Provisional translation

Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version

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Grand Design and Action Plan for a New Form of Capitalism
2024 Revised Version
(Table of contents)

I. Progress and Realization of the New Form of Capitalism

1. 2024 Revision Approach

The "new form of capitalism" has sought to create a virtuous cycle of growth and distribution as well as a virtuous cycle of pay and commodity prices.

First, "wages" will increase. As a result, "consumption" will increase and corporate earnings will grow. With this as a source of funds, companies will "invest" for growth, thereby realizing a virtuous cycle in which "labor productivity" will increase and wages will further rise sustainably. By doing so, we have tried to transfer from a "cost-cutting economy" to a “new, growth-oriented economic stage.”

On the other hand, during the previous 30 years of deflation, wages did not actually rise even when corporate profits grew, although it was said that wages would rise as productivity increased.

It is necessary to dispel the deflationary mentality that has been ingrained for many years, and to change the entire society's mindset at once in the direction of "higher wages are a matter of course.”

From the outset, the new form of capitalism has had the following three themes:

1) New public-private partnerships based on "both the market and the state" and "both the public and private sectors”
2) Creation of new markets through problem solving, i.e., achieving both social problem-solving and economic growth
3) Realization of sustainable well-being of each citizen through problem solving

In addition, thorough economic security as a fundamental condition.

These points have been consistently asserted in the Grand Design and Action Plan approved by the Cabinet in June 2022 and the 2023 revised version approved by the Cabinet in June 2023.

In realizing this goal, we have also focused on three points: the elimination of barriers to distribution, securing power for growth through public-private collaboration, and achieving a society in which the private sector plays a public role. Specifically, we have implemented measures to simultaneously expand wage increases, capital investment, startup development, and innovation promotion through public-private partnerships, as well as persistently called for new public-private partnerships.

In revising the action plan for the second time, the Council of New Form of Capitalism Realization deliberated repeatedly and came to the agreement that the direction of these efforts for the new form of capitalism to date has been correct and that we have a historic opportunity to completely break free from deflation.

We have achieved such results as wage increases in spring labor negotiations that are well above last year's, capital investment at an all-time high, and stock prices at an all-time high. However, Japan's road to overcoming deflation is still only halfway complete.

Since the beginning of the year, the yen has weakened by about 10% against the U.S. dollar, and the impact of this depreciation may be reflected in the rate of price increases over the next six months to a year. The government and the Bank of Japan are expected to work closely together to achieve the 2 percent price stability target in a sustainable and stable manner by conducting flexible policy operations in response to economic and price developments. In doing so, it is necessary to pay close attention to the impact of the yen's depreciation, which has been progressing since the beginning of the year, on prices, taking into account that this impact will be reflected in future prices.

Whether we can seize the opportunity to escape deflation or fall backwards will depend on the actions that will be taken in the future, based on the revised action plan. In order to

overcome high prices, we will make sure to achieve incomes that exceed the rise in prices this year, and we will make sure to establish wage increases that exceed the rise in prices from next year onward.

In order to "anchor" wage increases that exceed price increases, it is necessary to "anchor" wage increases in small and medium-sized enterprises (SMEs), and for this reason, we will make every effort to improve the "earning power" of SMEs. In light of the fact that Japan's working-age population is declining, and in order to achieve this in the midst of a structural labor shortage situation, it is essential that labor shortage measures such as accelerated promotion of labor-saving investments and the creation of an environment for senior citizens who want to work, as well as price shifting and other measures to be established in Japan's business practices.

Including these points, we will clarify below the items that require further concrete efforts in the revised action plan, and to accelerate the overall initiatives of the new form of capitalism, we will adopt the 2024 revised version through a Cabinet decision.

2. Acceleration of Economic Structural Reforms

Humanity is facing a major paradigm shift in history brought about by discontinuous technological innovation that is not an extension of the past. The industrial structure is changing at a very rapid pace with the evolution of technology, and this is an opportunity for SMEs to expand their sales channels globally by utilizing technology.

In addition, Japan has the potential to create new markets by utilizing dormant assets through the solution of social issues, as well as to improve labor productivity through labor saving and automation of existing companies' businesses and re-skilling of workers.

In order to create a virtuous cycle of growth and distribution and to bring about a full-fledged virtuous cycle of wages and prices in a more realistic manner, we must combine policies and achieve reform of the economic structure based on a broad perspective and an understanding of the structural issues in each industrial sector.

