

**Keidanren Growth Strategy 2011:
Accelerating Growth through
Private-Sector Dynamism**

September 16, 2011

Keidanren

I. Introduction

1. Current State of the Japanese Economy

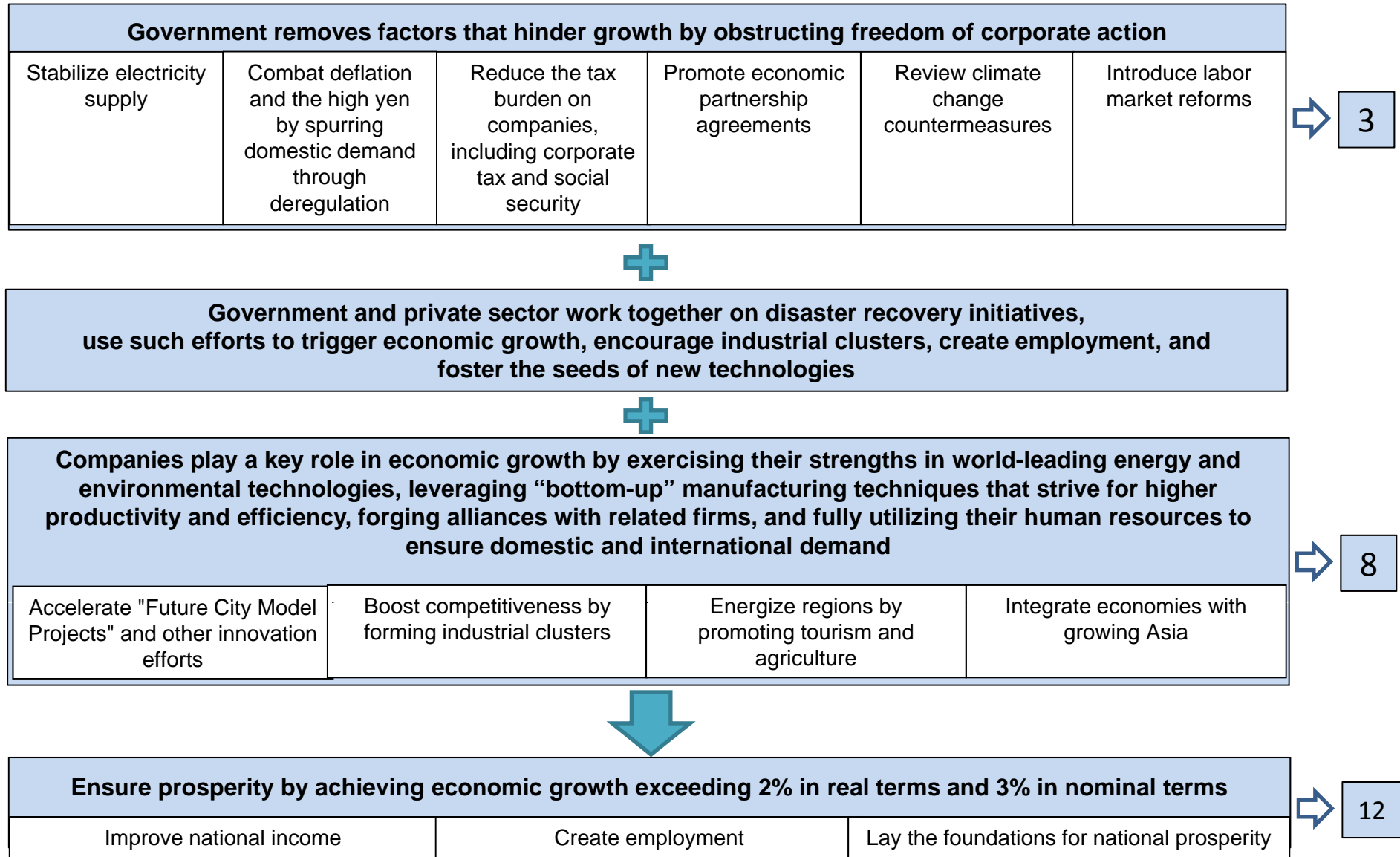
- ◆ Disruption to supply chains resulting from the March earthquake dealt a severe blow to business activity worldwide, but thanks to strenuous efforts by Japan's people and companies, initial disorder has been resolved and the Japanese economy is rebounding at a faster pace than expected.
- ◆ However, the current recovery is merely restoring the economy to pre-disaster levels. Issues the country faced before the earthquake, including deflation, a falling birth rate, an aging society, and vast government debt, are not being resolved, and Japan's prospects remain markedly unclear.

2. Prevention of Hollowing Out and the Importance of Economic Growth

- ◆ Japan faces unprecedented danger of hollowing-out of its industry following the earthquake in March.
- ◆ As well as reducing employment and technological expertise, the hollowing out of industry saps mid- to long-term growth capacity and has severely negative impacts on people's lifestyles.
- ◆ In order to avert such economic contraction and ensure prosperity, the government should urgently implement the growth strategy that energizes the dynamism of the private sector.

II. Growth Strategy Built on Japanese Corporate Dynamism and International Links

1. The Path to Growth



2. Enhancing Japan's International Competitive Advantage as A Business Location

3

(1) Fundamentally Revising Energy and Environmental Policies

- Given the impact of the earthquake and nuclear accident, Japan's energy and environmental policies need to be revised to shift emphasis from climate change prevention to stable and economic energy supply, with safety as a prerequisite.
- The immediate challenge is to formulate concrete measures aimed at stable electricity supplies over the next five years or so, to ensure that power shortages do not hamper people's lives or business activity.
- Japan needs to further enhance the competitiveness of its strong industries by developing innovative technologies for conserving, generating, and storing energy.

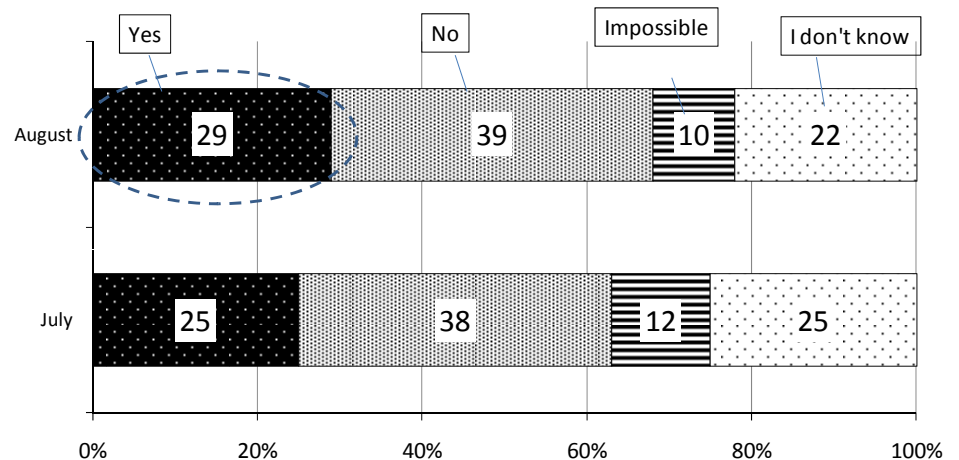
Estimated Demand-Supply Gap in Case Nuclear Plants would not be reactivated

As of July 2011.

