

ABENOMICS

Published in November 2016

For future growth, for future generations,
and for a future Japan that is robust.

We should look to the future, rather than worry about the present. Japan may be ageing. Japan may be losing its population. But, these are incentives for us.

– Prime Minister Shinzo Abe

THE GOVERNMENT OF JAPAN

About Abenomics

Setting the economy on course to overcome deflation and make a steady recovery with the Three Arrows

In early 2013, after two decades of economic stagnation, Prime Minister Shinzo Abe unveiled a comprehensive economic policy package to sustainably revive the Japanese economy while maintaining fiscal discipline.

This program became known as **Abenomics**.

The centerpiece of Abenomics has been the three “policy arrows” targeted at aggressive monetary policy, flexible fiscal policy and growth strategy including structural reform.

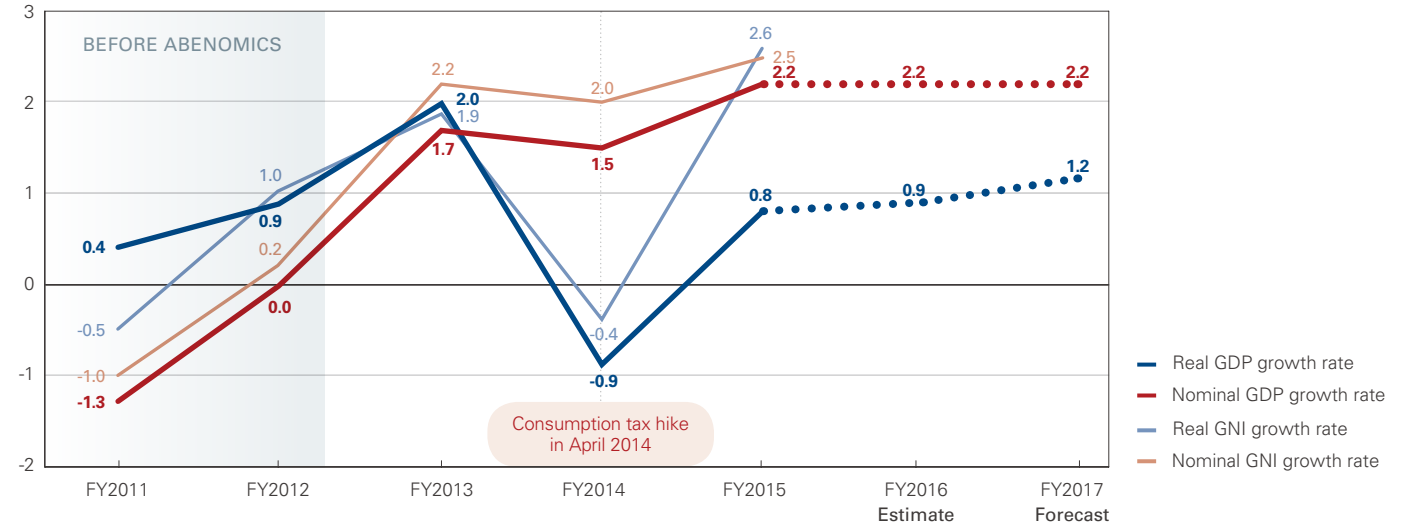
Since then, Abenomics has achieved remarkable progress.

For example;

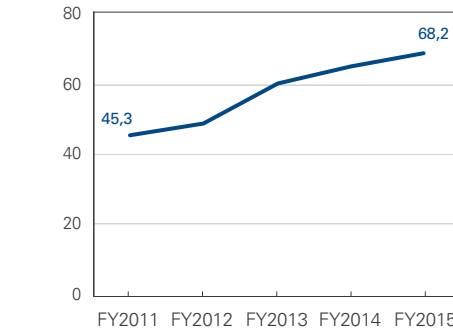
- Real GDP grew from 520 to 529 trillion yen¹ between the fiscal years of 2012 and 2015²
- Annual corporate ordinary profits increased by 20 trillion yen between the fiscal years of 2012 and 2015³
- Unemployment level declined from 4.3% to 3.4% between 2012 and 2015⁴
- Core CPI improved from -0.6% in 2012 to 1.0% in 2015⁵

And now it is gaining speed. This document offers the latest on the reforms being implemented to reach a GDP of 600 trillion yen, including work style reform to raise productivity and increase the workforce in the midst of demographic changes.

