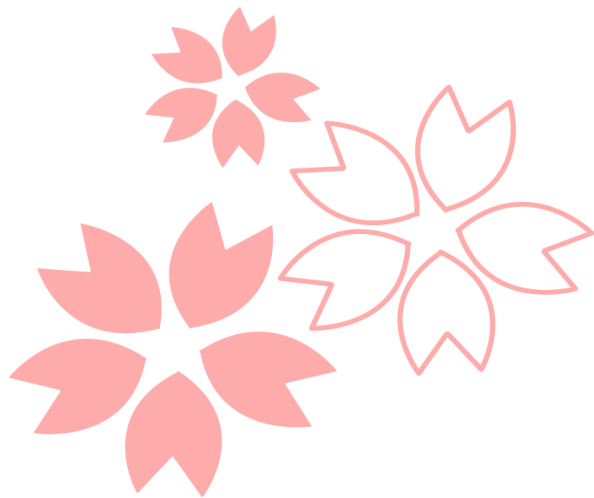


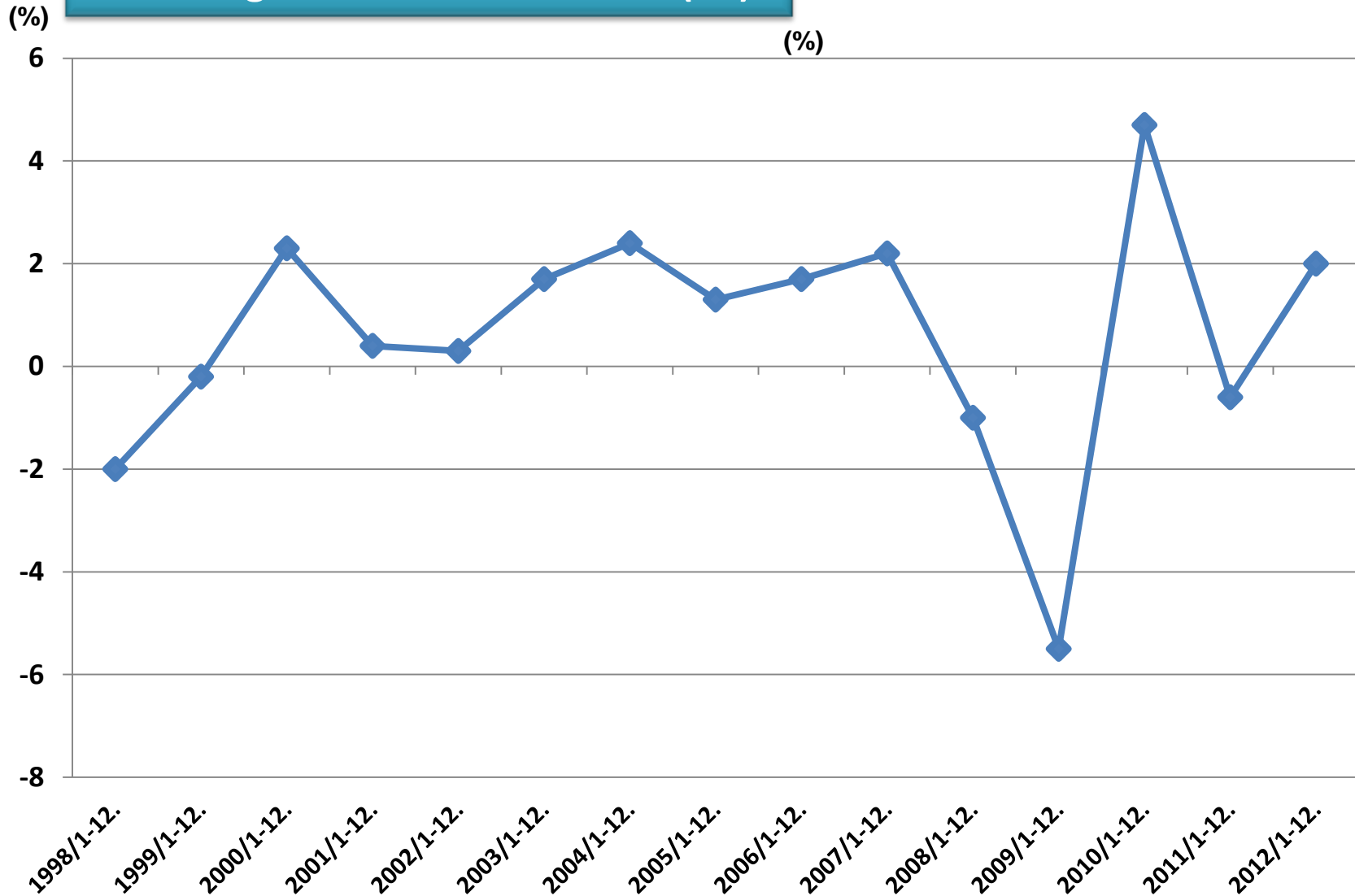
Japanese Economy -Towards Twin Engine Nation-



**May 2013
Jun ARIMA
Director General
JETRO London**

Economic Recovery from the Earthquake

Annual growth rate of real GDP (CY)

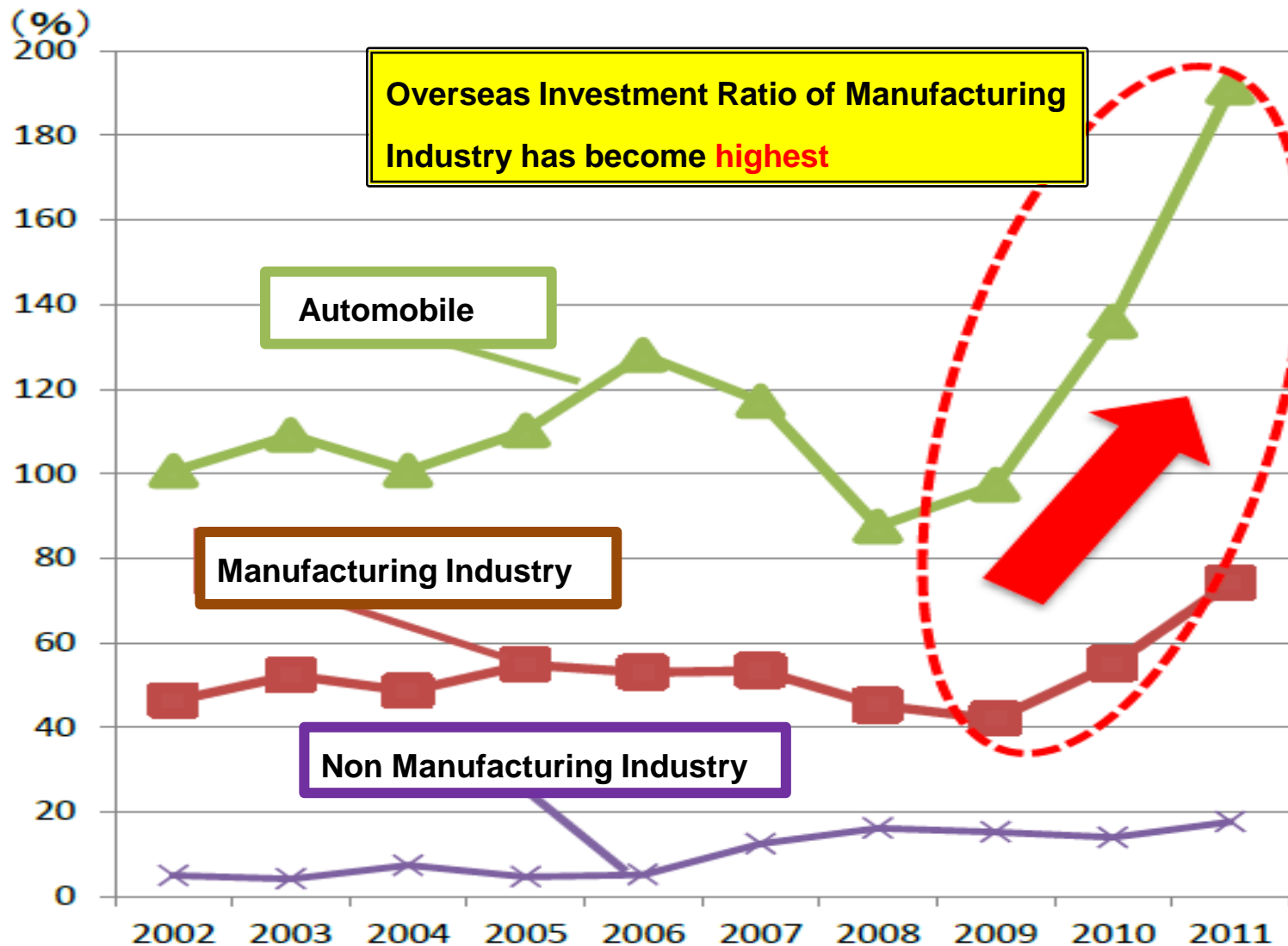


Source: Statistics from the Cabinet Office

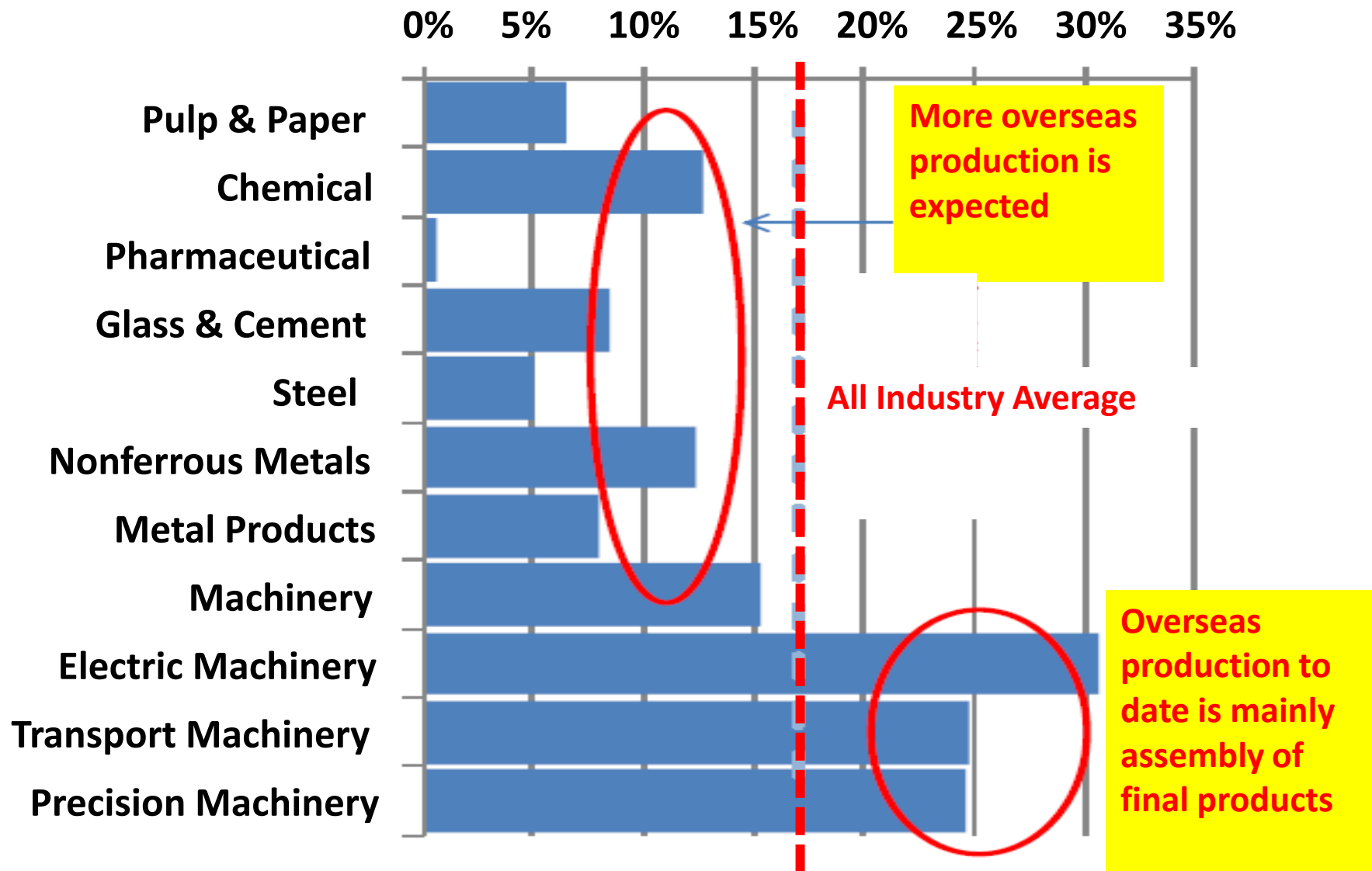
Top 10 Risk Factors of Industry Hollowing

No.	Factors	Share (%)	Responses
1	Strong Yen	49.2	5,414
2	High Personnel Cost	39.5	4,351
3	Stable Supply of Energy/Power	37.9	4,174
4	Taxation	28.3	3,111
5	Client Move to Overseas	26.5	2,913
6	Declining Population	23.4	2,574
7	Growth Prospect of Emerging Market	22.4	2,461
8	Globalization of Economy	21.4	2,357
9	Expensive Cost of Raw Material	12.9	1,420
10	Risk Hedge of Exchange Rate	12.0	1,322

Japan's Overseas Investment Ratio is increasing







Overseas Production Ratio







Japanese Automobile: More Overseas Production

	2005	2011
Domestic	10.80 mill	8.40 mill
Overseas	10.61 mill	13.38 mill
Exchange	113 JPY/\$	79 JPY/\$

Profit Margin of Foreign Competitors

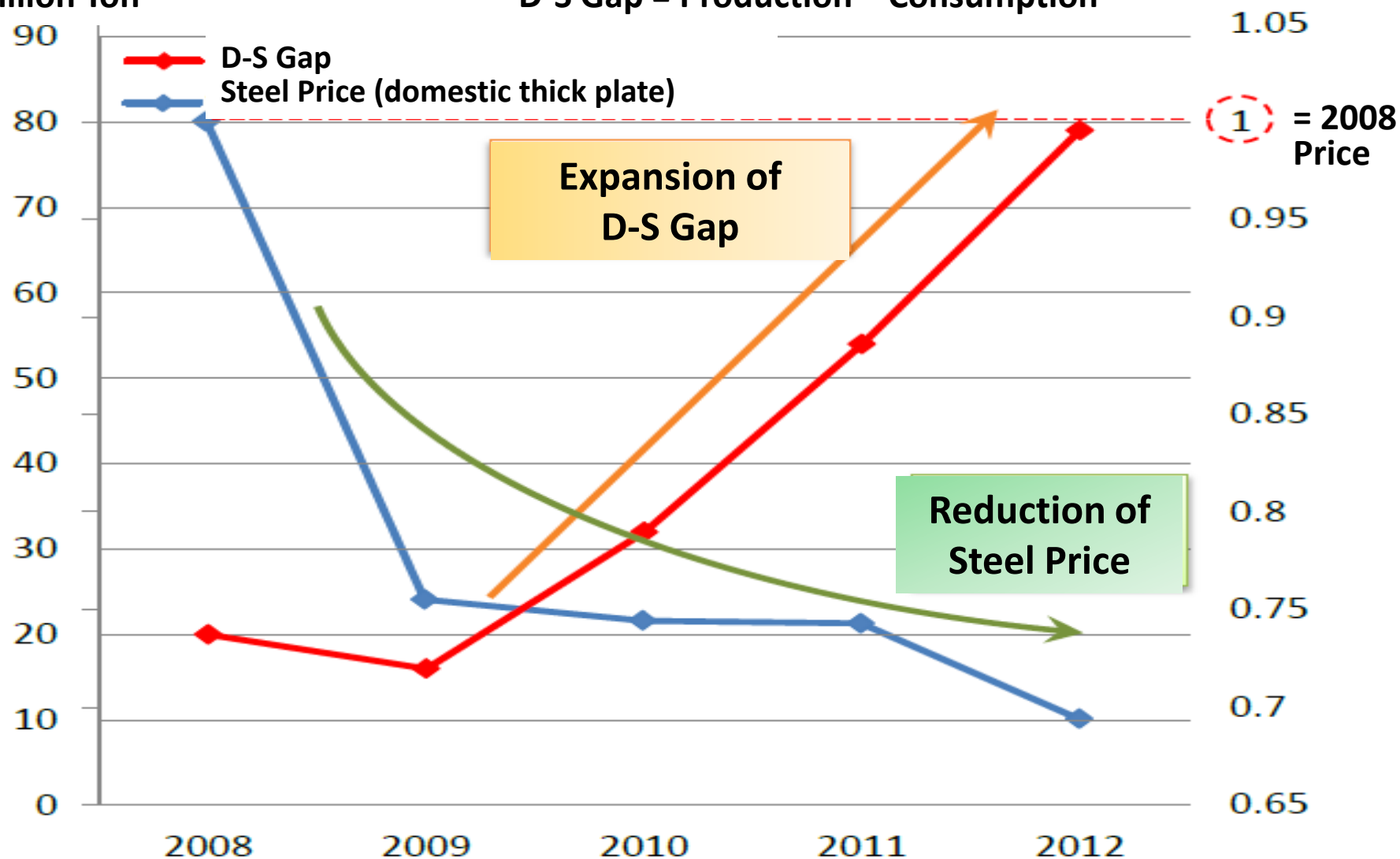
	11.9% (2011)
	5.8% (2011)
	4.5% (2011)
	10.3% (2011)

	Domestic (2005年) 2011年	Profit Margin (2005年) 2011年
	(73%) → 69%	(4.2%) → -1.9%
	(51%) → 41%	(8.9%) → 1.9%
	(39%) → 28%	(8.8%) → 2.9%
	(43%) → 25%	(9.2%) → 5.8%