	2011 Winter	2012 Summer
East Japan	▲1.1% (Ratio of estimated power shortage to peak demand)	▲10.4%
Middle and West Japan	▲0.4%	▲8.3%

Source: Cabinet Office

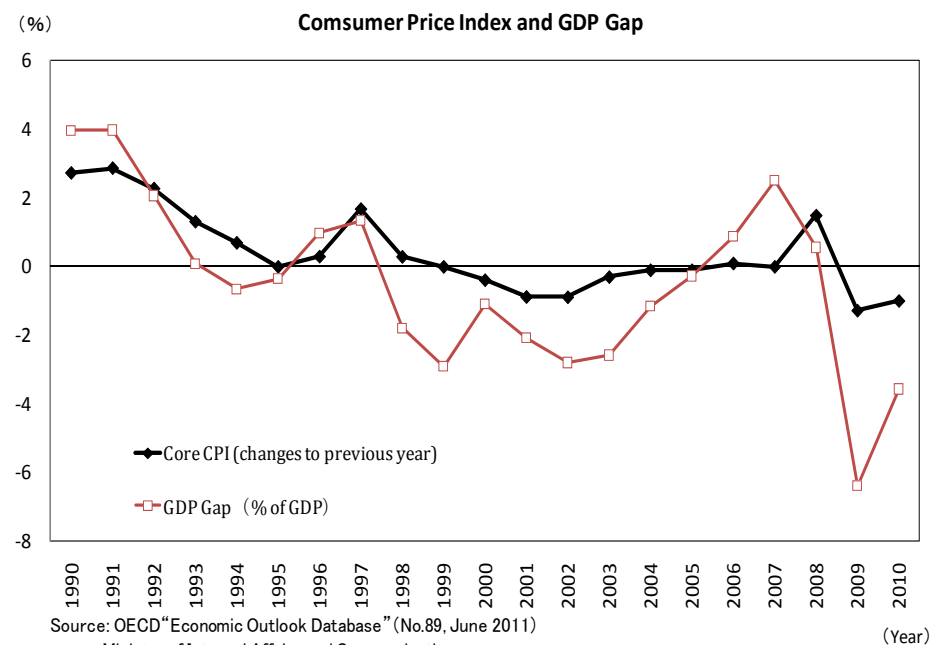
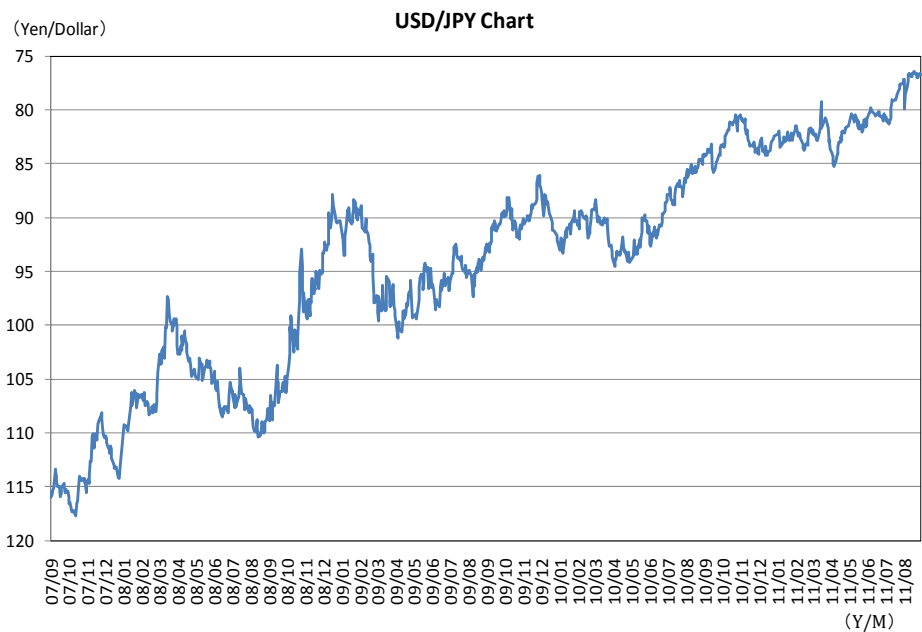
Does Power Shortage or High Electricity Cost May Cause the Relocation of Your Business Place?



Source: Reuter

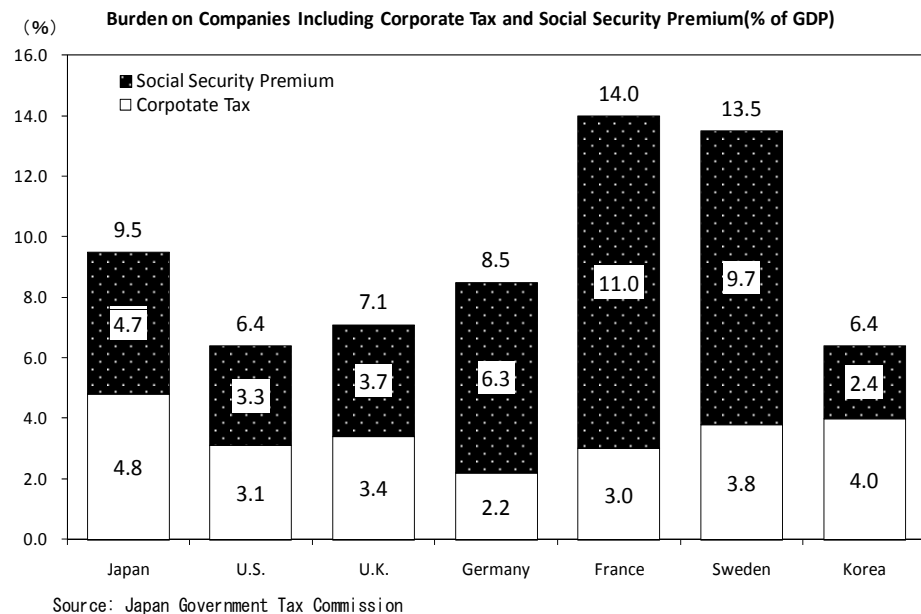
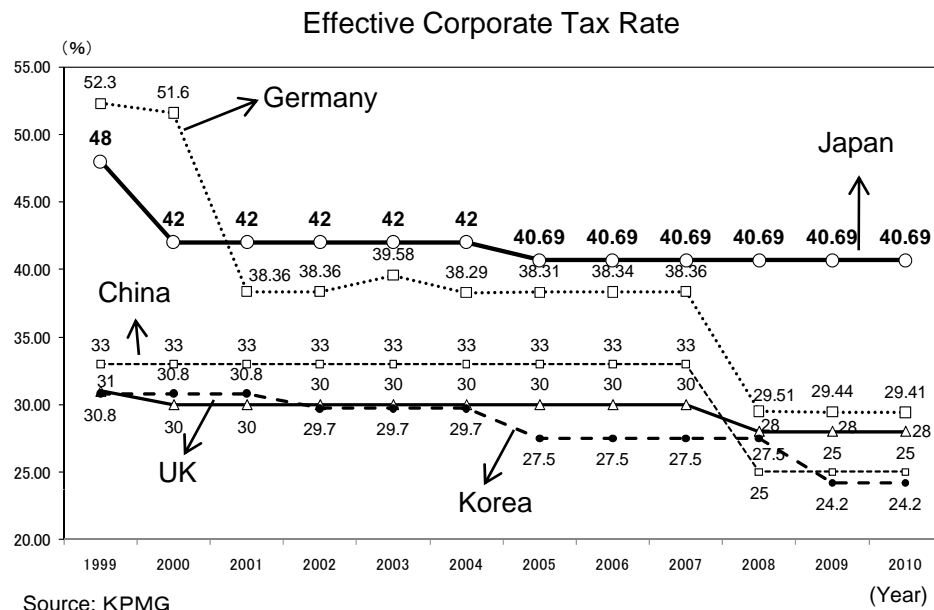
(2) Combating Deflation and Stabilizing Exchange Rates