In Japan, which is one of the first countries in the world to face a declining population, falling birthrate, and aging society, the following three cycles will be created as a growth strategy to increase added value in a spiral fashion and realize continuous income growth through the smooth circulation of human resources, resources, funds, and data.

1) Cycle of increasing productivity and increasing supply: Viewing the decline in population as an opportunity, the government will promote industrial innovation (growth of startups, innovation, business succession, and M&A of existing companies) and strengthen the supply side through re-skilling and labor migration, thereby achieving continuous income growth.
2) Cycle of increasing demand: Create and expand new markets by developing demand through solving social issues and creating value-added solutions with compensation, and visualize the results of these efforts.
3) Cycle connecting to foreign countries: Bidirectional connections with foreign countries will encourage overseas development of solutions and investment and human resource inflows, and accelerate market expansion.

Based on the idea that social issues are blue oceans and costs are investments for growth, it is necessary to eliminate "blockages" in regulations and business practices that impede the circulation of human resources, resources, funds, data, etc. in various related industries and lead to structural reforms in order to further growth and productivity improvement. To reform old rigid regulations and "barriers" such as economic structure, etc., we will implement policies in a cross-sectional and integrated manner without being restricted by traditional industry or sector boundaries.

Through these efforts, we aim to create a society in which each individual can feel that tomorrow will be better than today by creating a situation in which income and well-being will continuously improve through the resolution of social issues facing our country.

II. Establishment of Wage Increase for Workers in SMEs and Small Businesses, Etc. for Investment in People

1. Thoroughly promote the business practice of price shifting and accelerate labor-saving investments by SMEs and small businesses, etc.

There is a positive correlation between labor productivity and wages per capita, and there is a high probability that higher labor productivity will lead to higher wage levels[1], but Japan ranks only 32nd among the 38 OECD member countries [2].

The markup ratio, which indicates by how many times the selling price exceeds the cost of production, has been rising in many countries since 1980, but the rate of increase in Japan has been low, and in recent years, it has been at an internationally low level. Meanwhile, analysis shows that higher manager salaries are correlated with higher markup rates. [3]

In Japan, too, over the past two decades, there has been an increase in consumer behavior that emphasizes added value over price, such as "willingness to pay for preferred added value" and "emphasizing convenience over low price when making a purchase." [4] The consumer behavior of paying more for added value is taking root in Japan, creating room for higher markup rates.

In order to establish sustained wage increases not only this year, but also next year and the year after, it is essential to expand added value through increased labor productivity and markup rates, in addition to labor-management cooperation in spring labor negotiations. [5] Therefore, in addition to passing labor costs on to consumers, the public and private sectors will work together to increase the labor productivity of SMEs and small businesses, etc., which are struggling in the midst of labor shortages, by investing in labor-saving [6]initiatives.

(1) Promotion of price shifting of labor costs, etc.

One of the keys to spreading the trend of high wage increases in large firms to SMEs and small businesses is to pass on the price of labor costs. It is important to realize broad-based wage increases through sufficient wage increases in SMEs and small businesses, and the government has done everything in its power to achieve this.

As a result, according to a private research firm, the number of SMEs that have more or less passed on prices increased from 69.2% as of December 2022 to 75.0% as of February 2024. On the other hand, there are still firms indicating they were unable to pass on prices at all, although the percentage has decreased (from 15.9% to 12.7%) [7]. Therefore, further thorough implementation of price shifting measures is necessary. In order to ensure proper transactions with SMEs and small businesses, the study will include reform of the system of the Subcontract Act, which is the basic law for price pass-through.

1) Further dissemination of labor cost shifting guidelines (e.g., formulation of voluntary action plans in 22 priority industries)

Late last year, the Cabinet Secretariat and the Japan Fair Trade Commission jointly released the Guidelines on Price Negotiation for Appropriate Pass-thorough of Labor Costs to the client and contractor sides, indicating that any violation may violate the Antimonopoly Act.

These guidelines were compiled as 12 action principles for both client and contractor sides regarding the transfer of labor costs. They include the necessity of involvement by executives,

such as presidents, in determining policies for passing on increased labor costs; respecting minimum wages and the rate of increase in spring labor-management negotiations as reasonable grounds for negotiations; and allowing the transfer of transaction prices with an awareness of the need to rationalize these prices down the supply chain. The Japan Fair Trade Commission will conduct a special survey to follow up on the state of awareness and thorough implementation of the labor cost guidelines.