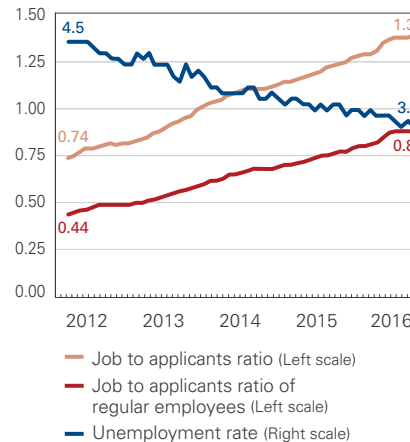
(%) **GDP/GNI growth rates²**



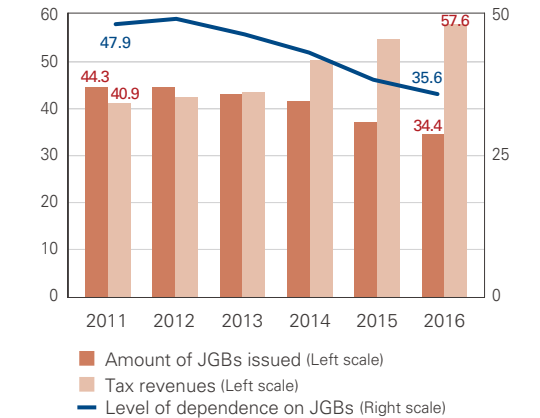
(JPY tril.) **Corporate ordinary profits³**



Jobs to applicants ratio and unemployment rate⁴



Dependency ratio on Japanese Government Bonds⁶



1 Average exchange rate for October 2016: USD = JPY 104
 2 Source: Cabinet Office “National Accounts”; “Mid-Year Economic Projection for FY2016”; The Japanese fiscal year starts in April and concludes in March of the following year. The forecast does not include the economic impact of “Economic Measures for Realizing Investment for the Future”
 3 Source: Ministry of Finance “Financial Statements Statistics of Corporations by Industry” All industries, all (firm) sizes, Seasonally adjusted figures
 4 Source: Ministry of Health, Labour and Welfare “Statistics on Employment Referrals for General Workers” Seasonally adjusted figures; Ministry of Internal Affairs and Communications “Labor force survey”
 5 Source: Statistics Bureau, Consumer Price Index. Core CPI = All items, less food (less alcoholic beverages) and energy
 6 Source: Ministry of Finance “Japan’s Fiscal Condition”

Engines that keep the positive economic cycle spinning



1 Boost Productivity p. 3-4

Boost productivity by changing work style and diversifying the labor force to cope with the demographic change

- Leads to wage increase and employment, resulting in higher income and a rise in consumption

2 Drive Innovation and Trade p. 5-8

Implement structural reforms such as deregulation in the agricultural sector and other areas with growth potential, as well as expand international trade

- Leads to the creation of new demand and increased capital investment

3 Energize Corporate Activities p. 9-10

Continue to create a business-friendly environment and promote inward FDI through robust corporate governance and further corporate tax reduction

- Leads to rise in corporate performance

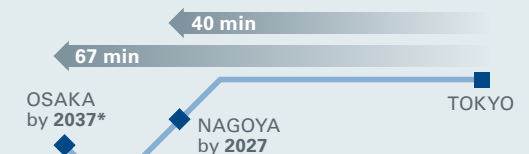
Economic Measures for Realizing Investment for the Future

On August 2, 2016 a package of economic measures was formed to implement the following;

