

Industrial Policy in Japan and Japan-Israel Bilateral Economic Relationship

**Trade Policy Bureau
Ministry of Economy, Trade and Industry (METI)**

August 2015

1. “Abenomics” and the major achievements

1. Bold monetary policy

- Price-stability target (2% inflation), within about two-year time frame.
- Double monetary base and JGB holdings in two years. Double average duration of purchased JGBs.
→ Create inflationary expectations. End deflationary mindset.

2. Flexible fiscal policy

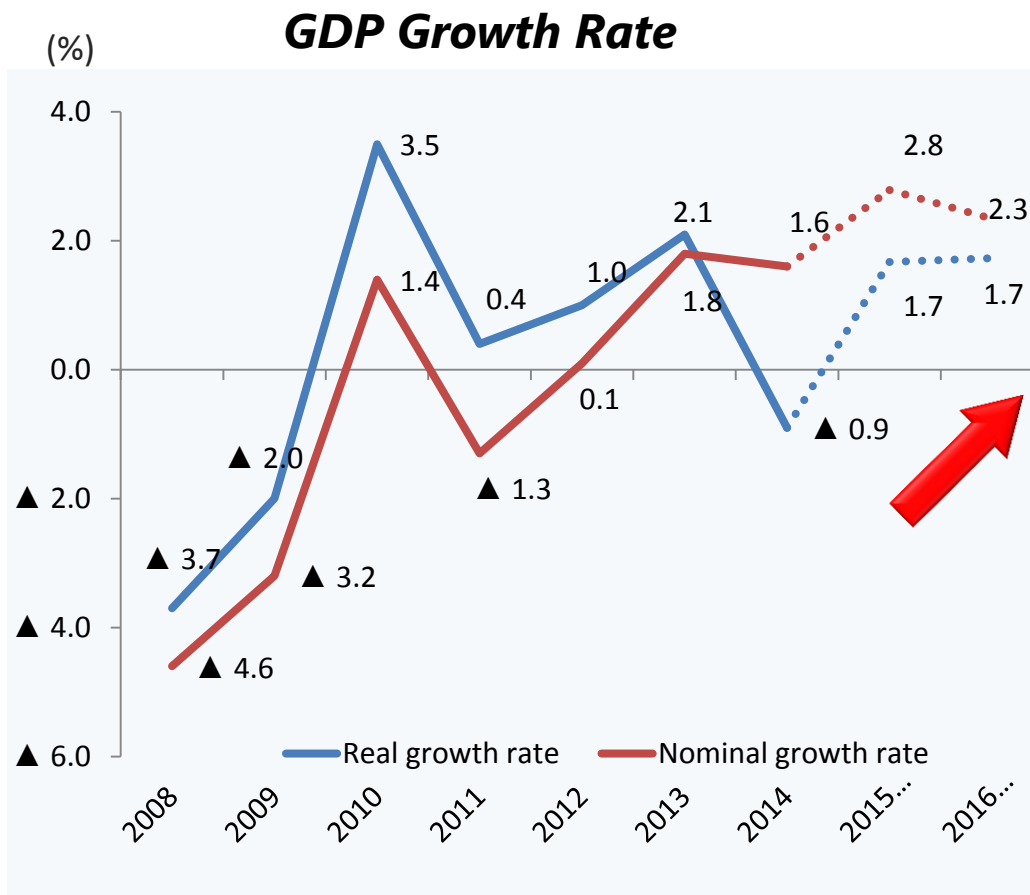
- ¥10tr fiscal stimulus package (FY2012 supplementary budget).
- ¥5.5tr fiscal stimulus package (FY2013 supplementary budget).
→ Address downside risks to the economy, w/o issuing additional government bonds.

3. Growth strategy (Japan Revitalization Strategy)

- Maximize power of private sector through investment promotion, business restructuring and deregulation.
- Make best use of human potential by creating a society where all can participate.
- Create new frontiers through innovation and globalization.

GDP Growth Rate

➤ The Japanese economy is expected to exit deflation and is on track for steady recovery.



Key contributors

- BOJ monetary easing
- Falling crude oil prices
- Anticipated real wage increases
- Improvements in employment and income conditions

Key indicators

- Q1 2015: GDP +3.9% at an annual rate
- Rising for 2 quarters

Sources: Cabinet Office (actual) and Japan Center for Economic Research (forecast)

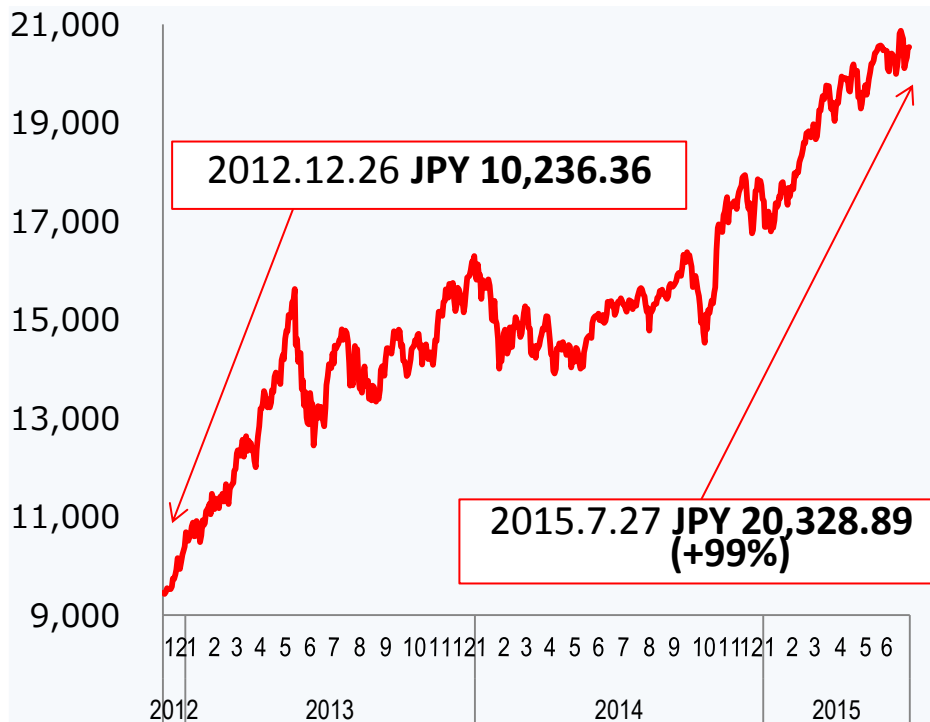
Effects of Abenomics Emerging in the Real Economy