In addition to strongly urging industries to take thorough action in accordance with the guidelines, we also requested a total of 1,873 industry associations to thoroughly implement the guidelines and follow up on their efforts to ensure that appropriate price shifting takes root throughout the supply chain, including among SMEs and small businesses, as a new business practice in Japan.

In addition, for the 22 industries that require special action, such as those with high labor costs as a percentage of costs or low labor cost pass-through rates, we requested each industry association to formulate voluntary action plans, and to investigate and improve the status of labor cost pass-through. To follow up on these efforts, we established a liaison meeting of relevant ministries and agencies, headed by the Deputy Chief Cabinet Secretary.

We will accelerate the assessment of the implementation status, formulation, revision, etc. of voluntary action plans, especially with respect to the 22 industries. Specifically, the following four points will be reviewed, in particular, the progress of each ministry and agency .

i) Revision of the voluntary action plan to reflect the guidelines and the formulation of a new voluntary action plan based on the guidelines should be completed by the end of this month.
ii) Conduct a fact-finding survey in cooperation with industry associations to determine whether each industry is complying with the guidelines, ascertain the status of price shifting, and promptly consider remedial measures if the situation is inadequate.
iii) Ministries and agencies should also actively cooperate in special investigations conducted by the Japan Fair Trade Commission on the status of compliance with the guidelines.
iv) Data on labor cost pass-through rates, etc. by industry should also be captured in the Small and Medium Enterprise Agency's Price Negotiation Month survey.

The Japan Fair Trade Commission and the Small and Medium Enterprise Agency will take strict action based on the results of the investigation and in accordance with the Antimonopoly Act and the Subcontract Act.

2) Thorough compliance with labor cost shifting guidelines based on the Antimonopoly Act

The names of 10 companies with inadequate efforts were made public in accordance with the Antimonopoly Act. The Japan Fair Trade Commission will conduct an investigation into the thoroughness of these companies, including their future actions, to improve transactions.

3) Strict measures against violations of the Subcontract Act.

Regarding violations of the Subcontract Act, since January of this year, 11 recommendations have been issued. In addition, the operational standard clarifies that violations of the Subcontract Act can occur not only when the consideration to the subcontractor is lowered, but also when the consideration to the subcontractor is left unchanged amid rising labor and other costs. The Japan Fair Trade Commission and the Small and Medium Enterprise Agency will continue to take strict action based on the enhanced operational standards of the Subcontract Act. In addition, in cooperation with the competent ministries and agencies, we will work to enhance the number of recommendation cases under the Subcontract Act through comprehensive enforcement, while also considering revisions to the Subcontract Act.

Furthermore, in order to further enhance the effectiveness of the Subcontract Act, we will

consider measures to suspend subsidies and bidding qualifications for companies that receive recommendations due to violations of the Subcontract Act.

In addition, we held a roundtable discussion on the virtuous cycle between wages and prices and heard opinions from SMEs. The following measures will be taken to ensure proper business transactions: thoroughly inform and promote the shifting of labor and other costs, including public sector demand, which was discussed during the roundtable meeting; develop and utilize price negotiation application forms in the labor cost shifting guidelines according to the characteristics of each industry; strengthen understanding of actual transactions, including those with small businesses; strengthen enforcement of the Subcontract Act by utilizing Subcontractor G-men and Superior G-men; and encourage shortening of payment terms for notes and other payments.

4) Holding of local versions of the government-labor-management conference

To spread wage increases to local areas, we will follow up to ensure the effective implementation of local versions of the government-labor-management conference, prepare for their implementation next spring, and strive to establish them firmly.

5) Promoting understanding of consumers

The price pass-through rate is relatively low in the downstream B-to-C business, which is a challenge to be addressed. We will promote the shifting of labor and other costs in B2B transactions based on the Antimonopoly Act and the Subcontract Act, and ask consumers to understand the shifting of such costs.

(2) Labor-saving investments by SMEs and small businesses to improve labor productivity under labor shortages

1) Expand the use of AI, robots, and other automation technologies in industries with strong labor shortages, including the transportation, lodging, and restaurant industries.

Data show that labor productivity per capita has been growing rapidly in recent years for large companies, whereas growth has stagnated for SMEs. In the midst of labor shortages, it is imperative to seek cooperation from large corporations regarding business relationships, ensuring that the benefits of enhanced labor productivity and growth of SMEs are returned to them.[8]

Companies that use AI, robots, and other automation technologies are correlated with higher productivity and wages compared to those that do not. [9] With regard to the introduction of AI tools, it has been found that workers with insufficient skills are particularly likely to benefit from them [10], and SMEs and small businesses will benefit from their introduction. In addition, the use of AI and robots is expected to improve operational efficiency, especially in law and accountancy firms, and the transportation, lodging, and restaurant industries. [11] The use of these technologies should be promoted especially in the industrial sector where it is expected to improve business efficiency.