Japanese Steel: Excess Supply and Price Drop

Million Ton

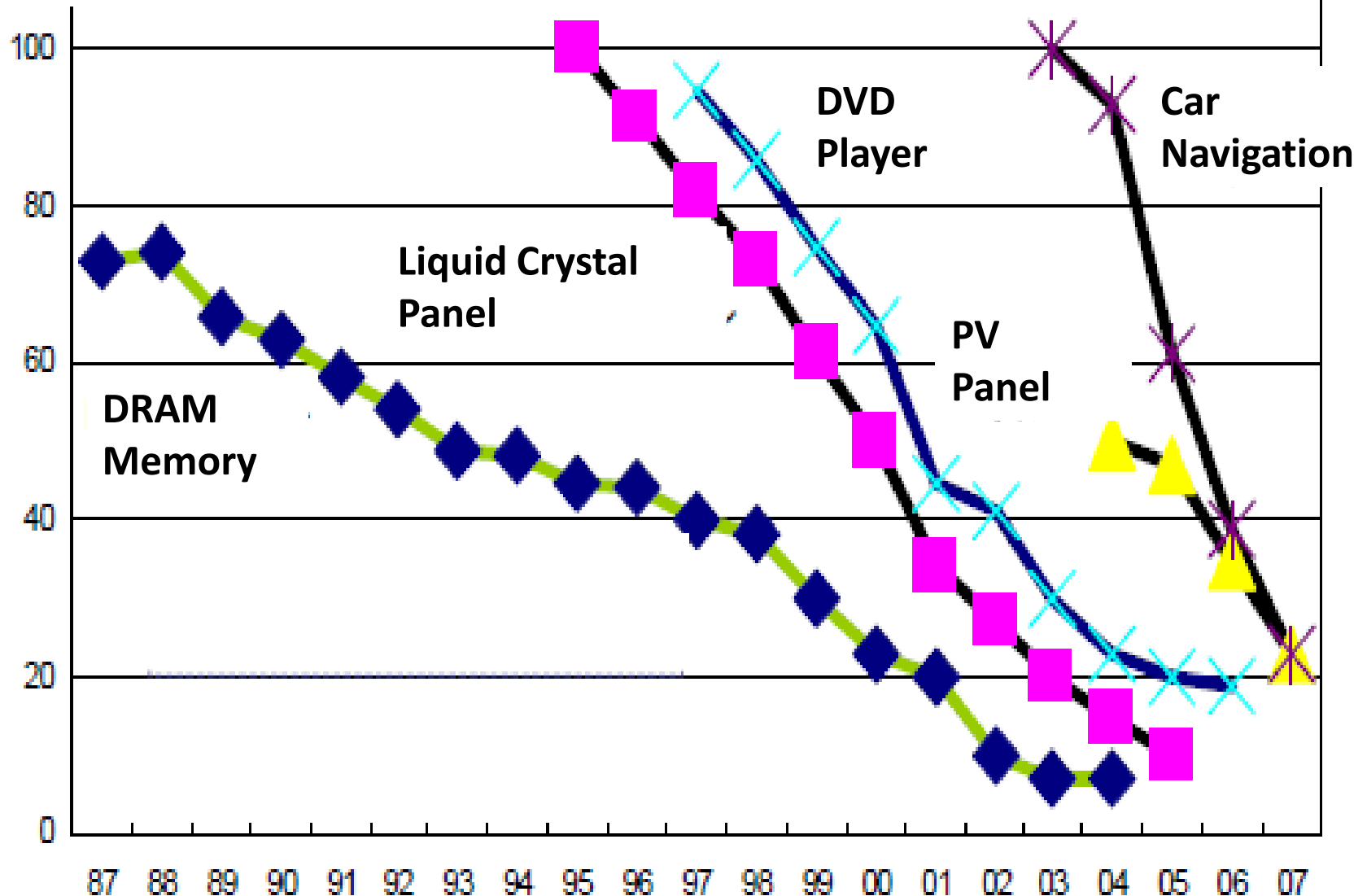
D-S Gap = Production – Consumption



※鋼材価格は、2008年の日本の厚中板の価格を1とした

Japanese Electronics: Losing Share in Global Market

Global Share (%)



Vicious Cycle of Stagnant Investment and Low Wage since 1990

Restricted Investment



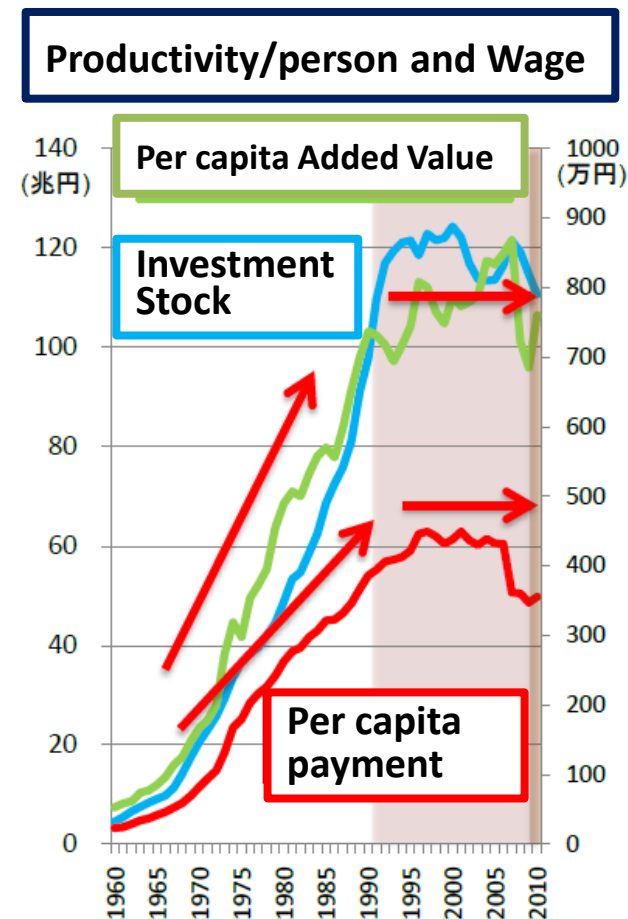
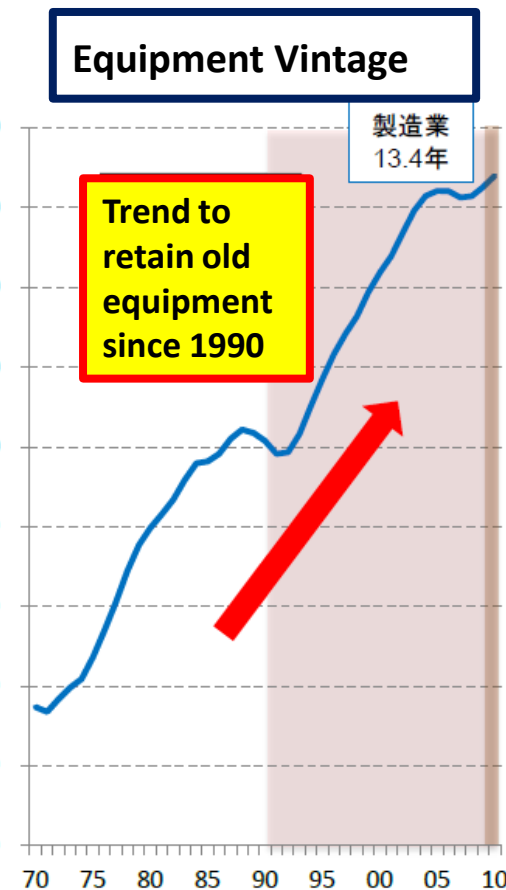
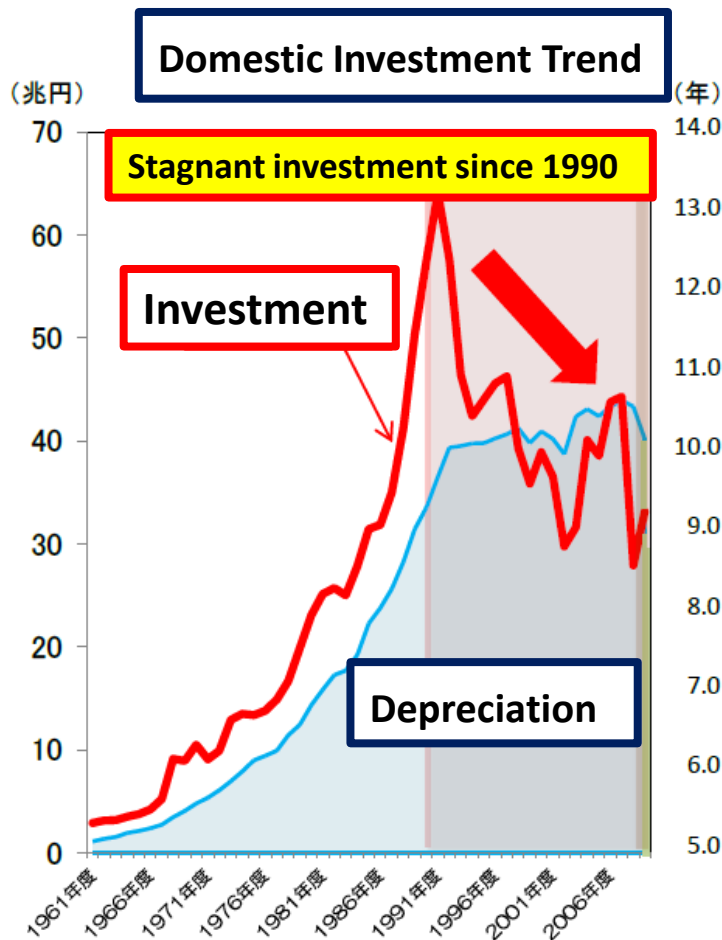
Equipment Vintage Up



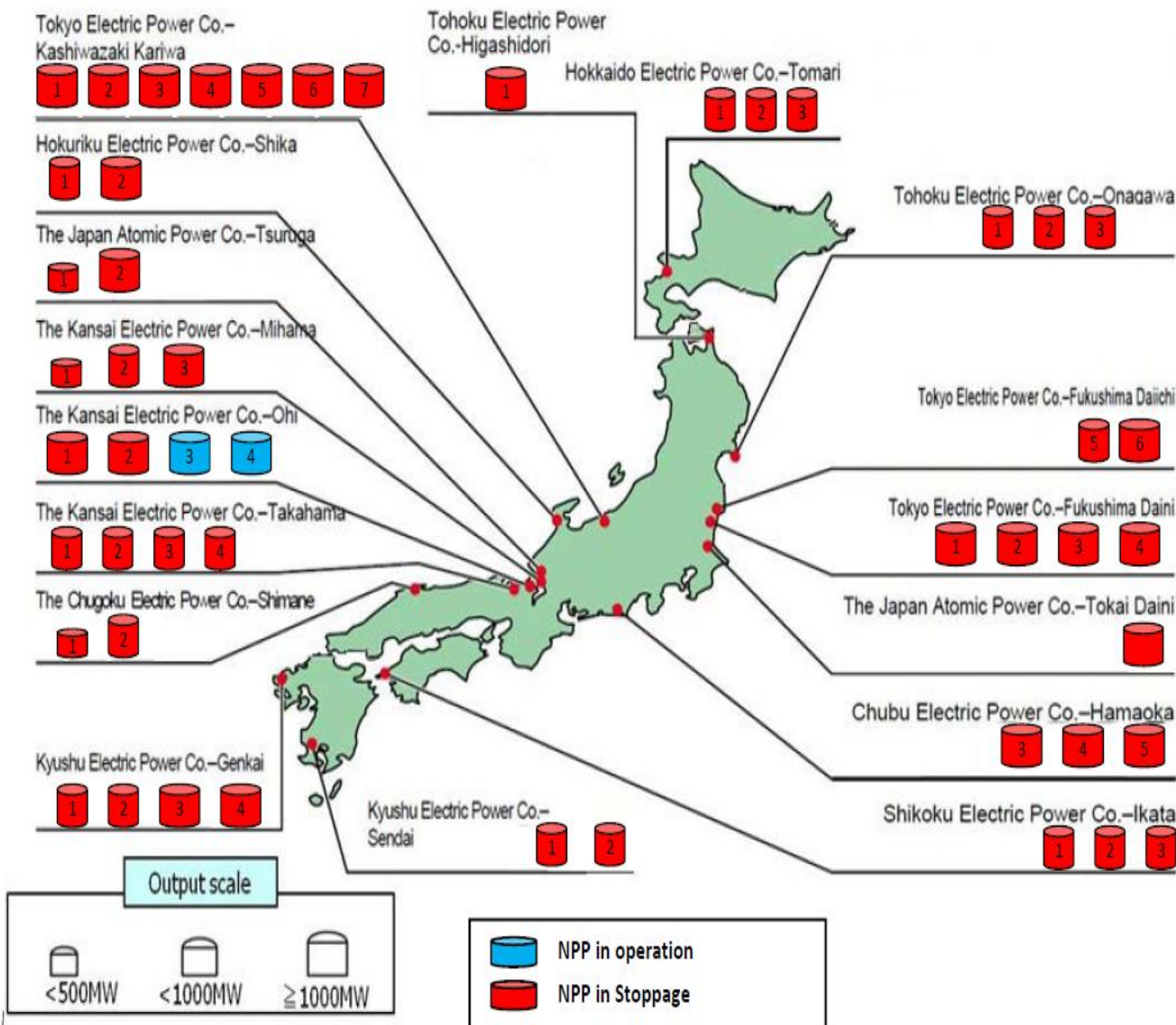
Stagnant Productivity



Per capita payment down



Energy Constraints: Only 2/54 NPS under Operation

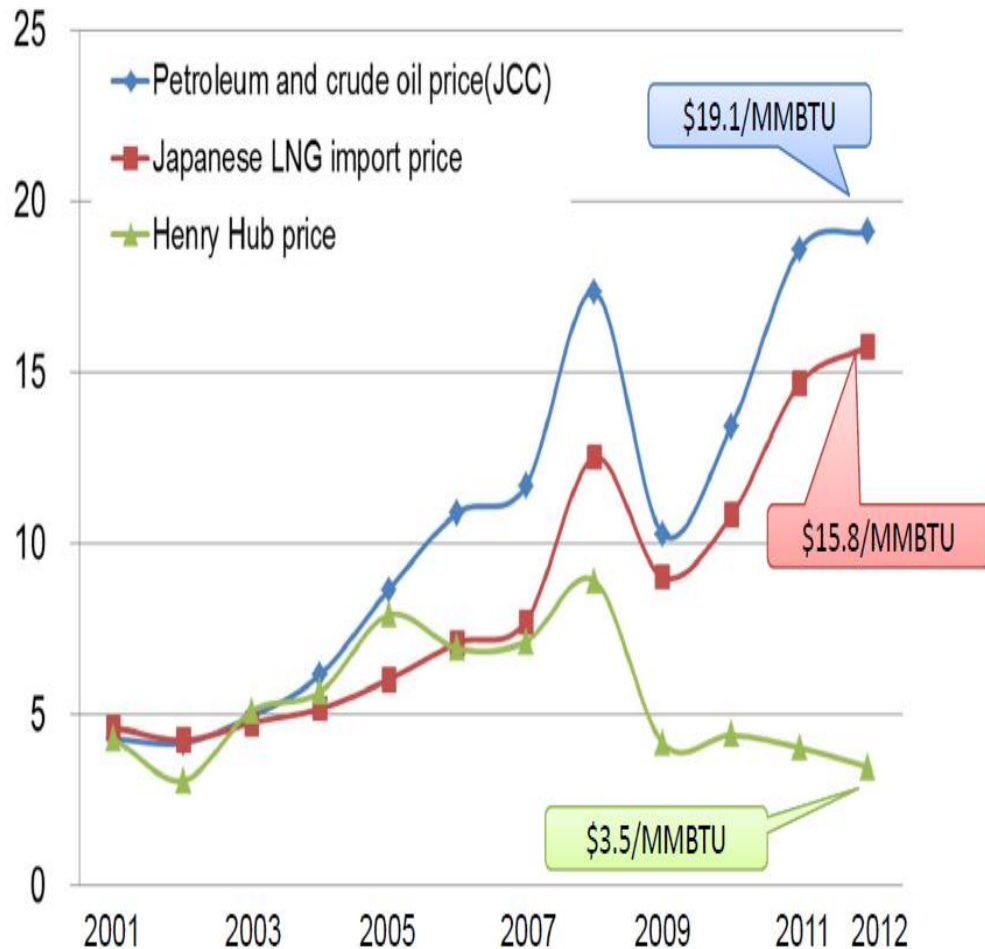


Power Saving Goals (2012FY)

**Kansai ▲15% +
Kyushu ▲10% +
Hokkaido ▲7% +**

Soaring LNG Import Costs => Rising Power Price

Natural Gas price trend (unit: US dollar/MMBTU)