Upward Trends Visible Across Principal Economic Indicators

Stock Market

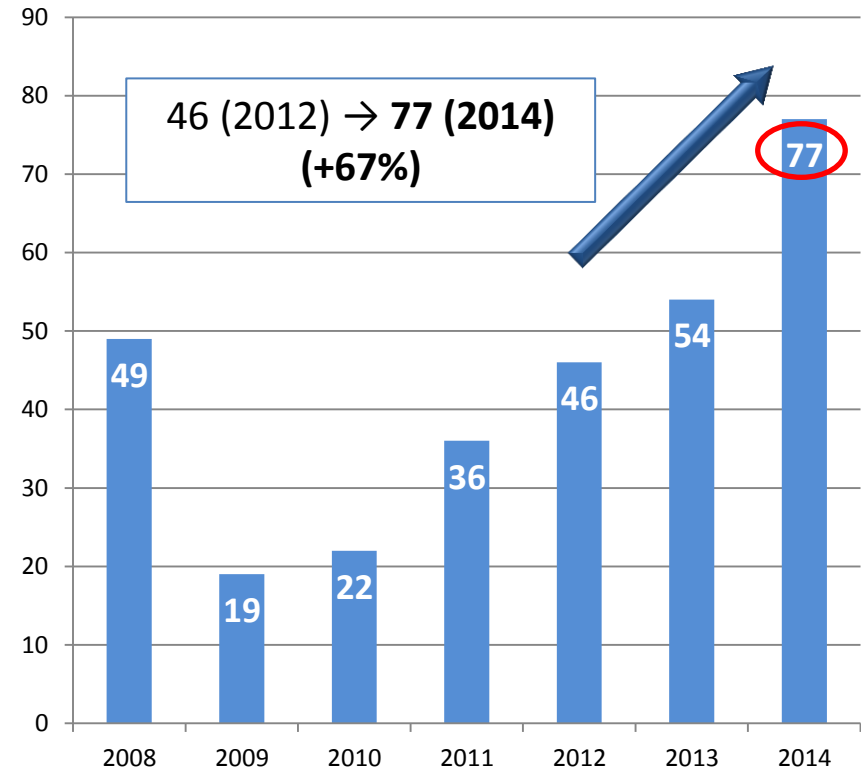
- Stock price nearly doubles in recent 2 years (since the start of Abe administration in Dec 2012) and hits the highest record in recent 15 years.
- The number of IPO hits 77 in 2014, growing for 5 consecutive years, 67% growth from 2012.