Based on these factors, we will accelerate the introduction of AI tools and robots to SMEs and small businesses that are short on manpower.

Specific plans for labor-saving investments, including the introduction of AI, robots, and DX, will be studied by the competent ministries and agencies, and government-wide support will be accelerated.

2) Re-skilling to train field workers using automation technology in each industry

In our country, the percentage of workers who are capable of using basic automation technology in their respective industries is low, despite reports of a labor shortage. It is

important to train these field workers as targets for re-skilling.

AI tools have also been found to complement on-the-job training and provide learning benefits to employees.

We will promote efforts to re-skill workers in industrial settings. In particular, the transportation, lodging, and restaurant industries, which have a strong sense of labor shortage, will be given priority in promoting the use of automation technology.

3) Intensive support for labor-saving investments in automation technology, etc. for SMEs and small businesses

As for capital investment planned by companies, "equipment replacement" and "maintenance and repair of existing equipment" accounted for 57.0% and 28.5% respectively, while "labor saving and rationalization," " information technology (IT)-related," and "digital transformation (DX)" are still scarce.

Also, as a response to the labor shortage, the majority of companies are relying on increased hiring, and although the number of companies making labor-saving investments is increasing, it is still small, at less than 20%, despite the labor shortage.

It is important that SMEs and small businesses themselves be aware of the issues and work on labor-saving and digital/robotic implementation, also using support measures for labor-saving investments and human resource capacity development.

As part of this effort, a new catalog-type investment for labor shortage subsidy of 500 billion yen over three years has been established, in which general-purpose products with high labor-saving effects are selected from a catalog without cumbersome application forms and cumbersome procedures. Applications will be accepted starting this month to support labor-saving investments by SME's capital investment for labor shortage subsidy. In addition, regarding the registered devices, etc. currently implemented in 12 categories (unmanned vehicles, cleaning robots, ticket vending machines, catering robots, automated warehouses, inspection and sorting systems, steam convection ovens, automatic check-in machines, automatic teller machines, tablet-type fueling permit systems, auto labelers, i.e., devices that automatically attach labels to products, beverage refill robots), the scope will be expanded based on feedback from SMEs and small businesses.

In addition, the execution of existing subsidies for SMEs and small businesses will be improved to enhance convenience.

4) Responding to labor shortages in industries by promoting the division of labor in qualified positions, etc.

We will work to ease labor shortages by promoting the division of labor through the introduction of non-qualified assistants and the introduction of automation technologies such as AI and robots and by promoting the division of labor and dual employment in qualified positions, etc.

i) Education field (teachers)

In order to reduce the workload of teachers, we will support the assignment of staff to elementary, junior high, and senior high schools nationwide who will assist with specific tasks. This includes assigning teachers' work support staff to help with material preparation tasks, study guidance personnel to aid with learning support tasks, and vice-principal/assistant principal management support personnel to assist with management and other duties, following the clarification of teachers' responsibilities.

In addition, the subject-based teacher assignments in elementary schools, which has been fully implemented for foreign language, science, arithmetic, and physical education for upper

grades since fiscal 2022, aims to reduce the workload of elementary school teachers by reducing the number of classes they are responsible for and improving the efficiency of lesson preparation, taking into account the circumstances of each school and region.

(ii) Childcare and early childhood education field (nursery teacher/kindergarten teacher)

Beginning this fiscal year, the staffing standard for 4- and 5-year-olds will be improved from 30:1 to 25:1, with a corresponding increase in the official price. From the next fiscal year, the ratio will be improved from 6:1 to 5:1 for 1-year-old children as early as possible during the Acceleration Plan period (until FY2028), while taking into account the relationship with related measures such as securing childcare human resources.

In addition, in order to reduce the workload of nursery teachers, childcare teachers, and kindergarten teachers, we will promote the hiring of additional non-qualified childcare assistants by nursery centers, certified childcare centers, and kindergartens to assist them in preparing work reports, etc. and dealing with parents. We will also promote the return of potential nursery teachers to the workforce, assign personnel to assist with tasks such as cleaning, and introduce ICT equipment at childcare and early childhood education sites.

iii) Medical, nursing, long-term care and welfare fields

With regard to national qualifications for medical, nursing, long-term care, and welfare, we aim to enable acquisition of multiple qualifications in a shorter period of time than previously possible. To achieve this goal, we will identify common subjects across different training courses to eliminate the need to retake similar subjects for each qualification, as well as organizing issues to shorten the study period based on already acquired credits or hours.