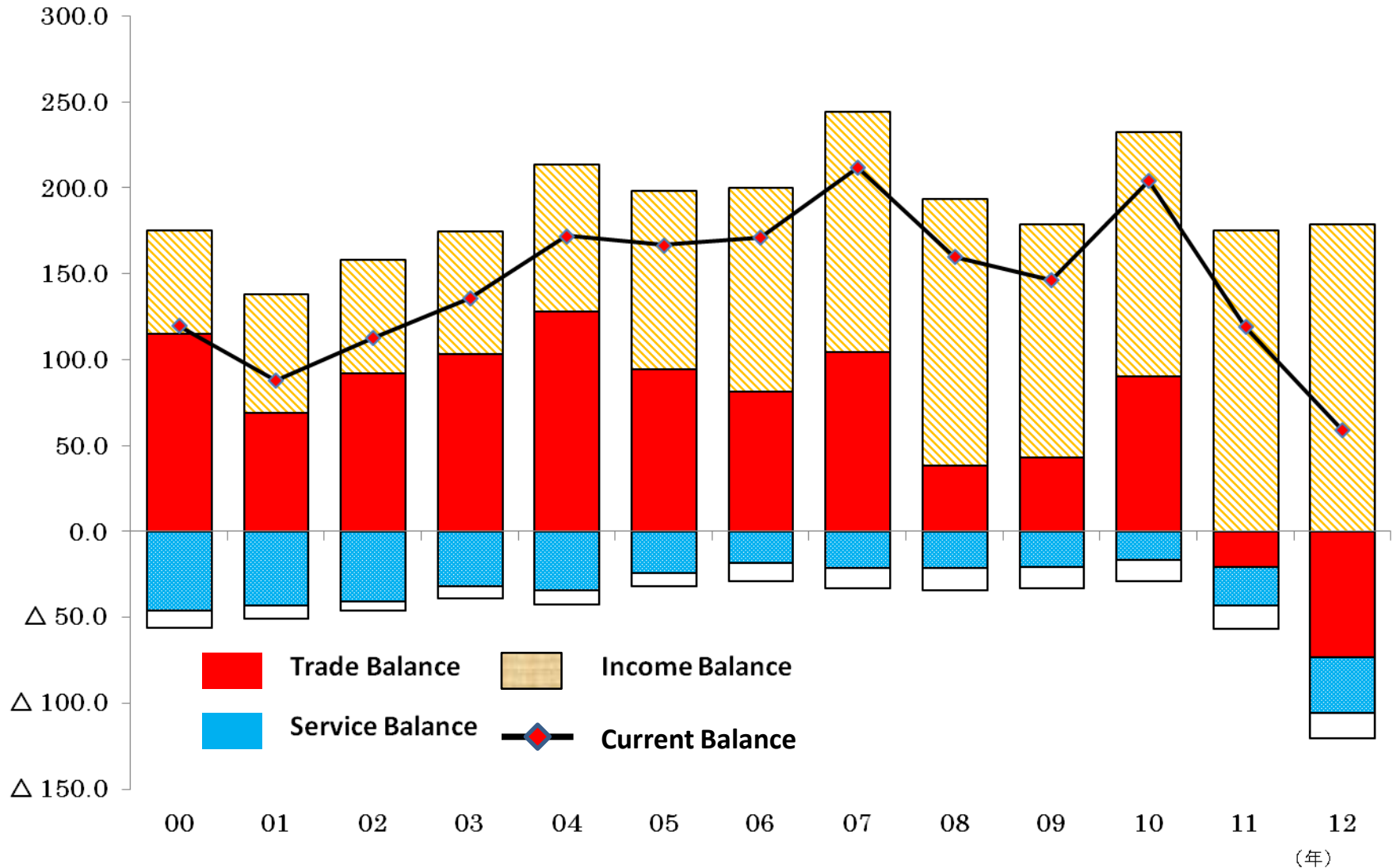


Soaring Electricity Tariff

	Regulated	Liberalized
Approved		
Tokyo	+8.46%	+14.90%
Kansai	+9.75%	+17.26%
Kyusyu	+6.23%	+11.94%
Under Application		
Tohoku	+11.41%	+17.74%
Shikoku	+10.91%	+17.50%
Hokkaido	+10.20%	+13.46%

Trade Deficit from 2011, the First Time in 31 Years

Billion \$



Source: Statistics from BOJ, Ministry of Finance

Abenomics: “3 Arrows” for the Economic Rebirth

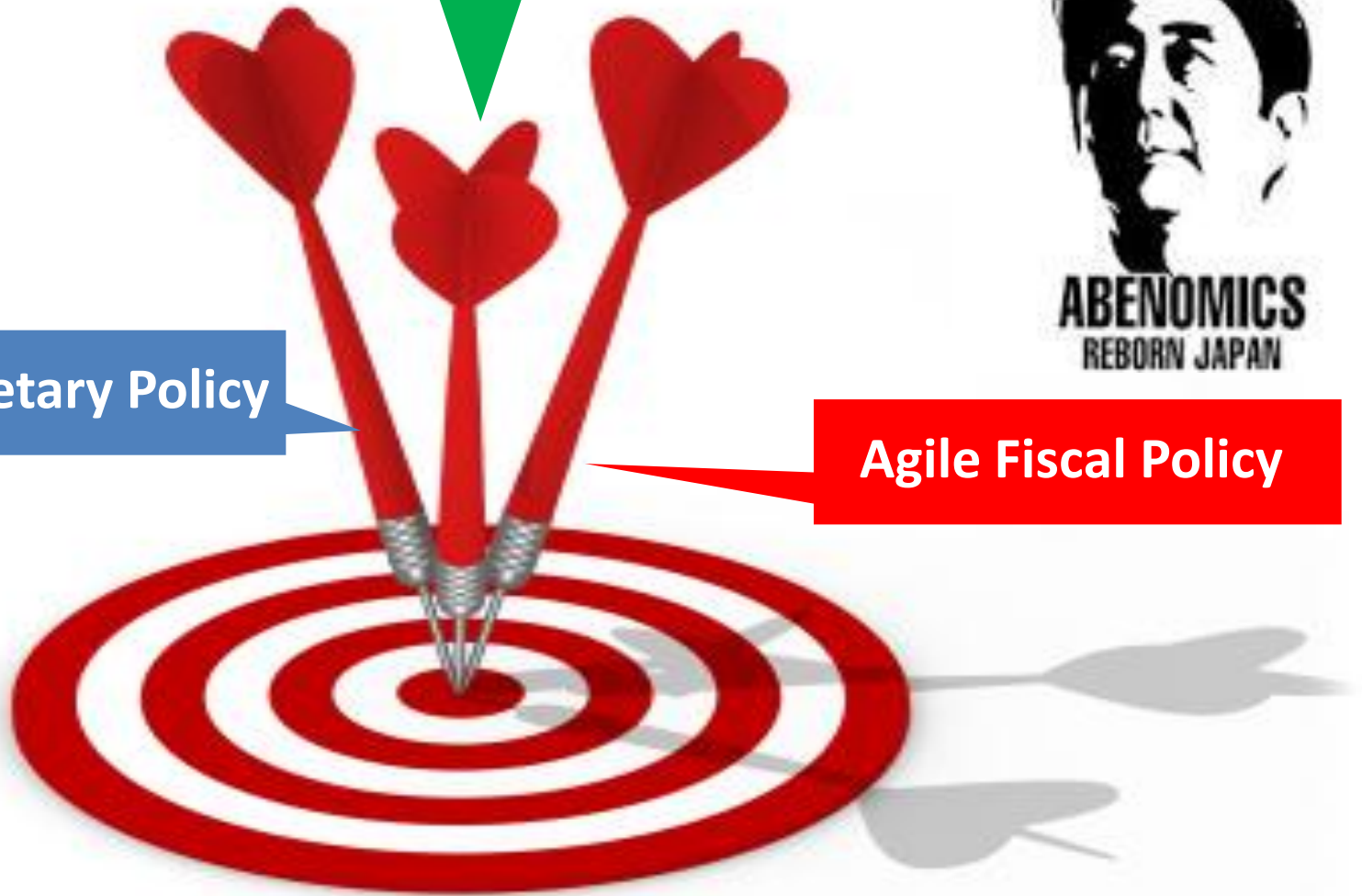
Growth Strategy Boosting Private Investment

Bold Monetary Policy

Agile Fiscal Policy



Exit from Deflation, Expanded Employment, Economic Boost



¥ 20 Trillion Emergency Stimulus Package

- HQs for Japan's Economic Revitalization (8 Jan 2013)-

Reconstruction and Disaster Prevention

- Recovery from Great East Japan Earthquake
- Infrastructure Refurbishment for Disaster Prevention and Damage Reduction

Wealth Creation through Growth

- Promoting investment for energy efficiency and renewable energy
- Promoting R&D and innovation
- Infrastructure development
- Resource & marine development
- Support to SME
- Developing proactive agricultural & fishery sector

Safety of Livelihood/Regional Revitalization

- Reliable medical system
- Promotion of tourism
- Rural city renovation, Compact City etc

 **GDP 2% Up, 600,000 Job Creation**



BOJ New Dimension Monetary Policy (4 April 2013)

Introduction of Quantitative and Qualitative Monetary Easing

- **2%** Price Stability Target within **2 Years**
- **Double** the monetary base
- **Double** the amounts outstanding of JGBs and ETFs in **2 years**
- More than **double** the average remaining maturity of JGB purchases

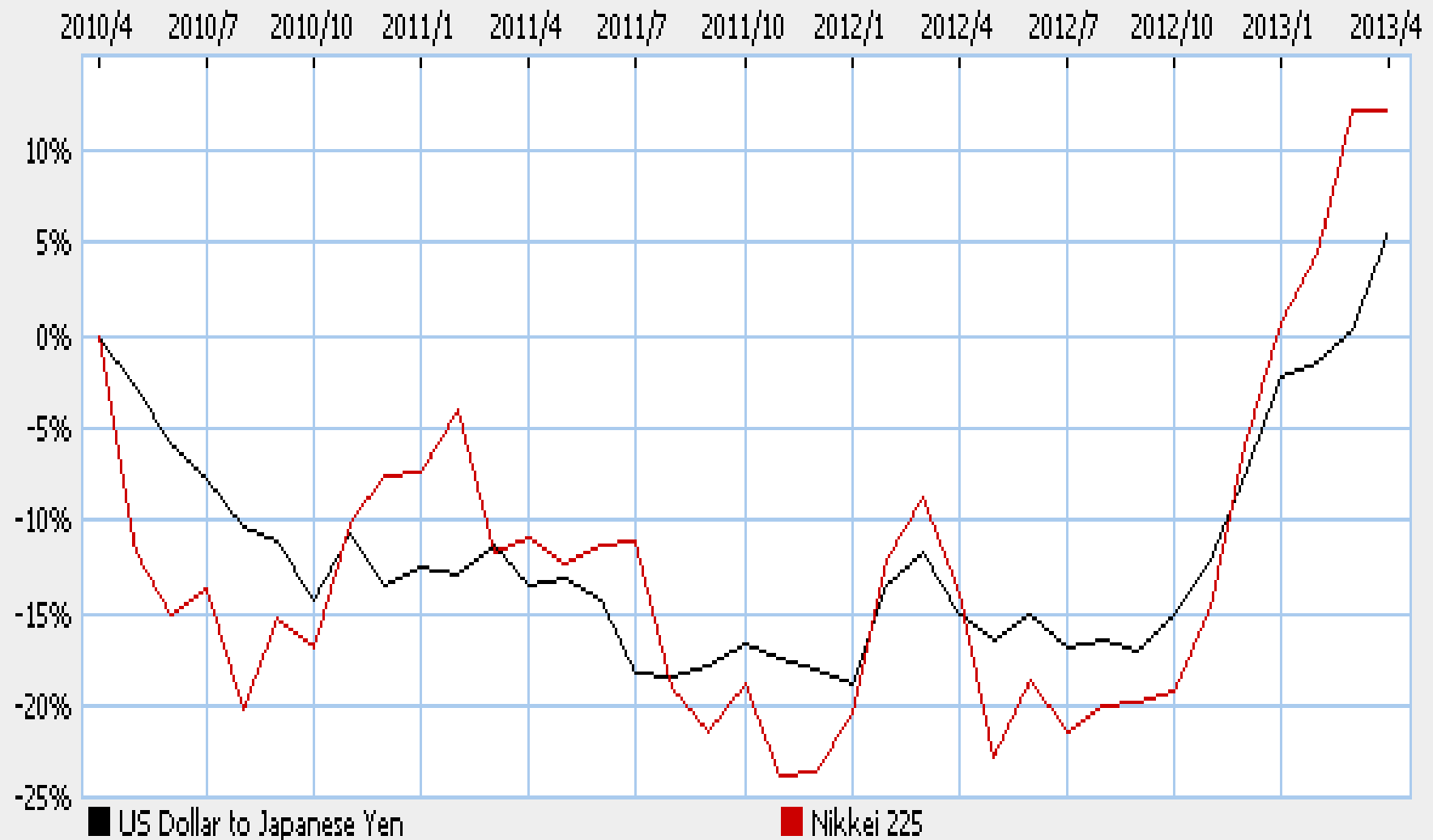


BANK OF JAPAN



Depreciating Yen and Rebounding Stock Prices

/JPYUSD 2010/04/11 - 2013/04/09

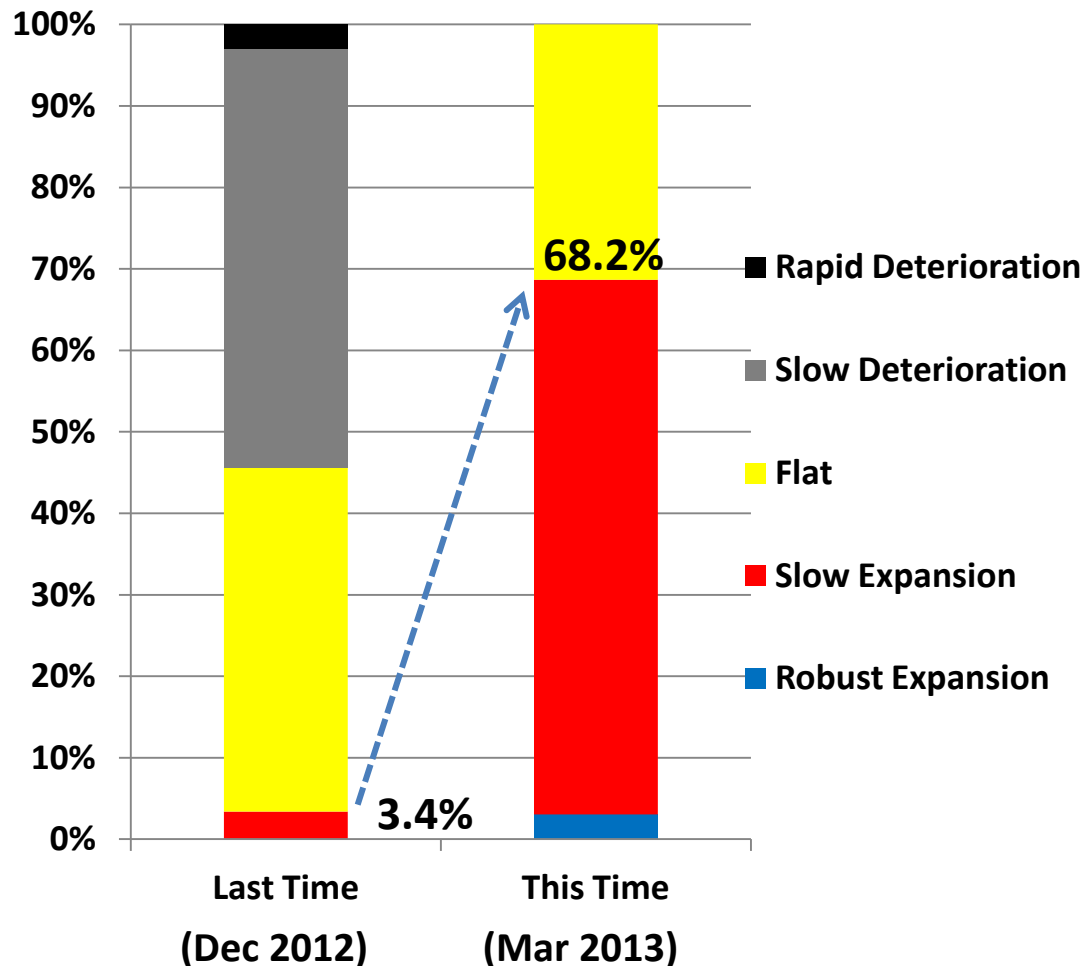


Growth Prospect in 2013 (IMF WEO April 2013)

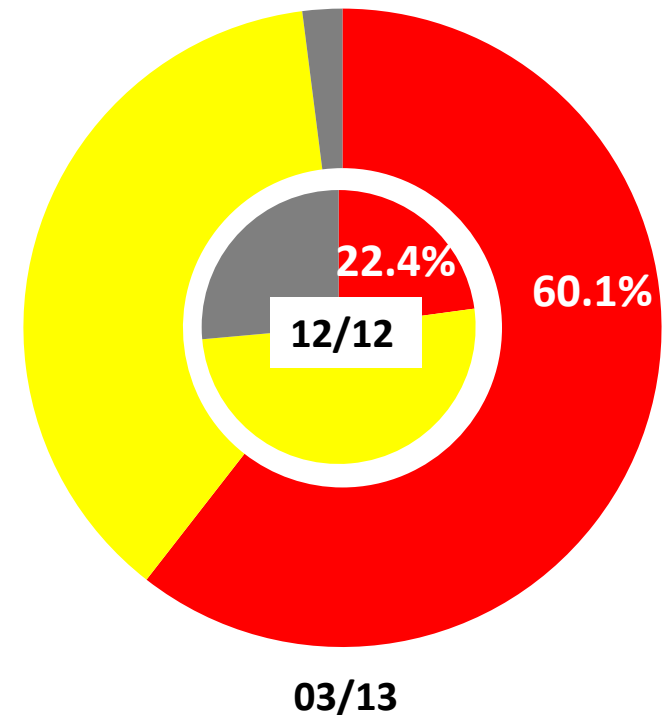
	2011	2012	Projections	
			2013	2014
World	4.0	3.2	3.3 (-0.2)	4.0 (0.0)
US	1.8	2.2	1.9 (-0.2)	3.0 (-0.1)
Euro Area	1.4	-0.6	-0.3 (-0.2)	1.1 (0.0)
- Germany	3.1	0.9	0.6 (+0.1)	1.5 (0.0)
- France	1.7	0.0	-0.1 (-0.4)	0.9 (0.0)
- Italy	0.4	-2.4	-1.5 (-0.4)	0.5 (0.0)
- Spain	0.4	-1.4	-1.6 (-0.1)	0.7 (-0.1)
UK	0.9	0.2	0.7 (-0.3)	1.5 (-0.3)
Japan	-0.6	2.0	1.6 (+0.4)	1.4(+0.7)
ASEAN-5	4.5	6.1	5.3 (+0.3)	5.5 (-0.2)
China	9.3	7.8	8.0 (-0.1)	8.2 (-0.3)
India	7.7	4.0	5.7 (-0.2)	6.2 (-0.1)
Russia	4.3	3.4	3.4 (-0.3)	3.8 (-0.1)
Brazil	2.7	0.9	3.0 (-1.0)	4.0 (-0.7)
MENA	4.0	4.8	3.1 (-0.3)	3.7 (-0.1)

