Provisional translation

Grand Design and Action Plan for a New Form of Capitalism 2023 Revised Version

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Grand Design and Action Plan for a New Form of Capitalism
2023 Revised Version
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I. A New Upgrade for Capitalism

1. Concept of the revision of the Grand Design and Action Plan for a New Form of Capitalism

Based on the Grand Design and Action Plan for a New Form of Capitalism determined by the Cabinet in June last year, specific policies related to the new form of capitalism have steadily progressed in the last year. These include:

- Implementing planned intensive investment in the four pillars of people; science, technology, and innovation; startups; and GX (green transformation) and DX (digital transformation);
- Based on the Startup Development Five-year Plan determined in November last year, implementing one trillion yen budgetary measures, developing a tax system that encourages investment in startups and expanding the open innovation promotion tax system;
- Based on the Doubling Asset-based Income Plan also determined in November last year, major expansion of and making permanent NISA (Nippon Individual Savings Account, tax exemption program for small investment) , and taking measures to create a neutral advisory system for consumers;
- And determining the Guidelines for Integrated Three-Pronged Labor Market Reforms in May this year, consisting of re-skilling, introducing job-based wages, and facilitating labor movement.

In the private sector as well, there has been definite progress vis-à-vis the challenge of cutting off the vicious circle seen in the past, including high-level wage increases for the first time in 30 years and a high desire to invest fostered in the corporate sector.

The Grand Design and Action Plan for a New Form of Capitalism is the government's multi-year plan that aims for a virtuous cycle of growth and distribution.

On the other hand, to put Japan on a new growth trajectory, the necessity has become clear in the past year to further accelerate efforts to address the issue of slowing investment in people and capital investment against a background of various structural problems in the Japanese economy, including the curtailment of the domestic market due to the rapidly decreasing birth rate and aging society, management structures with an emphasis on shares in existing markets, and the inflexibility of the labor market and corporate organization. Thus, to ensure the current continuous high wage rises, we aim to secure a mark-up ratio by passing on costs in an appropriate manner, and to realize structural wage increases by implementing the integrated three-pronged labor market reforms, leading to a virtuous cycle of pay and commodity prices. In addition, fields in which there tends to be too little investment if left to the market or competition, such as investment in people, promoting domestic industry locations that leverage Japan's advantages in resilience, and investment to realize GX, will see goal-focused public expenditure by the government, which will serve as stimulation to expand private investment.

Based on these perspectives, the Grand Design and Action Plan for a New Form of Capitalism has been revised and approved by the Cabinet.

Through a new form of capitalism, the public and private sectors will collaborate to transform social issues into an engine of growth, thus creating a virtuous cycle of growth and distribution in which economic added value is increased as companies distribute higher earnings to workers, consumption and corporate investment expands, and further economic growth is created; this will restore a broader middle class.

2. The correction of market failure and defense of universal values

The idea of Neoliberalism, that things would work if one left them up to the market and competition, arose from the 1980s to the 2000s, and the global economy grew significantly as economic vitality returned with the spread of globalization. Neoliberalism can be said to have played a role in driving that growth.

At the same time, countless hurdles have also emerged during that time, such as expanding economic disparity, the worsening of climate change, increasing risk to economic security due to excessive dependence on foreign countries, growing urban problems due to population concentration, and market failure. In the supply chains that depend on specific countries and regions, crisis management risks are increasing in different countries—as it is becoming clear that it is not possible to ensure the health of citizens or the economic security of the nation.

Furthermore, the current Russian invasion of Ukraine has also revealed geopolitical risks to the international economy and rising challenges from authoritarian states. Freedom and democracy are facing challenges from this authoritarian state capitalism.

3. Finding solutions and new markets and growth, and achieving sustainable well-being for the citizens, through "both the market and the state" approach

Capitalism has undergone two major transformations in the past. During the two world wars of the 20th century, Laissez-faire was replaced with the concept of the welfare state in which the government emphasized social welfare. Then, during the subsequent cold war geopolitical structure, the concept of neoliberalism arose to rebuild the economy that was losing competitiveness. We now face the third major transition in the history of capitalism, and must proceed with transformation to achieve a new form of capitalism, or in other words, the fourth stage of capitalism.

The only system that can surpass capitalism is capitalism itself, and the leaders are always the people and the market.

However, whereas previous transitions have involved a fundamental swing of the pendulum between market or country, and public or private, under the new capitalism, we must endeavor to solve the emerging social problems that cannot be solved by the market alone, involving considerable externalities, through an approach of "both the market and the state", or in other words, through new public and private cooperation.

In doing so, we must perceive the challenges not as hurdles, but as sources of energy as we find solutions to these social problems through new public and private cooperation, and to use and include those sources of energy to achieve growth.

And this new form of capitalism must achieve sustainable well-being for all citizens. The fruits that will come in the form of solutions to social problems through public and private cooperation, and the new market creation and growth that will result thereof, must realize a virtuous cycle of growth and distribution, and must be fed back and shared widely to the citizens, regions, and domains. In addition, through initiatives to tackle such social problems as climate change and the declining birthrate and aging population, we must rebuild a sustainable socioeconomic system that connects to the lives of the citizens and leaves no one behind in order to take the lead in international society.

As described above, the basic ideas that lie at the heart of this new form of capitalism are: 1) for solutions to be found by both the market and the state, and both the public and private sectors; 2) to create new markets through the solving of social problems, or in other words, to achieve solutions to those problems along with economic growth; and 3) to improve the lives of the citizens and to achieve sustainable well-being for all through the finding of solutions to problems.

Notably, to increase the sustainability and resilience of capitalism and ensure that all people

receive the benefits of growth, it is necessary for the public and private sectors to collaborate on a large scale with a focus on areas that are difficult to tackle for the market alone, such as investment in people, the development of startup companies, and the development of advanced technology. This collaboration is critically important for Japan considering that we are facing a coming shortage of labor due to the declining birthrate and aging population.

For this, we need to expand support for child-rearing, realize social security through which citizens support each other in accordance with their abilities as the birthrate declines and society ages, and reform workstyles to enable ways of working anytime and anyplace that are desirable for all. It is also important to pursue a society with a decentralized economy, in which authority, wealth, and resources are not concentrated.

In addition, as part of the collaboration, we must strengthen the foundations for contribution by women across the board, such as through promoting economic autonomy by correcting the wage gap between men and women, in order to secure diversity for the economy and society of Japan and thereby lead to further innovation.

4. Economic security

National security is a fundamental requirement for the achievement of a new form of capitalism that will bring prosperity to the citizens. Taking into account the outcomes of the G7 Hiroshima Summit, we will promote strategic diplomacy and security, as well as economic security that will make Japan's economy resilient, and energy and food security. In addition, under this new form of capitalism, we will work to secure not only diplomacy and defense, but sustainable and inclusive safety and security in the daily lives of the citizens.

Finally, against the rise of authoritarian nations, it is necessary for nations that emphasize universal values such as freedom, democracy, human rights, and the rule of law to rally together to maintain and strengthen a free and open economic order and promote free trade, while strengthening their response to unfair economic activities. To accomplish this, we will use the opportunity of the G7 Hiroshima Summit and other events to take the lead in the formation of an international consensus for policy management and in discussions on strengthening cooperation with like-minded countries.

II. Approach to the Achievement of a New Form of Capitalism

1. The elimination of barriers to distribution to achieve further growth

Capitalism has brought economic growth through the engine of the market mechanism, and the new form of capitalism must thoroughly pursue further growth. However, further growth cannot be realized if we do not appropriately distribute the fruits of growth so that it may be invested in yet further growth. Distribution is not a cost, but investment in sustainable growth.

In Japan, there has been “clogging” for a long time, such that the fruits of growth are not being appropriately distributed to local areas and business partners and furthermore, are not being adequately allocated for further research and development, capital investment, and employee compensation. This “clogging” has come to inhibit further growth. Over the last year, efforts to resolve “clogging” through active collaboration between the public and private sectors have yielded results, and it is necessary to further strengthen these efforts in this second year.

The formation of an ample middle class is important for the healthy development of democracy, and the enrichment of the middle class, which will also play the central role in the economic society of the new form of capitalism, will help avoid the expansion and ossification of economic disparity and achieve a sustainable economic society. For this purpose, we must

ensure the distribution of both flows, in terms of wage increases and optimizing business with SMEs, and stock, in terms of education and asset formation, while promoting sustainable distribution through support for digital investment to prepare for the coming era of labor shortages.

2. Securing power for growth through public-private collaboration driven by technological innovation

Each country is making bold investments in innovation to rebuild their economies and social systems in the post-Covid society because innovations contain potential solutions for countless problems facing society, while also serving as the source of competitiveness in a new age.

However, research and development investment and capital investment in Japan has lagged far behind that of other countries.

It is essential for Japan to also promote innovation boldly through new public and private collaboration to further accelerate upgrades to our nation's economy and social systems, and to boldly shift from competitiveness based on cost cutting to that based on the creation of added value by securing mark-ups.

Furthermore, in this age of digital transformation (DX) and green transformation (GX), where ideas are being put into practical use at a high speed and new technologies are rapidly being updated, the importance of intangible things against tangible things, of intangible assets against tangible assets, is growing as the source of competitiveness, rather than the traditional source of machinery and equipment. In such times, creative innovation and economic growth emerge from the maximization of human capabilities. Therefore, it is essential to realize a society in which all people, including women, youth, and the elderly, can each exercise their knowledge and experience, and to continuously work to improve their skills through generous investment in people.

3. Achieving a society in which the private sector plays a public role

It is difficult for many of social problems to be solved with the government solely in the lead. In order to encourage society as a whole to engage in solving its problems, we must aim to become a society in which the private sector can take the lead in tackling the problems we face. For that, we must rethink market rules and laws to reward contributions to solve those problems, and by doing so, induce a flow by which funds and people gather at companies according to the size of their contributions. We will work to develop intellectual property systems and standards, constantly review regulations, develop a digital market environment, and respond to economic security including creating international rules.

Furthermore, in addition to existing companies, it is essential to diversify actors engaged in solving social problems to include startups, universities, and NPOs; this will achieve a society in which the private sector takes on a public role. There has been a particular rise in recent years in individuals aiming to create impact startups (social entrepreneurs) that focus on tackling the problems of society, such as child rearing and environmental problems. Accordingly, we intend to provide full support to the initiatives of these social entrepreneurs as a new form of public-private partnership. From this perspective, we must consider "impact" in addition to "risk" and "return" in order to include "problem solving" as an additional indicator for evaluation under capitalism.

One of the keys to that problem solving is the use of digital technology. It is important to enable the use of digital technology to solve problems by upgrading regulations and systems to match the digital age, and to promote competition policy to ensure fair competition commensurate with the new age in order to enable the private sector to maximize its capabilities.

III. Investment in People/Structural Wage Increase and the Guidelines for Integrated Three-Pronged Labor Market Reforms

(1) Basic concepts of the Guidelines for Integrated Three-Pronged Labor Market Reforms

The way we work has changed significantly. We are moving from an era in which "careers are given by companies" to an era in which "each individual chooses their own career." It is important that we shift to a system which allows workers to re-skill of their own will and to choose their jobs by clarifying the skills required for each job. By doing so, it will be possible to seamlessly connect the internal labor market and the external labor market, thereby opening the door to hiring experienced workers from outside a company and enabling workers to freely move both inside and outside of their company according to their own choice. This is also an urgent matter for the further growth of Japanese companies and the Japanese economy.

Wage levels in Japan have been stagnant for a long period of time (looking at the change in real wages per person in developed countries from 1991 to 2021, we can see that the growth rate of real wages per person remained low in Japan at 1.05 times, compared to 1.52 times in the U.S., 1.51 times in the UK, and 1.34 times in France and Germany[1]). During this period, companies have not invested enough in people, and individuals have not engaged in adequate self-development.

New trends such as GX and DX will also greatly change required skills and labor demand. As we enter the era of 100-year lifespans, working periods are becoming longer, and, with the cycle of rise and fall in various industries progressing in short periods of time, everyone will need to work to acquire new skills throughout their lives. On the other hand, it has also been pointed out that, in reality, many working individuals tend to take a passive attitude and become comfortable in their current situation.

Behind this problem lies the employment system in Japan that formed after World War II, such as the seniority-based wage system. Jobs and the skill standards required for them are also unclear, so objectivity and transparency in evaluations and wages are not sufficiently ensured. Because it is difficult for individuals to understand how they will be rewarded for their efforts, in addition to low engagement it is difficult for them to change jobs, and, even if they do change jobs, it is difficult for this to lead to an increase in their salary. Additionally, even if individuals are motivated, fairness in access to opportunities to improve their skills and to learn is not sufficiently ensured.

In the face of labor supply constraints due to the declining population, it is necessary to reform this system to create a society in which individuals who wish to do so, irrespective of employment status, age, gender, or disability, while understanding the future labor market situation and the working style options within it, can choose their own living and working styles and can voluntarily, proactively learn and be rewarded for improvement of their treatment via promotions or salary raises within their company or by changing to a job at a different company, and furthermore realization of labor mobility for startups, etc.

There is no time to wait for change from the corporate side either. As companies have not been investing enough in people, the wage gap with other countries has been widening, and in the competition for human resources there is a risk that Japan will fall behind not only among developed countries, but also in Asia. An increasing number of companies are introducing job-based personnel systems from the perspective of competition to acquire human resources, primarily in industries and companies that are competing in the global market, but they are not doing so sufficiently quickly, and, with the recognition that human capital is the key to improving corporate value, it is necessary to urgently respond to change and to drastically strengthen investments in people.

In this kind of transformation, the relationship between workers and companies will change to one of "choosing and being chosen," with both sides on equal footing. With each individual taking a leading role and with the cooperation of the public and private sectors, it will be necessary to change from an era in which careers are provided by companies to an era in which each individual builds their career as they wish.

To this end, we will carry out an integrated three-pronged labor market reform: supporting skill improvements through re-skilling, introducing job-based wages according to the actual conditions of individual companies, and facilitating the transfer of labor to growth fields. It is imperative that companies shift to an employment system that ensures objectivity, transparency, and fairness, and in this way, we will create a mechanism that structurally increases wages.

Additionally, in order to implement structural wage increases, the key will be the responses of local governments and small and medium-sized enterprises (SME) and small businesses, which account for 70% of Japan's employment and GDP. In parallel with this integrated three-pronged labor market reform, we are working to improve the productivity of low-productivity companies, and as it was basically agreed upon in the exchange of views between the government, labor, and management on March 15 of this year, we will share throughout society the idea that "in order to raise wages at SMEs and small businesses, it is essential to optimize transactions by appropriately passing on labor costs," and will also be necessary to secure funds for wage increases and to thoroughly implement price pass-through measures to realize a virtuous cycle of growth and wage increases.

In addition to this, through these efforts and efforts to support productivity improvements, we will take measures to address regional labor shortages and to raise the minimum wage so that working individuals can live with peace of mind.

An internationally competitive labor market will be created through bold efforts by the public and private sector to implement these reforms.

(2) Goals

By promoting an integrated three-pronged labor market reform, through structural wage increases and we aim to narrow the wage disparity [2] that exists between Japanese and foreign companies despite the fact that they are holding the same occupation, while taking into account the differences in economic conditions in each country. In addition, we aim to eliminate wage disparities due to factors such as gender and age.

In the case of Japan, a comparison of wages before and after job changes shows that wages tend to decrease after individuals change jobs. As such, through the formation and seamless connection of internal and external labor markets, we aim to have the proportion of individuals whose wages increase due to a job change exceed the proportion of those whose wages decrease.

The public and private sectors will confirm the progress of these initiatives and move forward with reform efforts.

(3) The direction of reform

In promoting this integrated three-pronged labor market reforms, it is important, as a prerequisite, to ensure and expand the functions of the employment safety net, including re-skilling support during employment and strengthening consulting and advisory functions, etc., and, while utilizing the power of the private sector, the public and private sectors must work together to strengthen re-skilling and matching functions. In doing so, the following three perspectives are important.

1) Only when the internal labor market is revitalized through personnel and wage system

reforms within companies will the external labor market (that is, the labor market as a whole) also be revitalized. Based on the recognition that human capital is the key to improving corporate value and according to the actual conditions of individual companies, with the review by labor and management of personnel and wage systems within companies will be positioned at the core of the reforms, and in addition to gradually dispelling concerns about labor mobility, through measures such as drastically strengthening investments in people we will increase the number of companies that attract human resources who will return to them in the future, even if they change jobs at some point.

2) Amidst the changing realities of employment practices in Japan, these reforms are an attempt to achieve structural wage increases while preserving employment stability for working individuals. From the standpoint of working individuals, we will ensure the provision of diverse careers and choices in treatment as an employee by ensuring smooth labor mobility.

3) These reforms will also lead to growth opportunities for SMEs and small businesses. If, for example, personnel systems within large companies become more flexible, then experience through secondment to SMEs and small businesses for a certain period of time, side jobs, and multiple jobs will come to be objectively recognized as skills. Human resource exchanges between large companies and SMEs and small businesses will become even more active, leading to human resources support for SMEs and small businesses in regions facing labor shortages. In conjunction with this, by thoroughly taking measures to pass on labor and other costs, we will take all possible measures to ensure that the earnings of SMEs and small businesses and that this will lead to wage increases. Additionally, by enhancing support for re-skilling, etc., we will cut off the negative spiral in which economic disparities create educational disparities, and this will then lead to the creation of a society in which everyone can find a sense of purpose in their life.

Based on the above perspectives, the following reforms will be promoted as an integrated three-pronged approach.

1) Support for improving abilities through re-skilling
2) Introduction of job-based wages according to the actual conditions of individual companies
3) Facilitation of labor movement to growth fields

In conjunction with this, respect for diversity and correcting disparities will be prioritized, and we will promote integrated efforts such as to raise the minimum wage, ensure proper transactions by passing on labor costs, enforce equal pay for equal work between regular and non-regular workers, improve the environment the re-skilling of workers at SMEs and small businesses, and enhance career education.

In doing so, because some of these reforms require time, the public and private sectors will confirm their progress at regular intervals, and systemic reviews will be conducted while sharing timelines.

In addition, because the response to these reforms is expected to greatly differ by industry sector, fine-tuned responses will be made in cooperation with the ministries and agencies with jurisdiction over the business.

(4) Support for improving abilities through re-skilling

(1) Expanding direct support for individuals

75% of the government's re-skilling support measures for currently employed workers are mainly via companies (77.1 billion yen (human resources development support subsidies, public vocational training (training for currently employed workers), and operational cost

grants for the Human Resources Productivity Support Center)) and 25% is done via individuals (23.7 billion yen in educational training benefits). [3] In order to enable working individuals to make their own choices, within five years and while verifying the effects, we will make it possible for more than half of re-skilling benefits to be paid via individuals and increase the ratio of currently employed workers who are taking re-skilling courses.

In doing so, and based on the experience in developed countries that re-skilling subjects can be applied regardless of industry while still being effective for workers' medium- to long-term career development[4], more emphasis will be placed on off-the-job-training, including training courses run by private educational companies and degree programs run by universities, where skills can be proven regardless of industry or company.

The use of digital certification and display systems ("open badges") will be encouraged as a way to help visualize the history of skills acquired by individuals, regardless of their industry or company.

With regard to educational and training benefits for employment insurance, in fields[5] where high wages can be obtained and fields where high employability is expected to improve (IT, data analytics, project management, technical research, sales/marketing, management/planning, and tourism/logistics, etc.), consideration will be given to expanding the subsidy rate and subsidy upper limit when individuals enroll in re-skilling programs, as well as to designing specific re-skilling systems.

In particular, with regard to the portion of re-skilling programs that will be enhanced this time, Hello Work and education and training institutions, etc. will confirm in advance the appropriateness of their content for re-skilling so that workers (including currently employed workers) can, while receiving consultations, appropriately select the content and method for taking re-skilling programs according to their own know-how, skills, and intentions.

The role of career consultants will be strengthened, and, in the future, consideration will be given to whether or not some career consultants in the private sector will also take on the role of confirming the appropriateness of support measures.

Efforts will be made to utilize online systems to streamline the procedures for receiving education and training benefits.

We will also review the content of support measures for re-skilling via companies, and consider enhancing those for which it is necessary. In doing so, we will provide re-skilling support for non-regular workers, etc., who have few opportunities for training within companies, by utilizing flexible dates and implementation methods that make it easy to learn while working and that lead to career advancement according to the individual's wishes.

As part of efforts to achieve the new target of 500,000 Japanese students studying abroad by 2033, we will encourage working adults to study at overseas graduate schools, which has been sluggish in recent years. In doing so, we will take into consideration the fact that there are time constraints for individuals who are currently working, and we will promote efforts for online study abroad.

(2) The necessity of strengthening investment in Japanese companies' human resources

Japanese companies' investment in human resources (excluding on-the-job-training) remained at 0.1% of GDP from 2010 to 2014, which is a level that is lower than that of developed countries such as the U.S. (2.08%) and France (1.78%). And, in recent years, it has been on a downward trend. As population decline intensifies labor supply constraints, companies that do not invest in their people will find it increasingly difficult to attract talented human resources, which will directly lead to a weakening of their corporate value and competitiveness.

On the other hand, the experiences of other countries shows that companies that fully invest

in their people do not see an increase in turnover, but rather they are able to attract talented people because those people have the opportunity to nurture themselves.

For this reason, it is important to keep in mind that companies themselves need to strengthen re-skilling support for working individuals.

(3) Follow-up and review of the "Investment in Human Capital" policy package

Based on these guidelines, we will follow up on the implementation status of the package each fiscal year so that each of the package's support measures will be easier for workers to use, and the results will be reflected in the budget for the following fiscal year.

Together with this, we will measure and analyze the effects on post-re-skilling improvements in the treatment of employees and internal and external promotions and appointments, and then use this information to improve measures.

(4) Review of employment adjustment subsidies

The current employment adjustment subsidy is a system that subsidizes the costs of employment adjustments in the form of educational training, secondment, or absence from work (subsidizes 1/2 of the costs for large companies and 2/3 of the costs for SMEs and small businesses. In the case of employment adjustments through educational trainings, an additional 1,200 yen per person per day is provided).

Although this program has played an important role as a measure to maintain employment in the face of rapidly worsening economic conditions such as the Lehman's collapse and the COVID-19 pandemic, it has been pointed out that if the subsidy continues for a long period of time, it may hinder the maintenance and improvement of workers' job skills and the smooth transition of workers to growing fields.

Therefore, in order to strengthen re-skilling[6] of currently employed workers, we will conduct a review of the subsidy rate, etc. so that it will be easier for employers to choose employment adjustment through educational and training rather than through absence from work. In the current system, the benefit period of educational training or absence from work is up to 100 days in a one year period and up to 150 days in a three year period. For example, if the employment adjustment exceeds 30 days, then, as a general rule, educational training will be required, and in exceptional cases where employment adjustment is made after that date through absence from work, we will consider lowering the subsidy rate or otherwise revising the subsidy.

(5) Expansion of courses in digital fields, etc.

The number of digital-related courses (179 courses (as of April of this year)) in professional practice education and training benefits will be expanded to more than 300 courses by the end of FY2025 in order to strengthen re-skilling in digital fields. In doing so, we plan to enhance courses related to fields that are expected to grow in the future, such as generative AI, and that are in line with the current era.

(6) Flexibility in the mechanism for deducting re-skilling expenses in employment income deductions

The mechanism for deducting re-skilling expenses in employment income deductions (special expenditure deductions) has been revised so that not only the employer, but also career consultants, can provide proof that the re-skilling is related to job duties. Further flexibility in the system will be considered while monitoring the utilization status of the new system.

(5) Introduction of job-based wages according to the actual conditions of individual

companies

(1) Introduction of job-based wages that suit the actual conditions of individual companies

Through structural wage increases via the introduction of job-based wages that match the actual conditions of individual companies, we will aim to reduce the wage disparity that exists between Japanese and foreign companies despite the fact that they are doing the same job, while taking into account the differences in economic conditions in each country.

Within the year and for the purpose of securing job-based wages for personnel at Japanese companies, we will develop case studies and present a variety of models to serve as references for individual companies to refer to when introducing systems for the following: methods for organizing and bundling jobs; personnel placement, training, and evaluation methods based on these; posting systems; re-skilling methods; employee performance improvement plans (PIP); wage systems; current legislation and judicial precedents about changes in working conditions; and leave systems, [7] etc. In doing so, because the actual conditions of individual companies differ, the reforms will have a degree of flexibility so that they can be adapted to the actual conditions at companies. Examples of SMEs and small businesses will also be introduced.

Additionally, when introducing job-based personnel (job-based wages), it is also possible to introduce and apply them sequentially, considering not only skills, but also individual performance and aptitudes.

Hereafter, several examples of introductions will be presented, but, in order to present more diverse models, a subcommittee composed primarily of private sector practitioners will, by the end of the year, compile a collection of case studies so that companies can concretely refer to them.

(2) Ensuring transparency of salary and employment systems

We will continue to disclose information in order to make the concept and status of salary and employment systems visible to the capital and labor markets.

In addition, the "Guidelines for Human Capital Visualization" (formulated in August 2022), which are used as a reference when companies make descriptions in their annual securities reports and integrated reports, etc., will be revised by the end of the year based on these guidelines.

(3) Introduction of some examples

This section presents some examples of companies that are introducing job-based wages (job-based personnel).

i) Purpose of introducing job-based wages (job-based personnel)

- As overseas markets expand, in order to explore the needs of global society and customers and to provide services and solutions that resolve these issues, we need (1) growth-oriented human resource management for both the organization and individuals through job-based systems, (2) allocation and recruitment of human resources from both inside and outside the company using job descriptions, and (3) re-skilling using jobs (electronics manufacturer H).
- As a means for us to change from an IT company to a DX company, we have to move away from a seniority-based personnel system and system to a job-based system that allows us to assign the most appropriate personnel in order to realize an organizational design based on business strategy (electronics manufacturer F).
- In order to establish a globally competitive organization, through a job-based system we have to (1) appeal to outstanding external human resources, (2) shift to strengthening

expertise in human resources development, and (3) promote autonomous career development through visualization of their career plan options (cosmetics manufacturer S).

ii) Personnel placement, training, and evaluation methods

- Individual job descriptions are made available to all employees, and the appropriate person is assigned to the job based on discussions on such as "Who amongst our currently employees, candidates (both internal and external) and applicants should we assign?" and "What are the specific and objective reasons for placing them as the most suitable person? By clarifying and publicizing the skills required for positions, (1) employees themselves can become aware of gaps between their current situation and the necessary skills/experience, (2) employees can formulate re-skilling plans in consultation with their supervisor to fill in these gaps, and (3) employees can engage in re-skilling of their own initiative. In addition, by establishing a certificate system for jobs such as 'digital jobs,' we foster an awareness amongst the employees themselves of continuous learning.
  For managers we have shifted from a uniquely Japanese compensation system that is tied to people (abilities) to a compensation system that is tied to jobs (duties) and that is shared by the Group both domestically and overseas, and employees' treatment has been determined by the content of their job and their performance (outcomes/behavior). (electronics manufacturer H)
- After reviewing our seniority-based personnel system and mapping all employees by job type and role, we are utilizing a posting system to optimally allocate human resources for each job based on detailed job descriptions that were created for each individual position. A system (1-on-1 meeting with supervisors and career coordinators) has been established so that employees can consult about their careers and re-skilling content. Additionally, the re-skilling method has also been changed from a focus on uniform training for each rank to instead focus on on-demand education, wherein the content can be selected according to the employee's own characteristics and desired job.
  We have reviewed the ability based compensation system, and for management positions the compensation tied to the job has been reflected in their individual compensation as well. For general employees we have set a more detailed salary range than before for each job responsibility based on a benchmark of compensation levels in the external labor market so that evaluations based on the employee's contributions and behavior are easily reflected in their compensation. (electronics manufacturer F)
- Instead of regular, company-initiated transfers across job categories, personnel transfers are essentially made within the same job category with an emphasis on strengthening expertise, and a posting system is used for transfers between job categories. Personnel who wish to be part of the management team in the future are expected to volunteer for postings and to gain experience in multiple positions.
  After clarifying the skills and expertise required for each job (duties), through career workshops for all managers and career-track employees, goal-setting and evaluation processes, we have each employee formulate a medium- to long-term career plan and then conduct re-skilling based on that plan. An employee's supervisor helps them to formulate their career plan.
  Individual goals corresponding to the outcomes and behavior expected of the job (duties) are set in advance in consultation with the employee's superior, and then each employee's evaluation is determined according to the degree of achievement and reflected in their treatment. (cosmetics manufacturer S)

iii) Posting system

- Via job descriptions, we clarify the content of duties required for positions that we are recruiting for and the skills that are required for those duties, and then we have simultaneous recruitment from both within the Group and via recruitment of experienced hires. For in-house human resources, the skills, qualifications, experience, and career wish of personnel are visualized in advance and within the scope of individuals' consent, and then matching is performed in light of the job description. (electronics manufacturer H)
- With a focus on transfers and promotions for executives through postings, and as a result of significantly strengthening our posting system (such as by having all newly appointed section manager positions being promoted via postings rather than via recommendations by superiors, and by expanding the scope of postings to be global), in three years 25% of our domestic employees applied for a posting. For employees who do not pass, we always give them feedback on what points they were lacking in, and have them use it to develop their own careers. (electronics manufacturer F)
- When vacancies become available, we recruit personnel through postings within the company as needed, and conduct personnel transfers based on the employee's own wishes, including labor transfers between occupations within the company. (cosmetics manufacturer S)

iv) Methods for introducing job-based wages (job-based personnel)

- When defining jobs (creating job descriptions), we referred to globally standardized job definitions held by globally active external human resources consulting companies, and then adjusted them for our company, which let us have a quick transition. (electronics manufacturer H, electronics manufacturer F, cosmetics manufacturer S)

v) Sequential introduction

- We introduced the system for managers from 2014. In 2020 we created job descriptions for all jobs and at all levels, and then from July 2022 we introduced the system for all employees. (electronics manufacturer H)
- We introduced the system for managers from 2020. From 2022 we introduced the general system. (electronics manufacturer F)
- We introduced the system for managers from 2015. From 2021 we introduced the general system. (cosmetics manufacturer S)

vi) Examples of performance and behavior appropriateness considerations

- We base our evaluations on performance and behavior appropriateness, such as 'Doing what is right for yourself and others without hesitation,' 'Moving fast and learn from failure to succeed,' 'Empathize with customers and collaborate to create innovation,' 'Be respectful, actively speak up, and listen to others' opinions,' 'Voraciously seek growth for yourself, for others, and for the organization.' (electronics manufacturer H)
- We expect roles to proactively promote research and development of innovative technologies to solve problems while also cooperating with teams and related departments based on accurately grasping the latent needs and essential issues of society and companies. (electronics manufacturer F)
- Able to define/propose problems and take responsibility for implementing solutions", and "Absorbs a wide range of knowledge/experience, and has a desire to improve expertise as a professional. (cosmetics manufacturer S)

(6) Facilitating the movement of labor to growth areas

(1) Revision of the unemployment benefits system

Looking at the unemployment benefit system from the perspective of facilitating labor movement via an employee's choice, if a person leaves their job for personal reasons then they cannot receive unemployment benefits for two or three months after applying for a job, which is different from the requirement for when the employee leaves their job at the discretion of the company. We will make specific designs to relax the requirements for instances where an individual leaves a job because of their own circumstances, such as treating cases where the applicant has been engaged in re-skilling within, for example, one year from the time of application for unemployment benefits as if it were a case of leaving their job at the discretion of the company.

(2) Review of retirement income tax system

With regard to the taxation of retirement income, the deduction per year of service is increased from 400,000 yen to 700,000 yen after 20 years of service, and there has been an opinion that this has hindered the facilitation of labor mobility at an individual's discretion. We will review this tax system, paying attention to the impact of system changes.

With regard to iDeCo (individual-type Defined Contribution pension plan), which allows individuals to contribute and manage their own contributions and to take their pension assets with them when they change jobs, a conclusion regarding raising the contribution limits and the upper limit of age eligibility to start receiving benefits will be reached in conjunction with the next year’s Financial Verification of Public Pension Plan.

(3) Removing barriers to voluntary retirement

For private sectors as well, it may be necessary to review labor practices, such as reducing retirement benefits in the case of voluntary retirement in some companies, and not paying retirement allowances if the number of years of service and age is below a certain standard.

One of the reasons for this is pointed out that the "The Model Rules of Employment " established by the Ministry of Health, Labour, and Welfare stipulate restrictions on retirement allowances based on number of years of service and that the treatment of voluntary retirees differently from those of company retirees on retirement allowances, so we will amend the Model Rules of Employment will be revised.

(4) Sharing public-private information on recruitment, job-seeking, and career advancement

In Denmark, the government collects objective indicators such as wages and job openings from the private sector and specifies the outlook for each occupation every six months in the form of green, yellow, and red. Danish caseworkers use this as a guide to help workers move to better jobs. Workers also receive consultations from caseworkers when they are paid subsidies such as unemployment benefits.

In Japan as well, in order to facilitate the smooth movement of labor to growth sectors, we will establish a system to process, consolidate, and share basic information held by the public and private sectors on job seeking and job offers, and career consultants (currently 66,000 people) will be able to provide consultations on career development and job changes to workers based on this basic information.

Therefore,

i) Job opening/job seeking information held by Hello Work will be processed and consolidated,

ii) Of the job offer information that is held by private human resources companies, the number of job openings, wage trends (for recruitment), and the required skills for each job type and region will be anonymized and aggregated, and the method for doing so

will be considered at the Japan Association of Human Resource Services Industry, which compiles pay rates for job changes and other information.

iii) Information will be consolidated from private councils and Hello Work, etc., and basic information will be provided to career consultants who meet certain requirements.

iv) In the public sector, Hello Work will strengthen its consulting functions, such as by strengthening the structure of its career consulting department, and will strive to enhance continuous consultation support from the time of employment.

These efforts will enable career consultants who work in the public and private sector and meet certain requirements to provide advice and consultations based on objective data on job changes and career advancement to currently employed workers and job seekers who are considering career advancement in each job category and region, similar to how it is done in Denmark and other countries as part of flexicurity.

As for the public vocational training system, in addition to promoting greater efficiency for operators of private education and training businesses by bringing applications online and utilizing employment data from Hello Work, we will promptly introduce a mechanism for directly hearing the opinions of on-site private education and training business operators.

Additionally, we will consider methods for supplementing and comparing wages before and after changing jobs for occupations recommended by Hello Work. On top of this, we will improve the operation of the system so that recommendations are made that take into account the possibility of wage increases before and after changing jobs, and the possibility of further increases according to the individual's skill level.

In order for job seekers to consider SMEs and small businesses as one of their options, we will consider how career consultants can effectively provide job seekers with qualitative information about the strengths and attractiveness of individual SMEs and small businesses.

(5) Encouraging side jobs and multiple jobs

Side jobs and multiple jobs will be encouraged as a starting point for the smooth movement of labor to growth fields. To that end, a trial environment will be developed so that individual workers can transition to new careers with peace of mind, such as support for companies that accept people for side jobs/multiple jobs and for companies that send their own employees out for side jobs/multiple jobs.

Additionally, we will use an industry employment stability subsidy and promote enrollment-based company secondment will be promoted.

(6) Support for irregular workers

We will provide support such as advice and consultations for job applicants who are not covered by employment insurance when transitioning to different work, including irregular workers.

(7) Development of information infrastructure related to the Ministry of Health, Labour and Welfare

We will work to enhance the functionality and promote the use of the workplace information website (Shokubalabo ("Workplace Lab")) operated by the Ministry of Health, Labour and Welfare. In addition, we will enhance the functionality of the Japanese version of O-NET (job tag) and improve convenience for users with diverse attributes.

(7) Respecting diversity and correcting disparities

(1) Minimum wage

Last year, the minimum wage was raised to a record high, and this year the Minimum Wage

Council (consisting of individuals representing the public, capital, and labor sectors) will be asked to have thorough discussions, including on achieving a national weighted average minimum wage of 1,000 yen per hour.

In addition, with regard to the regional disparity of the minimum wage, the number of ranks that indicate the value of the minimum wage has been revised from four to three; in the future, the aim is to correct regional disparity, such as by increasing the ratio of the minimum amount compared to the maximum amount of the minimum wage by region.

After this summer, the policy for raising the minimum wage after reaching 1,000 yen per hour will also be discussed at the Council of New Form of Capitalism Realization.

(2) Improving the environment for wage increases at SMEs and small businesses, etc.