For the nursing workforce, we will advance new training through improvements in the learning environment for nursing students, enhance support for returning nurses, and promote retention by improving the work environment.

With regard to long-term care workers, the revision of this fiscal year's long-term care fee included the establishment of additional measures to promote productivity improvement, as well as special flexibility in staffing standards at specified facilities. We will reduce the workload of staff and ensure the quality of care by dividing roles among staff and utilizing technology in the long-term care field through the use of long-term care assistants and other means.

With regard to physicians, from the viewpoint of promoting reforms in work styles, efforts by medical institutions to improve the work environment, such as the introduction of task shifting/sharing and multiple attending physician systems, will be promoted.

In addition, there is a problem that physicians affiliated with university hospitals do not have enough time for research activities due to their contribution to medical treatment and community medicine. In this context, through the Japan Agency for Medical Research and Development (AMED), universities working on securing research time for medical researchers will promote the improvement of the efficiency of the research environment by hiring staff to assist physicians in their research.

iv) Logistics field (truck driver)

Based on the revised Distribution Business Efficiency Act and the revised Motor Truck Transportation Business Act, shippers and logistics providers are obligated to prepare plans, report, and take other actions to improve logistics efficiency, and are also obligated to provide written documentation regarding the content and compensation for services including incidental services such as loading and unloading when concluding transportation contracts. In addition, the functions of Truck G-men, who monitor malicious shippers and prime

contractors, will be strengthened, and by thoroughly implementing these initiatives, the workload of truck drivers will be reduced. Furthermore, we will promote behavioral changes among shipper companies and consumers by requiring the assignment of logistics supervisors at shipper companies and taking initiatives to reduce redelivery.

In addition, through the introduction of equipment and systems for automation and mechanization, such as unmanned forklifts, unmanned transport equipment, AI camera systems, and electronic slip systems, we will reduce the amount of time truck drivers spend waiting for and handling cargo, and reduce the manpower requirements of logistics facilities.

v) Construction field

Based on the revised Construction Business Act, private construction contracts with amounts significantly lower than the normally required cost in light of the labor cost standards prepared and recommended by the government are prohibited, and the Minister of Land, Infrastructure, Transport and Tourism will make recommendations and announcements to the offending client. Also, in private-sector construction, we will ensure that contracts stipulate the method of changing prices in response to price hikes, and facilitate price shifting through amendment agreements. Through these efforts, we aim to improve compensation in the construction sector, where labor shortages are becoming more serious.

In addition,we will expand opportunities to take the electrician exam and promote the digital transformation (DX) of electrical work.

(3) Establishment of cooperative relationships between large companies, SMEs and small businesses, and startups

To strengthen win-win cooperation between large companies, SMEs and startups, we will promote open innovation [12]in which large companies work with SMEs and startups, and encourage investments and M&A activities by large companies in these SMEs and startups.

In addition, the percentage of companies in Japan that allow employees to work side jobs or concurrently at other companies has reached a majority [13], but we should recommend the introduction of these practices to increase employees' motivation and improve retention rates. In this regard, the companies in which employees' secondary or concurrent jobs lead to improved performance are characterized by i) agreeing on detailed contract terms and conditions about secondary or concurrent jobs, and ii) clarifying the nature of the work and expected results. [14] It is important to emphasize prior discussion between employees and host companies when introducing these practices. In light of this, the possibility of simplifying administrative procedures for sending companies should be pursued to encourage the movement of human resources to SMEs as well as startups, facilitated by large companies lifting the ban on secondary or concurrent jobs.

1) Promoting ownership of start-up stocks

With regard to "cross-shareholdings" under the Corporate Governance Code, from the viewpoint of encouraging active investment in startups, and in light of the fact that some companies hold shares in startups in anticipation of synergies, we will actively promote such holdings by providing examples of disclosure and perspectives on stock ownership from companies' annual securities reports.

2) Compliance with regulations on investment-in-kind of intellectual property rights, etc.

As a general rule, an investigation by an inspector appointed by the court is required to make an investment in kind in a stock company. Since this regulation is an obstacle to in-kind investment of intellectual property rights, etc. to startups, appropriate measures, including

deregulation through enhanced information disclosure, etc., should be considered.