- Improve the child care and nursing care environment**
 - Take necessary actions to resolve nursery school waiting list issues and to ensure that no one needs to leave their job to care for family members
- Promote the empowerment of women**
 - Implement leadership training programs for women who are candidates for executive positions
- Accelerate infrastructure developments**
 - Bring forward the opening of the Maglev train line to integrate all regions into a single nationwide economic zone

CONNECTING 70 MILLION PEOPLE

Maximum speed of 500km/h



* Initially planned for 2045

- Attract 40 million foreign tourists**
 - Strengthen functionality of Haneda and other international airports
 - Enhance seaport capabilities to accommodate growing demand for larger cruise ships
- Encourage the early entry into force of the Trans-Pacific Partnership (TPP)**
- Utilize National Strategic Special Zones**

Change how we work

We realize that to sustain growth with a shrinking workforce calls for an urgent evolution to boost our productivity. And to achieve higher productivity, a system that rewards work based on performance and a flexible working environment are the keys.

This transformation would not only improve corporate performance, but also increase wages, while achieving better work-life balance, eventually leading to a rise in consumption.



The Council* is discussing a revision of the Employee-Employer Agreement (so called Article 36 Agreement) to change habitual practices of **prolonged working hours**



The Council* is discussing the introduction of **"equal pay for equal work,"** which would minimize the wage gap between regular and non-regular workers



Career change and reemployment will be heavily supported, particularly in industries that are in need of new resources



In August 2016, the Minister for Working-style Reform was appointed, and the Council* was established and tasked to compile a concrete action plan by March 2017

* Council to Realize Working-style Reform (Chairman: PM Abe)

Embrace diversity

Given the declining work population Japan faces today, we need to include more people in the workforce.

That is why our work and business customs are in the process of being reassessed, and a wide range of working opportunities is becoming accessible to women, senior citizens and expatriates whose chances were limited before.

WOMEN

Lessen the burden of working parents and accelerate women's promotion

- Secure additional child care capacity for approximately 500,000 children by the end of FY2017
- Increase benefits and rewards for nursery school teachers
- Increase child care leave benefits from 50% to 67%, applied to the first six months of leave¹
- Provide female candidates with executive leadership training programs from the world's leading business scholars

SENIORS

Facilitate change through engagement with businesses

- Provide a choice to extend retirement age for those who want to work, as well as support companies that extend the limit
- Provide support in matching job openings and applications
- Drive more companies to establish family care leave systems to retain senior employees who need time to look after parents who are in need of constant care

EXPATRIATES

Leverage legislative reforms to promote and expand opportunities

- Expedite permanent residency by introducing "Japanese Green Card for Highly Skilled Foreign Professionals"
- Promote expatriate entrepreneurship and increase expatriate housekeeping support workers in Tokyo, Kanagawa and Osaka by leveraging National Strategic Special Zones²
- Expand job categories, increase admission quotas and extend training periods from three to five years by revising the current Technical Intern Training Program³

¹ Law took effect in April 2014

² Law took effect in September 2015

³ Bills submitted to the ordinary Diet session in 2015

From 2012 to 2015, the number of women joining the workforce increased by more than

1 million



Source: Ministry of Internal Affairs and Communications: "Labor Force Survey"

Women in **management positions** in the private sector approaches



Source: Ministry of Health, Labour and Welfare: "Basic Survey on Wage Structure"

71% of seniors report that they would like to continue to work past retirement age

Source: Cabinet Office, Annual Report on the Aging society



Since May 2015, the number of "highly-skilled foreign professionals" increased by **57%**

Source: Ministry of Justice: "Number of Recognitions of Highly Skilled Professionals"



PROF. SANKAI, UNIVERSITY OF TSUKUBA / CYBERDYNE INC.

Realize an innovative society

Japan is a country renowned for its technology and skilled workers. We intend to maintain that reputation throughout the 21st century, by demonstrating growth driven by technology.

