

Future External Economic Policy

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Trade Policy Bureau
Trade and Economic Cooperation Bureau
Ministry of Economy, Trade and Industry

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Part 1: Global Trends and Japan

Present Circumstances Surrounding External Economic Policy and Challenges (Overview)

- The international order is fragmented as emerging economies rise (multipolarization).
- On the other hand, as emerging economies grow rapidly, global challenges have become apparent.
- In recent years, the world economy has become unstable. Determinants of industrial competitiveness are gradually changing. Japan also faces changes in the way it should make money.

(1) Global governance: multipolarization

- Rise of emerging economies and multipolarization
(Diversification of the way international rules are laid down)
- Aggregation of over 600 regional economic integration
- Limitation to governance by the state
- Rise of China in politics and economy

How should we establish international rules?

(2) Social environment: Surfacing of global challenges, etc.

- Increase of wealthy population emerging economies
- Surfacing of global challenges
- Changes in global risk factors
(Geopolitical and cyber risks in addition to global challenges)

How should Japan contribute to the international community while capturing these changes as growth opportunities?

(3) Economy: Changes in the competitive environment

- Slowdown and instability of the world economy
- Changes in the criteria for industrial competitiveness
- Changes in Japan's ability to make money
- Aging population and a declining birthrate in Japan

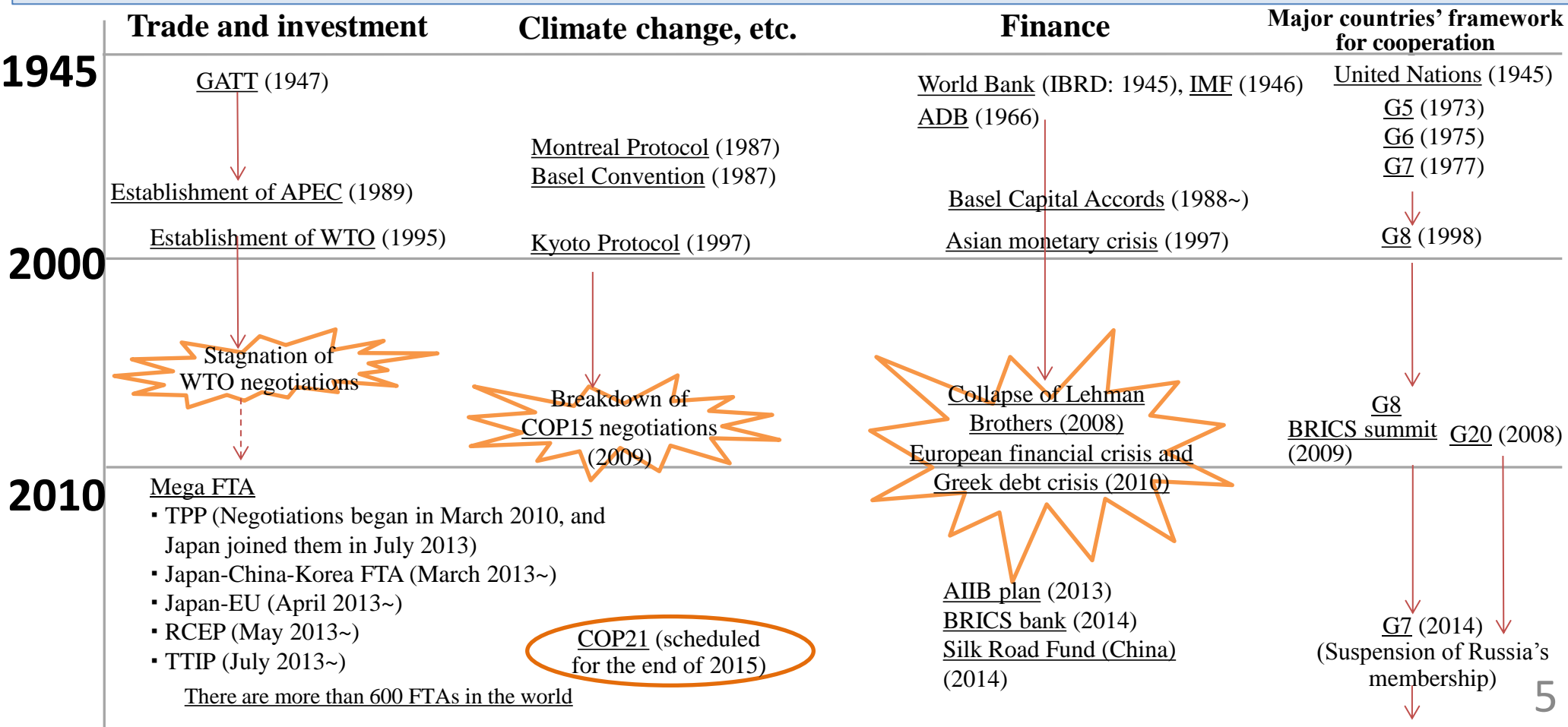
How should Japan utilize the dynamism in the world to achieve growth in the country?

- How should Japan implement **integrated internal and external economic policy** while aiming at achieving sustained growth through favorable business cycles in Japan and the rest of the world.

(1) Global Governance: Rise of Emerging Economies and Multipolarization

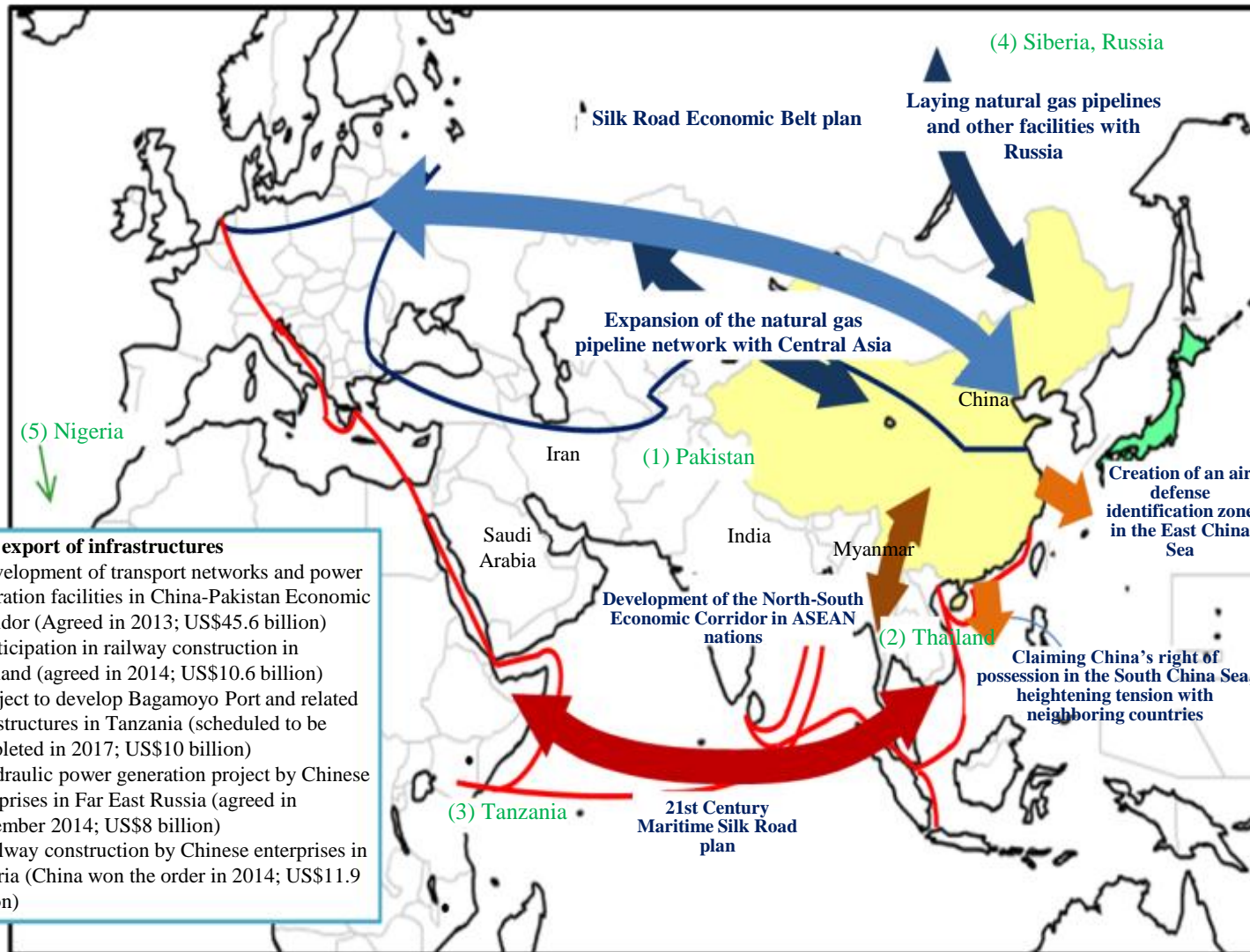
- Because of a shift in the center of gravity of the world due to the rise of emerging economies, the international order that has been led by advanced countries during the postwar period (decision-making mechanisms such as the Bretton Woods system, WTO, and OECD) is now shaken.
- The confrontation between advanced countries and emerging economies makes formation of consensus difficult though international cooperation is needed in a wider range of areas (investments, taxation, social security, Internet governance, digital economy, etc.)

Changes in the international regime



(1) Global Governance: Further Emergence of China in Politics and Economy

- China is making its presence felt more in external policy as well, causing friction with neighboring countries.
- How to face China is one of the most important issues for the international community and Japan.



	Capital	Equity investment ratio	Number of participating countries	Procurement (contractor)
ADB	\$160 billion	Japan (15.7%) U.S. (15.6%) China (6.5%) India (6.4%) Australia (5.8%)	67	In principle limited to member countries (unless authorized by the Board of Directors)
AIIB	\$110 billion	China (50%) (It is also reported that China has a 30% stake)	57	No restriction
Silk Road Fund	\$40 billion*	China (100%)	—	(Unknown)

Source: Xinhua News Agency, etc.

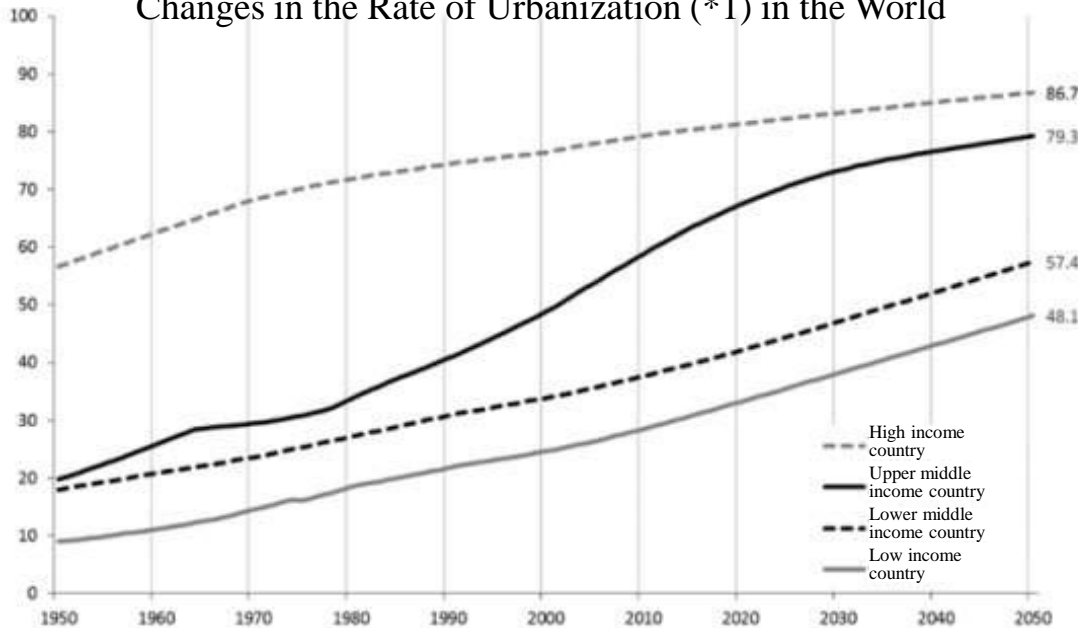
* This is a People's Bank of China fund and is not an international institution.