3) Appropriate non-disclosure and license agreements

To facilitate the creation of added value by SMEs and small businesses and to protect their intellectual property during open innovation with large companies, we will make effort to improve the management of intellectual property when large companies procure products of early-stage development from SMEs, small businesses, and start-ups. This includes presenting the model contracts provided by the Ministry of Economy, Trade and Industry, which specify the appropriate ownership of intellectual property by SMEs, small businesses, and start-ups, similarly strengthening enforcement under the Subcontract Act.

4) Deterrence of intellectual property infringement

To deter infringement of intellectual property owned by SMEs, small businesses, or startups, we will undertake initiatives such as government-sponsored fact-finding surveys, thorough implementation of guidelines for proper intellectual property transactions, and holding of an IP Transaction Advisory Board.

5) Revision of the aggregate management of working hours involving secondary or concurrent jobs for the payment of premium wages

When workers engage in secondary or concurrent jobs, it is necessary to aggregate and manage working hours across multiple workplaces. Meanwhile, it has been pointed out that the complexity of the system and the heavy burden imposed on companies regarding the aggregation of working hours for payment of premium wages make obtaining permission for secondary or concurrent jobs difficult.

The desirable form of aggregate management of working hours for the payment of premium wages at secondary or concurrent jobs will be examined, including changes in interpretation in the Labor Standards Act and other related laws and regulations, and we will get the suitable conclusion about it.

6) Promotion of matching through the Regional Business Management Talent Matching Promotion Project

From the viewpoint of promoting the activities of metropolitan area human resources engaged in secondary or concurrent job in regional areas, we will strengthen the project of matching these human resources with local mid-tier businesses and SMEs through the use of regional banks, etc., with the list of registered human resources with professional experience at large companies managed by the Regional Economy Vitalization Corporation of Japan (REVIC), making extensive public-private sector collaboration in matching initiatives

7) Utilization of the Industrial Employment Stabilization Center of Japan

Since October last year, the Industrial Employment Stabilization Center of Japan has been implementing a model project in Tokyo, Aichi, and Osaka to accumulate information on middle-aged and older workers who wish to hold secondary or concurrent jobs and companies that wish to utilize their abilities, and to provide such middle-aged and older workers with information on such companies. We will enhance the center's matching capabilities through providing information on job seekers.

2. Improving the treatment of non-regular workers

To further broaden the base of wage increases, we will close the wage differences between men and women and promote wage increases for non-regular workers.

(1) Minimum wage increase

Last year, the national weighted average minimum wage reached 1,004 yen, achieving the goal of a national weighted average of 1,000 yen. The increase was the largest ever, with a national weighted average increase of 43 yen.

This year, the amount of the minimum wage increase will be thoroughly discussed at the Minimum Wage Council, which consists of representatives of public, labor, and management, taking into consideration the results of spring labor-management negotiations that exceeded last year's level, as well as cost of living of workers, and the ability of businesses to pay wages, which are three minimum wage determinants. In order to achieve earlier the goal of 1,500 yen by the mid-2030s through efforts to raise labor productivity, etc., the public and private sectors will work together to promote investments in automation and labor-saving measures among SMEs and small businesses and to improve the environment for business succession, M&A, etc. In addition, measures will be taken to narrow regional disparities, such as increasing the ratio of the lowest regional minimum wage to the highest regional minimum wage.

(2) Strengthened enforcement of equal pay for equal work for non-regular workers

Even after the enforcement of the law on 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, although it cannot be conclusively determined that this gap is unreasonable.

In order to improve the treatment of non-regular workers, it is essential to thoroughly enforce the equal pay for equal work system. The Labor Standards Inspection Office will ensure enforcement in this aspect as well.

Since last November, the enforcement of the law has been strengthened, and companies that have not received guidance and advice from the Prefectural Labor Bureau among those with insufficient explanation of the basis for the difference in base salary and bonuses have been uniformly issued a written request for inspection in person at the Labor Standards Inspection Office. The written request for inspection demands that these companies inform their management of the matter and submit a report of the results of actions taken within two months.

In addition, we will review the Part-Time and Fixed-Term Employment Act to extend the principles of the equal pay for equal work guidelines to various types of regular employees into whom non-regular workers can be converted, such as job-limited employees, location-limited employees, and time-limited employees, as well as full-time permanent employees.