Proactive structural reform led by the government is underway to ensure that the seeds of technological advancement are planted and grow to resolve wider societal issues.



TECHNOLOGY

Continue to maintain worldwide leadership in the technology industry

- Make it a government initiative to generate 30 trillion yen of added value by supporting growth in the areas of the Internet of Things, Big Data, Artificial intelligence, Robotics, etc.
- Identify necessary regulatory reforms under leadership of the Council*
- Support SMEs in adopting new technology such as robotics to improve efficiency
- Accelerate data utilization to foster areas such as autonomous driving and drones
- Provide programming education at elementary and secondary schools to foster information literacy



STARTUP BUSINESSES

Encourage entrepreneurialism nationwide through deregulation and support

- Facilitate business partnerships between startups and universities
- Establish special incentive measures to promote venture investment
- Support talent development through exchange programs with Silicon Valley



EXAMPLE IN TOKYO AREA: BUSINESS ESTABLISHMENT

SPECIAL ZONES

Consolidate scattered registration outlets for different documents into one convenient outlet

Tokyo One-Stop Business Establishment Center which centralizes application and consultation services in Tokyo



2,922 cases completed
(as of September 2016)



In September 2016, the Council* was established and tasked to compile a road map to implement IT-led innovation by mid FY2017

* Growth Strategy Council (Chairman: PM Abe)

Leverage structural reforms



HEALTHCARE

Expand the market from 16 trillion to 26 trillion yen by 2020

- Create a framework for private firms to provide medical-related services not covered by public insurance in cooperation with insured medical services for integrated care
- Alleviate nursing care burden by utilizing robots and sensors
- Provide customized healthcare services based on personal data collected by wearable devices
- Enhance R&D in drug development and treatments by leveraging big data analytics
- Further promote Japanese medical services and devices overseas



ENERGY

Increase investments from 18 trillion to 28 trillion yen by FY2030, addressing global warming

- Extend the “Energy Efficiency Benchmark Program” to cover 70% of annual energy consumption of all industries
- Maximize introduction of renewable energy while minimizing the national burden under the revised Feed-in Tariff (FIT)
- Realize a “hydrogen society” by supporting R&D and implementation of fuel cells and hydrogen refueling stations
- Strengthen Natural Resource Security in the area of marine resources and recycling



AGRICULTURE

Double the integrated market value¹ from 5.1 trillion to 10 trillion yen by 2020

- Foster international competitiveness with a more open and robust wholesale distribution system
- Encourage cross-industry collaboration to spur smart farming
- Aim to achieve 1 trillion yen in overall exports by 2019*

* The target was moved forward from 2020 due to 3 consecutive years of record breaking exports (2015 marked 745.1 billion yen, +21.8% YOY)

¹ Includes production, processing, retail and distribution

REFORMS IN PROGRESS

A shot in the arm to energize the healthcare industry

- Enact an adaptive licensing approval system, to bring regenerative medicines to market more quickly
☑ Law took effect in 2014
- Introduce new MMS* scheme to allow easier and affordable access to advanced medical treatment
☑ Law took effect in 2016
- Promote business alliances through a new healthcare corporation system
☑ Law enacted in 2015

*MMS = The scenario where a patient receives both insured and uninsured treatment performed in the same series of medical treatments

REFORMS IN PROGRESS

A comprehensive reform for the first time in 60 years

- Open the electricity retail market to new entries followed by mandating legal unbundling of the transmission / distribution sector to achieve full liberalization of the market
☑ Law enacted in 2015. Partially implemented in 2016, aim to complete by 2020
- Mandate legal unbundling of pipeline service sector for the three major gas companies to achieve full liberalization of the market
☑ Law enacted in 2015. Aim to achieve in phases by 2022 starting in 2017