(JPY) **Trends of Stock Price (Nikkei 225)**



source: Nikkei Online

Number of IPOs



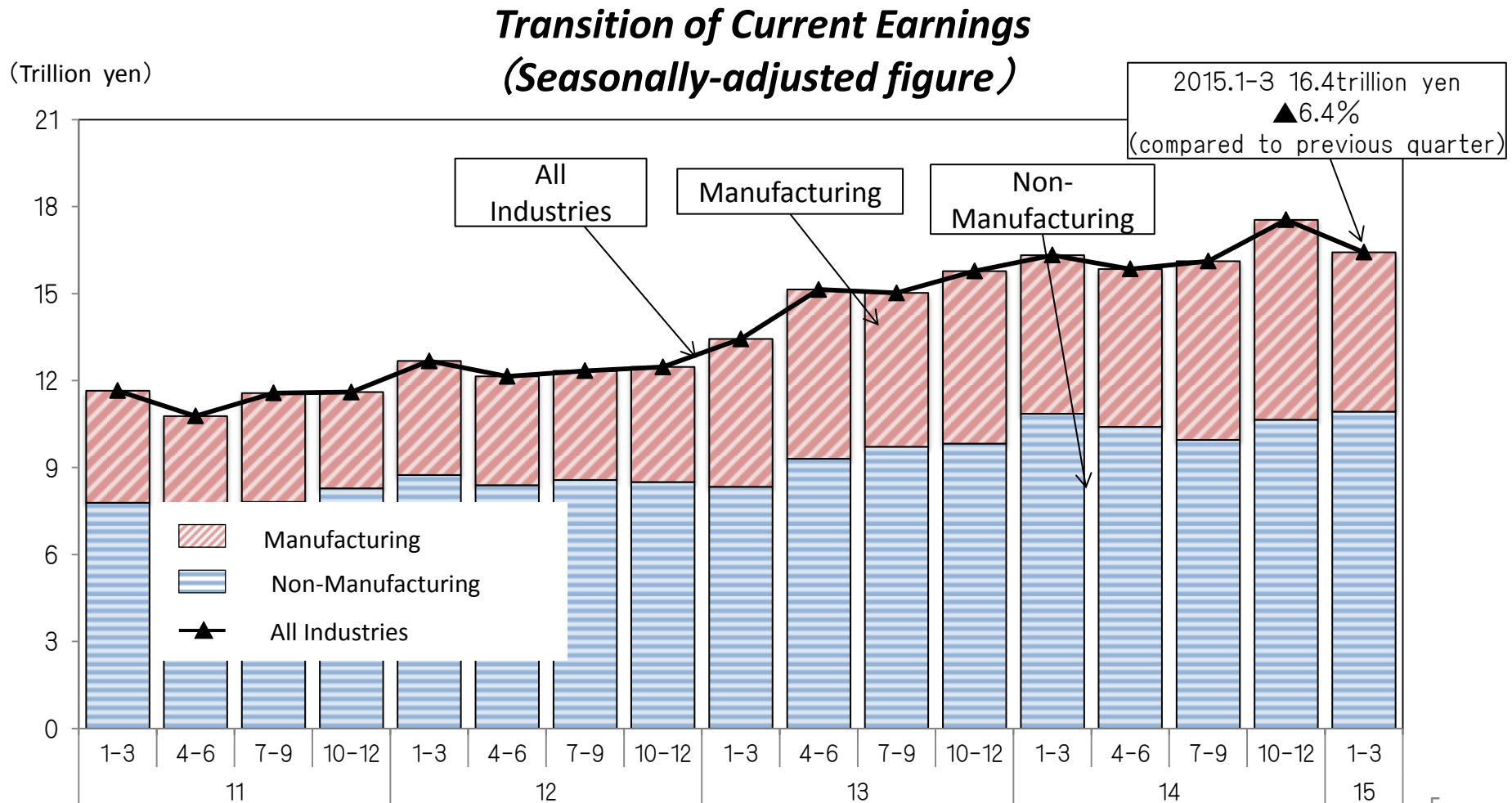
source: VEC yearbook 2015

Effects of Abenomics Emerging in the Real Economy

Upward Trends Visible Across Principal Economic Indicators

Corporate Profits

- Corporate profits have been growing steadily.



Source: Financial Statements Statistics of Corporations by Industry (Ministry of Finance)

Effects of Abenomics Emerging in the Real Economy

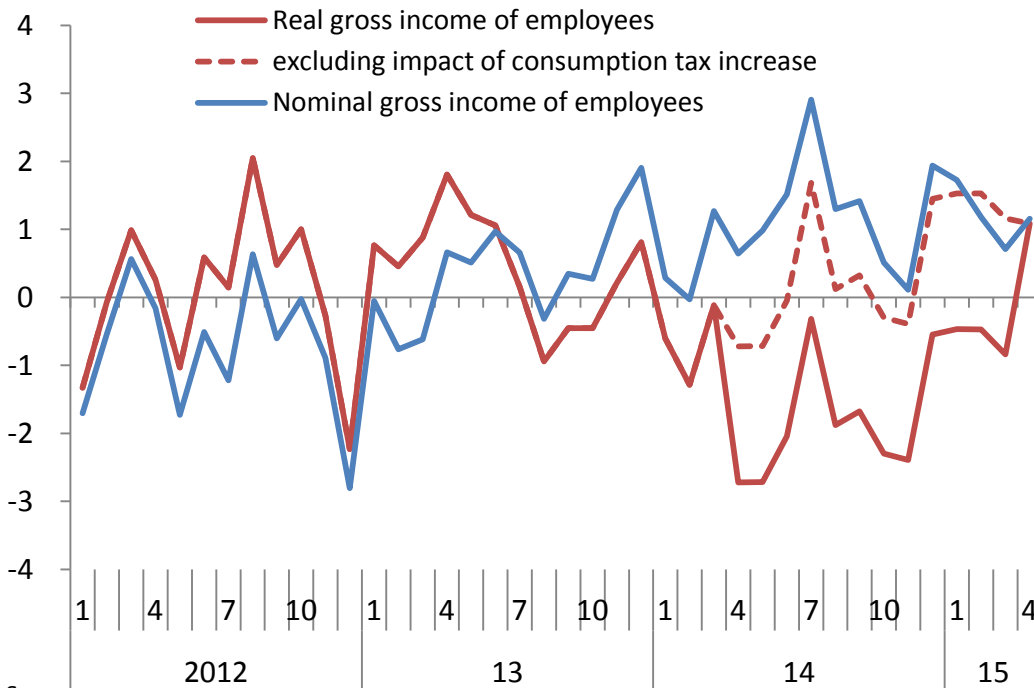
Upward Trends Visible Across Principal Economic Indicators

Employee Income

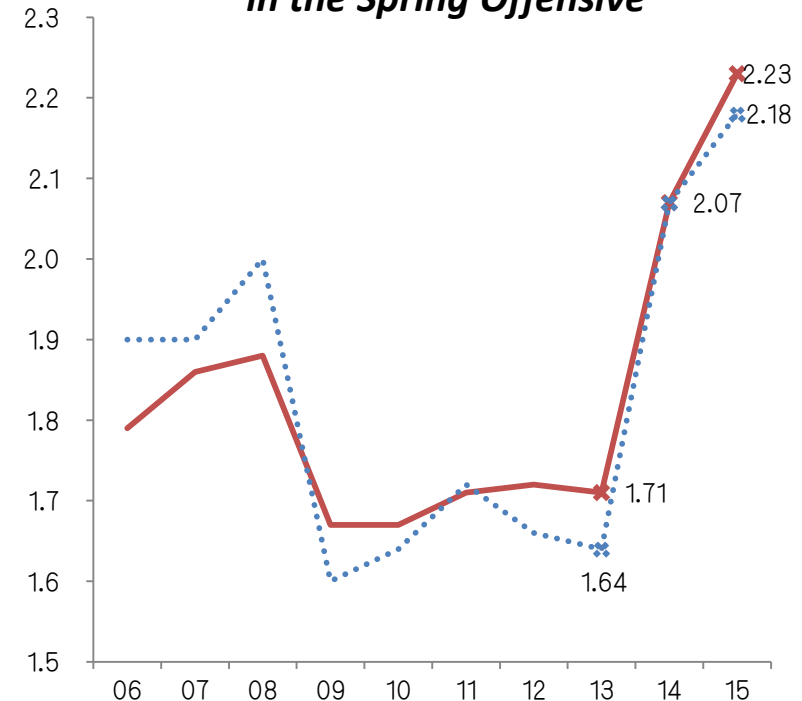
- Corporate recovery is driving wage increases.
- The Spring Offensive resulted in a 2.23% average wage increase for FY2015.