In order for SMEs and small businesses to raise wages, it is essential to support price pass-through measures and productivity improvements to realize a virtuous cycle of growth and wage increases, and through these efforts we will address the labor shortage in the region and help win the international competition to acquire human resources.

i) Promoting appropriate price pass-through measures and proper subcontracting transactions

To realize wage increases for SMEs and small businesses, we need to establish appropriate price pass-through practices in supply chains as a whole, including securing sources of funds for appropriate increases that do not lose out to rising prices. To accomplish this, we will focus on even more measures against pass-through costs and optimize subcontracting transactions, including carrying out special investigations of organizations that exceed 110,000 people concerning the abuse of an advantageous position, and on-site investigations of five priority industries. Industry groups must revise and ensure the completeness of autonomous action plans. When it comes to pass-through labor costs in particular, the government, with the cooperation of the Japan Fair Trade Commission, carried out an investigation into the reality of each industry and, based on this, will summarize guidelines concerning pass-through labor costs within the year.

ii) Promoting productivity improvement support measures for SMEs and small businesses

In order to realize wage increases for SMEs and small businesses, we will credit against tax for corporates raising wages and treat those preferentially in subsidies, etc., and work to further strengthen support for improving productivity through manufacturing subsidies and business restructuring subsidies. In doing so, further measures, including tax credits, will be considered after sorting out the issues in order to promote wage increases even at corporations that are losing money. In addition, with reference to the "Mikata" project that was conducted in the automotive industry, we will implement reskilling for suppliers' human resources and horizontally extend to other fields with integrated support through subsidies for these SMEs and small businesses.

We will consider expanding support measures such as wage subsidies for when SMEs and small businesses send their employees for re-skilling, even if the re-skilling is voluntary by individuals.

(3) Thorough implementation of an equal pay for equal work system

Even after the implementation of the equal pay for equal work system, which prohibits unreasonable differences in the treatment between regular workers and non-regular workers within the same company, there is still about 600 yen per hour gap between regular and non-regular workers.

Enforcement of the equal pay for equal work system is carried out by the 47 prefectural labor bureaus throughout Japan. Nationwide there are 321 Labour Standard Inspection Offices, but they do not have the authority to provide guidance and advice. In order to strengthen enforcement of equal pay for equal work, Labor Standard Inspection Offices have also been conducting trial investigations since December 2022, and are required to report problematic companies to the Labor Bureau.

Although it cannot be concluded that the wage gap of about 600 yen per hour is irrational, we will follow up sequentially during the year to see the effect of the aforementioned surveys by the Labour Standard Inspection Offices which was implemented in March 2023, on correcting wage disparities, and after looking at the results, we will consider how to proceed. In doing so, if necessary, we will consider strengthening the systems of related organizations.

Under the current guidelines, the equal pay for equal work system aims to improve the treatment of non-regular workers by comparing regular workers and non-regular workers, but this will be reconsidered by expanding the approach to employees with limited duties, employees with limited work locations, and employees with limited hours. It should also be noted once again that the equal pay for equal work system applies to all workers, including foreign nationals.

(4) Follow-up on the mandatory disclosures in the Act on the Promotion of Women's Active Engagement in Professional Life

We will follow up on the state of gender wage gap after the enactment of mandatory disclosures (enacted in July 2022 for employers with 301 or more workers) in order to obtain direction on whether or not to expand the scope of mandatory disclosures (for employers with 101 to 300 workers) under the Act on the Promotion of Women's Active Engagement in Professional Life.

(5) Enhancing career education

To enhance career education during the Period for Integrated Studies in elementary, junior high, and high schools, we will disseminate implementation methods and good practices. In addition, efforts will be made to enhance entrepreneurship education, including through extracurricular activities by these schools.

Universities will also expand their curriculum to enhance career education.

In order to enhance human resource development and career awareness at universities and colleges of technology (KOSEN), etc., we will actively recruit individuals who have practical experience at companies, etc., and significantly increase the number of practitioner-teachers that are invited from companies, etc. Entrepreneurs from startups, SMEs, and small businesses will also be invited as lecturers.

In addition, by promoting education and research that are integrated with corporate activities at universities and colleges of technology (KOSEN), etc., we will advance both the social implementation of research and the development of the advanced human resources that are necessary to compete in the world.

We will strengthen support for efforts by companies to establish courses to develop human resources in cooperation with universities or other higher education institutions.

(6) Promoting coexistence with foreign national workers

We will consider establishing a new system aimed at securing and developing human resources by implementing the constructive dissolution of the current Technical Intern Training Program in accordance with the actual situation.

In addition, we will also improve the educational environment for the children of foreign nationals.

(8) Reforming the system for training and evaluating national public employees

In order to promote corporate labor market reform, with the spirit of "taking the first step," it is necessary for the government to update the system for training and evaluating national public employees and to spread these trends to local public employees and incorporated administrative agencies, etc.

Career paths and required skills also need to be reconsidered to fit the times. With the increasing complexity of social issues and the sophistication of technology, national public employees are increasingly being required to have high-level skills and expertise. Efforts should be made to support employees' career development, such as providing opportunities to raise awareness of their career paths based on such expertise, and sorting out their abilities that national public employees acquire as they build their careers by planning systems and gaining certain experiences in the field.

In an environment where high-level skills and expertise are required, it is meaningless unless each individual national public employee takes action to improve their skills accordingly. As the current training programs are consisted primarily of classroom lectures, it should be updated, for example, by increasing the number of participatory training programs, and appropriately managing national public employees' training attendance so that national public employees receive the trainings that are required for their job responsibilities.

Moreover, from the perspective of full-fledged public-private exchanges, we will promote consideration of how to utilize public-private human resources.

We will also consider how best to manage national public employees' job histories, the skills and expertise that they have acquired, the results achieved, and their experience.

(9) Matters relevant to the Guidelines for Integrated Three-Pronged Labor Market Reforms

1) Ensuring fair transactions involving freelance contractors

Based on the Act on ensuring fair transactions involving freelance contractors, businesses that entrust work to freelancers must ensure thorough compliance regarding the obligation of issuance in writing or by email and prohibited acts during transactions, such as reducing remuneration; to ensure this, we will strengthen the enforcement system and expand the consultation system for freelancers.

In addition, to ensure the completeness of the mechanisms that take up issues from individual freelancers and organizations associated with freelancers, we will discuss a framework for opinion exchange. Based on the information obtained from these initiatives, we will strive to gain an understanding of the current state of affairs, including carrying out a concentrated fact-finding survey into industries in which there are many problem cases.

Moreover, we will discuss the establishment of a framework for ministries with authority over industries to collaborate with the Japan Fair Trade Commission and the Small and Medium Enterprise Agency and encourage organizations of businesses that entrust work to freelancers to ensure fair transactions involving freelance contractors.

2) Developing an environment in which men and women can easily work

We will focus on increasing the minimum wage and expanding the application of employee insurance for short-term workers so they can work without being conscious of the so-called 1.06 million yen/1.3 million yen barrier. This year, we will also determine and implement immediate steps so that employees that have broken through the 1.06 million yen wall do not face a reversal of their take-home payments, and work on reviewing the system.

3) Decreasing the burden of higher education expenses

With regard to reductions/exemptions of class fees and paid scholarships, we aim to increase the percentage of high school students from low-income households moving on to higher education and from next fiscal year expand this to the middle class (around 6 million yen household income per year), including students from households with multiple children or those in science, technology, and agriculture; we will also consider further support for reductions/exemptions of class fees for students from households with multiple children based on the implementation situation and resources, etc. (widen the range of eligible annual income, increase the percentage of support based on annual income category, etc.), and take necessary measures.

In terms of the system in which people defer payment of class fees, we will further consider introducing this in full after it is introduced for students at master's level from next fiscal year (note).

Note: The annual income level at which income-based payment begins will be around 3 million yen, but income-based payment will not start before an annual income of 4 million yen if there are two children, for example, in consideration of payments during the childrearing period.

IV. Investment in GX and DX, etc.

1. Japan's advantage in resilience and promotion of domestic business locations, attracting highly-skilled international professionals

(1) Approaches to promoting domestic industry locations and strategic fields

As the opposition between authoritarian nations with state capitalism and liberal, democratic nations becomes more serious, advanced countries, especially in Europe and America, are strengthening movements to shift global supply chains to their own country, neighboring countries, and like-minded countries, in light of the geopolitical risks.

Additionally, the government is providing large-scale, long-term, comprehensive support for strategic fields in which medium- and long-term growth in GX and DX is expected, thus strengthening the movement to attract investment and private companies to locations in Japan.

In this context, uncertainty is currently increasing across the world against the backdrop of the corona crisis and the invasion of Ukraine; Japan is relatively stable in terms of policy and economic climate, and with changes to the site environment of Japan in terms of costs, the appeal of our country as an investment destination is increasing.

It is important that we take this chance as a nation and both public and private sectors make bold investments in facilities and human resources.

On the other hand, when it comes to strategic fields in different countries, comprehensive support is either already going ahead or is expected, including running costs that go beyond initial investment over 5–10 years. In the U.S., budgetary and tax reduction measures have been put in place via the framework of the Inflation Reduction Act. Some European companies are considering business in America based on this, so the EU opposes it, and has announced that within the EU area revisions will be made to relax the state aid rules in terms of investment in GX fields.

It is also necessary for Japan to implement comprehensive support focused on strategic fields in which growth is expected on a scale and for a period of time that will enable it to demonstrate medium- and long-term predictability to companies within Japan and overseas.

Increased domestic investment, especially in regional areas, will increase quality employment and raise hopes for marriage and child-rearing among the younger generation, contributing to measures for the falling birth rate. In fact, investment in semiconductors by the

public and private sectors in Kyushu and the Chubu region has led to a virtuous cycle of increased investment and more quality employment.

On the other hand, investment focused on strategic fields such as semiconductors, batteries, biomanufacturing, and data centers requires planning for large domestic sites and investment, and business running costs are huge. Consequently, it is important to ensure adequate predictability in the medium and long term for private enterprises.

Based on the abovementioned points, we will consider support in terms of the tax system and the budget with standards of an international level.

(2) Measures for strategic fields (Semiconductors, batteries, biomanufacturing, data centers, etc.)

1) Semiconductors

With regard to semiconductors, it is possible to process and calculate advanced/high-speed/power-saving data by ensuring high efficiency performance and reduced power consumption; this increases productivity and has a significant effect on everyday life in society. As an increase of data processing in terms of the use of automobiles and industrial robots is certain, we expect to secure stable supply chains and promote domestic investment, including in related industries, from the perspective of GX and DX.

Global semiconductor manufacturers are demonstrating a desire for active capital investment in anticipation of explosive demand growth in the future, and there has been an increase in competition over attracting semiconductor-related industries to countries around the world.

In Japan, when we attracted a leading-edge semiconductor manufacturer TSMC (Taiwan Semiconductor Manufacturing Company) to Kumamoto Prefecture, there were signs of a virtuous cycle of increased investment and more quality employment, including increased investment in related industries, collaboration to train human resources, and an increase in wages in the Kyushu area; it is important that we should engage in horizontal development of this best practice. The expansion of manufacturing infrastructure for advanced and industrial semiconductors, manufacturing equipment, component materials, and raw materials will be promoted, as will human resource development.

We will also establish a cooperative framework between Japan, European countries, and United States at government level for next-generation semiconductors, aiming to attract top talents from Japan and other countries with the companies and research organizations at the heart of production serving as hubs of international collaboration, as well as establishing design and manufacturing infrastructure to make next-generation semiconductors useful during the 2020s through collaboration with like-minded countries, and support for R&D and mass production. On top of this, we will promote the development of future technology such as photoelectric fusion, with an eye to realizing this in the 2030s and beyond.

2) Batteries

Batteries are essential for the progression of GX, including making mobility electric and expanding the introduction of renewable energy; a movement is going ahead in countries around the world to secure whole supply chains, from upstream resources to downstream manufacturing infrastructure. In this context, it is vital that Japan occupies the heart of the world's global battery supply chain.

The lithium-ion battery, currently mainstream, is technology that was developed and put to use for the first time in the world by Japan, so to maintain and increase Japan's predominance, we will further expand manufacturing infrastructure for batteries, materials, and manufacturing equipment.

On the other hand, the supply-demand of battery metals is expected to become tight around 2030, so it is an urgent task to secure stable supply of upstream resources. We are building a system of public-private collaboration and expanding the functions of the Japan Organization for Metals and Energy Security so that trading companies and downstream companies can secure their interests and a stable supply of battery metals.

After strengthening collaboration with Canada and Australia, which have upstream resources, and with the U.S., which has a huge market, we will promote strategic collaboration with like-minded countries and overseas expansion to create a resilient global supply chain that includes countries and regions that possess resources, so-called "global south."

Moreover, as the global competition over the development of next-generation batteries heats up, Japan aims for new innovation in the battery field through technical development and verification with an eye to the mass production of next-generation batteries, including all-solid-state batteries whose development Japan is leading and human resources development, etc.

3) Biomanufacturing

Biomanufacturing is a growth area that contributes to solving social issues such as global warming by using gene technology to alter the quality and quantity of products synthesized by microbes.

We will promote the development and verification of large-scale technology with microbial design platform operators as the starting point, as well as initiatives for large-scale production and social implementation, including the creation of initial demand for bio-based products and the establishment of certification labelling systems for promoting consumer’s acceptance.

In addition, in the biological fields in which Japan has global competitiveness, we will accelerate the development and expansion of incubation hubs through collaboration with private companies, aimed at regions in which cutting-edge academia and start-ups are concentrated, and support startups that want to expand abroad to enter the U.S. and other countries to build up local ecosystems and networks.

4) Data centers

Data centers are vital to augment servers suitable for AI, as the use of AI, especially generative AI, rapidly increases around the globe. In addition, in light of the tremendous increase of information processing, we will strengthen resilience by correcting the heavy concentration in the Tokyo area, and gradually facilitate decentralized locations from the perspective of using decarbonized power sources.

Furthermore, we will ensure interconnection, supporting the development of domestic submarine cables from the perspective of using computing resources both efficiently and effectively, and completing a cable that encircles Japan. We will also quickly promote multiple routes for international submarine cables with the cooperation of like-minded countries, to enable Japan to become a hub for international data distribution.

(3) Cross-sectional environmental development

1) Developing an innovation environment and infrastructure

International competition is progressing in terms of innovation, which is a source of profit, and from the perspective of supporting private investment in intangible assets, we aim to develop an innovation environment, including considering a tax system to encourage investment in R&D for the creation of intellectual assets equal to or above those of other countries, and investing in infrastructure that will create added value for the next generation, for example communication and computing infrastructure.

In addition, we will promote the development of industrial infrastructure associated with key industries, such as industrial water and industrial land provided through the facilitation of land use adjustment, in order to utilize land and solve infrastructure constraints for corporate sites. We will also develop sites for industry by facilitating adjustments for land use. We will encourage more efficient and more resilient supply chains by digitalizing trade procedures.

2) Ensuring stable supply chains

We will consider responses to problems that are identified in the supply chains of critical products such as semiconductors and batteries by conducting continuous inspections and evaluations, and make absolutely sure that the supply chains are maintained. We will also support the establishment of domestic production bases for supply chains as a whole, including the return of components made overseas to Japan.

To develop advanced key technologies, we will demonstrate technology that should be the subject of new support, and realize continuing and strong support by steadily engaging in R&D with accompaniment and support from the public and private sectors. We will further consider forms of support, including capital reinforcement for private companies that take on the responsibility of manufacturing critical products for survival of citizens, their daily lives, and economic activities.

Furthermore, based on the fact that businesses that do not demonstrate their strict information management when handling sensitive information find it difficult to engage in information exchanges and transactions with foreign governments and businesses, we will thoroughly consider and come to a conclusion concerning a legislative system, etc. to reinforce Japan's information security, including confirming the eligibility (security clearance) of people handling government's sensitive information, in light of principal countries' information security systems and industrial needs.

(4) Attracting highly-skilled international professionals

As the globalization of the economy and digitalization advance, demand for high-level global talents is increasing around the world, and competition between different countries to obtain them is intensifying.

Meanwhile, in Japan, the percentage of global professionals born overseas is less than 1%; this is very low in comparison to the UK (23%), the U.S. (16%), and Germany (13%). A survey of foreign companies and foreign employees in Japan indicated that in addition to the language barrier, the cause is difficulty in using everyday life infrastructure, including administrative procedures, and tax rates.

In light of these issues, we will promote further acceptance of global talents by leveraging our advantage in resilience.

In April this year, we created a new eligibility system for residence, aimed at the top level of highly-skilled professionals and young people with high potential who have graduated from top-level universities around the world.

Additionally, for expanding the acceptance of highly skilled foreign professionals, we will assess and examine issues, including taxation, regulations, and other institutional aspects, and take necessary measures.

2. GX and energy security

The human race is now facing a shared challenge of global climate change such as extreme weather and a rising number of massive natural disasters all over the world. As more countries and regions announce their net-zero targets and the global momentum for decarbonization grows, Japan has also made international commitments to reducing greenhouse gas emissions

by 46% in FY2030 and achieving net zero greenhouse gas emissions by 2050, announcing our strong determination to address the climate change as a nation.

Meanwhile, Russia's military invasion of Ukraine in February 2022 has dramatically changed the world's energy situation; and the current crisis has revealed the vulnerabilities of Japan's energy supply systems and their issues with regard to national energy security.

For Japan, a country that has experienced many critical moments in history with stable energy supply being disrupted, the idea of Green Transformation, or GX, means a thorough overhaul of its post-war industrial/energy policies, as GX will transform our entire industrial and social structures centering around fossil energy sources, long established since the Industrial Revolution, into ones based on clean energy.

As a country surrounded by sea and deprived of natural resources that can be extracted easily, Japan has traditionally focused on research and development in the field of decarbonization technologies, with Japanese corporations having technological strengths in many areas. Making the most of these technological advantages to accelerate GX will lead to the stable supply of energy as well as providing opportunities for putting Japan on track for a dramatic bounce-back to economic growth. In addition to contributing to achieve net zero in countries around the world, we need to achieve the economic growth through creating new demand and markets in the decarbonization area, and re-strengthening Japan's industrial competitiveness.

Based on the Basic Policy for the Realization GX (Green Transformation) decided by the Cabinet, we will promote initiatives to simultaneously achieve stable energy supply, stronger industrial competitiveness, economic growth, and decarbonization, through the realization of GX.

(1) Decarbonization initiatives towards GX based on the premise of ensuring a stable energy supply

1) Promoting thorough energy efficiency improvement, restructuring the manufacturing industry (fuels and feedstocks transition)

i) Promoting Energy Efficiency Improvement

In residential, commercial, industrial, and transport sectors, we will promote bold energy efficiency improvement through a combination of regulatory measures and support measures based on "the Act on the Rationalizing Energy Use and Shifting to Non-fossil Energy".

For companies, we will strengthen the support measures for SMEs by subsidies which are eligible for multiple-year investment plans. We will also strengthen the support measures by subsidies for energy efficiency diagnosis.

For households, related ministries and agencies will work together to strengthen the support measures, including new construction and renovation of energy-efficient homes and improving window insulation, through a one-stop service using a unified window.

ii) Fuels and feedstocks transition

Based on "the Act on the Rationalizing Energy Use and Shifting to Non-fossil Energy", large consumers are obliged to submit medium- to long-term plans and periodic reports on the shift to non-fossil energy. We will encourage the shift with newly proposed guidelines for the five major industries that account for 40% of energy consumption in the industrial sector (steel, chemical, cement, paper, and automobile manufacturing industries). In addition, by introducing a new system of voluntary disclosure of the periodic report information under the Act, we will encourage the disclosure of information about energy efficiency improvement and shift to non-fossil energy.

On top of this, we will provide concentrated support for developing and introducing innovative technology such as hydrogen-reduced steel manufacturing, shifting to a production system that moves from blast furnaces to electric furnaces, shifting to a carbon-recycling production system that uses ammonia-fueled naphtha crackers, and changing fuels in coal private power generation.

iii) Decarbonization of heat demand, demand response

We will promote the spread of energy-efficient appliance, such as heat pump water heaters and fuel cells for residential use, as well as encouraging the introduction of energy-efficient equipment such as industrial heat pumps and cogeneration for industry, aiming for decarbonization of heat demand and the effective use of heat.

Demand response will be further expanded.

2) Making renewable energy as a main source of power

i) Wider introduction of renewable energy

To widen the introduction of renewable energy, a key decarbonized power source, while managing excessive national burden and ensuring harmony with local communities, based on the concept of S+3E (safety, energy security, economic efficiency, environment), we work to maximize wider introduction of renewable energy as a major power source, by approaching renewable energy on the top priority, and will collaborate closely with relevant ministries, agencies and organizations as we aim to reliably reach a renewable energy ratio of 36–38% of electrical power in FY2030.

To accomplish this, as an immediate initiative, relevant ministries, agencies and organizations will come together to maximize the introduction of solar power generation in suitable locations, by promoting the expansion of solar panel equipment for shared public facilities, homes, factories, warehouses, airports, and railways, and introducing region-led renewable energy, making use of the Act on Promotion of Global Warming Countermeasures.

For FIT (Feed in Tariff)/FIP (Feed in Premium) systems, we will encourage the use of a bidding system to reduce power generation costs, as well as widening the introduction of FIP systems. Moreover, we will expand models to introduce solar power through long-term contracts with customers that do not rely on FIT/FIP systems.

ii) Wider introduction of offshore wind power

To widen the introduction of offshore wind power, we will select businesses during this fiscal year based on a review of the rules for public applications, including incentivizing the appraisal of plans to start operations in the early stages. We will also accelerate the formation of proposals through Japan version of a centralized model. On top of this, we will consider systematic measures to expand to the exclusive economic zone (EEZ).

iii) System development, responding to output fluctuations

In terms of concrete measures for system development, we will carry out cost-benefit analysis based on a national system development plan (master plan), obtaining an understanding of local areas and considering the utilization of infrastructure such as roads and rail networks as we promote the development of a national system and the development of submarine direct current transmission. For systems that connect regions, we will work to accelerate development over the next 10 years or so on a scale eight times more (at least 10 million kW) than the past 10 years (around 1.2 million kW), and promote development aiming for submarine direct transmission from Hokkaido in FY2030.

To ensure balancing capacity, we will formulate the prospects of introducing stationary batteries in 2030, and attract investment from private companies. To reduce the costs of stationary batteries and make these commercial quickly, we will promote support for their introduction, at the same time, establish a market which distributed energy resources can enter, including batteries for homes, and develop rules that can easily connect batteries to systems.

iv) Next-generation solar cells and floating offshore wind power

We are promoting the establishment of mass production technology, the creation of demand, and the development of a production system, supporting R&D and introductions for the rapid social implementation of next-generation solar cells (perovskite) and accelerating their verification in collaboration with users.

We have set goals for the introduction of floating offshore wind power, and to achieve these we will carry out technological development and large-scale verification, as well as promote the formation of large-scale and resilient supply chains in industries connected to offshore wind power, including windmills, relevant components, and floating bases. We will also work to develop human resources who will be responsible for the renewable energy industry in local areas through government-industry-academia collaboration, including colleges of technology (KOSEN).

We will steadily operate the cost-saving system for the disposal of solar panels that started in July last year, and will implement planned measures to ensure we can properly cope with the peak of mass disposal expected in the 2030s.

3) Utilization of nuclear power

i) Utilization of nuclear power and the restart on the major premise of securing safety

The fundamental premise for utilizing nuclear power is that the national government and operators never forget the lessons learned from the accident at Tokyo Electric Power Company's Fukushima Dai-ichi Nuclear Power Station, continuously asking whether they are free of safety myths. The national government will lead efforts to make self-motivated safety improvements beyond satisfying regulation, reform management and organization of utilities, coexist with host communities through supporting for municipalities and continuous improvement of disaster mitigation and control methods including construction and maintenance of evacuation routes based on unique local situations as well as deepening and extending communication with different groups of Japan's population.

On that premise, nuclear power, which is characterized as a carbon free energy source and having stable output and high autonomy, will be utilized to achieve both the stable energy supply and net zero emissions. In order to make sure to achieve the target of approximately 20-22% nuclear power of the total power generation mix in 2030 defined by the Strategic Energy Plan, giving top priority to safety, we will facilitate the restart of the nuclear reactors that have passed safety reviews by the Nuclear Regulation Authority and have gained local understanding.

ii） Development and construction of next-generation advanced reactors and utilization of existing nuclear power plants

Nuclear power will be utilized in line with the Strategic Energy Plan by aiming to improve nuclear safety through the development and construction of next-generation advanced reactors with built-in new safety mechanisms. On the basic premise of gaining local understanding, plans for building next-generation advanced reactors within the sites of existing nuclear power plants that have determined to be decommissioned will be materialized, taking developments in back-end such as the completion of Rokkasho Reprocessing Plant into account. Other

development and construction projects will be considered based on the future situation, including the status of reactors operating in each region and how local understanding has progressed. Additionally, the business environment required for safety improvement and other initiatives will be developed, while offering stronger support for research and development, training, and supply chain maintenance and enhancement. Steps will also be taken to promote research and development through international collaborations with partner countries, to build a resilient supply chain, and to ensure nuclear safety and security.

In order to utilize existing nuclear power plants maximally, the operation period, limited to 40 years with a possibility of extensions for 20 years in the same way as current regulations, will be approved to be additionally extended for a certain length of outage periods on the premise of the Nuclear Regulation Authority conducting rigorous safety reviews.

iii) Promoting the nuclear fuel cycle, steady and efficient decommissioning, realizing final disposal

We will promote the development of a framework that promotes the nuclear fuel cycle, including achieving the completion of construction goals of the Rokkasho reprocessing plant, sharing knowledge to ensure the steady and efficient decommissioning of reactors, and securing funds; to encourage country-led understanding by citizens to realize final disposal and drastically strengthen proactive work for local municipalities, we will also promote measures to create a support system as a nation for municipalities to accept literature survey, to strengthen the system of the implementing entity, the Nuclear Waste Management Organization of Japan (NUMO), to establish a conference for discussion between the national government and the relevant municipalities, and to suggest from various levels of the government to local stakeholders.

4) Encouraging the introduction of hydrogen and ammonia

i) Constructing large-scale and resilient supply chains

Based on the national strategy, we must move to clean hydrogen and ammonia, and will work to develop a comprehensive system for both regulation and support, including support focused on the price differences to existing fuels and support to develop bases to encourage increased demand and industry clusters; as we develop hydrogen core technology in Japan and overseas, we aim to quickly create resilient supply chains.

ii) Creating domestic production and supply systems

From the perspective of energy security, we will also support the creation of domestic hydrogen and ammonia production and supply systems. Realizing domestic production and supply of large-scale green hydrogen in particular as fast as possible, with a view to the medium and long term, will involve accelerating R&D and support for the introduction of both hydrogen production and utilization from surplus renewable energy.

5) Developing electric and gas markets to realize net zero greenhouse gas emissions

To secure a stable supply capacity, we will steadily run a capacity market, to be launched next fiscal year, as well as support the realization of a stable supply through Reserve Power Plants with a view to utilizing the inactive power plants in emergencies, and through Long-Term Decarbonized Power Resource Auction; we will also support systematic investment in decarbonized electric power.

Moreover, we will create a flexible framework for raw materials between electric power and gas companies.

6) Strengthening national contributions, including resource diplomacy to secure resources

i) Securing a stable supply of resources

In light of the increasingly uncertain LNG market trends, and given the nature of LNG, which is difficult to reserve for the long term, all possible policy measures will be mobilized to ensure stable LNG supplies, including the establishment of strategic buffer LNG by leveraging the private sector's procurement capabilities.

In view of the importance of international projects such as Sakhalin 1 and 2 and Arctic LNG2 to energy security, we will maintain our current interests. We will continue to collaborate with international society, including the G7, with the public and private sectors coming together to strive to secure stable supplies.

ii) Securing domestically produced resources

From the perspective of a securing stable domestically produced resources that are not affected by geopolitical risks, we will support technological development concerning resources that can be developed in Japan, as well as submarine hydrothermal deposits, so we can continuously obtain results as early as possible, especially for methane hydrate.

7) Other initiatives in individual fields

When it comes to initiatives in other individual fields, we will steadily promote concrete initiatives in fields such as next-generation automobiles, carbon-neutral fuels (domestically produced sustainable aviation fuel (SAF), e-fuel, e-methane, etc.), and CCS (Carbon dioxide Capture and Storage), based on the Basic Policy for the Realization of GX (Green Transformation).

(2) Realizing and implementing Pro-Growth Carbon Pricing Concept

1) Support for bold initial investment leveraging GX Economy Transition Bonds (Government support integrated with regulation for GX investment)

In order to invest more than ¥150 trillion in GX for 10 years through public-private partnerships, the government must offer long-term multi-year support programs to provide predictability for private businesses. To this end, new GX Economy Transition Bonds program will be launched. These bonds can be leveraged to offer bold support for advance investment amounting to ¥20 trillion. This program for promoting investment will be implemented together with regulatory and structural initiatives to have a positive impact on the creation of new markets and demands. In doing so, the coverage will be investments where it is genuinely difficult for the private sector alone to make investment decisions, in sectors that will simultaneously contribute to realizing stronger industrial competitiveness, economic growth and emissions reductions alike.

2) Upfront incentives for GX investment through carbon pricing

Carbon pricing will enhance the added value of GX-related products and businesses as a result of assigning prices to carbon emissions. On the other hand, taking into account the impact its implementation may have on our economy, it will be introduced following the establishment of a period for intensive engagement in GX, rather than being introduced promptly. Additionally, by initially introducing carbon pricing at a low burden, gradually lifting it, and then once again presenting the policy, companies will be encouraged to bring GX investment forward. Furthermore, the basis will be to introduce carbon pricing while reducing the total cost of the energy-related burden in the medium to long term.

i) Full launch of the "emissions trading system"

Following the full launch of the "emissions trading system (ETS)" from FY2026, in order to further enhance the fairness and effectiveness associated with the system while placing emphasis on the autonomy of participating companies, the government will explore measures for further lifting the participation rate, private-sector third-party certification of reduction targets based on government guidelines, and regulatory tightening for achieving targets (such as guidance/supervision and obligatory compliance), along with moving to examine further developments based on the progress of the "emissions trading system (ETS)," international trends, etc.

ii) Phased introduction of "paid auctions" for power operators

The government will implement the phased introduction of "paid auctions" for power operators that are large emitters (the electricity generation utility prescribed in Item 15, Paragraph 1, Article 2 of the Electricity Business Act) from FY2033.

iii) Introduction of "fossil fuel surcharge"

In order to ensure that motivation for GX is broad and is not limited to large emitters, "fossil fuel surcharge" will be introduced from FY2028 as across-the-board carbon pricing for carbon emissions, following the establishment of a five-year period for intensive engagement in GX.

iv) Establishment of the "GX Promotion Organization" to oversee the implementation of carbon pricing, etc.

The "GX Promotion Organization" will be set up as the organization that will run the emissions trading system, and implement duties related to the collection of expenses and levies (including some upfront investment support).

3) Utilization of new financial approaches

In order to encourage proactive financing by the private sector toward realizing public-private GX investment of more than 150 trillion yen, in addition to expanding green finance, we will strengthen initiatives for fostering international understanding for transition finance.

Additionally, in the interests of establishing financial approaches that combine public funds and private capital (blended finance), the "GX Promotion Organization" will implement risk compensation measures (including loan guarantees) for risks that private financial institutions cannot manage fully (such as immense sums or longer terms than in conventional finance and investing).

Furthermore, the Organization will engage in developing the environment for promoting sustainable finance overall.

4) Addressing challenges in multi-enterprise collaborations

Since collaborations by multiple enterprises will be important to implementing GX, when it comes to the challenges the enterprises face in relation to the Antimonopoly Act in areas such as the joint disposal of facilities, joint procurement of raw materials and fuels, and data-sharing, responses that support efforts by enterprises, etc. will be considered, based also on the international competitive situation.

(3) Strategies for international expansion

In Asia, the developments of clean energy projects, including those of renewable energy, will be accelerated toward achieving the Asia Zero Emission Community (AZEC) initiative. As part of this effort, we will move ahead with supporting the formulation of a road map toward achieving net zero, supporting the financing of transition technologies and projects,

and human capacity development in the field of decarbonization technologies, through the Asia Energy Transition Initiative (AETI). Furthermore, we will also work for further expansion of the number of Joint Crediting Mechanism (JCM) partner countries.

(4) Promoting GX throughout society

1) Fair transition

We will encourage a fair transition through support for facilitating the labor mobility to growth areas, and support for job changes for advancing the careers of those currently employed.

2) Promoting GX of SMEs, startups, etc.

In addition to promoting support for the visualization of emissions so that SMEs too can calculate their emissions easily, and promote assistance with reducing emissions through support for capital investment that promotes energy conservation and CO_2 mitigation, we will provide support for human resources development etc. at support agencies in order to construct a framework in which the efforts of SMEs etc. are supported in a push-type manner by organizations such as SME support agencies and regional financial institutions.

Additionally, the decarbonization of the entire supply chain including SMEs will be promoted by further expansion of the "Declaration of Partnership Building"

Furthermore, we will drastically strengthen support research and development and social implementation etc. at startups in GX-related fields.

(5) Efficient and circular use of resources

Based also on the economic security perspective of securing scarce resources and rare earth, the government will promote collaboration between "arterial industries" and "venous industries," as well as research and development and capital investment etc. by companies, in order to advance, through industry-government-academia collaboration, a shift to a circular economy that effectively utilizes resources efficiently and circularly across the entire market life cycle.

3. Food security

The risks to food security are increasing. Amid the intensifying competition for food that is accompanying global population growth and the destabilization of food production arising from climate change etc., as well as the "weaponization" of food and the growing frequency and severity of disasters, it has become evident that circumstances conducive to importing food at low prices at all times cannot be counted on to continue. Additionally, with 20 years having passed since the enactment of the Food, Agriculture and Rural Areas Basic Act, the social situation and future forecasts on which it is premised are changing significantly.

In light of this environmental change, we will move ahead with embodying measures based on the "New Direction of Food, Agricultural and Rural Policy," toward establishing a robust and sustainable food supply base, and will also accelerate work on revising the Food, Agriculture and Rural Areas Basic Act with the goal of submitting a draft amendment of the legislation to the Diet during the current fiscal year.

(1) Establishing food security

1) The concept of food security

The Food and Agriculture Organization of the United Nations defines food security as not only ensuring the necessary food for a country as a whole, but also to distribute that food to each and every citizen. Taking this international definition into consideration also, food

security will be reorganized as something that includes ensuring each and every citizen can access food and can enjoy a healthy eating not only in unforeseen circumstances, but also in normal times.

2) Strengthening stable supplies of food toward mitigating import risks

We will advance structural reform measures toward ensuring stable food supplies, on the basis of appropriately combining stable imports and stockpiles, while boosting domestic production in order to reduce reliance on imports. Those measures will include promoting the transformation of paddy fields into farmland or general-purpose land while expanding production of such products in response to demand as wheat, soybeans, vegetables for processing and business use, and forage crops, and encouraging greater use of rice flour and a move toward the domestic production of fertilizer.

3) Building a sustainable food system toward appropriate price-formation

In order to make the entire food system sustainable, a venue where stakeholders at each stage, from production through to processing, distribution and sale, can hold discussions will be established, and a framework for appropriate price formation for food will be established.

Additionally, in order to work toward the sustainable development of food production, which is an important constituent of the food system, we will built frameworks that make it easy for production areas and the food industry to work together to pursue the cultivation of production areas, stable procurement, etc., and frameworks for promoting initiatives that take sustainability by the food industry into account, such as environmental impact reduction and procuring raw materials while paying attention to human rights.

4) Improving food access so that all citizens can lead healthy dietary habits

In order to ensure uninterrupted food access, the relevant ministries and government agencies will coordinate on promoting initiatives such as responding to the so-called 2024 problem in the logistics industry, implementing measures for people who have difficulty accessing grocery stores, and encouraging contributions to food banks and children's cafeterias.

5) Building a structure that guarantees food security

We will build a structure for regularly evaluating Japan’s food security situation in normal times by utilizing and analyzing a variety of indicators that illustrate factors such as the state of domestic food availability and supply chain conditions, including logistics. Additionally, to enable the relevant ministries and government agencies to coordinate responses when contingencies occur, alongside building a structure for carrying out government-wide decision-making, the government will work to develop a legal system that will form the basis for responding to contingencies.

(2) Greening agriculture, forestry and fisheries

In order to guarantee sustainable food production amid the advance of factors such as climate change impacts arising from greenhouse gases and the loss of biodiversity, it will be necessary to take measures for reducing environmental burden.

To that end, we will build a food system that is in harmony with the environment by implementing initiatives such as promoting organic agriculture, implementing collaborations between food operators and producers aimed at expanding demand for organic agricultural produce, making producers’ efforts to reduce their environmental burden visible, utilizing the J-Credit scheme in the agricultural sector, and strengthening the role of food companies in

reducing food loss and waste, toward achieving the Strategy for Sustainable Food Systems, MIDORI.

Additionally, we will promote converting the format of fisheries resource management and operations based on changes in the marine environment, and converting to artificial seed in the aquaculture industry.

(3) Expanding exports of agricultural, forestry and fishery products and foods

Although Japan's domestic market is contracting accompanying the country's shrinking population, foreign markets are expanding. Amid that, we will work to promote exports in order to maintain the domestic agricultural production base and make exports an "earnings" pillar for the local region.

We will aim to reach its target of 2 trillion yen of agricultural, forestry and fishery products and food exports in 2025 early, toward reaching its target of 5 trillion yen in 2030. Along with supporting the formation of large-lot export production areas, a structure for strategic exporting in which supply chain participants are unified will be developed and strengthened, including through export support platforms that provide finely-tuned on-site support, and the expansion of export promotion organizations by product category.