Perception of 100 CEOs (Dec 2012 => March 2013)

Perception about Domestic Economy



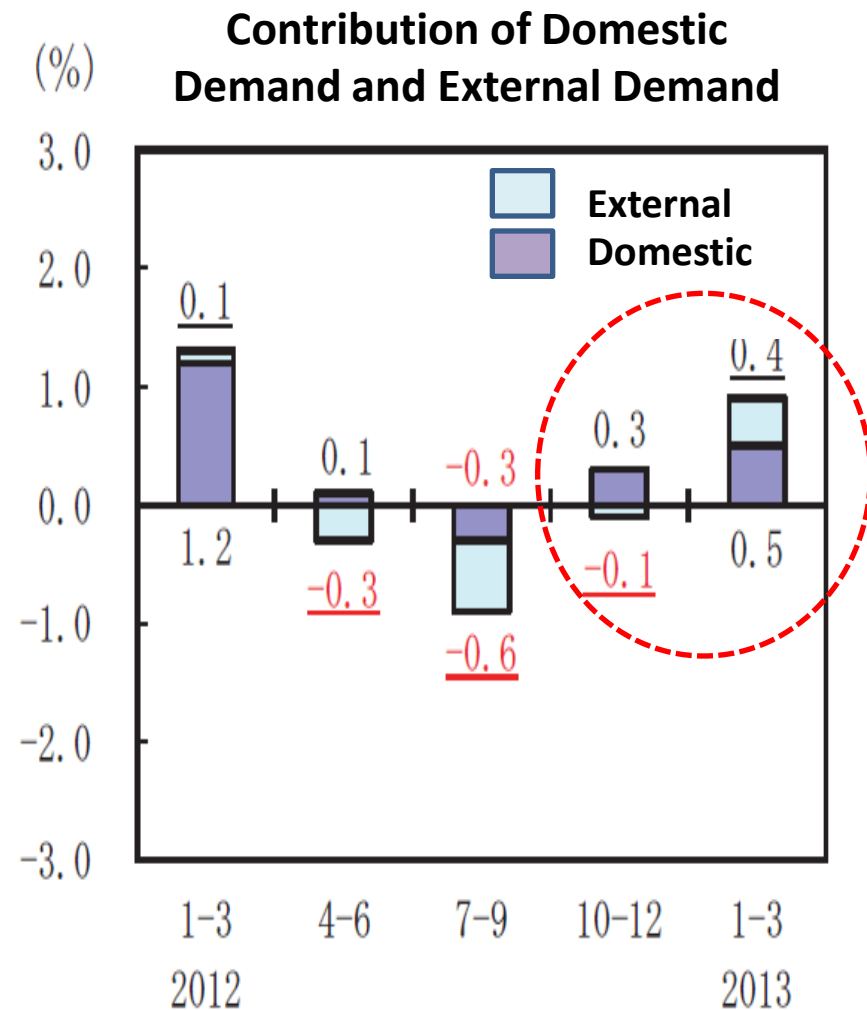
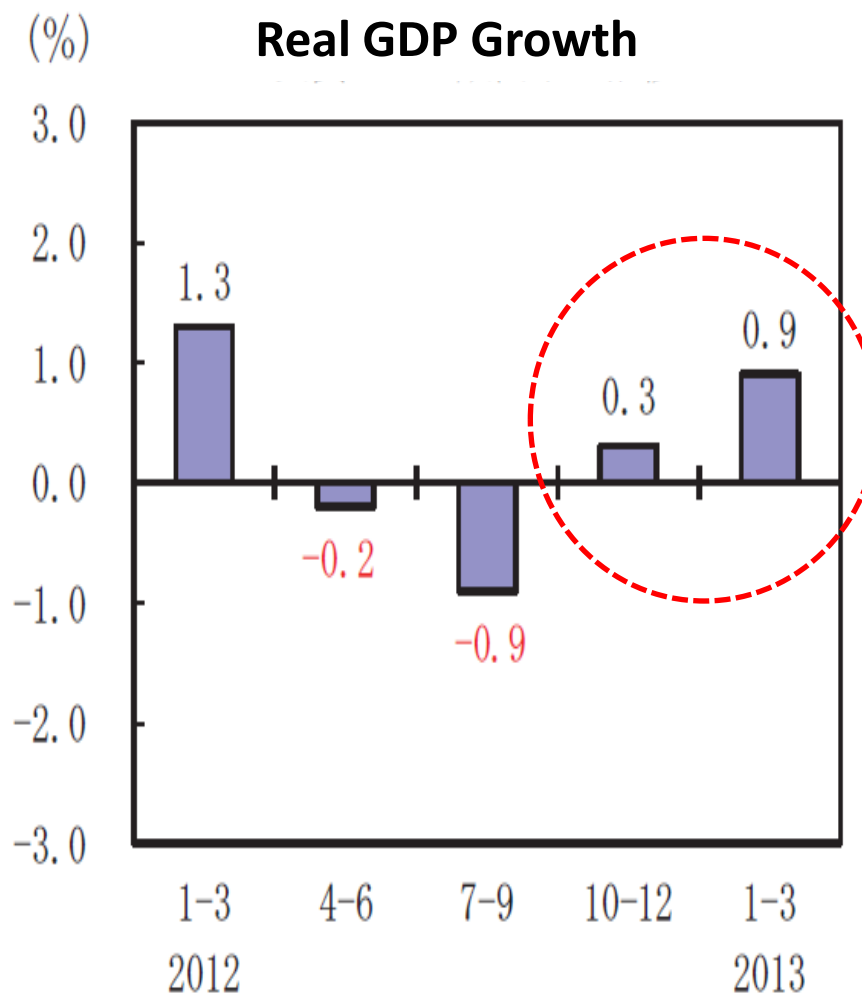
Perception about Global Economy



Source: Nikkei Shimbun

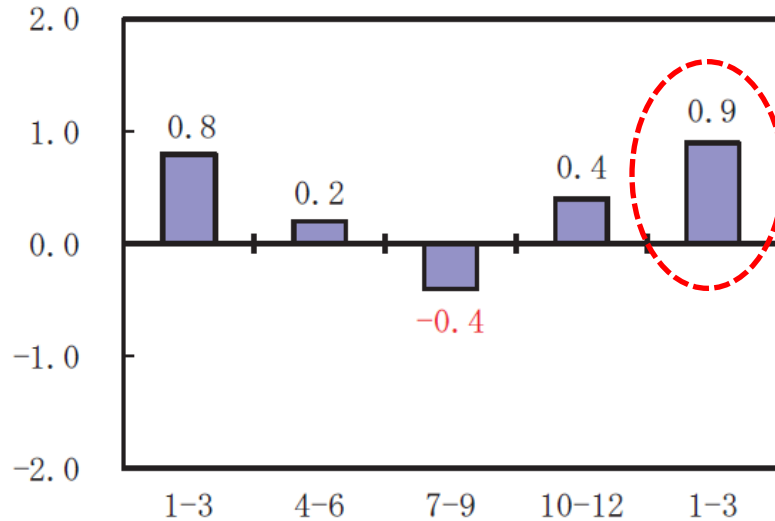
Positive GDP Growth in 2 Consecutive Quarters

- Real GDP marked positive growth in 4Q 2012 and 1Q 2013
- 1Q 2013 growth is driven by both domestic/external factors

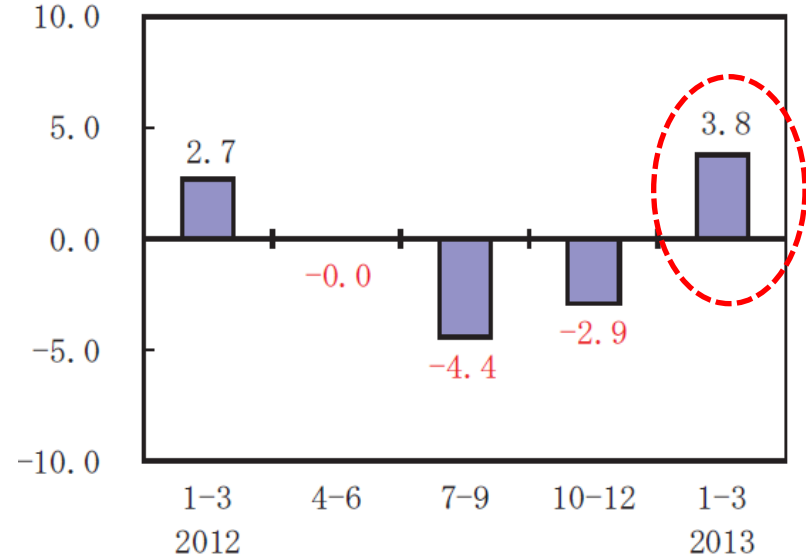


Bullish Consumption and Export, but Bearish Investment

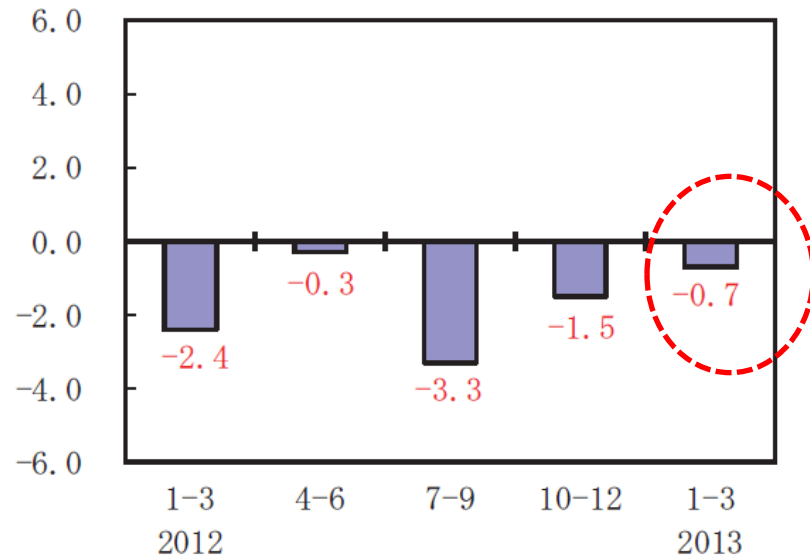
(%) **Private Final Consumption (real)**



(%) **Goods/Services Export (real)**



(%) **Private Investment (real)**



Towards Mid-Long Term Growth Expectation

Bold Monetary Policy

Quantitative/Qualitative Monetary Easing

Agile Fiscal Policy

Better Business Performance

Growth Strategy

Innovation, Deregulation, Investment, FTA/EPA etc

Corporate Saving

Investment
Wage Up

Household Assets

E
X
I
T

Growth Strategy: Towards “Twin-Engine Nation”

From “Redistribution under Shrinking Equilibrium” to “Wealth Creation through Growth”

Trade Oriented Nation



Industry-Investment
Oriented Nation

New Growth Strategy (Due in June 2013) (1)

● Strategic Market Creation Plan (New Targeting Policy)

- Strategic Targets
 - Extending Healthy Life
 - Clean and Economic Energy Supply/Demand
 - Safe and Economic Next Generation Infrastructure
- Specifying Necessary Technology, Industry and Market
- Roadmap from R&D to Deregulation
- Introduction of “International Comparative Test” in Regulatory Reform

● Nippon Industry Rebirth Plan

- Most Competitive Site for Company Operation



New Growth Strategy (Due in June 2013) (2)



New Dimension International Strategy

■ Globalization of Human Resources/Education Institutes

TOEFL Global Ranking (2011)

No.1 Netherlands, No.2 Singapore, No.3 Australia, Belgium Denmark.....

No.70 Korea.... No.102 China..... No.137 Japan, Cameroon, Kuwait

■ Overseas Development of SMEs

■ Expansion of Inward FDI (% of GDP)

Japan 3.7% UK 49.8% US 23.2% Korea 11.8% China 10.1%

■ Promotion of Economic Integration (FTA ratio)

Japan 19% Korea 35% US 38% EU 32%

■ Resource Diplomacy

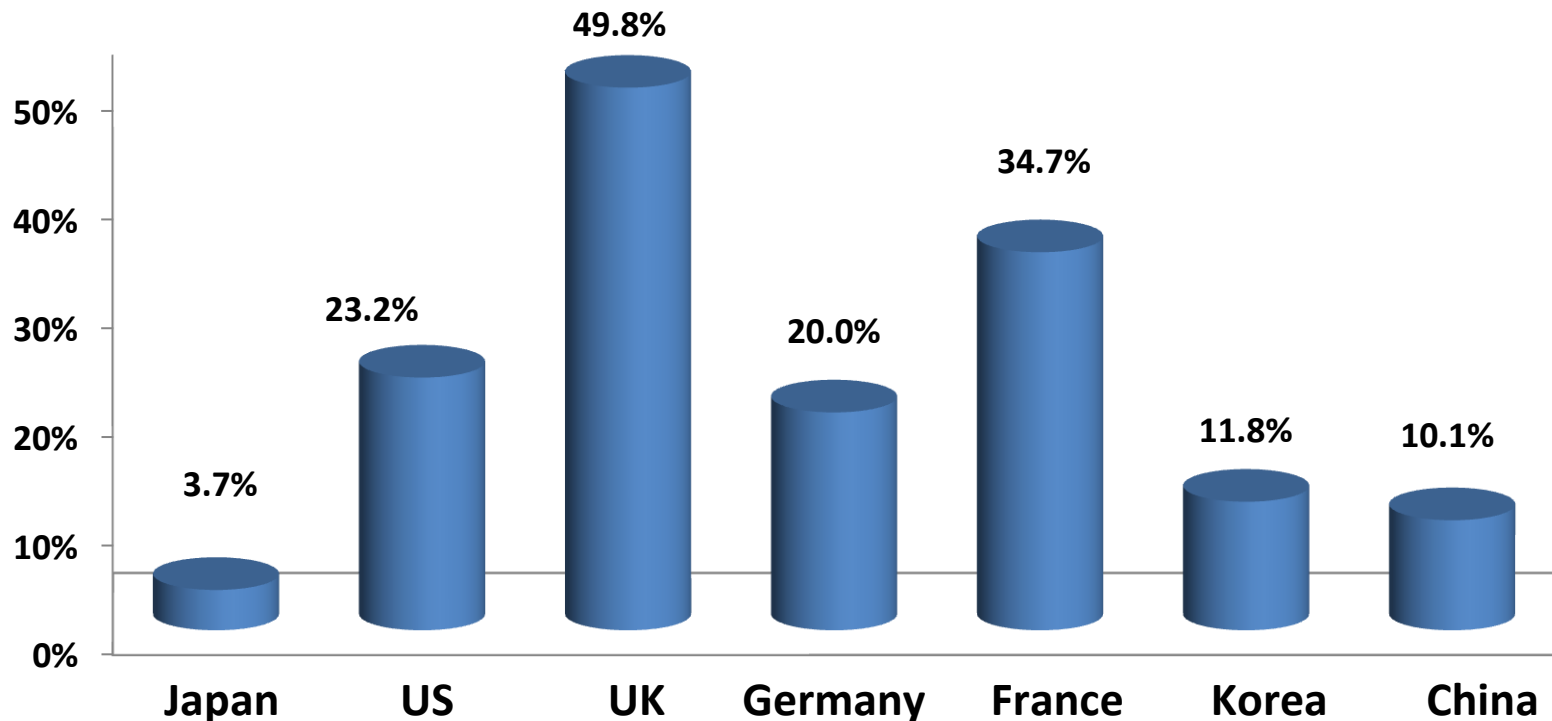
■ Promotion of Infrastructure Export

■ Promotion of Cool Japan

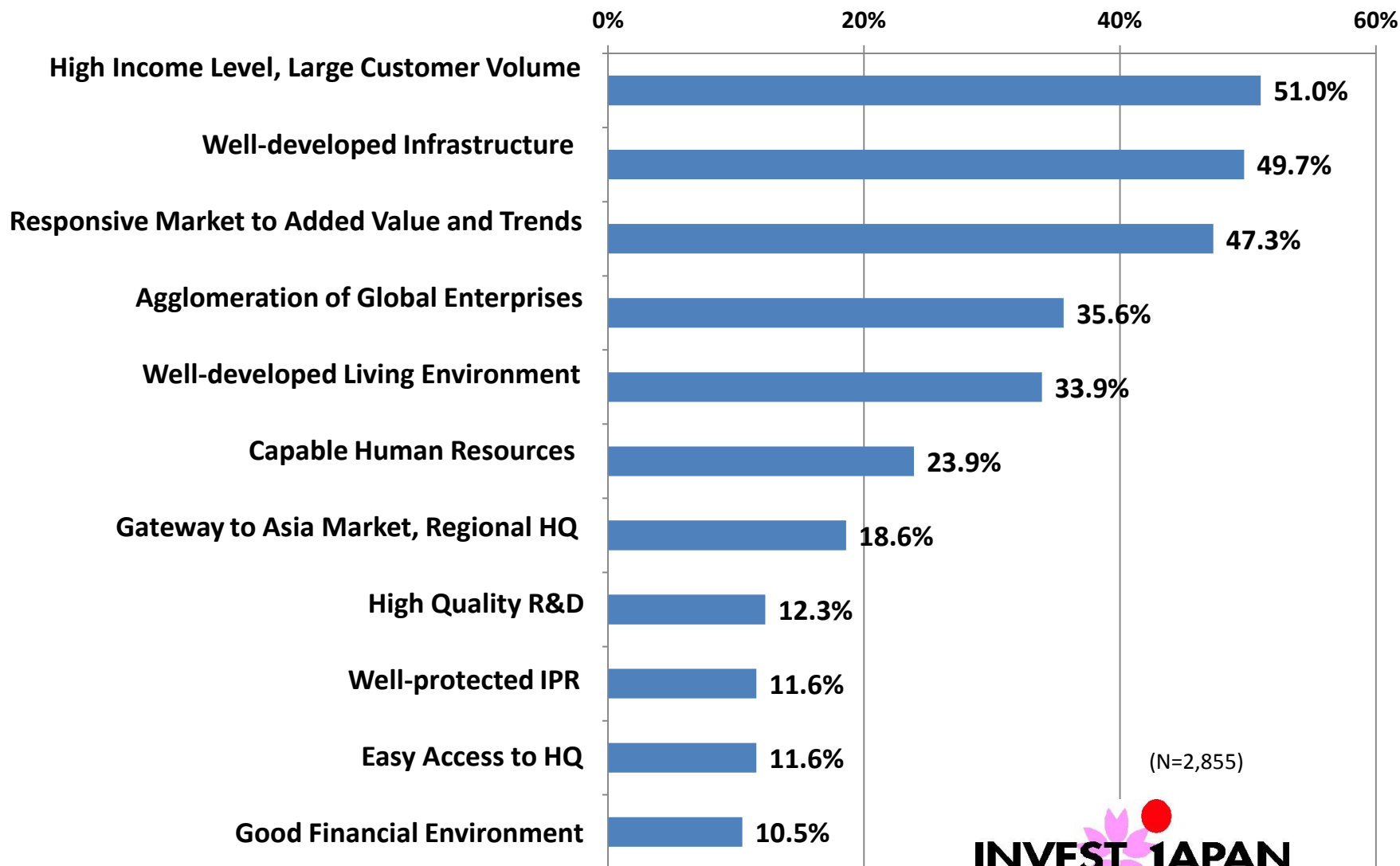
Inward Investment Promotion

- Japan's Inward FDI/GDP is 183rd out of 187 Countries!
- Promoting Japan as Asia HQ, R&D Base and FDI in High Priority Area (environment, life science, tourism, finance etc)