(2) Social Environment: Surfacing of Global Challenges (Urbanization and the Aging of Population)

- The source of growth corresponds to global trends.
- As the way Japan makes money changes, it is necessary to capture these trends as growth opportunities.
- With rapid economic growth, social challenges such as environmental issues, infrastructures for people's lives, safety, and the aging of population become conspicuous. These problems are occurring mainly in cities, and how to contribute to their solution holds the key to the growth of Japan and the rest of the world.

- In emerging economies, the aging of population and urbanization will progress simultaneously in the future. Two huge markets will emerge: how to take measures to cope with the aging of population (medical service and health) and urbanization (urban infrastructure development)

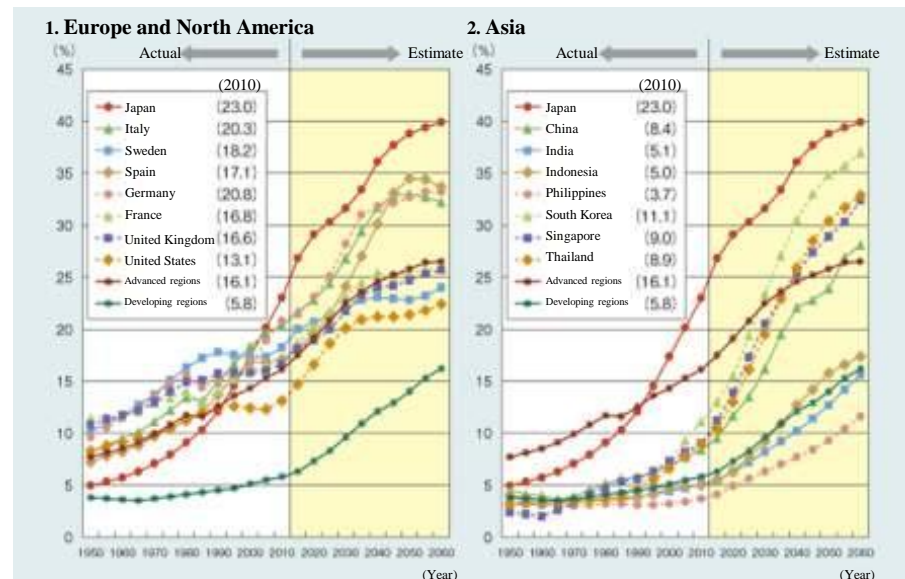
Changes in the Rate of Urbanization (*1) in the World



Source: United Nations, World Urbanization Prospects: The 2014 Revision.

(*1) The rate of urbanization represents the percentage of urban population to the total population

Changes in the Percentage of the Elderly in the World (*2)



Source: U.N. World Population Prospects - The 2012 Revision

However, the figures for Japan for the period up to 2010 are based on the Ministry of Internal Affairs and Communications' National Census, and those for period after 2015 are based on the results of estimation using median birth and death assumptions from the National Institute of Population and Social Security Research's Population Projection for Japan (January 2012 estimates).

(Note) Advanced regions refer to those which consist of North America, Japan, Europe, Australia, and New Zealand. Developing regions relate to those which comprise Africa, Asia (excluding Japan), Central and South America, Melanesia, Micronesia, and Polynesia.

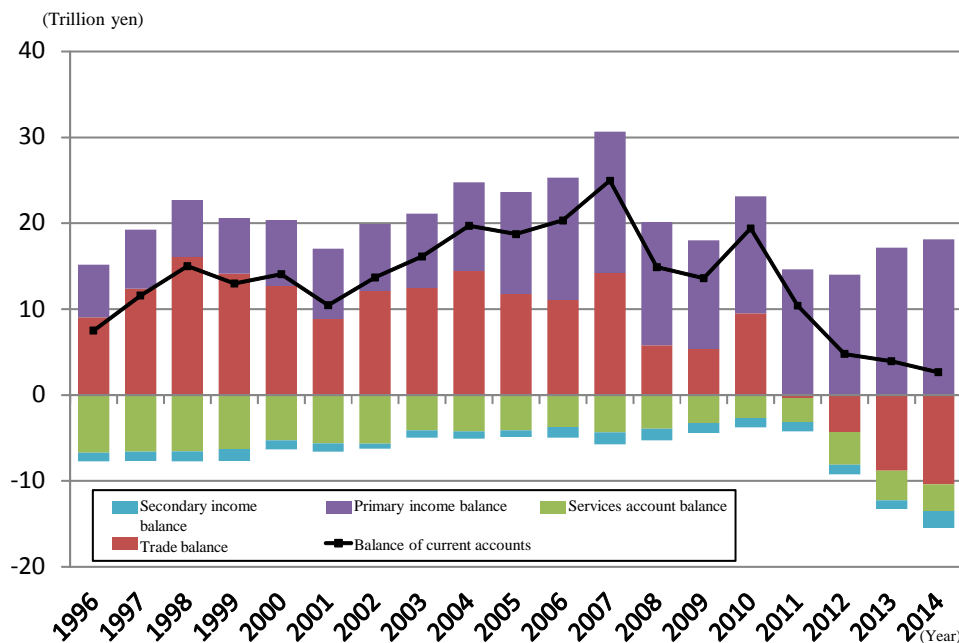
(*2) The percentage of the elderly indicates that of persons aged 65 or older to the total population.

(3) Changes in Japan's Competitiveness

- Japanese foreign trade policy should target not only “competitiveness in export” but also “competitiveness of Japanese multinationals” and “competitiveness in attracting people and enterprises.”
- Structural reorganization in the current account reflects such changes in our competitiveness resulting from factors such as aging society.

Reorganization of the Current Accounts

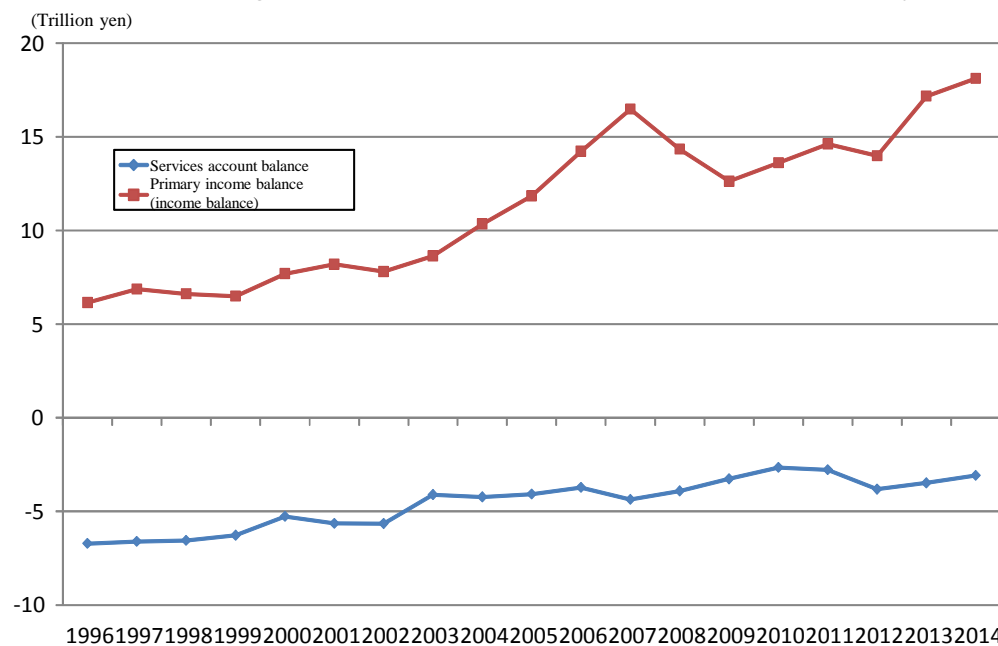
The primary income balance has been the largest surplus factor since 2005. The trade balance got into the red in 2011 and its deficit is increasing.



Source: This chart has been created using the Ministry of Finance's "Balance of Payments."

Changes in the Service Balance and the Primary Income Balance

The primary income balance is increasing and recorded the largest-ever surplus. The services account deficit is decreasing and became the third smallest in its history.



Source: This chart has been created using the Ministry of Finance's "Balance of Payments."

Part 2: Overall Picture of Future External Economic Policy

--- Leading an international order
that shares universal values ---

Implementation of Integrated Internal - External Economic Policy

○It is necessary to further implement **integrated internal - external economic policy** with the aim of achieving sustained growth through favorable business cycles between Japan and the rest of the world.

Global political and economic environment

Improvement of global governance

Promoting establishment of advanced global rules mainly through TPP and Japan-EU EPA, and contributing actively to improvement of international governance that supports high-quality economic growth
⇒(1) **Leading international economic rules that share universal values**

Response to global challenges

Responding to urban environmental problems, aging population, etc., taking leadership in establishing rules to contribute to sustained growth in the world, and developing promising markets
⇒(2) **Contributing to sustainable growth in the world**

“Three powers” that support Japan’s growth

1. “Competitiveness in export”

Promoting initiatives such as strategic market development in emerging economies, in addition to acceleration of negotiations for economic cooperation

2. “Competitiveness of Japanese multinationals”

Turning direct investment return back to Japan by supporting the overseas business of Japanese enterprises and using it for further growth in Japan

3. “Competitiveness in attracting people and enterprises”

Stepping up efforts to attract overseas businesses to Japan and follow up on such initiatives, thus increasing inward foreign direct investments

⇒**Specific initiatives to enhance the “three powers”**

Enhancement of competitiveness to make money in the world

Strengthening of platforms

Enhancing Japan’s competitiveness by creating in the country an environment in which human resources, capital, and information gather from the world over, prompting continuous innovations
⇒(3) **Building platforms (*) to attract the vitality of the world to Japan**

Enhancement of global management abilities

Enhancing Japanese businesses’ ability to manage their operations globally through selection and concentration of managerial resources, or promotion of diversity, etc.

Implementation of Integrated Internal and External Economic Policy (Overview of Related Measures)

Global political and economic environment

Improvement of global governance

- **Establishment of high-level international business rules**
 - Early conclusion and further expansion of FTAs such as TPP as well as promotion and review of WTO
- **Cooperation between advanced and developing countries**
 - Making discipline universal through cooperation between OECD and ERIA
- **Contribution as a Pacific nation**
 - Closer connection with the Indian Ocean area (expansion of APEC, etc.)