(3) Strengthened support for regularization of non-regular workers

Since last November, the amount of subsidies for career advancement, which promotes the regularization of non-regular workers, has been expanded, and the requirements for fixed-term workers to be eligible for the subsidies have been relaxed. We will follow up on the status of the utilization of these subsidies and consider measures to further promote regularization. Through these efforts, we will work to eliminate involuntary non-regular employment (non-regular employment of those who wish to be regular employees).

(4) Addressing the Annual Income Barrier

The government will continue to work on expanding the application of employee insurance to part-time workers and raising the minimum wage so they can work without being conscious of the so-called 1.06 million yen/ 1.3 million yen barrier. In addition to these efforts, in order to encourage the creation of an environment that allows workers to extend their working hours without being conscious of the barrier, the government will steadily implement the "Enhanced

Support Package to Help Overcome the Annual Income Barrier" which was introduced last October as immediate measures. (This package includes i) measures to address the 1.06 million yen barrier (new courses of career advancement subsidies and exclusion of allowances to promote the application of social insurance from calculations of standard monthly remuneration amount), ii) measures to address the 1.3 million yen barrier (facilitation of dependent certification through employer verification), and iii) measures to address spousal benefits (promotion of review of spousal benefits at companies.) In addition, the government will work on reviewing the system to make it possible for people to work without being conscious of the "Annual Income Barrier. "

III. Early Implementation of the Integrated Three-Pronged Labor Market Reform

Wages in our country so far have tended to be low for younger generations and increase rapidly after the 15th to 19th year of employment [15], which may have a negative impact on marriage and child rearing. In addition, young people's attitudes toward lifetime employment are changing rapidly. A response to the changing attitudes toward lifetime employment and career change is needed.

It is important to create an environment in which both young and senior workers, regardless of age, can work to the best of their abilities. A survey shows that more than 40% of people in their 60s say they want to work until they are 70 or older. [16] Some companies have abolished the mandatory retirement age system and executive age-limit system through the introduction of job-based personnel management and other measures, and the percentage of such abolition is higher in SMEs.

The wage curve in our country still peaks for men in their 50s, but there is a noticeable trend towards gradual flattening. [17]

In addition to promoting labor market reforms to enable Japanese companies to provide work opportunities for young, capable workers and senior workers who are willing to work, we will create a structure in which workers with know-how can earn higher wages through the development of skill standards and other measures for front-line personnel who support workplaces where labor shortages are conspicuous. To address labor shortages, the public and private sectors will also work together to improve the working environment for seniors, including the re-skilling of experienced senior workers.

By promoting an integrated three-pronged labor market reform consisting of the introduction of job-based personnel management, facilitation of labor mobility, and support for skill improvement through re-skilling, we aim to reduce the wage gap [18]that exists between Japanese and foreign companies despite the same duties, while taking into account differences in economic conditions in each country. In addition, we aim to resolve wage disparities due to factors such as gender and age. Furthermore, through the formation and seamless connection of internal and external labor markets, we aim to ensure that the proportion of individuals whose wages increase due to a job change continuously exceed the proportion of those whose wages decrease.

(1) Introduction of job-based personnel management according to the actual conditions of individual companies

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. Therefore, we will promote the introduction of job-based personnel management according to the actual conditions of individual companies.[19]

1) Establishment of job-based personnel management guidelines

To maintain the competitiveness of Japanese companies, we will promote the introduction of job-based personnel management.

The conventional employment system in Japan is centered on hiring new graduates at once, with transfers initiated by the company, and employees are expected to do their best in the jobs given to them by the company, and whether or not reskilling for the future proves beneficial depends on personnel transfers. It is a system that makes it difficult for employees to develop their careers autonomously based on their own will. There is a need to shift to the job-based personnel 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.

Japanese companies have expressed their sense of crisis that under the conventional system, i) it is difficult to recruit personnel with expertise, such as those with cutting-edge knowledge, ii) it is difficult to appoint young employees based on the principle of the right person for the right job, and iii) it is difficult to retain personnel within the company because job-based personnel management is common in other countries. We need to take action to maintain Japanese companies' competitiveness.

On the other hand, it is important for each company to be able to consider how to introduce a system that fits its own style, taking into account that the actual situation of each Japanese company, including its management strategy and history, is very different from one another. To this end, we seek cooperation from various companies that have already implemented the system, and we plan to publicly release the "Job-Based Personnel Management Guidelines" this summer, which will include many case studies of these companies. In formulating these guidelines, we will strive to provide as much diverse information as possible.