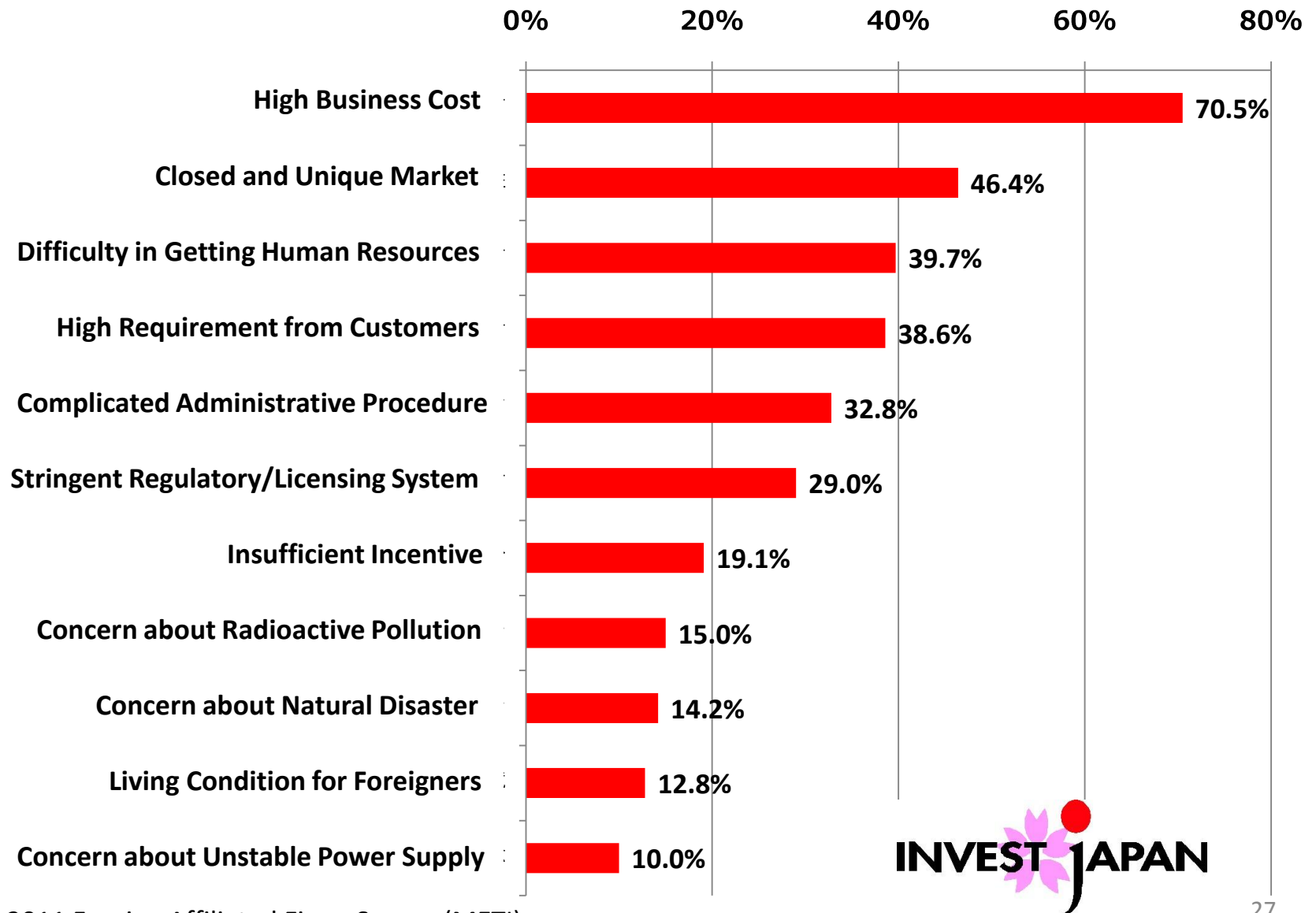
Inward FDI/GDP (%) in Major Countries (2011)



Advantages in Doing Business in Japan

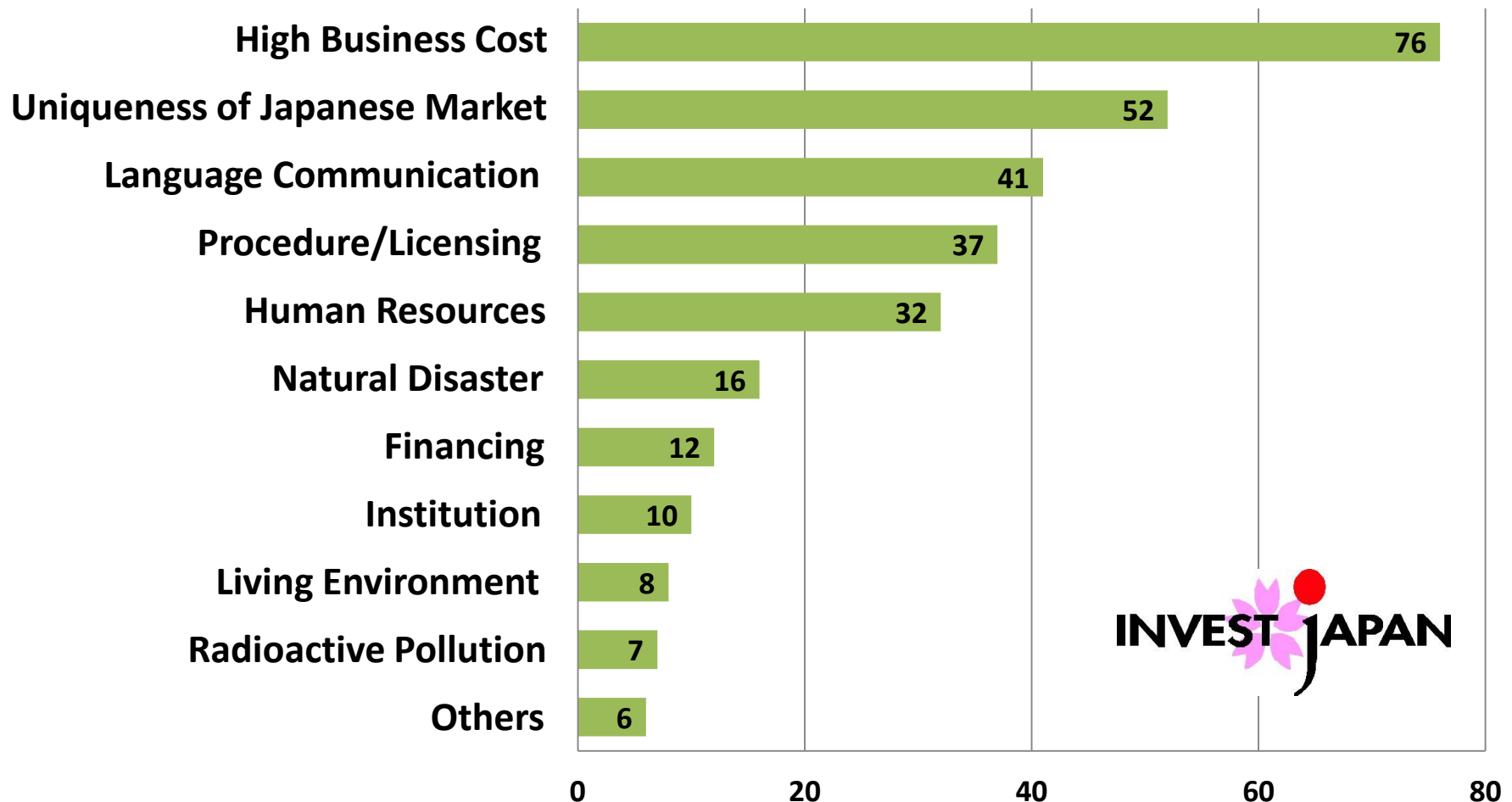


Impediments in Doing Business in Japan



Impediments in Japan's Investment Climate

-JETRO Survey Feb-March 2013-



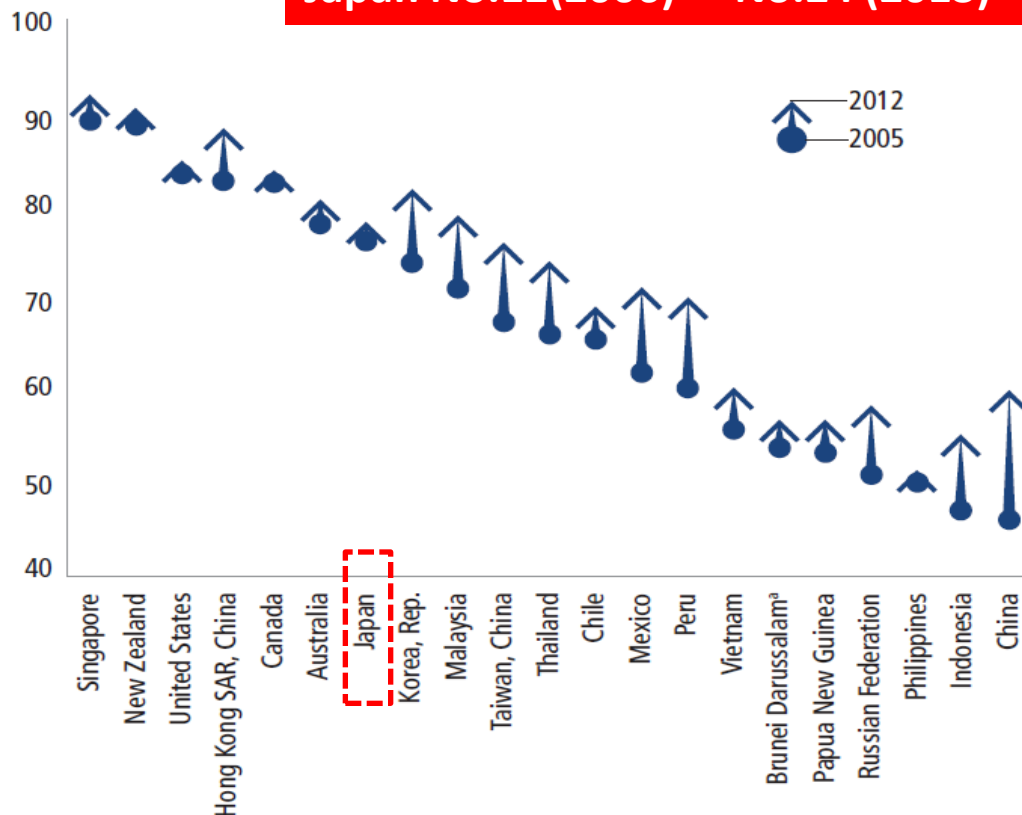
Doing Business 2013 (World Bank)

TABLE 1.1 Rankings on the ease of doing business

Rank	Economy	DB2013 reforms
1	Singapore	0
2	Hong Kong SAR, China	0
3	New Zealand	1
4	United States	0
5	Denmark	1
6	Norway	2
7	United Kingdom	1
8	Korea, Rep.	4
9	Georgia	6
10	Australia	1
11	Finland	0
12	Malaysia	2
13	Sweden	0
14	Iceland	0
15	Ireland	2
16	Taiwan, China	2
17	Canada	1
18	Thailand	2
19	Mauritius	2
20	Germany	2
21	Estonia	0
22	Saudi Arabia	2
23	Macedonia, FYR	1
24	Japan	1
25	Latvia	0
26	United Arab Emirates	3
27	Lithuania	2
28	Switzerland	0
29	Austria	0
30	Portugal	3

Distance to frontier
(percentage points)

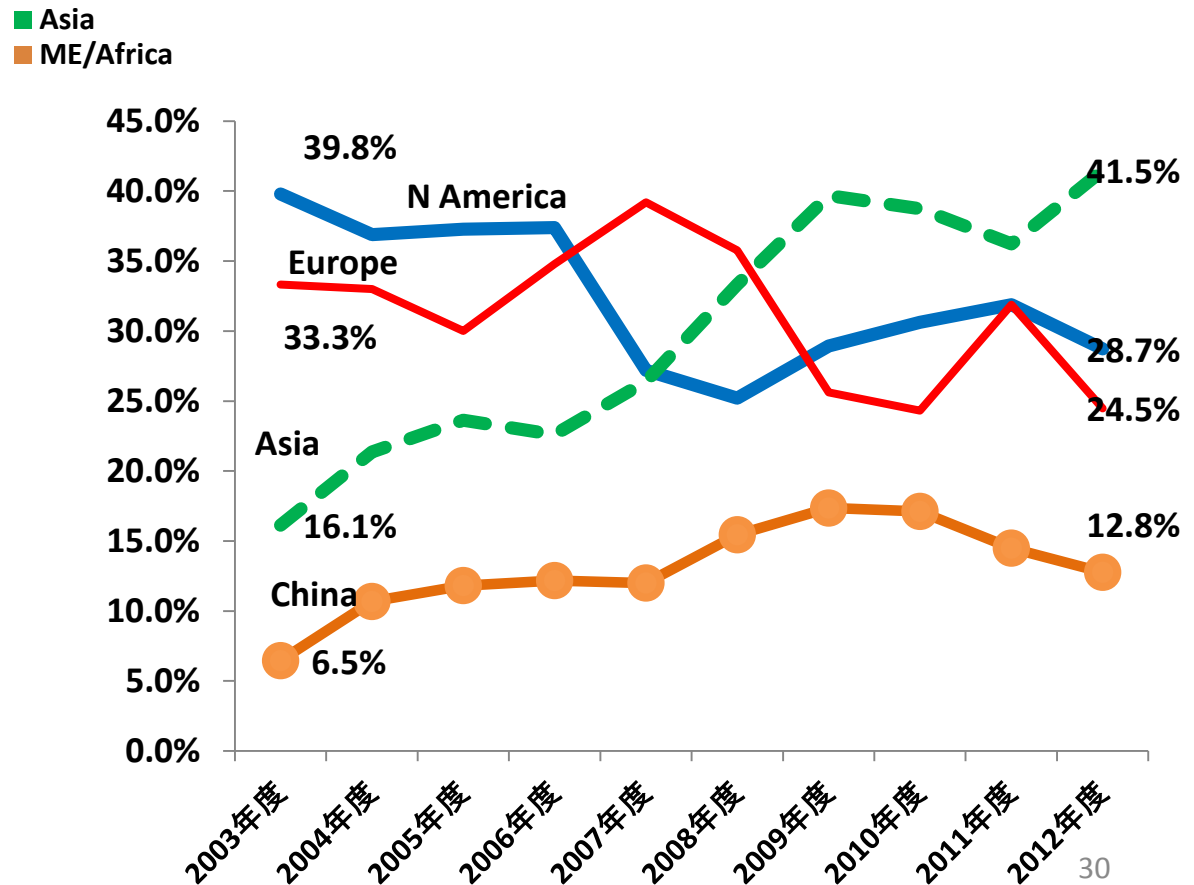
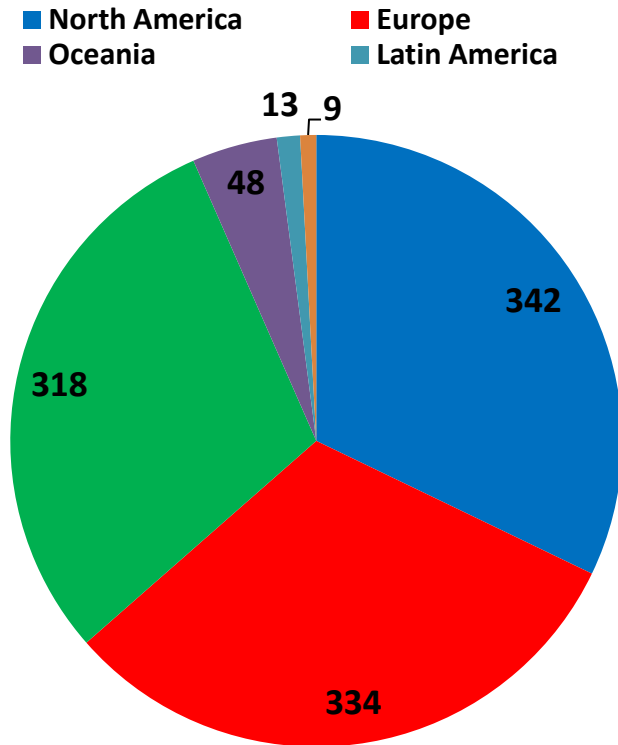
Japan No.12(2006)=> No.24 (2013)



