesses can move smoothly into the re-challenge phase without hesitation.**
- Amid an increase in consultations from businesses with a high ratio of credit-guaranteed loans, **we will expedite the process of waiver of subrogation for fundamental revitalization.**

Small and medium-sized enterprise revitalization support center, business restructuring GL

[1] Utilization of trainee training programs and the center assistant programs, strengthening of support from the national headquarters, etc. to develop specialists

→ Increase the percentage of regional banks, credit unions, and credit guarantee associations which have dispatched trainees to 50%

→ Double the number of centers utilizing the center assistant program

→ Eliminate areas without third-party support experts for “Guidelines for Business Revitalization of Small and Medium-sized Enterprises” (12→0)

→ Improve the support level of the centers, particularly of those with low evaluation scores, through strengthened support systems by the national headquarters [by the end of FY2025]

[2] Expansion of support for re-challenges

→ Provide support for expenses related to debt restructuring of corporations that are the primary debtors, under certain conditions [March 2025~]

[3] Clarification of tax treatment of debt forgiveness gains for sole proprietors

→Clarify and publish the tax treatment of debt forgiveness received by individual business operators under a revitalization restructuring plan established in accordance with the council center scheme and the “Guidelines for Business Revitalization of Small and Medium-sized Enterprises,” through consultation with the National Tax Agency [January 2025]

Government-affiliated financial institutions

[1] Utilization of expertise and networks related to business revitalization, etc., of the Japan Finance Corporation, etc.

→By utilizing expertise in business revitalization support through a nationwide network, continue to promote cooperation with relevant organizations (private financial institutions, the center, etc.)

→Promoting support for the formulation of management plans in cooperation with relevant organizations for businesses undergoing business revitalization and facing succession issues

(*) Not limited to business revitalization. “Business succession matching support” is implemented to connect businesses without successors with aspiring entrepreneurs, etc.

[2] Strengthening Shoko Chukin Bank's business revitalization support functions

→Strengthen sharing of business revitalization expertise, human support, and coordination systems with the centers [around spring 2025]

→Establish long-term strategy formulation services aimed at improving management, and provide integrated support for formulation by specialized human resources from the head office in cooperation with sales offices [around spring 2025]

→Promote the utilization of nationwide revitalization funds and promote cooperation with regional banks

→ Expand the deployment of specialized human resources for business revitalization at the headquarters, and enhance the expertise of employees which have internally qualified to the “Management Supporters” to strengthen Shoko Chukin Bank's responsiveness

Facilitation of waiver of subrogation rights for guaranteed loans

[1] Formulation and publication of “Guidelines for the waiver of subrogation rights **by local governments (tentative name)”**

→ Provision of reference materials for procedures to expedite procedures within local governments [summer 2025]

Private financial institutions

[1] Follow-up on the status of initiatives related to the Management Guarantee Reform Program, etc.

→Follow up on the status of explanations and records provided by private financial institutions when concluding owner guarantees [2025]

[2] Follow-up on the status of initiatives to support management improvement and revitalization

→ Monitor the status of private financial institutions' efforts to provide early business improvement and revitalization support (including the utilization of the “Early Management Improvement Plan Formulation Support Program” and support related to business succession and M&A) [FY2025]

3. Development of support infrastructure to contribute to other management improvements and business revitalization

[1] Launch of the “Management Improvement Support Guarantee (Management Improvement and Revitalization Support Enhancement Type) System”

→ Provide credit-guaranteed loans to support funds necessary for the implementation of plans formulated with the involvement of the centers, etc. [March 14, 2025~]

[2] Expansion of ordinary capital subordinated loans by the Japan Finance Corporation, etc.

Strengthening the financial foundations of businesses struggling with excessive debt, regardless of the impact of the COVID-19 pandemic [March 2025~]

[3] Launch of the “Coordinated Support Special Guarantee System”

Further enhancement of financial intermediation functions, including proprietary loans by private financial institutions [March 14, 2025]

[4] Extension of interest rate reduction measures of safety net loans by the Japan Finance Corporation for Small and Medium-sized Enterprises and other entities

Continuation of financial support for businesses struggling with rising prices due to factors such as rising crude oil prices [April 2025~]

Labor saving and digitization (expansion of SME's capital investment for labor shortage subsidy and IT introduction subsidies, and operational improvements)

- To enhance productivity and achieve labor-saving measures for small and medium-sized enterprises (SMEs), the government is **implementing two major measures**: the SME's capital investment for labor shortage subsidy(reorganized to 300 billion yen in R6 supplementary budget), which **supports labor-saving investments centered on equipment introduction**, and the IT Introduction Subsidy (part of the 340 billion yen Productivity Revolution Project in R6 supplementary budget), which **supports the introduction of IT tools to promote DX for SMEs**.

- While implementing these measures, the government will also **implement operational improvements to make the support more user-friendly**, while **taking measures to prevent fraud**, in order to maximize the policy effects in response to the needs of industries and businesses.

Expansion and improvement of operation of the Small and Medium-sized Enterprise

SME's capital investment for labor shortage subsidy

○Improvements to the operation of existing catalog-type subsidies (main items)

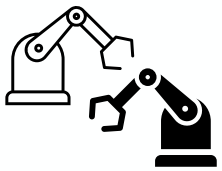
Items	Improvements	Implementation period
Flexibility in application acceptance	**Accepting applications at any time**	**Reflected (August 2024)**
Expansion of eligibility for subsidies	**Newly targeting transactions that are in high demand among businesses, such as replacement (replacement), rental, and finance leases that contribute to labor savings**	**Reflected sequentially (autumn 2024~)**
Revision of pricing policy	**Considering and revising pricing and price disclosure methods in line with business realities**	**Reflected (February 2025)**

○ Establishment of a general type (individual order type)

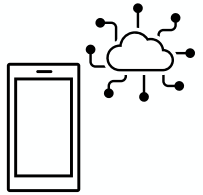
- **Customized equipment and labor-saving products combining software and hardware that cannot be covered by** the catalog type will also be included.
- **Promote diverse labor-saving investments** such as equipment introduction and system construction tailored to the equipment and business content of individual SMEs.

(Image of products covered by the general type)

・Customized equipment



・Software + hardware



Expansion and improvement of operation of the IT Introduction Subsidy

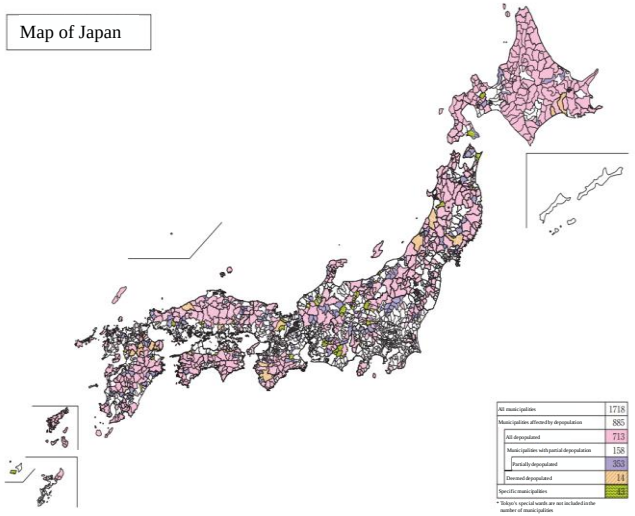
○ **The following will be implemented in the next system.**

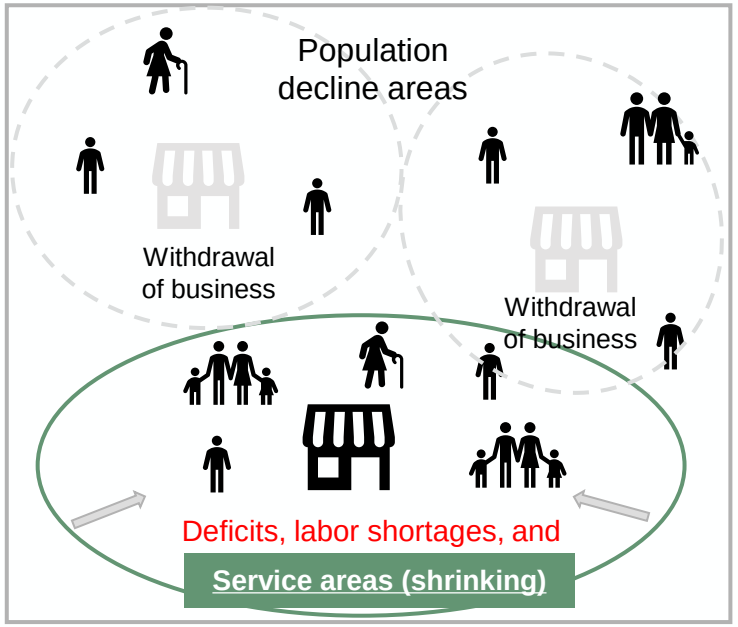
- Among the general-purpose tools that previously could not be applied for individually, **some IT tools will now be eligible for individual applications**
- In order to enhance the effectiveness of IT tool implementation, **support after tool implementation will be newly included in the scope of subsidies**
- Increase in subsidy amount and subsidy rate for security

* While maintaining the promotion of utilization by SMEs through a simplified application process, **implement measures to prevent fraud, such as strengthening the registration review of IT vendors and IT tools**

Within-region circulation-type industries (essential services): “Regional cooperation platform” concept

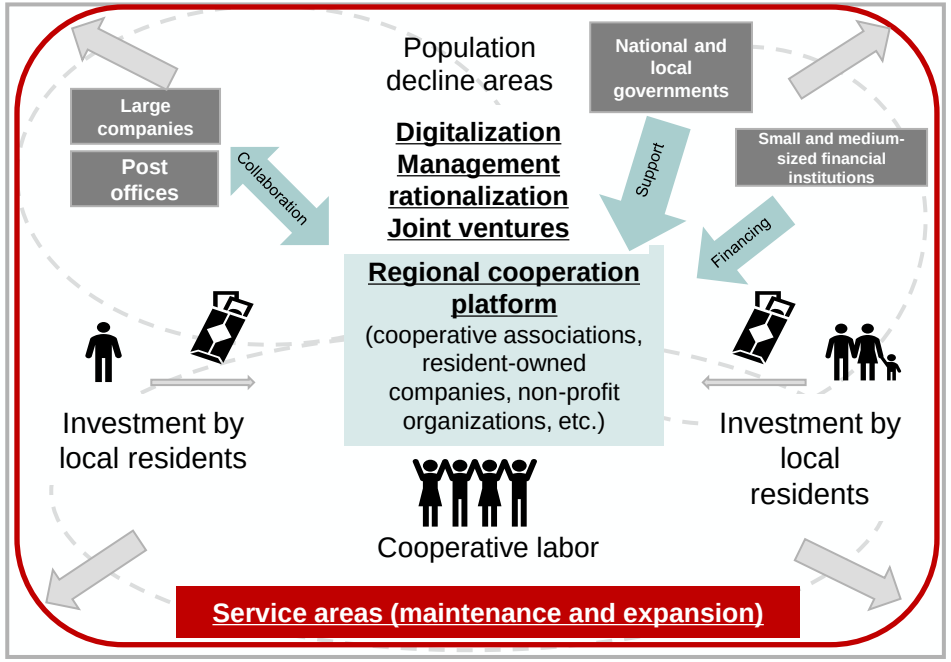
- In areas with declining populations, **the supply of essential services (*essential services) is becoming increasingly difficult, as exemplified by the “shopping refugee problem,”** and this situation is expected to worsen in the future.***Wholesale and retail, logistics, nursing care, healthcare, education, childcare, after-school care, housekeeping services, funeral services, gas stations, local transportation, etc.**
- **For-profit companies** find it difficult to continue their businesses in areas with declining populations. On the other hand, the capacity of **local governments** to provide essential services is also limited.
- Therefore, as business entities that can maintain and develop service provision while ensuring profits sufficient to avoid falling into a chronic deficit structure through productivity-enhancing initiatives such as labor-saving, digitization, and collaboration, it is necessary to create and support **new mutual aid-based business entities “regional cooperative platforms”** ***centered on cooperatives and resident-owned companies.***





Of the 1,718 municipalities nationwide, more than half (885, or approximately 52%) are classified as municipalities affected by depopulation, and maintaining basic services in these areas is a nationwide issue

Due to declining population density and labor shortages, businesses are unable to maintain their operations and are forced to reduce their service areas or withdraw from the market (limitations of existing for-profit companies)