REFORMS IN PROGRESS

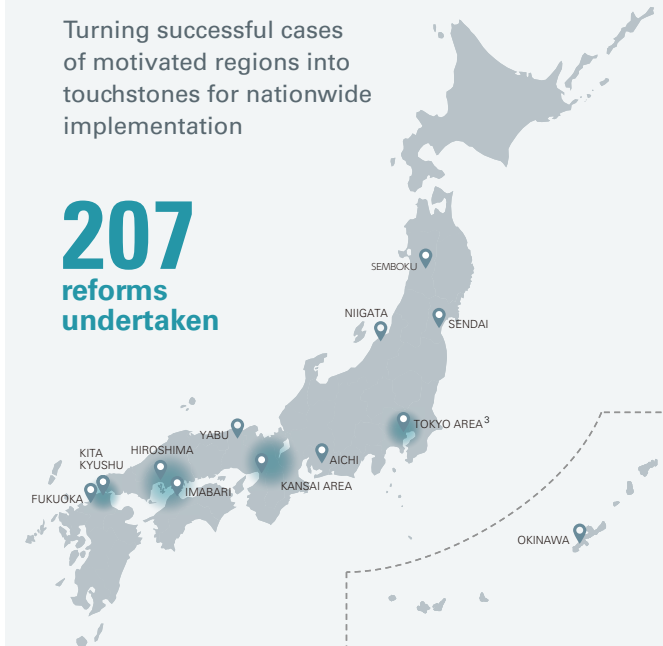
First major structural reform and deregulation in 60 years

- Reform the Agricultural Cooperative system to encourage entrepreneurialism and seek new market entrants
☑ Law took effect in 2016
- Enact legal reforms to consolidate scattered farmland and optimize use
☑ Law took effect in 2016
- Establish nationwide export promotion institutions for major products
☑ Institutions established in 2014 and 2015

Pilot Initiatives in National Strategic Special Zones²

Turning successful cases of motivated regions into touchstones for nationwide implementation

207 reforms undertaken



² Amended the Law on National Strategic Special Zones in May 2016 to extend and further advance reforms in focus areas by the end of FY2017

³ In October 2016, a joint bureau between the Cabinet Office and the Tokyo Metropolitan Government was established to promote the extensive use of the Special Zones in Tokyo



EXAMPLE IN YABU (HYOGO PREF.): AGRICULTURE

SPECIAL ZONES

1st time for 3 private companies to be allowed to buy farmland to produce garlic, rice, flowers etc.



OTHER EXAMPLES

- Business establishment page 5
- Tourism page 8
- Expatriate opportunities page 10

Build on international opportunities

To this day, Japan's economic growth has been based on free trade. Looking ahead, Japan will remain an engine and an advocate for free trade.

The promotion of the export of Japan's high quality infrastructure to meet expanding global infrastructure needs is crucial to Japan's economic growth, and helps to construct win-win relationships that contribute to the economic development of partner countries.



FREE TRADE

Leverage free trade and other economic agreements

- Encourage the early entry into force and the expansion of TPP
- Promote negotiations on other economic partnership agreements, such as Japan-EU EPA, RCEP and Japan-China-ROK FTA
- Provide assistance for SMEs to expand their businesses overseas



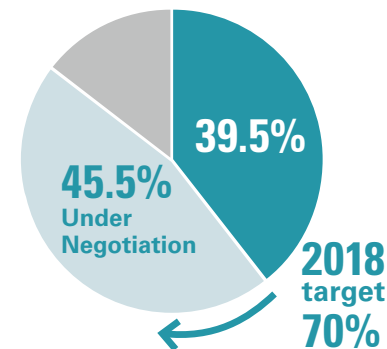
INFRASTRUCTURE EXPORT

Promote quality infrastructure investment

- Provide financing to infrastructure projects worldwide of approximately USD 200 billion as a target for the next five years
- Accelerate Japan's assistance, and encourage investment / financing by private companies
- Strengthen the institutional capacity and financial grounds of Japan's aid organizations*

