

J a p a n A g a i n

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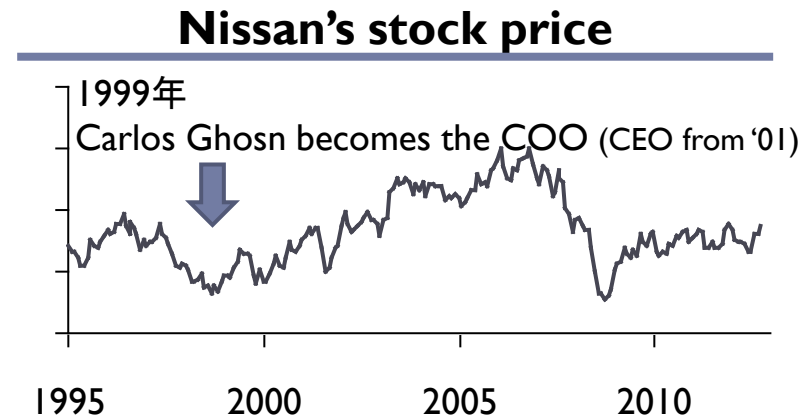
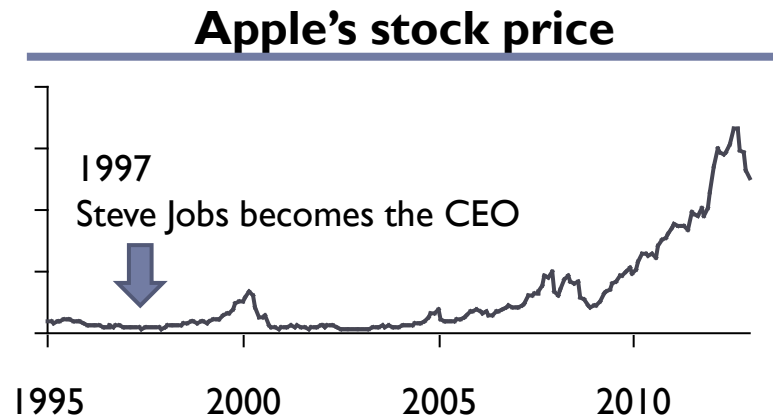
To Increase the Competitiveness of Japan

- ▶ What Japan lacks is not technology, but Global Business Management capability and Business Innovation.
- ▶ We have to graduate from the moratorium-like system that protects companies' top management with low capability and no vision, and to push ahead the renewal of the top management.
- ▶ We need capital mechanism & law system that foster un-aided growth of companies through competition, and increase the efficiency of the industry through corporate restructuring and consolidation.
- ▶ Sheer cash provision to particular companies and industries will cause moral hazard.
- ▶ Thorough deregulations should be executed for creation and optimization of the market.
- ▶ We have to improve the efficiency of Japan, and fix the competitive disadvantages imposed on Japanese companies. (including tax decrease)
- ▶ Japan has to get out of the present Galapagos social environment. For this, joining TPP is a must.
- ▶ We should set some Key Performance Indicators to increase the competitiveness of Japan, and create concrete action plans to achieve our target figures.

If we have more excellent top business managers, Japan can change

Japan can change if we can cultivate or invite excellent top business managers

**Top
Manager
and
Stock
Price**



Excellent top managers can dramatically increase corporate value

We need a systems that allows individuals with high earning power to spend their money happily

(Attract excellent top managers to Japan, and push up individual consumption)

Method

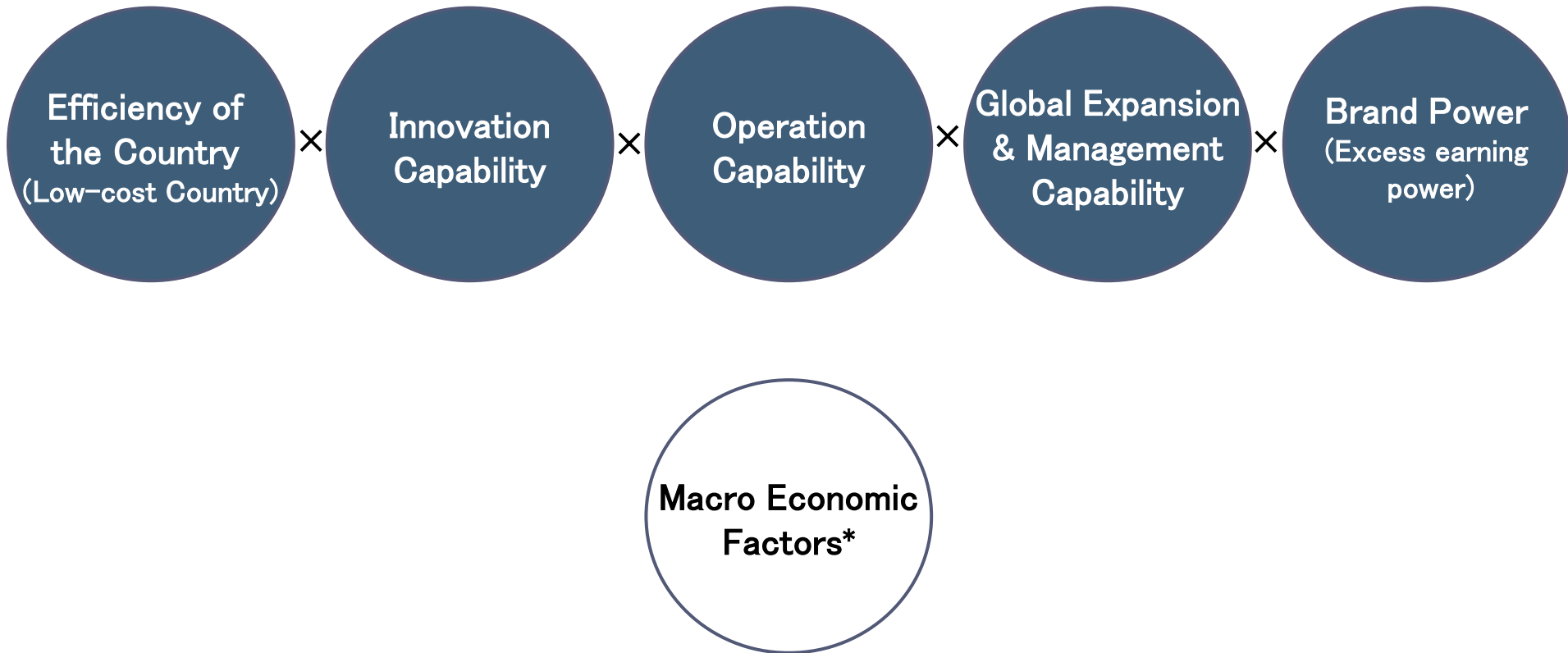
- ▶ To achieve these goals, we should set KPI for each of the 5 Factors, and make clear every individual's responsibility for each KPI, and carry out the structural reform

- * KPI: Key Performance Indicators

Indicators that quantitatively define the goal of an organization.