Japan: Starting Business 114, Construction Permits 72, Power Supply 27, Registering Property 64, Getting Credit 23, Protecting Investors 19, Paying Taxes 127, Trading Across Borders 19, Enforcing Contracts 35, Resolving Insolvency 1

JETRO's Inward FDI Promotion (2003-2012)

- Having supported more than 10,000 foreign companies.
- More than 1,000 foreign companies have invested in Japan
- US (318), China (107), Germany (98), Korea (65), UK (63)



JETRO Recommendations for Encouraging Inward FDI



Fiscal/Financial Measures



Reduction of Effective Corporate Tax



Expansion of Special Corporate Tax Reduction/Exemption for Foreign Firms



Expanding Subsidies for Establishment



Easing Corporate Registration System



Eliminating HR Bottleneck



Enhancing Global Human Resources



Promoting Inflow of High Skill Foreign Human Resources



Deregulation



Promoting Mutual Recognition and Expediting Examining Procedure for Pharmacy and Medical Devices



Promoting Mutual Recognition in Telecommunication Sector



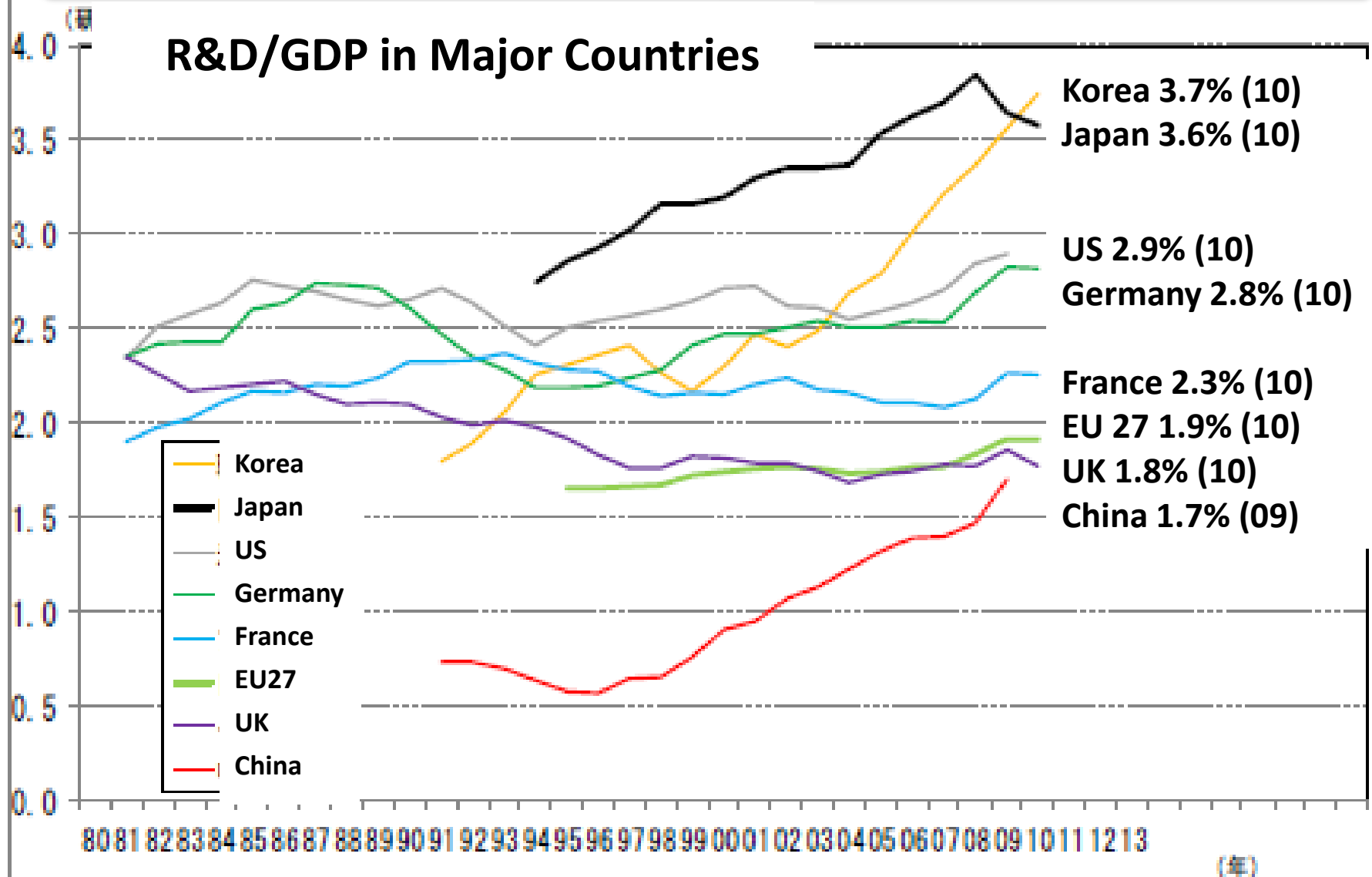
Easing Licensing in Aviation Sector



Enhancing Inward FDI Promotion Institution

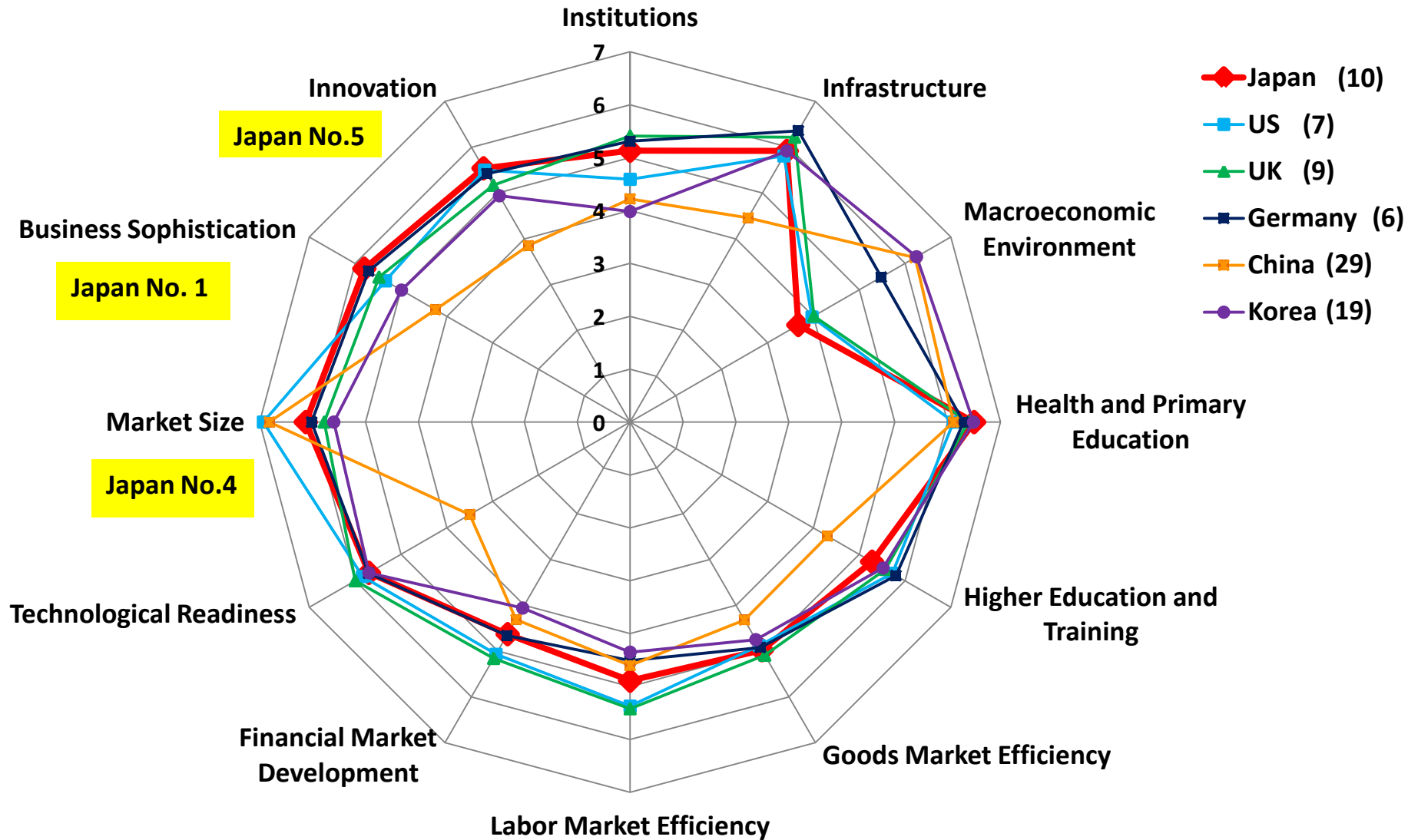


Need to Strengthen R&D



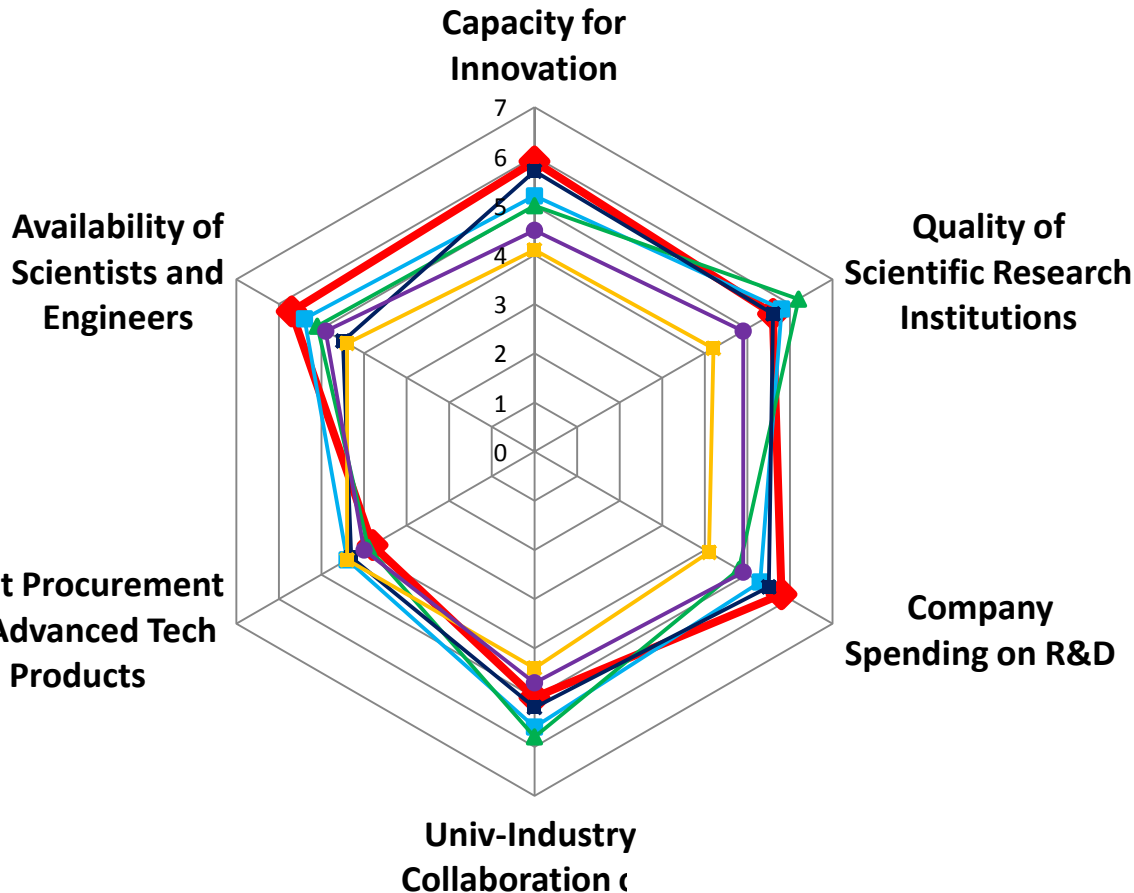
Source: Ministry of General Affairs, Cabinet Office, OECD

Innovation and Japan's International Competitiveness

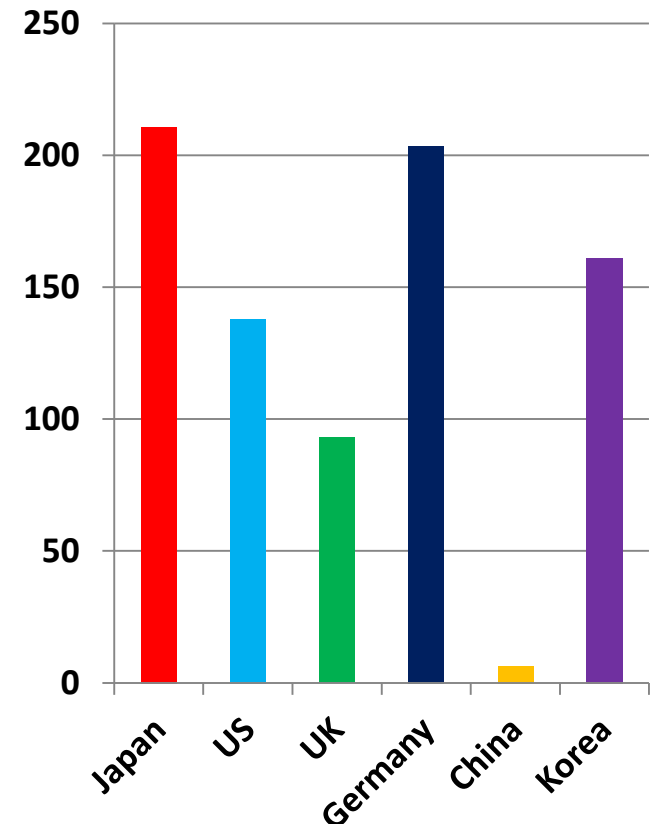


Japan's International Competitiveness on Innovation

◆ Japan
 ■ US
 ▲ UK
 ■ Germany
 ■ China
 ● Korea



PCT Patents, Applications / Million Population



Patent Application Share (2009-2010)

						(%)
	Japan	U.S.	Germany	China	South Korea	
Optics	47.4	21.8	7.6	2.2	4.0	
Audio-visual technology	45.5	18.3	5.5	3.4	6.4	
Semiconductors	43.2	29.2	7.9	1.8	5.1	
Electrical machinery, apparatus, energy	32.7	20.6	16.0	4.2	4.1	
Telecommunications	24.7	22.8	3.3	9.5	13.4	
Organic fine chemistry	15.7	29.1	12.1	2.9	2.8	
Digital communication	13.0	25.0	2.9	20.5	7.4	
Medical technology	11.6	45.3	7.8	1.6	2.2	
Biotechnology	11.5	39.7	7.1	2.1	3.4	
Pharmaceuticals	10.1	38.2	6.4	2.7	2.4	
Total (2010)	19.6	27.4	10.7	7.5	5.9	

Notes: (1) The top five fields and bottom five fields for Japan's share of applications in those fields among WIPO's 35 technical field classifications having at least 6,000 applications in 2009

(2) Figures for applications by field in 2010 are totals up to September.

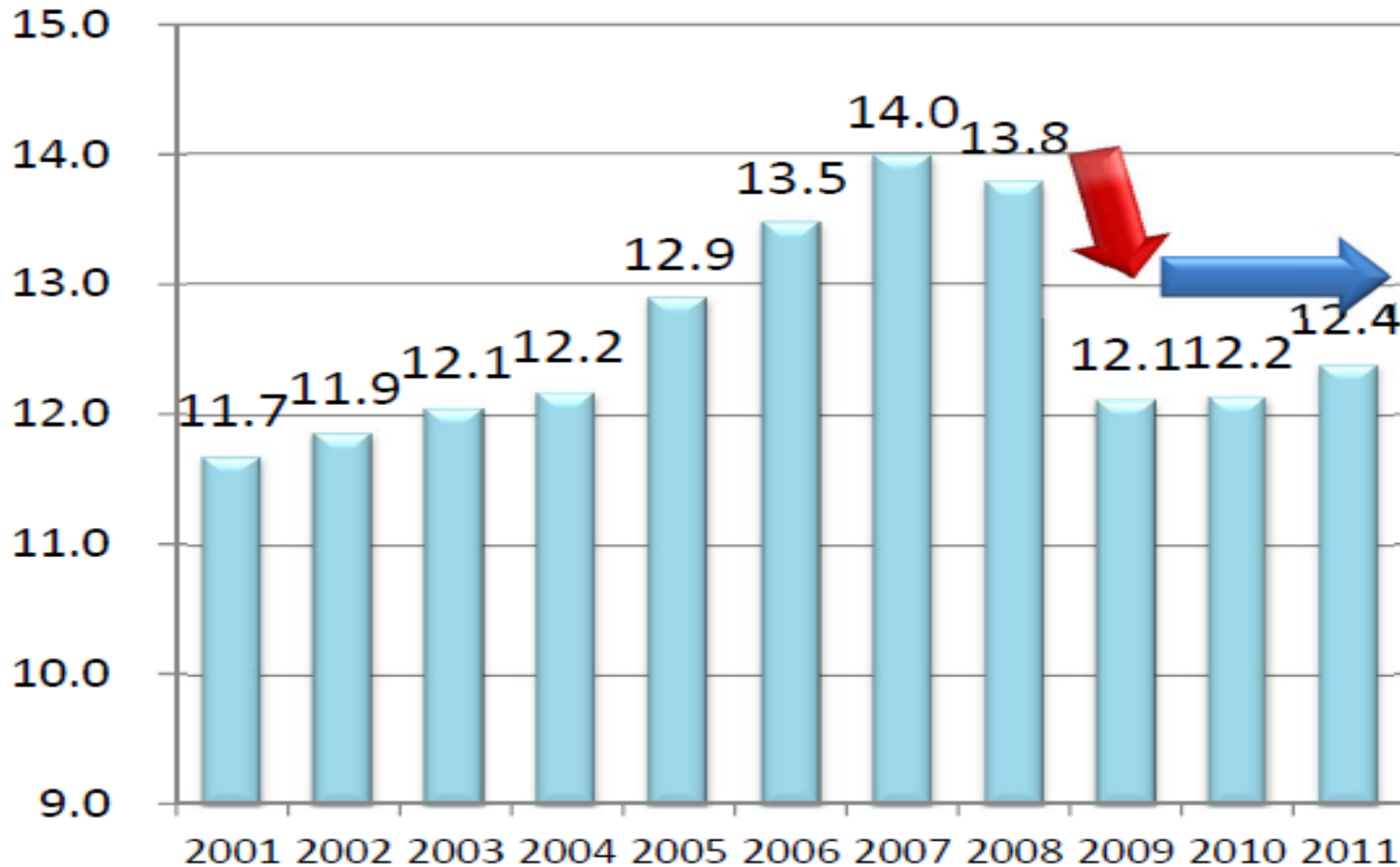
(3) Applications that belong to multiple fields are counted in each field.