※Source : Japanese Trade Union Confederation(2015.6/4 announced)

Gross income of employees (YoY)



Trends of wage increase rate in the Spring Offensive



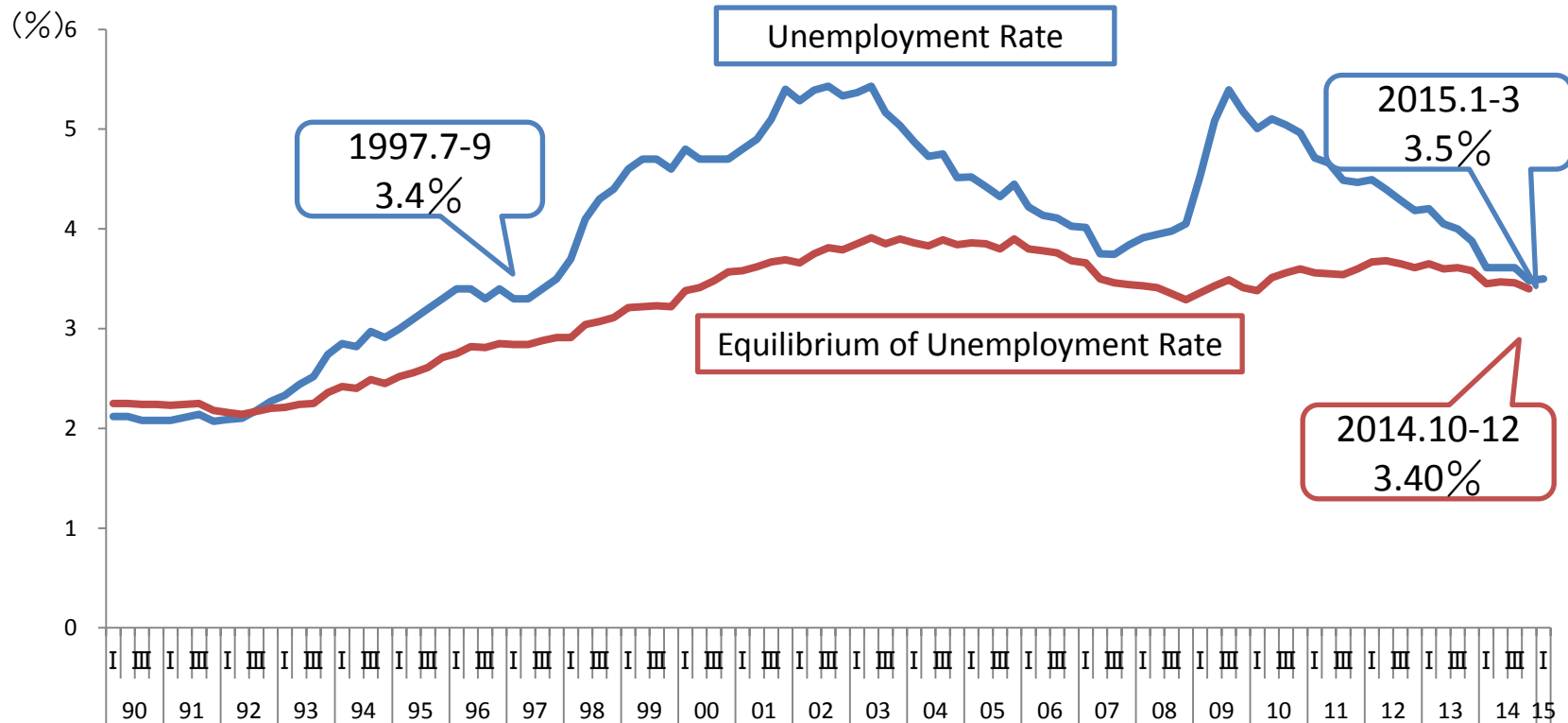
Source:

- Job/employment placement services statistics (Ministry of Health, Labour and Welfare)
- Labour Force Survey (Ministry of Internal Affairs and Communications)
- Japanese Trade Union Confederation(2015.6/4announced)
- General incorporated Foundations: Institute of Labor administration “view of wage increase rate” (2015.1/29announced)

Employment

- Unemployment rate is as low as 3.5% in 2015.1-3, which has come down to the level of Equilibrium of Unemployment.