Furthermore, the government will strengthen the safeguarding and utilization of intellectual properties overseas, through promoting the work of plant breeders' rights management organization that act as agents to apply for and license plant breeders' rights, in order to prevent plant varieties from flowing overseas.

(4) Smart agriculture, forestry, and fisheries industry

In order to strengthen production capacity in production areas amid the falling number of producers, alongside developing smart technologies through industry-government-academia collaboration, we will build a structure that encourages the reform of distribution and sales approaches and cultivation methods in order to respond to new technologies across the supply chain as a whole.

In addition, we will introduce the adoption of smart technologies in the forestry and fishery industries as well.

4. AI

The performance of generative AI (AI that generates content such as text and images), which utilize foundation models (large-scale AI that learn large quantities and varieties of data and serves as the basis for AI for various uses), including large language models, is improving, and it is becoming capable of generating natural text, images, speech, programs and other content as a result of dialogue with human beings. In these and other ways, AI is making rapid progress and its use is beginning to spread rapidly even among individuals who are not specialists.

Compared to conventional AI models, with generative AI the performance is influenced by the scale of the computational resources and data influences to a greater extent, so there is a possibility that large AI will become increasingly predominant as a result of competitions of scale.

Additionally, as data concerning Japan is scarce among the data that AI use to learn, consequently not only is it conceivable that AI may be unable to provide appropriate answers to questions relating to Japan, given the highly reliant on offshore AI products and services, there is also a possibility that Japanese citizens' lifestyles and industries will be impacted, including through supply disruptions.

Furthermore, as a result of generative AI's technological advance and spread, there is

mounting concern worldwide about the uncertainty and risks that it poses to society, including the inability to grasp what sort of data AI is processing and how, and the subtle spread of disinformation. Risks on the security front are also being pointed out.

In light of this, alongside promoting an international discussion on AI and responses to the various risks, the government will work to promote the use of AI and to strengthen AI development capabilities.

(1) Responding to risks and the international discussion

It is important to prevent the inappropriate use of AI and to promote utilizing human-centric, trustworthy AI. "Trustworthy AI that is in line with democratic values" is a shared G7 vision and goal. Particularly with regard to generative AI, "Hiroshima AI Process" that was established by the G7 members, in a prompt manner, the G7 will hold discussions the relevant ministers, and we will report on AI governance by the end of this year. Japan need to take the responsibility in continuously leading the discussion.

To realize human-centric, trustworthy AI, it will be necessary for AI developers, service providers and AI users to be aware of and evaluate AI risks (such as breaches of confidential information, or misuse for committing crimes), and will also be necessary to prepare governance mechanism capable of responding to both ordinary circumstances and emergencies. With a view to achieving this goal, international fora such as OECD and Council of Europe are discussing different approaches including legal system, auditing and certification system, and voluntary guidelines etc.

The various risks associated with AI, such as the inappropriate use of personal information, security-related concerns, societal disruption arising from disinformation and misinformation and possible copyright infringement , will need to be considered and addressed, taking into account international discussions and rapid technological changes, while considering the schedule of the "Hiroshima AI Process."

(2) Promoting the use of AI

In order to accelerate the use of AI, we will promote the construction of a data linkage infrastructure on fields such as medical care, long-term care, administration, education, finance and manufacturing, the realization of the DFFT concept, human resources development, and the development of a business environment for startups.

The utilization of generative AI by government institutions poses risks such as confidential information leaks on the one hand, but it also has the potential to be effective in improving work efficiency and administrative services[8], and how generative AI is handled is an important point of contention. Consequently, the tentative use etc. of AI will commence at government institutions, and knowledge will be collected and shared.

In the field of education also, the use of AI has the potential to increase educational outcomes and reduce teachers' burdens. On the other hand, it also poses pressing challenges, including generative AI being used to complete homework, and the difficulty in determining whether or not something has been generated by AI. In light of this, we will draw up guidelines on the use of generative AI in the field of education by summer this year.

Looking ahead to the spread of generative AI, we will also enhance AI literacy education, such as basic knowledge of AI.

(3) Strengthening AI development capabilities

It will be necessary to rapidly cultivate Japan's foundational research and development capabilities regarding generative AI in order to maintain and improve the level of Japanese research, generate innovation and new industries and so on. The development and

enhancement of computing resources, which could also be described as AI development infrastructure, will be rapidly advanced.

Furthermore, given that large quantities of good quality data are required for the development of generative AI, a mechanism will be promptly constructed that will enable companies and universities etc. to access data held by public institutions and use that data for development, while bearing copyright and similar issues in mind. Data in fields where there is a significant need for AI will also be developed.

The massive amounts of electricity that AI consumes is also an issue, and along with the decentralized location of data centers, we will promote the development of equipment such as energy efficient semiconductors suited to computation for AI, and aim for early social implementation.

Incidentally, in undertaking these initiatives, players' efforts will be accelerated rapidly, flexibly and intensively, based on the speed of technological innovation and while paying the utmost respect to market principles. Additionally, in light of the possibility that the promotion of technology use by disclosure of technology will generate new technological innovation, an environment will be prepared for providing computing resources and data, as well as base technologies etc. that can be openly used. And we will build an environment for research and human resources development, in which leading personnel from around the world can come together and join forces.

Furthermore, even worldwide, a large number of startups can be seen rising to the challenge in this sector, and so startup policies will also be used to support a variety of ideas, including the development of AI and the development of peripheral apps and services.

(4) Strengthening the government's study framework

Various ministries and government agencies will cooperate on drafting and promoting policies for responding to the many challenges related to AI, around the axis of the expert panel on AI Strategy Council and the AI Strategy teams operated by the relevant ministries and agencies.

In addition, amid the rapid changes that is occurring in the social situation and technology, information on new points of contention or unforeseen circumstances will be continuously gathered from sources such as various research circles and international forums.

5. DX

(1) Developing the environment for promoting Web 3.0

Innovations are emerging, including NFTs (non-fungible tokens) and DAOs (decentralized autonomous organizations), which are based on blockchain technology. Blockchain technology can potentially change the nature of the conventional Internet and transform society through the multi-polarization of virtual spaces, such as direct interconnection of independent users. In response, we will promote consideration of the development of an environment for the promotion of Web 3.0.

Regarding the handling of crypto assets on the tax treatment, it will be considered promptly whether or not it is possible to treat cases in which third parties hold crypto assets on an ongoing basis for purposes other than short-term trading as different to other crypto asset holdings, including approaches on the legal and accounting fronts.

The Accounting Standards Board of Japan will be encouraged to discuss accounting procedures concerning crypto assets. In parallel to that, the formulation of guidelines will be promoted at the Japanese Institute of Certified Public Accountants and industry organizations concerned with crypto assets, in order to promote corporate-side understanding of audits

concerning Web 3.0, and cultivate understanding on the certified public accountant/auditing firm-side.

Where the targeting for investment of crypto assets and tokens by investment Limited PartnerShips (LPS) is concerned, we will proceed with examining and organizing the actual state of fundraising through crypto assets and tokens and work to add them as investment targets, with a view to amending the legislation in the next fiscal year.

New use cases will be uncovered and supported, toward the international expansion of content business such as art and games that utilize digital technology.

Professionals who can handle advanced digital technologies such as block chain technologies will be secured and fostered. An environment will be created where overseas experts can play an active role by creating networking opportunities for the collaboration between domestic and foreign Web 3.0 experts. We are collecting opinions and issues from local governments and business operators that are interested in promoting DAO initiatives through the consultation service for local governments and business established at the Digital Agency.

(2) The realization of post-5G and 6G

As well as promoting the development of post 5G information communication systems, we will also provide support for the so-called 6G, a next-generation communication infrastructure. To introduce these improvements in around 2030, technologies will be established that will realize transmission speeds that are 100 times faster than current standards. Ultra-low power consumption of 1/100th that of current technologies will also be realized. These improvements will be achieved by utilizing optical communication technologies for everything from networks to devices.

In addition, we will promote acceleration, implementation, and export of research and development in order to achieve promptly implementation of a Non-Terrestrial Network (NTN) that enable communication across extensive areas, including air, sea, remote islands and mountainous regions that conventional networks do not reach, through satellite communication and communication from the stratosphere utilizing High-Altitude Platform Station systems (HAPS).

By 2025, Japan will implement a demonstration project in around 10 countries including Chile, Thailand, Vietnam and the Philippines for a system that enables 5G base station networks to be built by freely combining the equipment of different vendors from like-minded countries, so-called “Open RAN.” In cooperation including with the U.S., Japan will work toward acquiring a global share in particular in the countries and regions of the so-called “global south.”

(3) Developing the environment for promoting the investment in DX

1) Developing the digital market environment

Under the Act on Improving Transparency and Fairness of Digital Platforms (TFDPA), online mall and app store operations will be evaluated for the second time this fiscal year, leading to improved trading relationships. That evaluation will include the status of efforts to address challenges such as reasonableness and transparency in terms of the level and positioning of the operations’ usage charges. Additionally, with regard to the digital advertising sector, which was added to the TFDPA’s coverage last year, operations by regulated businesses will be evaluated during the current fiscal year, and where needed, we will seek responses such as enhanced disclosure of trading terms.

Regarding the mobile ecosystem (markets for OS-based apps and other applications on smartphones), based on the Secretariat of the Headquarters for Digital Market Competition’s final

report on the competition assessment, we will consider a legal framework necessary to ensure a fair and equitable competition environment in the digital market, while assessing the situation in other countries such as Europe and United States.

2) Cyber security

To enhance cybersecurity throughout the supply chain, we will promote the development of human resource of the security at companies and government, etc., and alongside that, we will also subsidize the introduction of security systems by SMEs. We will promote the utilization of recently-formulated guidelines, and we will also support cybersecurity measures for IoT devices manufactured by SMEs.

As cyber-attacks become more sophisticated and complex, we will also take the lead in strengthening countermeasures against cyber-attacks and the capacity to analyze system vulnerabilities. In order to work toward aligning standards with those of like-minded countries, we will draw up guidelines on reducing vulnerabilities at the software development stage and usage stage, and on managing information such as licenses, before the end of this fiscal year, and we will promote their use. In addition, we will also present a direction for the development of a domestic system for evaluating the compatibility of IoT devices' security requirements. As a response to disinformation and misinformation in the digital space, we will engage in improving digital literacy through the development of educational materials, workshops, etc.

3) Establishing a new framework of trust for the Internet

Regarding the Trusted Web, a new trust framework on top of the Internet that provides mechanisms to strengthen data control by individuals and corporations without relying on specific services, and mechanisms to verify exchanged data, we will support and verify practical use cases and make the benefits visible, with the aim of concrete implementation examples being generated by FY2025. Furthermore, we will collaborate with other countries, mainly the G7, and relevant organizations in identifying issues and areas for improvement.

4) Promoting the Digital Government

We aim to realize the Digital Government by promoting the digitalization of local governments or providing and improving the digital infrastructure for the central and local governments such as the Government Cloud that ate convenient for users.

5) Promoting the use of Individual Number Cards (My Number Cards)

Although the total number of Individual Number Card (My Number Card) applications has exceeded 97 million (three-quarters of the population), along with striving to ensure the system's security and credibility, we will continue to promote the development of the issuance system in cities, towns and villages, as well as encourage expanded use of the cards, including their use in private-sector services, and their integration with health insurance cards and driver's licenses.

6) Improving the convenience of financial services that utilize digital technologies

Where financial services are concerned, there are suggestions that in the case of banks, for example, their online banking procedures and processes when opening, changing the name of or closing accounts are complicated for consumers. The government will conduct an exhaustive review of financial services and procedures that are difficult for consumers to use, and seek improvements in what is necessary from the perspective of improving convenience for consumers.

7) Credit card interchange rate transparency

Based on the fact that the default interchange rates (the fees paid by the credit card company contracted by the store to the credit card company contracted by the user), have been made public, we will carry out a monitoring study on the impact on the competitive environment.

8) Promoting digital health

To help promote digital health initiatives, the implementation of voluntary certification systems for healthcare products and services will be supported. Furthermore, in order to promote the provision of high-quality personal health record (PHR) services, we will promote their use and application in day-to-day life, and the standardization and verification of data for data coordination with medical institutions, pharmacies etc.

9) DX for small and medium-sized enterprises

To promote DX amongst SMEs, we will disseminate tools for diagnosing management issues, provide expert support, and assist firms in introducing IT systems.

In addition, in the interests of making responses to invoicing systems more efficient, we will promote the standardization of data and the development and dissemination of tools such as accounting software, in order to make it possible to coordinate business-to-business trading data, such as invoicing and payments, across the entire supply chain. And we will carry out a follow-up toward discontinuing the use of promissory notes and checks.

10) DX for medical care and long-term care

The government and relevant industries will work together on establishing a national medical information platform that makes it possible to share and exchange information on medical care and long-term care, and initiatives such as applying DX to the revision of medical service fees and standardizing electronic medical record information. In doing so, given that medical DX is something that will open up the future of Japan's medical care, we will take responsibility for leading these measures. We will steadily implement Cyber security measures etc. at medical institutions, additionally, we will promote the use and application of medical information based on the enactment of the amended Next Generation Medical Infrastructure Act.

11) Architectural and urban DX

Priority will continue to be placed on promoting the use of three-dimensional data (building information modeling, or BIM) on building shape, material, and construction methods, 3D models (PLATEAU) for deploying building, roads, etc. in cities, and unique identification numbers for land and buildings (Real Estate IDs).

6. Promoting science, technology and innovation through public-private collaboration

Amid the challenges that are emerging from authoritarian states, the ultimate winner will be decided by the power of science and technology. Science, technology, and innovation have the power to address many social issues confronting the world today, such as infectious diseases, global warming, and declining birthrates and aging populations. The public and private sectors will work in partnership on a radical expansion of science and technology investment, leading to Japan's renaissance as a scientific and technological nation.

(1) Quantum technology

We will conduct research and development on quantum computers, quantum-cryptographic communications and their basic technologies, and establish research and

development and demonstration hubs. We will develop a demonstration environment that is accessible to startups during the current fiscal year. By FY2028, we will develop platform software to manage quantum computers and classical computers in an integrated manner, in order to enable their application in specific use cases that require complex calculations, such as energy and food issues, the development of materials, and drug discovery.

(2) Health and medical care

1) Developing methods for treating and suppressing the onset and progression of cranial nerve diseases such as dementia

For Japan, which is approaching an era of extreme population aging ahead of other developed countries as its average life-span increases, preventing and treating cranial nerve diseases such as dementia, and undertaking the research and development to achieve that, are important challenges.

Japan will capitalize on its strengths as the developer of the world's first drugs for treating Alzheimer's disease, with the aim of developing drugs for treating dementia and for fundamentally suppressing the disease's onset and progression.

To that end, along with establishing a new national project on brain science and bolstering international networks, we will implement combined industry-government-academia research that is both clinical and foundational in direction. Maximum use will be made of clinical information on cohorts of patients and able-bodied individuals suited to clinical trials that can be continuously followed up, and of biobanks of information including genomes and samples such as blood and other material obtained from participants. Through these efforts, we will carry out research and development and establish a foundation for research and development of treatment methods on preventing dementia and suppressing its onset and progression through the removal of built-up materials such as amyloid beta plaque, as well as in fields such as restorative treatments through the rehabilitation and repair of neural pathways.

2) Promoting next-generation pharmaceutical development, including genome pharmaceutical development

Japan will break away from development centered on conventional small-molecule drugs, and will strengthen pharmaceutical development in fields for which there are strong needs on a global scale, such as high-performance biopharmaceuticals and low-cost, orally administered middle-molecule drugs that work effectively on the causes of diseases. If Japan undertakes research and development and the creation of supply bases while limiting itself to domestic frameworks, it risks falling behind in terms of the speed of development and supply. We will work to construct an international framework for new drug development and supply by promoting collaborations between companies and research institutions in Japan, and startup foundries in like-minded countries such as the U.S.

With regard to the whole genome analysis (analysis of all the genetic information contained in DNA) of cancer and intractable diseases, along with continuing to steadily promote analysis for the 100,000-genome scale and the development of an information platform for passing those results on to patients, a decision on the corporate form of a project implementation organization will be decided by the end of this fiscal year, toward its launch in FY2025.

This project implementation organization and genome biobanks will play a central role in collaborating with relevant medical institutions, research institutions, startups, etc., not only in the medical and pharmaceutical fields but also in different fields such as mathematical science. They will work to enhance the success rate of pharmaceutical development by utilizing and applying the results of whole genome analysis and multiomics (a method of analyzing specific cases collectively and comprehensively using multiple methods such as

DNA analysis, RNA analysis and protein analysis), and clinical information etc.

3) Regenerative medicine

Based on advances in new technologies, and from the standpoint of disseminating and expanding regenerative medicine appropriately, we will consider amendments to legislation such as the Act on the Safety of Regenerative Medicine, and will submit them to the Diet at an early date.

(3) Fusion energy innovation strategy

Fusion energy is being counted on to realize a future clean energy and create industries as a result of technology spin-outs. Along with establishing a framework for building industry-government-academia consensus on fusion energy, and strengthening research and development at private-sector companies including startups and universities, we will encourage investment through public-private collaboration. And we will promote the development of international standards by cooperating with like-minded countries to discuss joint research and safety regulations.

(4) Strengthening research and development capabilities of national research institutions

To address nationally-important issues such as climate change and national security that require resolution through science, technology and innovation, it will be necessary for universities and companies to collaborate around national research institutions and mobilize resources such as facilities and human resources. To make it easier for national research institutions to collaborate with other institutions when doing so, we will consider approaches to collaborations that make medium- to long-term predictability possible.

In addition, to ensure that talented human resources inside and outside Japan are able to engage in joint research and development smoothly while securing mobility between national research and development agencies, universities and companies, by the end of this fiscal year we will reach a conclusion on developing rules concerning pensions and retirement payments, etc. in cases where research is pursued across organizations, based on the current situation, whereby only some national research and development agencies are able to invest in external entities, for example, as well as on-site needs, such as approaches to compensation and pensions that are able to secure talented researchers.

(5) Support through the University Endowment Fund

In order to create globally-renowned research universities, a 10trillion yen University Endowment Fund will be supported for schools which not only build their research capabilities, but also implement high-quality governance arrangements such as by separating research and management as well as promoting young researchers. A step-by-step screening of universities eligible for support will be carried out from the current fiscal year, with support to begin in the coming fiscal year.

(6) Support for the regional core and distinctive research universities

In order to comprehensively promote regional core and distinctive research universities, we will support initiatives that extend those universities' strengths and distinctive characteristics. In addition, from the perspectives of contributing to resolving social issues and generating innovation in regional areas, and measures for addressing the deterioration of facilities at national universities etc., we will work on developing and enhancing Innovation Commons (co-creation hub) that can be jointly utilized by regions and the business community.

(7) Ensuring access to international human networks and research outputs

Given that access to research outputs including scholarly publications is under the market dominance of the global academic platformers, we will formulate a national policy to promote immediate open access to publicly funded scholarly publications and scientific data, and promote the sharing of research outputs through the G7 and other international venues.

Additionally, we will support the enhancement of the ability to negotiate for universities and research institutes with academic publishers, the Research DX platforms for opening and sharing research outputs and the ability of researchers and the research community to disseminate their research outputs.

(8) Exchange of international students

In order to rebuild the people-to-people exchanges with other countries that Covid-19 interrupted, we will aim to increase the number of Japanese dispatched to study abroad to 500,000 per year by 2033. To that end, we will work to enhance economic support for Japanese studying abroad for medium and long-term periods, promote the dispatch of doctoral program-level human resources, and promote studying abroad from the high-school level.

By 2033, the number of foreign students will be increased to 400,000 per year, and the domestic employment rate for them will be lifted to 60% (excluding those who go on to further education in Japan) after graduation. In order to achieve this, strategic initiatives for attracting students to study in Japan, such as events and information sessions in other countries, will be promoted, and support for these students will also be implemented by promoting education programs that center on internships.

(9) Moonshot research and development

We will work to enhance programs such as Moonshot Research and Development Program, in order to respond to new challenges that will emerge according to changes in the social environment, such as the use and application of fusion energy and innovations in the agricultural and food sectors that utilize AI, quantum technology and other advanced science and technology.

(10) Support for doctoral students, young researchers, etc.

Some support for doctoral students will be shifted to support from the University Endowment Fund. Accompanying that shift, consideration will be given to enhancing economic support measures and career path development for doctoral students, with a conclusion to be reached promptly.

In addition, we will promote support for hiring individuals to manage and support research, and improve the research environment for young researchers.

Steadily promote the scheme (Fusion Oriented Research for disruptive Science and Technology, or FOREST) which provides long-term research funding for up to 10 years to young researchers who undertake challenging research, and integrates support to secure an environment where they can devote themselves to research at the institutions they belong while enhancing the research environment.

In order to improve the percentage of women who are university students, college of technology students and instructors in IT and other science and technology fields, regionally-integrated initiatives based on industry-government-academia collaboration, including the promotion of learning in those fields and the selection of them by female junior and senior high-school students, will be accelerated, and initiatives for promoting the appointment of female researchers to senior positions at universities will be strengthened.

(11) Promotion of IoT

We will promote IoT for resolving challenges in a variety of fields, through the collection, utilization etc. of front-line data from sectors such as the manufacturing industry and agriculture, forestry and fishery industries.

(12) Expo 2025 Osaka, Kansai, Japan

The Expo Osaka, Kansai, Japan to be held in 2025 will be a "People's Living Lab" and a catalyst evoking hope for the future through new technology. As a showcase for new technologies, it will demonstrate how Japan's leading-edge innovations contribute to society. In addition to initiatives such as providing eVTOL-based transportation services, the Expo will showcase Personal Health Record (PHR) utilization and regenerative medicine, host business contests for startups, and convey the appeal of Japan's food culture.

While there is a need to move steadily ahead with constructing the venue, as preparations proceed challenges are emerging on the cost and other fronts, and responses will need to be made. Along with establishing the exhibition methods for major projects during the current year, the measures that will need to be taken toward the opening in April 2025, such as financial arrangements, security measures and support for participation by developing countries, will be steadily advanced based on an action plan that is updated every six months.

7. Support for creators

Fields such as anime, gaming, entertainment, manga, films, music, and broadcast programs are one of Japan's proud cores. Japan will promote support for creators in a broad sense, as it looks ahead to growth in the global market for content.

We will promote training and creation of the next-generation creators who utilize digital technology via initiatives such as the establishment of programs in which young creators with exceptional talents receive support with their production costs, or are mentored by leading figures in the content industry. The Council of New Form of Capitalism Realization will consider integrated measures based on public-private collaboration, such as these and other measures for supporting creators, and overseas expansion. In doing so, it will simultaneously clarify concrete actions for reforming the structure of the content industry.

Ⅴ. Facilitating the Entry and Exit of Corporations, and Promoting the Startup Development Five-year Plan

1. The necessity of reforming the industrial structure and facilitating the entry and exit of corporations

The higher a country's average rate of firm creation and destruction (an index of creative destruction), the higher the per capita rate of economic growth. In addition, young businesses (startups) contribute more to added value creation. On the other hand, Japan's corporate entry rate has remained at the low level of 4.4%[9] compared to 9.3% in the U.S. and 12.4% in the UK. Similarly, its corporate exit rate is low at 3.1%[10] compared to 9.4% in the U.S. and 11.1% in the UK.

To promote industrial structural reforms such as GX and DX, and to secure sustainable growth, we will steadily promote human resource development, supply of funds, and open innovation as set out in the Startup Development Five-year Plan, with a view to facilitating the entry of new corporations. At the same time, we will work on building an early-stage consultation structure to facilitate M&A, business succession, or business closures for corporate managers who wish to exit.

2. Promoting the Startup Development Five-year Plan

(1) Basic concept

Japan faces mounting social challenges and the continued issues of population decline and sluggish economic growth, and it has been pointed out that a sense of stagnation is spreading across the society as a whole. Under the new capitalism, we will focus on the public roles not only of the government, but also of the private sector, and revitalize an increasingly rigid Japanese society through public-private partnership to fundamentally review conventional systems and practices. Startups play an important role in achieving this. Startups exist to resolve social issues with a sense of urgency, through new technologies and ideas. At the same time, they also provide new stimulus to revitalize markets and improve the productivity of existing corporations.

Rapid social and economic changes around the world in recent years have made the startup environment increasingly severe, making it even more important than before to formulate policy responses to startups.

The Startup Development Five-year Plan, formulated in November last year, sets out the target of "increasing the scale of investment (in startups) by more than a factor of 10x (to 10 trillion yen) by FY2027." To realize this goal, we face the urgent task of improving systemic aspects, such as the legal and tax systems that are indispensable to the development of a startup ecosystem, in the early stages of the Plan. In addition to stock option systems, financial and funding legislation, R&D funding, resident status, and tax systems are also fundamental systems that form a part of the startup ecosystem. Hence, it is essential to develop such systems as soon as possible.

Based on the Startup Development Five-year Plan formulated in November last year, we will implement the concrete measures set out below, including the in-depth review thereafter. The Minister in charge of Startups will follow up with the process in line with KPIs established under each policy, and efforts will be made toward the realization of broad direction goals in the public and private sectors.

(2) Targets

In terms of targets, it is important to focus not only on the "number" of startups (the number of businesses that are started), but also on the growth, or "expansion of scale," of the startups that have been established. Therefore, the focus will be on the amount of investment in startups as an indicator that encompasses both the absolute number of startups and the expansion of scale of the startups that have been established.

The amount of investment in startups has increased by a factor of 2.3x over the past five years to 2021 (from 360 billion yen in 2017 to 820 billion yen in 2021), and is currently in the 800 billion yen range, but, by implementing the Startup Development Five-year Plan, the public and private sectors will work together to achieve the major target of increasing the scale of investment by more than a factor of 10x (to 10 trillion yen) by FY2027, five years from now.

Furthermore, in the future, by creating 100 unicorns and 100,000 startups, the aim will be to make Japan the largest startup hub in Asia and one of the world's leading clusters of startups.

(3) Package direction

Nurturing many key players in the startup sector accelerates entrepreneurship. To uncover and develop young talents with outstanding ideas and technologies, we aim to nurture practical entrepreneurs by improving the environment for stock options, as well as utilizing domestic and overseas mentors and educational institutions. In addition, we will develop human

resources who can play a key role in creating startups in Japan, such as by dispatching young talents to countries around the world for training, and build a global network comprised of such talents.

In tandem with securing key players in Japan, we will also work on expanding the supply of funds, including public funds. To that end, we will work on attracting overseas investors and venture capital firms, in addition to developing venture capital firms in Japan. Furthermore, we will promote the diversification of business development and exit strategies for startups, with a focus on deep tech startups that require time to grow.

Thus, startup acquisitions are important both as an exit strategy for startups and as a means for promoting open innovation in existing large companies. It is important to develop an environment that promotes open innovation where existing companies collaborate with startups.

In the Startup Development Five-year Plan, the following three major initiatives will be promoted in an integrated manner:

1. Build human resources and networks for creating startups
2. Strengthen funding for startups and diversify exit strategies
3. Promote open innovation

Efforts will also be strengthened in the areas of entrepreneur education and startup creation support that are specialized for individual deep tech fields such as agriculture and medicine.

(4) Building Human Resources and Networks for Startup Creation

In terms of the percentage of people who consider starting a business to be a desirable occupational choice, Japan is at the lowest level among major and developed countries, at 25%, compared to 79% in China and 68% in the US.[11] For this reason, it is necessary to promote the development of human resources who aspire to create startups.

1) Improve the environment for stock options

In the U.S., stock options are utilized actively, as they account for 15% to 18% of all shares issued by Startups. However, the utilization rate of stock options is below 10% in Japan.[12] To further promote the use of stock options, we will consider reviewing procedures under the Companies Act and tax systems.

(i) Legislative measures regarding rules under the Companies Act toward the realization of stock option pools in Japan

In the U.S., there is widespread usage of so-called stock option pools, in which a certain amount of stock option issuance limits is set in advance and stock options are then flexibly granted to employees. In Japan, the Companies Act requires that stock options be granted to employees within one year of the establishment of a stock option tranche based on a resolution at a general shareholders' meeting, and such flexible issuance of stock options is not permitted.[13]

In light of this, legislative measures will be taken regarding rules under the Companies Act to enable the inclusion of details such as the prices and exercise period for the exercise of stock acquisition rights, within the contents delegated from the general meeting of shareholders to the board of directors.

With regard to the delegation of decisions on solicitation matters related to the issuance of new subscription rights, as the effective period of the resolution for delegation from the general meeting of shareholders to the board of directors is currently one year or less, we will consider the measures to remove this restriction.

A resolution by the general meeting of shareholders is necessary for determining the ceiling

for the issuance of new subscription rights. However, it has been pointed out that this lacks flexibility as it is necessary for all shareholders with voting rights to express their intentions in writing in order to consider that the resolution has been passed without the actual convention of a general meeting of shareholders. We will conduct the necessary consideration to address this.

(ii) Review of systems for tax-qualified stock options

It is important to enable startups that require time for business development and startups that wish to spend a long time as unlisted companies in order to expand their business, particularly in the field of deep tech, to choose their IPO timings flexibly. With regard to the stock options that are used globally as remuneration for startup employees, under the FY2023 tax reforms, the exercise period was extended from 10 years to 15 years in the case where stock options are granted until five years from the founding of the company. This increases the flexibility of the timing for exercising rights (listing), corresponding to the business growth of startups, and also enables applicability with simple procedures.

Furthermore, from the perspective of simplifying startup procedures, it has been decided that the obligation to entrust stock certificate custody will be eliminated. In the first place, the requirement to entrust a physical stock certificate in custody for tax-qualified stock options creates constraints in situations such as M&A. Therefore, we will consider abolishing the requirement to entrust a stock certification in custody for tax-qualified stock options for privately held companies, paying attention to the facts that transfer restrictions are placed on shares in privately held companies under restrictions imposed by the Companies Act, and that tax processing is carried out by the issuing company and the stock option grantees.

Granting tax-qualified stock options to highly skilled external human resources is limited to startups that meet a certain set of criteria, and it is necessary to draw up plans that are approved under the Small and Medium-sized Enterprises Business Enhancement Act. With regard to this approval system, a survey will be conducted to consider allowing the granting of tax-qualified stock options without imposing the burden of procedures associated with obtaining approval.

From the viewpoint of improving the ability of startups to acquire human resources, we will also consider significantly raising or abolishing the ceiling amount for tax-qualified stock options.

In addition to the above, we will put effort into enhancing convenience, including streamlining procedures related to tax-qualified stock options and further reviewing requirements, in order to create a startup-friendly system.

(iii) Formulation of rules to calculate stock prices for unlisted companies

The exercise price of a tax-qualified stock option must be higher than the stock price at the time of the conclusion of the contract associated with the stock option in question. With regard to the calculation of the stock price in question when an unlisted startup introduces tax-qualified stock options, in addition to the stock price calculated based on actual trading cases, calculation using the net asset value method (a simple calculation method for small companies to determine appraised value by deducting the amount of liabilities, etc. from the value of the company's total assets) set out in the basic notification of property valuation, is also permitted. Moreover, it clarifies that, if a company issues class shares, the price of the class shares will be calculated using the net asset value method while taking into account the contents of the shares. Improvements will be made in this area, such as the prompt issuance of official directives.

At the same time, there have been comments that it is not clear when a special resolution at a general meeting of class shareholders is required for class shares. As such, while also taking into account actual needs, we will conduct the necessary consideration including clarifying the

requirements.

2) Expand and horizontally develop of support projects by mentors

As a program to select and support young human resources in Japan in the field of IT, under the "MITOU Program" (implemented by the Information-technology Promotion Agency, Japan) leaders in the industry and academia have been serving as mentors to discover (conduct selection screening) talented human resources and provide guidance for projects. As it is meaningful to expand this initiative horizontally and on a large scale, it will be rolled out laterally to other agencies (such as the New Energy and Industrial Technology Development Organization, National Institute of Advanced Industrial Science and Technology, Japan Agency for Medical Research and Development, Japan Science and Technology Agency, Japan Aerospace Exploration Agency, National Agriculture and Food Research Organization, etc.). At the same time, we will expand the targets of initiatives toward the development of young human resources, with a focus on students from colleges of technology (KOSEN), senior high school students, and university students. Overall, we aim to increase the number of mentees from 70 people a year to 500 people a year over the next five years.

In addition, the global startup acceleration program will be promoted, which implement business strategy formulation for domestic startups, mentoring with experts, and network expansion, etc.

3) Establish entrepreneur development hubs overseas ("Dejima" programs)

For dispatch programs that select 20 young people who want to start a business and then dispatch them to Silicon Valley, over a five year period the scale of dispatches will be expanded to about 1,000 people. In doing so, the program will be structured to recruit a wide range of human resources, including students and female entrepreneurs. In addition, from the perspective of securing opportunities to receive guidance from mentors, which are still restricted in Japan, intern trainings, etc. will be added at US cities that are hubs of innovation (such as Silicon Valley, Boston, New York, San Diego, and Austin) and at startups, venture capital firms, and accelerators, etc. in Israel, Singapore, Northern Europe, and other parts of the world. Furthermore, hubs for Japanese businesses will be newly established in Silicon Valley and Boston.

4) The Global Startup Campus Initiative

In order to contribute to the global expansion of human resources and to research seeds from Japanese universities and research institutes, the Global Startup Campus will be created in the center of Tokyo through public and private funding that is equipped with international joint research and incubation functions in deep tech fields by attracting top overseas universities and by inviting outstanding researchers. To that end, feasibility studies will be conducted with the Massachusetts Institute of Technology (MIT) in the U.S., and we will work on promoting the following initiatives:

- The aim will be to promote the establishment of long-term and stable cooperative relationships with top overseas universities, etc., and in managing the campus, to build the campus's own endowment (university fund) and realize strategic management.
- Revitalize research and development at domestic universities and encourage reforms. Rather than waiting for the completion of campus facilities and equipment, joint research and researcher exchanges with overseas universities, etc. will be proactively implemented, working to quickly create startups. In addition, these initiatives will work to develop doctoral course students and young researchers who will globally play an active role not only in academic fields, but also in startups and venture capital firms.

- Access to overseas ecosystems and global inner circles will also be possible through the utilization of entrepreneur training and incubation programs held by overseas universities and the formation of networks with top overseas venture capital firms.
- Collaborating with domestic and foreign companies will improve the ability of domestic companies to create innovation through joint research and entrepreneur development programs, etc. on the Global Startup Campus.
- In cooperation with relevant local governments and from the perspective of strengthening the ecosystem through urban planning, a truly global campus will be formed by promoting measures in an integrated manner, such as by improving the living infrastructure for foreign human resources.
- This initiative will be a free "place of practice" that is not bound by the rules of existing organizations, and, from that point of view, under the Minister in charge of Startups who will act as a "guiding light" function, there will be coordination on a variety of measures with the aim of creating the campus in a centralized and efficient manner.
- In addition to working on organic collaboration with universities and research institutes across Japan, in order to create and develop startups, in particular, efforts will be made to promote joint research and personnel exchanges with Okinawa Institute of Science and Technology (OIST) which is already equipped with a global mindset.

5) Implement entrepreneur development programs in cooperation with the U.S.

A framework will be established to fundamentally strengthen the ability to commercialize research outcomes. Under this framework, researchers and graduate students from Japan will participate in entrepreneur development programs conducted by the U.S. side for researchers and graduate students based on agreements between the governments of Japan and the U.S.

6) Establish Japan-U.S. personnel exchange programs in the field of startups and venture capital firms

To fundamentally strengthen the development of both Japanese and U.S. human resources who possess expertise and networks that are globally relevant, personnel exchange programs for both Japan and the U.S. will be established based on agreements between the governments of Japan and the U.S. These programs provide opportunities to graduate students and other young people to work (intern) for the long-term and in paid positions, at startups and venture capital firms that drive the creation of advanced technology.

(7) Enhance entrepreneurship education, including the creation of entrepreneur development programs for Japan at U.S.-based business schools

In Japan, there are limits to providing educational programs with strengths in entrepreneur development. In view of that, feasibility studies will be conducted to consider developing an environment that allows students to earn their degrees while working in Japan. This includes the establishment of MBA programs for fostering entrepreneurs at U.S. universities, targeted at students in Japan, which are conducted through online systems.

(8) “One University, One Exit” movement

In order to support the creation of university-launched startups, research universities across Japan will roll out a movement to "start 50 companies per university, with one company aiming to exit'."

(9) Support startup creation at universities and for elementary, junior high, and high school students

Support will be provided for the commercialization, including global dissemination, of university research outcomes for more than 5,000 projects over five years, with a focus on the eight Startup Cities in the Startup City Project Japan and with the participation of overseas accelerators and venture capital firms.

At the same time, we will promote the following initiatives as a support measure for startup creation at universities and among elementary, junior high, and high school students.