By monitoring these numbers, one can manage the progress toward the goal.

Source of Competitiveness of the Country: 5 Factors



* Macro Economic Factors (e.g. exchange rate, interest rate) are also extremely important, but will leave it to the Council of Economic and Fiscal Policy (経済財政諮問会議)

To Increase the Competitiveness of the Country

- ▶ Translate the 5 Factors into KPI, and clearly assign the responsibility to person concerned.
- ▶ Achieve all the KPI targets within 5 years

Example of KPI (1)

Factor	KPI	Current Value	Target Value
1. Efficiency of the Country (Low-cost Country)	Government service cost (% of GDP)	23.1%	Under 20%
	ROI (Return on Investment) of Public Investment (hurdle rate)		Over 10%
	Corporate tax	38.1%	25%
	Electricity cost		Decrease by 30%
2. Innovation Capability	Business start-up %	4%	10%
	# of Intellectual Property acquired by Japanese companies (include qualitative improvement)		Increase by 30%
3. Operation Capability	GDP per worker	23 rd in the World	Top 10 in the World
	Working population	YoY* -0.6%	YoY +1%

Example of KPI (2)

Factor	KPI	Current Value	Target Value
4. Global Expansion & Management Capability	Overseas sales % of Japanese companies	11.7%	15%
	English Capability (average TOEFL score)	70 points	80 points
	# of students studying abroad (focus on Business Schools and Engineering School)	60,000 (as of 2009)	100,000
5. Brand Power (Excess earning power)	International Tourism Receipt Ranking in Asia Pacific region	10th	5th
	# of foreign companies that moved its HQ / Asia HQ to Japan		10 cases a year
	ROA (Return on Asset) of Japan	3%	TBD*

Factor 1: Efficiency of the Country (Low-cost Country)

KPI

► KPI

Item	Current Value	Target Value
Government service cost (% of GDP)	23.1%	Under 20%
ROI of Public Investment (hurdle rate)		Over 10%
Corporate tax	38.1%	25%
Electricity cost		Decrease by 30%

Factor 1: Efficiency of the Country (Low-cost Country)

Actions to achieve the targets

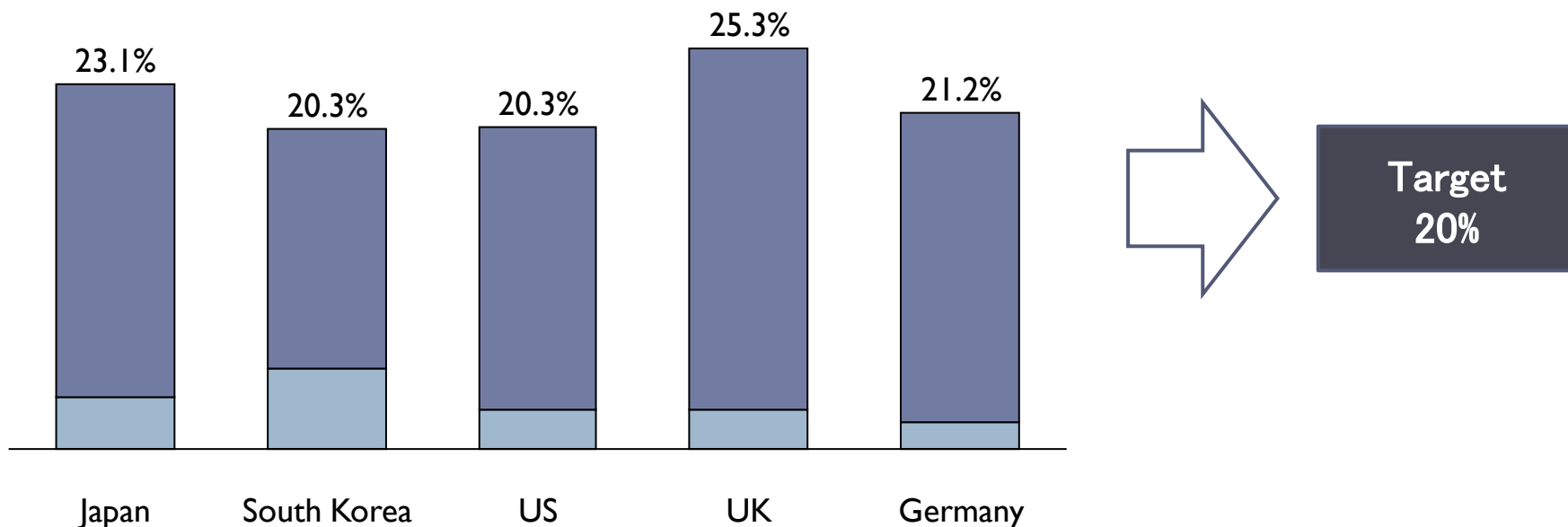
- ▶ **Fundamental and drastic Improvement of the high-cost structure of the Public Sector**
 - ▶ Efficiency improvement utilizing IT (e.g. more online proceeding, open up government data to the public)
 - ▶ Reduction of civil servants, revision of the compensation system
 - ▶ Utilization of the Citizen Numbering System (Have to be used both by public / private sectors)
 - ▶ **Cost Reduction of Medical Welfare service including Reform of its system**
 - ▶ Revision of the inappropriate fee system (e.g. dispensing fee system)
 - ▶ Introduction of IT to the Medical sector(e.g. online sales of drugs, cloud sharing of treatment information)
 - ▶ Aggressive hiring of foreigners
 - ▶ **Fundamental Improvement of the high-cost structure that is imposed on Companies based in Japan**
 - ▶ Strategic tax reform
 - ▶ Reduction of corporate tax
 - ▶ Incentives for the use of capital (e.g. continue the special measures of 10% capital-gain tax)
 - ▶ Cost reduction of the infrastructure costs (introduction of market mechanism)
-

Efficiency of Government Service

Japan should aim for the best-class efficiency among the developed countries

Government Service Cost as % of GDP (2010)

- Government Final Consumption Expenditure
- General Government Gross Domestic Fixed Capital Formation