Response to global challenges

- **Establishment of rules making the most of the ability to solve social issues (such as response to water environment problems and the aging of population)**
 - Creating opportunities to lay down global rules in Japan
 - Japan-EU cooperation in regulations
- **Response to urban problems: Sharing universal values through involvement starting from the early stage of planning**

“Three powers” that support Japan’s growth

1. “Competitiveness in export”

- **Strategy toward emerging economies**
 - Focusing on Japan’s high-value-added products and services, including information
 - Formulation strategy
- **Response that meets the characteristics of regions and countries**
- **Initiatives for infrastructure exports**
 - “Partnership for Quality Infrastructure ” initiative
 - NEXI reformation
- **Support for human resource development and technical cooperation**
 - Initiatives to identify local needs and social issues and develop and create new markets
 - Increasing points of contact (internationalization from within)
- **Promotion of inward foreign direct investments**
 - Business environments
 - Stepping up efforts to attract overseas businesses

2. “Power to earn money outside”

3. “Power to attract money”

Enhancement of competitiveness to make money in the world

Strengthening of platforms

- **Making Japan’s cities platforms for solution of social issues**
- **Building indicators that contribute to enhance competitiveness**

Enhancement of global management abilities

- **Achieving selection and concentration of managerial resources and diversity**
- **Helping Japanese businesses which have global launch strategy (“Start Global”)**
- **Promotion of investments to enhance competitiveness by overcoming domestic restrictions**

(1) Establishment of International Economic Rules That Share Universal Values (Introduction)

- In order to ensure sustained growth of the world economy, shouldn't the universal values that have been shared and institutionalized by advanced countries be restructured as ones that cover emerging economies as well?
- In this process, shouldn't Japan aim to create a wider framework for cooperation taking into consideration the progress in the establishment of such a framework in the Pacific region and the growth potential of the Indian Ocean area?

(1) Establishment of high-level international business rules

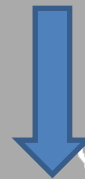
- Movement of investments, services, and people
- Intellectual property
- State-owned companies, competition policy, etc.



Harmonization of wide-area (mega) FTAs and the post-Doha round of WTO

(2) Initiatives for new areas through cooperation between advanced and developing countries

- Quality of infrastructures
- Robustness of value chains, etc.



Further strengthening cooperation through international frameworks such as APEC, G20, OECD, and ERIA

(3) Japan's contribution to the region as a Pacific nation

- Stability and prosperity in Asia
- Deepening of value chains, etc.



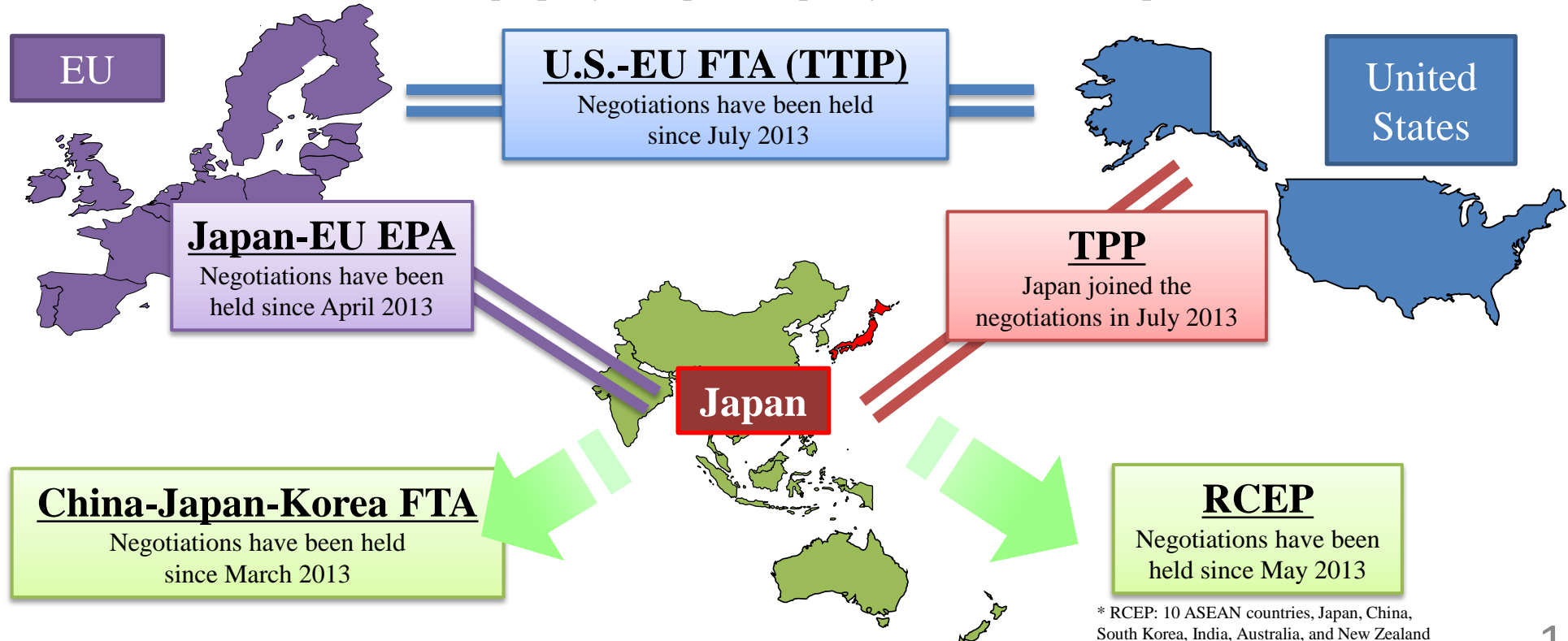
Establishment of closer connections between the Pacific and Indian Oceans

(1) Establishment of International Economic Rules That Share Universal Values

(1)-1. Establishment of High-level International Business Rules (Advanced Countries' Initiatives)

- Japan should take leadership in establishing Asia-Pacific/global trade and investment rules mainly by promoting TPP and Japan-EU EPA and realizing RCEP and China-Japan-Korea FTA.
- With respect to TPP, by establishing high-quality trade and investment rules early and encouraging emerging economies to join them, it should be aimed to make these rules the foundation for new, open trade and investment rules in the Asia Pacific region.

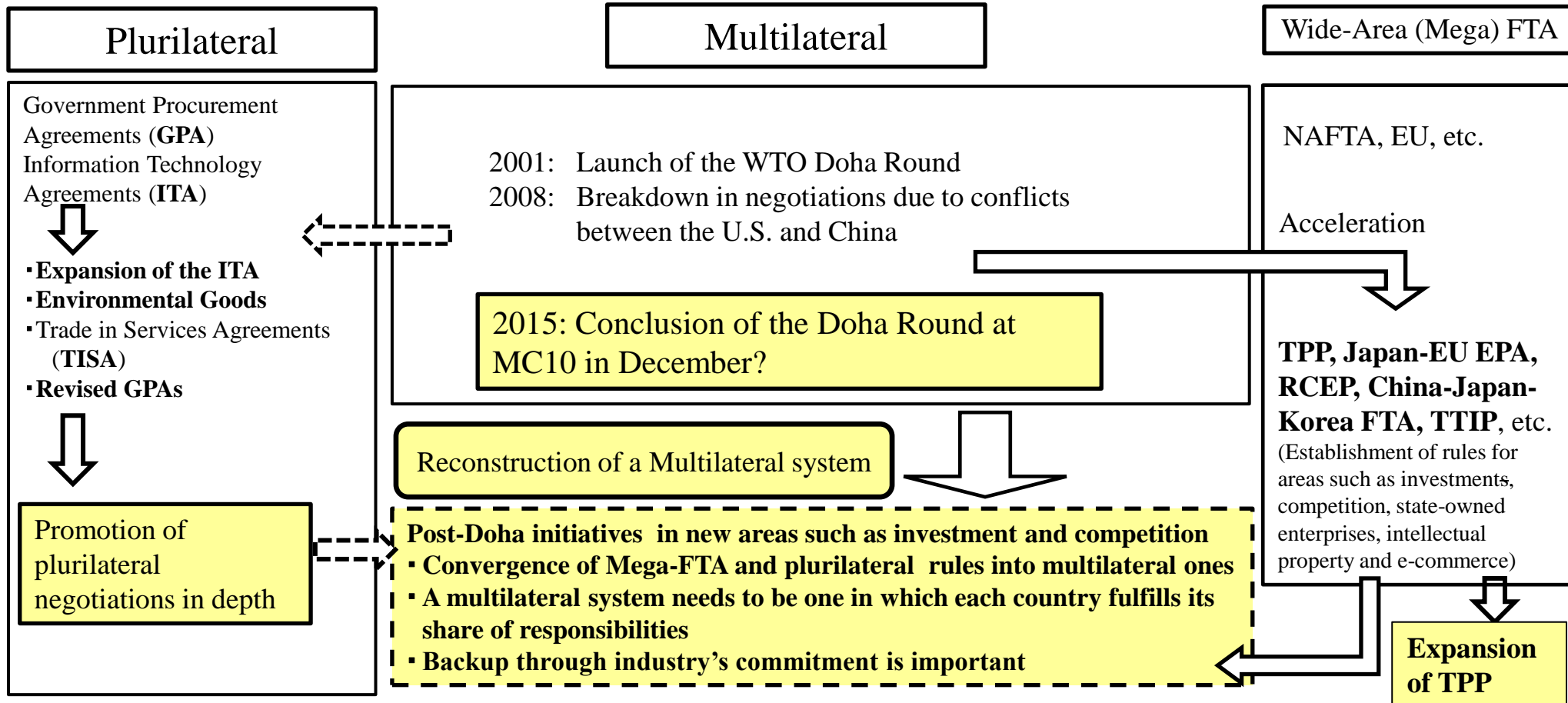
Japan, the United States, and EU are discussing about the common points at issue.
(i.e., investments, services, intellectual property, competition policy/state-owned enterprises, e-commerce, TBT, etc.)



(1) Establishment of International Economic Rules That Share Universal Values

(1)-2. Establishment of High-level International Business Rules (History and Future of the WTO Doha Round)

- While WTO negotiations stagnated, discussions on plurilateral agreements have relatively advanced. Will it be necessary to consider a new mechanism to further activate plurilateral negotiations?
- Shouldn't Japan lead the rules to post-Doha initiatives in new areas based on those being formed in wide-area FTAs ?



(1) Establishment of International Economic Rules That Share Universal Values

(2) Initiatives for New Areas through Cooperation between Advanced and Developing Countries

- The role of OECD, which has functioned as a forum to systematize universal values under the leadership of advanced countries, has weakened in relative terms as emerging economies grew in Asia and G20 provided opportunities for discussions between advanced and developing countries.
- In order to encourage sustainable growth in emerging economies through its experience with OECD, shouldn't Japan encourage closer cooperation between OECD and ERIA / G20?

- Looking for ways of cooperation between OECD and G20

Discussions about excessive steel production capacity, including non-member countries, are under way at OECD. With respect to tax evasion (BEPS), attempts to combine discussions at OECD and commitments at G20 are being made.

- Cooperation with Asian countries making the most of ERIA/OECD cooperation

In May of last year, ERIA countries (ASEAN countries, Japan, China, South Korea, India, Australia, and New Zealand) signed a memorandum of understanding on cooperation with OECD. By making effective use of the research and experience it has accumulated through ERIA, shouldn't Japan encourage establishing rules that are consistent with OECD's?