- Promote the introduction of a "cross-appointment system" that allows researchers, etc. to conclude employment contracts with both companies and universities/ colleges of technology (KOSEN).
- Promote a support program for entrepreneurship education that invites entrepreneurs as lecturers for elementary, junior high, and high school students, and expand entrepreneurship education for elementary, junior high and high school students by utilizing class hours such as "integrated study" classes.
- Currently, support is provided to 16,000 undergraduate and graduate students and 1,400 high school students annually to study abroad. However, as some undergraduate and graduate students who receive education in the U.S. and Europe feel the burden of repaying large amounts of scholarships, Japan aims to expand support over the medium to long-term. Additionally, we will also expand this support to junior and senior high school students in order to spread the entrepreneurial spirit in Japan.

10) Strengthen entrepreneurship education at colleges of technology (KOSEN)

In addition to introducing entrepreneurship education at colleges of technology (KOSEN), collaborations among KOSEN as well as between universities and colleges of technology (KOSEN) will be promoted. To realize global expansion, we will also promote cooperation with Startup Cities.

From the perspectives of nurturing startups as well as human resources who have advanced practical technical skills, we will develop an environment to facilitate the transition from technical high schools to colleges of technology (KOSEN). In doing so, reviews will also be conducted on providing governmental support related to the transition.

In addition to encouraging the holding of contests such as robot contents and deep-learning contests (DCON), which have great impact on improving technical skills and problem-solving skills among KOSEN students, information dissemination will also be strengthened through cooperation with the media.

11) Strengthen initiatives in Startup Cities

Budgets and systems related to Japan External Trade Organization (JETRO), which provides support for the global expansion of the Startup Ecosystem, will be radically expanded to enable to the strengthening of its activities as well as the continued expansion of these activities to each Startup City. In doing so, we will consider measures to ensure continuous and permanent assistance.

12) Intellectual property strategy for startups and universities

In addition to promoting the reforms on the governance of universities' intellectual property based on the University Intellectual Property Governance Guidelines, we will consider diverse forms of evaluation in university evaluations and government funding systems, such as the incorporation of license income into the evaluation items, since the number of patents is not the only important factor in conducting evaluations.

To promote the creation of innovation by startups, push-type support from examiners in the phase pf patent examination will be implemented soon.

13) Expand researchers in research fields

In order to realize world-class research universities, support, based on the Universities for International Research Excellence Act, will be provided through the 10-trillion yen University Endowment Fund. Additionally, there will be efforts to improve the treatment of doctoral course students and to improve research environments for them, with the aim of tripling by 2025 the number of doctoral course students who receive an amount equivalent to their living expenses (equivalent to 70% of those who enter from master's course).

As further support measures for doctoral degree holders, the inclusion of doctoral degrees on the business cards of public employees will be encouraged. And a change in the awareness of the use of doctoral degrees in private companies will be encouraged.

14) Attract more foreign entrepreneurs and investors

Currently, foreign entrepreneurs are permitted to enter and stay in Japan for up to one year on a Startup Visa (Foreign Entrepreneurship Promotion Project), but the persons confirming this visa are limited to local governments that are authorized by the national government.

Taking reference from cases in various countries such as the UK, we will establish, within this year, a framework that allows government-certified venture capital firms, incubators, accelerators, and other private-sector organizations to carry out, in place of local governments, verification procedures for issuing startup visas to those preparing to establish startups. While this will be based on the premise of verifying the activities of those obtaining the visa, the procedures will be designed to be simple and fast in the same way as in other countries, in consideration of the burden they may place on business operators.

In addition, we will consider extending the maximum period of stay by utilizing mechanisms such as the National Strategic Special Zone Program to Increase Foreign Entrepreneurs to extend the length of stay allowed under startup visas. We will also consider the nationwide rollout of the same system.

Furthermore, while taking reference from cases in various countries such as the UK and utilizing the National Strategic Special Zone framework, we will consider creating a new visa for investors (including angel investors). A certain amount of investment in Japan will be set as the criteria for obtaining this visa, based on factors such as the amount of assets and track record of investment in startups.

To attract international remote workers (so-called "digital nomads"), identify and study issues, including visa and residency status, and a system will be established within this fiscal year.

We will work on improving the living environment of foreign nationals, such as by simplifying and speeding up processes on the acquisition of real estate and opening of personal bank accounts for those who have obtained startup visas and investor visas, facilitating the smooth granting of university entrance qualifications to foreign children who have graduated from international schools, and providing multilingual support and developing online systems in administrative organizations and medical facilities.

15) Strengthening support and improving the environment corresponding to the characteristics of the field

i) Biotechnology

With a view to boosting the creation of drug discovery startups, we will strengthen connectivity between ecosystems in Japan and other countries. This includes efforts to improve the mobility of human resources between Japanese researchers and global pharmaceutical companies, etc.

With regard to biotechnology startups in areas such as the development of medical equipment and research and development on cranial nerve disease, etc. a support system will be established through industry-academia-government cooperation, including stronger government support, to facilitate the global dissemination of research outcomes.

ii) Climate tech

Reviews will be conducted mainly by the Ministry of Economy, Trade and Industry, in the field of climate tech, which is increasingly attracting interest and attention worldwide.

We will consider the possibility of easing regulations, based on factors such as technological advancement and actual needs, in the case of regulations that remain at the same standard even many years after their introduction, for example, the safety distance when handling substances such as ammonia.

Support will be provided to help cover the development expenses, etc. incurred by startups that are engaged in the creation of use cases for next-generation semiconductors, toward the strengthening of user-side initiatives for next-generation semiconductors.

16) Promote the introduction of educational curricula that meet international standards

In regions where talented foreign human resources gather, including Startup Cities, we will promote educational curricula that meet international standards, such as the International Baccalaureate, in order to provide adequate opportunities for quality education to these children.

17) Develop an environment toward the utilization of Restricted Stock Units (RSU: stocks with restrictions on transfers during a vesting period)

RSU are rights that are attached to stocks after a certain vesting period. In the U.S., they are generally used as a form of compensation or incentive for employees by startups that are lacking in funds in hand. On the other hand, in Japan, it is unclear if the disclosure obligation on new share issuance of 100 million yen or more per year, stipulated by the Financial Instruments and Exchange Act, is applicable to RSU. Some have pointed out that this hinders the introduction of RSU. Hence, efforts will be made to clarify the treatment of RSU.

(5) Enhancing Funding provision for Startups and Diversifying Exit Strategies

Comparing companies that have received venture capital investment with those that have not, the companies that received investment have been more proactive about creating employment and innovation. That is to say, venture capital firms have significant abilities for evaluating startups and also have the ability to nurture startups.

In order to do so, the following specific measures to strengthen startup funding provision and to diversify exit strategies will be promoted:

1) Strengthen the functions of the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN to invest in venture capital

Although the function for investing 20 billion yen in the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN) has been strengthened, we will promote limited liability investments in domestic and overseas venture capital firms that have financial clout and knowhow in startup development through it.

Furthermore, with regards to the new medium-term goals and plans by SME SUPPORT JAPAN from the next fiscal year, in addition to setting goals to further strengthen limited liability investment functions, there will be consideration for supporting the development of domestic venture capital firms, such as by establishing investment quotas that are limited to

venture capital firms run by young capitalists, and for reviewing the upper limit of debt guarantee systems for deep tech startups.

2) Strengthen investment functions of the Japan Investment Corporation

With regard to the Japan Investment Corporation (JIC), a new 200-billion-yen scale fund has been established and will be utilized. Its investment functions will also be strengthened through the submission of a bill around next year to extend its investment mandate to 2050 (currently until 2034).

Furthermore, we aim to establish a 40-billion-yen scale fund within this year, which will include direct secondary (investment carried out by way of transfer from investors who hold issued shares, etc. to venture capital firms or other investors) and the supply of growth funds to listed startups.

3) Strengthen the investment functions of public-private funds, etc.

Limited liability investments in domestic and overseas venture capital firms by public funds will be strengthened, including for public and private funds other than those by SME SUPPORT JAPAN and JIC, and there will be sufficient risk money supplied to realize a 10x or greater increase in startup investment in five years.

For this reason, the amount of limited liability investment in domestic and overseas venture capital firms by various public and private funds will be aggregated and published every year. When doing so, attention will be given to the supply of risk money to bring about the realization of an investment amount "which is 10 times the scale of the current fund after five years."

With regard to public and private funds, efforts will be made to strengthen investment functions in overseas hub functions and overseas venture capital firms, while cooperating with NEDO and JETRO. In doing so, gatekeepers (advisors) such as private financial institutions that have assessment abilities and networks with domestic and overseas venture capital firms will be actively utilized.

Additionally, collaborations between government-affiliated startup support organizations will have their unified information dissemination strengthened and their effectiveness as central points of contact will be enhanced. Further utilization of the Special Investment Operations of the Development Bank of Japan (DBJ) will be promoted.

4) Strengthen support measures for R&D startups by NEDO

NEDO has been providing subsidies for two-thirds of the amount equivalent to the cost of practical application development, on the condition that one-third of this amount is invested by certified venture capital firms. Going forward, it will enhance support measures for R&D startups by utilizing a 100-billion-yen fund over a five-year period, increasing the upper limit of this subsidy, expanding the support menu, and increasing the number of eligible venture capital firms including overseas venture capital firms. In doing so, efforts will also be made to simplify the procedures in consideration of the burden on startups.

Furthermore, in order to accelerate the business expansion of deep tech startups in the growth stages and promote the formation of ecosystems, NEDO will expand support programs for deep tech startups, including its support toward mass production and business development.

5) Enhance support for drug discovery startups by AMED

AMED has been providing subsidies for two-thirds of the amount equivalent to the cost of practical application development, on the condition that one-third of the amount is invested by certified venture capital firms and with support eligibility limited to infectious diseases for

drug discovery startups. Going forward, it will enhance support for drug discovery startups by utilizing a 300-billion-yen fund spread out across 10 years, and by expanding support eligibility to drug discovery fields other than infectious diseases and which face difficult in raising funds. In doing so, efforts will also be made to simplify the procedures in consideration of the burden on startups.

6) Radically strengthen the SBIR system and funding to R&D startups

Since there is no basic policy that provides guidance on how to fund R&D startups, including startups launched from universities and colleges of technology (KOSEN), startups in the seed phase (the stage before receiving investments from venture capitals, etc.) are unable to cross the "Valley of Death." There are also many points of contention associated with funding agencies (rate of subsidy, application format, accounting processes, etc.)

In light of this situation, a "Guideline on Funding R&D Startups" that sets out elements such as the strengthening of support from funding agencies (JST, NEDO, AMED, etc.), implementation method, subsidy rate and financial sources, data collection and evaluation analysis, will be formulated at an early stage and adopted for the programs of the respective funding agencies with effect from this fiscal year and next fiscal year.

To date, under the Small/Startup Business Innovation Research (SBIR) program, a total of 7 billion yen in R&D-related subsidies from the various ministries has been combined to support R&D in the FS survey phase for business ideas ("Phase 1") and in the R&D phase for commercialization ("Phase 2"). Together with expanding these subsidies, the large-scale technology development and demonstration phase ("Phase 3") will also be newly added as a beneficiary of this support program, and a 200-billion-yen fund spread over five years (40 billion yen per year), newly created through the Cabinet Office, will be utilized to provide backup for Phase 3.

The program will also be revised as necessary to ensure that research funds reach startups during their seed stage, in a way that places little burden on both the funding agency and the startup.

7) Strengthen connections with advanced overseas ecosystems

In Boston, the evolution of the startup creation and nurturing model has led to the early exit of biotech startups. The connections between these world's most advanced ecosystems and the ecosystem of drug discovery startups in Japan will be strengthened.

8) Measures to encourage investment in startups

We will utilize the preferential tax system established under the FY2023 tax reforms for reinvestment in a startup by using sales of shares, and promote the supply of funds to startups from individuals such as founders.

In order to promote angel investment, the spread of platforms for information sharing and matching between angel investors and startups will be promoted.

9) Promote investments from individuals to venture capital firms

Under Venture Capital Trusts (VCT) in the UK, tax incentives (such as tax deductions at the time of investment, tax exemptions for investment profits, and tax exemptions from corporate tax) are granted for investments by individuals in listed venture funds, and about 1 trillion yen of individual funds are invested in VCT per year. In view of the nature of long-term investments from VCT to early-stage unlisted companies, consideration is also given to liquidity (system of redemption from VCT) and information disclosure (quarterly).

While using such examples as reference and paying close attention to protection investors,

we will consider implementing a scheme (Japanese version of the VCT) to promote investments by individuals in listed venture funds.

Specifically, considering that tax deductions at the time of investment is one of the greatest success factors in case studies of the UK and France, we will consider the necessary measures, such as angel tax systems, for introducing tax deductions at the time of investment for investments by individuals in venture capital firms, including making listed venture funds eligible for preferential tax systems. In doing so, we will also consider making investments from trusts eligible for angel tax systems.

In the UK, in line with the nature of long-term investment, the self-acquisition of investment equity is possible from the viewpoint of securing liquidity. In view of this, we will consider revising the Cabinet Office Ordinance on the Act on Investment Trusts and Investment Corporations, etc., alongside fraud prevention measures, to enable the self-acquisition of investment equity in listed venture funds in Japan as well. Furthermore, from the viewpoint of fundamentally reforming the asset management industry in Japan, we will also take reference from the examples of other countries and take early steps to revise the framework for investment trusts, in order to further increase the lineup of investment trust products that are suitable for long-term investment.

Looking at the case of the UK, information disclosure is required every quarterly. In light of this, based on the premise that companies should disclose important information in a timely fashion for investors to base their investment decisions on, we will consider revising the rules for companies listed under the Tokyo Stock Exchange to disclose information on a quarterly basis, rather than on a weekly or monthly basis, for listed venture funds in Japan.

10) Improve environment for the use of equity investment crowdfunding

Equity investment crowdfunding is a mechanism in which unlisted companies issue shares to raise funds in small amounts from many people through the Internet. We will consider raising the current ceiling on the total amount of issuance (100 million yen) to 500 million yen, for example, alongside the necessary measures to protect investors, such as information disclosure, while taking reference from the examples of other countries such as the U.S. With regard to the investment limit for investors, we will also consider setting the investment limit corresponding to the investor's annual income or assets, making it possible to invest 1 million yen from the current investment limit of 500,000 yen, for example. We aim to reach a conclusion on these reviews by the end of next year.

11) Promote public procurement

Utilizing public procurement is also important for developing startups.

Procurement from startups will be expanded in areas where the ratio of contracts from small and medium-sized enterprises (SMEs) established less than 10 years is only about 1% for properties, construction, and services procured by the national government, independent administrative agencies, and other government agencies, and the contract ratio will be rapidly expanded to 3% or more (to approximately 300 billion yen).

Additionally, the use of Startups (including the use of those selected as J-startups) will be promoted in a wide range of government procurement, including for public infrastructure (railways, electricity, and water).

In order to expand the participation of startups in government procurement, a bidding participation qualification system will be considering, including consideration of rules on free contracts and measures that grant additional points for large-scale national research.

Public procurement by local governments will be promoted comprehensively through means such as reviewing the documents required and criteria for participating in procurement

that vary among each local government, visualization of the public procurement situation by the government, and early introduction of a digital marketplace.

12) Consideration of SPAC (Special Purpose Acquisition Companies)
Consideration will be given to the necessary systems should SPAC (Special Purpose Acquisition Companies) be introduced, taking into account trends in international financial markets and giving due consideration to investor protection.

13) Improve the trading environment for unlisted stocks

Currently, Proprietary Trading Systems (PTSs) operated by securities companies are not permitted to handle unlisted stocks even for professional investors. In order to enable the handling of unlisted stocks for professional investors so that startups can grow without being listed, the relevant Cabinet Orders for the Financial Instruments and Exchange Act will be revised during this fiscal year.

Additionally, with regard to online transactions in the secondary market, we will develop an environment as soon as possible to facilitate participation by online platformers while giving consideration to protecting individual investors. Aspects of this environment include easing of approval criteria such as capital requirements (currently 300 million yen) in Proprietary Trading Systems (PTSs), easing of disclosure obligations, easing of system requirements, etc.

To promote the supply of funds to startups in the primary market, we will consider the approach to financing, including the approach to small amount public offerings, while securing appropriate investment decisions and preventing investment scams by ensuring appropriate disclosures and information provision, as well as appropriate solicitation.

14) Review the private placement system for professional investors, etc.

The Japan Securities Dealers Association (JSDA) revised its rules regarding the private placement system for professional investors, which allows startups to solicit applications to acquire newly issued securities, from professional investors only, as a means of raising funds, and made the system available for unlisted securities as well. On the other hand, it has been pointed out that there is a heavy administrative burden on startups for the specified securities information (corporate information and business performance, etc.) that is required to be provided or disclosed under the new system. In view of this, while following up on the utilization status of the new system and taking into consideration actual needs and the viewpoint of investor protection, we will take reference from case studies in various countries and promote the use of private placement system for specific investors, toward expanding trading in the primary market. We will also review the approach to funding, such as the way a private placement system for small groups of people works (restrictions on the number of people, changes to the method for calculating the number of investors, etc.), and the system for the securities registration statement that gives consideration to the characteristics of a startup.

15) Tax measures related to the departure tax, etc. to promote overseas expansion

In order to promote the overseas expansion of startups, when a startup is expanding overseas and when a manager himself/herself will be posted overseas, it should be confirmed and made known that it is possible for the manager to leave Japan with the company's guarantee and without the manager having to provide his/her own startup shares as collateral. In the same way, inform employees, etc., that they do not require to offer their share certificates as collateral if they pledge their shares as well.

16) Redirecting personal financial assets and long-term investment funds such as GPIF to venture investment.

In addition to redirecting personal financial assets in Japan toward nurturing startups, pathways will be developed to redirect long-term investment funds such as Government Pension Investment Fund (GPIF) to venture investment and infrastructure provision.

For this reason, Doubling Asset-based Income Plan will be promoted in order to redirect personal financial assets to nurture startups by promoting venture investments from angel investors and by investing in domestic venture funds from pension funds.

Additionally, from the perspective of benefits for the insured, etc., such as sustainable growth of the overall market and risk reductions and performance improvements through diversified investments, public institutional investors such as GPIF will work to develop an environment for expanding the supply of funds to domestic startups, which are growth engines, through investments in domestic venture funds.

17) Promote startup financing by banks, etc.

As for supply of funds to startups through loans, we will flexibly follow up on the state of support for startups while also monitoring banks, etc. based on The JFSA Strategic Priorities, etc.

Bearing in mind startups that require time to grow, and from the perspective of providing a wide range of support for the development of new business domains, we will promote the relaxation of requirements for investment regulations, in order to expand the scope of startups that banking groups can invest in.

In addition to the above, we will also improve the environment for encouraging banks to finance startups, such as by making financial businesses (fintech companies related to fund settlement, etc.) eligible for financing upon screening to ascertain that they pose no subleasing risks under the Japan Finance Corporation's startup support system.

We will promote the establishment of funds by financial institutions and investment in startups by regional financial institutions. With regard to continuous investment in startups by banks, we will clarify and publicize the fact that such investments are not subjected to restrictions as speculative unlisted shares.

18) Improve the environment to attract overseas investors and venture capital firms

Unlisted shares held by funds are valued at fair value (market value) overseas, but are often valued at acquisition cost in Japan. To enable the international comparison of the performance of Japanese venture capital firms, and to attract overseas investors, we will clarify the points to note in auditing venture capital firms and the practical handling of accounting procedures, and promote the adoption of fair value assessment and implementation of audits, etc. in Japan.

Specifically, in order to promote fair value evaluation in investment limited partnership (LPS), we aim to revise the LPS accounting rules and stipulate fair value assessment by this summer. In addition, while the Japanese Institute of Certified Public Accountants has recently revised its practical guidelines for the accounting and auditing of financial instruments related to LPS, there are expectations of further revisions to the provisions on accounting standards for financial instruments where necessary.

Currently, LPS are not allowed to invest an amount that is 50% or more of the total capital contribution of all partners without obtaining certificate. We will revise the Limited Partnership Act for Investment (the LPS Act) and abolish the upper limit on overseas investment under the LPS Act. Additionally, from the perspective of more thorough information disclosure associated with the expansion of the business scope of LPS, we will

consider stipulate the matters that should be contained in financial statements, etc. in laws and ordinances, with a view to legal reforms in the next fiscal year.

It has been pointed out that Japanese contract formats, etc. sometimes become a barrier to entry for overseas investors, or that venture managers and employees are sometimes unable to operate under the same conditions as they do overseas due to tax systems and labor laws. While taking into consideration the actual situation of the business practices of overseas investors, we will revise and publicize written model format for a Limited Partnership Agreement in line with global standards.

19) Strengthen the creation of regional startups

In addition to the Startup City Project Japan and J-Startup initiatives, we will increase financing from national universities to regional funds that regional financial institutions participate in, and boost startup support from regional universities.

20) Support startup creation in Fukushima

Efforts will be made to develop demonstration fields in the Hamadori area, Fukushima Prefecture, to facilitate the implementation of demonstrations, such as robots, drones, and eVTOLs, in an environment that is nearer to the sites of actual use.

21) Utilization of startups at Expo 2025 Osaka, Kansai, Japan

At the Expo 2025 Osaka, Kansai, Japan, branded as “People’s Living Lab,” technologies from startups will be actively utilized. To realize the global expansion of activities undertaken at the respective startup ecosystem hubs, efforts will be made to strengthen the necessary measures for the development of the ecosystem in relation to the theme of the Expo, “Designing Future Society for Our Lives.” These include holding international conferences and business contests based on themes such as zero carbon and healthcare, entrepreneurship education, and global acceleration programs.

22) Review the treatment of personal information in securities registration statements and registration of a company

The names, addresses, and other personal information of those who hold stock options are set out in the securities registration statements submitted for an initial public offering, as well as other documents. The treatment of personal information will be reviewed within this fiscal year. In addition, the address of the representative director is recorded in the company register during the registration of a company and thereby becomes public information. This will similarly be reviewed within this year.

23) Enhance the convenience of tax systems for overseas investors

Under the FY2021 tax reforms, when overseas investors invest in a Japanese fund through an overseas fund, it will not be subject to income tax as business income in Japan if the equity held by the individual investor unit is less than 25%, even if the equity held by the overseas fund in question is 25% or more. Upon an investigation into the effects of this reform, a review will be conducted on how the tax system works and other matters, with a view to enhance convenience in promoting investment from overseas limited partners (LP) to domestic general partners (GP).

24) How the Tokyo Stock Exchange’s Growth Market should work

As the Tokyo Stock Exchange advances market reforms and works on developing an environment for improving corporate value, we will conduct a review on developing systems

for the growth market, such as the approach to listing maintenance standards, including the introduction of indicators related to growth potential. At the same time, we will tighten delisting requirements.

Furthermore, to improve the environment for enabling drug discovery startups to procure funds continuously even after they are listed, the management of the drug discovery pipelines in the clinical trial phase and alliances with large pharmaceutical companies, regarding the drug discovery pipelines, which are set out as examples in the Tokyo Stock Exchange's New Listing Guidebook and is a substantial requirement for IPO, will be rationalized through the revision or rewriting of such examples.

25) Strengthen cooperation with ASEAN countries and others

With regard to support for partnerships and collaborations between companies to solve social issues in ASEAN countries, comprehensive one-stop support will be provided in line with the corporation's phase.

Through the convention of the ASEAN-Japan Young Business Leaders' Summit and Generation Z Business Leaders' Summit, comprising potential next-generation leaders active in Japan and ASEAN, efforts will be made to build a Japan-ASEAN entrepreneurs' network.

With regard to cooperation with ASEAN and other countries, which was also discussed at the G7 Summit, support will be given to startups engaged in overseas business development in cooperation with local companies.

(6) Promoting open innovation

An early argument for disruptive innovation was that companies using old technology will inevitably lose out to companies that enter the market using new technology. However, recent studies have found that even companies using old technology can survive sustainably if they introduce new technology in cooperation with startups. The following measures will be implemented to promote open innovation.

1) Tax measures, etc. to promote open innovation

To promote M&A by business firms, which provides an exit strategy for startups, while only newly issued shares had previously been eligible for tax incentives to promote open innovation, existing issued shares in acquisitions of 500 million yen or more have also been included in cases where they contribute to startup growth. To continuously promote open innovation by existing companies and startups, we will consider extending the applicable period of the tax incentives to promote open innovation, alongside other measures.

In addition, while taking reference from case studies in other countries, we will consider measures to promote investment by business firms in venture capital firms from the perspective of expanding the funding scale of independent venture capital firms with expertise in deep tech.

2) Improve the working environment in startups

To increase the capability of startups to secure human resources, we will create work environment to address issues faced by startups through not only monetary incentives, but also measures such as establishing a health insurance association in which startups can participate.

In addition, by utilizing support measures for companies that dispatch human resources to side jobs and companies that accept human resources employed in positions as a side job, we will encourage side jobs and side businesses as a starting point for facilitating smooth labor movement into growth fields.

To enable intellectual property support to reach startups that need intellectual property

support via venture capital firms, we will expand the scale of the dispatch of intellectual property experts to venture capital firms.

3) Consider further accelerating organizational restructuring

In order to enable management resources (human resources, technology, etc.) of large companies to fulfill their potential, and to create startups launched from large companies, even if a part of the equity is left in the company that creates a spinoff, it will not be subject to taxation.

Furthermore, in order to support innovation by enhancing the fluidity of excellent technology and human resources that exist in business firms, etc., we will consider measures to promote bold business restructuring, in addition to providing strong support for R&D activities to business firms, etc. engaged in commercialization through the utilization of external management resources in cooperation with venture capitals, etc., as well as to those who are engaged in carving out businesses.

4) Expand the voluntary application of International Financial Reporting Standards (IFRS) to promote M&A

Japan's accounting standards stipulate the routine amortization of goodwill through the straight-line method. Some have pointed out that the amortization of goodwill continuously puts pressure on the earnings of acquired companies. For this reason, we will promote the voluntary application of international financial reporting standards (IFRS), under which goodwill is not amortized, by companies.

5) Approach to information disclosure on the results of M&A

We will consider measures to facilitate better understanding among investors on the results of M&A, such as disclosing profits adjusted for goodwill amortization (adjusted EBITDA basis) in financial statements.

6) Collect and organize data to obtain an overview of the startup ecosystem

We will work on collecting and organizing data to enable international comparisons, such as by conducting fact-finding surveys.

7) Promote the openness of data related to public services and infrastructure

National and local governments will provide information on public data on the Internet that can be used by startups, etc.

8) Strengthen the networks of large companies and startups

In order to promote smooth open innovation, awareness will be spread about "guidelines" that should be kept in mind regarding non-disclosure agreements and license agreements, etc. for when startups and business companies, etc. collaborate.

3. Comprehensive support measures and facilitating the exit, including business restructuring and business succession, etc. in the case of a business slump

The Organisation for Economic Co-operation and Development (OECD) evaluates the current situation in each country concerning the ease of recovery from business revitalization or bankruptcy among corporate managers in developed countries. According to their evaluation, Japan, compared to other developed countries, is assessed to face recovery difficulties, and the appraisal of the presence or absence of early diagnosis and rehabilitation procedures in Japan is particularly poor.[14]

Looking at the financial results of closed and dissolved companies just before their closure or dissolution in Japan, the percentage of companies with profits is falling every year, falling to over 50% recently. Conversely, the percentage of companies registering losses is on the rise and exceeds 40%.[15]

It is also important to consider measures to facilitate exit, such as building early consultation systems if corporate managers wish to exit.

(1) Establishing early consultation systems and other institutional arrangements when corporate managers wish to exit

According to surveys conducted by the Financial Services Agency, when withdrawing from or dissolving an unprofitable business, many managers feel anxious and worried about the cost of business withdrawal/dissolution, the size of debts incurred by the business to date, life after dissolution of the business, and other aspects.

On the other hand, many companies without successors consult with their consulting tax accountants about business continuity, while only 3.8% consult with supporting agencies for SMEs (Support Centers for Smooth Business Succession, Yorozu Support Centers). Yorozu Support Centers, established in all prefectures across Japan, serve as the comprehensive liaison office for supporting SMEs, but consultations about business succession and cessation of business make up only 1.8% of all consultations.[16]

For this reason, we will build systems that enable corporate managers to consult, from an early stage, with experts on a wide range of options when their businesses are not doing well, such as M&A, business restructuring, business succession, and dissolution. This includes improving the systems of supporting agencies for SMEs nationwide. At the same time, we will raise awareness among corporate managers on the importance of consulting early. Alongside with these, we will also consider extending and expanding tax systems for business succession that involve entrusting management to relatives.

(2) Developing legal systems for business restructuring

During the COVID-19 pandemic, the outstanding obligations of Japanese corporations continued to increase, with 16% of large companies and 33% of SMEs responding that they have perceived excessive debt.[17] Of the companies that responded that they have perceived excessive debt, 31% of large companies and 35% of SMEs (as of October last year) feel that debt hinders business restructuring.[18] When asked about the points that they place importance on when considering private liquidation of debts for business restructuring purposes, the largest number of respondents (more than 70%) selected "procedures that do not impact on current business/transactions," and more than 40% selected "procedures are simple and do not take a long time." [19] In developed countries, in addition to insolvency proceedings, there is legislation in place to enable the reduction of financial debts through a majority vote for business restructuring with the approval of the court, without requiring the consent of all lenders. [20] Such systems address the problem described above, but they do not exist in Japan.

Legislation on business restructuring should be improved in Japan, in similar forms as in other developed countries, to make it easier for companies to reduce financial debts through a majority vote without requiring the consent of all lenders. The bill for such legislation will be submitted to the Diet as soon as possible.

(3) Financing that focuses on companies' business feasibility

80% of people who are interested in starting a business cited personal guarantees as a risk in the event of failure. Although the percentage of loans with a personal guarantee provided by business owners is gradually declining, 70% of new loans from private financial institutions still come with a personal guarantee provided by business owners.[21]

Additionally, according to a questionnaire survey of SME managers, nearly half pointed out that the negative impact of a personal guarantee provided by business owners on management would delay the early start of business revitalization.[22] As such, in order to start business revitalization at an early stage, it is necessary to establish and popularize financing options other than loans that rely on personal guarantees provided by business owners and tangible assets such as real estate such as collateral. First, we will make thorough use of the Guidelines for Personal Guarantee Provided by Business Owners, and will continue to aim to reduce, as a percentage of new loans, the number of loans with a personal guarantee provided by business owners. In addition, we will consider a legal system that allows companies to raise funds by collateralizing their entire business' asset, including intellectual property and intangible assets such as the company's know-how and customer base, and will aim to submit legislation for this system as soon as possible.

In order to establish lending practices that do not rely on personal guarantees provided by business owners, we will promote the use of a new credit guarantee system that does not require personal guarantees for startups that are less than five years old. Furthermore, by next spring, we will create a credit guarantee system that provides managers with the option of cancelling personal guarantees provided by business owners by paying an additional guarantee fee if the business satisfies requirements that can be achieved depending on the manager's efforts.

As for loans provided by the Japan Finance Corporation, we will promote the application of newly established lending requirements that do not require a personal guarantee provided by business owner for startups within five years of their establishment. In conjunction with this, we will promote the use of capital loans for startups with insufficient cashflow and for SMEs whose financial situation has temporarily deteriorated.

With regard to startups, we will work to improve financial institutions' screening systems in order to increase the supply of startup financing (venture debt) to startups that lack assets that can be used as collateral. Additionally, in order to enable companies to finance in a variety of ways, we will work to revitalize the trading of unlisted stocks by studying the disclosure content that is required for small-amount offerings, investment limits that take into consideration investor protection in stock investment-style crowdfunding, and the relaxation of requirements for Proprietary Trading Systems (PTSs) that handle unlisted stocks for professional investors. We will also promote the utilization of middle-risk/middle-return financing methods through bonds, and we revitalize the secondary market for bonds and make it more liquid (making it off of balance sheets).

VI. Building Economic and Social Systems for Solving Social Issues

It is no longer viable to focus on short-term increases in corporate profits. Companies must fulfill their social and environmental responsibilities (human capital and human rights, climate change, diversity, etc.) to maintain businesses' sustainability. By a shift from a perspective that focuses on the short-term profitability of individual companies to one that emphasizes social value, and considering social and environmental impacts in addition to financial risk/return, we will incorporate external diseconomies into capitalism and promote a multi-stakeholder corporate society.

In Japan, which is said to be a challenge-developed country, we will build systems into the economy and society in order to solve social problems.

1. Comprehensive support measures for impact startups

As for services that have been handled by the public sector up until now, it is expected that the private sector will be proactively involved in order to respond to diverse needs in a detailed manner. In Japan which is said to be a developed country facing challenges, it is important to take the lead in the world in recognizing social issues as energy for growth, and to build systems into the economy and society to resolve them.

When people consider establishing a startup, their purpose is often to solve social issues such as environmental problems or problems with child-rearing. In fact, Japanese startups' primary motivation for being founding is "Want to solve social issues and be useful to society"[23] (answer by 73% of respondents in the Startup Survey 2022).

To this end, comprehensive support measures, including the creation of a new certification system for impact startups (social entrepreneurs) and a financial framework, will be promoted as follows.

1) Creation of a framework for strengthening collaboration among stakeholders such as impact startups, NPOs, relevant departments in existing companies, and investors

A framework will be established to strengthen collaboration stakeholders, including impact startups, NPOs, and relevant departments in existing companies. In order to support the study of impact measurement methods, the development of data, and investment for utilizing them, with the participation of investors and companies, a consortium will be established to promote data development and human resources development related to business evaluation.

2) Creation of impact investment projects

From the perspective of deepening the understanding of those involved in impact investment (investment that aims not only to obtain economic benefits but also to solve social issues) and to promote the spread of impact investment, basic guidelines will be compiled during the current fiscal year. Based on these guidelines, we will promote the creation of impact investment projects, including investment in impact startups, through collaboration with the Development Bank of Japan and local governments.

3) Educational programs related to impact startups

We will support the creation of educational bases for fostering social entrepreneurs and the overseas dispatch of young human resources who aspire to become social entrepreneurs. In doing so, we will also provide financial support for the development of curriculums at domestic universities and for the creation of networks for potential social entrepreneurs.

4) Consideration of a certification system and new corporate form for impact startups

Based on international certifications, we will launch an impact startup version of J-startup (a support and development program for startups) at an early stage as a framework for the certification of Japanese impact startups.

Preferential treatment in public procurement will be introduced for companies that are certified under the above certification system. In addition, through the use of Social Impact Bonds, measures will be taken to encourage and promote the participation of impact startups in public procurement by local governments.

Together with this, we will refer to the examples of other countries such as the United States and will study a new system of legal entities that are in the private sector but that play a public

role.

5) Creation of lists of recommended companies and matching with local governments

Local governments will be provided with information about impact startups as well as a collection of good examples of initiatives between impact startups and local governments. Additionally, there will be a unification of the formats, such as the procedures and information, which are required by local governments when impact startup services are introduced.

6) Support measures for investment

Because the realization of social benefits needs to be viewed on a long-term time horizon, impact indicators will be concretely formulated with a view toward establishing long-term funds and developing secondary market systems.

Systems such as programs that dispatch experts to impact startups will be considered for the purpose of receiving investment from impact investment funds, etc.

Vehicles that connect individual investors and impact startups will be established at an early stage, such as an investment trust framework that incorporates unlisted stocks.

7) Utilization of the hometown tax payments (furusato nozei) and the corporate version of the hometown tax payments

In order to support the development of impact startups, we will increase utilization of both the individual and corporate versions of the hometown tax payments system (furusato nozei), and we will also strengthen the collection and dissemination of information on good practices.

8) Utilization of dormant deposits

In accordance with the review of the dormant deposit system five years after it was established, through projects that make use of dormant deposits we will enable and promote investment in impact startups that are in their founding stage.

9) Promotion of Pay For Success by national and local governments

In order to promote the use of Pay For Success contracting system, etc. to resolve social issues, we will promote the use of Social Impact Bonds, etc. that raise funds from the private sector.

10) Expanding the flow of highly donor-oriented funds through public interest corporations

In order to expand the flow of highly donor-oriented funds from the wealthy to impact startups, we will promote "investments" and "subsidies" in impact startups by public interest corporations. To this end, we will review change approval procedures so that public interest corporations can flexibly and quickly change projects, and, at the same time, in order to promote the use of public trusts, the requirements for trustees to receive tax benefits will be relaxed to allow impact startups to participate as well.

11) Establishment of one-stop contact point

One-stop contact points will be established so that impact startups can understand that various measures that are available for them to use, and support systems will be strengthened.

2. Support for NPOs and public interest corporations that solve social issues

1) Reforms for public interest corporations

In order to promote the resolution of social issues by public interest corporations, fiscal

discipline will be made clearer and more flexible, administrative procedures will be streamlined and simplified, corporate transparency will be increased, and autonomous governance will be enhanced, such as through a review of the income/expenditures compensation principle (income amounts must not exceed compensation amounts for reasonable expenses that are required to conduct the business public interest purposes) and idle asset regulations (idle assets that have no definite use may not be held for more than the equivalent of one year's worth of expenses for public interest projects).

As for the public interest trust system, authorization and supervision by the competent government agencies will be abolished, and a mechanism will be established to authorize and supervise public interest trust through a common framework with the Act on Authorization of Public Interest Incorporated Associations and Public Interest Incorporated Foundation.