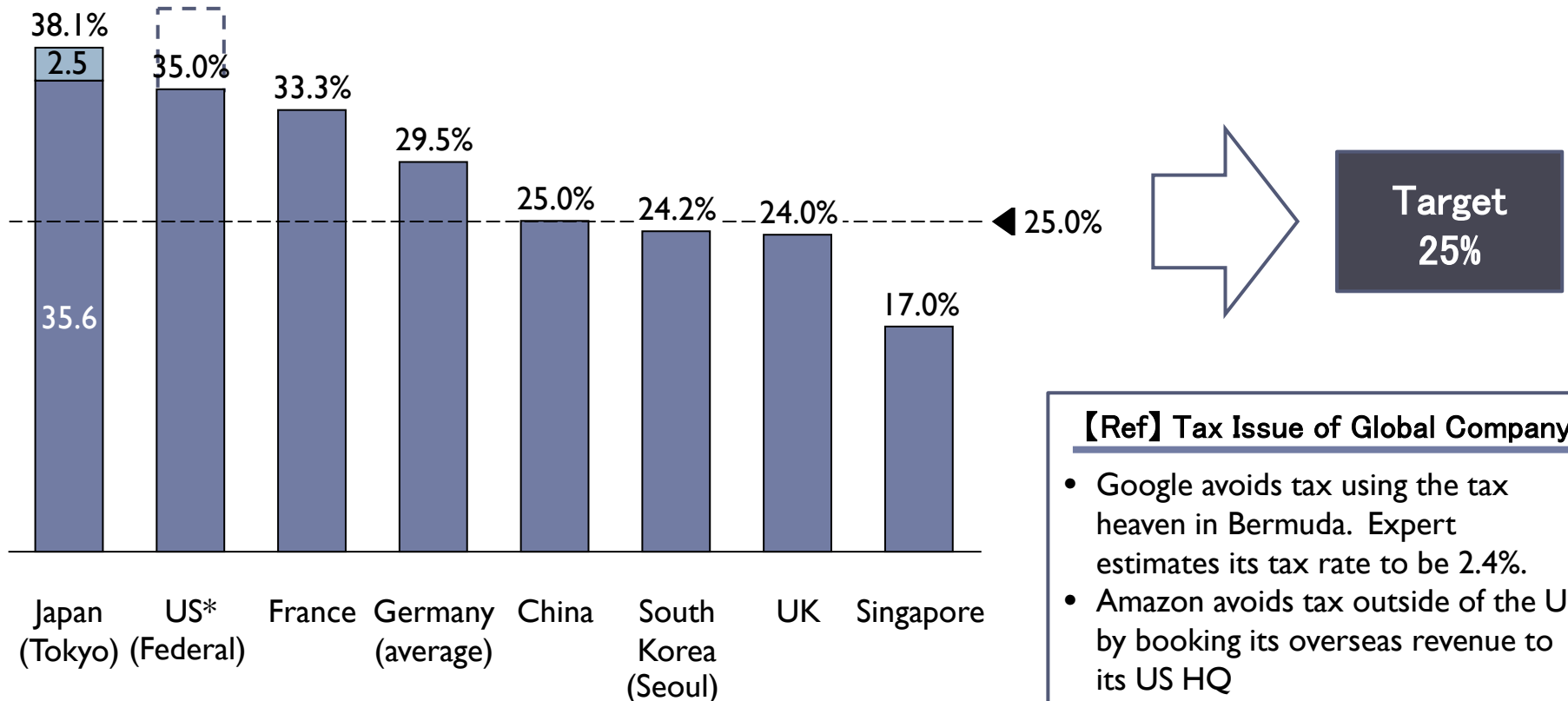


Corporate Tax

Corporate tax rate in Japan should target the lowest level among the developed countries

Effective Corporate Tax Rate

Special tax for disaster relief



Source: Ministry of Finance (As of April 2012)

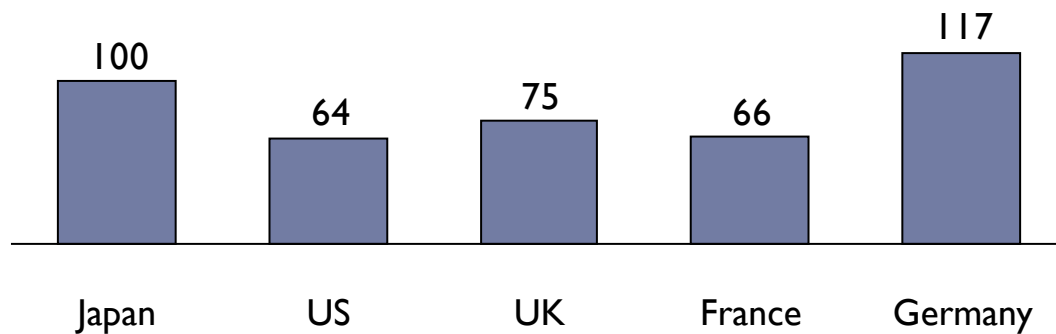
* In the US, there will be additional State / City tax. For New York city for example, the total corporate tax rate is 45.67%

Energy Cost

Japan's energy cost is high compared to other developed nations

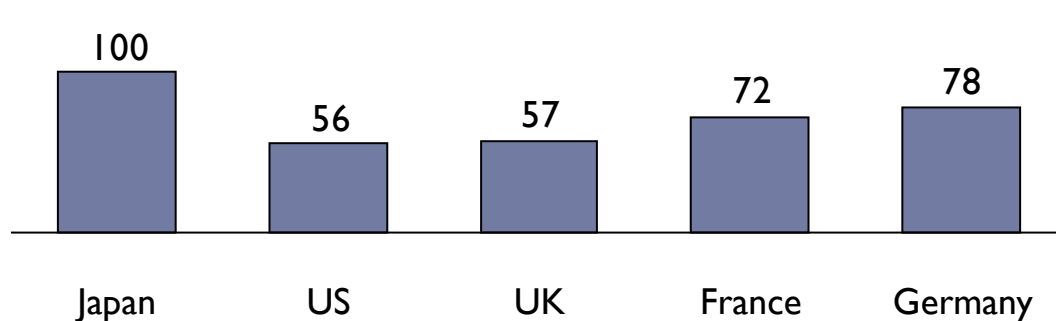
Utility Cost
(Indexed; Japan = 100)

Electricity



Target
Decrease
by 30%

City gas



Factor 2 : Innovation Capability

KPI

▶ KPI

Item	Current Value	Target Value
Business start-up % *	4%	10%
# of Intellectual Property acquired by Japanese companies (include qualitative improvement)		Increase by 30%