	OECD rules <examples>	Asian rules that make effective use of cooperation with ERIA, etc. <examples>
Quality of investments	Guidelines for multinational corporations Policy framework for investments (PFI)	Conducting investigations and proposing policy to establish a code of corporate conduct
Regulations	APEC-OECD checklist on regulatory reform Principles of corporate governance Convention on Combating Bribery of Foreign Public Officials in International Business Transactions Harmonization of international taxation systems	Conducting investigations and implementing capacity building to establish transparent, business-friendly rules in ASEAN countries
SMEs	Small and medium enterprise finance scoreboard	Conducting investigations and analyses and proposing policy to establish rules in the area of small and medium enterprises (such as financial regulations)
Movement of people	International Migration Outlook	Conducting investigations and analyses to establish rules for the movement of workers

(1) Pursuing a New Order of International Economic Rules and their Harmonization

(3) Establishment of Closer Connections between the Pacific and Indian Ocean areas

- Shouldn't Japan, which has grown with Asian countries through building supply chains there, play a leading role in strengthening the connectivity between the Pacific and Indian Ocean areas in order to further expand the supply chains?
- Specifically, shouldn't Japan do so in the aspects of institutionalization and real actions? Examples include increasing the number of APEC member countries on the assumption of shared universal values, concluding high-level agreements on TPP and RCEP and expanding those partnerships, developing infrastructures that connect the Indochina Peninsula and South Asia, and enriching regional studies by ERIA.

Typical Examples of Initiatives in the Pacific and East Asian Region

	Pacific	Asia and the Indian Ocean
Trade liberalization	EPA (bilateral, TPP) APEC (eco-friendly goods)	EPA (bilateral, AEC, ASEAN+1, RCEP, Japan- China-Korea, SAFTA, etc.)
Making trade smooth	APEC (Spread of the authorized economic operator (AEO) system, etc.)	AEC, Japan-ASEAN cooperation, etc. (simplification of customs procedures, ASEAN+1, etc.)
Movement of services and people, etc. (*1)	EPA (same as above) APEC (APEC Business Travel Card)	EPA (same as above)
Infrastructure development	APEC ("Quality of infrastructure" initiatives)	ASEAN and ASEAN+ (Master Plan on ASEAN Connectivity, Comprehensive Asia Development Plan (ERIA))

* Strengthening the connectivity of finance that supports supply chains is an important theme.

Japanese government's stance toward the Pacific + Indian Ocean areas

○Prime Minister Abe's speech in the U.S. in February 2013

“when the Asia-Pacific, or the Indo-Pacific region gets more and more prosperous, Japan must remain a leading promoter of rules. By rules, I mean those for trade, investment, intellectual properties, labor, environment and the like.”

○Action Agenda for the India-Japan Investment and Trade Promotion and Indo-Pacific Economic Integration by Japan's Minister Yoichi Miyazawa and India's Minister Nirmala Sitharaman

“The two Ministers share the view that Indo-Pacific economic linkages through cooperation in an inclusive investment and trade regime is essential for the further development and prosperity of not only both the countries but also of the region.”

(2) Contribution to Sustained Growth in the World

(1) Formulation of Rules Making the Most of the Ability to Solve Social Problems (Water Environment, Response to the Aging Population, etc.)

- Due to economic development and population increase in emerging economies, many global challenges such as the environment, poverty, and water shortages are occurring.
- Up to now, Japan has helped solve social problems through high-quality products, services, and technology.
- Based on these experiences, Japan should contribute to both solution of global challenges and achievement of sustained growth by formulating international rules that appropriately evaluate products, services, and technology to solve social problems.

Examples of areas in which Japan is working to solve social problems

Setting water pollution control goals to improve the water environment

- With economic development in emerging markets, water pollution is becoming increasingly serious.
- Japan aims to improve the water environment in emerging economies by encouraging local governments to set goals for water pollution control and introduction of water treatment equipment in their city plans.

Figure: Sewage Treatment Plant Planned to be Constructed in the Philippines



Source: JFE engineering's website

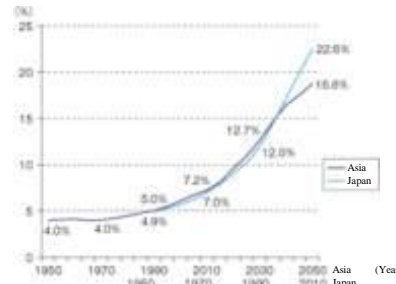
Change of the international classification of chemical substances that contributes to reduction in greenhouse gas emissions

- Japan and Belgium jointly proposed to set up a panel of experts to review assessment indicators of HFC32, whose global warming potential is lower than other coolant gases for air-conditioning systems. The panel aims to reduce greenhouse gas emissions in emerging economies by changing the classification of risks in its 2016 periodic review.

Promoting standardization of technology in response to the aging of population

- In recent years, the aging of population has progressed rapidly in Asian countries. Japan aims to make the most of its own experiences to form a society that responds to the aging of population by standardizing products, services, and technology to support elderly persons and persons with disabilities.

Figure: Changes in the Percentage of the Elderly in Japan and the Rest of Asia



Remarks: Asia as referred to here relates to 16 countries, which consist of ASEAN countries and six neighboring countries in Asia.

Source: This chart has been created using the U.N. (2008) "World Population Prospects: The 2008 Revision Population Database."

Source: The Ministry of Economy, Trade and Industry's White Paper on International Economy and Trade 2010

Establishment of procurement standards for food packaging materials to contribute to solution of food problems

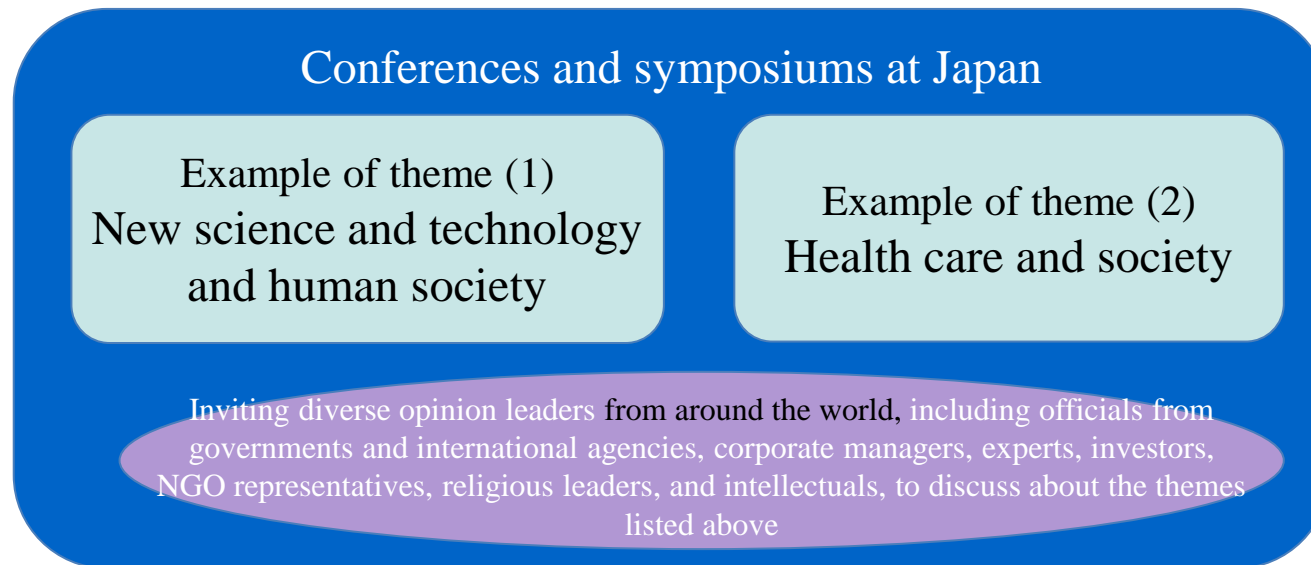
- While the world's undernourished population amounts to 840 million, one third of food produced in the world is discarded annually.
- Japan works to establish rules to help reduce discarded food in the future by spreading food packaging materials in emerging countries.



(2) Contribution to Sustained Growth in the World

(2) Providing Opportunities to Formulate Global Rules in Japan

- Japan's products and services might have failed to fully display their ability to solve social problems in the world partly because of the “Galapagosization” of rules that surrounded them.
- Therefore, Japan should aim to outgrow its Galapagosization and help formulate global rules by inviting diverse opinion leaders from around the world and providing them with opportunities to discuss social problems in the world.



Formulating Japan-originated “global rules” through international discussions
Aiming to realize the Japanese version of the World Economic Forum (Davos meeting)

(2) Contribution to sustainable Growth in the World

(3) Urbanization as a Global Issue and Japan's Contribution

- Isn't it necessary to establish a system to accumulate the experience and knowledge Japan has gained through exports of infrastructure, urban development, and participation in master planning in which it contributed to solution of urban problems and effectively use them to develop new projects?
- Isn't it necessary to identify market opportunities in areas of expertise and geographical regions in which Japan is strong and not strong by, for example, mapping the organizers of projects and the way the Japanese government and industries became involved in the projects?

Response to Urban Problems and the Range of Such Problems

	Poverty, social disparities, slum quarters, and lower public safety	Production capacity	Overpopulation, traffic congestion, aging populations, and comfortable housing environment	Air pollution Environmental pollution	Public health Waste	Disaster Reconstruction
	Social systems	Industrial complexes Logistics	Railways, roads Housing, communications	Energy	Water supply and sewerage Waste disposal	Robust infrastructure
Development of new cities • Focusing on developing countries	<div>Development of a new state capital in the Indian state of Andhra Pradesh</div> <div>Mekong development</div> <div>Development of a new city in the Vietnamese province of Binh Duong</div> <div>Development of the Thilawa industrial complex</div> <div>Development of a smart city in Medini, Iskandar, Malaysia</div> <div>Competitor: Ascendas Pte Ltd. of Singapore</div>					
Urban renewal • Mature technology • Focusing on semi-developed countries			<div>Map Ta Phut eco-city in Thailand</div> <div>Mega Sebu Vision</div> <div>Colombo city transport plan, Sri Lanka (LRT)</div>	<div>Nuclear power generation, Turkey</div>	<div>Water supply and sewerage, Vietnam and Malaysia</div>	
Redevelopment • Cutting-edge technology • Focusing on advanced countries	<div>British high-speed railway</div> <div>Competitor: IBM Corp. of the United States</div>					

(3) Establishing Platforms to Attract the Vitality of the World (Indicator Development)

- Shouldn't Japan make its cities bases (platforms) for creating further value where capital, human resources, and information from Japan and the rest of the world are concentrated---a showcase of solutions to urban problems?
- Shouldn't Japan develop indicators based on the strengths of its cities to enhance their competitiveness?

○Existing rankings of cities

- The rank of Tokyo varies from second to 35th because different indicators are used according to the objectives of rankings.

Company	Ranking name	Industry	Top three cities	Rating of Tokyo
A.T. Kearny	Global Cities Index	Consulting (U.S.)	New York, London, Paris	4th
PwC	Cities of Opportunity	Consulting (U.S.)	<Infrastructure and convenience>	11th
			Singapore, Toronto, Buenos Aires	10th
			<Intellectual property and innovation>	
			Paris, London, San Francisco	11th
			<Health, safety, crime prevention>	
			Stockholm, Toronto, San Francisco, Sydney	
Mercer	Quality of Living Survey	Consulting (U.S.)	Zurich, Geneva, Vancouver	35th
Forbes	The World's Most Influential Cities	Magazine (U.S.)	London, New York, Paris	5th
GaWC	The World According to GaWC	Consulting (U.K.)	α++ London, New York	α+
			α+ Hong Kong, Paris, Singapore, Shanghai, Tokyo, Beijing, Sydney, Dubai	
Night Frank	The Wealth Report's Global Cities Survey	Real estate (U.K.)	New York, London, Paris	4th
The Economist	Global Liveability Ranking and Report	Magazine (U.K.)	Melbourne, Vienna, Vancouver	18th
MONOCLE	World's Most livable Cities	Magazine (U.K.)	Copenhagen, Tokyo, Melbourne	2nd
Mori Memorial Foundation	World city ranking	Consulting (Japan)	London, New York, Paris	4th

○Tokyo boasts of its following strengths (examples):

<Security and safety>

- Public order and well-mannered drivers

<Environment and public health>

- Water supply and sewerage, garbage treatment facilities, and exhaust gas standards

<Predictability and accuracy of time>

- Waiting time when using facilities, punctual operation of public transport, time designation for home parcel delivery service, and JIT system

<Equality>

- Living standards supported by social infrastructures and administrative services
(Example) The development of economies based on railways and their stations does not cause problems even if people do not have cars.
- Higher education
(Example) Asia's top-notch universities whose tuition fees are relatively low are concentrated in Japan.
- Medical services that do not vary according to the region and income

Part 3: Specific Initiatives to Enhance the Three Powers

(1) Priorities in Emerging Economies Strategy

- Two years have passed since the government formulated the emerging economies strategy in 2013. There are several examples of success that lead advanced projects to the development of new markets, but the KPI goals have not been achieved except for a few of them.