To this end, we will strive to submit the necessary bills to the ordinary session of the Diet next year and to improve the system.

2) NPOs working to solve local issues

In order to raise awareness of the government's support measures for NPOs and others working to solve local social issues, we will utilize public-private partnership platforms, etc. and conduct push-type dissemination and publicity activities.

3) NPOs working on measures for loneliness and isolation

In order to provide detailed support for the activities of NPOs and other organizations that are working on measures for loneliness and isolation, based on the Act on Promotion of Policy for Loneliness and Isolation, we will strengthen development of human resources to provide counseling and support, establish The Headquarters for Promotion of Measures for Loneliness and Isolation in the Cabinet Office as well as local councils in each local government, and strengthen the support systems of the public and private sectors.

4) Human resources matching projects in rural areas and cities

By promoting human resources matching projects in rural areas and cities, we will develop and utilize human resources in local areas and promote the circulation of human resources to local areas.

3. Strengthening advocacy functions of the competition authority

In addition to enforcing the Antimonopoly Act, the competition authority also inquires areas where competition is lacking due to trade practices or regulations and advocates improvements in these practices or reviews of regulations.

Focusing on fields where the market is rapidly changing, such as green and digital fields, the competition authority will promote new fact-finding surveys and demonstrate their advocacy functions. In order to swiftly ascertain the actual status of transactions in these fields, we will promote the appointment of human resources with expertise in cloud computing, information technology, information security, economic analysis, etc. to the Japan Fair Trade Commission.

4. Strengthening concessions (including PPP/PFI)

Concessions for public facilities managed by private operators (public facility, etc. operating project) will be strengthened.

For airports, we will study how the public and private sectors should share risks in the event of costs and damages caused by force majeure such as COVID-19, and specific policies for

three airports will be decided by FY2026. At Haneda and Narita airports, we will also move forward with coordinating with the local communities to utilize and expand airport capacity.

By FY2026, specific policies will be determined for 7 public transportation terminals “Busta” and 10 stadiums/arenas. For stadiums/arenas, local governments' study from the conceptual introduction stage will be supported. Additionally, the formation of models for familiar facilities such as parks and community centers will be supported.

In the forestry sector, we will proceed with selecting candidate sites to establish new Timber Harvesting Rights. In doing so, market research and information gathering (market sounding) for project formation will be constantly conducted, the rights period (10 years in principle) will be flexible, and the multiple and simultaneous designation of extraction areas will be handled.

Ⅶ. Doubling Asset-Based Income Plan and the Formation of a Broader Middle Class

With the aim of increasing the sophistication of asset management necessary for the realization of middle class asset formation, and while promoting a shift among households from savings to investment, we will realize higher and more stable investment returns for households and improve corporate value via drastic reforms in the asset management industry and via corporate governance reforms, etc.

1. Promotion of the Doubling Asset-based Income Plan

(1) Basic concept

Looking at the "new form of capitalism" in terms of the flow of funds, we will use the 325 trillion yen in cash and deposits accumulated in the corporate sector to invest in important fields such as human resources, startups, GX and DX, thereby boosting growth. It is also important to use the cash and deposits that lie dormant in the accounts of Japan's households for investment, and to increase household income from financial assets in addition to working income.

More than half of Japan's 2,000 trillion yen in household financial assets of are held in cash and low-yielding deposits. [24] Even after accounting for pensions, insurance and other indirect holdings, the total amount invested in stocks, investment trusts and bonds are 244 trillion yen, with only about 20 million investors.

On the other hand, in the United States and the United Kingdom, an environment has been created in which even the middle class can easily invest in listed stocks and investment trusts. Household financial assets have increased 3.4 times in the United States and 2.3 times in the United Kingdom over the last 20 years, but only 1.4 times in Japan due to differences in the investment environment.

Cash and deposits account for a larger proportion of household financial assets in Japan than in Western countries, which is due in part to the post-war development of indirect financing, in which companies borrow from financial institutions such as banks. Realizing a shift from savings to investment and promoting a shift to direct finance are also important in developing a startup ecosystem that raises funds from venture capital, while also ensuring a steady supply of risk money that supports corporate growth.

If we can create an environment in which the middle class can easily invest in high return assets, we will be able to increase household income from financial assets. Furthermore, if household funds become a source of funding for corporate growth investment, it would

stimulate corporate growth and increase corporate value. If corporate value rises, household income from financial assets will increase further, resulting in a "virtuous cycle of growth and asset-based income."

Digitalization has made it possible to easily manage assets using apps and access a wide range of financial products with low fees, allowing the development of a system that allows a diverse range of people, including those with little investment experience, to participate in asset formation, thereby greatly expanding the middle class's asset-based income.

(2) Goals

The Doubling Asset-based Income Plan formulated last November, set its goals as follows.

First, we aim to double the number of people with investment experience. Specifically, we aim to double the total number of NISA accounts (ordinary and installment-type accounts) from the current 17 million to 34 million in five years. [25]

Second, we aim to double investment. Specifically, we will double the amount of NISA account purchases from the current 28 trillion yen to 56 trillion yen in five years. Following that, we aim to double the investment amount (total balance of stocks, investment trusts, bonds, etc.) among households.

In order to realize stable asset formation primarily for the stratum centered on the middle class through achieving these goals, we will implement policy measures with a view to doubling asset-based income itself as a long-term goal.

(3) NISA system

1) Major expansion of and making permanent NISA

NISA (Nippon Individual Savings Account, tax exemption program for small investment), launched in 2014, is becoming an established entry point for asset formation for the stratum centered on the middle class in particular. On the other hand, the utilization rate of NISA is 20%, leaving much room to promote greater utilization.

From the perspective of promoting stable asset formation, it is necessary to make it possible to predict financial asset formation using NISA by implementing NISA as a stable system that lasts into the future. Taking this step will make it possible to encourage continuous investment. Furthermore, in the short term, investment yields may fluctuate, but when averaged over the long term, investment has a significant effect on asset formation. Until now, the existence of a deadline for a tax exemption period means that if unrealized gains or losses occur in the short term, rather than waiting for the investment price to rise in the long term, the gains and losses get recognized in the short term. Such a system has made it difficult to create incentives to continue holding an investment over the long term.

As such, the NISA system was made permanent to enable people to continuously build assets through long-term, installment-type, and diversified investments from their youth to old age. In conjunction with this change, the NISA system was consolidated into a single investment framework that takes over the functions of installment-type NISA accounts and the functions of ordinary NISA accounts so that both can be used together. In addition, the upper limits for tax-free investment in NISA were raised from 1.2 million yen for the ordinary NISA and 400,000 yen for the installment-type NISA to 2.4 million yen for Growth Investment and 1.2 million yen for Installment-type Investment, for a total investment amount of 3.6 million yen.

In addition, the tax-exempt holding period was made indefinite. The tax-exempt holding limits were previously set at ¥6 million for the ordinary NISA and ¥8 million for the installment-type NISA, but a lifetime upper limit was set at ¥18 million for Installment-type Investment and at ¥12 million for Growth Investment.

2) Simplification of NISA procedures

In order to make it easier for users, including those with no investment experience, to use NISA, and to reduce the burden on financial institutions that provide services and service users, we will utilize digital technology to simplify and rationalize procedures related to NISA. Furthermore, working with the Digital Agency, we will consider simplifying the opening of NISA and iDeCo accounts, including the use of Individual Number Card (My Number Card).

3) Actions to be taken for the launch of the new NISA system

In preparation for the launch of the new NISA System (January 2024), a management system for tax-exempt holding limits will be developed, and publicity activities will be strengthened to inform the 80 million people with no investment experience about the NISA system and to arouse their interest in asset formation. We will also consider using Individual Number Card (My Number Card) for periodic confirmation procedures for users of the system.

(4) iDeCo system

1) Reform of the iDeCo system

iDeCo (individual-type Defined Contribution pension plan), which is a pension plan system that allows individuals to participate in the plan and determine by themselves how much to contribute and how to manage the contributions, is used mainly by the stratum centered on the middle class and contributes to increase their household income.

In light of the fact that the obligation to make efforts to secure employment opportunities for the elderly was extended to the age of 70, and that workstyles and lifestyles are becoming more diverse, it is necessary to further improve the environment for household asset formation in advance of reaching old age. Therefore, we will reform the iDeCo system.

2) Raise the iDeCo participation eligibility age

As a result of the workstyle reforms and the fact that companies need to make efforts to ensure workers up to the age of 70 have job opportunities, we will raise the participation eligibility age for participating in iDeCo to 70. For this reason, along with next year's Financial Verification of Public Pension Plan, necessary legislative measures will be taken.

3) Raise the iDeCo contribution limit and raise the upper limit on the receiving benefits age

Regarding raising the iDeCo contribution limits and raising the upper limit of age eligibility to start receiving benefits, a conclusion will be reached in conjunction with next year's Financial Verification of Public Pension Plan.

(5) Creating a system to encourage the provision of neutral and reliable advice to consumers

70% of consumers do not see the need to invest in securities. 40% said "there is a possibility of losing money", and 30% each said, "I don't have knowledge about finance and investment" and "it's like gambling," suggesting that there is a great deal of concern due to lack of knowledge.

On the other hand, when asked "would you want to purchase risky financial products if there was someone who could give you advice or help you with the procedures while understanding your point of view?", 50% of those in their 20s and 40% of those in their 30s, and an overall average of 25%, responded that they would like to make a purchase. [26]

There is a need for a neutral advisor that can fill in the gaps in consumer knowledge and at the same time can be trusted by the consumer.

Therefore, we will promote the visibility of neutral advisors and work to ensure that such advisors widely provide high-quality, customer-oriented advice. Within the next year, a new public organization will be established to promote financial and economic education. As a project to improve the environment for the smooth provision of advice and to train advisors, the organization will provide certification of neutral advisors and support these advisors in ensuring they continue to provide quality service.

(6) Enhancing asset formation for employees

To encourage companies to utilize neutral certified advisors in the workplace, we will encourage companies to subsidize employees when they use neutral certified advisors.

In addition, we will encourage the active use of neutral certified advisors at sites set up within companies to provide employees with consultations on asset formation.

(7) Enhancing financial and economic education

We will deliver financial and economic education to the public at large. To this end, along with the Japanese government and the Bank of Japan, the cooperation will be obtained from private financial and economic-related organizations, such as the Japanese Bankers Association and Japan Securities Dealers Association, in developing and establishing an operational structure, and securing operating expenses, as well as the establishment of the Organization for the Promotion of Financial and Economic Education, and develop a system for promoting financial and economic education, including in local communities, through public and private sectors. In addition to establishing the organization for financial and economic education, we will develop a public relations strategy that appeals widely to the public, along with the enhancement of continuing education for company-based employees and the implementation of financial and economic education by local governments. Also, efficient and effective financial and economic education will be implemented nationwide through public private partnerships, such as instructional visits to schools and companies as well as holding symposiums.

In addition, a program for the public pensions quick calculator which estimates how much a person could receive pension benefits in the future will be made public in order to promote cooperation with private sector services.

(8) Realization of an international financial center open to the world

Alongside promoting initiatives aimed at establishing Japan as an "international financial hub for the world and Asia," in order to strengthen our outreach to overseas businesses, we will effectively and strategically disseminate information by expanding public relations channels to major overseas media and by holding promotional events both in Japan and overseas, including the launch of "Japan Week (provisional name)," which will intensively invite overseas financial businesses to Japan.

(9) Stimulation of financial and capital markets

1) Support for startups

Proprietary Trading Systems (PTSs) operated by securities companies are not permitted to handle unlisted stocks even for professional investors. In order to enable the handling of unlisted stocks for professional investors so that startups can grow without being listed, the relevant Cabinet Orders for the Financial Instruments and Exchange Act will be revised during this fiscal year.

2) Stimulation of the ESG bond market, etc.

In order to steadily increase the amount of ESG bonds issued, Ministry of the Environment will further expand the current guidelines, establish a corporate data platform in collaboration with the Japan Exchange Group (JPX), improve the environment for facilitating transition finance (improving sector-specific technology roadmaps, etc.) and further enhance disclosure regulations. Also, we will encourage efforts to expand ESG products with capital characteristics.

In addition, basic guidelines for impact investment will be compiled by the end of this fiscal year and the creation of projects will be promoted.

3) Investment in human capital

In order to focus on how information on human capital should be disclosed, "Guidelines for Human Capital Visualization" was published as a comprehensive guide for organizing the direction to be taken. Efforts to promote will be made to accelerate effective investment in human capital.

Furthermore, for increasing corporate value over the mid- to long-term, we will promote the development of disclosure standards related to human capital and the enhancement of sustainability information disclosure. We will actively contribute to discussions on the formation of international standards for human capital disclosure.

4) Corporate governance reforms

Based on the "Action Program for Accelerating Corporate Governance Reform: From Form to Substance," we will encourage the management with an awareness of profit-making, growth, and sustainability issues, as well as constructive dialogue between companies and investors. We will follow up on these efforts.

5) Formation of a GX financial hub in Asia

In order to gather information, human resources, and funds related to GX investment in Asia, we will broadly aggregate corporate disclosure data, including CO2 emissions, on the data platform owned by the Japan Exchange Group. We will form a consortium in which the public and private sectors participate and support the formation of projects and the creation of carbon credits.

6) Enhancing market infrastructure

We will take necessary measures based on the points relevant to the easing of the upper limit for transactions at Proprietary Trading System (PTS). In addition, financial instruments exchanges including the Tokyo Stock Exchange will encourage listed companies with a large amount of investment units of their stocks to reduce the amount of investment units.

7) Revision of regulations on firewalls between banks and securities companies

From the perspective of promoting initiatives in banks and securities companies to strengthen financial functions, such as making it easier to provide products and services that meet customer needs by integrating banking and securities services business, while appropriately monitoring the status of user protections such as customer information management, conflict of interest management, and the effective prevention of abuse of a dominant bargaining positions, we will consider making the firewall regulations (prohibiting the non-consensual sharing of clients' non-public information between banks and securities companies in a financial group) especially about the prohibition of dual registration of a sales representative in line with the above perspective and consider measures we need to take.

(10) Globalization of financial administration and tax systems

In addition to strengthening the functions and structure of the Financial Market Entry Office, by starting with an understanding of procedural issues related to revitalizing cross-border investment, we will understand the various taxation issues involved in becoming an "international financial hub" and take measures to make the necessary revisions.

(11) Improvement of the living and business environment to support highly skilled foreign financial-related human resources

We will improve the living and business environment to support foreign nationals with advanced financial skills, including by encouraging financial institutions to facilitate procedures for them to open a bank account.

(12) Ensuring customer-oriented business conduct

It is necessary that financial services providers and those involved in the operation of corporate pension systems institute a cross-section of necessary measures to establish and raise the level of initiatives that are in the best interests of customers. We have submitted a bill to the Diet that partially amends the Financial Instruments and Exchange Act, which stipulates the obligation of financial services providers and those involved in corporate pensions to conduct their business while taking into consideration the best interests of their customers. Necessary measures to ensure customer-oriented business conduct will also be taken.

2. Promotion of efforts to become an asset management nation

Currently, 500 trillion yen out of Japan's 2,000 trillion yen in household financial assets is managed via asset management companies and asset owners such as pension funds, and improving their investment capabilities is essential to increase returns to households and to encourage greater investment.

On the other hand, it has been pointed out that some asset management companies and asset owners are not making sufficient efforts to improve their asset management capabilities, such as a lack of expertise and human resources compared to overseas. For this reason, we will make efforts to realize an asset management nation in order to strongly promote the sophistication of the asset management industry and to strengthen the functions of asset owners, who manage household financial assets as institutional investors.

Specifically, we will fundamentally reform the asset management industry, etc. by improving governance and strengthening systems of asset management companies and asset owners; by promoting more effective implementation of stewardship activities (dialogue with companies); by expanding support for the new entry and promoting competition of domestic and overseas asset management companies; and by improving the environment for enhancing asset management capabilities and diversifying investment targets, etc.

In order to bring Japan's investment sector to a world-class level, a concrete policy plan including these initiatives will be compiled by the end of this year under the Council of New Form of Capitalism Realization, and necessary actions, including the active dissemination of information both domestically and internationally, will be promoted.

Ⅷ. Multipolarization of the Economy and Society

1. Realizing the Vision for a Digital Garden City Nation

(1) Infrastructure development for the realization of the Vision for a Digital Garden City Nation and improving the living environment in hilly and mountainous areas

1) Mass overhaul reforms of regulations and systems and implementing demonstration projects

The Special Commission on Digital Administrative Reform will intensively reform the following seven analog regulations, etc.: i) visual inspection regulations, ii) field audit regulations iii) regular inspection and other inspection regulations, iv) residency/full-time regulations, v) written-notice regulations, vi) in-person course regulations, and vii) on-site viewing regulations.

Based on the review policy and process chart, regulations (1,000 items) that require confirmation as to whether existing regulations and systems can be replaced by digital technology will be reviewed at an early stage. Based on the results of the review, by the next spring, the laws and regulations (10,000 articles) and notices and notifications, etc. (2,500 articles) related to seven analog regulations, etc., will be revised and reviewed. In addition, a process chart for being able to digitally complete administrative procedures, etc. by FY2025 will be prepared and implemented.

The government will also promote Super City and Digital Garden Health Special Zone that are expected to lead the Vision for a Digital Garden City Nation.

2) Development of digital infrastructure such as fiber-optic network and 5G network

With regard to fiber-optic network, we have set a mandatory target of 99.9% household coverage by the end of Fy2027 and will further develop all regions where is required.

Additionally, we aim to develop a telecommunication environment that contributes to the "GIGA School Program" within the current fiscal year, and, if there are requests by local governments (with more than 1.5 million households) for the installation of fiber-optic equipment, then we will support the smooth and systemic transition to private installation.

With regard to 5G network, we will support the development of base stations in disadvantaged regions, setting a mandatory target of 99% population coverage by the end of FY2030. In addition to residential regions, base stations need to be installed in non-residential areas such as major roads from the viewpoints of inbound traffic, industrial use, and disaster prevention, and this will be supported.

Prompt switching to another company's communication lines in the event of a communication accident is also an issue. We will aim for the social implementation within FY2025 of a system that allows for the use of other companies' base stations in the event of a cell phone service outage.

Utilizing the regional councils that have been established, we will promote matching between digital infrastructure and digital implementation in regions.

3) Improving the living environment in hilly and mountainous areas through digital technology

Population decline and aging are rapidly progressing in hilly and mountainous areas, and an increasing number of communities are finding it difficult not only to maintain and manage agricultural land and to continue agricultural production activities, but also to maintain their community functions. In order to solve these issues and to revitalize local communities, such as the Region Management Organization for rural areas (RMO) , which complement the functions of multiple communities, will provide support to regions that are working to conserve and manage agricultural land using smart agricultural machinery and that are working on shopping assistance using ICT.

4) Accelerating the horizontal development of best practices using subsidies

In order to systematically implement digital technology in rural areas, the Vision for a Digital Garden City Nation Grant was established to support hardware and software projects in which ambitious local governments collaborate with private businesses. This subsidy will accelerate the resolution of regional issues and will not limit good practices to the initiatives of the municipality in question, but will lead to their horizontal development in other municipalities.

Among the efforts of local governments, we will also work to standardize services and systems and to establish standard specifications and requirements for receiving online applications and for information counter work, etc.

5) Continuing and strengthening Digi-den Koshien (National Championship for Achieving a Digital Garden City Nation)

In order to discover and horizontally develop pioneering examples of future services in regions, we will continue and strengthen Digi-den Koshien, an award for outstanding initiatives with the participation of local governments, companies, and the public. By introducing these outstanding examples of digital implementation, including examples from Digi-den Koshien, we will bring out the horizontal deployment of digital implementation throughout the country and strengthen the dissemination of these efforts both domestically and internationally, while also taking advantage of opportunities such as the Expo 2025 Osaka Kansai, Japan.

6) Improving digital literacy

To improve the basic digital literacy of all citizens, including the elderly, we will provide subsidies for local governments that conduct courses to improve digital literacy by utilizing social education facilities such as community centers and elementary and junior high schools.

In addition, Digital Supporters and other instructors will conduct seminars on the use of smartphones at cell phone stores and other locations in cooperation with local companies and municipalities, even in areas without cell phone stores, to reach a total of 500,000 participants per year.

7) Cultivation of digital human resources

By the end of next year, we will gradually construct a system that can train 450,000 digital human resources who will lead the way in solving regional issues, and will secure a total of 3.3 million people by FY2026. To this end, we will establish specific development plans and will follow up on in each area, including the development of university and college of technology students (170,000 people/year), skill enhancement support for working adults (130,000 people/year), and vocational training (135,000 people/year).

In particular, based on the fact that some universities and colleges of technology (KOSEN) face problems in securing instructors, the fact that there is limited educational content for adults, and the fact that digital-related courses in colleges of technology (KOSEN) are unevenly distributed in urban areas, we will employ practitioners in order to secure digital education instructors at universities and colleges of technology; provide and enrich educational content for adults via the internet; and strengthen digital-related courses in vocational training according to the characteristics of the industries and employment in each region. Additionally, in order to promote DX in regions, we will secure and develop digital human resources in local governments.

8) Matching for human resources who support regions

In order to meet the human resource needs that are essential for the growth of regional

companies, we will utilize the platform that stocks human resources with career in large company and strengthen matching by regional financial institutions.

(2) Development of regional transportation, healthcare, and education to support the Digital Garden City Nation

1) Social implementation of automated driving

We will promptly promote the social implementation of automated driving, starting with low-speed, fixed-route buses, etc., where the technology is maturing. In order to realize social experiments with automated driving in all prefectures by around 2025, we will support cases of initiatives for introduction through public-private partnerships. In addition, we will promote the social implementation of MaaS (Mobility as a Service) and driverless taxi.

Furthermore, by promoting the development of the local 5G necessary for automated driving and the establishment of automated driving support roads (e.g., lanes for automated truck and bus vehicles), we will realize driverless automated driving mobility services at more than 100 locations by FY2027. In addition, geospatial information (G-spatial information) will be developed and utilized for the safe operation of automated driving and drones.

2) Development of transportation infrastructure and redesign of local public transportation

In suburban and depopulated areas (1,200 local governments with a population of 50,000 or less), private vehicles account for 70% of transportation, and securing a means of transportation within the area can be an issue, particularly for elderly individuals who have turned in their driver's license.

In order to promote the reconstruction of regional public transportation, it is necessary for the government to be actively involved so that discussions between regional stakeholders, such as railway operators and local governments, proceed smoothly. By FY2027, the KPI is to certify 300 projects to implement regional public transportation redesigns by local governments and operators based on the Act on Revitalization and Rehabilitation of Local Public Transportation Systems, and collaboration amongst regional stakeholders will be encouraged.

Additionally, early within the current fiscal year, in order to ensure that individuals who conduct paid transportation for private use can receive appropriate compensation, we will revising the current pricing guidelines, which are approximately half of regional taxi fares, and will relax the requirements for setting up taxi offices, etc.

GX for transportation will also be promoted, such as by promoting the use of commercial electrified vehicles through public-private partnerships, including fuel cell buses and trucks using hydrogen.

3) Development of a comprehensive community care system

As average life expectancy increases, it is important to strike a balance between physical life expectancy and healthy life expectancy. We will realize a system (regional comprehensive care system) that comprehensively secures medical care, nursing care, prevention, housing, and lifestyle support according to elderly individuals' wishes, and will create an environment in which the elderly can continue to live in familiar areas to the greatest extent possible. Specifically, we are aiming to complete a community-based integrated care system by 2025, when the baby boomer generation will be 75 years old or older, and will promote efforts in medical care and nursing care.

The development and introduction of nursing care robots and ICT equipment by nursing care service providers will be promoted, and, amidst the decline in the working-age population, we will work to improve the productivity of nursing care sites and workplace environments.

From the perspective of preventing individuals from feeling forced to leave the workforce to provide care for elderly relatives, it is necessary to enable flexible combinations of services that meet the needs of each elderly individual, to improve the lives of the elderly, and to reduce the burden on caregivers. We will promote efforts to expand the use of services not covered by long-term care insurance, while also paying attention not to impede the provision of long-term care insurance subsidies, including from the perspective of balancing caregiving and work.

4) Promotion of GIGA Schools

The GIGA School Concept will be promoted through developments such as providing one computing device per student and installing high-speed telecommunications networks, and digital technology will be used to enable optimal learning for children.

To make learning through the use of one computing device per student more effective, while verifying their utilization status and the status of sustainable utilization plans related to maintenance and renewal by each local government, regarding the GIGA School Concept, "1 device for 1 student," that is being promoted as a national policy, we will steadily update it as an essential tool for public education, and, by the next fiscal year, we will formulate a policy regarding the necessary level of development of the ICT environment in schools, such as for an internet environment that supports learning, support staff, and large monitors, etc.

5) Promotion of mid-tier businesses and SMEs

In order to promote mid-tier businesses and SMEs with growth motivation that supports high quality regional employment, intensive support will be provided through budgetary and tax systems, etc. for initiatives such as support for labor-saving investments for resolving labor shortages; the creation of management strategies; for efforts to acquire, develop, and retain human resources; for acquiring external demand; for M&A; and for innovation.

6) Support for business operators working to solve local issues

In order to create companies ("zebra companies") that will play a role in solving local social issues from local SMEs and that will attract impact investment and financing, we will build an ecosystem centered around local stakeholders that support social businesses.

7) Improving the management capabilities of sole proprietors, including freelancers

We will work on management education related to managerial and financial strategies for sole proprietors, including for freelancers working on new businesses.

(3) Ensuring security as a precondition for Vision for a Digital Garden City Nation

1) Development of wide-area transportation infrastructure

In order to support the livelihoods and economic growth of rural areas, we will continue to develop and utilize high-speed transportation networks such as expressways, seibi-shinkansen high-speed train lines, and linear chuo shinkansen high-speed maglev train, as well as international hub airports and ports. In addition, research and study will be carried out on their future direction according to actual regional situations, such as the high functionality of the basic plan route and trunk railway network.

In particular, with regard to the linear chuo shinkansen high-speed maglev train, we will work with the local governments along the line to promote the early development of the Shinagawa-Nagoya section, and, in order to accelerate the opening of the entire line, we will cooperate with local governments along the line and provide the necessary guidance and support so that this year the construction entities can begin the environmental impact

assessments between Nagoya and Osaka.

2) Dealing with the "2024 Problem" in logistics

In the logistics industry, there is a labor shortage, with twice as many job offers for truck drivers as there are applicants, and, because an upper limit on overtime work will be applied from next year (the “2024 Problem”), responding to the labor shortage and improving productivity are urgent issues.

In order to rectify inefficient business practices such as long waiting times for cargo and uncontracted cargo handling, we will consider regulatory measures, etc. Within the current fiscal year, we will take necessary measures and efforts to facilitate cost pass-through and other measures to improve wage levels.

We will promote modal shifts, electrification, GX that transports cargo and passengers at the same time on a single vehicle, autonomous driving, the spread of truck reservation systems, DX such as automation and mechanization, the introduction and standardization of pallets and containers, functional enhancements for logistics hubs, regulatory adjustments for increasing truck speeds on expressways, and improving productivity and securing workers. Furthermore, we will promote the introduction of mechanisms that are meant to encourage changes in the behavior of consumers and companies shipping goods, such as making it obligatory for companies shipping goods to appoint a general manager for logistics and adjusting incentives for consumers to reduce redeliveries.

The Digital Lifeline Development Plan will be formulated by the end of this fiscal year, and UAM (Urban Air Mobility) corridors will be established based on this plan, aiming for the early social implementation of drone logistics.

3) Realization of a sustainable local economies and society

i) Changing consumer behavior and promoting regionally-led initiatives

In order to realize the decarbonization amongst communities and in daily life, we will stimulate demand by encouraging behavioral and lifestyle changes among citizens and consumers through national movement for new and prosperous lifestyles toward decarbonization. In addition, at least 100 Decarbonization Leading Areas will be selected by FY2025, and their efforts will be encouraged. Furthermore, a system will be introduced to support the creation of a resilient resource circulation market over the medium- to long-term by accelerating resource circulation through collaboration between “arterial industries” and “venous industries” in the region.

ii) Introduction of renewable energy that is in symbiosis with local communities

From the perspective of ensuring appropriate business discipline, the acquisition of permits and licenses for land development that can directly affect disaster risk will be made a requirement for application for accreditation under the FIT/FIP system.

In addition, for geothermal power, hydroelectric power, and biomass power, necessary support will be provided according to the characteristics of each power source, such as by improving the business environment via constant reviews of the necessary regulations and systems, business feasibility surveys and resource surveys, technology development, and support for the introduction of AI and IoT, etc.

iii) Promotion of the stable supply and utilization of domestic timber in regions as a whole

Local stakeholders will work together to ensure a stable supply of domestic timber by utilizing ICT such as drones, thereby improving the efficiency of forest resource surveys and logging, and reducing the costs of reforestation. In addition, we will strengthen measures at

each stage from production and processing to distribution and use, such as by constructing forest roads that can accommodate large vehicles, expanding timber processing and distribution facilities, promoting conversion to domestic timber in the housing sector, and expanding the use of timber in non-housing sectors, etc.

iv) Integrated efforts for realization

Based on G7 results, we will promote an integrated shift to economic and social systems that are net zero (in which the greenhouse gas emissions by anthropogenic sources and removals by sinks are balanced), circular, and nature-positive. As for nature-positive systems, we are considering a legal system to certify voluntary efforts for biodiversity conservation, with a view toward submitting it to the Diet during the current fiscal year; we are supporting companies' participation in frameworks for disclosing natural capital risks, such as Taskforce on Nature-related Financial Disclosures (TNFD) and are promoting green infrastructure and GX urban development, etc.; and we are working to disseminate information in an easy-to-understand manner that will lead to the promotion of public understanding.

4) Accelerated investment in national resilience and disaster prevention and mitigation

Based on the Fundamental Plan for National Resilience, necessary and sufficient budgets will be secured, and integrated hard and soft initiatives will be vigorously promoted.

In addition to promoting the Five-Year Acceleration Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience, we will also promote medium- to long-term, continuous, and stable efforts. Toward the steady promotion of national resilience after the implementation of these measures, we will also conduct studies based on the revised Basic Act for Resilience Contributing to Preventing and Mitigating Disasters for Developing Resilience in the Lives of the Citizenry.

Regarding the new Basic Plan to be formulated this summer, in addition to the development of disaster prevention infrastructure, etc., the pillars of the new measures will be "advanced measures for national resilience through the use of digital technologies, etc.," and "further strengthening regional disaster prevention capabilities," and we will maximize the use of digital technologies and regional capabilities to build national resilience.

In order to promote disaster prevention DX and disaster prevention science and technology, we will strengthen cooperation with the systems of each government agency, etc., centered on the Next-Generation Integrated Disaster Management System (scheduled to begin operation during the next fiscal year), build a digital disaster prevention platform that unifies disaster information by FY2025, and promote the development of disaster prevention-related technologies.

In light of the current surge in material prices, while requesting appropriate contract changes from relevant organizations, we will also promote measures in the construction industry for cost pass-through, such as examining the appropriateness of risk sharing when contracts are concluding. As for measures to address heat illness, we will develop a special Heat Stroke Alert information announcement system for heat illness and secure heat shelters (cooling shelter).

5) Management and utilization of vacant houses

As for measures to address vacant houses, considering the importance of measures to address disaster and based on the Act on Special Measures for Promotion of Measures for Vacant Houses, etc., in addition to promoting the removal of vacant houses, we will encourage usage changes and rebuilding by designating areas that require the intensive use of vacant houses, and, via designated private corporations, we will support the use of vacant houses for

households that are raising children. Additionally, thorough guidance and recommendations will be given for vacant houses that are not properly managed, and securing proper management of vacant homes will be promoted. In conjunction with this, through the utilization of vacant houses we will promote dual habitation.

2. Promotion of overseas business investment by Japanese companies

With a view to strengthening Japan's growth potential and ensuring its economic security, it is important for the Government to support overseas business investment by Japanese companies with advanced technologies and will to invest overseas. This includes supporting SME's activities to develop new products or to cultivate overseas sales channels. Based on the "Overseas Business Investment Support Package," the Government will work as one team to support overseas business investment, by, for example, utilizing diplomatic channels to promote Japan's leading-edge technologies and by publicizing available menus of supporting measures through the Japan Chamber of Commerce and Industry. We will also benchmark the track record of cooperation with Japan's diplomatic establishment overseas as well as that of successful cases of Government support, and progress in these areas will be followed up on every six months.

Ⅸ. Promoting Inbound Tourism by Taking Advantage of Japan's Attractiveness

Based on the revised Tourism Nation Promotion Basic Plan, we will promote measures to create sustainable tourism regions, recover inbound tourism, and expand domestic exchanges to achieve, before 2025, inbound consumption of 5 trillion yen and domestic travel consumption of 20 trillion yen.

(1) Maintaining content

Efforts will be made to recover inbound tourism by international visitors. Special experiences will be provided for adventure tourism, new content will be created, including for medical tourism and location tourism, and intensive support will be provided for attracting high value-added international visitors. We will promote improvements to the appeal of national parks via private proposals, create internationally competitive snow resorts, and develop tourist towns that utilize historical resources. Additionally, in order to promote cultural tourism, we will support the use of cultural facilities such as "night of museum", the utilization of Japan Heritage, and the development of cultural tourism locations, while also developing a wide variety of contents such as sports tourism, countryside stay, and cycle tourism.

On the other hand, in terms of domestic demand, efforts will be made to cultivate new demand and to promote travel on weekdays in order to expand domestic exchanges. In addition to further promoting the spread and establishment of workations, etc., and there will be improvements to the environment for establishing a second hometown/residence and for universal tourism.

(2) Facilitating acceptance

In order to promote improvements to the environment for accepting international visitors, airline networks will be recovered and strengthened through labor savings, automation, and operational efficiency in airport operations, international hub airports will be developed, for

the revival of cruises there will be initiatives for the full-scale recovery of cruises to Japan, access to international transportation will be improved, the introduction of cashless payments in public transportation and tourist spots will be supported, and support for international visitors at traditional performing arts performances will be promoted. Furthermore, we will steadily promote measures to accommodate international visitors, such as visa relaxations, strengthening cooperation among the relevant agencies for CIQ procedures, ensuring an acceptance system by introducing immigration examination that utilize state-of-the-art technology, and developing tourist information centers.

On the other hand, in order to improve the environment for accepting individuals with disabilities and the elderly, etc., we will steadily promote integrated and comprehensive barrier-free access to public facilities, etc.

In addition, efforts will be made to prevent congestion and etiquette violations due to an increase in the number of international visitors.

(3) Destination management

We will work to create sustainable tourism destinations while striving to refine Japan's unique tourism and cultural resources such as hot springs, inns, food, culture, and history through the revival and high value-addition of tourist attractions and tourism industry that utilize multi-year planning and continuous support measures, and tourism DX, etc. The government will also work on the early inscription of Japanese sake, shochu, and awamori, etc. on the Representative List of the Intangible Cultural Heritage of Humanity of UNESCO.

In addition, with Destination Management Organizations (DMO) as the core, in order to build appropriate tourism management systems and to formulate and implement sustainable tourism strategies that do not rely on temporary subsidies, in addition to supporting local initiatives, we will support strengthening of the DMO systems, such as by recruiting external specialists, securing and training core human resources, and securing financial resources such as accommodation taxes.

(4) Culture and the arts

In anticipation of post-COVID-19 inbound tourism, full-scale efforts will be made to attract international art fairs in order to improve the appeal of the art market.

Additionally, in consideration of the fact that there is a limit to amount of self-help that owners can provide, a framework for public-private partnerships to support disaster recovery, fire and earthquake protection, and the repair and utilization of cultural properties that are the pride of various regions, such as famous castles, will be specified during the current fiscal year.

In order to secure opportunities for children to appreciate and experience culture and art, we will support the appreciation and experience of full-fledged cultural arts at schools, local theatres, and music halls, etc. Additionally, there will be consideration of measures to improve culture and arts education, and a conclusion will be reached within the current fiscal year.

(5) Sports

In order to erase the impacts of COVID-19 and turn sports into a growth industry, securing new revenue sources for stadiums, arenas, and sports organizations is an issue. In addition to promoting community-based activities such as integration with sports tourism and community development, there will be work to increase profitability by utilizing digital technologies.

X. Initiatives in Individual Fields

1. Space

To contribute to disaster prevention and mitigation, via public-private partnerships, the government will promote demonstration projects and the development and demonstration of next-generation technologies in order to build by 2025 a constellation satellite in which numerous, small Synthetic Aperture Radar (SAR) satellites coordinate together. We will also steadily proceed with the development of next-generation geostationary meteorological satellites. Furthermore, we will promote the development and demonstration of next-generation technologies such as space optical communication networks and satellite quantum cryptography communication so that they can be implemented in society around 2030.

The government will promote efforts to strengthen international competitiveness, such as increasing the launch frequency of flagship rockets so that domestic and foreign satellites can be launched while ensuring reliability after investigating the causes of the launch failure for the H3 rocket, etc.