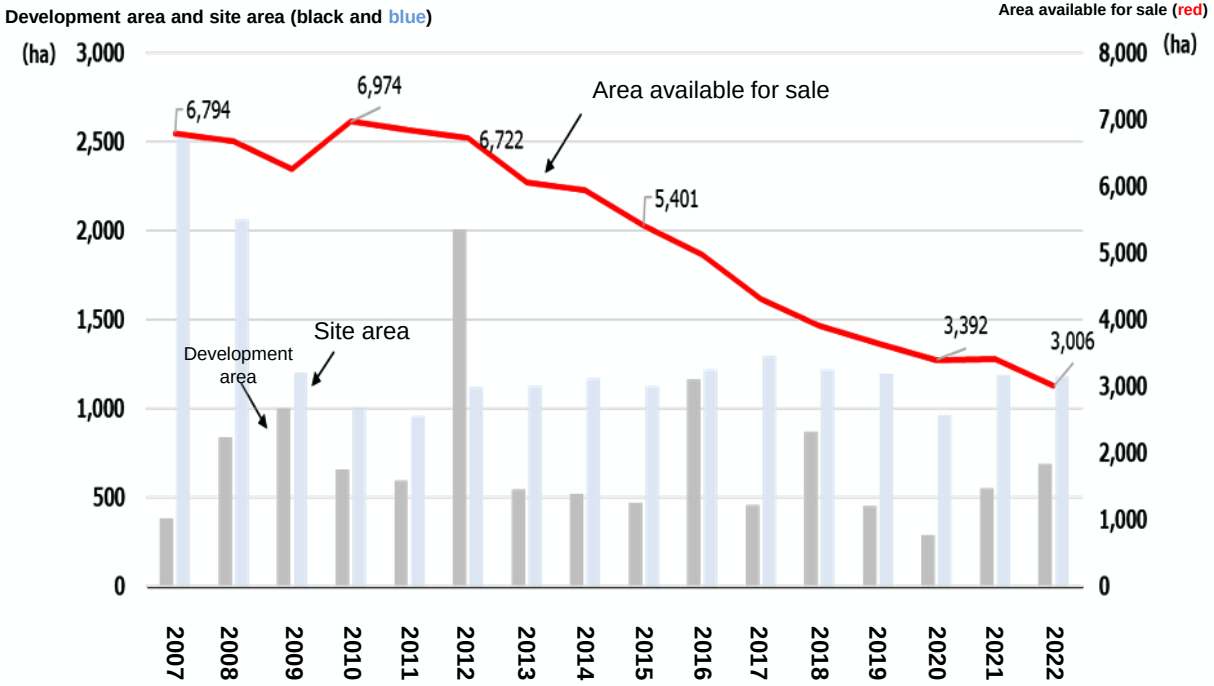


Through digitization, joint ventures, and collaborative work**, a new mutual aid business entity called “Regional Cooperation Platform” has been formed to** maintain and expand the supply area of basic services.

Expansion beyond the region-type industries (manufacturing, etc.): Industrial land shortages due to promotion of domestic location

- With the support of policies such as GX/DX and promotion of medium-sized companies, domestic investment is undergoing "turning points", and **nationwide shortages of industrial land and infrastructure** are becoming apparent.
- Regarding industrial land, **new site development has consistently exceeded new land creation, and the available area for sale has halved over the past decade.** Since industrial land development takes time (generally about 3–5 years), it is necessary to **accelerate new land creation and utilize existing land** to avoid creating bottlenecks for new site development.

Supply and demand situation of industrial land in 42 prefectures that responded that they have not secured industrial parks



Issues related to industrial land

- ✓ **[1] New development (flow: 1000 ha/year):**
  - ✓ Smooth land acquisition and land use adjustment procedures
  - ✓ Weakening of local governments' expertise in industrial land development
  - ✓ Risk-averse tendencies toward industrial land and infrastructure investment by local governments
- ✓ **[2] Developed but unused industrial land (stock: 10,000 ha):**
  - ✓ Limited access to information on suitable sites for businesses due to the prevalence of non-public information
- ✓ **[3] Large-scale former sites of heavy industries (stock: 28,000 ha):**
  - ✓ Land use conversion requires not only environmental impact assessments but also soil contamination removal in some cases.
  - ✓ However, the predictability is low, leading to hesitation in initiating surveys.

(Source) Based on the "Industrial Land Guide" published by the Japan Industrial Location Center and the "Industrial Location Trends Survey" published by the Ministry of Economy, Trade and Industry.

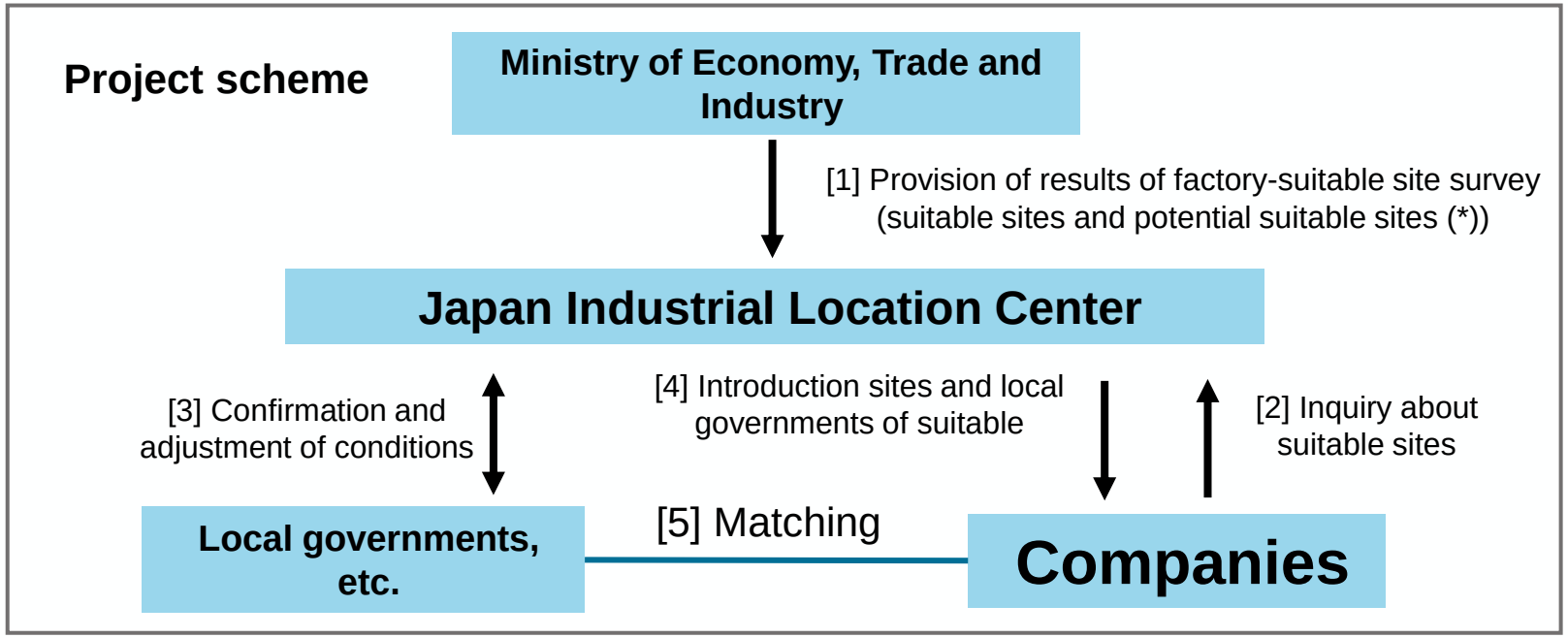
(Note 1) This includes all developed and under-development industrial parks, logistics parks, research parks, business parks, and clustered factories nationwide where the project operators are prefectures, municipalities, development corporations, or private developers. For these sites, **the Japan Industrial Location Center conducted a survey by interviewing all prefectures**, and all reported sites were compiled (as of October each year).

(Note 2) In a questionnaire survey conducted by the Ministry of Economy, Trade and Industry for prefectures and government-designated cities (conducted in 2023), the question "Does your prefecture currently recognize that it has secured industrial parks (including those developed by municipalities and the private sector, not limited to those developed by your prefecture) that can respond to inquiries (needs) from companies, etc. in ①?" was asked. **The responses of 42 local governments that answered "No" were excerpted.**

(Source) Compiled by the Ministry of Economy, Trade and Industry based on interviews with companies.

Industrial Site Matching Program

- **To facilitate corporate location, a new matching mechanism will be established,** which is **matching companies seeking industrial sites with local governments** which publicly solicit companies for location, by making use of the results of the annual survey for the factory-suitable sites which is conducted across all local governments under the Factory Location Act.
- Specifically, in addition to the **factory-suitable sites** which are selected and published through the survey, this project will also utilize the sites which are nominated **as potential factory-suitable sites (previously unpublished) by local governments** with the consent of the local governments . **Expert personnel facilitate the matching process,** who includes the coordination with local governments regarding the location conditions requested by companies.



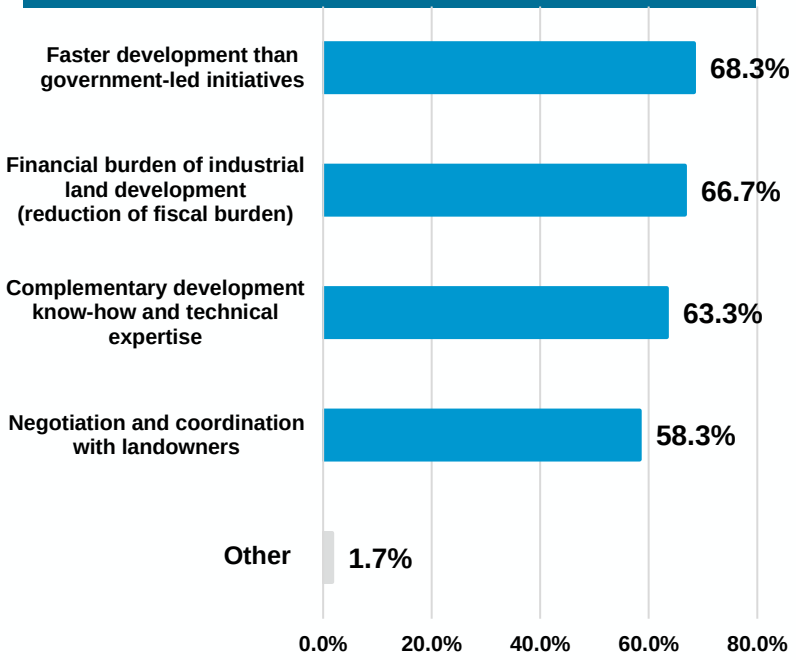
(*) Potential sites of this matching mechanism will be provided only in the case of the municipality's consent.

Promotion of industrial land development through collaboration between local governments and private sector companies

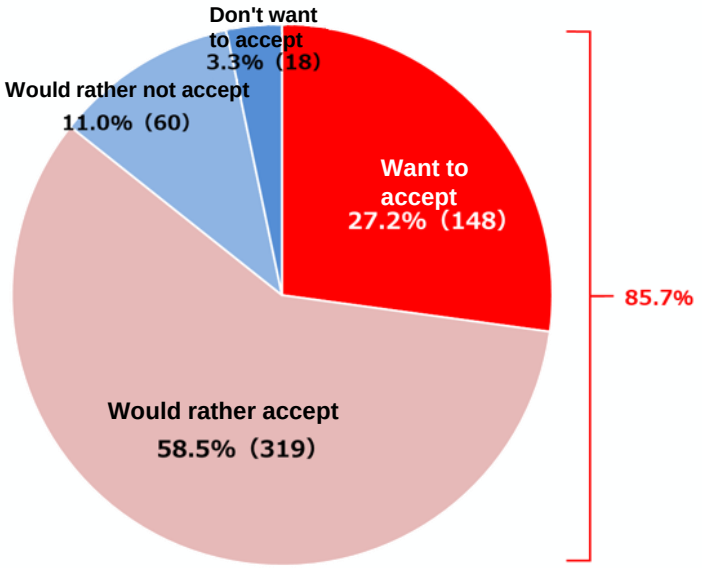
- **Due to various advantages such as** rapid development, reduction of financial burdens**, and** complementary expertise**, there is a growing need for** public-private partnerships **between local governments and private developers when developing industrial land.**

- Therefore, it is necessary to promote industrial land development through collaboration between local governments and private developers, as well as to **expand examples of smooth land use adjustments utilizing the Act for Promotion of Future Regional Investment.**

Benefits of public-private partnership in industrial land development



Intentions to adopt public-private partnerships in local governments



Examples from Tosu City, Saga Prefecture

- **Tosu City, Saga Prefecture, and private companies** (TOKYU LAND CORPORATION, JDC Corporation, and Marubeni Corporation) **have signed a partnership agreement** to develop an industrial park (approximately 34 hectares) in accordance with Saga Prefecture's basic plan based on the Act for Promotion of Future Regional Investment.

- Implement business attraction measures **that include certain large-scale projects that are likely to meet the approval requirements of the Act for Promotion of Future Regional Investment. Land use adjustments are also planned.**

The signing ceremony of the agreement by the parties concerned

(Source) Ministry of Economy, Trade and Industry's "Questionnaire and Hearing Survey for Local Governments" (2024). The bar graph on the left shows the responses of 60 local governments that have already completed or are currently undertaking land development through public-private partnerships.
The pie chart on the right shows the responses of all respondents (545 local governments)

(Source) Ministry of Economy, Trade and Industry based on information from the website of Tosu City, Saga Prefecture, etc.