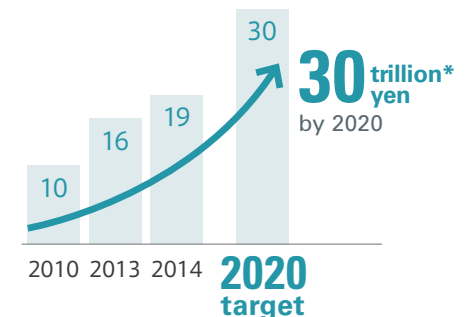
* Including JICA, JBIC, NEXI and JOGMEC

FTA COVERAGE RATIO



Source: Ministry of Economy, Trade and Industry, "White Paper on International Economy and Trade 2016"

INFRASTRUCTURE PROJECT ORDERS RECEIVED



Source: Cabinet Office, 24th meeting of the Management Council for Infrastructure Strategy
* Approximate figures

Circulate growth to regional economies

Japan's business resources don't just lie in Tokyo. In fact the regional areas are kaleidoscopes of many energetic SMEs and players in the service industry. Each and every one of them are part of a combined effort to make the regional economy shine. In addition, the number of inbound tourists being attracted by the regions is soaring.

That is why we are determined to accommodate an environment in which the international community can travel to every corner of Japan conveniently.



SMEs

Modernize SMEs to comply with global standards

- Encourage financial institutions to engage in the profitability enhancement of companies and review the credit-guarantee system
- Accelerate the establishment of data utilization platforms and provide IT support to increase productivity
- Support the international expansion of SMEs, particularly Japan's numerous "hidden champions"



SERVICE INDUSTRY

Double labor productivity growth to 2% in an industry that accounts for 70% of GDP

- Customize plans for intensive legal restructuring, tax reductions or financial support in seven key sectors*

* Accommodation, Truck transportation, Restaurants, Medical, Nursing care, Child care, Wholesale and Retail

1 DMO = Destination Management / Marketing Organization
2 Excluding day trip travelers




TOURISM

Reinforce tourism as the centerpiece of regional revitalization

- Form world-class DMOs¹ and train tourism management specialists
- Promote branding of national parks, usage of cultural properties, and create globally attractive travel routes
- Improve tourist experience with additional free Wi-Fi spots and 3,000 ATMs equipped for international transactions

EXAMPLE IN TOKYO AND KANSAI AREAS: TOURISM

SPECIAL ZONES

Deregulate private room rentals for lodging in Tokyo and Osaka 

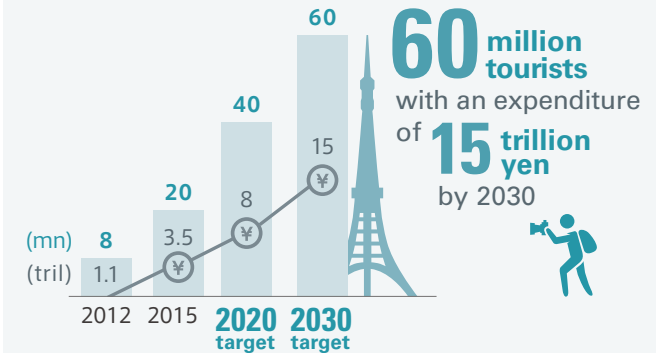
Increase capacity and variety of accommodations for tourists

60  rooms authorized within the first 6 months

A booming tourism industry

Tourism is growing **across all of Japan** with a target to **triple the number of inbound tourists in the next 15 years**