- Since deflation and a strong yen have severely negative impacts on corporate business and employment, where necessary the Bank of Japan needs to further ease monetary policy and the government needs to intervene in foreign exchange markets.
- However, yen appreciation is fundamentally driven by the disparity between domestic and overseas inflation rates, and deflation is caused by the gap between demand and supply.
- Thus in order to combat deflation and rectify the yen's appreciation, it is crucial to bridge this gap by stimulating domestic demand through measures such as deregulation and gaining overseas demand through new economic partnership agreements, etc.



(3) Reducing the Tax Burden on Companies, Including Corporate Tax and Social Security

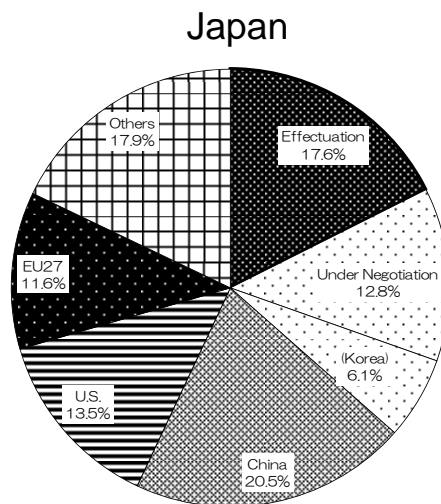
- Japan's effective corporate tax rates are very high in comparison with international standards.
- Raising social security premiums for people of working age to cover increasing social security benefits associated with an aging population would sap economic vitality and hamper job creation.
- The government should bring forward the 5% reduction in effective corporate tax rates included in the FY2011 tax reform proposal, rapidly cut corporate tax to 30% to align it with other major countries, and then swiftly reduce it to the level of Asian neighbors (i.e., around 25%).
- The government should also revise the current mechanism of the social security system which is relying on public insurance premiums, through revenue reform, new sources of funding that will enable the treasury to shoulder a larger share of social security costs.



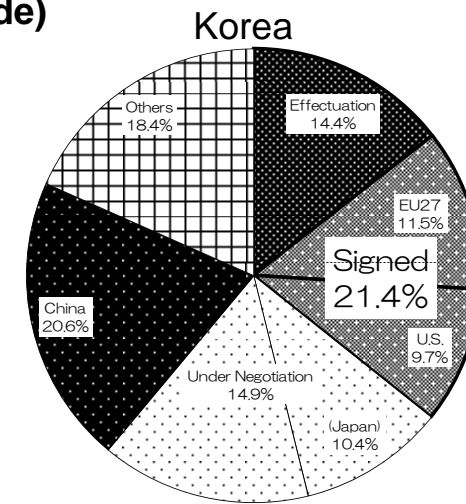
(4) Participating in TPP and Other High-Level Economic Partnerships

- As economic activity becomes increasingly globalized, it is imperative for companies based in Japan to ensure business conditions no less competitive than in other countries.
- With a view to the eventual formation of FTAAP, the government should participate in TPP negotiations at the earliest possible date, pursue a Japan-China-Korea FTA and ASEAN+6, and swiftly start EIA negotiations with the EU.
- It is vital that the government gains public understanding of the need to promote such economic partnerships by actively and consistently showing off their benefits.