Trends of Unemployment rate



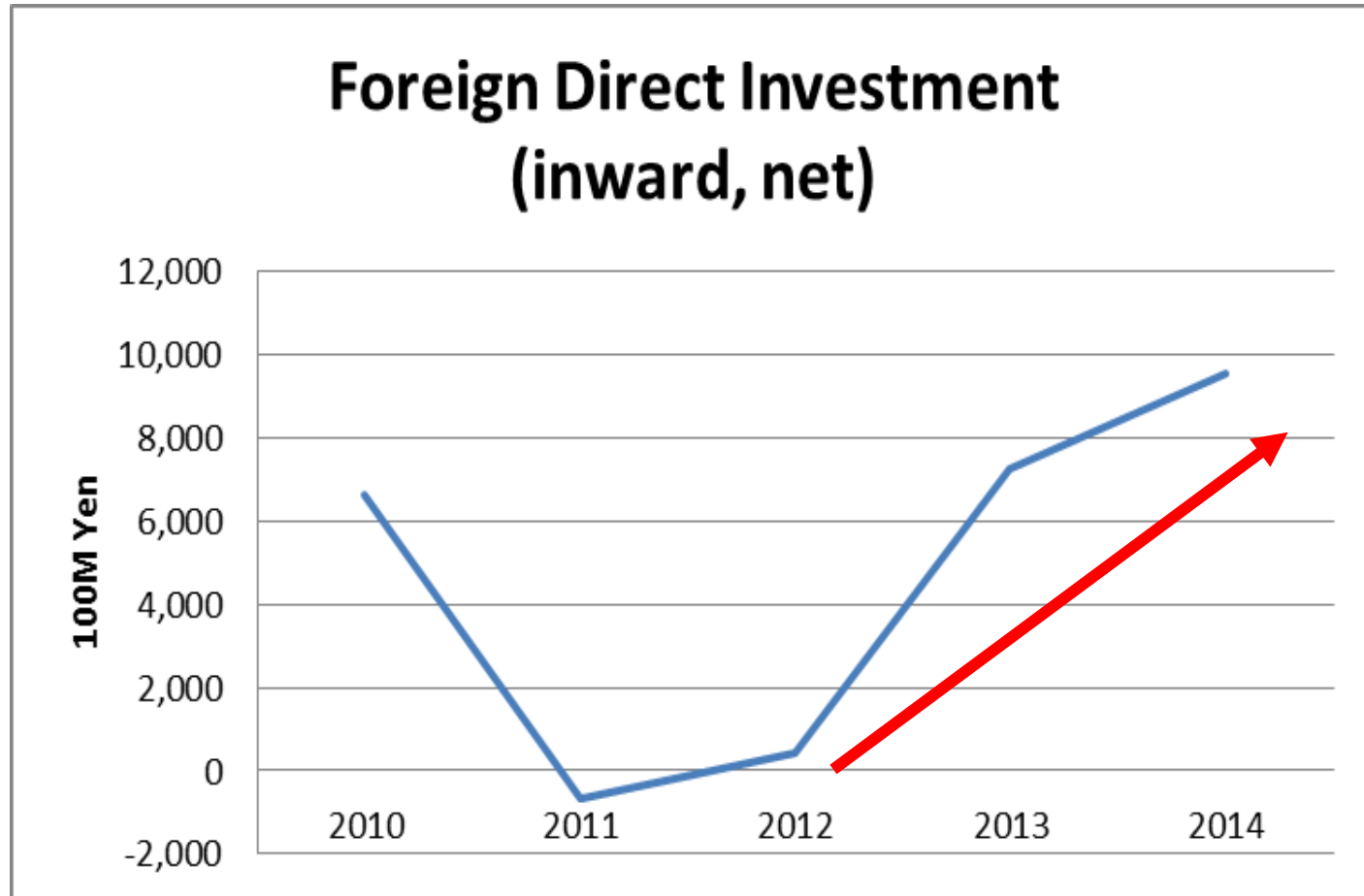
(Source) Ministry of Internal Affairs and Communications "Labor Force Survey", Japan Institute for Labor Policy and Training "Useful Labor Statistics"

※Unemployment Rate : a ratio of unemployment people to labor force

Equilibrium of Unemployment Rate : Vacant people are equal to unemployment people

Foreign Direct Investment (FDI)

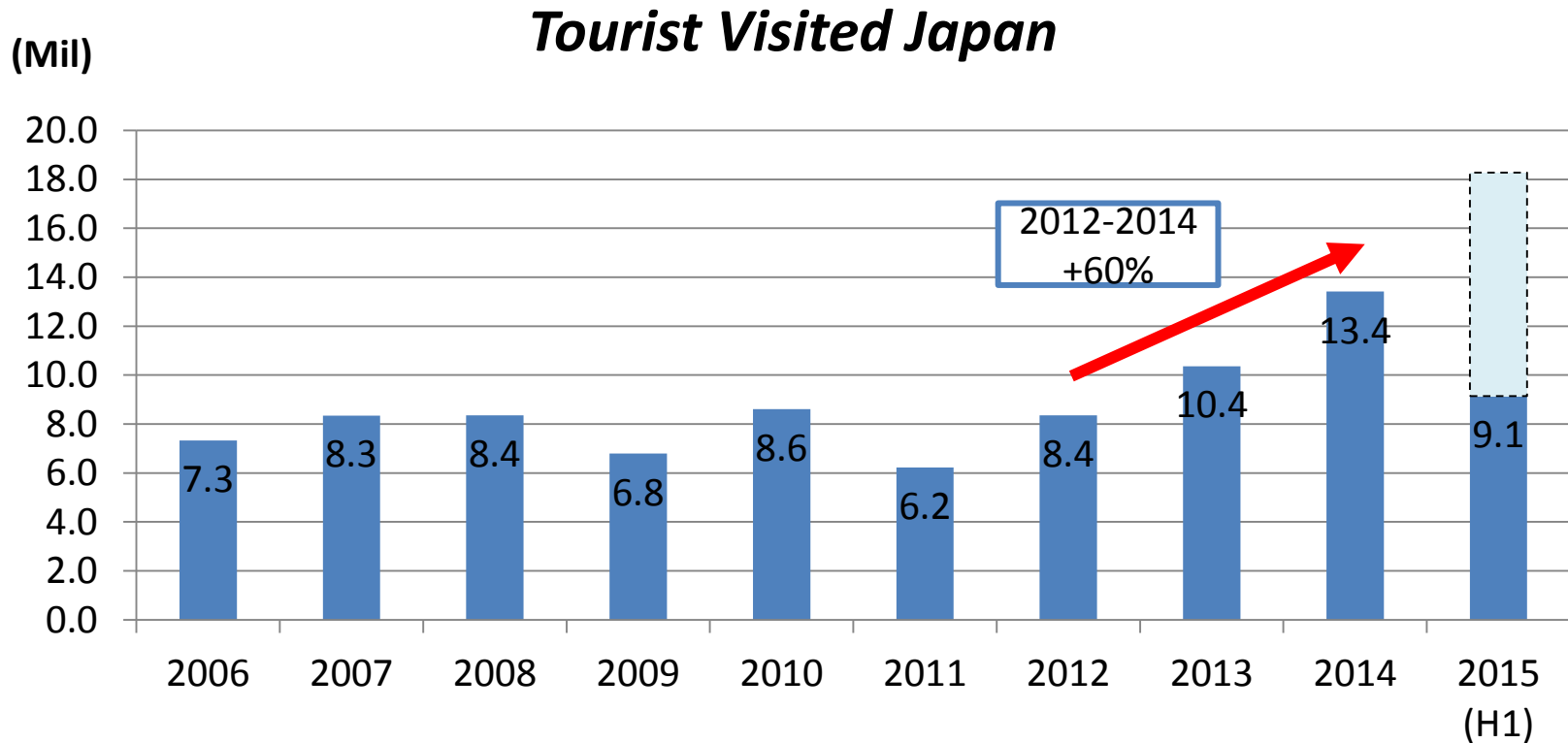
- Inward FDI is rapidly increasing more than 10 times between 2012 and 2014.