Source: WIPO Database (as of May 2011).

Stagnating Domestic R&D Expenditure by Private Sector

- Drop of private R&D since Lehman Shock and Earthquake
- 90% of R&D is for improving existing technology within 3 years' time scope

Trillion Yen



Strengthening Tax Incentive for R&D

	Deduction Ratio	Upper Limit of Deduction	Carry-over Period
US	20% of the R&D Expenditure above Standard Threshold	75% of Corporate Tax	20 Years
UK	7.2% of R&D Expenditure	None	Unlimited
China	12.5% of R&D Expenditure	None	5 Years
Korea	3-6% of R&D Expenditure	None	5 Years
Japan	8-10% of R&D Expenditure	20% of Corporate Tax => 30%	1 Year

Development of Japan's EPA/FTA Networks

Took Effect/Signed

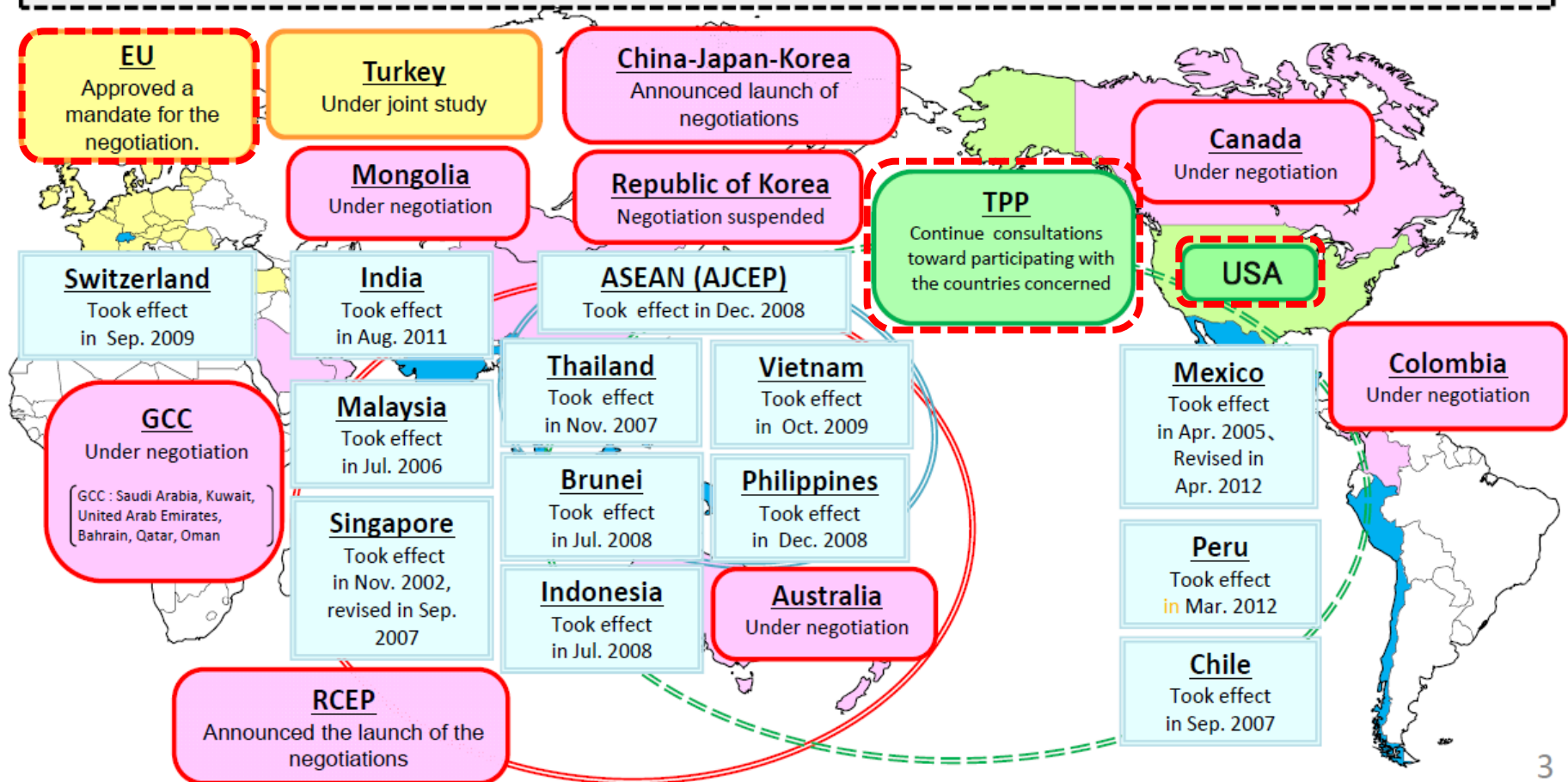
12 countries and 1 region

Under Study/Discussion

1 country and 1 region

Under Negotiation

5 countries and 3 regions



Comparison of FTA/EPA Coverage

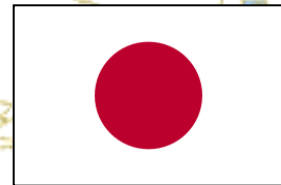
	In Effect	In Effect + Under Negotiation	Prospects
Japan	19%	61%	Launching Negotiation with EU, US (TPP): 61%=> 83%
China	24%	50%	
Korea	34%	81%	
US	39%	48%	Launching Negotiation with EU 48%=> 65%
EU	28%	49%	Launching Negotiation with US and Japan 49%=> 67%

EU-Japan Economic Partnership Agreement

On 29 November 2012, EU Foreign Affairs Council (Trade) gave a green light to start FTA/EPA negotiation with Japan



***Global
Partnership***



Shared Value


- Democracy
- Rule of law
- Human rights
- Market based economy
- Sustainable development

Common Challenges

- Growth deceleration
- Rise of emerging countries
- Strains on financial markets
- Fiscal constraints
- Global warming

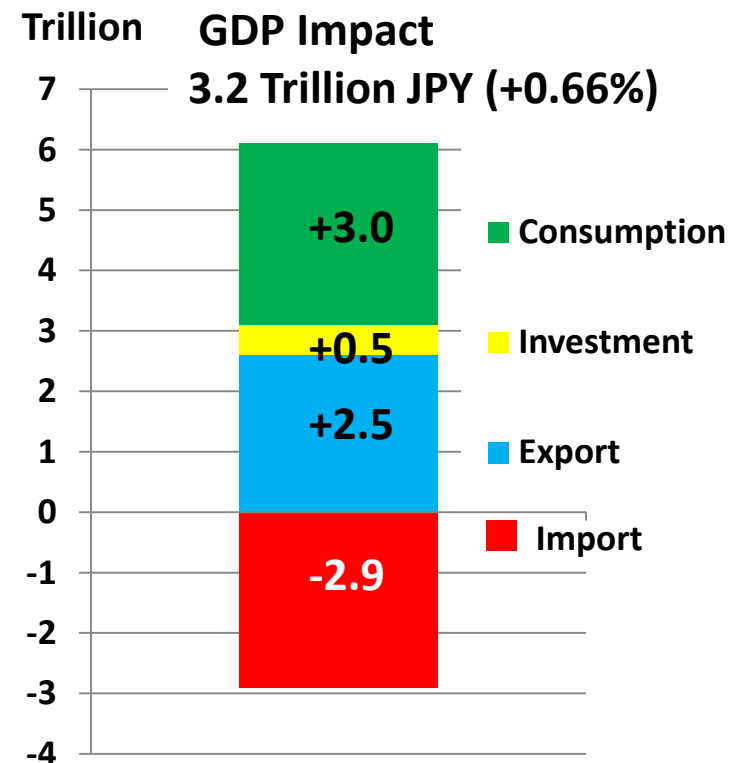
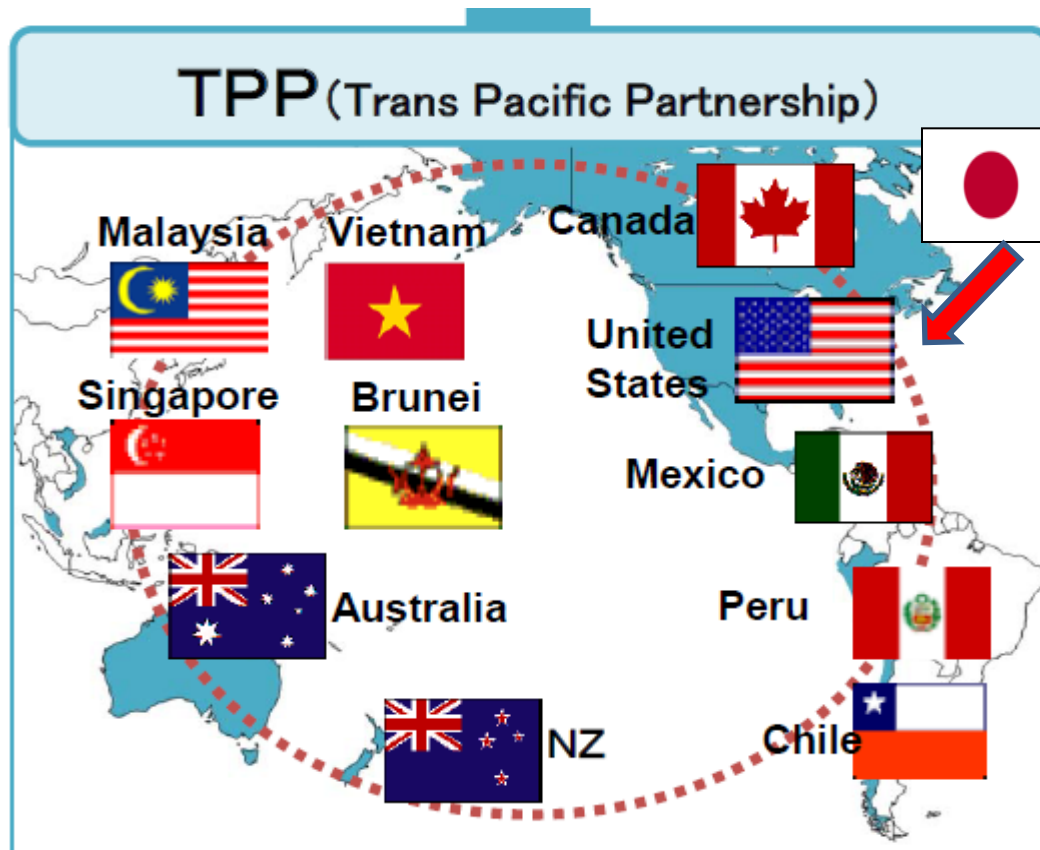
**Economic Benefit +€76bn for the EU, +€71 bn for Japan
+0.8% Growth, 400,000 jobs for the EU (EU Trade Commissioner)**

Japan is addressing NTMs

-  Cabinet Decision on 10 July 2012 based on the examination by the Government Revitalization Unit (GRU), addressing the EU's interests in NTMs
 - Easier Zoning of Automotive Service Shops
 - Harmonization of Automobile Standards with UNECE
 - Convergence of EU/Japan Auto Emissions Gas Regulations
 - Deregulation of Liquors Wholesale Licensing
 - Authorization of Internationally Commonly Used Food Additives
 - Expedited Authorization Process of Medical Devices Utilizing Private Third Party Certification Bodies
-  Industry-Industry Dialogue for addressing NTM (e.g. Automobile)
-  JETRO's English Website of Government Procurement Information

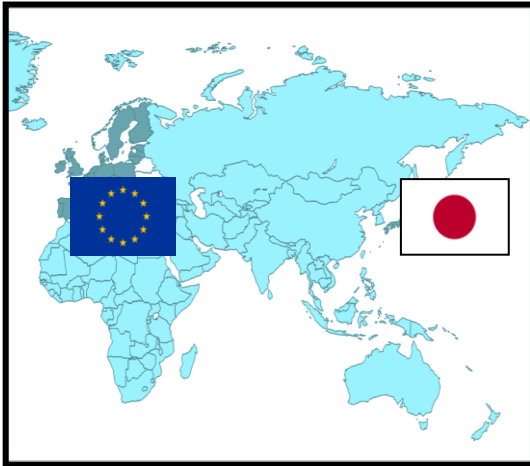
Trans Pacific Partnership (TPP)

On 15 March 2013, Prime Minister Abe announced the intention to participate in the TPP negotiation.

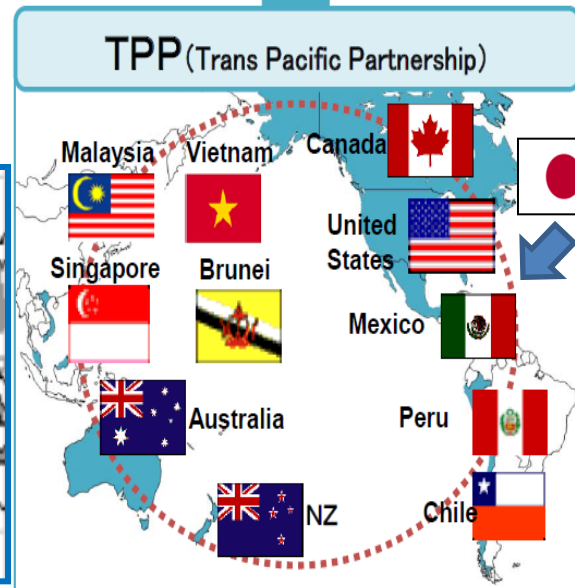
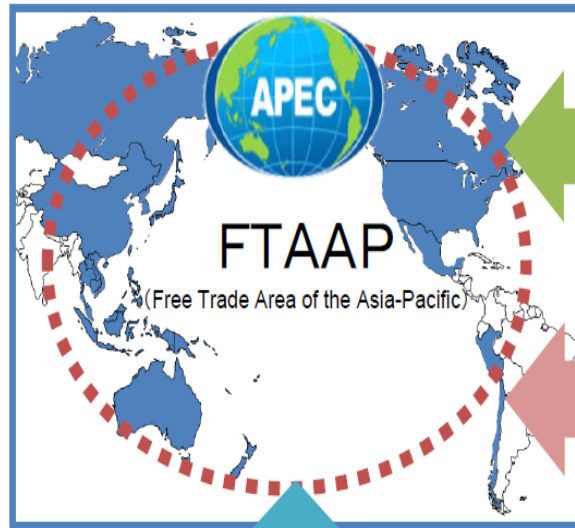
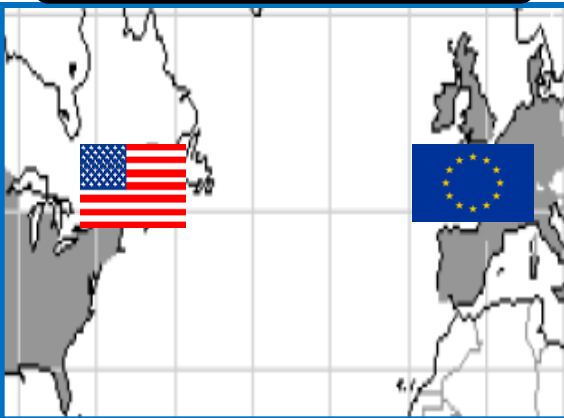


Japan's Pivotal Role in FTA/EPA Network

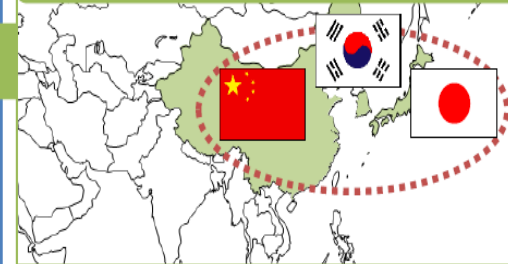
Japan-EU



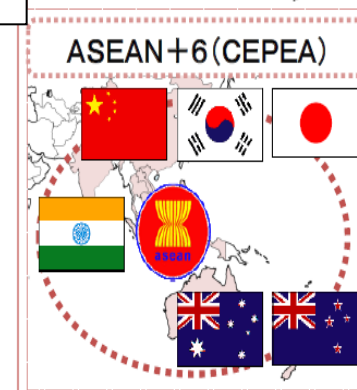
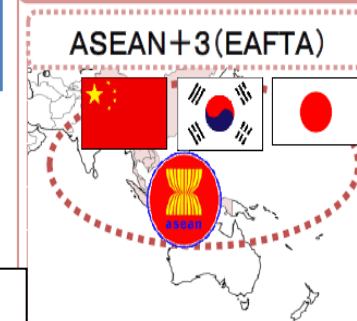
EU-US