Overview of the emerging economies strategy

1) China and ASEAN countries

Number of Japanese-affiliated companies:
About 30,000

- Japanese-affiliated companies have made progress in advancing into these markets, but those from other countries are chasing after them.
- GDP per capita is growing fast.

Full market entry

2) Southwest Asia, the Middle East, Russia and CIS, and Central and South America

Number of Japanese-affiliated companies:
About 3,000

- The wealthy and the middle classes are growing, the markets are large, and they are growing fast, but Japanese-affiliated companies are left behind their Western counterpart in market entry.

Reaching critical mass

3) Africa

Number of Japanese-affiliated companies:
About 500

- Japanese-affiliated companies place their great hopes on market expansion but lose to others before they compete with them. Many countries are rich in natural resources.

Generation of examples of success

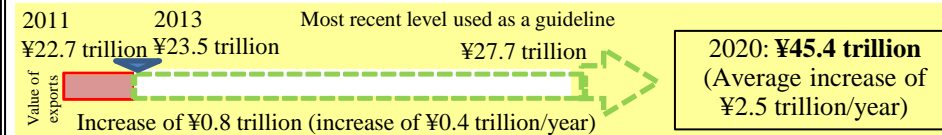
Examples of success that can lead to development of new markets

- India: Japanese industrial complexes
Agreement on the decision of eleven candidates in the development of Japanese industrial complexes
- Indonesia: Private credit information system
Provision of Japan's knowledge → Establishment of Indonesia's first private credit information agency → Greater business opportunities for Japanese businesses
- Brazil: Project to support the automotive parts industry in developing overseas business
Inviting automobile manufacturers from each country to Japan for business matching → Contracts worth approximately ¥800 million are expected to be concluded.

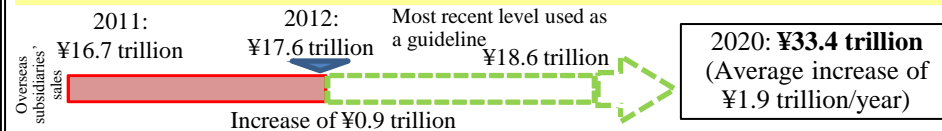
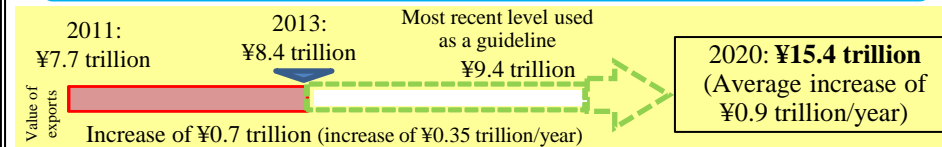
KPI targets * Key performance indicators

Value of exports and overseas subsidiaries' sales by 2020 compared to the 2011 level

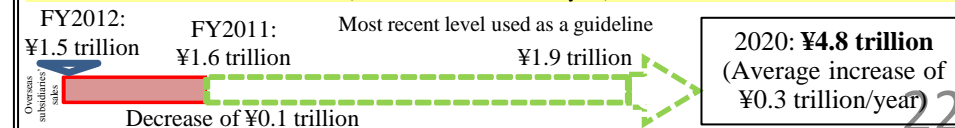
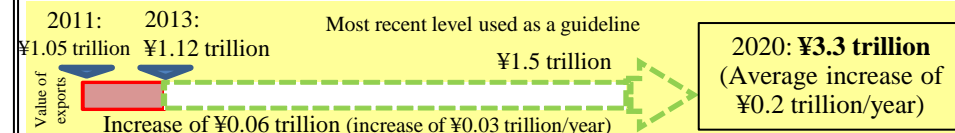
1) China and ASEAN countries: Twice



2) Southwest Asia, the Middle East, Russia and CIS, and Central and South America: Twice

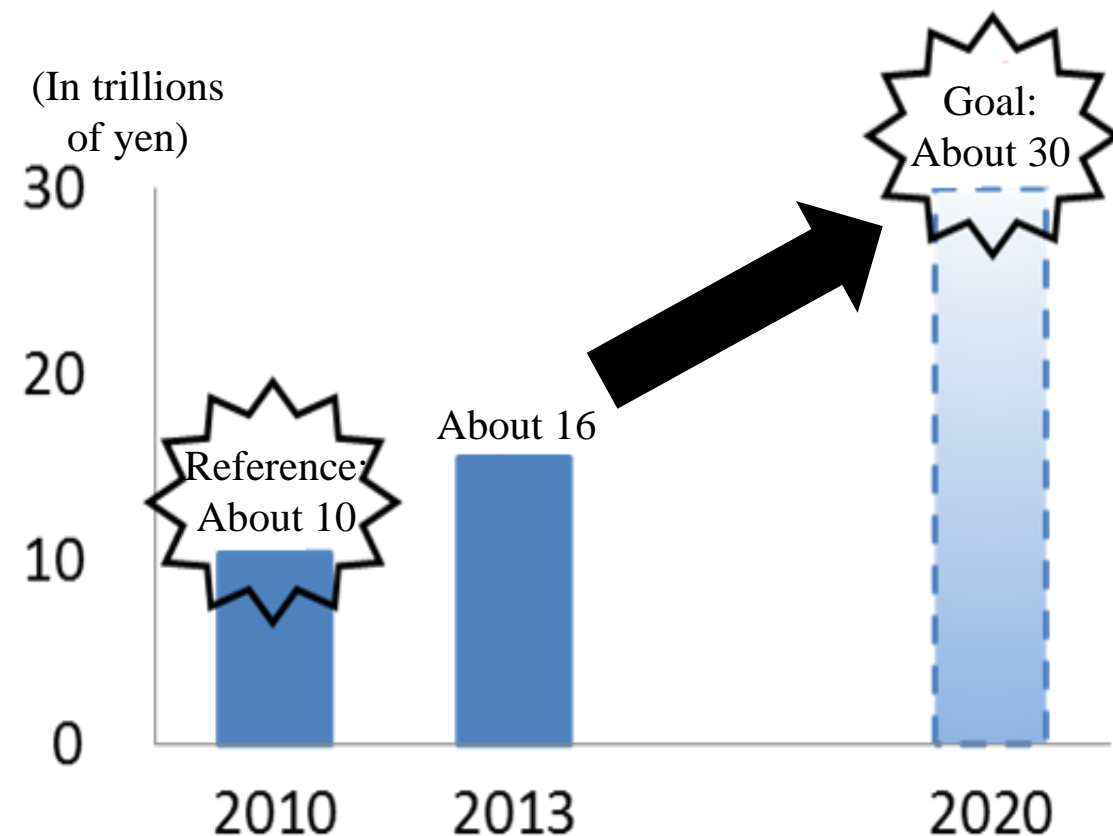


3) Africa: Three times



(2) Initiatives for Export of Infrastructure (1) (2020 Goal: 30 Trillion yen)

Goal for Infrastructure System Export Strategy and the Current Status of Exports



(Reference) Breakdown of Exports by Sector

Sector		2010	2013
Energy		3.8	4.5
Information and communications	Telecommunication services	1	4.1
	Other	3	3.3
Transport		0.5	0.8
Health care		0.5	0.5
Water		0.2	0.2

(Note) The chart uses exhaustive data collected mainly through examination of various statistics and interviews with industry organizations. Figures include income from investment activities, etc. The figures for 2014 will be available in the middle of 2016.

(2) Initiatives for Export of Infrastructure (2) (“Partnership for Quality Infrastructure” Initiative)

- In order to meet huge demand for infrastructure in Asia, Japan, in collaboration with the strengthened Asian development Bank (ADB), will provide approximately \$110 billion for “quality infrastructure investment” over the next five years.
- In these investments, Japan will pursue both “quality” and “quantity” by further mobilizing financial resources and know-how from private sector.

Four pillars that support “Quality Infrastructure Partnership”

(1) Expansion and acceleration of assistance including Japanese ODA loans

- ✓ Working to increase the amount of Japanese ODA Loans by way of coordinating Japanese ODA Loans with Technical Cooperation and Grant Aid
- ✓ Using JICA’s Private Sector Investment Finance even more effectively

(2) Facilitating collaboration between ADB and JICA in PPP projects

- ✓ Considering making the most of joint financing by JICA and ADB for PPP infrastructure projects and creations of funds by utilizing JICA’s Private Sector Investment Finance in order to build a system that allows private capital to be channeled into infrastructure investments in Asia

(3) Strengthening JBIC’s functions of investment and financing, etc.

- ✓ Empower JBIC to actively provide funding for PPP infrastructure projects, etc. with relatively high risk profiles (e.g. project without a guarantee from a government of developing country to support the payment obligations of the off-taker under the purchase agreement)
- ✓ Making NEXI a special company to improve its flexibility and using the newly established JOIN effectively

(4) Promoting “Quality Infrastructure Investments” as an international standards

- ✓ Share good practices of “quality infrastructure Investment” across the world through such media as booklets.
- ✓ Promote a better understanding of the superiority of Japan’s technology and services through invitation of important officials of the partner governments to Japan and cooperation in human resource development

(2) Initiatives for Export of Infrastructure (3) (Incorporating NEXI as an organization fully funded by the Government, etc.)