Source: Ministry of Finance "Japan's Balance of Payments"

Tourists visiting Japan

- In 2014, Japan's travel balance turns positive 1st time in 55 years.
- The number of tourists who visit Japan exceeds 13.4 million in 2014, as a result of the relaxation of visa application requirements to tourists.



Productivity Revolution by Investment for the Future

Enhance Corporate Earning Power

- Reinforce proactive corporate actions by promoting a constructive dialogue between companies and investors.
- Growth-oriented corporate tax reform
- Promote ventures by bridging international hubs and domestic entrepreneurs.
- National University Reform to facilitate innovation.
- Promote economic partnership negotiations such as TPP and Japan-EU EPA.

Accelerate Challenges to the New Era

- Facilitate the use of IoT, big data and AI
- Promote the utmost use of IT while ensuring cyber security.

Develop Individual Potential

- Increase labor participation of women, the elderly and talented foreigners.
- Transform working styles by correcting long-hours work.
- Promote career development driven by individuals.

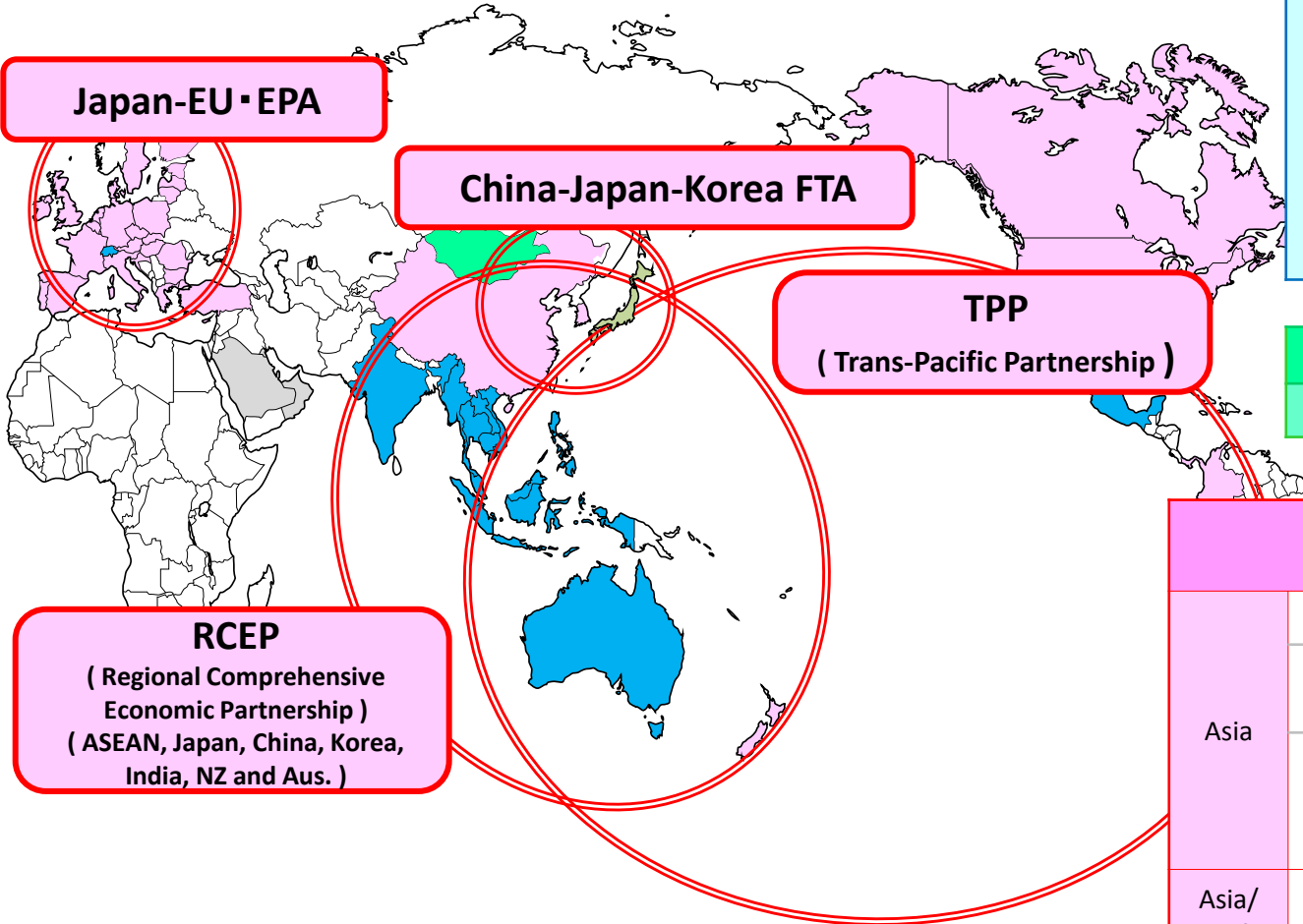
Productivity Enhancement Everywhere - Local Abenomics -

- Enhance earning power of SMEs and micro enterprises.
- Improve productivity in the services industry.

Leading Projects for 2020

- Autonomous car, hydrogen society, advanced robots and others.

Japan's EPA/FTA Networks



Japan-EU • EPA

China-Japan-Korea FTA

TPP
(Trans-Pacific Partnership)

RCEP
(Regional Comprehensive
Economic Partnership)
(ASEAN, Japan, China, Korea,
India, NZ and Aus.)