Challenges and responses to soil contamination measures for reusing former industrial sites

- **In coastal areas, large-scale factories and their former sites and vacant lots may face difficulties in smoothly converting to other uses due to factors such as institutional regulations under the Soil Contamination Countermeasures Act and financial burdens (soil contamination countermeasures costs, building demolition costs, etc.).**
- Currently, the **Ministry of the Environment** has established a Soil System Subcommittee under the Central Environment Council to **review the Soil Contamination Countermeasures Act from the perspectives of rationalizing the complex system and its implementation, and strengthening the appropriate management and succession of historical land use information.**
- The Ministry of Economy, Trade and Industry has agreed to collaborate with the Ministry of the Environment, which oversees the Soil Contamination Countermeasures Act, from **the perspective of smooth and effective land utilization**. For example, **it aims to rationalize the system for industrial areas such as coastal regions where health risks to humans are unlikely to be significant.**

"Directions for Consideration of Revision of the Soil Contamination Countermeasures Act" (summary)

June 2024: Study Group on the Implementation Status of the Soil Contamination Countermeasures Act (report)

- Streamline the current complex system and operations and make them easier to understand for all parties concerned.
- Expand the scope of historical land surveys and rationalize the scope of sample collection and other surveys in accordance with the degree of health risk.
- While maintaining the scope of health risks subject to management, **rationalize the complex area designation system, etc.**
- When the ownership of land at a facility designated for the use of **hazardous substances changes,** require the implementation of historical land surveys **and consider obligating** the parties involved to transfer the results to the new owner, etc.
- Ensure the effectiveness of the revised system while considering those with low cost-bearing capacity.

Opinion of industry on the Soil System Subcommittee (summary)

- Regarding coastal industrial areas

✓ Given the low risk of health hazards from residents drinking groundwater or directly ingesting soil, **special coastal areas designated as industrial zones should be managed under a different framework from the existing one.** (Japan Business Federation)

✓ **Coastal industrial areas, etc.,** have no access by outsiders, no movement of contaminated soil outside the premises, and no drinking wells, so ***the risk of health hazards is low, and the benefits of land use are significant. Therefore, we request that these areas be exempted from the reporting requirement.*** **(Japan Chemical Industry Association)**

✓ The area requiring notification of changes in the nature of operations for **steel plants located in coastal areas** is an industrial zone with no access by the general public and no use of groundwater for drinking purposes. **Therefore, the risk of harm to human health is extremely low. We request an appropriate and reasonable revision in light of the risks to human health**. (The Japan Iron and Steel Federation)

(Source): Central Environment Council, Water Environment and Soil Pesticides Subcommittee, Soil System Subcommittee (held on September 18, 2024), Document 7-1, Document 7-2

Further promotion of relocation of headquarters functions to regional areas

- In FY2015, the Cabinet Office established the **Tax System To Strengthen Local Bases**. When business facilities with headquarters functions are developed in regional areas, special measures such as tax deductions based on the acquisition cost of buildings and the number of new employees are provided to businesses that have received project approval.
- Although the scope of the tax system has been expanded repeatedly, **the number of certified firms relocating from the 23 wards of Tokyo is limited** (about 10% of the total of approximately 700 certified cases).
- Local governments that have been successful in attracting businesses have in common, **such as the targeting of jobs that attract young people and women who have moved to urban areas to return to their hometowns to work, and collaboration with local companies, community organizations, and key persons in the community.**
- In order to further promote the relocation of headquarters to regional areas, it is important to revitalize local government efforts to attract businesses by **providing further incentives to companies, disseminating examples of advanced local government initiatives, and promoting initiatives in collaboration with other policies.**

Examples of relocation of head office functions

○Southern Cross Systems Co., Ltd., Miyazaki City, Miyazaki Prefecture

- In order to **expand business** and **contribute to regional DX promotion, some head office functions were relocated from Tokyo to the founder's hometown of Miyazaki.**
- **In collaboration with universities and other institutions, the company also contributes to the development of IT human resources in the region.**
- **By establishing a new office near the airport, the office itself serves as an advertisement for recruiting, etc.**

(Source) Southern Cross Systems Co., Ltd.'s website

Examples of local governments actively working to attract companies to relocate headquarters

○Shizuoka prefectural government

- Separate from the department responsible for attracting large-scale factories, the department focuses on **attracting companies in industries that young people and women want to work in (IT, consulting, advertising, design-related, etc.).**
- **Tours are conducted to introduce companies interested in expanding into Shizuoka to the prefecture, and local companies, community organizations, and key persons are introduced.**
- As a result, Shizuoka Prefecture has been certified for 99 cases under the **Tax System To Strengthen Local Bases** , ranking first in Japan in the number of the certification.

Policy direction[3] - Enhancing economic infrastructure to actualize growth investment -
⇒Addressing risks at home and abroad and developing location competitiveness that will make Japan an attractive investment destination of choice in the world

(1) Steadily actualizing the GX2040 Vision and Strategic Energy Plan

⇒**Accelerating efforts to simultaneously achieve stable energy supply, economic growth, and decarbonization,** in accord with the GX2040 Vision and the Strategic Energy Plan

- Pushing ahead with GX industrial policies that combine supports and regulations (**making effective use of GX Economy Transition Bonds, establishing new framework related to carbon pricing/circular economy**, and promoting GX industrial locations [reiterated])
- **Making the maximum use of decarbonized power sources such as renewable energies or nuclear power; creating appropriate business environment, etc. to achieve this**; **pushing ahead with utilization of hydrogen, ammonia, e-fuels, synthetic methane and biofuels; building CCS value chain, promoting** intensified **energy-saving practices, non-fossil fuel conversion, and expansion of DR implementation; creating appropriate environment for stable oil/natural gas supplies; beefing up regional fuel supply schemes**, etc.
- Making efforts for **reconstruction/revitalization of Fukushima** as the most important issue, which is the basic premise of the energy policy

(2) Restructuring appropriate business environment in increasingly uncertain global economy

⇒**Improving predictability of international business environment** with an eye to capturing foreign demand, as the global economy gets fragmented further

- **Beefing up economic diplomacy (bilateral** diplomacy, utilization of **international frameworks** such as G7, WTO, EPAs including CPTPP, and strengthening ties with the **Global South and like-minded countries**, etc.)
- Pushing ahead with **international rulemaking** (**creating fair markets** with non-price factors, embodying AZEC, etc.)
- **Stimulating exports** to draw on foreign demand (cultivating partner nation markets, beefing up **NEXI risk response capabilities, etc.**)

(3) Establishing and beefing up economic security

⇒Building **robust industrial/technological infrastructures** to cope with threats/risks surrounding Japan

- Enhancing **economic intelligence** capabilities **and establishing cooperative framework among like-minded** countries to protect/foster markets and technologies
- **Creating stronger supply chains** with an awareness of **enhancing not only autonomy but also indispensability, protecting technologies/data, and enhancing defense industry infrastructures**

GX 2040 Vision and the 7th Strategic Energy Plan

- Amid growing uncertainty in the investment environment due to factors such as the intensification of the international situation and the potential increase in electricity demand accompanying the progress of GX and DX, the “GX 2040 Vision” was formulated as a medium- to long-term outlook and approved by the Cabinet in February 2025.
- It will be implemented in conjunction with the “the 7th Strategic Energy Plan,” which was also approved by the Cabinet, toward fiscal 2040.

<Overview of GX 2040 Vision>

1. Overall picture of GX 2040 vision

・Amid growing uncertainty about the future outlook due to factors such as Russia's invasion of Ukraine, tensions in the Middle East, and the impact of advances in DX and electrification on increasing electricity demand, **we will indicate a longer-term direction to enhance the predictability of investments toward GX.**

2. GX industrial structure

- **(1) New GX businesses utilizing innovative technologies will continue to emerge, and (2) a full-set supply chain will** aim to **realize an industrial structure that has been advanced through the use of decarbonized energy and DX.**
- **To achieve the above**, we will promote the social **implementation of innovation, the creation of markets related to GX industries, and GX among medium-sized companies and SMEs.**

3. GX industrial location

- **In the future, GX industries that create added value through products and services utilizing clean energy such as decarbonized electricity will drive growth.**
- **Taking into account the regional disparity in clean energy, promote the efficient and effective “development of new industrial sites”** and **“development of decarbonized power sources”** with the aim of revitalizing regional economies and achieving economic growth.

4. The importance of realistic transitions and contributions to global decarbonization

- **It is necessary to pursue realistic transitions while coordinating efforts with other countries toward achieving net-zero emissions by 2050.**
- Contribute to the decarbonization of countries around the world through initiatives such as **AZEC**.

5. Initiatives in specific fields to accelerate GX

- **Accelerate GX initiatives** in specific fields **(energy, industry, lifestyle, etc.) based on sector-specific investment strategies, the Strategic Energy Plan, and other measures.**
- **Reduce emissions through the supply and utilization of renewable materials. Aim to promote inclusive regional growth of the region that contributes to coping with a declining birthrate by submitting a bill to revise the Act on the Promotion of Effective Utilization of Resources to the 2025 ordinary session of the Diet.**

6. Pro-growth carbon pricing concept

A bill to revise the **GX Promotion Act is scheduled to be submitted to the ordinary session of the Diet in 2025.**

- **Full implementation of the emissions trading system (FY2026~)**
  - **Companies with emissions exceeding a certain threshold (direct emissions of 100,000 tons) will be uniformly** required to **participate, regardless of industry.**
  - Emissions **allowances will be allocated free of charge to eligible businesses, taking into account industry characteristics.**
  - **Set upper and lower price limits** for emission **allowances to ensure predictability.**
- **Introduction of a fossil fuel surcharge (FY2028~)**
  - Implement necessary measures to ensure smooth and certain introduction and enforcement.

7. Just transition

- In promoting GX, **advance necessary initiatives from the perspective of just transition, such as labor mobility to newly emerging industries.**

8. Progress and review of GX policy implementation

- Continue to report on progress at the GX Implementation Council Meetings and other appropriate forums, and effectively review and revise policies as necessary.

<Key Points of the 7th Strategic Energy Plan >

1. Basic directions

- **The S+3E** (Safety, Energy Security, Economic Efficiency, and Environment) **principle will be maintained. Focus will be placed on energy security.**
- Increased electricity demand **due to the advancement of DX and GX. Securing decarbonized power sources is directly linked to economic growth, and both renewable energy and nuclear power will be utilized to the maximum extent possible.**
- Maximize the introduction of renewable energy as the main power source, **while aiming for a balanced power mix that does not overly rely on specific power sources or fuel sources.**
- **Consider energy and industrial policies in an integrated manner and coordinate with the “GX 2040 Vision.”**