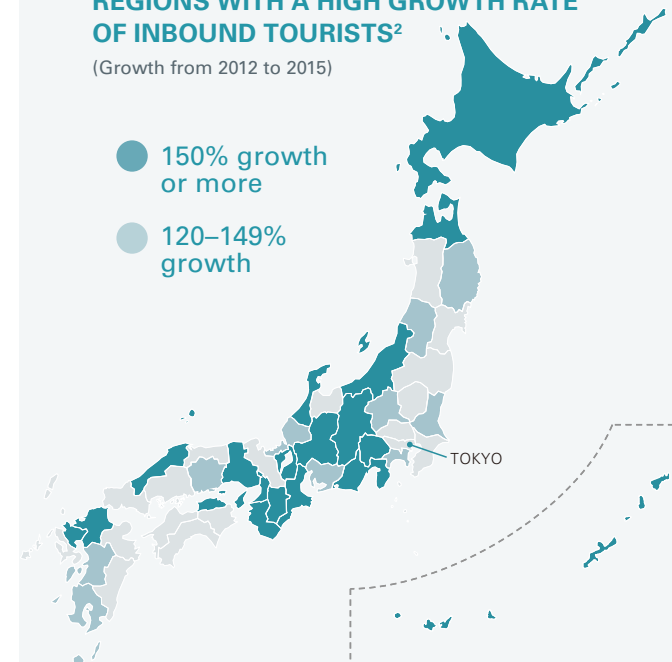
INBOUND TOURISTS AND EXPENDITURE



REGIONS WITH A HIGH GROWTH RATE OF INBOUND TOURISTS²

(Growth from 2012 to 2015)

- 150% growth or more
- 120–149% growth



Source: Japan National Tourism Organization "White Paper on Tourism in Japan"; "Annual Statistics on Overnight Travelers"

Encourage business and investment

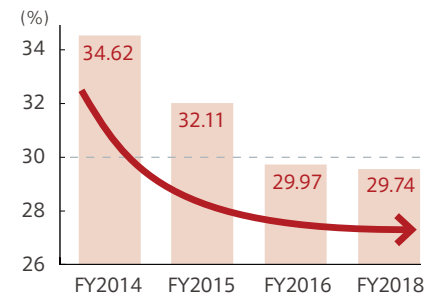
Continuity makes a difference. Corporate tax reduction has been one of the key reforms that have progressed since the early stages of Abenomics, and one which will continue to advance.

Corporate governance and the stewardship code urge companies to improve dialogue with investors for continued growth and investment, thus making the economy more robust.

CORPORATE TAX REDUCTION

Stimulate growth through business-friendly reforms

- **Effective corporate tax rate reductions**
Reduced the effective corporate tax rate below the 30% mark in FY2016



Source: Ministry of Finance Japan

- **Property tax reduction for SMEs**
Halve the property tax for facilities improving productivity invested by SMEs from FY2016 to FY2018

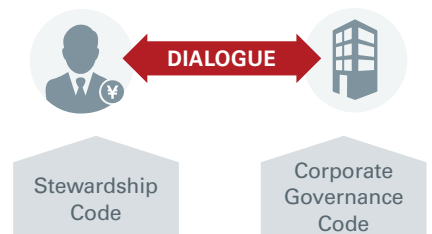
CORPORATE GOVERNANCE

Strengthen investor confidence through transparency

- **Japan's Stewardship Code**
Accepted by 213 institutional investors¹
- **Japan's Corporate Governance Code**
Applied to more than 2,000 companies and as a result;²
 - » 60% of major companies reduced cross-shareholdings in FY2014
 - » Percentage of listed companies³ with external directors rose to nearly 100%⁴
- **Efficient disclosure and provision of information**
Eliminate redundant disclosure rules⁵ and expedite provision of information (relevant documents) to shareholders by electronic transfer

INVESTORS

CORPORATE



¹ Since February 2014

² Since June 2015

³ Companies listed on the First Section of the Tokyo Stock Exchange

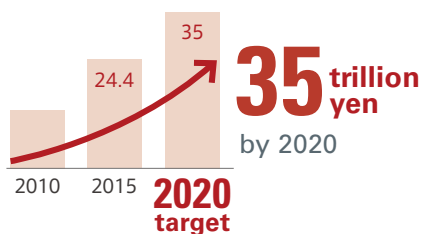
⁴ Tokyo Stock Exchange: "Appointment of Independent Directors by TSE-listed Companies"

⁵ Provided by the Companies Act, the Financial Instruments and Exchange Act, and stock exchange listing rules, etc.