**Cover Ratio of Economic Partnership
(% of its amount of trade)**



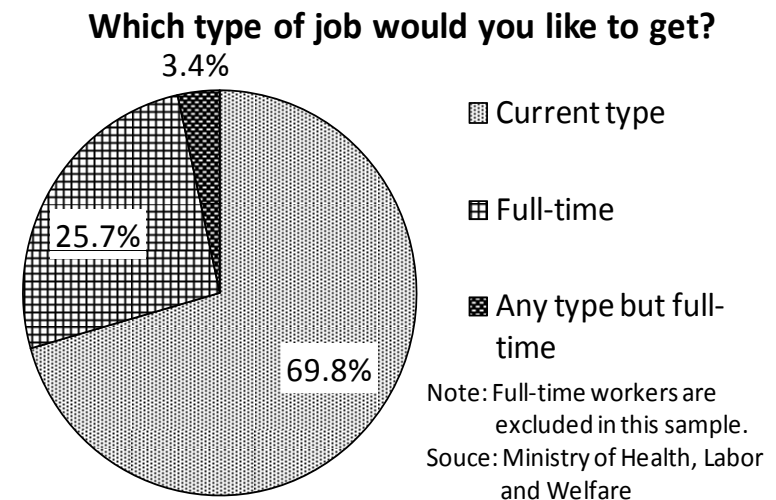
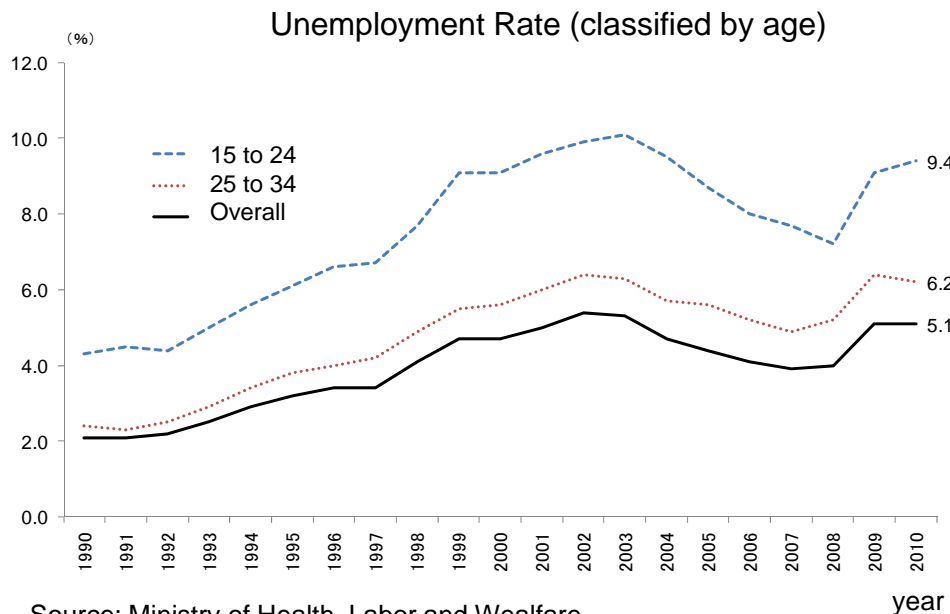
Effectuation : 17.6%
(+ under negotiation : 36.5%)



Effectuation : 35.6%
(+ under negotiation : 60.9%)

(5) Developing Employment Policies Based on a Diverse Labor Market

- To achieve sustainable job creation and up-skilling, current moves to strengthen labor regulations need to be reconsidered with a view to creating an environment that enables use of diverse employment arrangements, which are capable of responding to changes in corporate activity.
- As well as building a strong base for the labor market through measures including public vocational training to raise skill levels, efforts to enhance the match between labor supply and demand by fostering outstanding private businesspeople to encourage labor mobility, and the establishment of safety nets, the government needs to implement neutral tax systems that do not hamper employment.



3. Corporate Action to Accelerate Growth

(1) Accelerating innovation, especially by carrying "Future City Model Projects" into effect

Innovation generates new sources of growth. Keidanren encourages the pursuit and commercialization of solution-oriented innovation initiatives such as future city model projects. It also urges the transformation of Japan's economy and society to make them highly conducive to creating innovation that can help resolve issues both within and outside the country.

Specific Initiatives

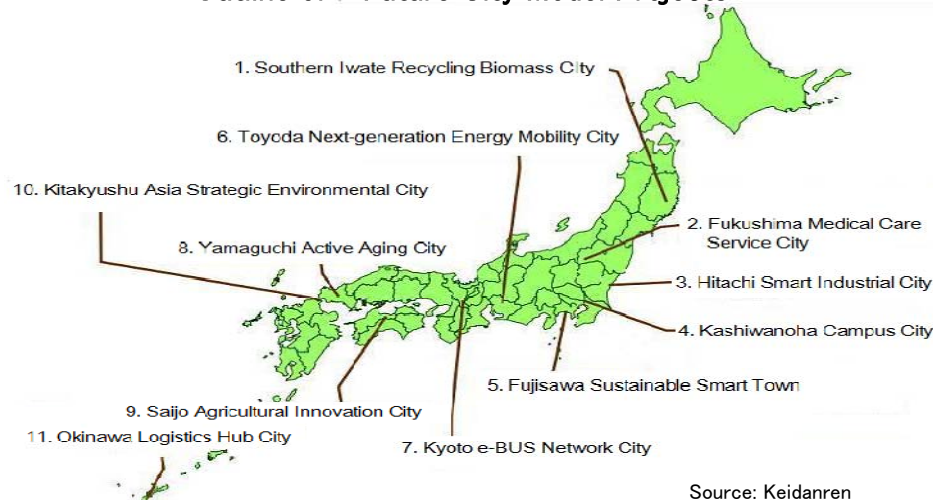
Keidanren/private sector:

- Steadily implement future city model projects to pursue and commercialize solution-oriented innovation through the use and integration of cutting-edge technologies in fields such as world-leading energy and environmental technologies, ICT, medicine, and transport, etc.
- Enhance efforts to make all of society highly conducive to innovation.

Government:

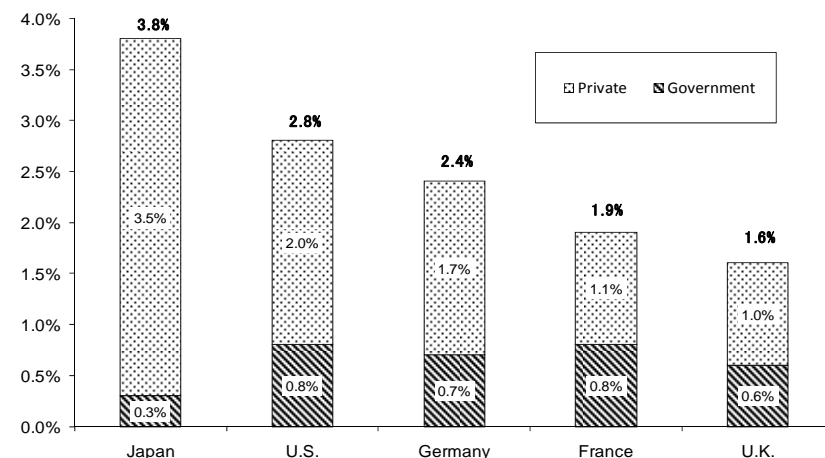
- Encourage energy-related technology development, including promotion of green innovation, commercialization of renewable energy, and enhanced safety for nuclear power generation.
- Provide incentives continuously for capital expenditure and substantially expand and make permanent R&D tax incentives.
- Invest 1% of GDP in government R&D and enhance "Science and Technology Innovation Policy."

Outline of "Future City Model Projects"



Source: Keidanren

R&D Expenditure (% of GDP)



Source: Ministry of Internal Affairs and Communications, OECD

(2) Making Our Country More Competitive by Forming Industrial Clusters

To make industry more competitive while also enriching lifestyles by improving living environments, it is important to form industrial clusters that promote higher levels of industrial consolidation, and to develop more efficient and advanced urban functions in association with such areas. Keidanren will use the special zone system to help businesses form industrial clusters and generate innovation.