2. Responses in key areas

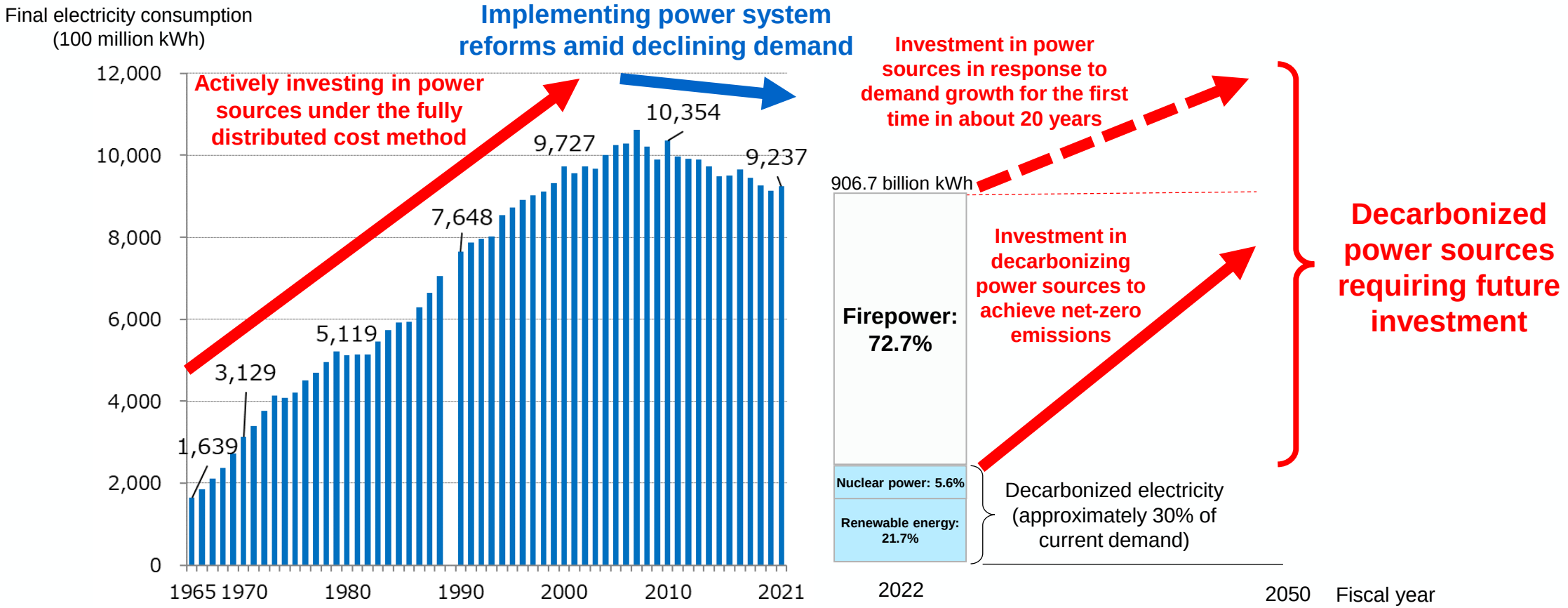
- **Renewable energy will be introduced to the maximum extent possible as a main power source, while promoting coexistence with local communities and minimizing the burden on the public. Perovskite solar cells will be introduced at a capacity of 20 GW by 2040.** Floating offshore wind power will be introduced in EEZs and other areas. **Next-generation geothermal power generation will be accelerated.**
- **Nuclear power will be restarted and its back-end process accelerated, with the utmost priority given to ensuring safety. Next-generation advanced reactors will be built to replace nuclear power plants whose decommissioning has been decided by the operators within the existing sites. Research and development of next-generation advanced reactors, including fusion energy, will be promoted.**
- **For thermal power, promote decarbonization through ensuring long-term LNG contracts and utilizing hydrogen, ammonia, CCUS, etc.** Reduce power generation, focusing on inefficient coal-fired power, while continuously reviewing reserve power supply system. Estimate LNG requirements, assuming cases where technological innovation does not progress and NDC achievement is difficult.
- Promoting a business environment and financial environment that encourages businesses to actively invest in decarbonization power sources.
- **Promotion of energy conservation and transition away from fossil fuels.** Development of energy-efficient semiconductors and optoelectronic fusion technologies, institutional measures for data centers, and support for the spread of energy-efficient equipment. Utilization of hydrogen and its derivatives and CCUS **in areas where decarbonization is difficult.** Developing domestic resources **to enhance self-sufficiency.**
- Through the AZEC framework, advance decarbonization in Asia in a pragmatic manner through various pathways, contributing to global decarbonization.

Excerpted and edited from Document 1 of the 11th GX Implementation Council meetings (May 13, 2024)

The importance of investment in decarbonized power sources

- Domestic electricity demand is expected to increase for the first time in about 20 years due to the establishment of new semiconductor factories and demand for data centers. Combined with decarbonization toward net-zero emissions by 2050, we are entering an era that requires large-scale investment in power sources. *Changes in circumstances that were not necessarily anticipated during previous electricity system reforms are now occurring.*

- Without fundamentally strengthening the supply capacity of decarbonized power sources, the outlook for stable power supply in the decarbonized era remains uncertain.
  *The Organization for Cross-regional Coordination of Transmission Operators, Japan has published a forecast indicating that electricity demand will increase at an annual rate of approximately 0.6% from fiscal year 2024 to fiscal year 2029 (January 2024).



(Source) Comprehensive Energy Statistics

Excerpted and edited from “GX2040 Vision Overview (Detailed Version)” (February 18, 2025)

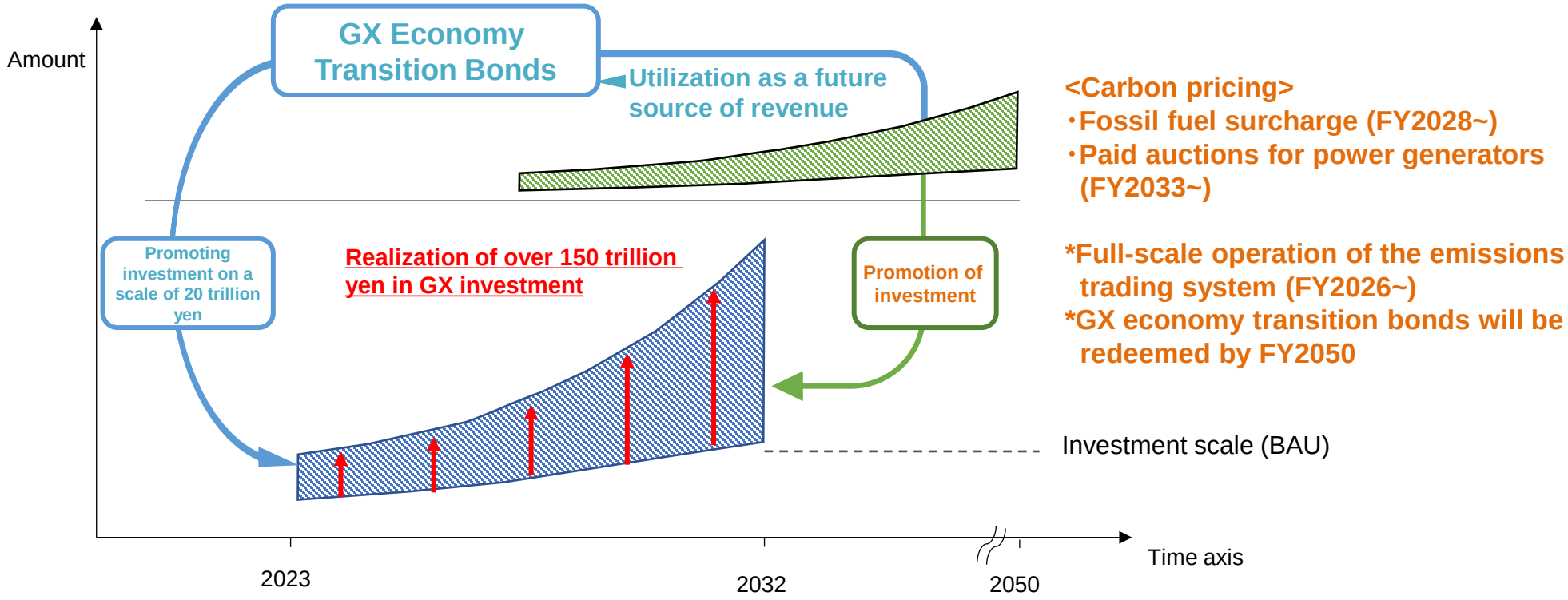
Pro-growth carbon pricing concept (February 2023 GX Basic Policy)

- A pro-growth carbon pricing concept integrating regulation and support will facilitate over 150 trillion yen in public-private GX investments over 10 years

[1] Bold upfront investment support of 20 trillion yen based on sector-specific investment strategies utilizing “GX Economy Transition Bonds”* * To be redeemed by 2050FY

[2] Introduction of carbon pricing: ⅰ) Introduction of a “surcharge on fossil fuel supply” starting in FY2028 ⅱ) Introduction of a system for the auctioning of emission allowances to power generators starting in FY2033 (with the full-scale operation of the emissions trading system beginning in FY2026)

[3] Utilization of new financial tools: Debt guarantees by the GX Promotion Agency, etc.



<Carbon pricing>
・Fossil fuel surcharge (FY2028~)
・Paid auctions for power generators (FY2033~)

***Full-scale operation of the emissions trading system (FY2026~)**
***GX economy transition bonds will be redeemed by FY2050**

Outline of the Act for Partially Amending the Act on the Promoting Transition to the Decarbonized Growth Economic Structure and the Act on the Promotion of Effective Utilization of Resources

*Act on the Promoting Transition to the Decarbonized Growth Economic Structure (GX（green transformation） Promotion Act), Act on the Promotion of Effective Utilization of Resources (Resources Act)

Background and Outline of the Act

✓ **Under the Act on the Promoting Transition to the Decarbonized Growth Economic Structure, which was established in FY2023, Japan has been working out the specifics of the Pro-Growth Carbon Pricing Concept as a measure for striking a balance between the achievement of carbon neutrality by 2050 and economic growth, i.e., green transformation (GX).**

✓ Aiming to promote transition to the decarbonized growth economic structure ,1. **legalize the emissions trading system**, 2. **establish a new system to strengthen resource circulation**, 3. **specify the GX-surcharge collection measure**, and 4. **develop financial support for the field of GX**.

1 Emissions trading system (GX Promotion Act)

(1) Mandatory Participation of Business Operators Above a Certain Emission Scale

Mandatory participation of business operators with direct carbon dioxide emissions **equal to or greater than a specified quantity (100,000 tons or more).**

(2) Free Allocation of Emission Allowances (Totally Free Allocation)

- The free allocation of allowances based on **government guidelines take into account the characteristics of the industry,** and the circumstances of business operators in transition. In allocating allowances, factors such as **the risk of relocating manufacturing facilities abroad,** the status of GX-related research and development, **and new or expanded facilities will be taken into account to a certain extent.**
- Business operators that exceed their actual allocated emission allowance must procure an emission allowance. Business operators that have made progress in reducing emissions and have surplus allowances can sell or carry over their allowances.

(3) Emission Allowance Trading Market

- In order to **facilitate emissions trading and ensure fair pricing**, the GX Acceleration Agency operates an **emissions allowance trading market**.
- **Business operators other than those subject to the system,** such as financial institutions and trading companies, etc., **will also be allowed to participate in the trading market** if they meet certain criteria.

(4) Price Stabilization Measures

- **To improve the predictability** of investment decisions for business operators **and to prevent excessive impacts on the national economy, upper and lower price limits is to be established** for emissions allowances.
- To introduce a measure for business operators to pay a fixed price, considered as depreciation, during price surges.
- **When prices fall, the GX Acceleration Agency will respond by purchasing emission allowances, etc.**

(5) Formulation of a Transition Plan

- **Require eligible business operators to formulate and submit a plan that describes their mid- to long-term emission reduction targets and the measures they will take to achieve them.**

*On the basis of the emissions trading system, collection of specified business operators' contributions will begin in the fiscal year 2033.

2. Strengthening Resource Circulation (Resources Act and GX Promotion Act)

(1)Mandatory requirement for use of recycled resources

- In order to promote decarbonization, products that are subject of mandatory requirement for use of recycled materials are specified, and producers of such products are **obliged to submit plans and periodic reports on their use of recycled materials.**
- The GX Acceleration Agency is to provide necessary advice for businesses to prepare the plan.

(2) Promotion of environmentally friendly designs

- From the perspective of promoting the effective utilization of resources and decarbonization, **a certification system is to be established for excellent environmentally friendly designs, such as designs that facilitate disassembly and sorting of products and designs that lead to longer product life.**
- **Special measures will be provided for business operators of certified products, such as labeling of the certification on the products and financial support for investment in recycling equipment.**

(3) Promotion of further recycling of raw materials that are necessary for promoting GX

- **In order to incentivize business operators for collection and recycling of raw materials that are necessary for promoting GX, special measures under the Waste Management Act** (exemption from permit requirements under the act for conducting industrial waste management business on the condition of proper processing) are to be provided **for certified business operators**, that set high collection targets.

(4) Promotion of CE (Circular Economy) Commerce

- **A new category of "CE commerce business operators"**, such as sharing businesses, is to be introduced and "standards of judgement" are to be set for such businesses

3. Collection of the GX-surcharge (GX Promotion Act)

- **Develop the technical matters such as payment deadlines, disposition to collect arrears, and reduction or exemptions for fuels not used domestically, necessary for the enforcement of the fossil fuel levy** that is to begin in fiscal year 2028.