1. Incorporating NEXI as an organization fully funded by the Government

- Changing NEXI into a special stock company fully funded by the Government

2. Altering the Government reinsurance system to the performance ensuring system

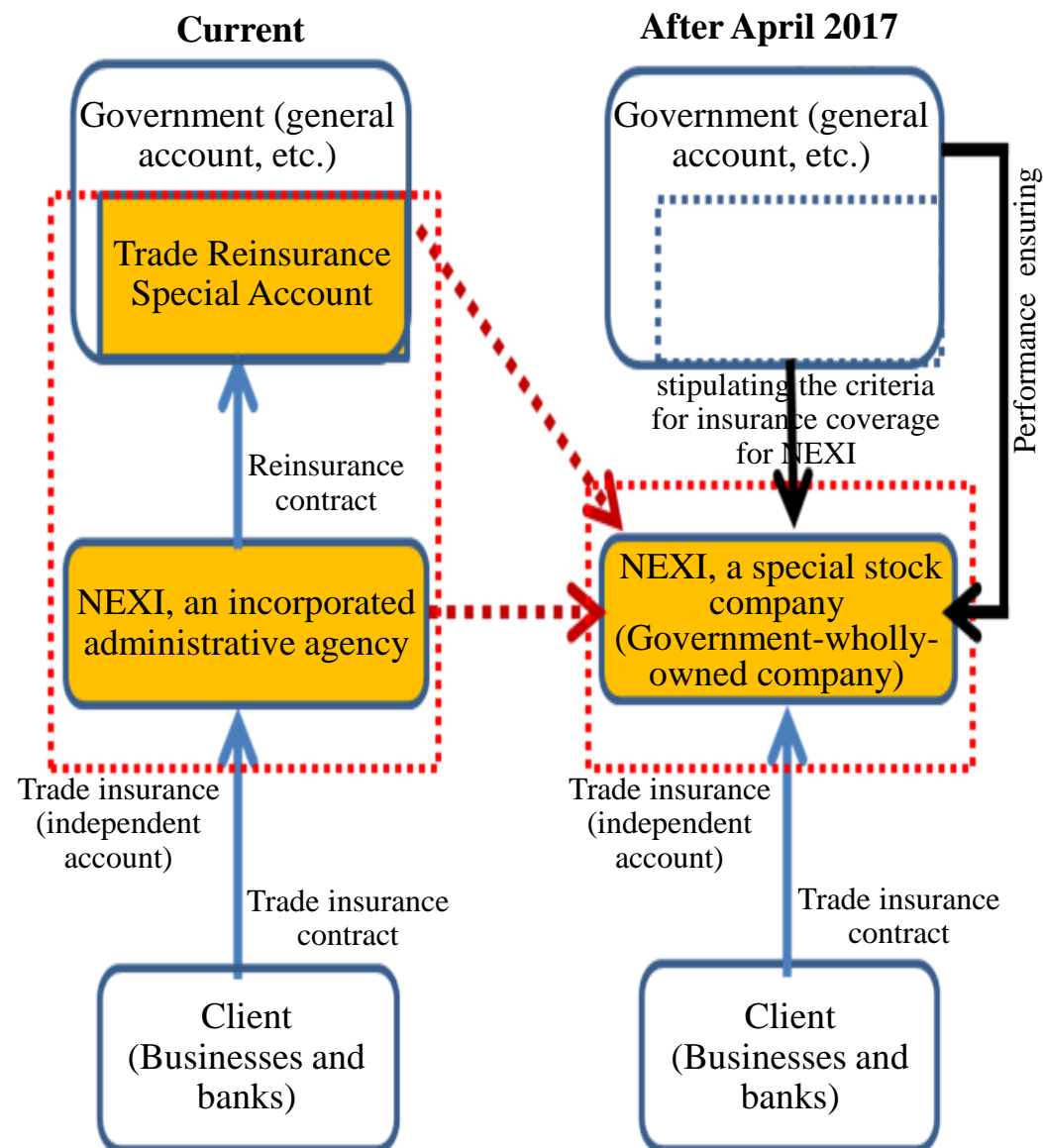
- Abolishing the Trade Reinsurance Special Account of the Government and centralizing the accounts related trade insurance in NEXI
- Ensuring the payment of insurance claims even in case of an emergency, by enabling the Government to take necessary financial measures when NEXI faces difficulties in fund raising

3. Ensuring the relationship between NEXI and the Government

- Enabling the Government to (1) stipulate the criteria for insurance coverage for NEXI and (2) deliver opinions to NEXI concerning certain significant projects, in order to reflect the Government policies in the coverage of trade insurance

4. Enhancing of trade insurance

- Taking measures such as allowing financing for domestic businesses to be covered by trade insurance so that they can implement certain types of overseas projects



(3) Opening up New Markets Using Technical Cooperation

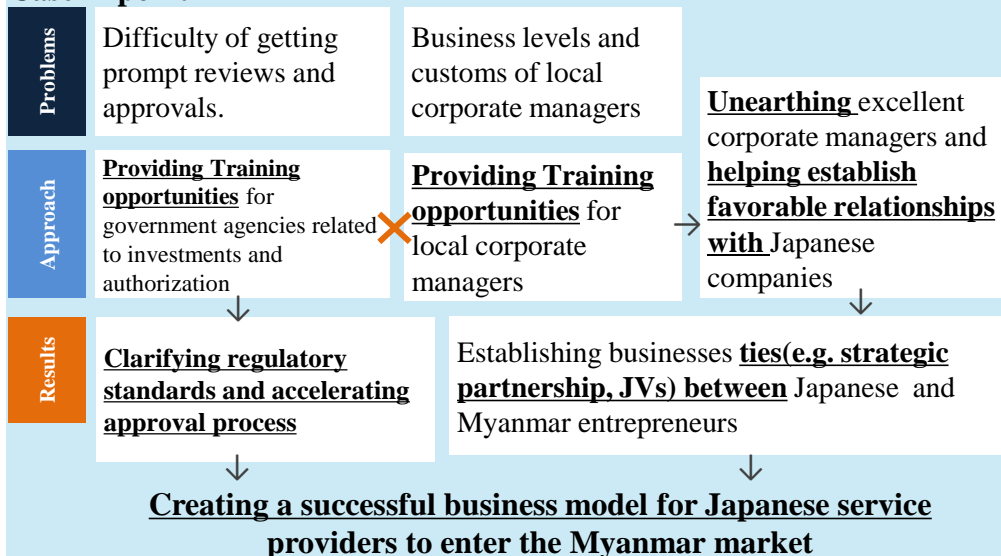
- Up to now, Japan has introduced Japan's high-quality systems, products, and services into partner countries making the most of technical cooperation.
- Starting from this fiscal year, Japan adds new initiatives to identify local needs and social issues and open up and create new markets through co-creation with local partners.
- Japan will work to attract foreign talents to facilitate innovation by further collaborating/interacting with them

Development of the service market in Myanmar

Project scheme

Providing training for the public and private sectors in Myanmar in order to improve governmental approval and regulatory process, and securing local business partners ---challenges to be overcome when service providers enter the Myanmar market

Case in point



METI Global Internship Program

Project scheme

Dispatching Japanese interns(graduate students as well as young professionals) to develop Japanese junior human resources who play active roles on global stage for securing overseas business by middle-ranking, small and medium sized Japanese companies and infrastructure business in emerging countries.

Case in Point

Playing an active role in infrastructure exports

After return to Japan, the intern is assigned to a position of a geothermal project in Indonesia, and plays an active role by using the knowledge and personal contacts he cultivated he was an intern in the electric power company in Indonesia.



Year of internship: FY2012
Country of internship: Indonesia
Place of employment: PT PLN (Persero)

Finding employment at a local company

After the internship at an IT consulting firm, which accepts orders for software development from Japanese companies, the intern obtained a position as SE at the firm because his ability to build bridges between two countries was highly rated.



Year of internship: FY2012
Country of internship: Vietnam
Place of employment: Individual Systems

(4) Facilitation of Inward Foreign Direct Investments (1)

(The Goal is to Double Them by 2020)

○ In an age in which businesses choose countries, inward foreign direct investments are one of the barometers of how attractive the country's market is as seen from overseas, and the amount of inward foreign direct investments is extremely small compared to other countries.

(In trillions of yen)

Changes in the Balance of Foreign Direct Investments in Japan and the Percentage of Such Investments to GDP

The Percentage of the Balance of Inward Foreign Direct Investments to GDP by Country (as of the end of 2013)

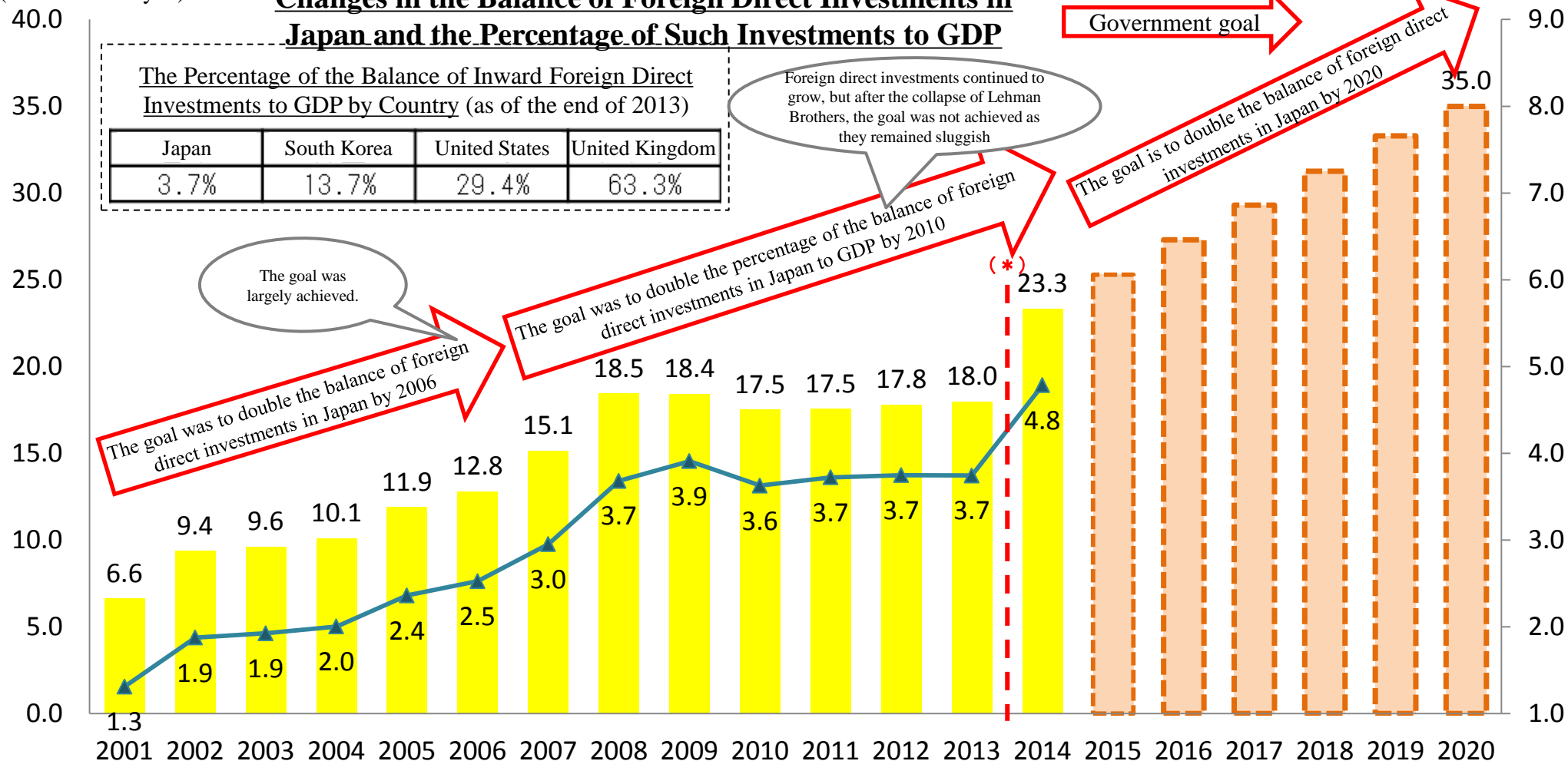
Japan	South Korea	United States	United Kingdom
3.7%	13.7%	29.4%	63.3%

The goal was largely achieved.

Foreign direct investments continued to grow, but after the collapse of Lehman Brothers, the goal was not achieved as they remained sluggish

Government goal

The goal is to double the balance of foreign direct investments in Japan by 2020



Source: The Ministry of Finance's "The Balance of Payment" and the Cabinet Office's "SNA" (*) There have been changes in standards for reporting statistics since 2014.