In Force (13 countries and 1 region)			
Asia	Singapore	Asia	Viet Nam
	Malaysia		India
	Thailand	Pacific	Australia
	Indonesia	Latin America	Mexico
	Brunei		Chile
	ASEAN		Peru
	Philippines	Europe	Switzerland

Signed (1 country)	
Asia	Mongolia

Under Negotiation (3 countries and 5 regions)			
Asia	C-J-K	Europe	EU
	RCEP	North America	Canada
	ASEAN (Services and Investment Chapters, Substantial Conclusion)	Latin America	Colombia
Asia/ Pacific	TPP	Middle East	Turkey

<Others>

Republic of Korea: Negotiations Suspended

GCC (Gulf Cooperation Council: UAE, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia): Negotiations Postponed

2. Growth strategy and Israel

➤ Reinforce measures to support creating global ventures.

- **National University Reform**

Making the best use of globally competitive national universities resulting from the National University Reform as a global platform for creating ventures.

- **Venture Challenge 2020**

A project to show the capacity of creating innovation by 2020.

Holding a Global Venture Summit in conjunction with Tokyo Olympic and Paralympic.

Realization of the most advanced ICT based society

Reinforce the measures against cyber threats to protect the population and society

- Enhance abilities to respond to cyber threats (government and public institutions etc.)/ Protect “My number system”
- Encourage the actions of companies, creation of new industries, human resources capable of responding to cyber threats.

Utilization of “My Number System”

- **Enlarge the application scope**
 - Census registration, residence report, transaction of stocks, in addition to deposit/saving accounts, and medical examination (after 2019).
- **Promote utilization of “My Number Card”**
 - Able to receive certificates such as resident cards, seal impressions, or family registers, at convenience stores from FY2016.
 - Integrate with health insurance card, credit card
- **Introduction of online monitoring system**
 - Provide one-stop service of procedures such as change of residential information, notice of death etc. through electronic post office box system, after Jan. 2017.

Diffusion of ICT to the whole society

- Promotion of education on programming in primary/secondary/higher education
- Vitalization of **competition in mobile phone sector**, extension of **the frequency band for IoT or drones**

New legal framework to be prepared

- **Creation of an institution** in charge of safe and security-ensured distribution of personal information
- **Shift from the principle of documents /face-to-face interaction to that of ICT utilization**
- **Promotion of sharing economy, drones, autonomous cars etc.**

Promotion of ICT utilization in medical and nursing sectors

- **Introduction of different number system** in medical and nursing sector (to avoid information leakage, but linkage with My number system) and **promote information exchanges in the sector**
- Examine methods to **evaluate effects of information exchanges at the next revision of medical treatment fees** (effect of reducing medical expenses to be expected)

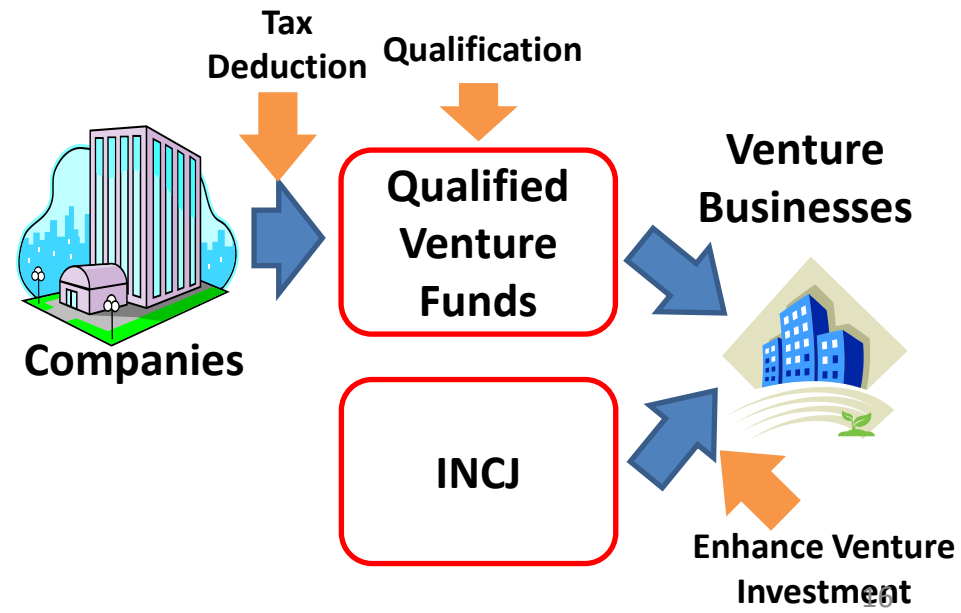
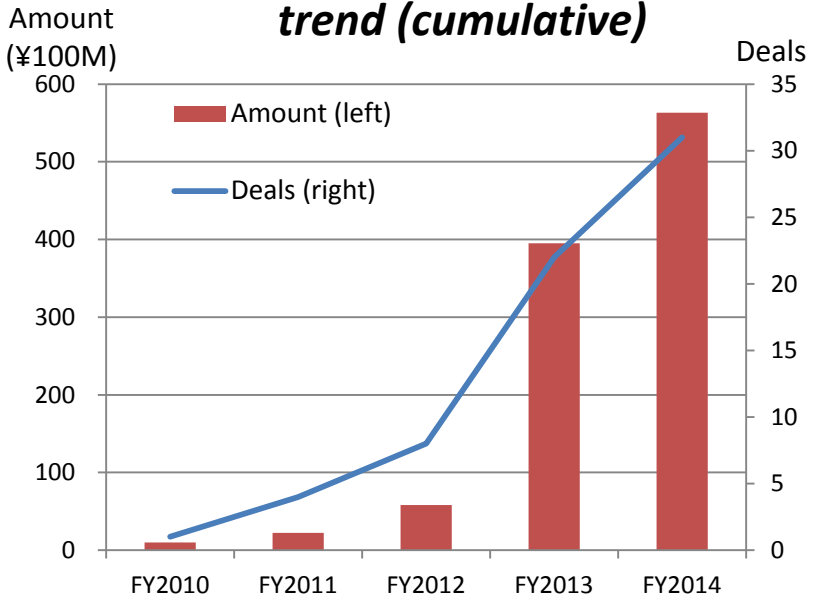
- Major global IT and manufacturing companies place R&D centers in Israel.