4. Financial Support (GX Promotion Act)

- The proceeds from the issuance of the GX Economy Transition Bond will compensate **for the general fund revenue loss associated with tax credits for goods in the GX sector as part of the strategic tax system.**

Investment promotion measures using the GX Economy Transition Bonds (draft) *As of the end of R6

		Public and private investment amount	Main investment promotion measures through the GX Economy Transition Bonds	Measures taken (R4 supplementary budget to R6 initial budget) [approx. ¥3.3T]	R6FY (including national debt burden) *R6FY supplementary budget amount	R7FY (including national debt burden) *Initial budget amount for R7	Remarks
Manufacturing	Steel Chemical products Paper and pulp Cement	¥3T~ ¥3T~ ¥1T~ ¥1T~	•Support for capital investment in manufacturing process conversion for high-emission manufacturing industries (innovative electric furnaces, conversion of decomposition furnace heat sources to ammonia, and transition to chemical recycling, biochemistry, CCUS, biorefinery, etc.)	¥32.7B		**5 years: ¥424.7B** (¥25.6B)	•Total support for capital investment: **approximately ¥1.3T over 10 years** *As of the end of R5 •Separately, R&D support for hydrogen reduction, etc. through the GI Fund, and tax credits based on the production volume of green steel/green chemicals, etc. will be implemented
Transportation	Automobiles	¥34T~	•Support for the introduction of electric vehicles (passenger cars) •Support for the introduction of electric vehicles (commercial vehicles, etc.)	¥219.1B ¥54.5B	¥110B ¥40B		•Separately, R&D support for next-generation storage batteries, motors, e-fuels, etc. through the GI Fund, and tax credits based on production volume of EVs, etc. will be implemented
	Batteries	¥7T~	•Production equipment introduction support	¥827.4B	¥177.8B		•Separately, measures will be taken to support R&D for all-solid-state batteries, etc. through the GI Fund
			•Support for the introduction of stationary batteries.	¥8.5B		**3 years: ¥40B** (¥15B)	
	Aircrafts	¥4T~	•Support for the development of next-generation aircraft, etc.			**5 years: ¥86.8B** (¥8.1B)	•**Support totaling ¥120B over 5 years** •Separately, measures will be taken to support R&D for next-generation aircraft through the GI Fund
	SAF	¥1T~	•Support for the manufacturing and supply chain development of SAF	¥27.6B		**¥27.8B**	•Separately, R&D support for SAF through the GI Fund and tax credits based on SAF production volume will be provided
	Vessels	¥3T~	•Support for the introduction of production facilities for zero-emission ships, etc.	¥9.4B		**5 years: ¥30B** (¥10.2B)	•Separately, measures will be taken to provide R&D support for ammonia ships, etc. through the GI Fund
Lifestyle, etc.	Lifestyle	¥14T~	•Renovation of home insulation windows •Introduction of high-efficiency water heaters •Support for renovation of commercial and educational facilities •Support for the introduction of energy-efficient housing	¥235B ¥58B ¥11B	¥135B ¥58B 3 years: ¥34.4B (¥11.2B) ¥50B	**¥1.2B**	•Including automobiles, etc., **approximately ¥2T in support measures over 3 years** (including measures other than the GX Economy Transition Bonds) *As of the end of R5
	Resource recycling	¥2T~	•Support for the development of a circular business model	¥8.5B		**3 years: ¥40B**(¥18B)	•Separately, R&D support for pyrolysis technology, etc., will be provided through the GI Fund
	Semiconductors	¥12T~	•Support for the introduction of production equipment for power semiconductors, etc. •Support for technological development of AI semiconductors, photoelectric fusion, etc.	¥432.9B ¥103.1B	¥157.6B	**¥179.7B**	•Separately, measures will be taken to support R&D for power semiconductors, etc. through the GI Fund
Energy	Hydrogen and its derivatives	¥7T~	•Provide support focusing on the price gap with existing fuels	¥8.9B		**5 years: ¥389.7B** (¥35.7B)	•**A scale of ¥3T over 15 years from the start of supply *As of the end of R5** •Separately, measures will be taken to support R&D for supply chains through the GI Fund
			•Development of supply bases for hydrogen, etc. (FEED project)			**¥5.7B**	•Support for EPC will be considered based on the results of the FEED project
	Next-generation renewable energy	¥31T~	•Support for the establishment of supply chains for perovskite solar cells, floating offshore wind turbines, water electrolysis equipment, etc.	¥54.8B		**5 years: ¥146B** (¥61B)	•Total support for capital investment, etc. will amount to **approximately ¥1T over 10 years** *As of the end of R5 •Separately, R&D support for perovskite, etc. will be provided through the GI Fund
			•Support for the development of a model to promote the introduction of perovskite			**¥5B**	
	Nuclear power	¥1T~	•Development of demonstration reactors for fast reactors/high-temperature gas-cooled reactors	¥68.6B		**3 years: ¥115.2B** (¥82.9B)	
			•Technical development and supply chain construction support for the development and construction of next-generation innovative reactors			**3 years: ¥9.3B** (¥6B)	
	CCS	¥4T~	•Support for the construction of a CCS value chain (including the development of suitable sites)				•Consideration based on the results of feasibility studies for advanced CCS projects
	Cross-sectoral measures		•Promotion of investment through energy conservation subsidies, including for small and medium-sized enterprises	¥174B	5 years: ¥202.5B (¥30B)	**¥76B**	•**Support totaling ¥700B over 3 years** *As of the end of R5
			•Deep Tech startup incubation support	¥41B		**¥30B**	•Support totaling ¥200B over 5 years (including financial support from the GX Acceleration Agency) *As of the end of R5
			•R&D through the GI Fund, etc.	¥806B			•¥2T (general account) measures in the third supplementary budget for R2 / •**An additional ¥120B** in support measures will be implemented
			•Financial support from the GX Acceleration Agency for the implementation of GX.	¥120B		**¥70B**	•Consideration of financial support through debt guarantees, etc.
			•Regional Decarbonization Grant (self-operated microgrids, etc.)	¥9B	¥1.5B	**¥8.5B**	
			•Promotion of inter-company collaboration for Scope 3 reduction and CO2 reduction investment			**3 years: ¥5B**(¥2B)	
			•Operation of the GX League			**¥3.1B**	
	Tax measures		•**Tax credits based on production volume of green steel, green chemicals, SAF, EVs, etc.**				

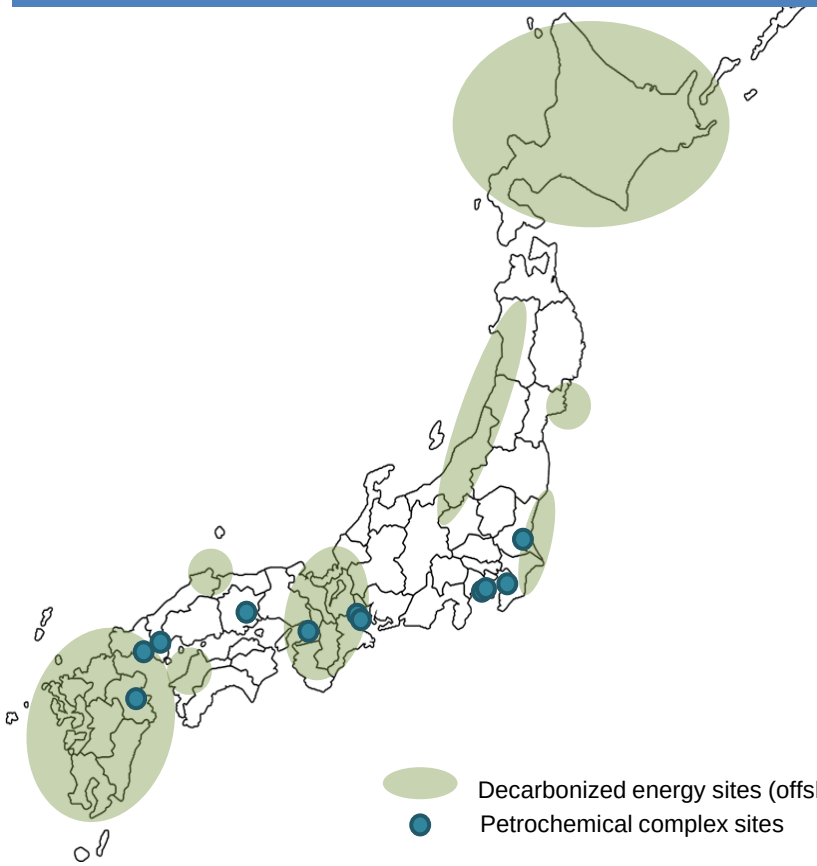
*In addition to the above, administrative expenses (interest payments on the GX Economy Transition Bonds, etc.) amounted to ¥54.2B.

Budget measures after the R6 supplementary budget: ¥2.7147T (R6 supplementary budget: ¥771.1B (green underline), R7 initial budget: ¥725.8B (purple underline)). Including measures already implemented (including national debt burden measures) and **items in blue, the total is approximately ¥14T.**

Excerpted and edited from “GX2040 Vision Overview (Detailed Version)” (February 18, 2025)

Accelerating the concentration of industries related to new clean energy sources such as decarbonized power sources and hydrogen, and promoting efficient and effective grid development across Japan through the Watt-Bitt Collaboration

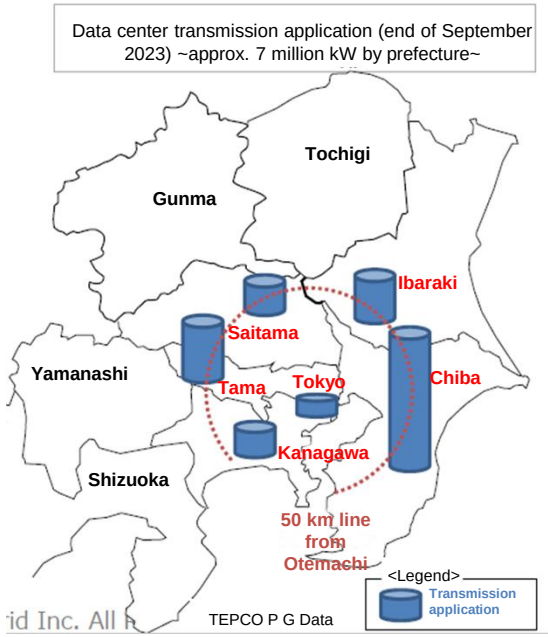
Image of coordination between investment promotion measures and corporate location

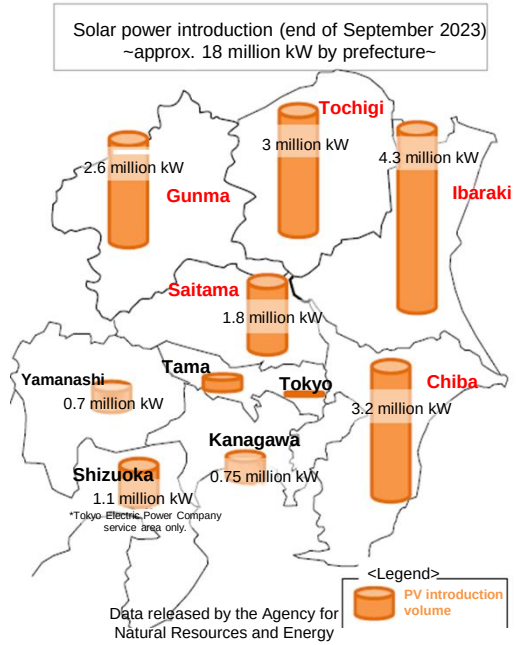


Decarbonized energy sites (offshore wind power, nuclear power)

Petrochemical complex sites

Gap between solar power introduction volume and DC introduction locations





(Source) July 11, 2024, Expert Working Group on the Realization of GX, Document 1, and July 23, 2024, materials provided by Mr. Hiroshi Okamoto at the GX2040 Leaders' Panel, compiled by the Secretariat.

Overview of International Trade and Economic Strategy (draft)

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

International situation: [1] Protectionism and instability in the international economic order against a backdrop of widening disparities; [2] Emergence of threats caused by over capacity and overdependence; [3] Intensifying competition surrounding the Global South; [4] An era in which digitalization is engulfing everything; [5] Environmental energy policies as measures to strengthen competitiveness

Objectives: "Maximize Japan's added value in the world through solving global challenges" (increase in exports and foreign direct investment returns, improving terms of trade, and ensuring autonomy) ⇄ "Remain a reliable economic partner even in an uncertain world" (vision in the international community)

Pillars and key measures of international trade and economic policy

(1) Response to Fluctuations in the International Economic Order Amid Rising Protectionism

While aiming to reconstruct the international economic order, build win-win relationships and contribute to the international community as a reliable economic partner

<Key Measures>

- Building win-win bilateral relationships
- Cooperation and co-creation with like-minded countries on specific issues (AZEC, economic security cooperation in the G7, etc.)
- Maintaining, strengthening, and reconstructing the international economic order (restoring and strengthening the functions of the WTO, general review and new accession to the CPTPP, expansion of EPAs and investment agreements, consideration of reconstructing the order, utilization of the World Expo, etc.)
- Strengthening ties with Global South countries (regional and country-specific strategies, etc.)
- Enhancing intelligence on international situations

(2) Securing export markets to incorporate overseas vitality and co-creation with the Global South and like-minded countries

Securing export markets in light of the rise of protectionism and increased domestic investment, and co-creation with the Global South and like-minded countries to increase the added value of Japanese companies

<Key Measures>

- Establishing rule and environment (promoting economic diplomacy, digitizing trade procedures, training programs, standardization, countermeasures against counterfeit goods, etc.)
- Acquiring markets in the Global South (formulation of master plans and demonstration support, strengthening of the financial base of trade insurance businesses, human resources development and exchange, etc.)
- Strengthening support for service exports and overseas expansion (cooperation with like-minded countries, support for content exports, etc.)
- Strengthening support for exports and overseas expansion of medium-sized and SMEs ("the 10,000 new exporters support program", private-sector support businesses, support for hiring highly skilled foreign human resources, support for intellectual property utilization, etc.)