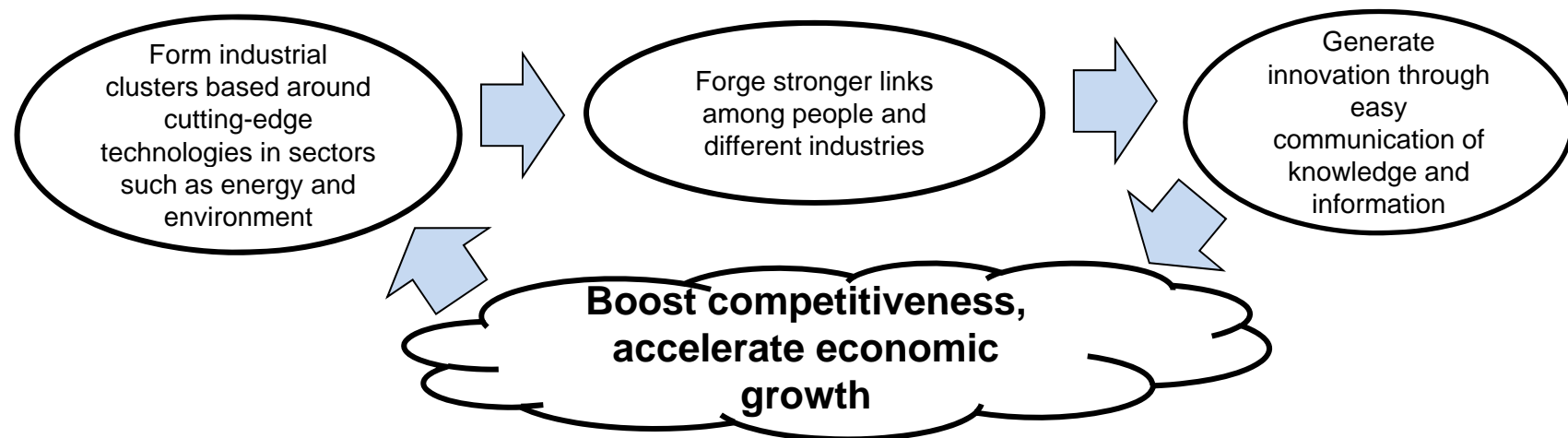
Specific Initiatives

Keidanren/private sector:

- Utilize mechanisms such as the comprehensive special zone system and the environmentally friendly future city initiative to revitalize industries/regions, form industrial parks that will support the formation of industrial clusters using the special zone system for reconstruction, and boost the growth potential of agriculture, forestry and fisheries.
- Develop domestic and overseas markets for advanced technologies, services and expertise—especially in the energy and environmental sectors—and provide them to meet the needs of disaster-affected areas.

Government:

- Offer capital investment tax credit and property tax exemptions in special zones, facilitate access to the intellectual resources of universities and other research institutions, construct high-quality living environments, develop transport infrastructure to organically and efficiently link industrial clusters, etc.



(3) Energizing Regional Economies through Tourism and Agriculture

Tourism and agriculture are crucial industries for energizing regions, and promoting them is the key to economic revitalization. In addition to tourism promotion initiatives, Keidanren will support efforts to publicize Japan as a tourist destination through overseas dissemination of tourist attraction. It will also do its utmost to cooperate in promoting agriculture, forestry, and fisheries in disaster-affected areas and boosting the competitiveness of Japanese agriculture.

Specific Initiatives

Keidanren/private sector:

- Support development of the tourist industry and undertake private-sector tourist promotion initiatives, enhance overseas publicity by proactively disseminating information.
- Continue dialogue with related parties in government and agriculture, linking accumulated expertise in the agricultural, commercial, and industrial sectors to support recovery of agriculture, forestry, and fisheries in disaster-affected areas and enhancement of Japan's agricultural competitiveness, etc.

Government:

- Enhance the utility of transport infrastructure, develop foundations to boost demand in the tourism sector by using ICT to improve services, and attract meeting, incentive travel, convention and exhibition (MICE) business.
- Promote agriculture as a "sixth industry" (by integrating production [primary industry], processing [secondary industry], and distribution [tertiary industry]), links between agriculture, commerce, and industry, export of agricultural goods, and utilization of special zones for reconstruction, etc.

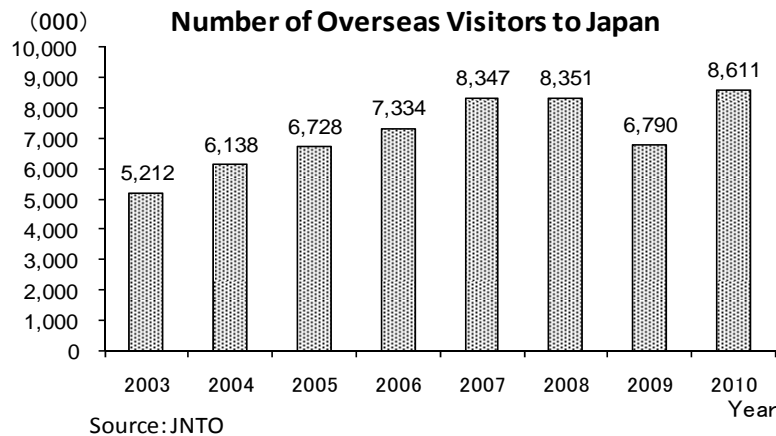
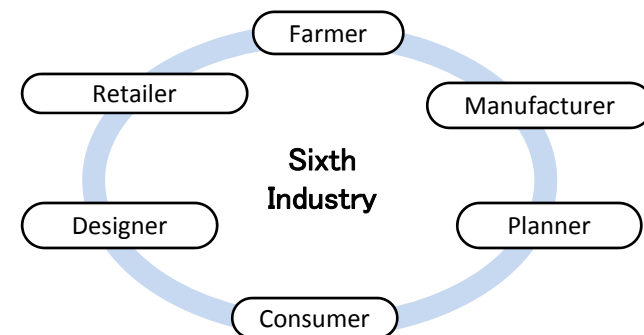


Image of Agriculture as "Sixth Industry"



Source: Ministry of Agriculture, Forestry and Fisheries

(4) Integrating Economies with Growing Asia

As a major economy, Japan has a responsibility to create a positive cycle that links its own growth with that of other Asian countries. Keidanren will strive to build stronger relations between Japan and the rest of Asia and create platforms for partnership through its private-sector diplomacy.