As for the Quasi-Zenith Satellite System, which will enable more precise positioning without relying on other countries' GPS, an 11-satellite system will begin to be considered and developed while steadily developing a 7-satellite system.

We will participate the Artemis Program, which aims for sustained human exploration of the moon, and will promote the full-scale development of a manned pressurized lunar rover, etc. to realize the goal of having the first non-US astronaut to land on the moon in the late 2020s.

In order to accelerate innovation in the space field through public-private partnerships, and based on the fact that the European and American space development agencies have the function of providing funds for technology development by universities and private companies that are responsible for seed research and that private companies are aiming for commercialization, we will strengthen the strategic and flexible funding functions of the Japan Aerospace Exploration Agency (JAXA) so that private companies can predictably work on research and development over multiple years.

2. Oceans

In enriching the content and functions of the Maritime-Domain-Awareness (MDA) Situational Indication Linkages (MSIL), we will follow up on the needs for utilization. In particular, data that can be used for selecting suitable sites for offshore wind power generation will be steadily developed. In addition, we will implement global observations toward the construction of ocean digital twins and will increase the sophistication of simulation technologies for the ocean environment. Regarding the Arctic Research Vessel, we will steadily proceed with its construction and will also proceed with consideration of international joint observations for after it is entering service.

We will promote the advancement of oceanographic observations in exclusive economic zones and develop domestic marine resources such as seafloor hydrothermal deposits, methane hydrate, and rare earth muds in the deep waters around Okinawa and other areas. To this end, we will formulate strategies for the social implementation of autonomous underwater vehicles that can be used in deep sea areas, and will develop technologies for miniaturization and unmanned operation.

To develop domestic marine resources, we will work on developing the necessary technologies, will establish production processes, will assess resource quantities, and will understand the environmental aspects, etc.

In addition to these efforts, as frontier fields we will strongly promote development and utilization in marine fields with predictability by formulating multi-year Ocean Development

Strategy and securing budgets.

3. Promoting external economic partnerships

We will deepen the Japan-Australia-India-U.S. (Quad) cooperation, as well as cooperation with ASEAN, Pacific Island countries, Africa, Central and South America, and other countries, and will further strengthen cooperation to promote a "Free and Open Indo-Pacific."

At the G7 Hiroshima Summit, the G7 members affirmed that they would strongly drive the global economy and lead efforts to realize sustainable growth. These results will be passed on to the G20, which is chaired by India, and, at the Commemorative Summit which marks the 50th year of ASEAN-Japan friendship and cooperation, a new vision for cooperation and concrete cooperation will be presented from Asia to the world.

Japan will continue to lead the UK's accession process to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) while maintaining its high standards in terms of market access and rules. We will aim for concrete results in initiatives such as the Indo-Pacific Economic Framework (IPEF) and Data Free Flow with Trust (DFFT), investment agreements, and strengthening economic and technical cooperation support for the countries participating in the Regional Comprehensive Economic Partnership (RCEP) Agreement to ensure its full implementation. Japan will also play a central role in international rule-making, such as in e-commerce negotiations at the WTO.

Regarding DFFT, we will promote the establishment of an international discussion framework as agreed upon at the G7 Hiroshima Summit and at the G7 Digital and Tech Ministers' Meeting in Takasaki, Gunma, as well as public-private collaboration projects.

In order for the entire international community to work together to respond to the challenges that are facing the world, the G7 will unite and strengthen its engagement with the countries and regions known as the "Global South." Some of these countries have energy and mineral resources, and play an important role in supply chains. We will strengthen our policy support for companies doing business in the Global South.

4. Global Health

To attract private funds to the field of global health , building on the G7 outcome that consented to underscore the importance of the private sector's role in global health, we will build a framework for international collaboration to promote impact investment, and, with reference to good examples of impact investment that have been recently compiled, we will also promote the spread of case studies on health investment and nutrition measures, etc., and will promote the visualization of investment impact. We will accelerate cooperation with international organizations and public-private partnerships in the field of global health in order to support international development and international contributions through the procurement of pharmaceuticals and medical devices from Japanese companies at international organizations.

5. Creation of new industries in Fukushima and other north-eastern regions

We will promote the Fukushima Innovation Coast Framework including efforts at the Fukushima Institute for Research, Education and Innovation (F-REI), which was launched in April this year. In order to create new industries in the Hamadori area along the coast, we will promote research and development, industrialization, and human resource development as well as support for attracting companies.

Additionally, we will do our utmost for the recovery and reconstruction from the Great East Japan Earthquake by decommissioning the TEPCO Fukushima Daiichi Nuclear Power Station, addressing the reputational effects associated with the release of treated water, making out

efforts to lift evacuation orders in difficult-to-return zones more concrete, and working on community development through culture and art such as movies.

XI. A Framework for the Realization of New Capitalism

1. Following-up

In order to specifically promote these action plans, EBPM will be implemented based on a process chart prepared for a five-year period, with follow-up on the status of implementation every fiscal year, and the PDCA cycle will be implemented in accordance with the set KPIs.

2. Cooperation between public and private sectors

New capitalism can only be realized through the public and private sectors carrying out their respective roles. The government will work harder than ever to draw out the maximum power from the private sector, asking it to use to make the most of this power to solve social issues currently considered the government's domain.

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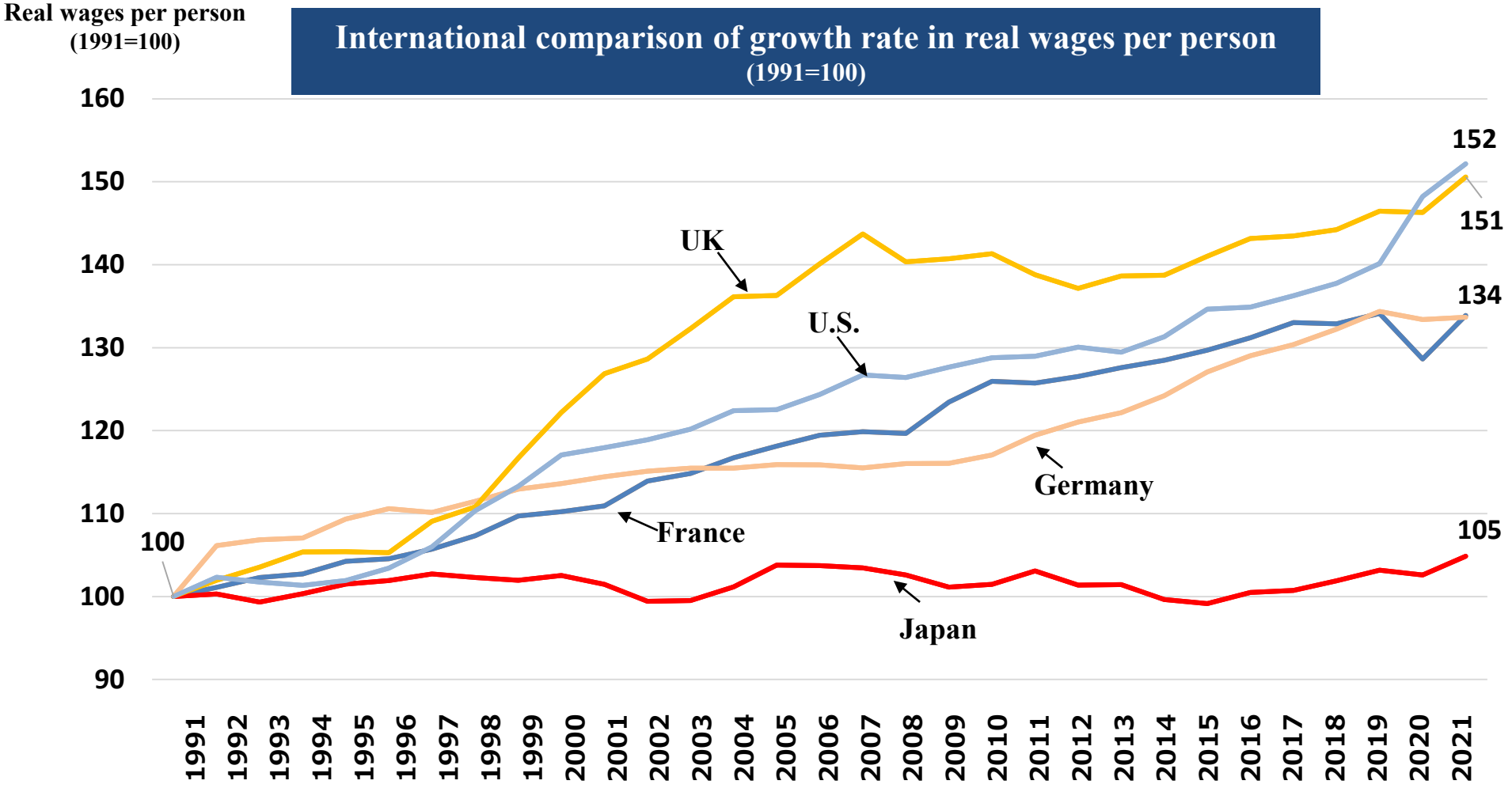
Grand Design and Action Plan for a New Form of Capitalism 2023 Revised Version

Basic Data

June 16, 2023

Low Growth Rate in Real Wages Per Person

○ Looking at the change in real wages per person in developed countries from 1991 to 2021, we can see that the growth rate of real wages per person remained low in Japan at 1.05 times, compared to 1.52 times in the U.S., 1.51 times in the UK, and 1.34 times in France and Germany.



Note: Conversion to real values based on the U.S. dollar in 2021 (purchasing power parity basis). Figures were calculated by dividing the wages and salaries in the national accounts by the number of employees, then multiplying it by the ratio of the average weekly working hours of full-time employees against the average weekly working hours of all employees.

Source: Prepared based on OECD Stat.

Wage Differential Between Domestic and Foreign Workers by Occupation

- ○ Between Japan and other developed economies, significant wage differentials exist even for workers holding the same occupation. Such differences are especially prominent in fields that require a high level of skills (IT, data analytics, project management, sales/marketing, technical research, management and planning, etc.).
- ○ As there are significant wage differentials between Japanese and foreign companies, eliminating wage differentials for each job is unavoidable. Amidst the post-COVID labor shortage, Japan faces a critical situation as Japanese companies are increasingly being deprived of human resources.
- ○ It is difficult to respond to the situation with seniority-based wage systems. To eliminate the wage differentials, there is a need to review the employment system.

Wage differential between domestic and foreign workers by occupation

	Total of all occupations	Management/ Planning	General affairs	Finance and accounting	Human resources	IT	Creative design	Data analytics	Technical research	Project management	Sales/ Marketing	Production
Japanese companies	100	100	100	100	100	100	100	100	100	100	100	100
Foreign companies (in Japan)	114	122	107	118	116	119	110	127	112	129	121	100
Singapore	165	174	165	170	163	172	163	178	167	180	173	171
Germany	157	156	148	157	151	155	133	150	156	163	166	154
U.S.	152	156	134	141	142	163	140	164	156	171	154	133
Korea	128	133	130	130	129	129	129	150	126	136	132	121
France	121	136	115	122	120	124	119	120	114	131	125	107
Canada	120	120	105	116	114	122	111	118	127	128	121	109
Italy	116	110	112	116	113	113	112	105	107	121	123	103
UK	112	120	106	114	108	114	103	116	108	111	118	95
China (Beijing)	108	125	96	103	107	115	119	133	102	136	113	79

Note: For the global total cash-based compensation level by occupation as of January 2023 (senior professionals in their 7th to 10th years), the average wages in local currency for each position in each country have been converted to real wages using 2021 purchasing power parity dollars (OECD), and the wages for each position in each country are shown as a ratio to figures in Japan, taking the wages for each position in Japanese companies to be 100.

Source: Prepared based on materials from Mercer LLC.

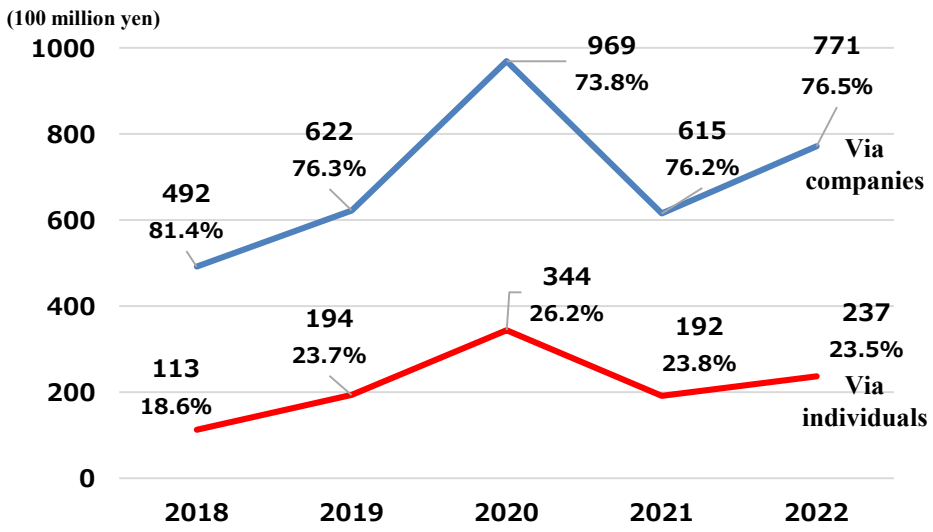
Current Status of Relearning Support Measures for Employed Workers

- ○ Two funding routes are available as relearning support measures for employed workers in Japan. These are support through companies, and support to individuals.
- ○ Among the relearning support measures for employed workers in Japan, support through companies make up 75% of the total at 77.1 billion yen per year, while direct support to individuals make up 25% of the total at 23.7 billion yen per year.
- ○ The growth rate in direct support to individuals has been limited in the past five years. To facilitate smooth labor movement, it may be necessary to conduct reviews on support for employed persons, which is currently centered on support through companies, by focusing on direct support to individuals.
- ○ In doing so, it may be necessary to provide individuals with career consulting and other services when expanding support to individuals.

Relearning support measures for employed workers

	Support through companies		Direct support to individuals (employed workers)
	Human Resources Development Support Subsidies	Public Vocational Training (Training for employed workers) Human Resources Productivity Support Center	Educational Training Benefits (Specialized practical educational training, specific general educational training, general educational training)
Details of support	• When the company itself, or a private educational and training institution entrusted by the company, conducts training related to their workers' current jobs, the government subsidizes the company from 30% to 75% of the expenses, depending on the training contents.	• Vocational training is conducted for employed workers at Polytechnic Centers and Polytechnic Colleges established by the Ministry of Health, Labour and Welfare (86 locations across Japan), and polytechnic schools established by municipalities. • The course expenses for vocational training are borne by the company.	• When workers take courses certified as contributing to their career development, etc., they (individuals) are given benefits of 20% - 50% of the course expenses. • Furthermore, in the case of specialized practical education and training, targeted at the medium- to long-term career development of workers, they (individuals) are given additional benefits of 20% if they obtain qualifications/are re-employed within one year from the end of the course.
Budget	68.1 billion yen	9.0 billion yen	23.7 billion yen

Changes of the amount of the budget

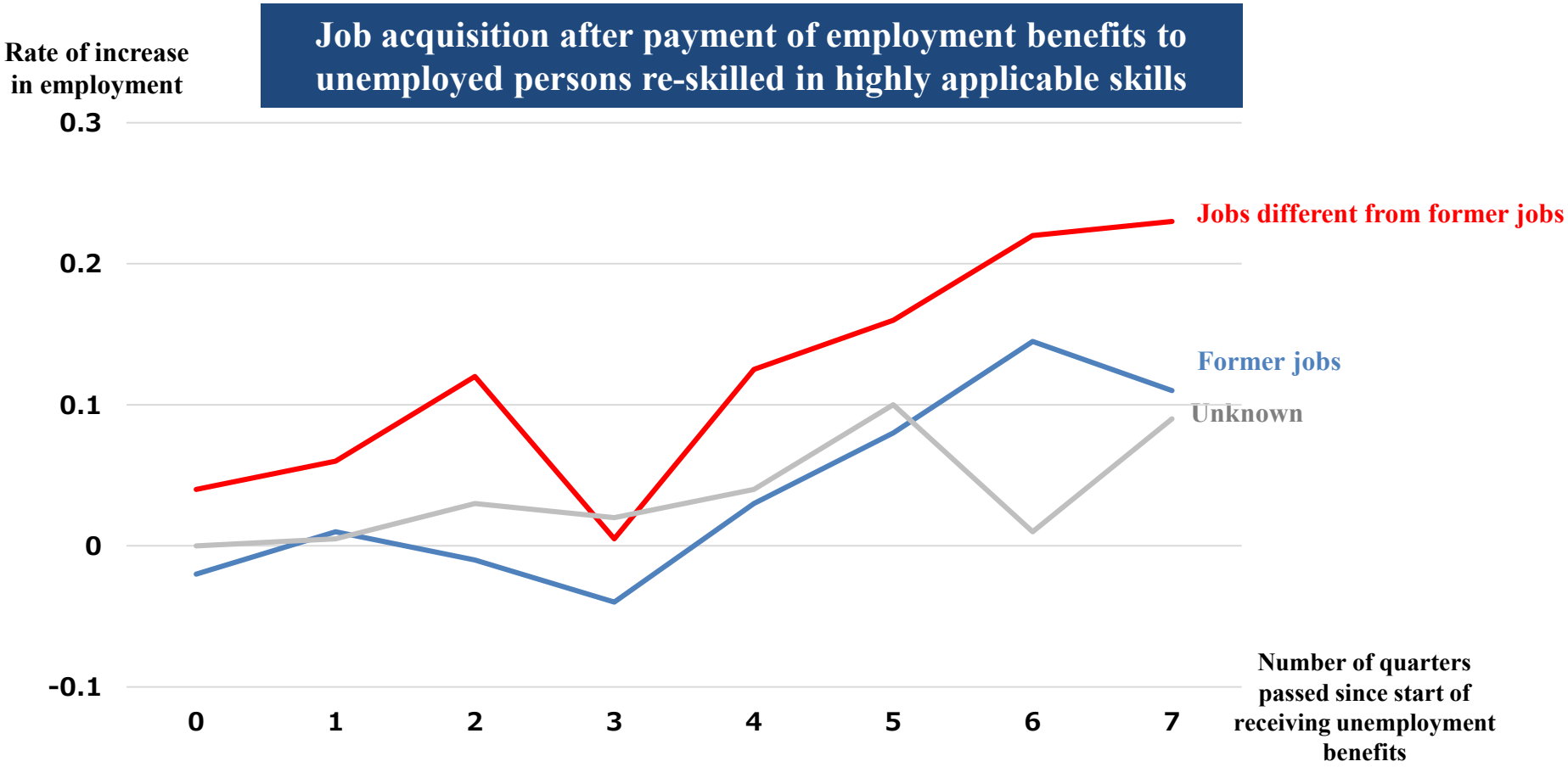


Note: In the figure shown on the right, "via companies" refers to Human Resources Development Support Subsidies, Public Vocational Training (training for employed workers), and operational subsidies used by Human Resources Productivity Support Centers, as well as subsidies offered for vocational training conducted by municipalities (the budgets for operational subsidies and subsidies for municipalities are estimated based on the actual results in the settlement of accounts for the fiscal year in question). "Via individuals" refers to Educational Training Benefits. The figure shows the ratio of the respective measures to the total amount of relearning support measures for employed workers.

Source: Prepared based on materials from the Ministry of Health, Labour and Welfare.

Re-skilling and Interprofessional Mobility

○ In Denmark, when re-skilling is carried out for highly applicable skills (general qualifications, classroom education, etc.), the increase of the new employment of job-seekers is greater in jobs different from their former jobs and a smooth labor movement into growth areas is facilitated.



Note: Based on 196,322 samples out of the unemployed persons who received unemployment insurance in Denmark from 2012 to 2018. Categorized into "former jobs," "different jobs," and "unknown" using the three-digit code in the ISC008 Index of Occupational Titles.

Source: Anders Humlum, Jakob R. Munch and Mette Rasmussen ”What Works for the Unemployed? Evidence from Quasi-Random Caseworker Assignments” mimeo

Wage Gap Relative to Skill Gap

○ Even within the same country, there are wage gaps corresponding to the skills required for jobs in other developed economies. For example, jobs that require a high level of skills, such as IT, data analytics, project management, and technical research, command high wages.

○ In contrast, Japanese companies operate under a system with small wage gaps corresponding to the skills acquired, making it difficult for highly skilled human resources to be rewarded.

Wage gaps by occupation when the total for all occupations is 100

	Total of all occupations	Management / Planning	General affairs	Finance and accounting	Human resources	IT	Creative design	Data analytics	Technical research	Project management	Sales/ Marketing	Production
Japanese companies	100	100	98	96	99	101	96	101	102	99	100	100
Foreign companies (in Japan)	100	107	92	100	100	105	93	112	101	113	106	88
Singapore	100	106	98	99	97	104	95	108	103	108	105	103
Germany	100	100	93	97	95	99	81	96	102	103	106	98
U.S.	100	103	87	90	93	108	88	109	105	111	101	88
Korea	100	104	99	98	99	101	97	117	100	105	103	95
France	100	113	94	97	98	103	94	100	96	107	103	88
Canada	100	100	86	94	94	102	89	100	108	106	101	91
Italy	100	95	95	96	96	98	93	91	95	104	106	89
UK	100	107	93	99	96	103	88	105	99	98	105	85
China (Beijing)	100	115	87	91	98	107	106	123	96	124	104	73

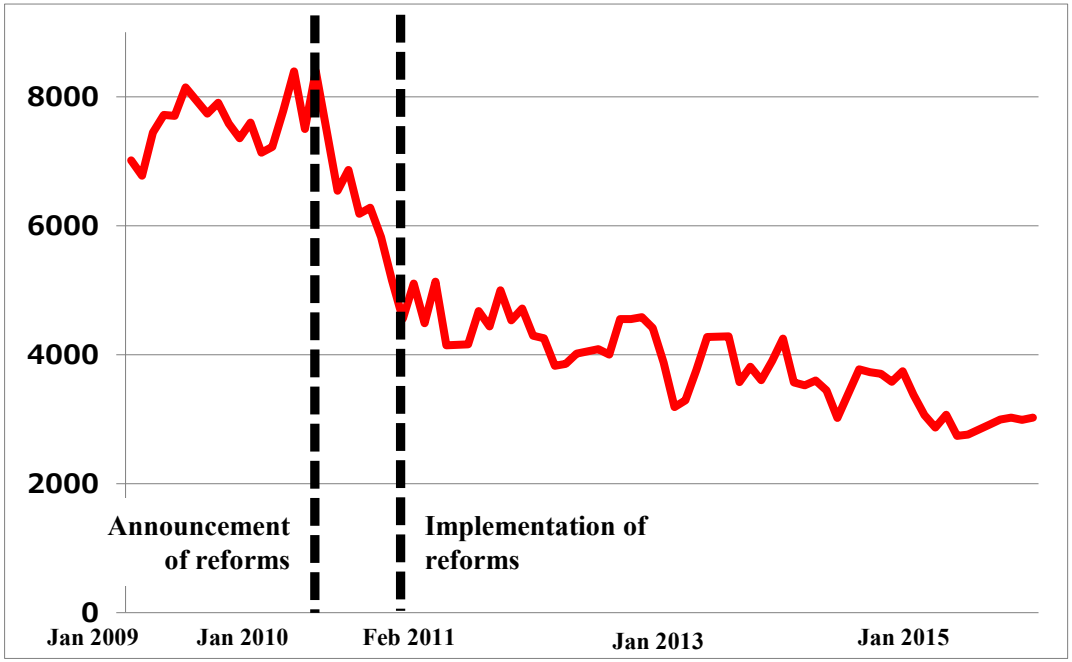
Note: For the global total cash-based compensation level by position as of January 2023 (senior professionals in their 7th to 10th years), the wages for each occupation are shown as a ratio to the total for all positions in each country, taking the total for all positions to be 100.

Source: Prepared based on materials from Mercer LLC.

Effects of Wage Subsidies on Re-skilling

- ○ In Denmark, wage subsidies are provided to companies that make employees take re-skilling.
- ○ These wage subsidies offer a strong incentive for companies to carry out re-skilling on their employees.
- ○ In fact, looking at the changes in the number of participants in training courses (food hygiene inspection, personal development for work and education, etc.), the number of participants fell dramatically when the government reduced these wage subsidies by 20% in February 2011.
- ○ In other words, we can see that wage subsidies have a strong correlation with the number of re-skilling course attendees. In the case of Japan, re-skilling is not necessary a requirement that must be fulfilled in order to receive Employment Adjustment Subsidies.

Number of participants in re-skilling courses (Denmark)



Source: Anders Humlum, and Jakob R. Munch and Mette Rasmussen. 2019. ”Globalization, Flexicurity and Adult Vocational Training in Denmark” In *Making Globalization More Inclusive* (WTO)

Differences Between Conventional Japanese Membership-based Employment and Job-based Personnel (Job-based Wages)

○ In the conventional Japanese membership-based employment system, recruitment is carried out primarily through mass recruitment of fresh graduates, and transfers are company-led rather than based on the intentions of employees. Employees work hard at jobs assigned to them by the company, and whether re-skilling for the future is applied and utilized in a job depends on personnel reassignment. It is a system that makes it difficult for employees to develop their careers autonomously based on their own will, which is the basis for structural wage increases.

○ There is a need to shift to a system that sets required skills corresponding to individual jobs, and in which employees select their own jobs and re-skilling contents in consultation with their supervisors, with a view toward overcoming the skill gap.

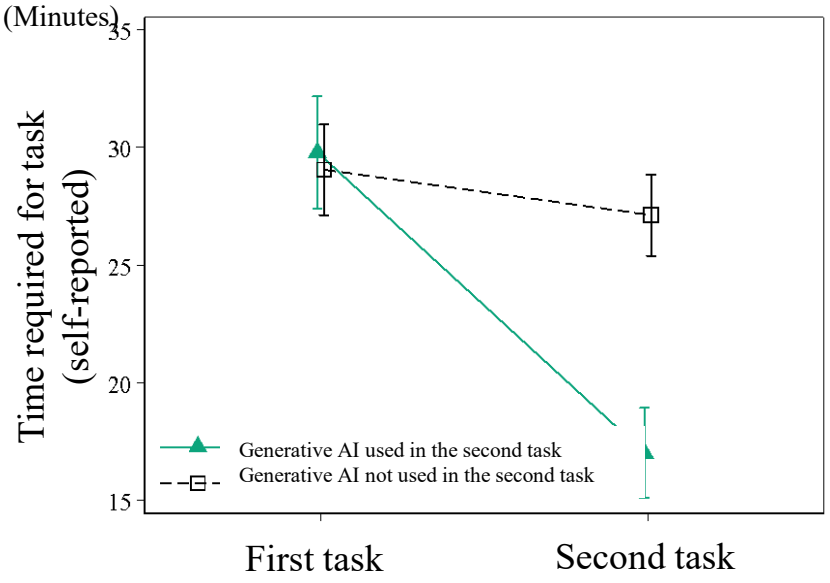
	Membership-based employment	Job-based personnel (job-based wages)
Basic stance	➢ No personnel entry or exit in principle ➢ Fairness of results ➢ Relationship between company and employees: Protector and aided persons	➢ Personnel entry and exit (internal labor market and external labor market are seamlessly connected) ➢ Fairness of opportunity ➢ Relationship between company and employees: Partners
HR system	➢ Grade: Job function ➢ Remuneration: Seniority-based, internal contributions ➢ Authority over personnel matters: Wage increases and bonuses are centrally managed	➢ Grade: Role × Job position ➢ Remuneration: Market value by job position ➢ Authority over personnel matters: Wage increases and bonuses are determined by each department
HR management	➢ Recruitment: Primarily mass recruitment of fresh graduates ➢ Transfers: Company-led	➢ Recruitment: Primarily recruitment by job position ➢ Transfers: Opportunities for in-house recruitment (posting system)
HR operation	➢ Manpower planning: Existing - Retirement age + Fresh graduates ➢ Job definitions: Not required	➢ Manpower planning: Business-based ➢ Job definitions: Required
Career development	➢ Career development is company-led • Work hard at assigned jobs. • Uncertain about career, but employment is guaranteed • Whether re-skilling for the future is applied and utilized in a job depends on personnel reassignment	➢ Career development respects the will of individuals • Produce results to realize one's desired career • Employees utilize in-house recruitment and job change to choose the career they want • Strong motivation to acquire or improve skills on their own
Characteristics	➢ Structurally difficult for autonomous career development to happen	➢ Structurally easy to promote autonomous career development

Source: Prepared based on materials from Mercer LLC.

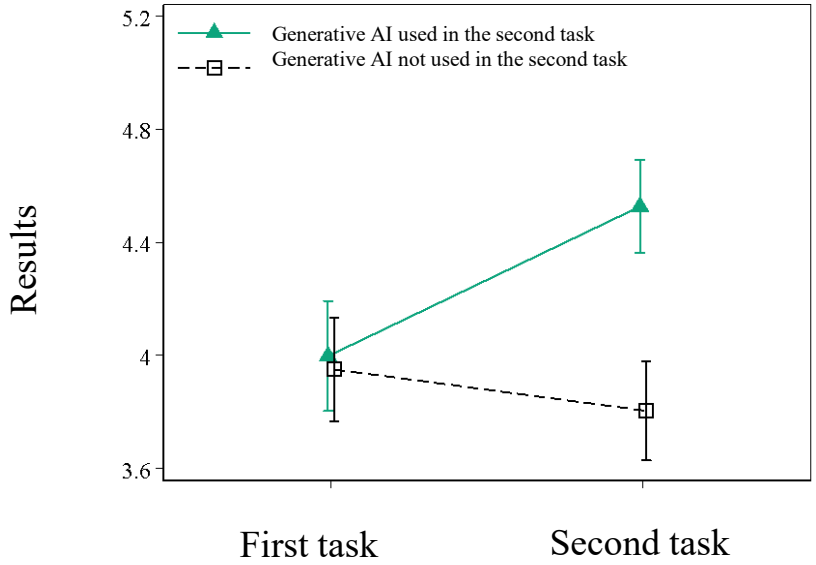
Improvement of Productivity by Utilizing Generative AI

○ According to an experiment conducted by MIT researchers, comparing cases where generative AI was used to cases where not used in tasks such as reports and e-mails, it was found that (1) time required for the task was reduced significantly, and (2) the quality of the task was improved.

Time required for the task



Quality of the task



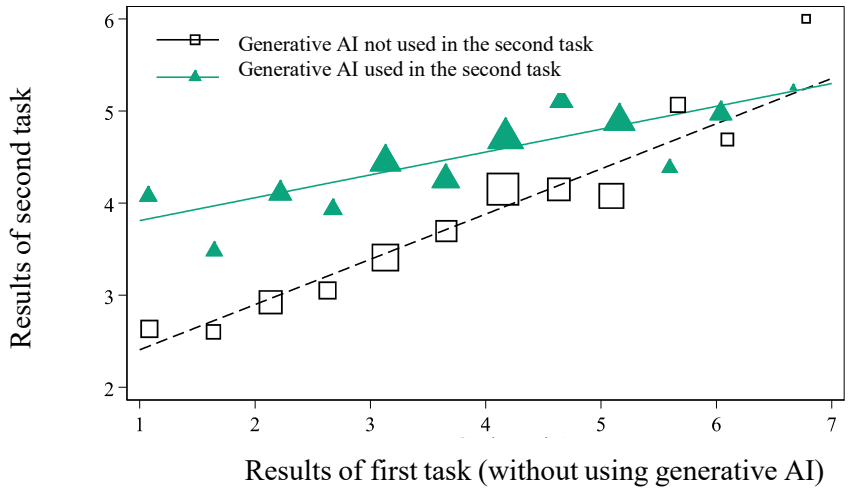
Note: 444 highly experienced experts who were university graduates were recruited online and made to carry out two descriptive tasks. The targeted jobs were marketers, grant writers, consultants, data analysts, HR personnel, and managers. The tasks comprised 20 – 30 minute assignments designed to mimic tasks that are actually undertaken in these jobs, such as writing press releases, short reports, analytical plans, and e-mails. Evaluation of the results was conducted by three highly experienced experts in the same line of job. Half of the participants, selected randomly, were instructed to register for generative AI (ChatGPT) between the first and second tasks, making the tool available for their use. The remaining 50% were instructed to use Overleaf, a non-generative AI tool for writing documents, between the first and second tasks.

Source: Shakked Noy and Whitney Zhang. 2023. ”Experimental Evidence on the Productivity Effects of Generative Artificial Intelligence” Working paper

Reduction of Individual Differences Between People by Utilizing Generative AI

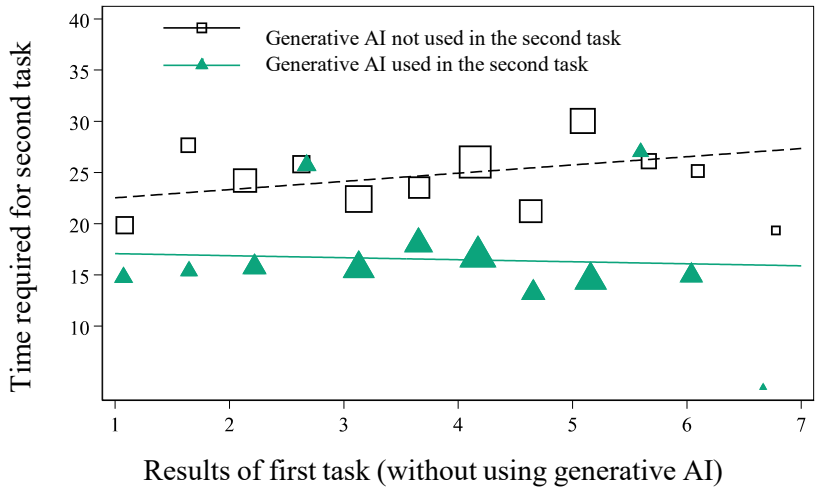
○ According to the same experiment by the MIT researchers, using generative AI not only improved the quality of the task and the time taken, but also reduced individual differences between people, and improvements in homogeneity were observed.

Changes in the quality of the task



Time required for the task

(Minutes)



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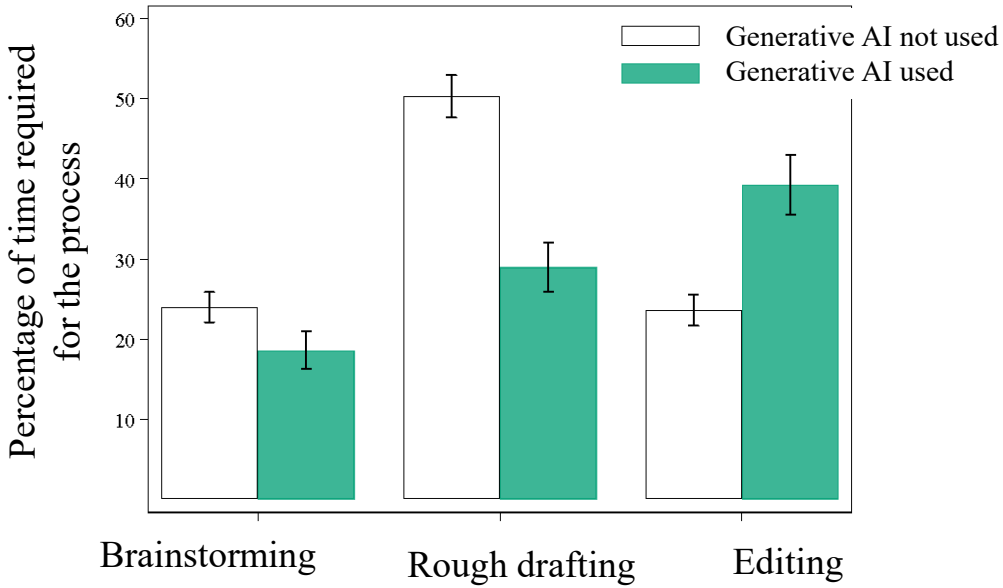
Source: Shakked Noy and Whitney Zhang. 2023. ”Experimental Evidence on the Productivity Effects of Generative Artificial Intelligence” Working paper

Changes of the Time Proportion Spent on Work by Utilizing Generative AI

- ○ The use of generative AI significantly changes the proportion of time that people spend on work.
- ○ When generative AI is not used, people expend about 25% of their time on brainstorming, 50% on rough drafting, and 25% on editing. Using generative AI significantly reduces the proportion of time spent on brainstorming and rough drafting, making it possible to allocate more time to editing the final work.