Factor 2 : Innovation Capability

Actions to achieve the targets

- ▶ **Improvements of Business Innovation and Technology Innovation**
 - ▶ **Creation of Environment that fosters Business Innovation**
 - ▶ Creation of new market through deregulation
 - ▶ Separation of electrical power production and distribution / retailing
 - ▶ Allowing Treatment partially covered by the insurance
 - ▶ Fostering the ecology / reusable energy industry (e.g. tax benefits)
 - ▶ Establishment of eco-system that fosters start-ups
 - ▶ Support measures for venture investment (e.g. tax benefits)
 - ▶ Revision of the present Act of the control of moneylending business (volume, interest rate)
 - ▶ **Creation of Environment that fosters Technology Innovation**
 - ▶ Support measures for R&D activities (e.g. tax benefits)
 - ▶ Intellectual Property strategy (e.g. IP acquisition supports for companies, promotion of mutual recognition)
 - ▶ Acceleration of inviting foreign experts
-

Technological Capability, not utilized well

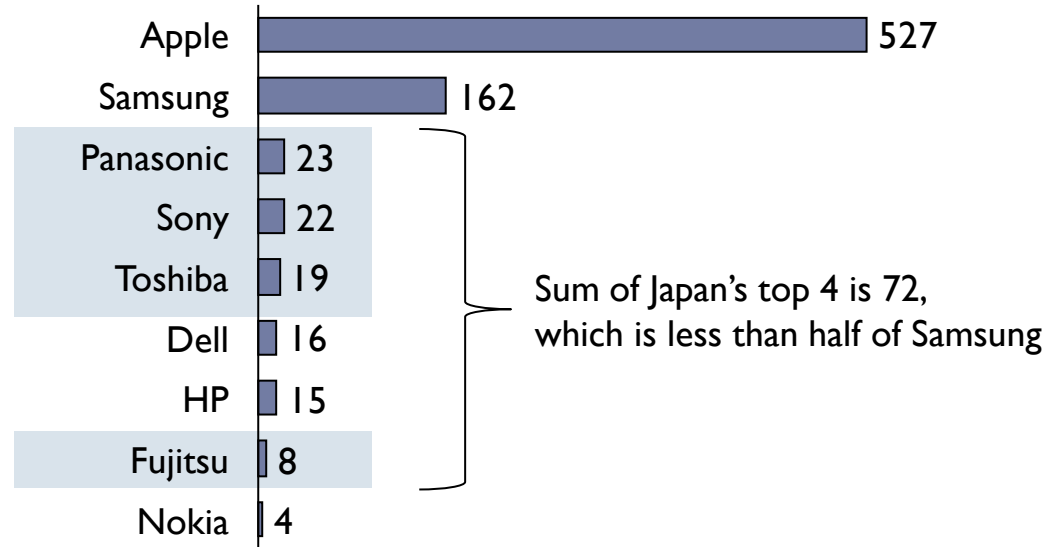
Japan needs to cultivate the business innovation capability that turns the good technology into good business

Innovation Ranking by World Economic Forum (2012)

1	Switzerland
2	Finland
3	Israel
4	Sweden
5	Japan
6	US
7	Germany
10	UK
16	South Korea

Japan's technology level is world top class

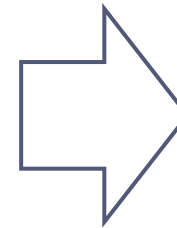
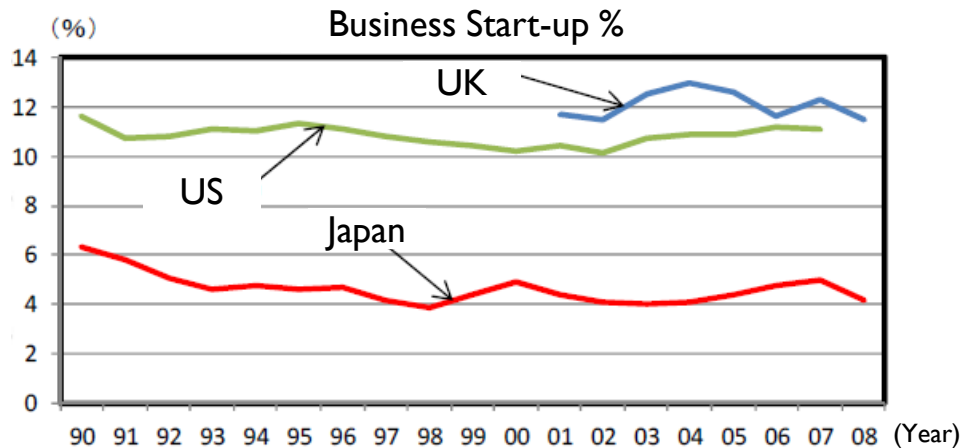
Example of Japan's Industry Competitiveness CE* Manufacturer Market cap Ranking (USD Bn)



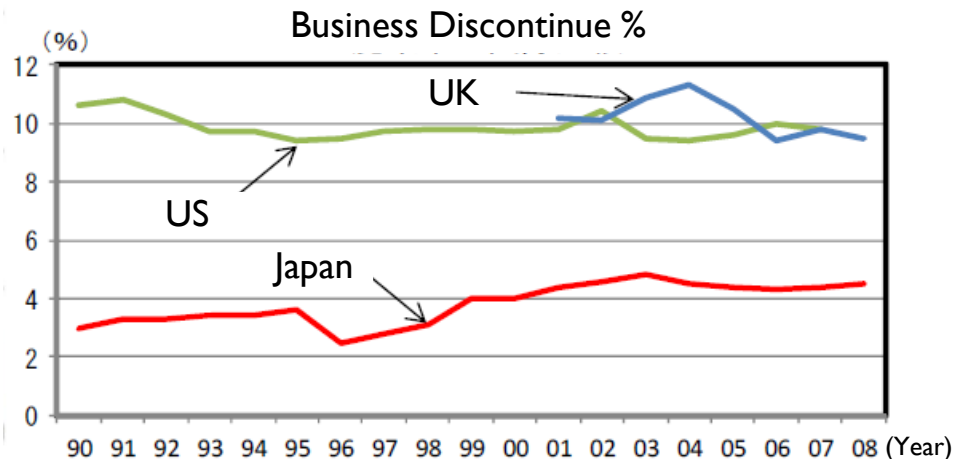
Japan's high technological capability is not reflected in Japan's industry competitiveness

Metabolism (Renewal) in Japan, Low

Japan is not good at creating new businesses, thus both the start-up % and discontinue % are low



Target
10%



Source: The SME Agency

- Business Start up % = # of company started in the year / Total # of companies last year
- Business Discontinue % = # of company shut down in the year / Total # of companies last year