Specific Initiatives

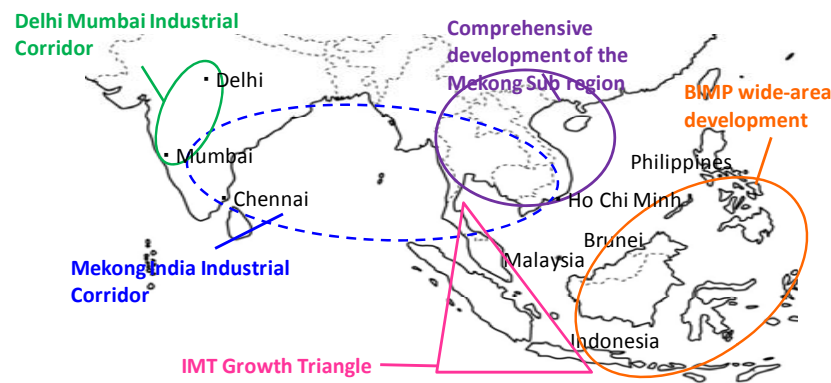
Keidanren/private sector:

- Proactively develop overseas business that meets local market needs, backed by collaboration with public and private financial institutions.
- Resolve issues hampering Asian growth through package-style infrastructure exports and development of business infrastructure such as basic civil law, etc.

Government:

- Conduct high-level diplomacy relating to infrastructure export projects, use Nippon Export and Investment Insurance (NEXI) guarantees and Japan Bank for International Cooperation (JBIC) investment and loan schemes to back risk-taking by private financial institutions, and utilize Japan International Cooperation Agency (JICA) overseas investment and financing schemes.
- Incorporate strong demand in Asia by developing key domestic infrastructure including air and sea ports and roads, reinforcing financial market capabilities, and promoting economic integration across the Asia-Pacific region.

Plan to develop regional infrastructure in Asia



Source: Ministry of Economy, Trade and Industry

Asia's Total Infrastructure Investment Needs by Sector in 2010-2020 (in 2008, \$ million)

Sector/Subsector	New Capacity	Replacement	Total
Energy (Electricity)	3,176,437	912,202	4,088,639
Telecommunications	325,353	730,304	1,055,657
Mobile phones	181,763	509,151	690,914
Landlines	143,590	221,153	364,743
Transport	1,761,666	704,457	2,466,123
Airports	6,533	4,728	11,260
Ports	50,275	25,416	75,691
Railways	2,692	35,947	38,639
Roads	1,702,166	638,366	2,340,532
Water and Sanitation	155,493	225,797	381,290
Sanitation	107,925	119,573	227,498
Water	47,568	106,224	153,792
Total	5,418,949	2,572,760	7,991,709

Source: Asian Development Bank

III. Foundations Essential to Sustainable Growth

1. Comprehensive Reform of Social Security, Tax and Finance Systems

Comprehensive reform of social security, tax, and public finance is essential to achieving sustainable economic growth. Moreover, growth will lead to benefits from such integrated reforms. Through initiatives aimed at private-sector-led growth, Keidanren will reinforce the private sector's capability to create jobs and support public finances and social security systems.

Specific Initiatives

Keidanren/private sector:

➤ Reinforce private-sector capability to support social security systems by achieving sustainable growth and creating employment.

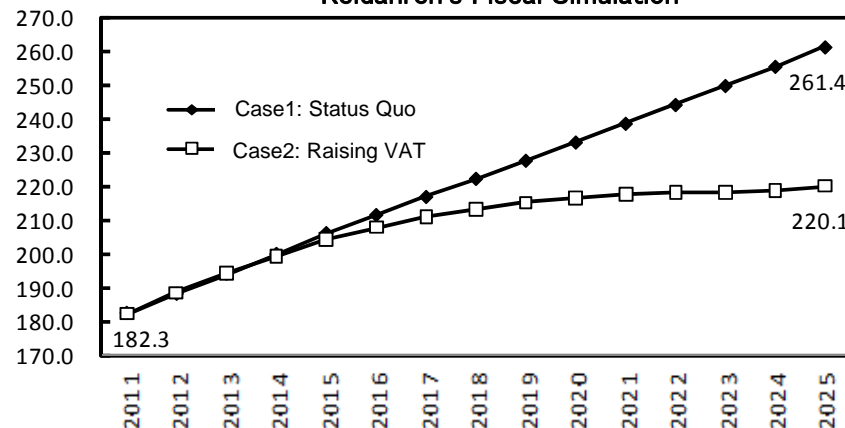
Government:

➤ Take an integrated approach to completely reviewing the efficiency and prioritization of social security benefits and implementing drastic reform of tax systems, including consumption tax.

➤ Incrementally raise consumption tax rates at national and regional levels (to 10% by 2015 at the latest and high teens by the mid-2020s).

➤ Introduce single-number system for social security and tax systems, etc.

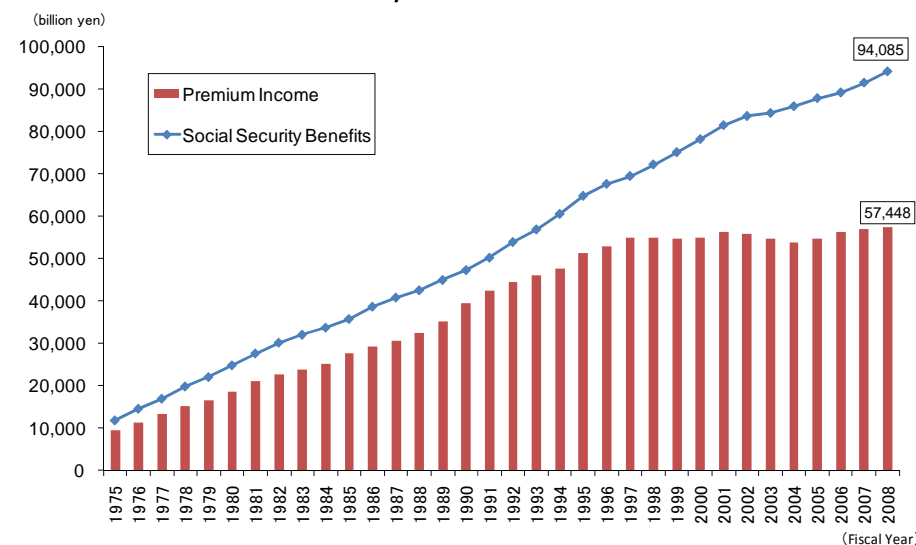
Estimated amount of long-term government debt (% of GDP)
– Keidanren's Fiscal Simulation –



Note1: Average nominal growth is assumed to be 1~2%.

Note2: In Case2, VAT rate rises by 2% pt year by year in 2013–2023.

Social Security Benefits and Premium Income



Source: National Institute of Population and Social Security Research

2. Reforms to Establish a Regional Government System and Promote Regional Autonomy

Even amid globalization, revitalizing regional economies and promoting regional autonomy are vital to achieving prosperity. Keidanren will rouse public opinion on establishing a regional government system (doshu-sei) and encourage the attainment of this goal.