Venture Support Program in Japan

- **INCJ (Innovation Network Corporation of Japan) venture investment steadily increases.**
- **Under the Industrial Competitive Advantage Law, government qualifies the venture funds that have certain hands-on support abilities for venture businesses.**
- **Private companies can get tax deductions by investing in the qualified funds.**
- **Enables INCJ to accelerate venture investment with quick decision making.**

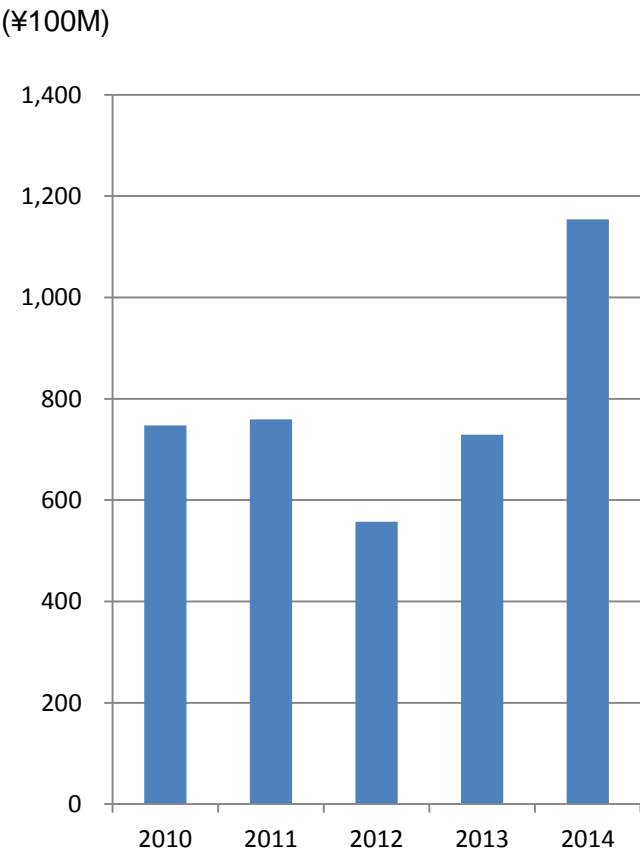
INCJ early stage investment trend (cumulative)



VC Investments and Entrepreneurship

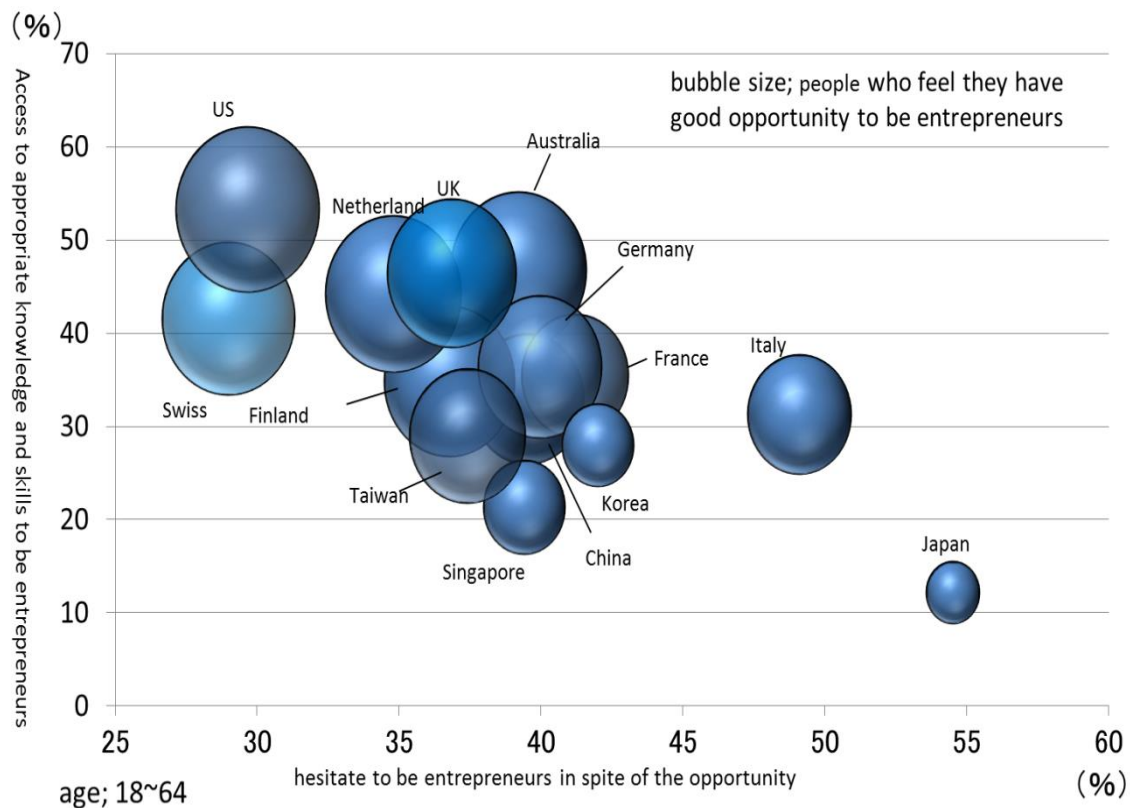
- **Venture investment exceeds JPY 100B in 2014.**
- **Lack of entrepreneurship mind and skills (while Israel is extensively high).**

VC investment trend in Japan



Source: Japan Venture Research

Entrepreneurship mind of Japan



Source: White Paper on International Economy and Trade