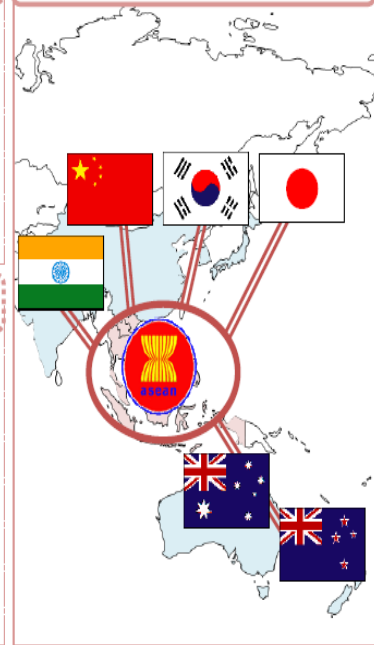
Japan-China-Korea FTA



RCEP (Regional Comprehensive Economic Partnership)



ASEAN+1 FTA



New Growth Strategy Part 1 (19 April) (1)

Healthy and Long Life Society

- Japanese NIH (National Institute of Health)
- Export of Japanese advanced medical technologies (Medical Excellence of Japan) with the participation of 20+ medical device companies and 50+ medical institutions
- Deregulation for promoting regenerative medicine and creating medicine (e.g., consigned cell processing, shortening examining period)
- Deregulation on medical devices
 - Shortening examining period of medical devices by introducing Third Party Verification
 - Medical device manufacturers: licensing => registration



New Growth Strategy Part 1 (19 April) (2)

Growth with Participation of All

- Training assistance for job changers
- Trial employment program for 3 months

Globally Competitive Youths

- Assistance for getting qualifications
- Postponing the job application period facilitating studying abroad

Women's Participation

- Getting rid of “children waiting for day-care” in 5 years
- Extending maternity leave to 3 years
- “At least one female in the board”



New Growth Strategy Part 2 (19 May) (1)

Investment Promotion

- 3 years' Concentrated Investment Promotion Period to recover JPY 70 trillion private investment (before Lehman)
- Full mobilization of taxation, budget, finance, deregulation, institutional environment
- Facilitate investment utilizing lease
- Review of personal guarantee to promote financing for venture/SME business



Promoting Innovation

- Deregulation to promote FCV (e.g., hydrogen tank in residential area)
- Promoting utilization of “Big Data”
- Enterprise-specific deregulation for R&D of self-driving



New Growth Strategy Part 2 (19 May) (2)

Aggressive Agriculture

- Doubling export of Japanese food/agricultural/fishery products to JPY 1 trillion by 2020 through country-specific export strategy
- Promoting farmland consolidation to raise the share of large scale farmland from 50% => 80%
- Establish an organization to
 - lease abandoned land from farmers/landowners
 - convert the areas into large-scale farmland
 - loan the land to those willing to cultivate it.
- Doubling income of farmers over 10 years



New Growth Strategy Part 2 (19 May) (3)

Cool Japan Strategy

- Expand foreign visitors from 8 million to 10 million and then 20 million per year
- Loosen visa issuance criteria for ASEAN countries
- Triple export of Japanese broadcasting contents by acquisition of foreign channel/broadcast slots in 5 years
- PPF “Cool Japan Promotion Organization” as one-stop office



University Reform

- 1500 top-class young foreign researchers in 8 National Universities
- Prioritized subsidy allocation to “globalization-oriented universities” aiming at 10 among Top 100 in 10 years



National Strategic Special Zone in 3 Major City Zones

Tokyo

- English speaking city (e.g., foreign doctors, English speaking ambulance etc)
- Deregulation of floor area ratio
- 24 hours service of metropolitan transport



Osaka

- Massive reduction of corporate tax
- Resort facilities (e.g., Casino)
- Private management of public school



Aichi

- Massive reduction of corporate tax
- Private management of toll roads
- Expanding skilled foreign labour



As of 1st October 2012

○ Kamaishi

- ⑤ Deregulation on zoning restriction (enabling construction of commercial facilities in industrial exclusive zones)

○ Minami-Soma

- ⑮ Deregulation on temporary building

◎ Aomori

- ① Tax breaks and deregulation on green space ratio for manufactures

◎ Iwate

- ③ Deregulation on medical regulations for medical, elderly care and welfare
- ④ Tax breaks for manufactures

◎ Miyagi

- ⑥ Tax breaks for manufactures
- ⑦ Deregulation on medical regulations for medical, elderly care and welfare
- ⑧ Tax breaks for information technologies

○ Ishinomaki

- ⑨ Tax breaks for service industries
- ⑩ Deregulation on agricultural industries
- ⑪ Tax breaks for medical health industry etc.

○ Shiogama

- ⑫ Tax breaks and financial incentives for tourism industries

○ Sendai

- ⑬ Tax breaks for agricultural industries

◎ Fukushima

- ⑭ Deregulation on producing and selling medical devices
- ⑮ Tax breaks for manufactures
- ⑯ Deregulation on medical regulations for medical, elderly care and welfare
- ⑰ Deregulation on Defined Contribution Pension Law

◎ Ibaraki

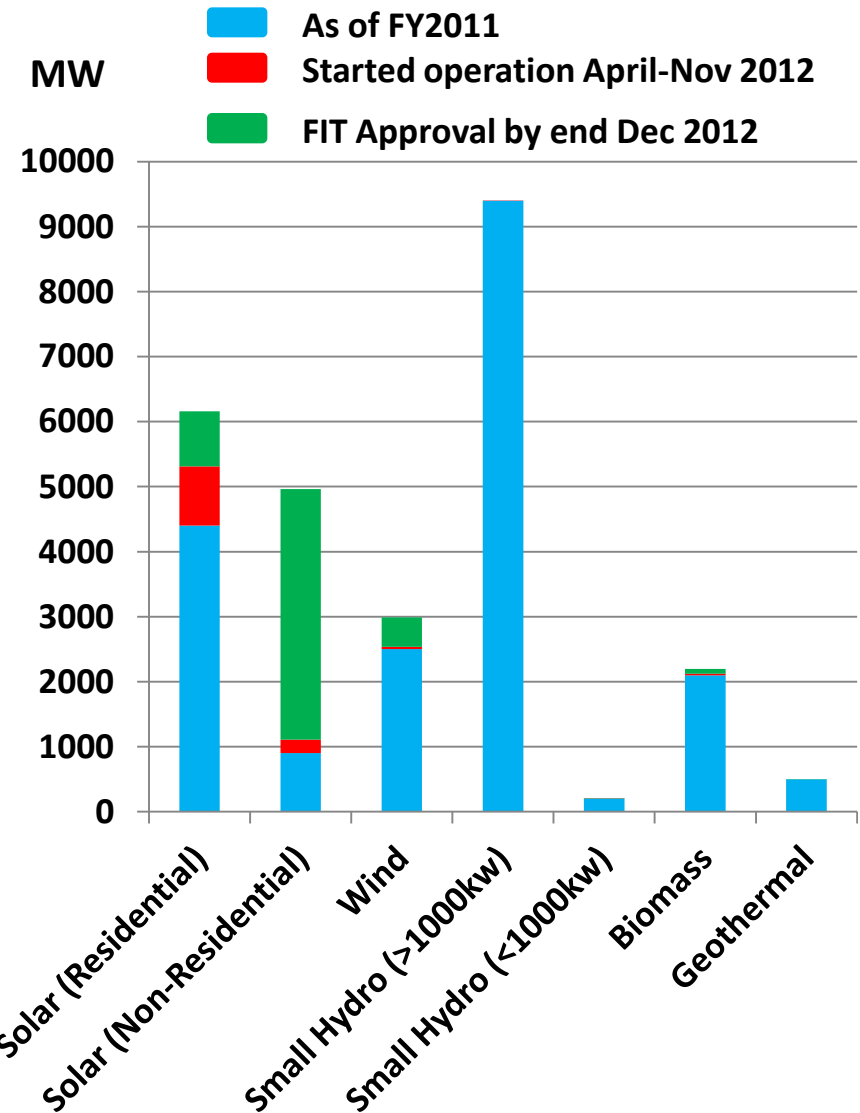
- ⑳ Tax breaks for manufactures

Tokyo

Business Opportunity 2: Energy Sector (Renewable)

FIT Purchasing Price and Period (from July 2012)

PV (>10 kW)	42.00 JPY/kwh (20 years)
PV (<10 kW)	42.00 JPY/kwh (10 years)
Wind (> 20 kW)	23.10 JPY/kwh (20 years)
Wind (< 20 kW)	57.75 JPY/kwh (20 years)
Geothermal (> 15MW)	27.30 JPY/kwh (15 years)
Geothermal (< 15MW)	42.00 JPY/kwh (15 years)
Small Hydro (1-30MW)	25.20 JPY/kwh (20 years)
Small Hydro (0.2-1MW)	30.45 JPY/kwh (20 years)
Small hydro (<0.2MW)	35.70 JPY/kwh (20 years)



Electricity Market Reform

◆ Step 1 (-2015)

- Establish a New Entity for Nationwide Power Transmission
- Transition to New Entity

◆ 2nd Step (-2016)

- Liberalization of Power Retail Sector
- Securing Generation Capacity
- Foundation of Hour-Ahead Market

◆ 3rd Step (2018-2020)

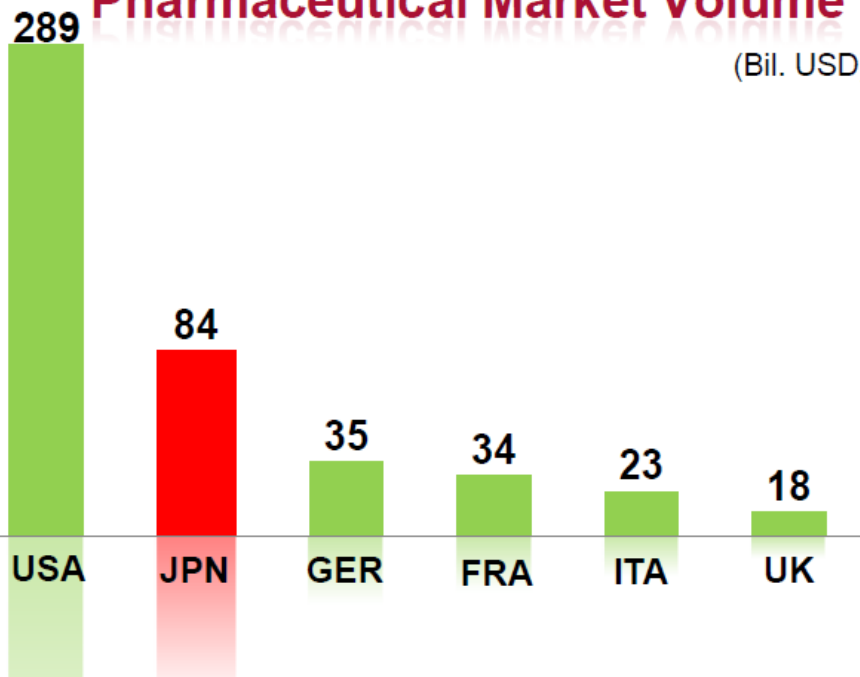
- Abolition of Price Regulation
- Legal Unbundling



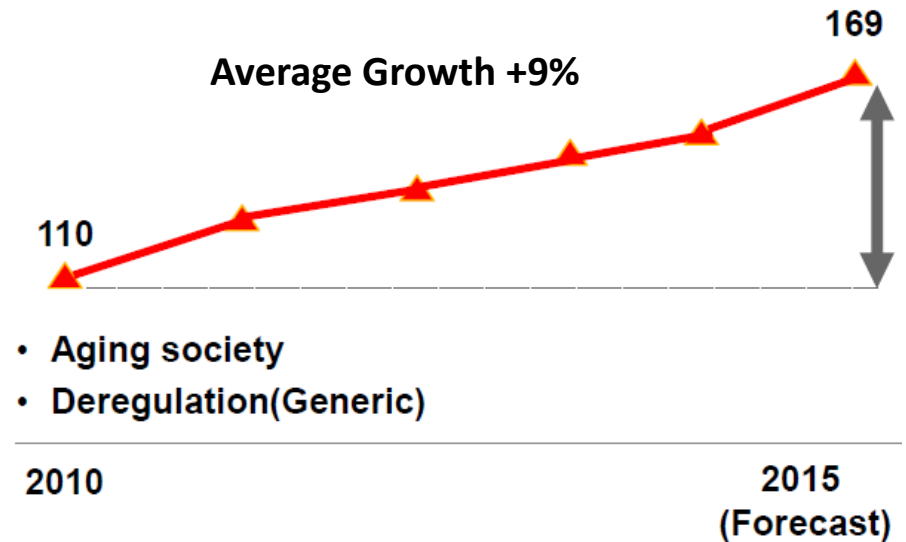
Opportunity 3: Healthcare Market

Japan is the 2nd biggest pharmaceutical market and still have expanded due to Aging society and deregulation(Generic)

Pharmaceutical Market Volume *1
(Bil. USD)



Pharmaceutical Market Forecast *2
(Bil. USD)



Due to Aging society, Deregulation of Generic and Governmental strategic promotion of home medical care, pharmaceutical market will be expanded more

*1 Yano Research Institute "Report of Pharmaceutical market in 2010", Conversion Rate: USD = JPY80

*2 The Japan Pharmaceutical Manufacturers Association, Conversion Rate: USD = JPY80

Life Science Growth Strategy

Securing the people's livelihood and healthcare

- Improving home health care and local health care.
- Promoting primary care doctor system (personal physician system).
- Increasing the number of doctors. Stockpiling influenza vaccine.
- Drastic overhaul of measure for intractable disease.

Deregulation

- Regulatory amendments of regenerative medicine.
- Separating “Medical Device Law” from Pharmaceutical Affairs Law.
- Expanding online drug sales (Supreme Court allowed online non-prescription drug sale.)

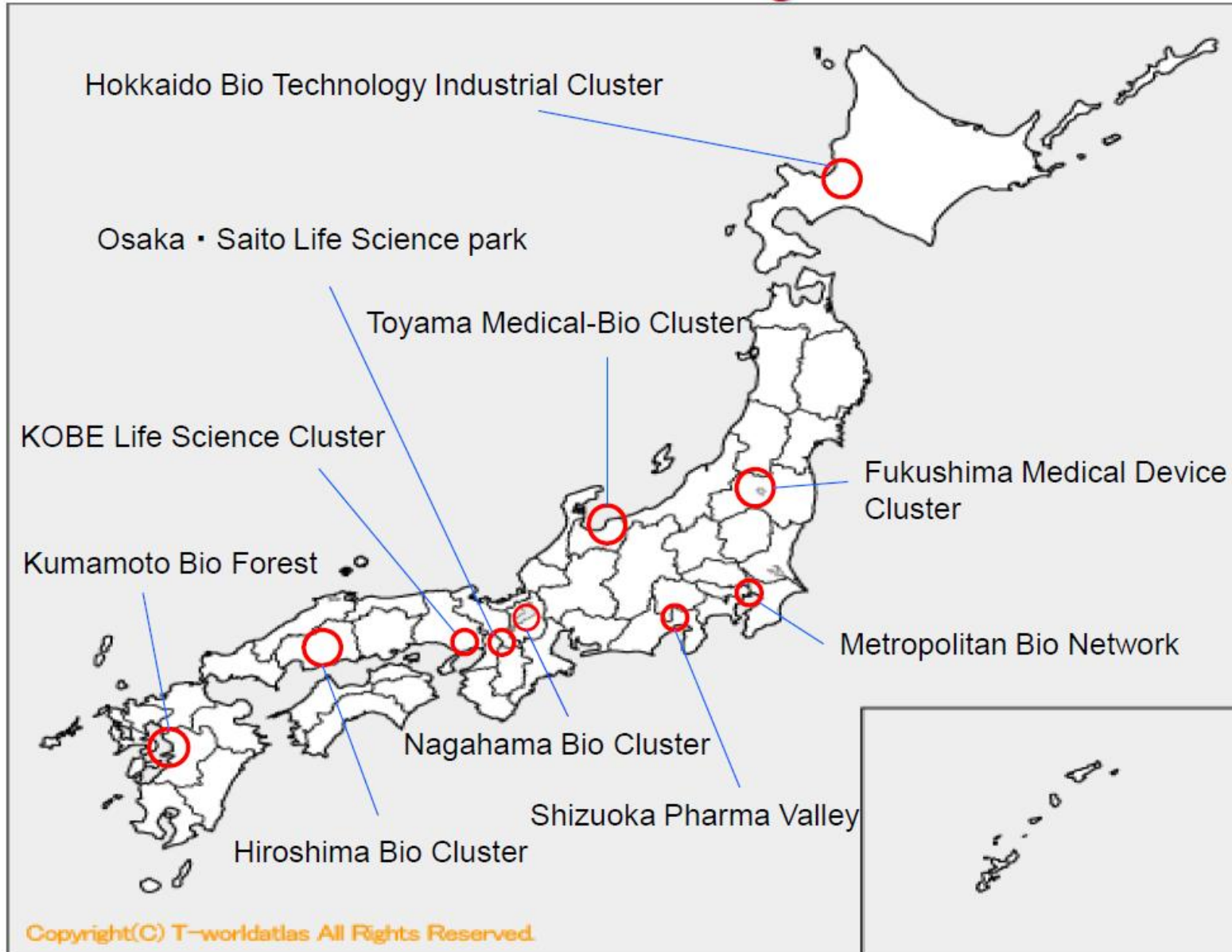
Innovation

- 5 Year Strategic Plan for Medical Innovation(2012).
- 110 billion yen for research on iPS cells over next 10 years for accelerating development of new drug and regenerative medicine

Drug industry growth strategy

- Premium pricing for new drugs and eliminating off-label use

Local Government Promoting Bio-Cluster



2013 Year of Snake



Revival, Regeneration, Fertility, Inquiry, Passion