Specific Initiatives

Keidanren/private sector:

➤ Stimulate debate on establishing doshu-sei and promote public understanding of the issues through publicity activities and nationwide symposia.

Government:

➤ Decisively delegate authority, finances, and personnel from national government to prefectures, and from prefectures to municipalities.

➤ Expand scope of local governments' autonomous decision-making and responsibility on policy matters.

➤ Establish a doshu-sei task force reporting to the cabinet, start examining a basic law to promote doshu-sei, etc.

Concrete Merits of "doshu-sei" System

- Reinforce the disaster prevention and fire fighting system
- Improve public safety

- Fine measures of child raising and human resource training
- Fully-designed medical cure and care support system

- Promoting tourism
- Energize agriculture, forestry and fisheries

- Building original cities
- Effective environmental preservation

- Create employment through the promotion of domestic industry
- Solid economic interchange with neighboring foreign countries or regions

3. Enhancing Cities' Competitiveness

Cities play a key role as centers for boosting international competitiveness and energizing regions. Making the most of corporate vitality, creativity, and ingenuity, Keidanren aims to help major cities and regional centers to develop together as engines for nationwide growth.

Specific Initiatives

Keidanren/private sector financial institutions:

➤ Use public-private partnerships (PPP) and private finance initiatives (PFI) to access private funding and corporate knowledge and expertise for urban infrastructure development projects.

Government:

➤ Attract global companies' R&D centers and Asian headquarters to major Japanese cities by easing regulations and flexibly applying systems.

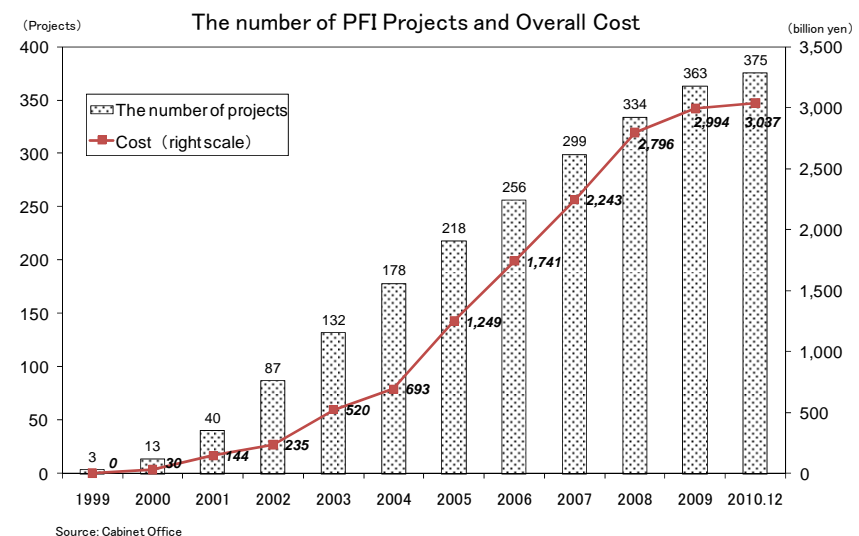
➤ Promote compact cities for regional centers.

➤ Create wide-ranging infrastructure partnerships, fill in missing links, learn from the earthquake to construct disaster-resistant networks, etc.

Cities' Competitiveness Ranking(2010)

Rank	Total	Economy	R&D	Transport
1st	New York	New York	New York	Paris
2nd	London	Tokyo	Tokyo	London
3rd	Paris	London	London	New York
4th	Tokyo	Beijing	Boston	Singapore
5th	Singapore	Hong Kong	Seoul	Amsterdam
6th	Berlin	Singapore	Paris	Tokyo

Source: The Mori Memorial Foundation



4. Reinforcing the Capabilities of Financial Markets

To provide households and companies with appropriate investment opportunities and diverse financing methods, and to attract capital inflows from Asia, Keidanren will urge further reinforcement of financial market capabilities.

Specific Initiatives

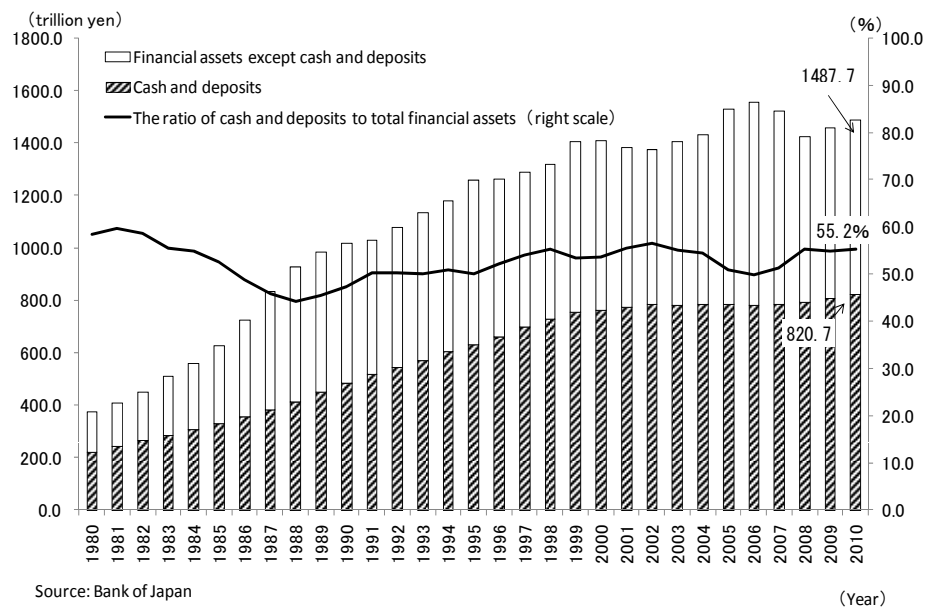
Keidanren/private sector financial institutions:

- Vitalize emerging markets that function to supply risk money to high-growth companies, and corporate bond markets that diversify financing methods.
- Attract capital inflows from Asia by reinforcing financial market capabilities, etc.