Proportion of time spent on each process



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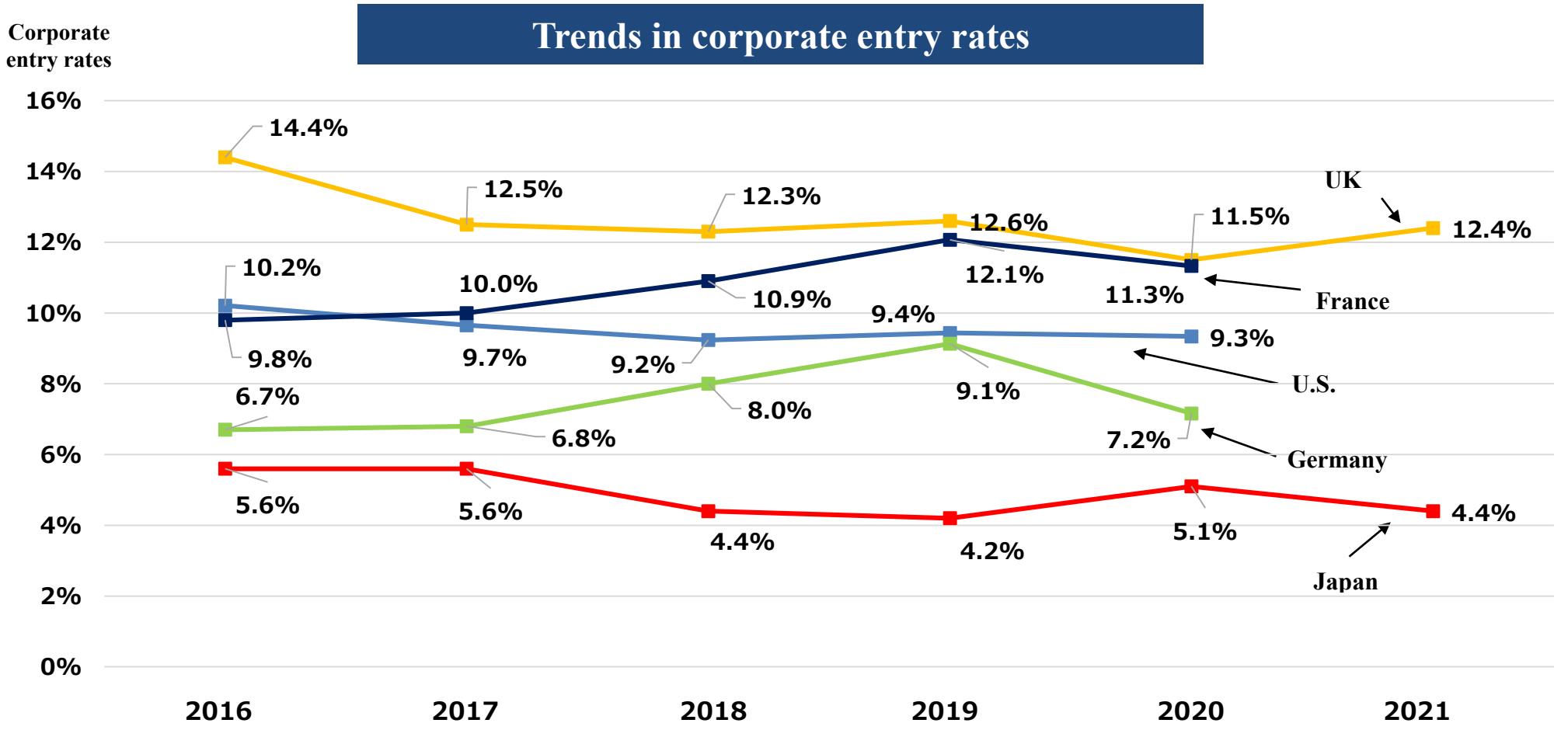
Source: Shakked Noy and Whitney Zhang. 2023. ”Experimental Evidence on the Productivity Effects of Generative Artificial Intelligence” Working paper

Comparison of Trends in Corporate Entry Rates

○ Compared to the U.S. and major European economies, Japan's corporate entry rate has remained at the low level of 4.4% in 2021. It is vital to steadily implement the Startup Development Five-year Plan.

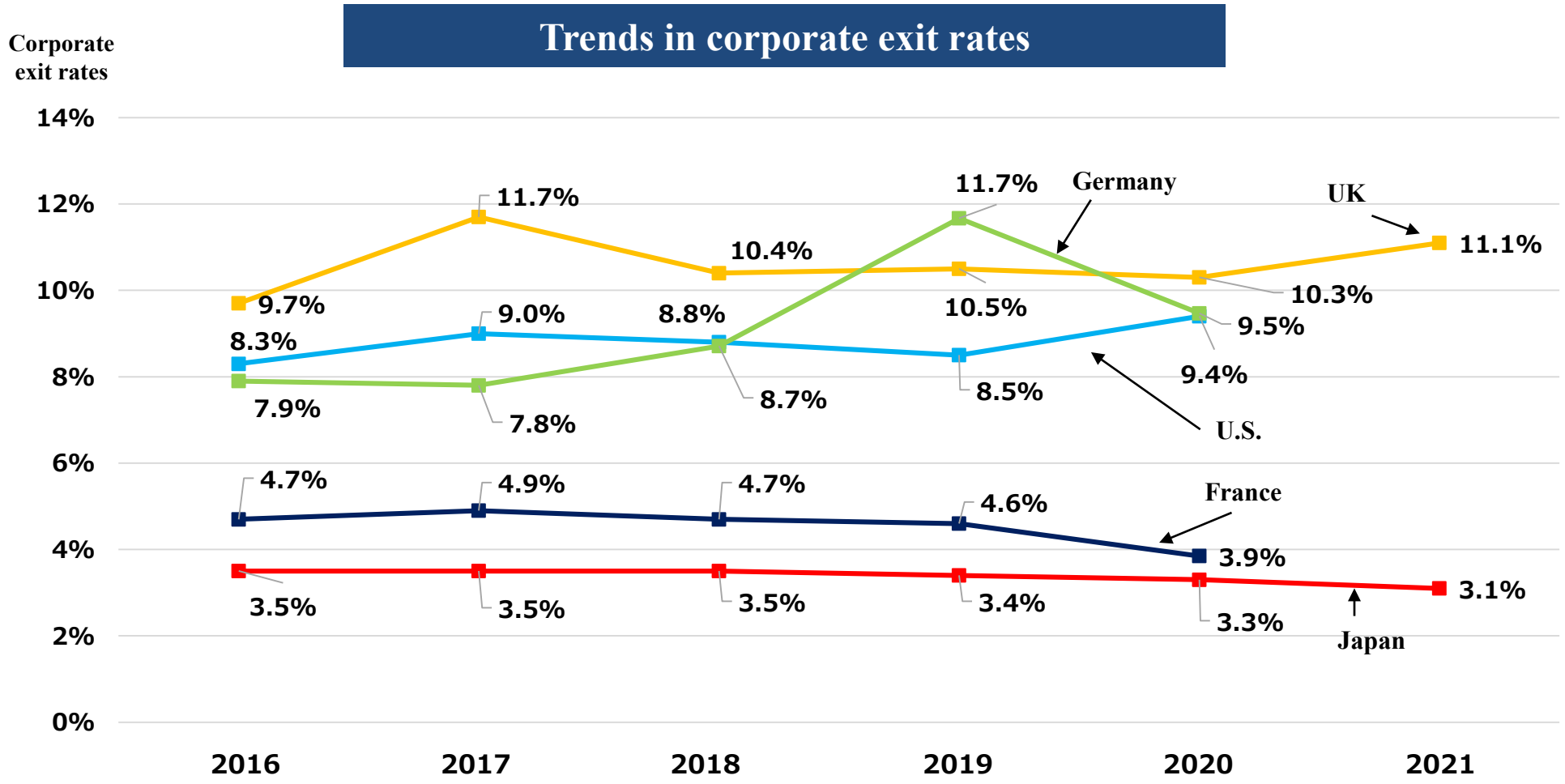


Note: Corporate entry rates are the proportion of newly opened companies in a year, against the total number of companies in the same year.

Source: Japan: Ministry of Health, Labour and Welfare, "Annual Reports on Employment Insurance Services," U.S.: United States Census Bureau, "The Business Dynamics Statistics," UK: Office for National Statistics, "Business demography," Germany/France: Prepared based on eurostat.

Comparison of Trends in Corporate Exit Rates

○ Compared to the U.S. and major European economies, Japan's corporate exit rate has remained at the low level of 3.1% in 2021.

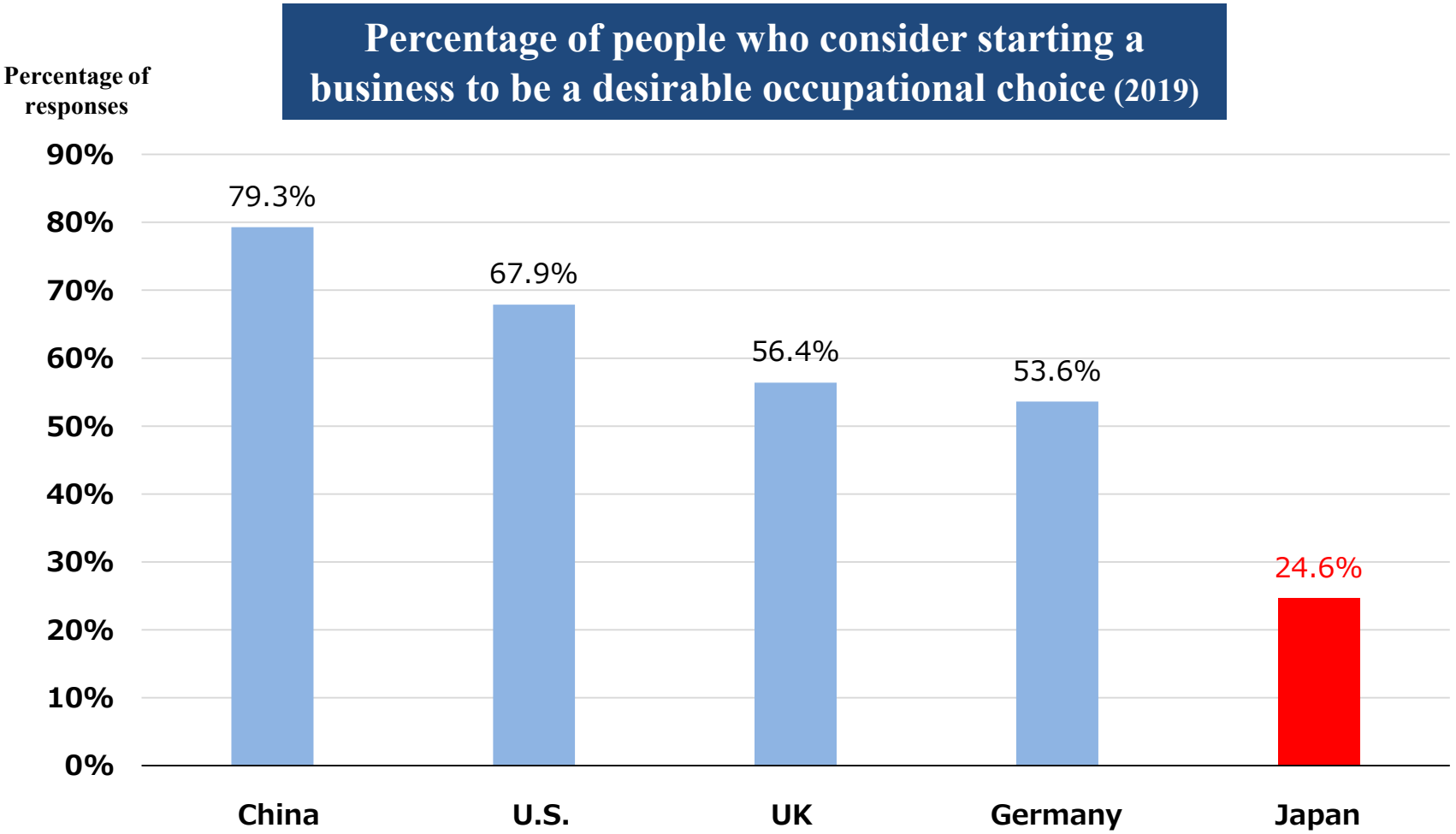


Note: Corporate exit rates are the proportion of newly closed companies in a year, against the total number of companies in the same year.

Source: Japan: Ministry of Health, Labour and Welfare, "Annual Reports on Employment Insurance Services," U.S.: United States Census Bureau, "The Business Dynamics Statistics," UK: Office for National Statistics, "Business demography," Germany/France: Prepared based on eurostat.

Percentage of People who Consider Starting a Business to be a Desirable Occupational Choice

○ In terms of the percentage of people who consider starting a business to be a desirable occupational choice, Japan is at the lowest level among major and developed countries, at 25%, compared to 79% in China and 68% in the U.S.

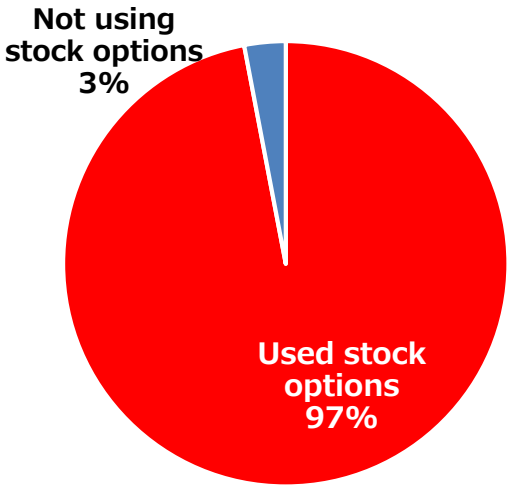


Note: The percentage of respondents in a survey conducted on 18 - 64 year-olds from 50 countries worldwide, who answered "Yes" to the statement "Many people in your country consider starting a new business to be a desirable occupational choice."
Source: Prepared based on Global Entrepreneurship Monitor's "Adult Population Survey"

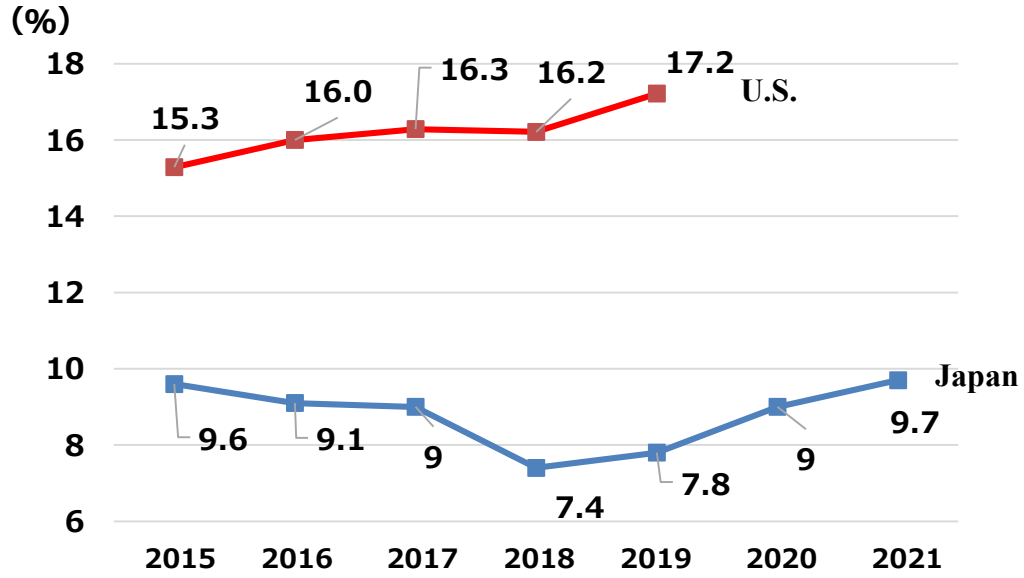
State of the Spread of Stock Options

- ○ In Japan, 97% of startups that have launched an IPO utilize stock options.
- ○ On the other hand, from the viewpoint of startups, it has been pointed out that they face issues in the aspect of legal systems, and challenges such as over-restrictive requirements for tax-qualified stock options.
- ○ The percentage of stock options of all shares issued by Startups is below 10% in Japan, but accounts for 15% to 17% in the U.S. This suggests that there is room for greater utilization in Japan.

Of startups that have launched IPO in Japan, the percentage of companies using stock options (2021)



Comparison between Japan and the U.S. of stock options as a percentage of all shares issued by startups



Note: In the figure on the right, data for the U.S. is up till 2019. Values were calculated by taking the simple average of values separated by each corporate value after financing (below US$10 million - above US$1 billion).

Source: Prepared based on INITIAL's "Japan Startup Finance 2021," for the figure on the left, and on Pitchbook, nvca's "Venture Monitor"(2020), and materials from Plutus Consulting Co.,Ltd. for the figure on the right.

Legal System for Stock Options

○ When issuing stock options, there are differences between Japan and the U.S. with regard to matters that can be decided by the Board of Directors and the period in which decisions are allowed to be made by the Board of Directors.

○ In Japan, decisions can be made on the number of stock options issued within the range decided upon at the General Meeting of Shareholders, but this is limited to within one year from the General Meeting of Shareholders. Moreover, decisions cannot be made on the price when exercising stock option rights and acquiring them as shares (exercise price), nor on the period in which rights can be exercised.

Comparison of Japanese and the U.S. corporate law systems with regard to the issuance of stock options in privately held companies (companies with restrictions on transfer of shares)

	Japan	U.S.
Matters established in the General Meeting of Shareholders	➢ Maximum number of issues ➢ Distinction between compensatory stock options and non-compensatory stock options ➢ If compensatory, the minimum amount required for acquiring stock options	➢ Maximum number of issues
Matters that can be decided by the Board of Directors	➢ Actual number of issues (within the maximum range) ➢ If compensatory, the amount required for acquiring stock options (above the minimum amount) ※ The exercise price and exercise period cannot be delegated to the Board of Directors.	➢ Actual number of issues (within the maximum range) ➢ If compensatory, the amount required for acquiring stock options ➢ Exercise price, exercise period
Period in which decisions are allowed to be made by the Board of Directors	➢ Within one year from the General Meeting of Shareholders	➢ 10 years from the General Meeting of Shareholders

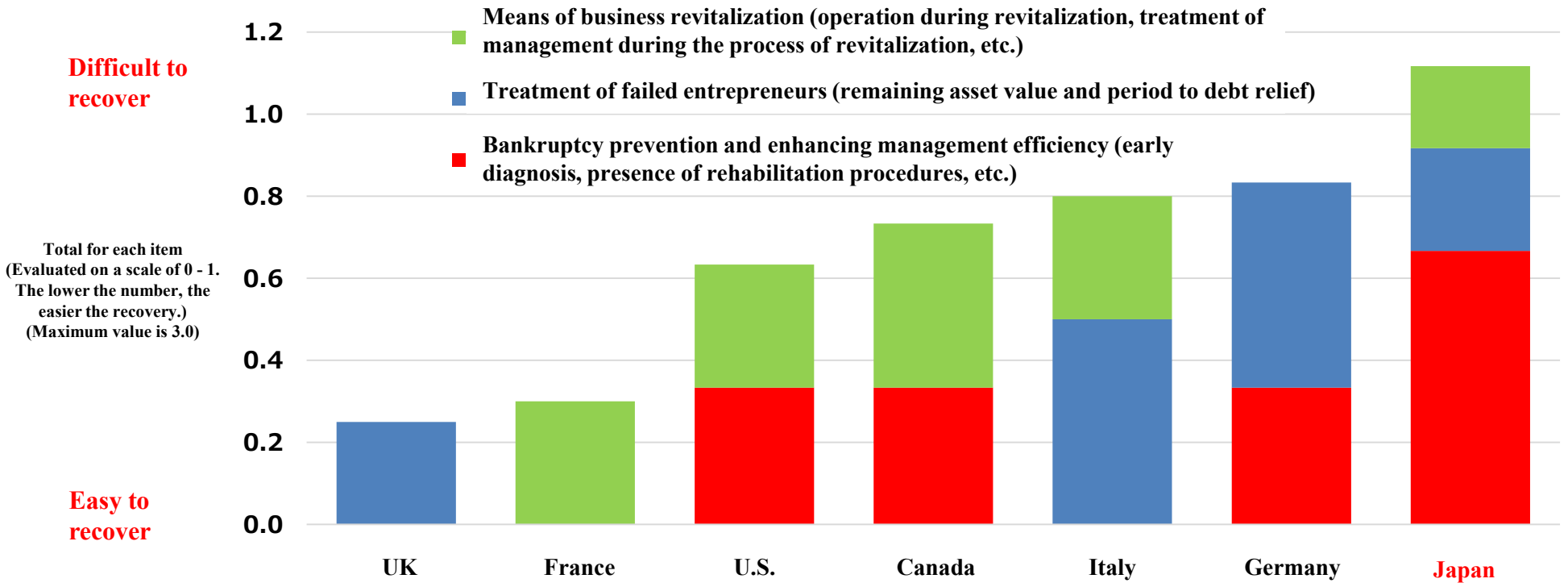
Note: Even in Japan, in the case of a public company, it is possible to make decisions in the Board of Directors on the number of issues, amount required for acquiring stock options, exercise price, and exercise period (except in the case of issuing new shares to third parties at particularly favorable prices (discounted issue)).

International Comparison of Revitalization and Bankruptcy for Business Recovery (2022)

○ OECD sets indicators on the ease of business revitalization and business recovery in relation to bankruptcy, and periodically evaluates the current status in each country.

○ Japan is rated as relatively difficult to recover, and is rated especially poorly in prevention of bankruptcy through early diagnosis, etc.

Indicators related to revitalization and bankruptcy for business recovery



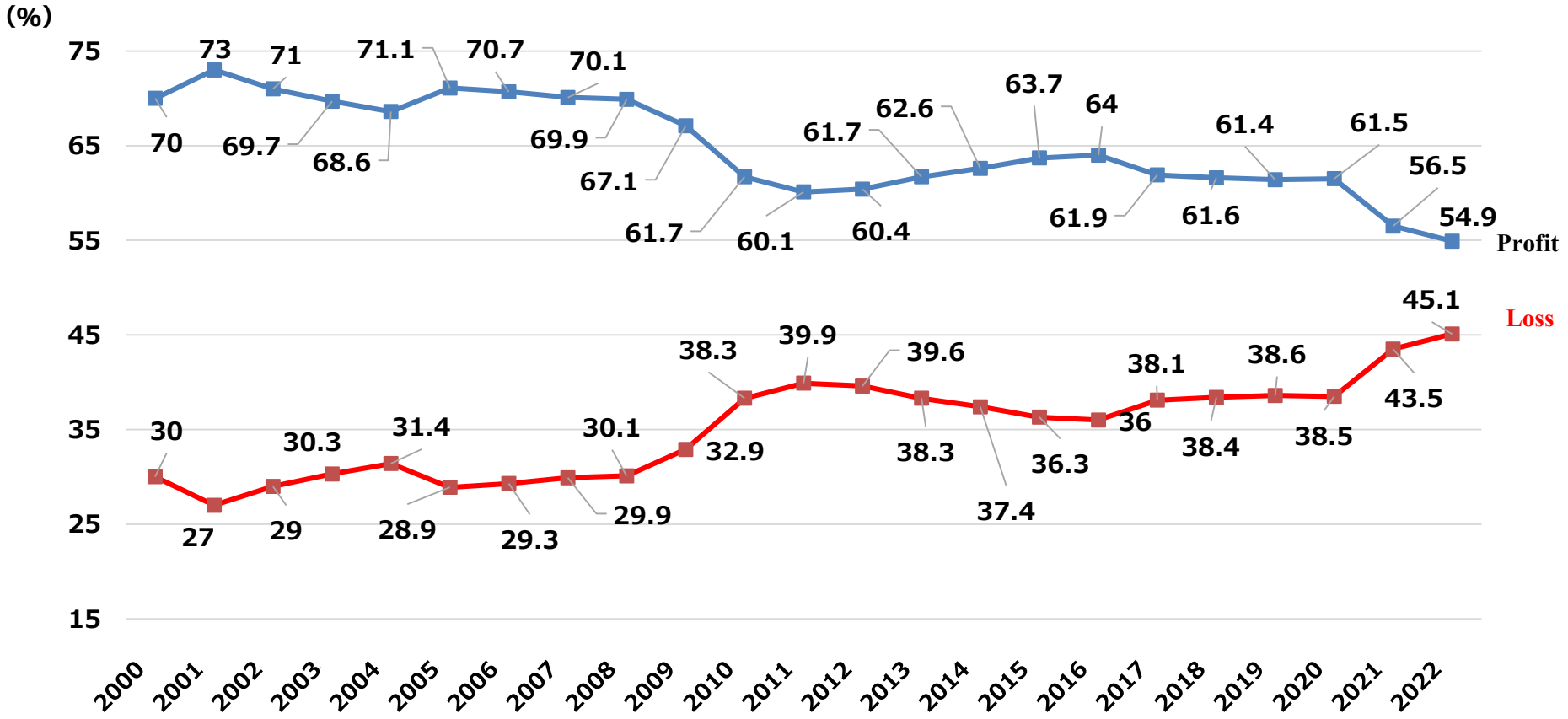
Note: Responses from each country to OECD's questionnaire on bankruptcy systems. G7 countries extracted from the target countries.

Source: Christophe André & Lilas Demmou, 2022. "Enhancing insolvency frameworks to support economic renewal," OECD Economics Department Working Papers 1738, OECD Publishing

Companies Ceasing Business Activities

○ Looking at the financial results of closed and dissolved companies just before their closure or dissolution, the percentage of companies with profits is falling every year, dropping to below 60% most recently. Conversely, the percentage of companies registering losses is on the rise.

Trends in the profit/loss ratio of closed or dissolved companies

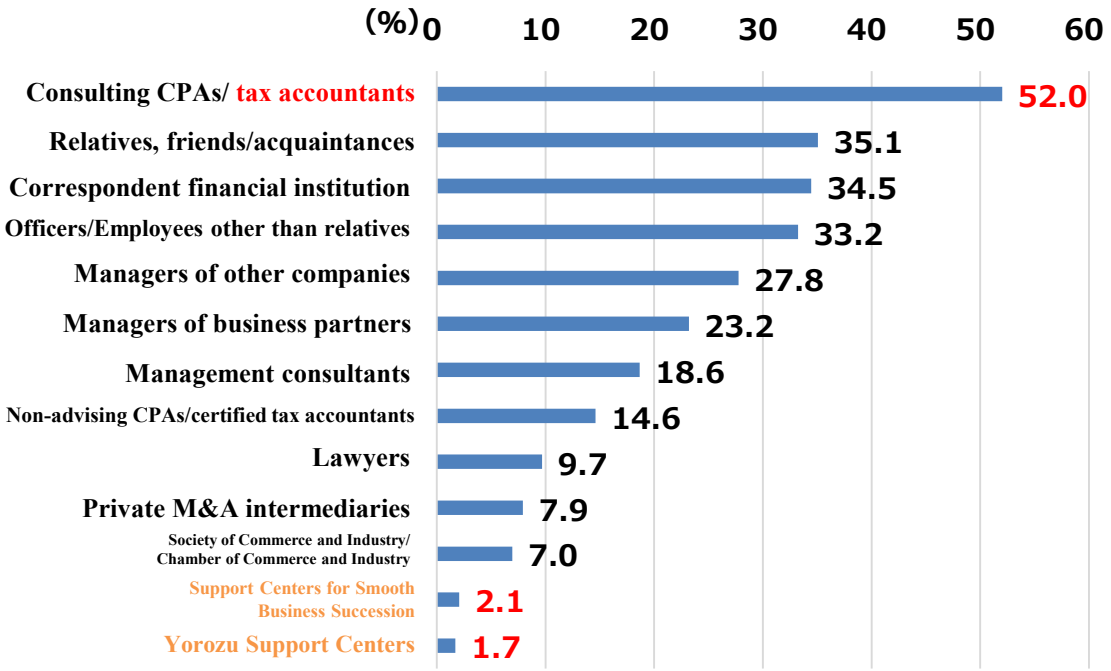


Source: Prepared based on Tokyo Shoko Research, “Survey on Trends for Closed or Dissolved Companies in 2022”

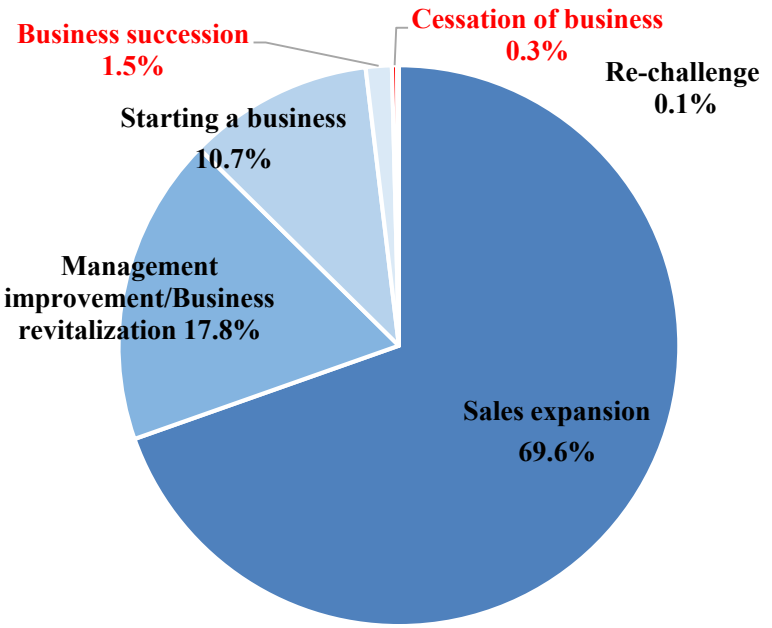
Consultations about Continuation of Corporate Management

- ○ Many companies without successors consult with their consulting tax accountants about business continuity, while only 3.8% consult with supporting agencies (Support Centers for Smooth Business Succession, Yorozu Support Centers).
- ○ Yorozu Support Centers, established in all prefectures across Japan, serve as the comprehensive liaison office for supporting SMEs, but consultations about business succession and cessation of business make up only 1.8% of all consultations.
- ○ Strengthening nationwide consultation functions for businesses facing problems is an important issue.

Parties that businesses consulted with about future business continuity



Contents of consultations with Yorozu Support Centers (FY2021)



Note: The figure on the left shows the parties that companies with no confirmed successors have consulted with about business succession in the past. The figure on the right shows the breakdown of the contents of consultations with Yorozu Support Centers in FY2021. N=458,440.

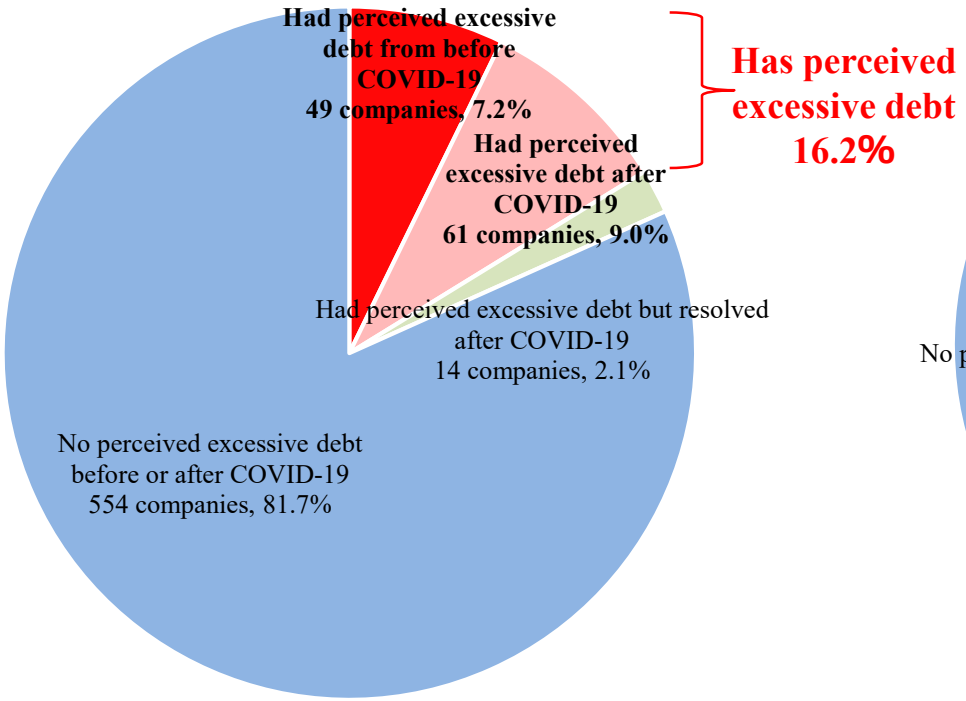
Source: Prepared based on the White Paper on Small and Medium Enterprises in Japan (2017) for the figure on the left, and based on the Yorozu Support Center website for the figure on the right.

Perceived Excessive Debt in Companies

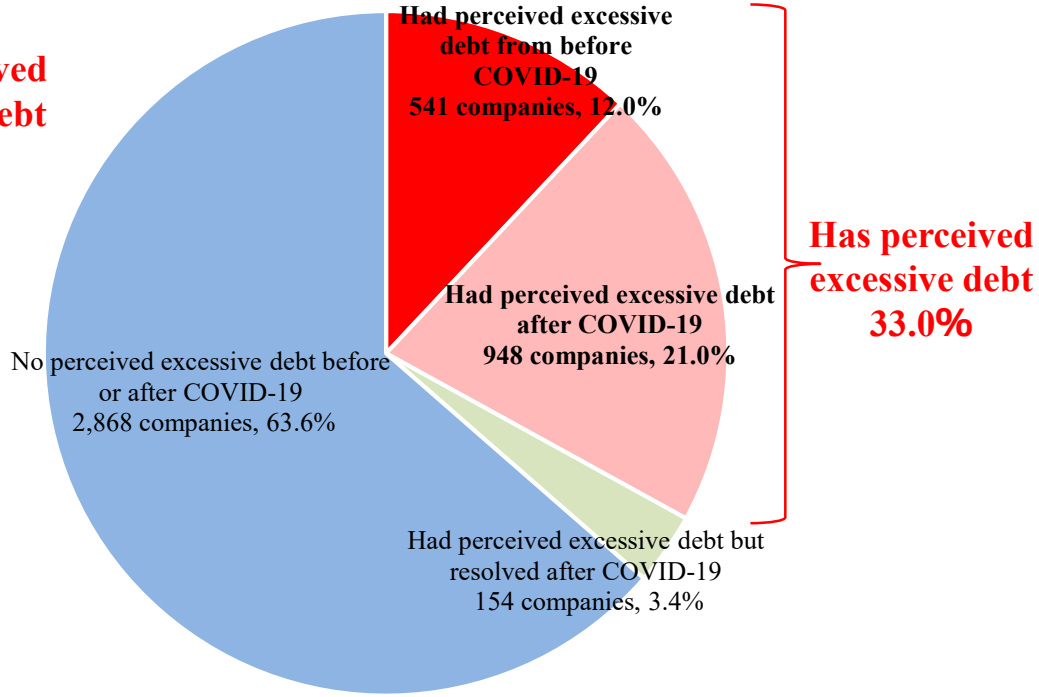
○ According to a questionnaire conducted on Japanese companies, the percentage of companies that responded “has perceived excessive debt” was 16.2% for large companies and 33.0% for SMEs.