Factor 3 : Operation Capability

KPI

► KPI

Item	Current Value	Target Value
GDP per worker	23 rd in the World	Top 10 in the World
Working population	YoY -0.6%	YoY +1%

Factor 3 : Operation Capability

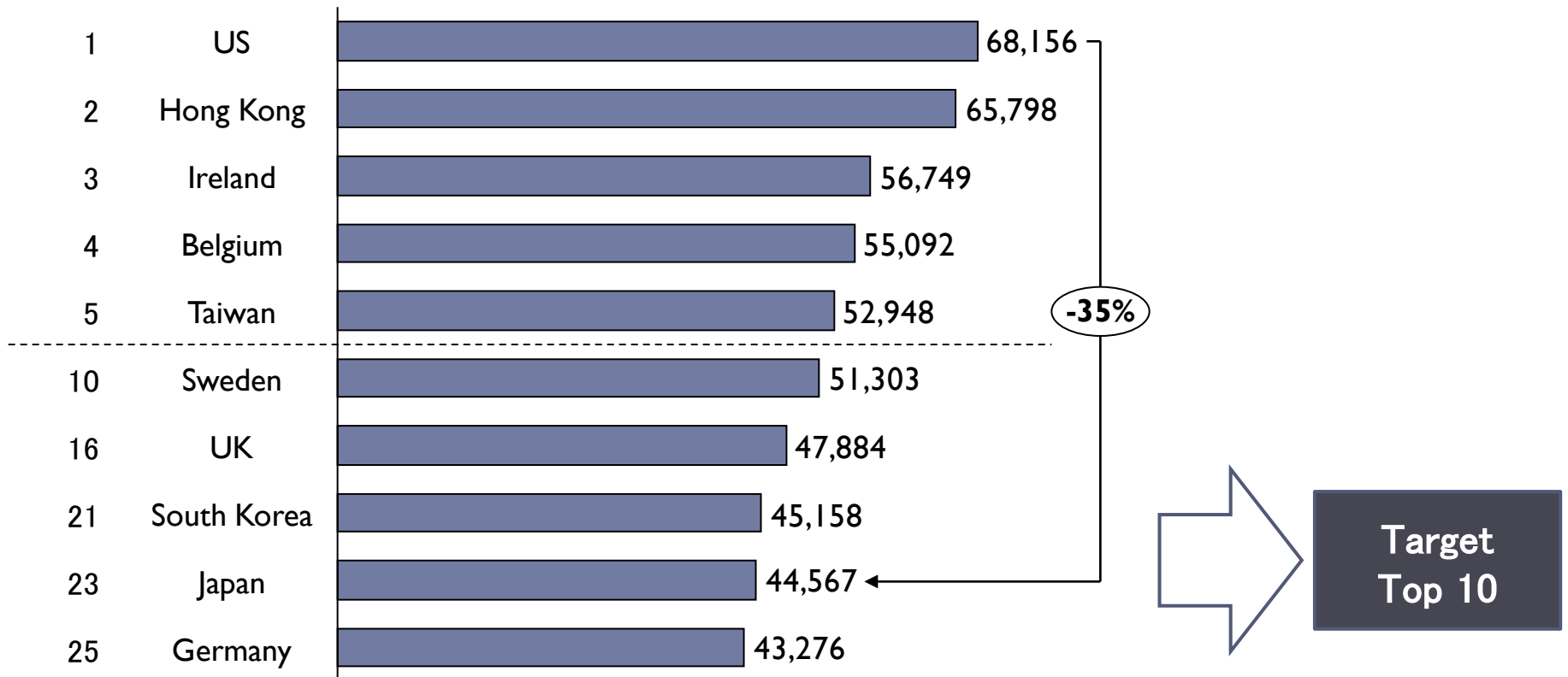
Actions to achieve the targets

- ▶ **Improvement of Labor Productivity**
 - ▶ Shift from middle-age courtesy to vitalization of the young
 - ▶ Job security for the young
 - ▶ Adoption of White Collar Exemption
 - ▶ Making it flexible to move HR (e.g. easing of dismissal regulation)
 - ▶ Leveraging IT (e.g. tax benefits for IT investment)
 - ▶ Awareness raising for productivity improvement
 - ▶ Rewarding companies that drastically improved the productivity (Deming Prize)
- ▶ **Securing workforce under population decline**
 - ▶ Empowering women (e.g. more childcare, promotion of teleworking)
 - ▶ Empowering foreigners (e.g. easing the procedure for foreigners to work / live in Japan)

GDP per worker

Japan's GDP per worker is ranked 23rd in the world, which is very low among the developed nations

GDP per worker (USD; 2011)

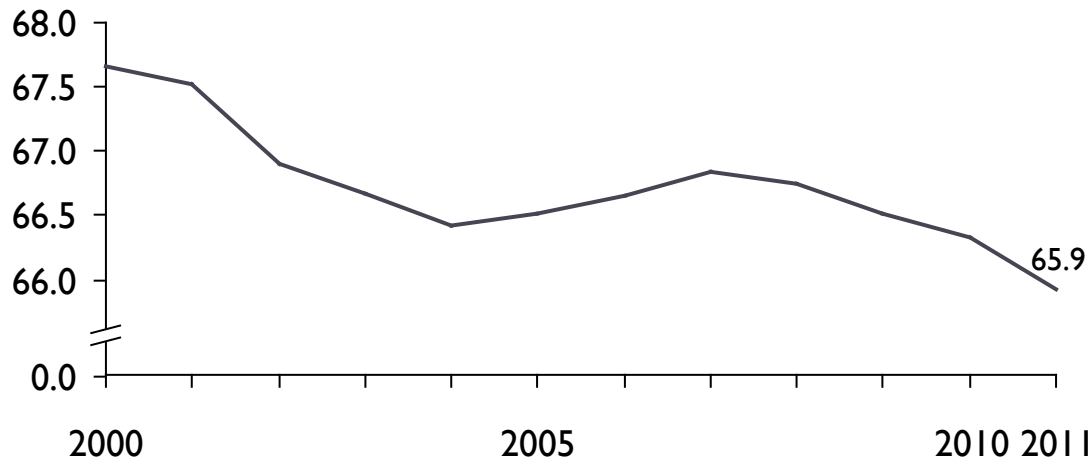


Working Population

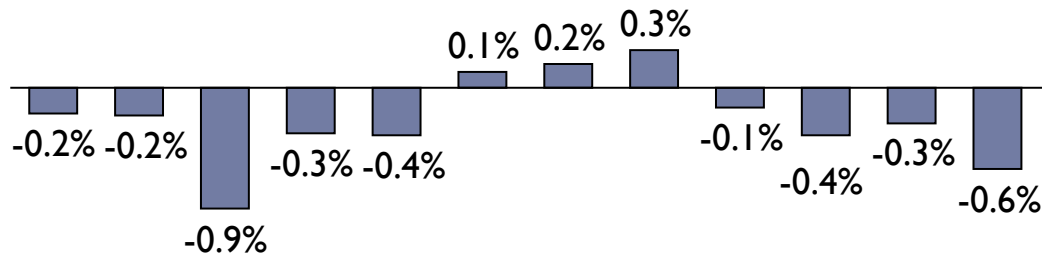
Working population in Japan is decreasing, which is the huge concern for Japan's competitiveness