(Year end)

(4) Facilitation of Inward Foreign Direct Investments (2)

(Establishment of Business Environments)

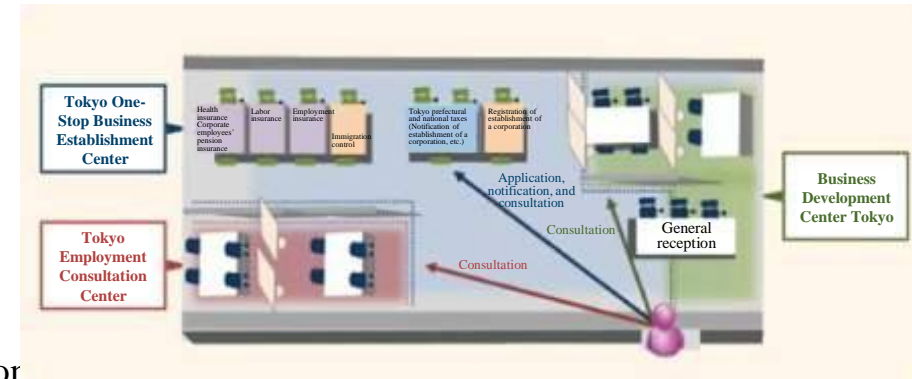
(Meeting the Council for Promotion of Foreign Direct Investment, March 2015)

● Five promises for Attracting Foreign Businesses to Japan

- (1) Shift of retailers such as departments stores, supermarkets, and convenience stores to multilingual operation
- (2) Spread of free public wireless LANs
- (3) Improvement of the environment to accept business jets at local airports
- (4) Stronger support for foreign students studying in Japan in finding employment at companies in Japan
- (5) Improvement of JETRO's systems and functions, and establish an "Investment Advisor Assignment System" in which State Ministers etc. act as advisors for foreign businesses

● Tokyo One-Stop Business Establishment Center

On April 1 of this year, the national and Tokyo metropolitan governments established the Tokyo One-Stop Business Establishment Center within the headquarters of JETRO. Government officials and other personnel, stationed there on a full-time basis, provide one-stop services to overseas businesses when they take necessary steps to establish corporations in Japan.



● Reform of corporation tax

In April of this year, in accordance with the 2014 Basic Policy for Economic and Fiscal Management, the government lowered the corporation tax rate from 34.62% to 32.11% (on a standard tax rate basis), or from 35.64% to 33.06% (on a Tokyo metropolitan government's basis).

● Regulatory Reform

In March of this year, the government abolished the previous requirement that "at least one of the representatives of a company based in Japan must have an address in the country."

● Stepping up efforts to communicate information making the most of the Tokyo Olympics and Paralympics

Taking the opportunity of the Tokyo Olympics and Paralympics to host business conferences in Japan

(4) Facilitation of Inward Foreign Direct Investments (3)

(Stepping up Efforts to Attract overseas businesses)

Top-level Sales

- May 2014: Investment seminar in London
(Prime Minister Abe, Hiroshima and Mie Governors, and Kobe and Fukuoka Mayors)
- September 2014: Investment seminar in New York
(Prime Minister Abe, Wakayama Governor, and Tokamachi, Kyoto, and Mimasaka Mayors)
- May 2015: Japan-U.S. economic forum in Los Angeles (Prime Minister Abe and other officials)



Investment seminar in
New York



The prime minister gave an
address at the Japan-U.S.
economic forum in Los Angeles

JETRO's efforts to attract overseas businesses (Industry specialists)

April-September: Interviews with the world's 3,000 companies requested
By October: Promising 600 companies identified
By December: Business negotiations with 415 companies held
By March: 109 companies decided to invest in Japan
In the future, JETRO's functions will be further enhanced.

Eight priority areas

Health care Life sciences		Environment Energy
Tourism	Infrastructure	Finance Services
Agriculture	Education	IT Electronics

Support for local governments' initiatives

- Tax system to strengthen regional bases (newly established in FY2015)
- Regional revitalization subsidies (FY2014 supplementary budget)
- JETRO's menu-based support that meets local governments' requests

Examples of JETRO's support for local governments (newly established in FY2015)	
Proposal for project menu	Analysis of regional strengths and weaknesses
Support for communication of information and publicity materials	Sales by top politicians and secondary investment seminars
Arrangements for overseas visits by governors and other high-ranking officials	Hosting of matching sessions
Support for advance into local markets by foreign enterprises	Formulation of strategy to attract foreign businesses

(5) Initiatives to Strengthen Security Export Control (1)

Present state of affairs and challenges

Environmental changes in security export control

■ Growing security threats

Specific examples:

- Modernization by countries in East Asia of their military power
- Reinforcement by North Korea of the capabilities of their weapons of mass destruction and ballistic missiles
- Growing threat of terrorism by non-state actors

- ### ■ Sophistication of military technology and progress in the diversion of non-military technology to military uses
- There are fears that Japan's sensitive goods and technology such as machine tools and carbon fiber are used for weapons of mass destruction, etc.



Carbon fiber



Machine tool

- ### ■ The Three Principles of Transfer of Defense Equipment and Technology were adopted by the Cabinet in April of last year

Formulation of the Three Principles of Transfer of Defense Equipment and Technology and the start of its strict and careful implementation.

* The number of cases that the National Security Council have hitherto judged as a case in which overseas transfer may be permitted and announced so is three. 30

(5) Initiatives to Strengthen Security Export Control (2)

Last year's initiatives and future policy

Establishment of strategic security export control

■ Establishment of more effective export control

Stepping up international cooperation

- Active participation in establishment of rules for international export control regimes
 - At the WA plenary meeting in December 2014, the Participating States agreed on “Voluntary Early Submission of Denial of Dual-Use List Items” as proposed by Japan.
- Closer bilateral cooperation (with the United States, Germany, France, etc.)
 - Sharing information on concerns and establishing closer relationships of cooperation in formulation of rules
- Stepping up outreach efforts for Asian countries and regions
 - Japan takes leadership in introducing systems into Asian countries and supporting their implementation and application.

Ensuring appropriate export examination, etc.

- Ensuring improvement of examination abilities and responses to violations of law mainly by accumulating knowledge of sensitive technology through closer cooperation with the Ministry of Defense, etc.

Reference Materials

Part 1: Global Trends and Japan

Part 2: Overall Picture of Future External Economic Policy

--- Establishment of an international order that shares
universal values ---

- The scale of regional economic integration agreements are becoming larger, such as high-level mega FTAs among Japan, the U.S., and Europe (TPP, Japan-EU EPA, TTIP), RCEP, China-Japan-Korea FTA.
- Not only the economic aspects of agreements such as reductions in trade barriers but also their geopolitical aspects are becoming more conspicuous.
- At present, over 600 regional trade agreements make up complex networks, but there are gradual moves to integrate them into larger ones.

Eurasian Economic Union

Russia, Kazakhstan, Belarus, and Armenia (four countries)

European Union (EU)★

28 European countries

Gulf Cooperation Council (GCC)★

Saudi Arabia, UAE, Oman, Qatar, Kuwait, and Bahrain

East African Community (EAC)

Five countries, including Kenya, Tanzania, and Uganda

Common Market for Eastern and Southern Africa (COMESA)

19 countries, including Egypt, Ethiopia, and Sudan

Southern African Development Community (SADC)

15 countries, including Republic of South Africa, Madagascar, and Mozambique

★ indicates the framework of cooperation in which Japan participates or Japan's EPA/FTA negotiating partners.
☆ indicates the framework of cooperation in which Japan participates as an observer.

Transatlantic Trade and Investment Partnership (TTIP)

EU and the U.S.

Trans-Pacific Partnership (TPP)★

U.S., Australia, Canada, Singapore, Chile, New Zealand, Brunei Darussalam, Peru, Vietnam, Malaysia, and Mexico

North American Free Trade Agreement (NAFTA)

U.S., Canada, and Mexico

Japan-EU EPA★

FTAAP★

China-Japan-Korea FTA★

RCEP★

ASEAN countries, Japan, China, Korea, India, Australia, and New Zealand

South Asian Association for Regional Cooperation (SAARC)☆

India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, Maldives, and Afghanistan

ASEAN★

Thailand, Indonesia, Singapore, Philippines, Malaysia, Brunei Darussalam, Cambodia, Vietnam, Myanmar, and Laos (ten countries)

Pacific Alliance★

Chile, Colombia, Mexico, and Peru

MERCOSUR (customs union)

Brazil, Venezuela, Uruguay, Paraguay, Argentina and Bolivia. Associate members include Chile, Colombia, Ecuador and Peru.

Purple: EPA/FTA
Green: Customs union
Orange: Regional community

— (Integration is being planned) —

Part 1

Social Environment: Changes in Global Risk Factors

- Adding to traditional global agendas such as climate change and water crisis, geopolitical risks and cyber risks have been emerging as well-recognized major risk factors.

2014

Rank	World Economic Forum 2014* Ten global risks of highest concern
1	Fiscal crises in key economies
2	Structurally high unemployment/underemployment
3	Water crises
4	Severe income disparity
5	Failure of climate change mitigation and adaptation
6	Greater incidence of extreme weather events (e.g. floods)
7	Global governance failure
8	Food crises
9	Failure of a major financial mechanism/institution
10	Profound political and social instability

2015

Rank	World Economic Forum 2015* Top 10 risks in terms of likelihood
1	Interstate conflicts
2	Extreme weather events
3	Failure of national governance
4	State collapse or crisis
5	Unemployment or underemployment
6	Natural catastrophes
7	Failure of climate-change adaptation
8	Water crises
9	Data fraud and theft
10	Cyber attacks

Rank	Top risks 2015 as listed by the Eurasia Group
1	The Politics of Europe
2	Russia
3	The Effects of China Slowdown
4	Weaponization of Finance
5	ISIS, Beyond Iraq and Syria
6	Weak Incumbents
7	The Rise of Strategic Sectors (areas the state considers important for political stability and the interests of the political elite)
8	Saudi Arabia vs. Iran
9	Taiwan/China
10	Turkey

Legend:

Traditional major risks

Geopolitical risks

Cyber risks

*World Economic Forum annually conducts a questionnaire survey called the "Global Risks Perception Survey" for businesspersons, government officials, NGO managers, scholars, and so forth and announces the ranks of the most concerned global risks.

**Project Syndicate is an international organ of public opinion, which provides a forum for experts in politics, economics, and academic research.

Focal Points by Project Syndicate** (international organ of public opinion)

- World Education Forum Meets
- The State of Corruption
- Britain's Exit Poll?
- Russia's War on Europe in Ukraine
- China versus Bretton Woods?
- Iran's Nuclear Agreement
- Most Read of 2014
- O'Neill vs. Kaletsky on Oil
- Piketty's Charge

- The post-Cold War global economy, which has been led mainly by emerging countries (China in particular), has recently shown signs of slowdown or changes due mainly to the changes in BRICs and the economic impact caused by political factors in the Middle East, Africa and Central and South America.

○Diversified BRICs:

- (China) The country, rapidly emerged as a major economic power, has changed its growth track to “new normal.”
- (Russia) Its economic scale may shrink due to confrontation with the Western countries (sanctions), declining value of natural resources and other factors.
- (Brazil) The country may not realize its full potential for growth due to its political instability, etc.
- (India) The country has potential to get on the economic growth track comparable to China triggered by political change.