Perceived excessive debt (as of October 2022)

Large companies (678 companies)
*Capital of 100 million yen or more



SMEs (4,511 companies)
*Capital of less than 100 million yen



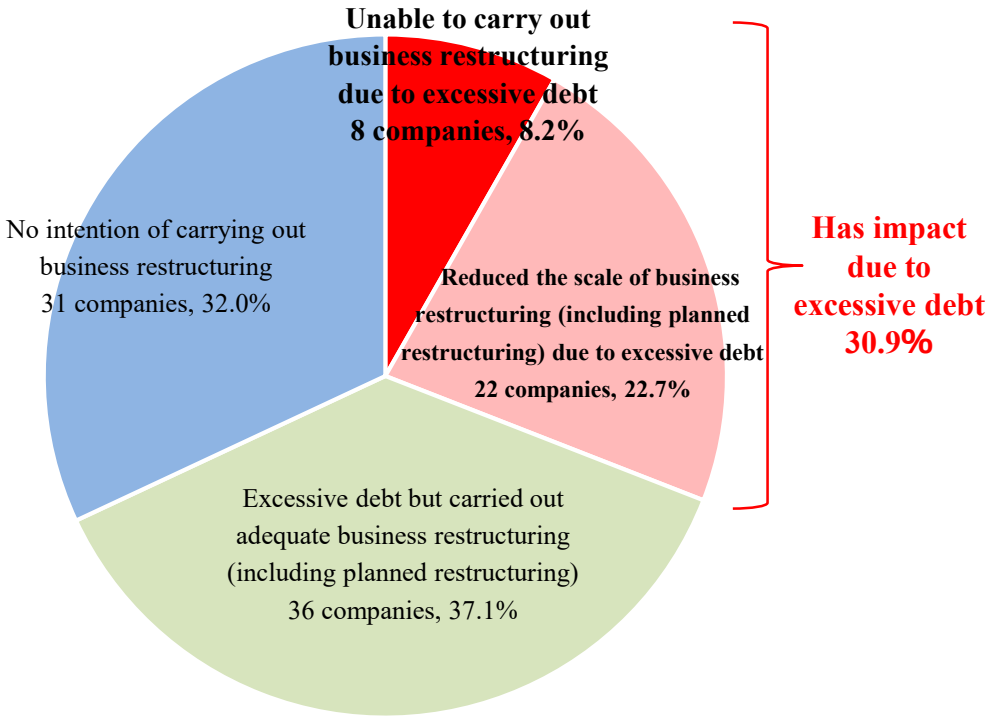
Note: Results of a questionnaire conducted on large companies and SMEs across Japan from October 3 - 12, 2022. Percentage of responses to the question "Which of the following is applicable to your company's debt situation?" (No. of responses: 5,189 companies)
Source: Prepared based on Tokyo Shoko Research, "9th Questionnaire on Excessive Debt" (October 18, 2022)

Impact of Debt on Business Restructuring Efforts

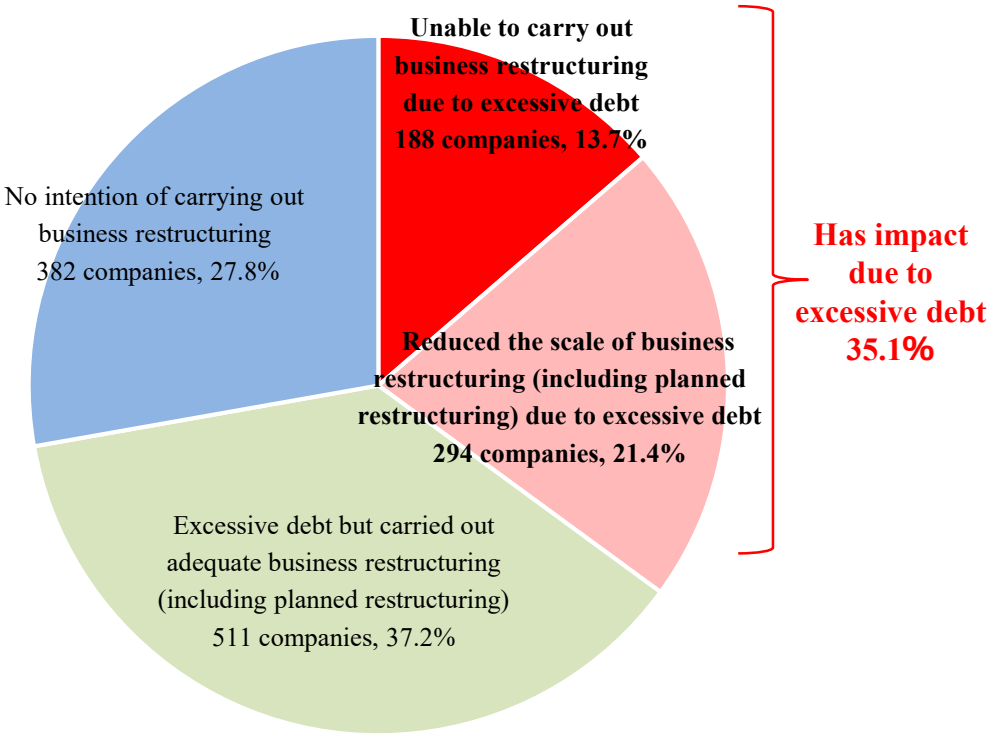
○ Of the companies that responded that they have perceived excessive debt, 30.9% of large companies and 35.1% of SMEs indicated that debt hinders business restructuring.

Impact of debt on business restructuring efforts * Survey on companies reporting perceived excessive debt

Large companies (97 companies)
*Capital of 100 million yen or more



SMEs (1,375 companies)
*Capital of less than 100 million yen



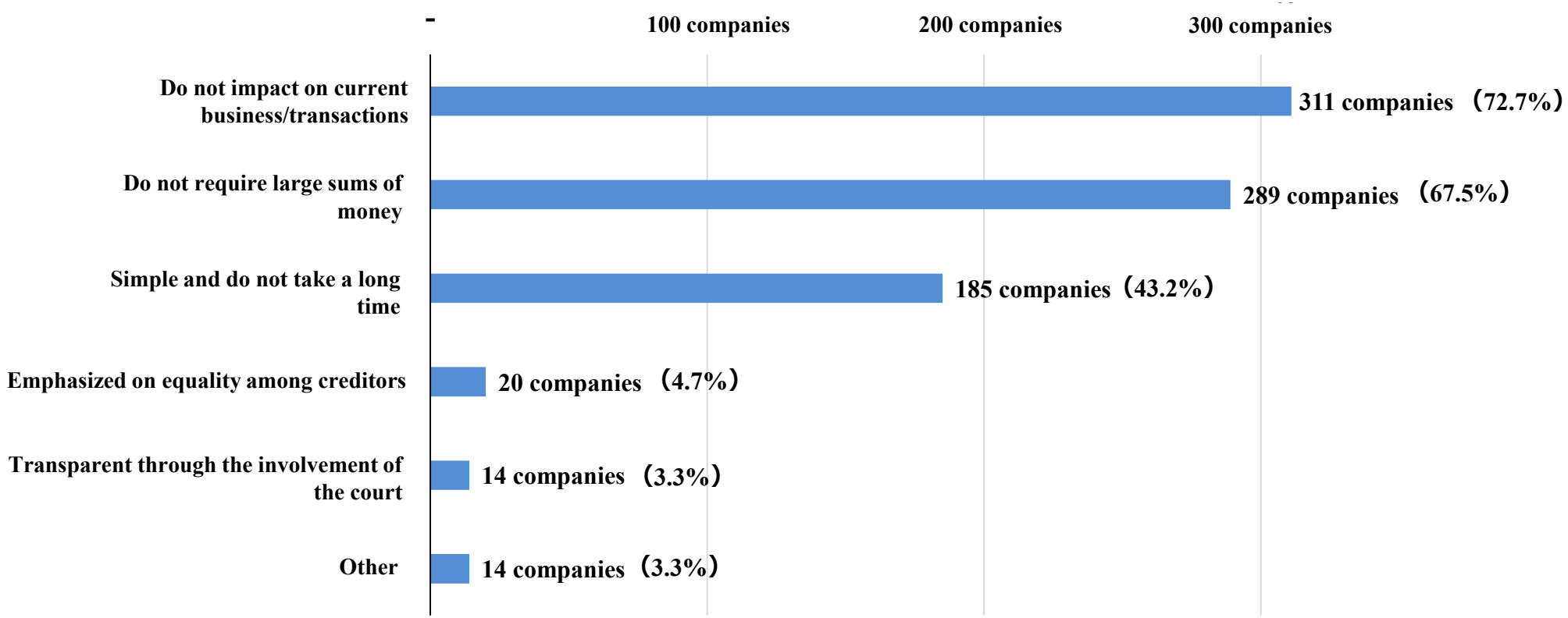
Note: Results of a questionnaire conducted on large companies and SMEs across Japan from October 3 - 12, 2022. Percentage of responses to the question "Does the debt situation have an impact on your company's business restructuring efforts?" (No. of responses: 1,472 companies).
Source: Prepared based on Tokyo Shoko Research, "9th Questionnaire on Excessive Debt" (October 18, 2022)

Points that Companies Place Importance on During Business Revitalization

○ Companies which had answered that they may consider corporate restructuring through private liquidation process were asked about the points they place importance on when considering using private liquidation for business restructuring purposes. The points placed importance on were, procedures do not impact on current business/transactions (72.6%); procedures do not require large sums of money (67.5%); and procedures are simple and do not take a long time (43.2%).

Points placed importance on when considering private liquidation

*Survey on companies reporting that they may consider corporate restructuring



Note: Results of a questionnaire conducted on large companies and SMEs across Japan from December 1 - 8, 2022. Percentage of responses to the question "What do you place importance on when considering private liquidation for corporate restructuring purposes?" (Multiple answers) (No. of responses: 428 companies).
Source: Prepared based on Tokyo Shoko Research, "25th Questionnaire on COVID-19" (December 16, 2022)

Overview of Pre-insolvency Proceedings and Business Restructuring Programs Overseas

○ In European countries, there are corporate restructuring systems that do not require the consent of all lenders for changing rights (such as debt writeoff) through a majority vote with the approval of the court. However, such systems do not exist in Japan. Hence, it may be necessary to review the systems.

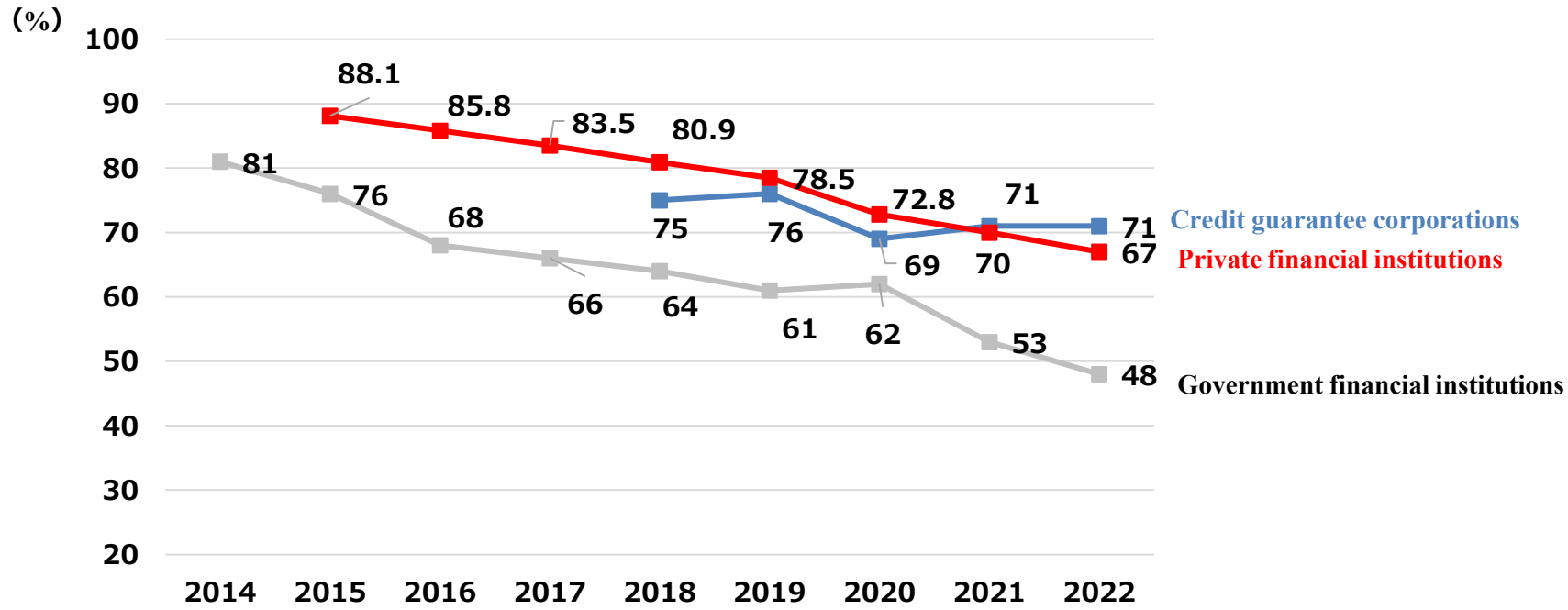
	System	Overview	Adoption requirement	Usage status
UK	Scheme of Arrangement (SOA)	Procedures that make it possible to **change the rights of creditors through a majority vote with the approval of the court** (For the Restructuring Plan, eligibility is restricted to companies going through financial hardship, etc.)	Approval from majority of the creditors and **approval from creditors who are owed 3/4 or more of the amount of claims**	**Several tens of cases per year** *According to interviews with experts
	Restructuring Plan (RP) *Introduced in 2020		**Approval from creditors who are owed 3/4 or more of the amount of claims**	
Germany	StaRUG *Introduced in 2021	Procedures that make it possible to **change the rights of creditors through a majority vote with the approval of the court**	**Approval from creditors who are owed 3/4 or more of the amount of claims**	**About 10 cases per year** *According to interviews with experts
France	Accelerated safeguard procedures *Introduced in 2014 (Amended in 2021)	Procedures that make it possible to **change the rights of creditors through a majority vote with the approval of the court** in cases where mediation to reach an agreement on resolving an issue is unsuccessful	**Approval from creditors who are owed 2/3 or more of the amount of claims**	**6 cases** (2018) *According to the Ministry of Justice of France (number of cases including the system preceding accelerated safeguard procedures)
U.S.	Chapter11	Procedures that make it possible to **change the rights of creditors through a majority vote with the approval of the court**	Approval from majority of the creditors and **approval from creditors who are owed 2/3 or more of the amount of claims**	**8,333 cases** (2020) *According to the U.S. Courts

Source: Survey conducted by the Ministry of Economy, Trade and Industry

Provision of Personal Guarantees Provided by Business Owners

- ○ The Guidelines for Personal Guarantees Provided by Business Owners stipulate that financial institutions consider the possibility of not requiring business owners to provide personal guarantees if they fulfil the following criteria: (1) Elimination of integration of corporate entities and business owners; (2) Financial status that makes it possible to repay borrowings through the corporate entity's assets and earning power alone; (3) Appropriate information disclosure to financial institutions.
- ○ Although the percentage of loans with a personal guarantee provided by business owners is gradually falling, 70% of new loans from private financial institutions still come with a personal guarantee provided by business owners.

Trends in the number of loans with personal guarantees provided by business owners, as a percentage of new loans classified by financial institution



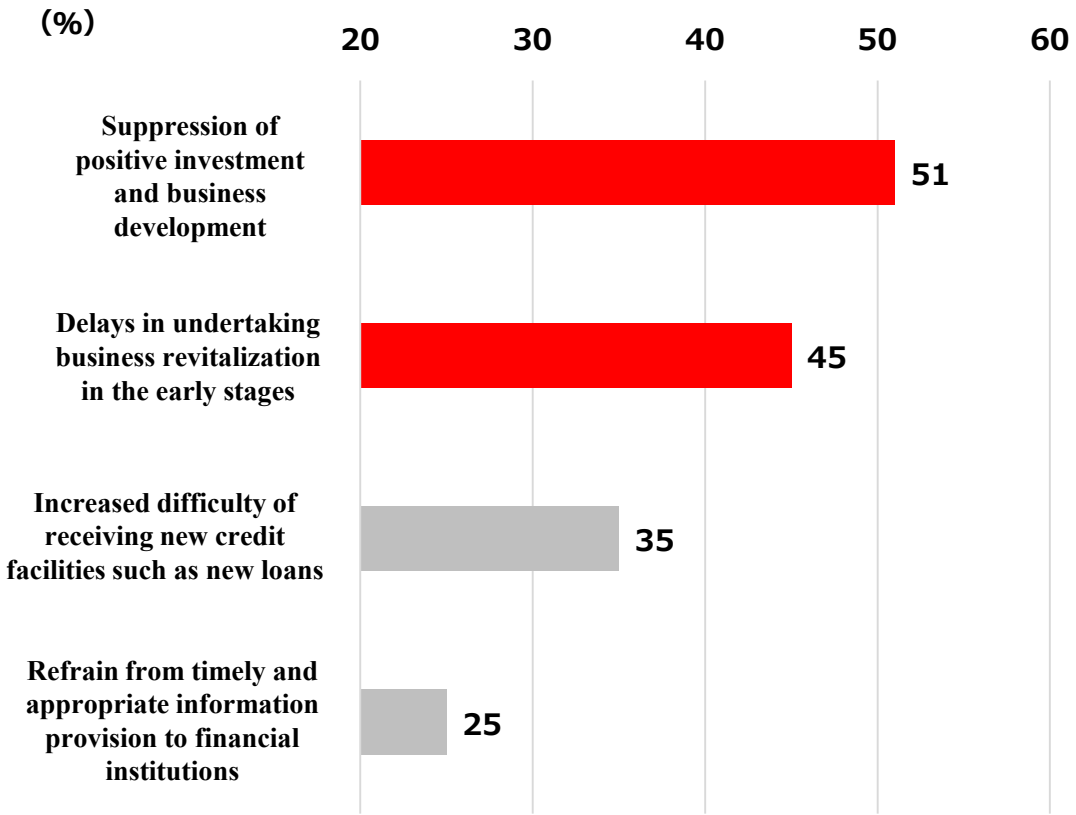
Note: Figures for FY2022 are actual numbers for the first half of the year (April – September).

Source: Statistics for the utilization of Guidelines for Personal Guarantees Provided by Business Owners in government financial institutions and statistics for the utilization of Guidelines for Personal Guarantees Provided by Business Owners in credit guarantee corporations, provided by the Small and Medium Enterprise Agency, and statistics for the utilization of Guidelines for Personal Guarantees Provided by Business Owners in private financial institutions provided by the Financial Services Agency

Issues with Personal Guarantees Provided by Business Owners

○ According to a questionnaire conducted on business owners of SMEs, nearly half pointed out that the negative impact of a personal guarantee provided by business owners on management would delay undertaking business revitalization in the early stages.

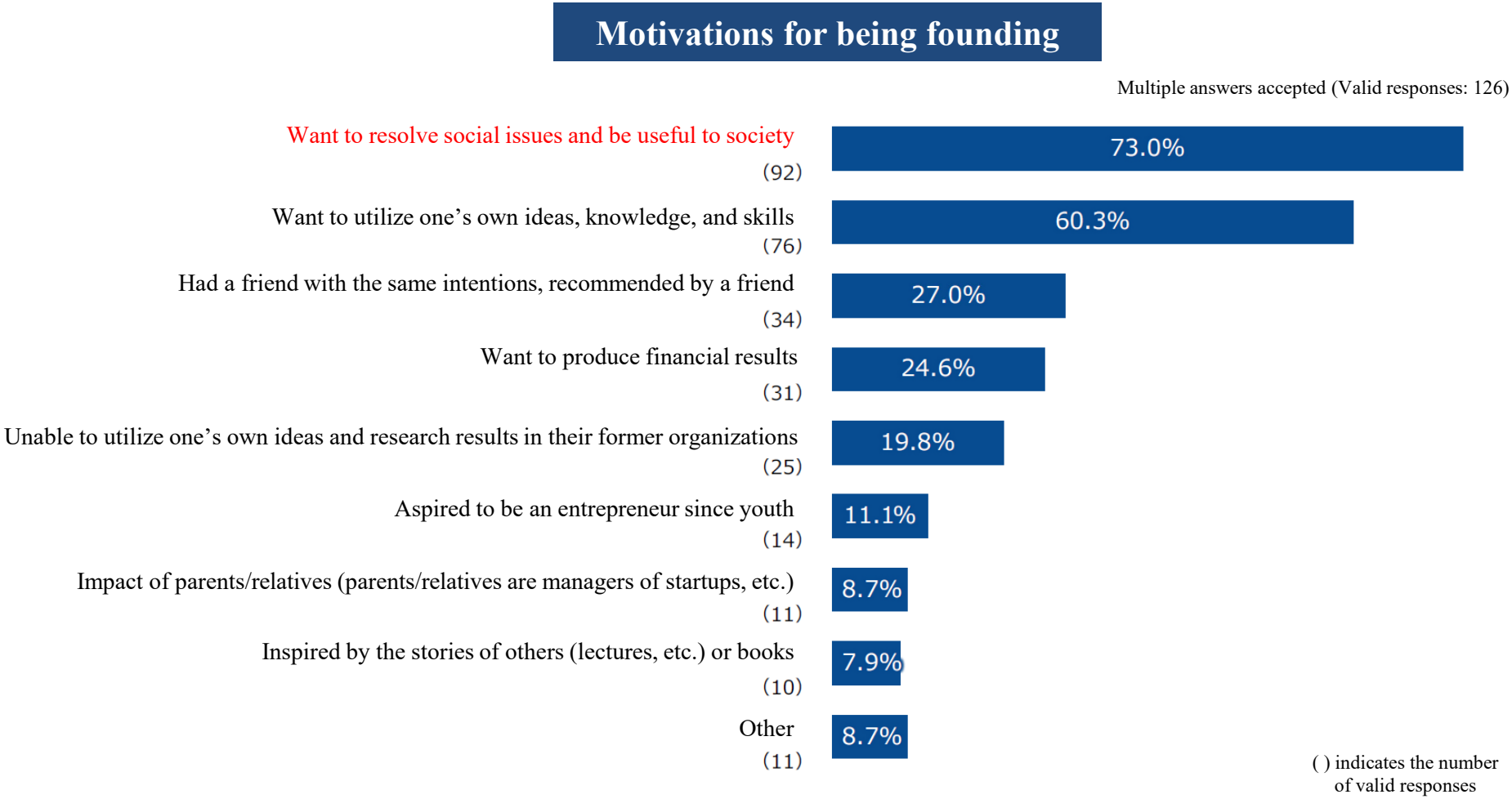
Impact of the provision of management guarantees



Note: The survey was conducted on SMEs and micro enterprises whose main banks are regional banks, N=9,371. The survey period was March 2019.
Source: Prepared based on Financial Services Agency, "Questionnaire Survey on the Evaluation of Efforts by Financial Institutions (2019)"

Motivations for Being Founding

○ Among startups in Japan, the primary motivation for being founding is “Want to solve social issues and be useful to society.”



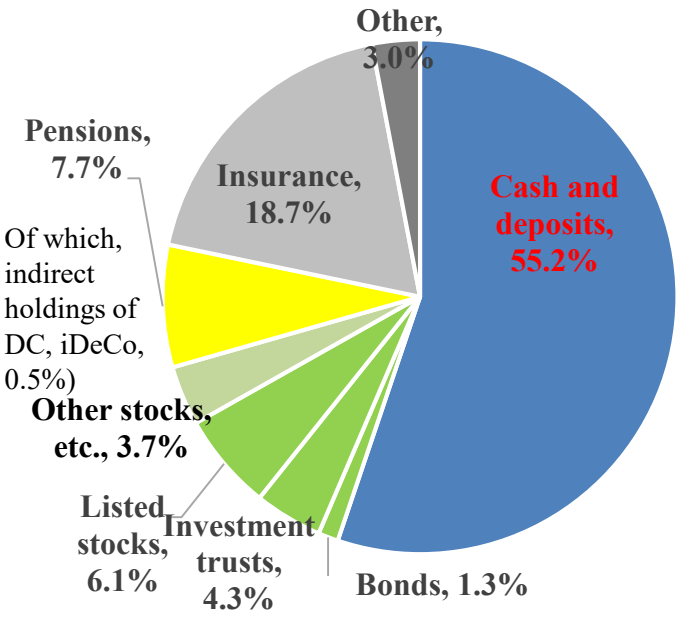
Note 1: In 2022, an online questionnaire survey was conducted from May 10 – June 15, 2022, on venture companies within five years of establishment.
Note 2: “Want to resolve social issues and be useful to society” ranked first in 2020 (72.3%) and in 2021 (73.7%).
Source: Venture Enterprise Center, “VEC Yearbook 2022”

International Comparison of the Composition of Household Financial Assets

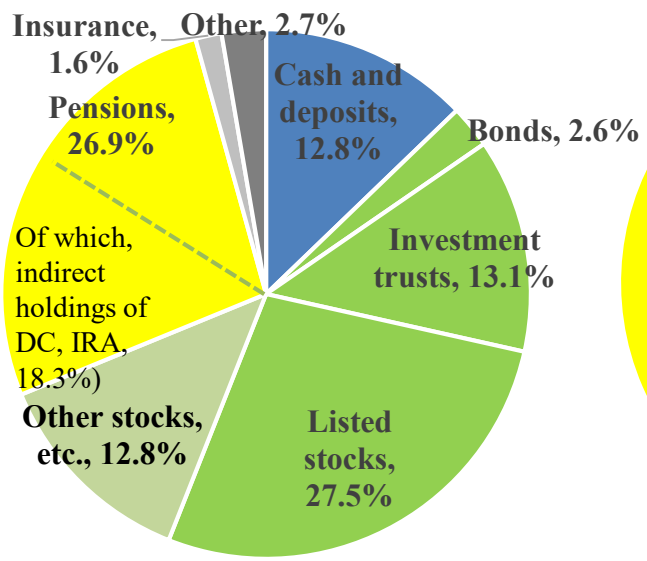
○ Cash and deposits make up more than half of household financial assets in Japan, and the percentage of marketable securities is low compared to Europe and the U.S.

Comparison of the composition of household financial assets in Japan, U.S., and UK

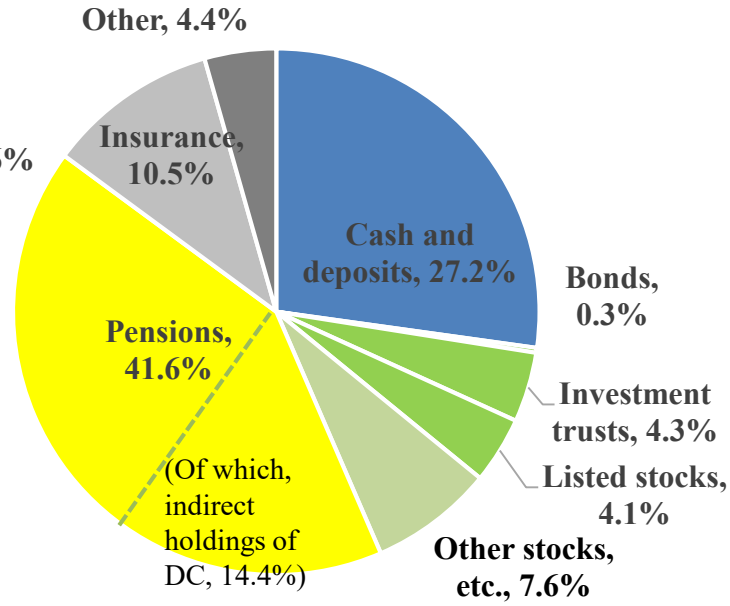
Japan



U.S.



UK



<Total household financial assets>
2,023 trillion yen
<Percentage of listed stocks, investment trusts, bonds>
Direct holdings 11.6%
+Indirect holdings of DC, iDeCo: 0.6%
} 12.3%

<Total household financial assets>
US$118.2 trillion (13,358.4 trillion yen)
<Percentage of listed stocks, investment trusts, bonds>
Direct holdings 43.2%
+Indirect holdings of DC, IRA: 18.3%
} 61.5%

<Total household financial assets>
7.6 trillion pounds (1,173.1 trillion yen)
<Percentage of listed stocks, investment trusts, bonds>
Direct holdings 8.7%
+Indirect holdings of DC: 14.4%
} 23.1%

Note: Figures for Japan are as of the end of December 2022. However, the indirect holdings of DC and iDeCo are on the basis of amount held as of the end of March 2022. Figures for U.S. and UK are as of the end of 2021. Converted at US$1=113 yen, 1 pound=154.8 yen (as of the end of December 2021).
Source: Figures for Japan were prepared based on materials from the Bank of Japan and DC Provider Liaison Council. Figures for U.S. and UK were prepared based on materials from the Japan Securities Dealers Association, based on FRB, ONS, IA, and NEW FINANCIAL.

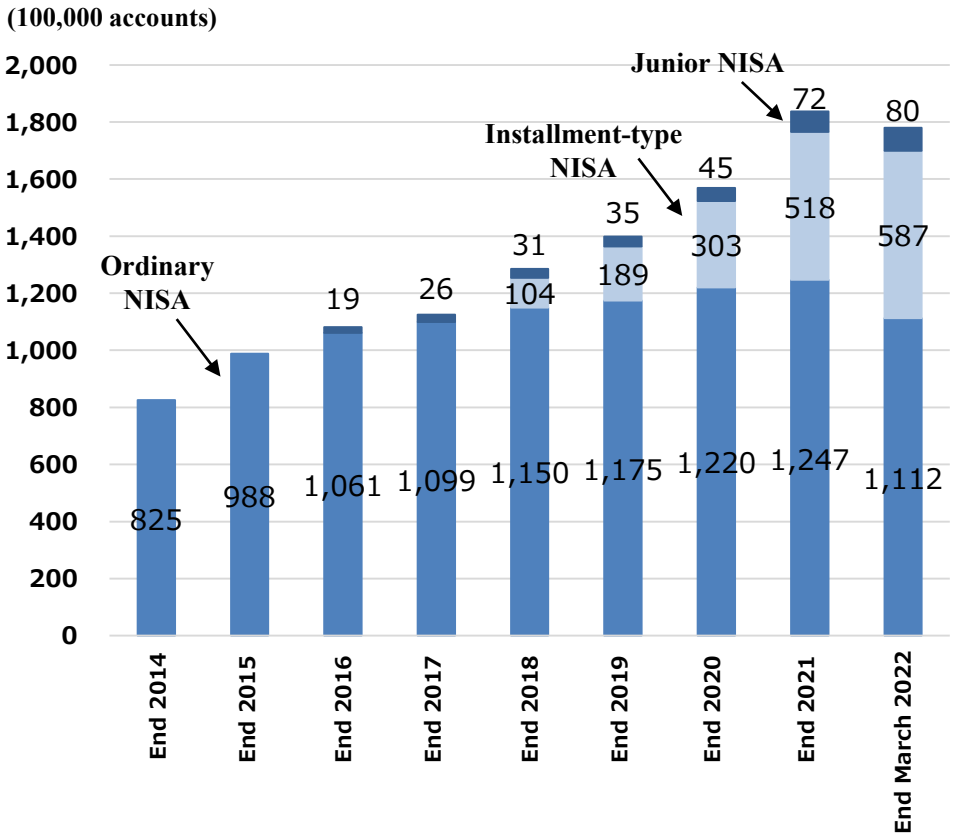
NISA Usage Status

○ Since the launch of the NISA system, the number of users has increased steadily. There are currently 17.79 million accounts and one in seven citizens has an account.

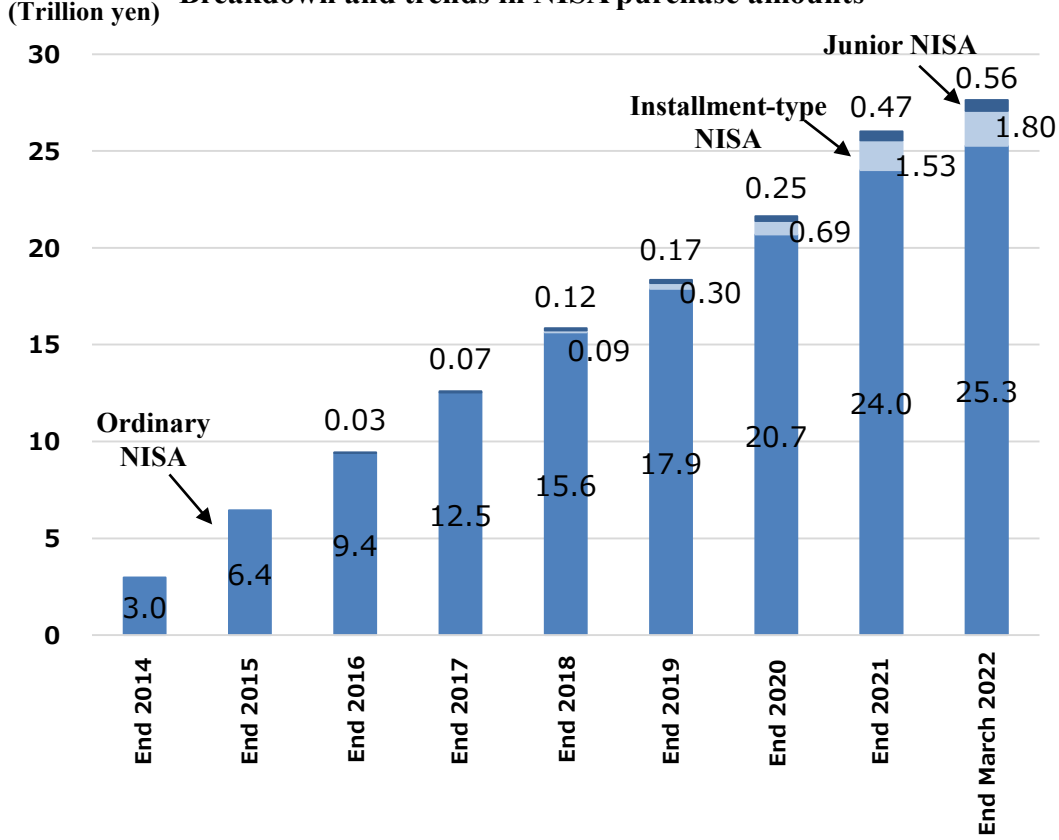
○ Looking at the amounts, ordinary NISA accounts make up a large percentage.

NISA usage status

Breakdown and trends in number of NISA accounts



Breakdown and trends in NISA purchase amounts

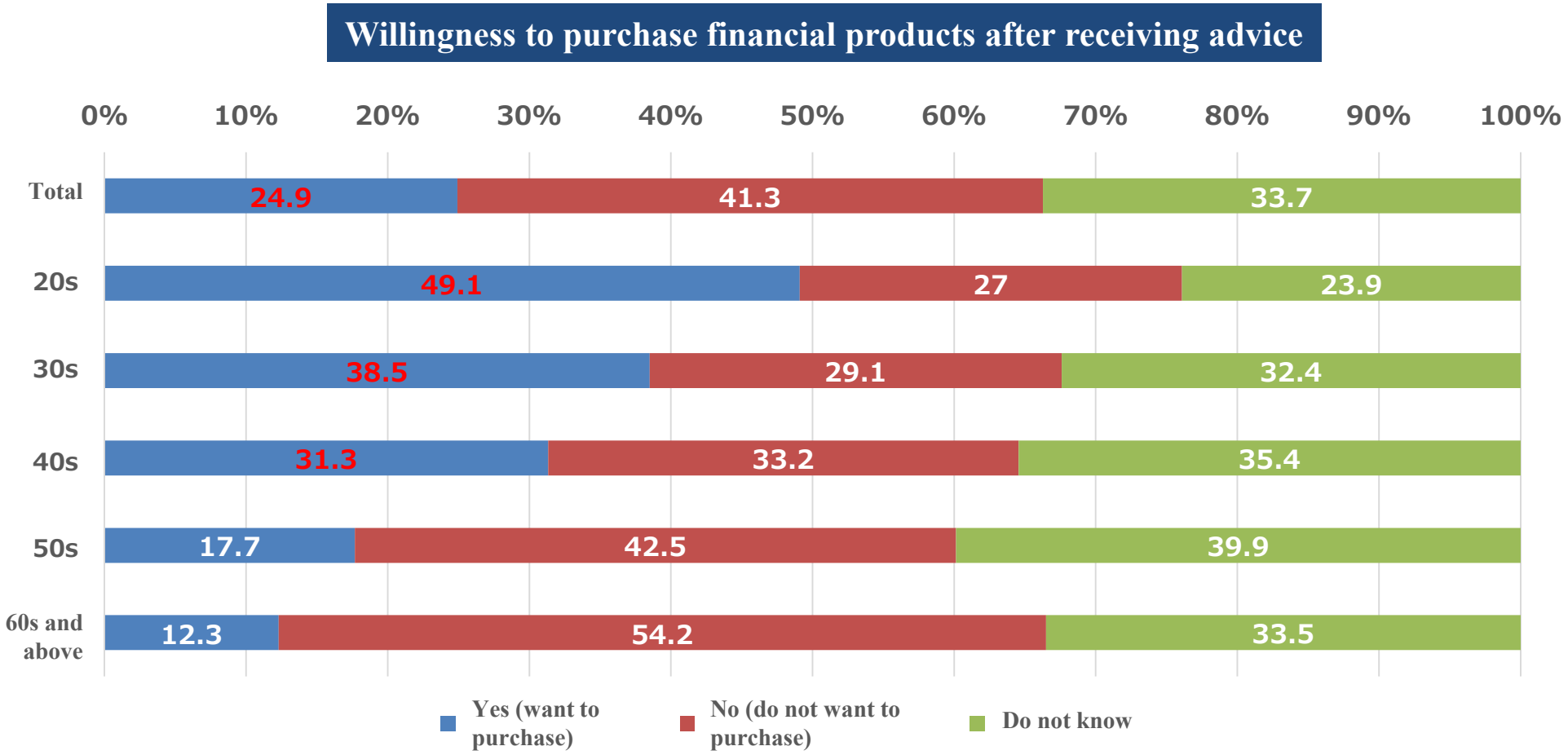


Note: As accounts opened before the introduction of Individual Number Card and whose period of tax-exempt holding periods have ended were deemed to be abolished with effect from January 1, 2022, the number of accounts was lower than at the end of December 2021.

Source: Financial Services Agency, "Survey on the Usage Status of NISA Accounts"

Willingness to Purchase Financial Products After Receiving Advice

○ When asked "Would you want to purchase risky financial products if there was someone who could give you advice or help you with the procedures while understanding your point of view?", 50% of those in their 20s and 40% of those in their 30s, and an overall average of 25%, responded that they would like to make a purchase.



Note: Responses to the question " Would you want to purchase risky financial products if there was someone who could give you advice or help you with the procedures while understanding your point of view? " Targeted at respondents who answered, "Because I have no knowledge about asset investment," "Because I am worried about purchase/ownership," Because it is troublesome to purchase," "Because I am usually busy/have no time," "Because it is troublesome to be solicited;" 1981 cases.

Source: Financial Services Agency, "Results of Customer Awareness Survey on Sales of Risky Financial Products" (June 30, 2021)