Historical change of Working population in Japan

**Working
Population
(Mn)**



YoY



**Target
+1%**

Factor 4 : Global Expansion & Management Capability

KPI

▶ KPI

Item	Current Value	Target Value
Overseas sales % of Japanese companies	11.7%	15%
English Capability (average TOEFL score)	70 points	80 points
# of students studying abroad (focus on Business Schools and Engineering School)	60,000 (as of 2009)	100,000

Factor 4 : Global Expansion & Management Capability

Actions to achieve the targets (1/2)

- ▶ **Joining TPP**
- ▶ **Accelerating the introduction of IFRS**
- ▶ **Increasing the quality of Top Business Managers and Human Resource**
 - ▶ Establishing a system that attract top talents from around the world
 - ▶ Revision of the excessive progressive tax
 - ▶ To accelerate the introduction of stock-based compensation (e.g. introduction of classified stock)
 - ▶ Educational reform to cultivate world-class business people
 - ▶ Enhancement of English education (adopt TOEFL for university / civil-servant exams)
 - ▶ Enhancement of IT education (including basic programming in the curriculum)
 - ▶ Cultivation of strategic thinking (establishing high-quality business schools in Japan)
 - ▶ Stimulate going to schools overseas (mainly for business schools and engineering schools)
 - ▶ Incentive system to promote studying abroad (e.g. revision of the tax deduction law for donation by individual)

Factor 4 : Global Expansion & Management Capability

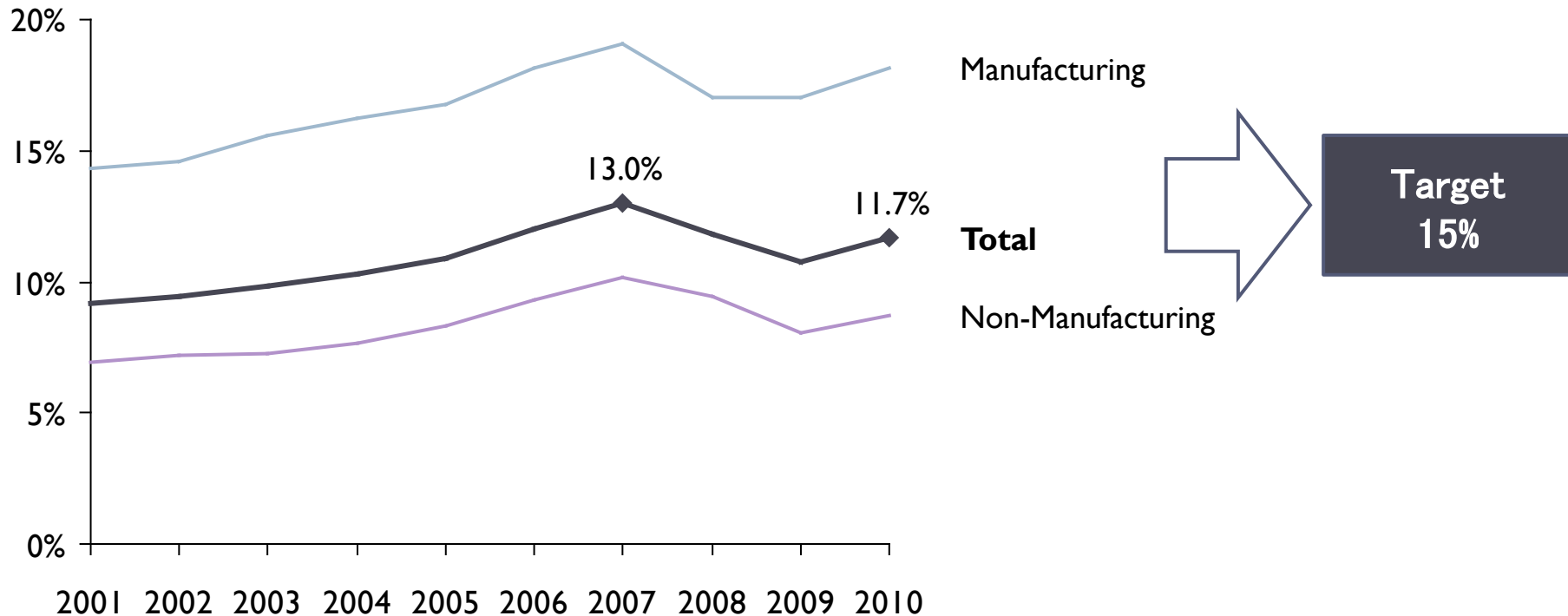
Actions to achieve the targets (2/2)

- ▶ **Creation of an environment which fosters companies' global expansion capability, by the elimination of Galapagos regulation**
 - ▶ Terrestrial Digital Media Broadcasting (so called "Chi-degi")
 - ▶ Medical
 - ▶ Communication network (Next Generation Network)
 - ▶ Radio wave
- ▶ **Securing the opened capital market, that brings market mechanism into corporate management**
 - ▶ Banning the extreme anti-takeover measures
 - ▶ Resolving the cross ownership of stock

Overseas Sales % of Japanese Companies

Overseas sales % of Japanese companies peaked in 2007, and decreased since then

Overseas sales % of Japanese companies




Needs of Educational Reform and Stimulation of Overseas Study

We need to create the education system that cultivates world-class business people, and also to promote going to business schools abroad

Evaluation of Japan's education system by
World Economy Forum (2012)

Indicator	Ranking (/144)
Higher education and training Total	21
Secondary education enrollment	22
Tertiary education enrollment	36
Quality of educational system	43
Quality of math and science education	27
Quality of management schools	80
Internet access in schools	43
Availability of research and training services	12
Extent of staff training	5



In Japan's education system, the quality of education related to industry competitiveness is relatively low