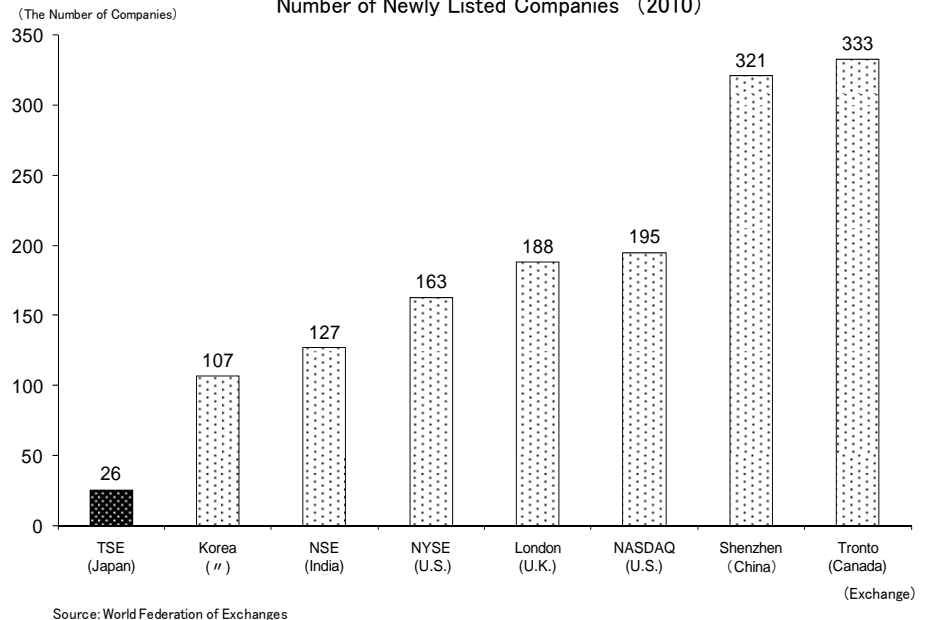
Government:

- Create a more risk-tolerant environment for household investment by expanding scope for aggregation of profit and loss through unified taxation of financial income.
- Clarify the respective roles of public- and private-sector financial institutions, etc.

Amount of Financial Assets (Household Sector)



Number of Newly Listed Companies (2010)



5. Fostering and Attracting Global-Standard Personnel

Fostering and attracting global-standard personnel is essential not only for corporate development, but also for economic growth. Keidanren will collaborate with universities and other interested parties to train and recruit global-standard personnel, and work to create systems for attracting people from overseas who can contribute to Japanese growth.

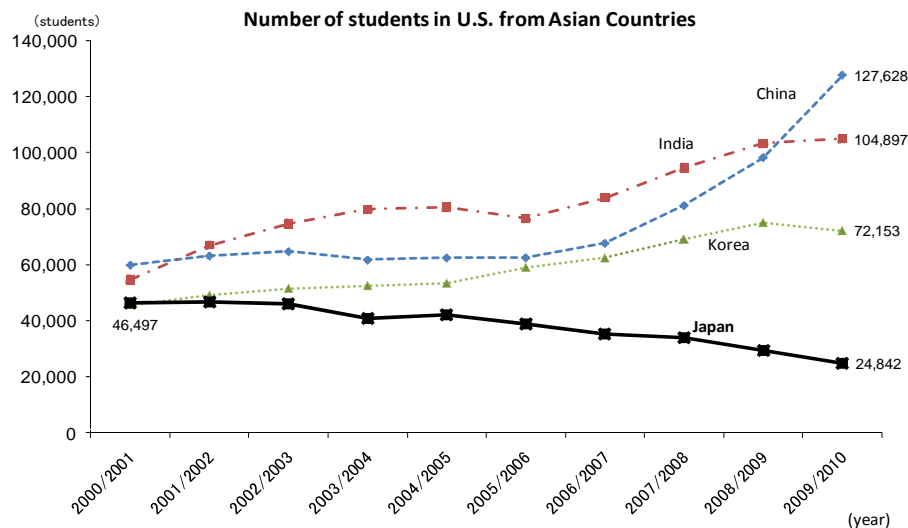
Specific Initiatives

Keidanren/private sector/universities:

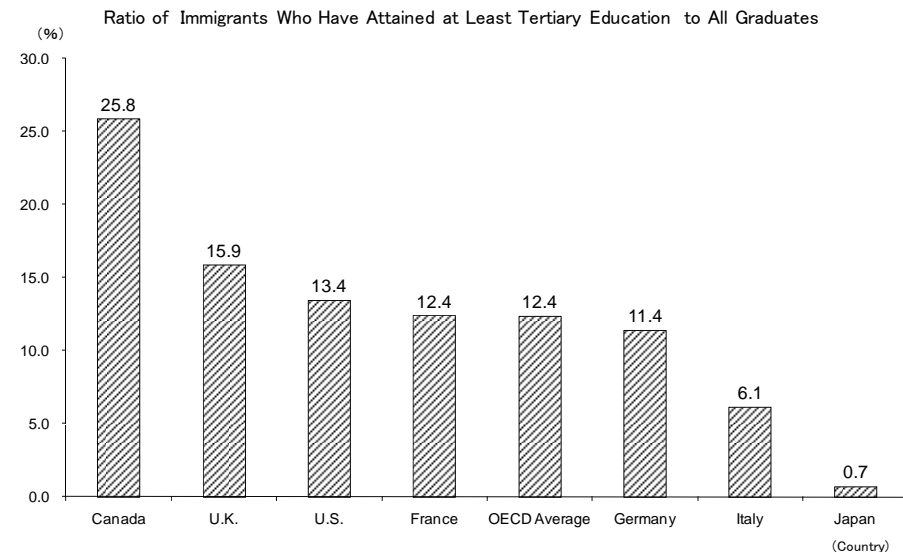
- Promote personnel exchange between universities and the private sector.
- Implement Keidanren program to foster global-standard personnel.
- Universities actively participate in “Leading Graduate School Scheme,” “Global CEO Program,” etc.

Government:

- Swiftly formulate global strategy for achieving the goals of the “300,000 International Students Plan.”
- Encourage highly skilled foreign personnel to come to Japan and make them settled here by quickly introducing a points system, and foster public support for such a scheme.



Source: IIE "Open Doors" 2010



Source: OECD "Factbook" (2007)

IV. Conclusion

- ◆ Japan's presence on the international society has diminished significantly in recent years. In particular, its internal business environment has consistently deteriorated. The fundamental problem is that the government lacks a sense of crisis, a commitment to urgent action, and a futuristic vision.
- ◆ Now is the time to shift to a new model based on private-sector's creativity and ingenuity teamed with appropriate policy action by government agencies, so that people in Japan and overseas conclude that Japan's economy, society, and policy processes is reborn because of the earthquake shock.
- ◆ We need policies that will optimize all aspects of Japan, always bearing in mind the macroeconomic goals of sustainable growth, job creation, and fiscal consolidation.
- ◆ By making maximum use of its strengths in technology, human resources, and teamwork, Japan can regain the trust of the international community and restore/enhance further its international presence. Gaining global credibility will solidify our strength to reconstruct and grow.
- ◆ Rather than leaving responsibility for steering Japan's economy toward growth entirely to the government, Keidanren will encourage the business community to make its own decisions and implement its own plans in areas where it should act independently. With a view to steady implementation of its policy proposals, it will operate a plan-do-check-act cycle to verify and assess achievements on an annual basis and check progress toward goals.