(3) Domestic and international integrated economic policies to strengthen supply chains

Coordinate policies and systems with like-minded countries and improve domestic systems to maintain and strengthen domestic supply chains and enhance autonomy in the stable supply of resources and critical materials

<Key Measures>

- Maintaining and strengthening domestic supply chains in response to protectionism (support measures in response to the imposition of U.S. tariffs on automobiles, etc., and various domestic measures)
- Promoting international cooperation among like-minded countries and consider domestic measures (non-price criteria, regulatory approaches, human rights, etc.)
- Expand international cooperation frameworks, including emergency responses (bilateral and multilateral, by sector)
- Supporting Japanese companies' overseas expansion to enhance supply chain resilience (including demonstration support)
- Promoting diversification of sources in energy and minerals (e.g., resource diplomacy, JOGMEC, NEXI)

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

Building win-win bilateral relations

- **Amidst the emergence of protectionism and other factors that are shaking the international economic order, we will persistently promote dialogue at the bilateral level, with the aim of securing free trade and economic security and building** win-win **relationships with other countries.**

Key bilateral opportunities (2025)

Jan. 10:	Meeting between Prime Minister Ishiba and Prime Minister Ibrahim of **Malaysia**
Jan. 11:	Meeting between Prime Minister Ishiba and President Subianto of **Indonesia**
Jan. 12:	Japan-**Saudi Arabia** Vision 2030 Ministerial Roundtable
Feb. 7:	Meeting between Prime Minister Ishiba and President Trump of **the United States**
February 21:	Meeting between Minister Muto and Deputy Prime Minister Pichai of **Thailand**
February 26:	Meeting between Minister Muto and Minister of Industry and Trade Dien of **Vietnam**
March 7:	Japan-**UK** Economic 2+2 Ministerial Meeting
	Second Japan-**UK** Strategic Economic. Policy and Trade Dialogue (Ministerial Level)
March 10:	Meeting between Minister Muto and Secretary of Commerce Lutnick of **the United States**
	Meeting between Minister Muto and **U.S.** Trade Representative Grier
	Meeting between Minister Muto and **U.S.** National Economic Council Director Hassett
	Meeting between Minister Muto and **U.S.** Senator Hagerty
March 26:	Meeting between Prime Minister Ishiba and President Lula of **Brazil**
March 30:	Meeting between Minister Muto and Mr. Ahn, Minister of Trade, Industry and Energy of **South Korea**
March 30:	Meeting between Minister Muto and Ministry of Commerce Minister Wang Wang of **China**

→ **Pursuing further opportunities**

Key multilateral opportunities (2025)

March 30:	Japan-China-South Korea Economic and Trade Ministers' Meeting (South Korea)
May 15-16:	APEC Trade Ministers' Meeting (South Korea)
Early June 3-4:	OECD Ministerial Council Meeting and related meetings (France)
	Informal Gathering of WTO Ministers and related meetings
June 15-17:	G7 Summit (Canada)
In September:	UN General Assembly (United States)
October 10	G20 Trade and Investment Ministers' Meeting (South Africa)
October 26–November 1	APEC Ministerial Meeting and Leaders' Meeting (South Korea)
November 10–21	COP30 (Brazil)
November 22–23	G20 Summit (South Africa)

→In addition to multilateral agreements, bilateral talks will also be pursued simultaneously.

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

Maintaining, strengthening, and rebuilding the international economic order (CPTPP general review and new accessions)

- **Through the general review**, we will **upgrade the agreement** to address contemporary challenges (such as increasing the resilience of supply chains strengthening supply chains), maintain the gold standard, and **lead the formation of global trade rules**.
- **Regarding new accession, we will aim to expand the application of high-level rules while ensuring transparent implementation, on the premise that the Auckland Principles (*) are met.**

*The principles agreed upon by ministers, which are: (1) maintaining high standards as a prerequisite, (2) taking into account the status of compliance with trade commitments of those economies, i.e., their track record, and (3) responding through consensus among contracting parties.

General review

- In 2023, the terms of reference (TOR) for the general review were approved by the cabinet.
- In 2024, based on the TOR, discussions were held on **increasing the resilience of supply chains strengthening supply chain resilience and market distortionary practices**, in addition to reviewing existing areas such as e-commerce, in order to address contemporary issues.
- In 2025, discussions on the review will continue in preparation for the TPP Committee.

New accessions

- In November 2024, a working group on Costa Rica's accession was established.
- In December 2024, the UK's accession protocol entered into force. As a result, the UK officially joined the CPTPP.
- Currently, China, Taiwan, Ecuador, Uruguay, Ukraine, and Indonesia have submitted requests to join the CPTPP. The contracting parties are currently discussing how to respond.

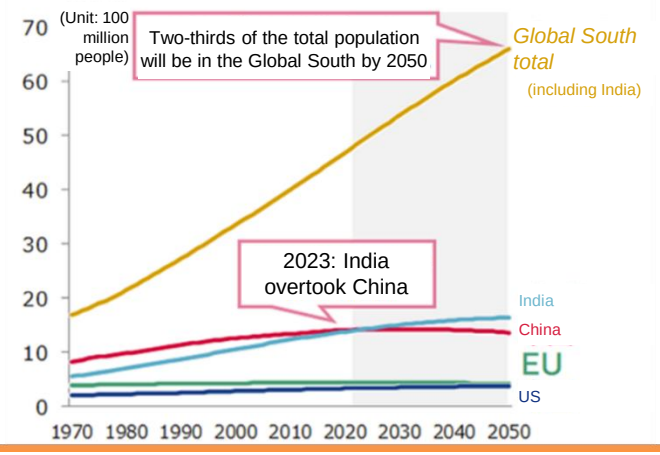
Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

Strengthen relations with Global South countries

- Based on the countries and sectors where Japanese companies have a competitive edge, we will strategically and intensively implement measures such as **formulating master plans for business development in Global South countries, conducting demonstration projects, and supporting the formulation of infrastructure plans**, in accordance with their priority, thereby contributing to the economic growth and resolution of social issues in both Japan and partner countries.
- Going forward, we will **formulate regional and country-specific strategies for the Global South market.**

[Positioning of the Global South]

[1] High-growth markets



[2] Important partners for economic security

◆**Lithium:**

China: 55%, **Chile: 30%**

◆**Rare earths:**

China: 60%, **Vietnam: 16%**

◆**Nickel:**

Indonesia: 28%, Philippines: 26%

[3] Key players in shaping the international order

India-hosted Voice of Global South Summit (January 2023) with over 120 countries participated

The resolution condemning Russia reflects the stance of many emerging and developing countries to strike a balance while also taking Russia into consideration

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

Cooperation and co-creation with like-minded countries on specific issues (AZEC)

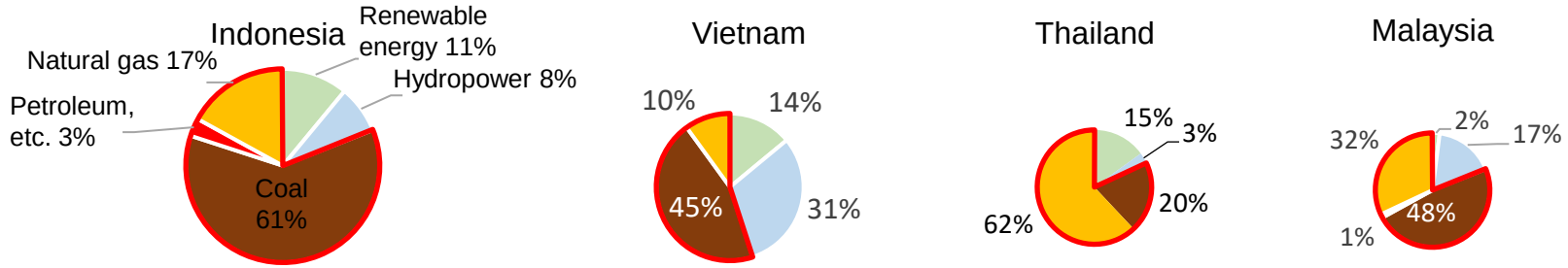
- In January 2022, Prime Minister Kishida (at the time) shared the vision of Asian countries advancing decarbonization in his policy speech and **proposed AZEC with the aim of cooperating to promote energy transition.**
- It is necessary to steadily advance Asia's decarbonization in **a practical manner through diverse approaches tailored to each country's circumstances. Through the AZEC framework, Japan will leverage its diverse technologies and financial resources to contribute to global decarbonization** (Japan's own greenhouse gas (GHG) emissions account for 3% of the world's total).

Participating countries

- Summit meeting (December 2023: Tokyo) and ministerial meeting (March 2023: Tokyo, August 2024: Jakarta) were held
- Promotion of individual projects focusing on the energy sector, including renewable energy and green ammonia
  ⇒ A comprehensive action is needed to transform Asia's industrial and energy structures

At the second AZEC Leaders' Meeting in October 2024, a joint statement including an action plan for the next 10 years was agreed upon, marking the start of a new phase
*The third AZEC Ministerial Meeting is scheduled to be held in Malaysia.

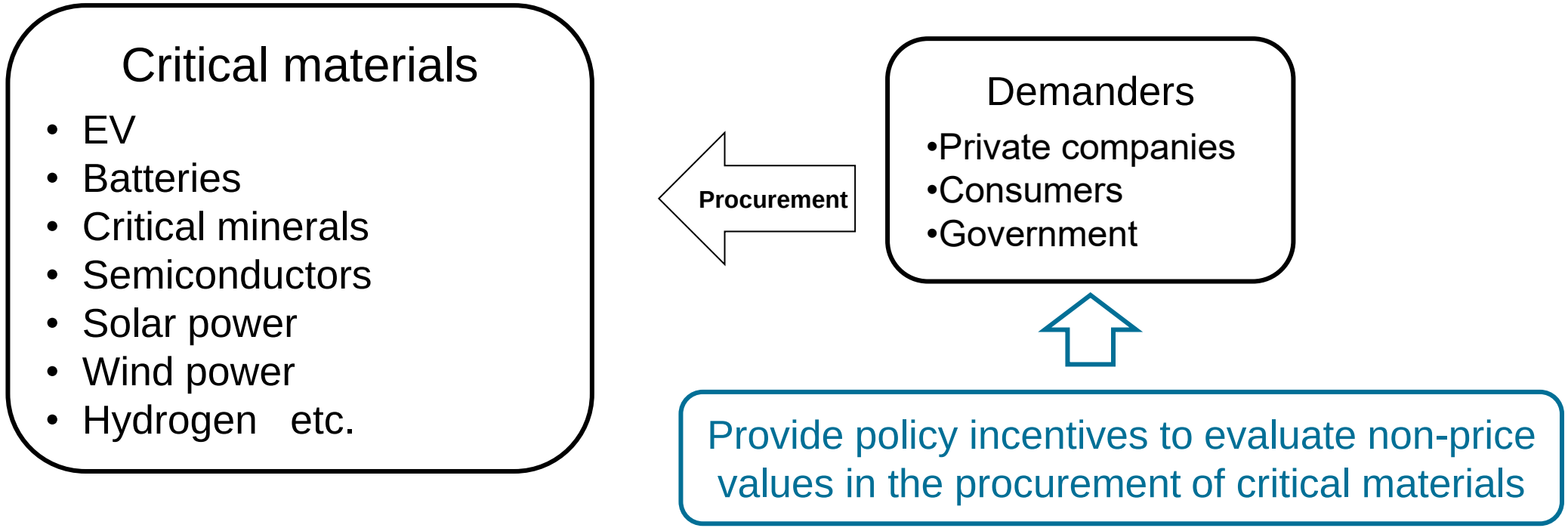
(Reference) Percentage of electricity procurement sources by major countries



Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

Promotion of international coordination and cooperation among like-minded countries and consideration of domestic measures (demand side)

- In order to address risks associated with overdependence on specific sources of supply for critical materials, we will **take a demand-side approach** to ensure that **non-price values** such as supply stability are properly evaluated in the market, in addition to product prices.
- In doing so, we will **coordinate with like-minded countries** through international frameworks to avoid market fragmentation.



Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

(Reference) Policy tools related to critical materials

Materials	Policy tools	Factors other than price
EV	• **Subsidy for purchase of Clean Energy Vehicles** ⇒ Subsidy for purchasing EVs, etc.	• **Creation of a safe and reliable environment** ⇒After-sales service system, charging infrastructure ⇒Risk recognition, policy formulation, and planning for the stable supply of key components and their elements
Batteries and minerals	• **Subsidy for promoting the introduction of renewable energy and power storage systems such as utility-scale battery storage** ⇒ Subsidy for introducing utility-scale battery storage • **Subsidy based on the Economic Security Promotion Act** ⇒ Subsidy for approved plans related to initiatives for ensuring stable supply of specified critical products	• **Promotion of sound energy storage systems** ⇒Establishment of systems for proper waste disposal, such as recycling, and early recovery in the event of failure • **Measures and policies to address supply chain disruption risks** ⇒Procurement policies of key raw materials, analysis of disruption risks and measures to mitigate them, etc.
Offshore wind power	• **Public solicitation for offshore wind power based on the Act on Promoting the Utilization of Sea Areas for the Development of Marine Renewable Energy Power Generation Facilities** ⇒ Public solicitation for offshore wind power generation projects in promotion areas	• **Stable power supply** ⇒Parts supply methods, availability of repair facilities, etc. • **Confirmation of information management system** ⇒Requesting businesses participating in the public tender to submit written documentation regarding their information management system for submarine ground conditions, etc., and conducting interviews

Rule and environment development and export promotion targeting the Global South

- In order to resolve regulatory, institutional, and standard deficiencies that hinder Japanese companies from conducting business in Global South countries, we will **promote institutional reforms and rule-making through training for influential figures in the governments and business communities of partner countries**, with the aim of **promoting Japanese exports and overseas expansion.**
- Additionally, this year, **despite the reduction in non-military foreign aid by the United States under the second Trump administration, we will collaborate with relevant agencies in the United States and other countries to implement awareness-raising activities in ASEAN countries and others on themes such as:** [1] the importance of considering non-price factors (fair market approach) and [2] sustainable trade and industrial policies**. We will work to improve the international business environment.**

Rule establishment (e.g., boiler-related laws and regulations)

- **In order to introduce Japanese small-scale through-flow boilers, which have advantages in terms of energy efficiency and safety, into Malaysia,** we will conduct awareness-raising activities on the benefits of introduction and regulations in Japan, and aim to revise existing local laws and regulations.
- We will contribute to GX and safety improvement in Malaysia, and **enhance the international competitiveness of Japanese manufacturers.**

Small-scale through-flow boiler

(Source) MIURA CO., LTD.
https://www.miuraz.co.jp/product/boiler/

Establishment of an international business environment

- **Implement training programs for government officials involved in ASEAN policy-making and other relevant countries such as the United States** (the following are examples of training themes).
  - [1] **To support ASEAN countries in responding to industrial policies and government procurement that take non-price factors into account**, conduct training on the importance of such policies.
  - [2] **Raise awareness of the current state of over-supply and the non-market policies and practices underlying it, as well as the need for future measures to address these issues.**

Japan-U.S. joint training (2018)

Acquisition of the Global South markets (strengthening the financial base of the trade insurance business)

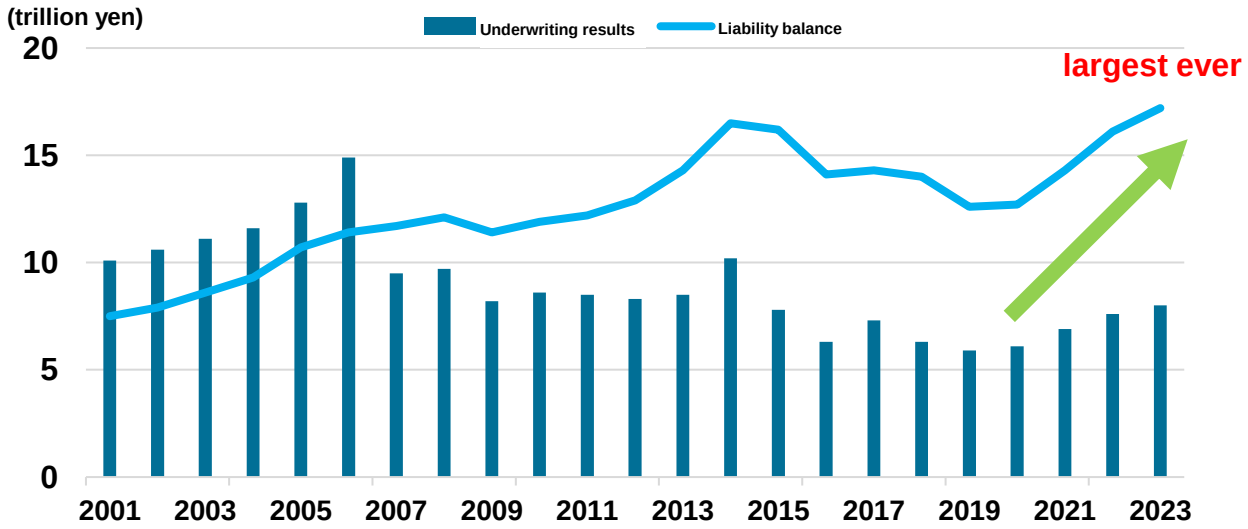
Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

- NEXI supports the overseas expansion of Japanese companies by providing insurance for their overseas transactions (exports and investment). In recent years, **the importance and necessity of trade insurance has increased due to the rise of geopolitical risks.**

  *Trade insurance liabilities at the end of FY2023 are expected to reach a **record high of approximately 17.2 trillion yen.**

- Amid expanding demand for insurance coverage, NEXI is **promoting appropriate risk management and strengthening its financial foundation** to achieve a sustainable insurance system. As part of these efforts, NEXI implemented a ministerial ordinance amendment in February 2025 to expand the investment options for its surplus funds.

NEXI's underwriting performance and outstanding liabilities



*Liability balance: The amount for which NEXI is liable for insurance at a given point in time

Expansion of investment options for surplus funds

- NEXI's trade insurance business is highly regulated to ensure stable operations, and therefore **certain restrictions apply to the investment of surplus funds** (investment options are specified by cabinet order).
- Against the backdrop of a significant increase in foreign currency assets, the need to hold foreign currency assets has grown, and in February 2025, **foreign government-guaranteed bonds (denominated in foreign currencies) were added as investment options.**

(Source) Information published by NEXI

Strengthening support for exports and overseas expansion of medium-sized and SMEs (support for 10,000 companies, etc.)

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 2 (April 17, 2025)

- The overseas expansion of medium-sized and SMEs is important for realizing the endogenous growth of regional companies. The Ministry of Economy, Trade and Industry, in collaboration with **JETRO, SME Support and relevant regional organizations (chambers of commerce and industry, financial institutions, etc.), will identify companies with potential** and support their overseas expansion.
- To advance these efforts, the following are necessary: **[1] detailed overseas expansion support tailored to regional circumstances, [2] promotion of diversification of export destinations and development of new sales channels, and [3] promotion of the self-sustaining development of private-sector export support businesses.**

Directions for future overseas expansion support (draft)

Detailed overseas expansion support tailored to regional circumstances

Support tailored to regional circumstances is necessary.

Through the "10,000 New Exporters Support Program," JETRO, which has support centers in all prefectures, will work with relevant organizations to provide support tailored to regional circumstances.

JETRO's domestic offices (50 locations)

Inviting overseas buyers directly to specific regions

Promotion of diversification of export destinations and development of new sales channels

Diversification of export destinations and development of new sales channels are necessary.

Through the "10,000 New Exporters Support Program," expert accompaniment support, matching with export trading companies, utilization of cross-border e-commerce, etc. will promote diversification of export destinations and development of new sales channels.

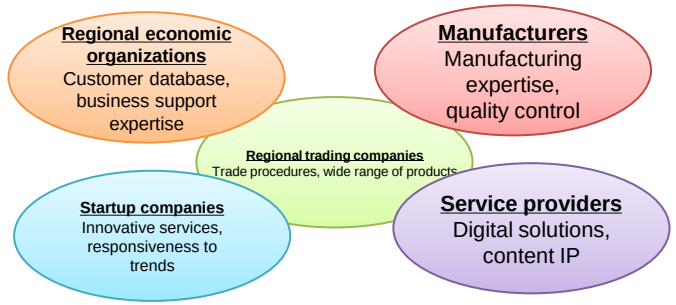
Matching event with export trading companies

Promotion in overseas e-commerce (Japan Mall)

Promotion of the self-sustaining development of private-sector export support businesses

It is necessary to establish a system in which private-sector export support services can comprehensively meet the needs of medium-sized and SMEs.

Support effective initiatives centered on collaboration among private-sector export support businesses and promote the establishment of a system for private-sector export support businesses.
(Promotion of the formation of private-sector consortia originating in local communities by regional trading companies, etc.)



Support projects in which multiple parties collaborate to promote exports

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 3 (April 17, 2025)

Strengthening Industrial and Technological Basis related to Economic Security (basic approach)

1. Social demands related to "economic security"

- Amid geopolitical changes and disruptive technological innovations, **countries are strengthening policies from the perspective of "economic security" in order to increase their national power.**
- **In Japan, which has overcome resource constraints and maintained a balanced current account through its technological capabilities, it is now important to strengthen our efforts.**

2. Enactment of the Economic Security Promotion Act (August 2022): Legalization of measures to enhance autonomy and secure superiority and indispensability

[1] Enhancing supply chain resilience:
Designation of 12 materials, total amount of 2.4 trillion yen

[2] Important technology development program:
50 important technologies, total amount of 500 billion yen

[3] Advance notification system for core infrastructure:
To be implemented from May 2024, 15 fields designated

[4] System for non-disclosure of patent applications:
To be implemented from May 2024

3. Formulation of the "Action Plan for Strengthening Industrial and Technological Basis" (first edition published in October 2023, revised in May 2024)

- **Industrial support measures** and **industrial defense measures** will **be** organically **combined and public-private partnerships will be formed to implement specific initiatives, and an action plan will be organized and presented.**

1 Industrial Promotion Measures:

◆ Support for capital investment, support for research and development, etc.

2 Industrial Protection Measures:

◆ Export control, investment control, etc.

3 Establishment of International Frameworks and dialogue with industry:

◆ Economic version of "2+2," public-private dialogue, etc.

In July 2024, a new "Trade and Economic Security Bureau" was established. As a command center, it comprehensively promotes the above measures.

As a foundation, it will strengthen economic intelligence and information security.
(The Act on the Protection and Utilization of Critical Economic Security Information took effect in May 2025.)

Great Power Competition and an Increasingly Tough Economic Security Environment

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 3 (April 17, 2025)

- In order to ensure the security of our country, **it is essential to enhance our economic strength**, which is the source of our national power.
- On the other hand, **tectonic shifts are occurring in four areas, accelerating competition for leadership among major powers**. Increased risk of damaging the industrial and technological base that underpins Japan's economic strength.
- To address these risks, **strengthen information sharing and collaboration between the public and private sectors through enhanced intelligence**, leading to **implement and develop the economic security policies rapidly and effectively** adapted to the new international situation.

1) Fluctuations in the rule-based international economic order

- Increased power-based competition among major powers through unilateral measures, countermeasures, large-scale promotion measures, etc.
- Further “enclosure” of industrial and technological bases by major powers and manifestation of the risk of “weaponization”

2) Growing Importance of Energy Strategies

- Energy as infrastructure and energy as industry are becoming important as the electronic power demand for data cent by the spread of AGI is expected to increase, and as the domination of clean supply chains by major powers is expected.
- GX and energy strategies are accelerating, including moves by major powers to establish dominant positions

3) Formation of a new technological order by the major powers

- Intensifying competition for technological leadership centered on AI among major powers, leading to the concentration of industrial and technological bases in the major powers
- Toward substantive order formation through the competition for technological leadership

4) Intensifying competition in frontier areas

- Intensifying competition for frontier areas such as space, ocean, and drones
- Influences the future connectivity infrastructure

Aiming to strengthen the industrial and technological base to enhance Japan’s autonomy and indispensability in adapting to the new international situation

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 3 (April 17, 2025)

Directions for the re-revision of the Action Plan for Strengthening Industrial and Technological Basis

Current situation and assessment

- **Major countries are mobilizing all available tools to "encircle"** materials, technologies, human resources, data, and other resources **in order to strengthen their own superiority and indispensability, while at the same time strengthening their autonomy through self-sufficiency.**
- Japan, which is dependent on other countries for energy and food, is **vulnerable to power-based competition by major countries.**
- If Japan does not respond with the combined efforts of the public and private sectors, **it risks losing its future autonomy and indispensability, and ultimately its ability to play a leading role in the future reconstruction of a rules-based international order.**