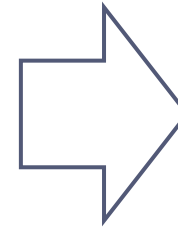
Gap of English Education against South Korea

■ In the past, TOEFL score was about the same between Japan and South Korea, but since Kim Young-sam started its Globalization Policy, the gap widened. **Now South Korea ties with Hong Kong, where English is the official language.**

■ Since 1997, South Korea **made English education mandatory from 3rd grade.** In 2008 it started **setting all-English classrooms,** and also **sending teachers abroad.**

Average TOEFL Score of Asian Countries

Country	2005— 2006	2007	2008	2009	2010
China	76	78	76	76	77
Hong Kong	80	80	80	81	81
South Korea	72	77	78	81	81
Japan	65	65	66	67	70



**Target
80 points**

■ Number of students studying in the US **South Korea is three times of Japan**

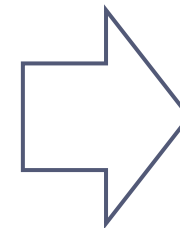
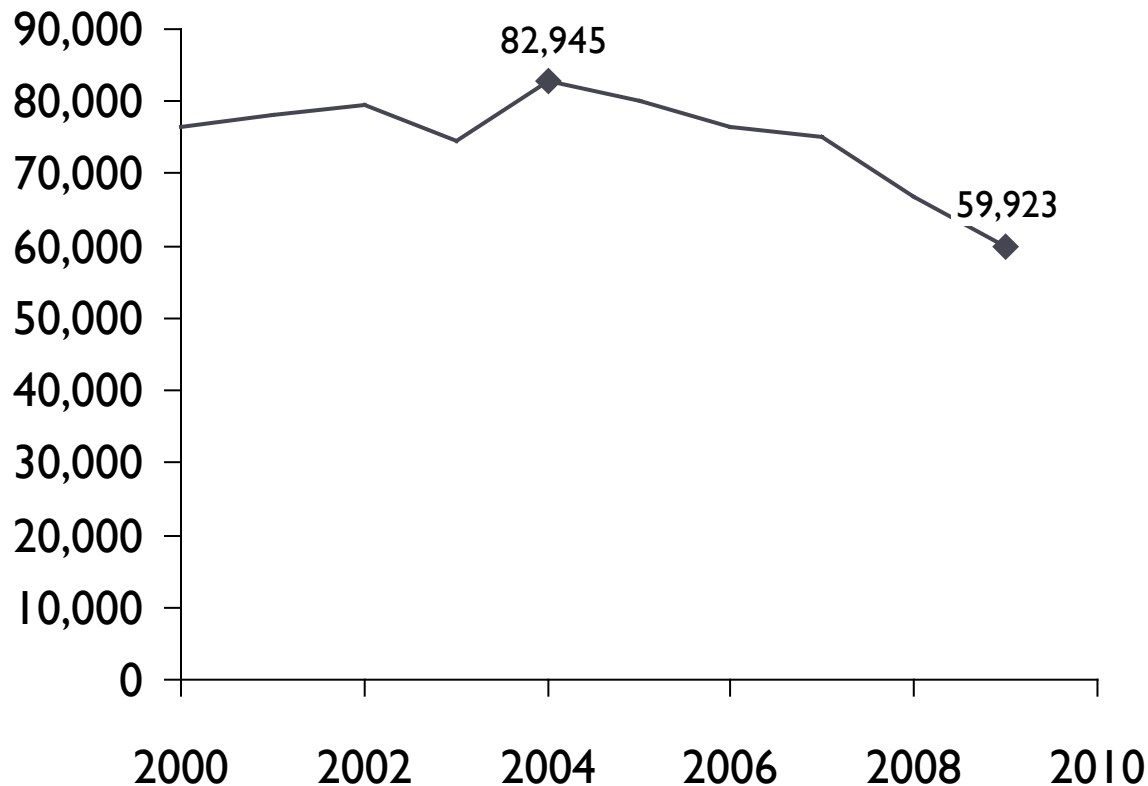
No. of Students in US University (2011-2012)

	No. of students in US university	(Ref) No. of students in domestic university
South Korea	72,295 (2.18%)	3,320,000 (100%)
Japan	19,966 (0.69%)	2,890,000 (100%)

Students Studying Abroad

Number of Japanese students studying abroad has been steadily decreasing since 2004

Number of Japanese students studying abroad



Target
100,000

Factor5: Brand Power (Excess earning power) KPI

▶ KPI

Item	Current Value	Target Value
International Tourism receipt ranking in Asia Pacific region	10th	5th
Number of foreign companies that moved its HQ / Asia HQ to Japan		10 cases a year
ROA of Japan	3%	TBD

Factor5: Brand Power (Excess earning power)

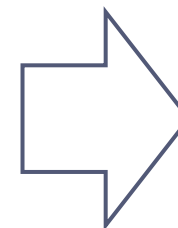
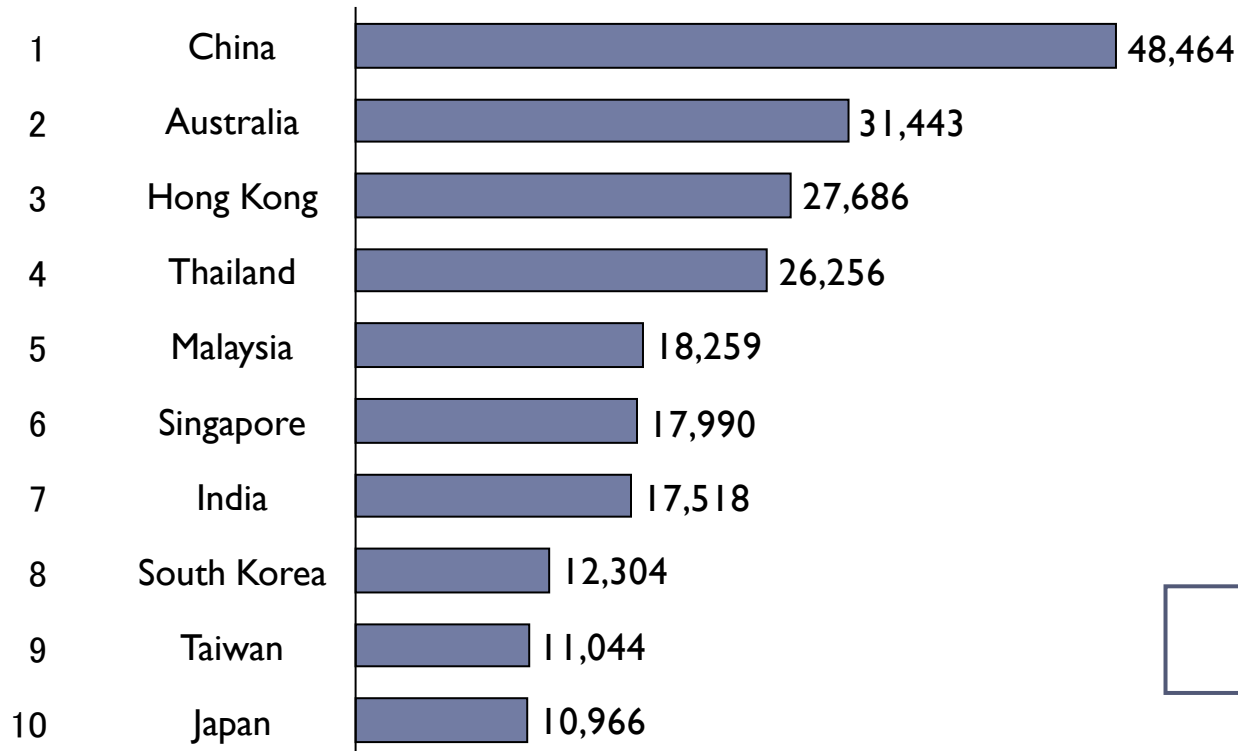
Actions to achieve the targets