Drive inward FDI

Openness is an integral factor to maintain looking forward. And our vision to become the most business-friendly country in the world extends to both a business and societal level, as seen in the Policy Package for Promoting FDI into Japan to Make Japan a Global Hub, which was announced in May 2016. The overview is shown in this page.

Net amount of inward FDI in 2015 marked a record high of **24.4 trillion yen**



PR ACTIVITIES ENHANCEMENT

Attract foreign companies through promotional activities

- Disseminate information through approximately 50 FDI seminars during FY2016
- Support domestic SMEs to engage in business matching opportunities with foreign counterparts, by utilizing a designated website, J-GoodTech: <http://jgoodtech.smrj.go.jp/>
- Promote large-scale hub establishments in regional areas, with supplemental training for regional government officials and financial support for industry-academia collaboration

BUSINESS AND LIFESTYLE SUPPORT

Resolve issues hindering foreign companies' entry into Japan

- Attract and foster globally competitive human resources with the "Japanese Green Card for Highly Skilled Foreign Professionals"
- Relax regulations and improve administrative procedures as seen in the case of the Tokyo One-Stop Business Establishment Center
- Improve the living environment for foreign nationals, through such measures as the increase of bilingual healthcare professionals and educational support



SPECIAL ZONES

EXAMPLE IN TOKYO AND KANSAI AREAS: EXPATRIATE OPPORTUNITIES

Enable certified private companies to **hire expatriates in the field of housekeeping services** in major cities in **Tokyo, Kanagawa and Osaka**

Four companies certified to accept expatriate housekeepers in the first **six months**



Five reasons to invest in Japan

1

Japan's Re-emergence

Through the implementation of Abenomics, the Japanese economy is recovering and opening up

2

Sophisticated Market

Japan's market is both large and sophisticated, ranking 3rd in the world for GDP, and provides huge opportunities and potential for business

3

Innovation Hub

An abundant talent pool, good track record in patents, and an outstanding research environment enable Japan to stay ahead in the technology industry and scientific research

4

Business-friendly Infrastructure

Convenient transportation, low-cost office rents and access to quality suppliers positions Japan as one of the most sophisticated business environments

5

Safe and Comfortable Living

A well-developed health industry and social stability make Japan a world-class livable city

COME AND INVEST IN JAPAN

1. Mingly Corp.



The Hong Kong-based company restored a **traditional Japanese-style inn** in Miyagi Prefecture. By making its facility more internationalized and modernized, the inn is attracting more visitors both from within Japan and overseas.

2. Valeo



The France-based company supplies **innovative automotive components** and systems to automotive manufacturers worldwide from its testing center in well-known R&D hub, Tsukuba, Ibaraki Prefecture.

3. Bosch Japan



The Germany-based manufacturer conducts research on **automated driving** in Japan, as the nation aims to implement the system by 2020. Japan's complex and sophisticated traffic infrastructure has offered valuable insight for development.



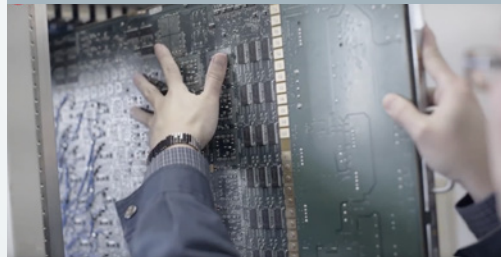
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4. RepliCel



The Canada-based regenerative medicine company chose to work with a Japanese firm to develop practical applications for its **hair regeneration treatment** as it expects the regenerative medicine market to expand rapidly.

5. Teradyne Inc.



The U.S.-based manufacturer of **automatic test equipment** built its new R&D and manufacturing facility in Kumamoto Prefecture. This facility functions as a central business hub for the Asia-Pacific region, leading the company to great success.