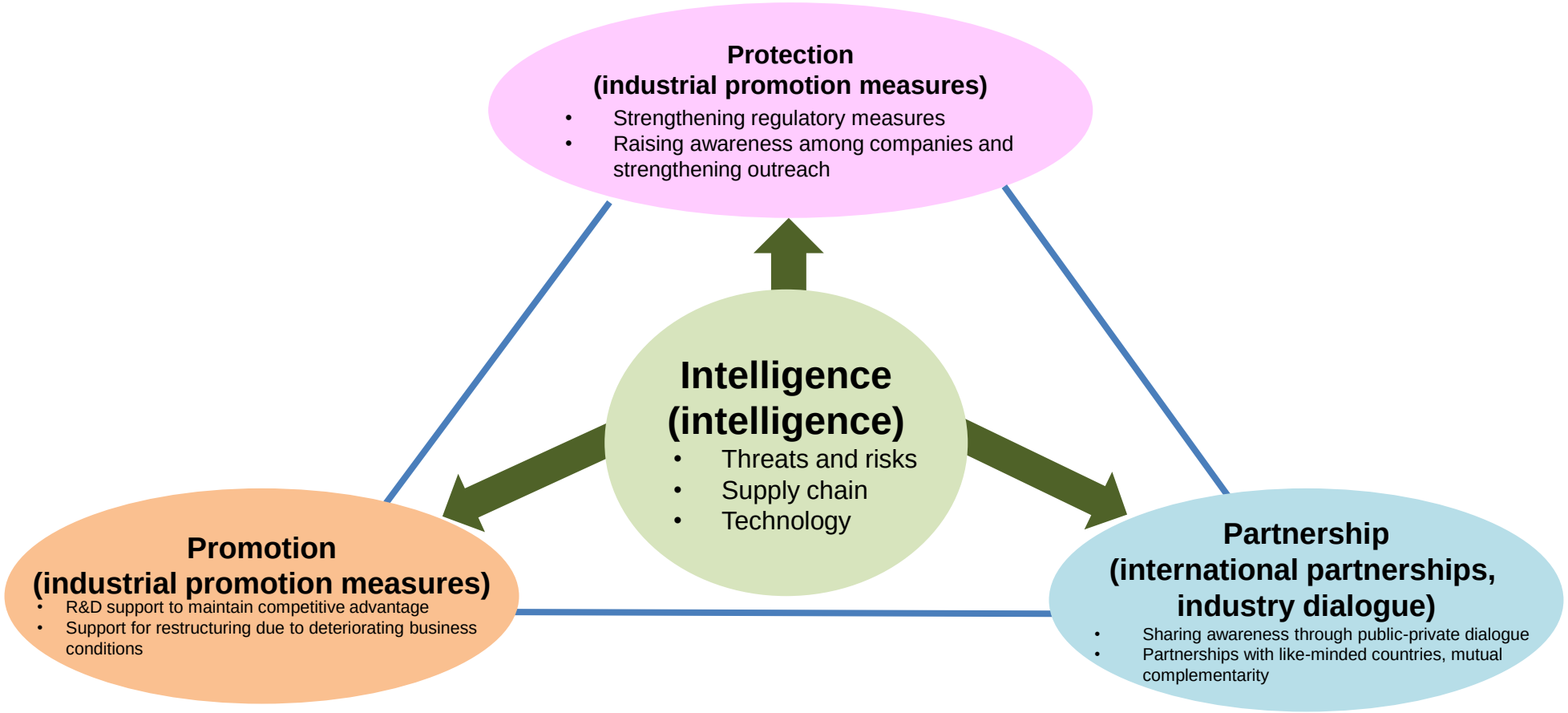
Directions for action

1. Amidst the tectonic shifts in the international situation and technological innovation, **we will view changes in the global supply chain strategies of companies around the world as an opportunity to accelerate the creation of an environment that attracts domestic and foreign investment, human resources, and technology, thereby strengthening domestic industry and technological foundations.**
2. In addition to strengthening important supply chain resilience, we will **sharpen Japan's "superiority" into "indispensability" and become an irreplaceable country for the world.** To this end, **it is necessary to strengthen initiatives that encompass the entire value chain, from corporate research and development activities to domestic and overseas business development, in cutting-edge technology fields.**
3. While making maximum use of existing economic security policy tools, the **government will play an active role in creating platforms to organically connect policy tools, like-minded countries, and public-private partnerships and private-private partnerships in order to maximize the synergistic effects of policies.**

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 3 (April 17, 2025)

Organic collaboration through the three Ps to ensure autonomy and indispensability

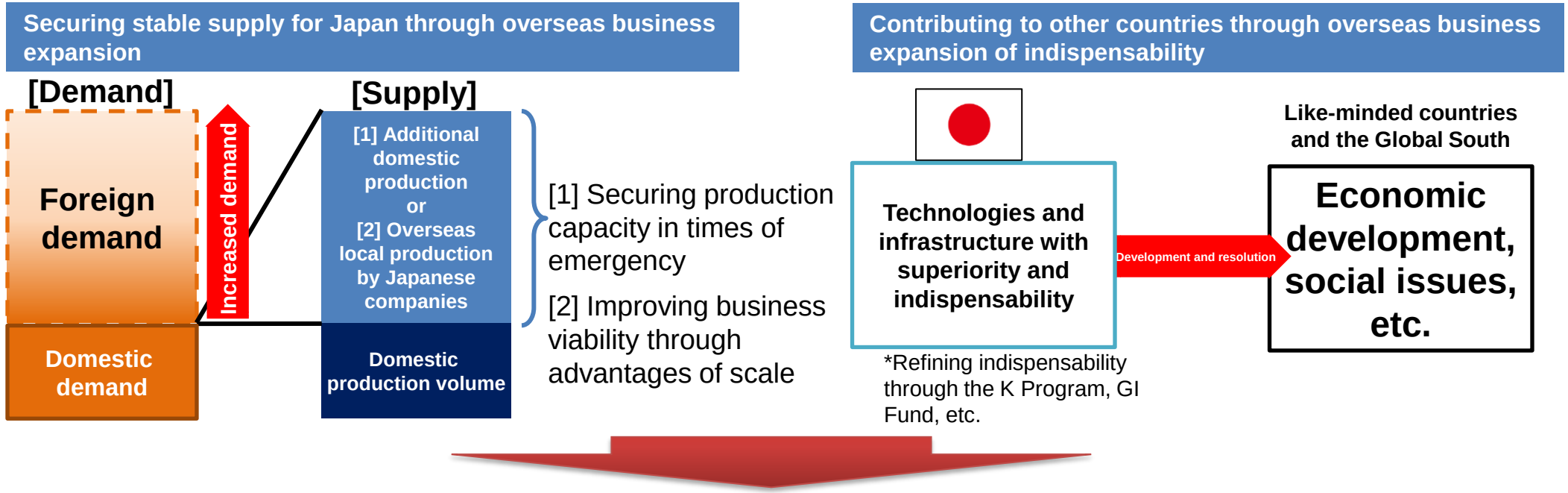
- In this era of competition among major powers, in order to ensure Japan's autonomy and indispensability, **it is necessary to establish a mechanism to promote more organic collaboration between the three existing policies: industrial promotion (Promotion), industrial protection (Protection), and international and public-private partnerships (Partnership).**
- Enhancing economic intelligence—including understanding and analyzing the impacts of future geopolitical threats and risks on critical supply chains, as well as identifying and analyzing our country's advantages and indispensable technologies**—is the starting point for all policy formulation and implementation.**



Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 3 (April 17, 2025)

Downstream value chain: Overseas business expansion to ensure autonomy and indispensability of Japan and like-minded countries

- From the perspective of ①ensuring Japan's autonomy and indispensability or ②contributing to the social issues of like-minded countries through the exercise of autonomy and indispensability, it is important for the government to take the initiative and strategically promote the overseas business expansion of companies for projects that are particularly important for economic security.
- The following cases can be considered.
  - [1] Overseas infrastructure development and market creation in geopolitically strategic locations to ensure the stable supply of critical materials for Japan
  - [2] Contributing to the economic development and resolution of social issues in partner countries by leveraging the **"indispensability"** of technologies developed by Japan
- Additionally, it is important to consider **contributing to securing the autonomy and indispensability of like-minded countries from** the perspective of building strategic **interdependent relationships** in the future.

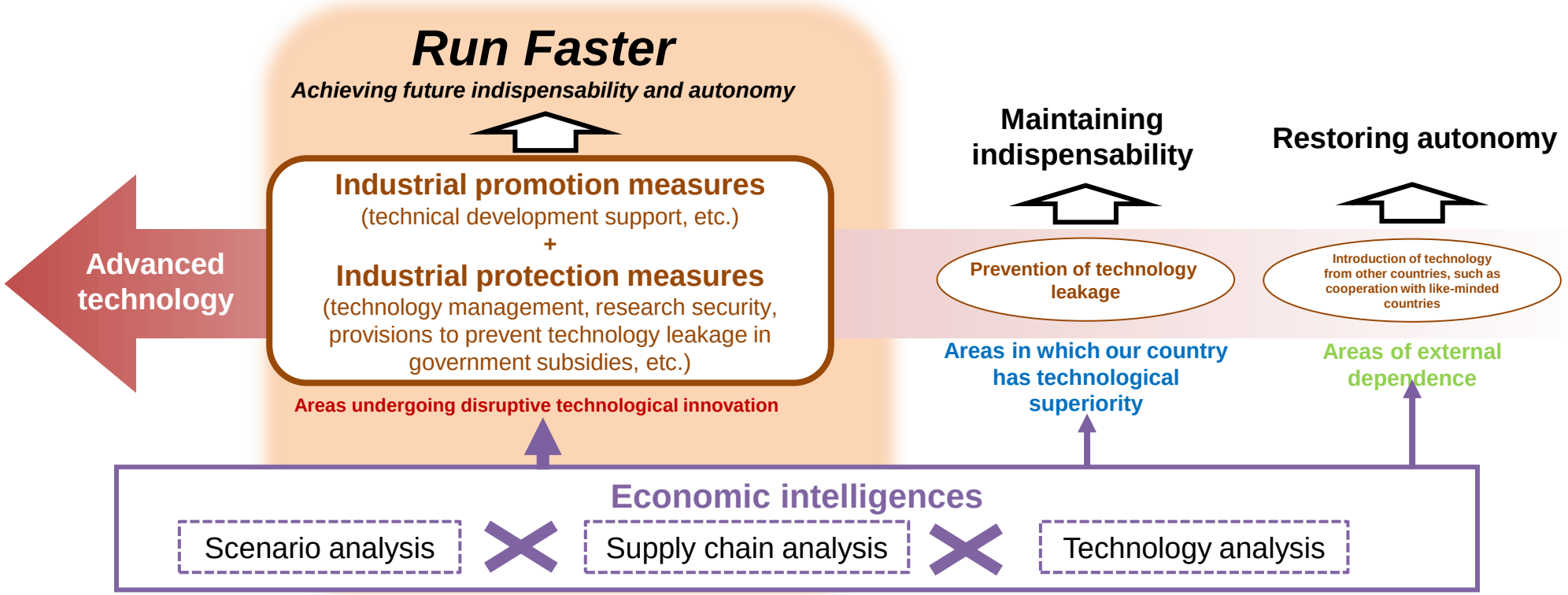


In order to build strategic interdependence, attention will also be paid to ensuring the autonomy and indispensability of like-minded countries

Excerpted and edited from the 12th Industrial Structure Council, Trade and Commerce Subcommittee, Document 3 (April 17, 2025)

“Run Faster” Partnership

- In the era of competition among major countries, in order to achieve the “reconstruction of a rules-based international economic order” and the “creation of transparent, resilient, and sustainable supply chains” through international cooperation, **it is important for economic security to focus on areas where disruptive technological innovation is advancing and to refine technological superiority to the point where it becomes indispensable.**
- **It is necessary to accelerate the “Run Faster” strategy, which organically combines industrial promotion measures and industrial defense measures, to ensure Japan's future autonomy and indispensability.**
- In particular, **the fields of AI, advanced computing, quantum technology, biotechnology, and space** are areas where countries are engaged in fierce competition and which have a significant impact on national security, and are therefore designated **as priority areas of the “Run Faster” strategy**.
- **The “Run Faster Partnership”** is a framework for advancing industrial promotion measures and industrial protection measures in a coordinated manner with **allied and like-minded** countries to co-create industrial and technological basis in line with the above strategy.



Strengthening Economic Intelligence

- Amid increasingly severe and complex international circumstances, it is necessary to strengthen the economic intelligence capabilities of the entire country, both within and outside the government, in order to formulate and implement effective economic security measures.

> “From the perspective of economic security, we will promote efforts to strengthen resilience, including the repatriation and promotion of domestic location of important supply chains, and measures to prevent technology leakage, in order to enhance Japan's autonomy and indispensability. **We will strengthen economic intelligence functions that analyze threats and risks through public-private collaboration.**”
>
> (January 24, 2025, Policy Speech by Prime Minister)

- To fundamentally strengthen scenario analysis, supply chain analysis, and technology analysis related to economic security, we will utilize the Act on the Protection and Utilization of Critical Economic Security Information, etc., and take the following measures while ensuring the utmost protection of information.

(1) Accepting external experts in the government (public-private exchange)

(2) Establishing an Economic Security Center (tentative name) (strengthening initiatives by incorporated administrative agencies, etc.)

(3) Strengthening economic intelligence investment in industry
(Trusted Think Tank Network, Global Forum)

- Furthermore, we will further develop the scenario analysis, supply chain analysis, and technology analysis that the Ministry of Economy, Trade and Industry has been conducting, and further strengthen public-private cooperation through the sharing of knowledge with private companies.