- ▶ Assignment of a Chief Marketing Officer (CMO) of the government.
Planning and Execution of a systematic approach
 - ▶ Promotion of tradition and culture (e.g. publication of Japanese food and traditional art)
 - ▶ Promotion of mass amusement
 - ▶ Global expansion of domestic entertainment contents
(revision of copyright law that propels online delivery of contents)
 - ▶ Elimination of limitation of foreign players in professional sports
 - ▶ Exposure of Japanese people to globally featured events (e.g. Nobel Prize)
 - ▶ Establishment of contents and services that attract foreign money
 - ▶ Increase entertainment attractiveness of big cities (e.g. Casino, easing of the Entertainment Business Act)
 - ▶ Medical tourism
 - ▶ Making the Haneda Airport a hub
 - ▶ Pushing the attraction of HQ or Asia HQ of foreign companies (establish an organization like UK Trade & Investment)
-

International Tourism Receipt

Japan's tourism receipt is very poor. We need to increase our attractiveness and promote Japan to the world

International Tourism Receipt
of countries in the Asia Pacific region (USD Mn)



Target
5th

Case Study of Successful Japan Branding – Mongolia

Which country should Mongolia build relationship with going forward?

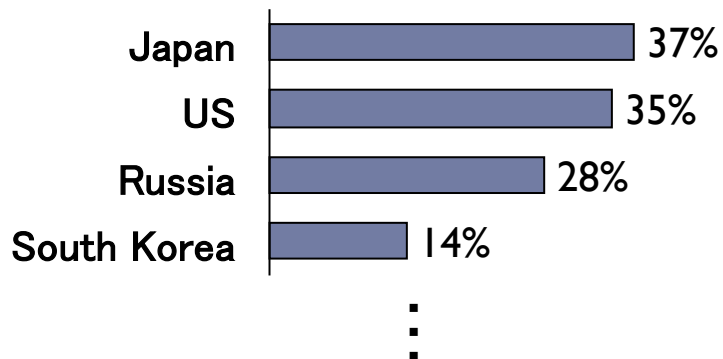


Image of Japan (top 3 answers)

1. High Economy / Technology 75.9%
2. Rich in Culture 27.2%
3. Beautiful Nature 20.4%

Why do you think Japan is the country supporting Mongolia the most? (top 3 answers)

1. Often hear it in news 35.6%
2. I can feel the support 32.4%
3. The amount of support is huge 16.6%

Who is your favorite Japanese person (top 5 answers)

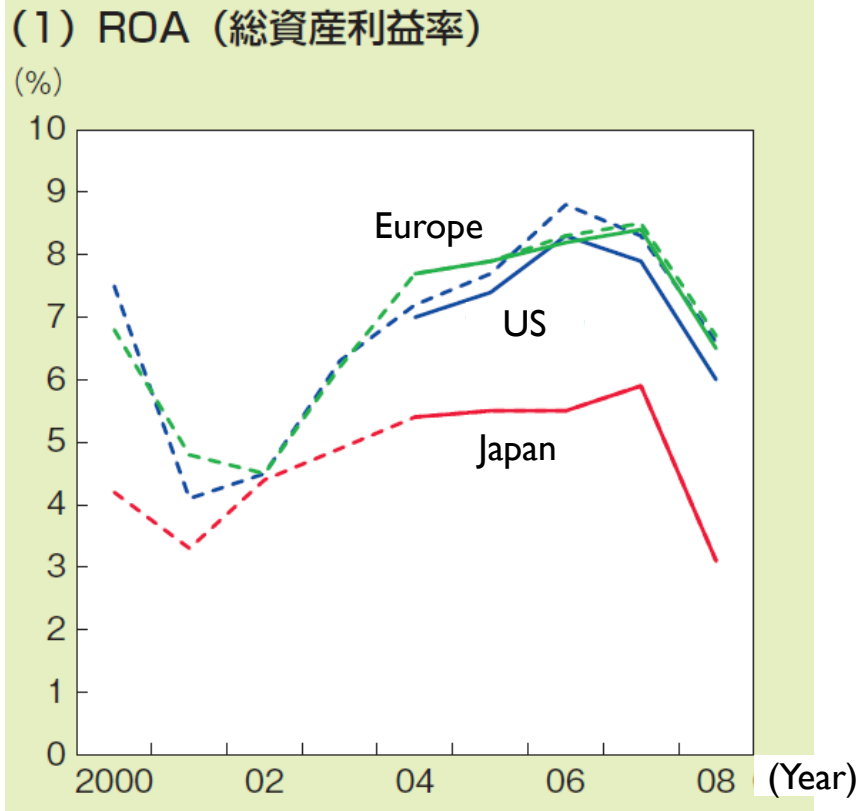
1. Kaiou (Sumo wrestler) 91 votes
2. Takano-Hana (Sumo wrestler) 65 votes
3. (Unspecified Sumo wrestler) 34 votes
4. Prime Minister Koizumi 33 votes
5. Takami-Sakari (Sumo wrestler) 26 votes

Brand of Japan is well received in Mongolia because our ODA is frequently featured in News and many Mongolian Sumo wrestlers play in Japan

Average ROA

Average ROA in Japan is low compared to US and Europe

ROA of Japan, US, and Europe



Target
TBD