○U.S. on the leading edge of innovation

- Cost reduction of energy and raw material accelerated by the Shale Revolution (the U.S. has become the world’s largest oil producing country, surpassing Saudi Arabia in 2014 as the nation produced more than one million barrels per day from 2012 to 2014), Advent of IoT (Internet of Things)
- Strengthened business platform with the advent of IoT
- Population increase by about 0.7 million every year due to increasing number of immigrants and their children’s high birth rate
- Signs of return to domestic production associated with the above-described situation

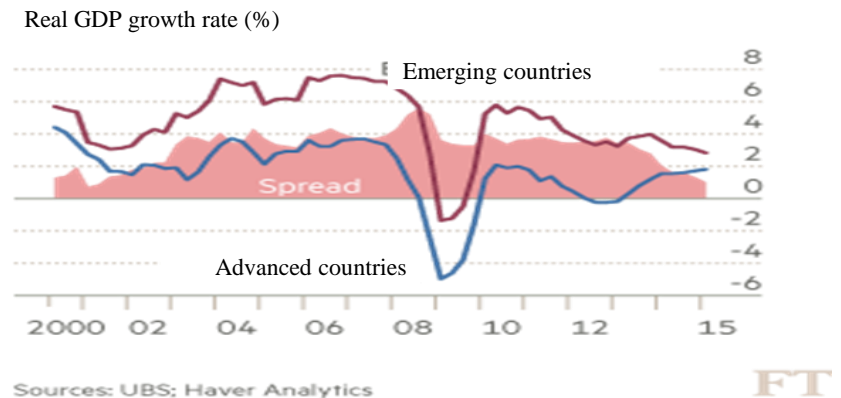
○Structural factors playing a more significant role in defining the growth mechanism of advanced economies (EU):

- In European countries, Greece has been struggling in economic recession while Spain has been recovering to the growth track (minus 1.2 (2013)→2.5 (2015 prospect)). Germany is steadily growing (0.2→1.6) and the U.K. is trying to get ahead of reforms (1.7→2.7). The outlook for economic growth significantly changes depending on structural factors. * The figures in parentheses are from IMF’s “World Economic Outlook, April 2015.”

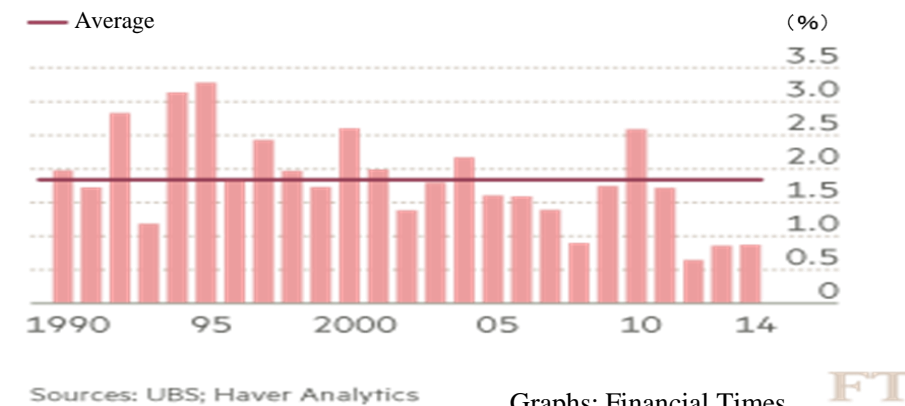
○Global economic changes:

- Stagnation in the growth of global trade amount after the Lehman collapse
- OPEC’s weakened relative ability to control oil prices and Shale Revolution’s pressure to cut oil prices (\$133.88 per barrel (June 2008)→\$59.27 (May 2015))
- Correlation between economic growth and energy consumption also has changed.
In 2014, although there was no economic recession, greenhouse gas emissions decreased for the first time in forty years. (Source: IEA)

Comparison of real GDP growth rate in the past 15 years (advanced and emerging countries)



Growth rate of trade amount when the economic growth rate is at 1.0%



Graphs: Financial Times

⇒There is a possibility that engines of the global economy and factors of industrial competitiveness have been changing.

Establishing/Developing Global Rules in Cooperation with EU (Japan-EU Regulatory Cooperation)

– “We express our great expectation for further progress in regulatory cooperation between Japan and EU” (Japan-EU Summit in May 2015) –

- Given the influences of its member countries as former colonizers and its experiences in forming a regionally unified market, EU plays a leading role in establishing / developing global rules (see below).
- Japan-EU regulatory cooperation aims to establish / develop global rules making the most of EU's characteristics. It is beneficial to Japan in the following three points:
 - ✓ Establishment / development of global rules for safety, interconnectivity, and other standards for global marketing of new technologies and products such as robotics and smart appliances
 - ✓ Cost reductions for businesses (particularly SMEs) that support global value chains
 - ✓ Japan and EU, the world's two major economic zones with the most sophisticated consumer markets, can take leadership in establishing global rules from such standpoint of common advanced issues such as the aging society and energy restrictions.
- The public and private sectors of Japan and EU share industrial policy that aims to achieve growth together (internationalization of industrial policy).

“Regulatory cooperation is the future of trade policy.” (From the Speech given by Ms. C. Malmström, European Commissioner for Trade, at Keidanren (Japan Business Federation) in May 2015)

Position of EU, which assumes the responsibility of establishing / Developing global rules

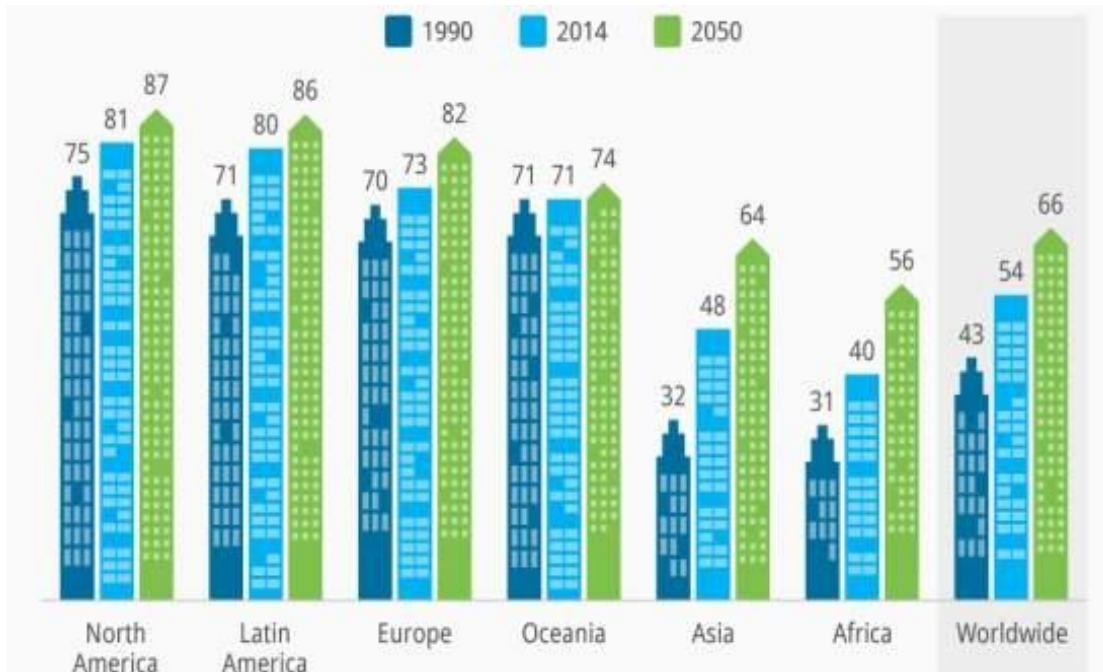
- EU undertakes the largest number of international managerial posts at ISO/IEC (Germany, France, and the U.K. occupy the top three places; 488 for EU, 144 for the U.S., and 98 for Japan)
 - Progressive expansion of chemical regulations (such as REACH and RoHS)
 - Harmonization of automobile safety standards at the U.N.
- <Policy areas in which EU rules are likely to affect regulations worldwide in the future>
- EU Data Protection Regulation (including personal information)
 - Eco-design regulations
 - Other (Industry 4.0)



- Currently 54% of the world population lives in urban areas, and the percentage is expected to reach 66% in 2050. Urbanization is a trend that is found all over the world. Particularly in emerging countries in Asia and other regions, coupled with economic growth, urbanization is causing urban problems to surface in various areas such as the environment, public health, disparity, and safety.
- Japan has developed the ability to solve urban problems in the past as it experienced and overcame them. The key to ensuring both Japan's and the world's growth is to apply that ability to overseas countries.

Changes in the Percentage of Urban Population in the World (Forecast)

Fifty-four percent of the world population lives in urban areas, and the percentage is expected to reach 66% in 2050.



(Source) This figure has been created by Mashable based on the U.N. World Urbanization Prospects 2014 Revision.

Ranking of City Populations in 2025

All cities listed below are located in emerging economies except Tokyo and New York. In particular, six Asian cities (seven if Tokyo is included) are included in the ranking.

Rank	City area	Forecast for 2025 (1,000 persons)
1	Tokyo	36,400
2	Mumbai	26,385
3	Delhi	22,498
4	Dacca	22,015
5	São Paulo	21,428
6	Mexico City	21,009
7	New York	20,628
8	Calcutta	20,560
9	Shanghai	19,412
10	Karachi	19,095

(Source) UN-Habitat

- Urban problems cover a wide range of areas and are related to one another. It is also necessary to take long-term measures to solve them. Therefore, it is essential to grapple with them after, in the early stage of planning, clarifying concepts of the social problems involved.
- Early signs of Japan tackling the world's urban problems starting from the early stage of planning have gradually been seen in recent years.

Examples of Involvement Starting from the Early Stage of Planning

Ukrainian national energy master plan (from 2014)

Helping formulate a master plan for energy policy as Ukraine works to improve energy security

Yokohama-Cebu advisory memorandum of understanding on city planning (from 2012)

Giving technical advice, including master planning to realize an environmentally friendly, sustainable city

Yokohama-Da Nang advisory memorandum of understanding on city planning (from 2013)

Supporting infrastructure development (such as waste disposal and water environments) as the population grows due to the progress of urbanization

Pacific union infrastructure master plan (from 2011)

Formulating an infrastructure master plan to contribute to elimination of logistic bottlenecks in the Pacific union and strengthening the supply chains of the region

Project to develop a new state capital in the Indian state of Andhra Pradesh (from 2014)

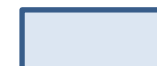
Submitting the master plan developed by Japanese businesses as Andhra Pradesh, which was spun off and became an independent state, needs to build its new capital

Japanese-French cooperation in sustainable city development in Africa (from 2015)

Considering development of action plans and project lists to advance sustainable city development in Africa through cooperation between Japan and France

Kitakyushu-Surabaya memorandum of understanding on environmental sister-city agreement (from 2012)

Implementing projects such as waste disposal, recycling, co-generation, energy conservation, sewage treatment facility development planning, and drinking water supply



Initiatives led by the national government



Initiatives led by local governments

- Last November, at the request of Chief Minister Naidu of Andhra Pradesh, Japan agreed to engage in urban development from the early stage of planning because its high-level urban infrastructure technology was favorably evaluated.
- Japan has worked with the state of Andhra Pradesh (AP) to set up a AP-JPN joint task force to promote investments in AP and has started these important projects.

Major events in the past

November 2014	Minister Miyazawa and AP's Chief Minister Naidu signed a Memorandum of Cooperation, including development of a new state capital.
January 2015	State Minister Takagi, AP's Chief Minister Naidu, and Singapore's Second Minister Iswaran of Trade and Industry agreed that AP, Japan, and Singapore would work together to develop a new state capital.
February 2015	The Japanese side held a meeting of the cross-sectional task force to promote investments in AP.
April 2015	Minister Miyazawa submitted Japan's proposals for development of the new state capital to AP's Chief Minister Naidu.

Site of the new state capital