In formulating the guidelines, we would like each company to provide as much specific information as possible on each of the case studies to show the characteristics of each company, including: i) the purpose of introducing the system and its positioning in management strategy; ii) the framework of the system, including the scope of introduction, grading system, compensation system, and evaluation system; iii) employment management system, including recruitment, career autonomy support, personnel transfer, and grade changes; iv) the division of authority between the personnel department and each department; and v) the introduction process, including labor-management communication.

In addition, to provide job opportunities to seniors who want to work amid labor shortages, we will seek cooperation from companies that have revised their executive age-limit and mandatory retirement systems in conjunction with the introduction of job-based personnel management, and make such information available. At this time, we would also like to receive information on how to promote the treatment of seniors according to their skills so that young, capable employees will not feel dissatisfied.

2) Revision of executive age-limit and mandatory retirement systems according to the actual conditions of individual companies

We request that companies consider revising their executive age-limit and mandatory

retirement age systems in accordance with the actual conditions of individual companies in order to provide job opportunities to seniors who want to work in the midst of a labor shortage. To encourage such efforts, we will compile and disseminate case studies that can be used as references for each company.

3) Clarification of the application of the discretionary labor system, etc., regarding startups

Managers and those who handle confidential affairs (supervisors and those handling confidential affairs), those who are engaged in the research and development of new technologies, products, etc., and those who have specialized and scientific knowledge and skills (R&D workers) are exempt from the working hour regulations or are subject to the discretionary labor system. Meanwhile, for startups, especially in their early stages, it is often unclear whether these systems can be applied even if the individual wishes to use them, because there is no clear distinction in the scope of work between those who perform management supervision, confidential affairs, and research and development and those who perform other administrative tasks. For this reason, we will clarify the application of the discretionary labor system, etc. for workers in startups, etc. and workers engaged in research and development of new technologies and products.

4) Consideration of the monetary relief system when dismissal is invalid

We will examine a mechanism whereby, if the worker prevails in court and the dismissal is found to be invalid, the employer pays a certain amount of money at the request of the worker and the labor contract is terminated upon such payment. However, this mechanism is designed to increase the options for remedy for invalid dismissal based on a petition on the part of the worker, and is not intended to allow dismissal by monetary payment.

In addition, we will promote the use of the labor tribunal system, etc.

(2) Facilitation of labor mobility

Countries with smoother labor mobility between firms have higher lifetime wage growth [20], but among OECD countries, the share of workers with more than five years of service among all workers was 63.5% in Japan at the latest, which is higher than the average of OECD countries (54.0%), and labor mobility is relatively low. To ensure stable and well-paid employment, we will develop an environment that facilitates employment mobility.

First, in order to provide appropriate posts for young, capable workers, and in addition, to provide labor opportunities for senior workers who are willing to work, the facilitation of labor mobility within companies will be encouraged through the introduction of job-based personnel and posting systems.

Second, as the demand for labor for general white-collar workers may decrease with DX, it will be important how to secure high-wage on-site personnel, facilitate inter-industry labor mobility, and ensure that re-skilling is possible. When it comes to labor mobility, it is important that the will of workers be respected. We will promote the public-private partnership by raising wages by increasing the labor productivity of front-line workers, and by having each private-sector industry organization develop skill standards for front-line workers, and having the government support workers in acquiring these skills.

1) Establishment of an evaluation system for on-site personnel, etc. and support for skill acquisition

For occupations where labor shortages are conspicuous, such as automobile driving (logistics and passenger transport), construction and civil engineering, manufacturing and processing of products and machinery (including repair and inspection), long-term care,

tourism, and food services, industry associations are asked to develop skill standards, and the government will certify skill evaluation systems and also provide support for taking courses to acquire these skills.

Specifically, we will promote the stratification and standardization of skills in industries and occupations that have not been covered by existing public qualifications (e.g., skill tests) through a new framework in which the government will certify private sector tests developed by industry associations and individual companies. Furthermore, the government will provide support for taking courses to acquire skills related to the approved certification test by adding them to education and training benefits starting this fall.

In order to expand the introduction of a public-private sector skills evaluation system, we will request industry associations through the competent ministries and agencies to introduce this system, focusing on industries that have a strong sense of labor shortage and have not had sufficient mechanisms in place to link the improvement of workers' skills to their compensation.

2) Strengthening the career consulting function by sharing information on job openings and job seeking in the public and private sectors

More than 80% of employees aged 25-44 believe that many people will be expected to develop their careers autonomously and independently in the future, and they themselves want to develop their careers autonomously and independently. [21] It is important to expand career consulting efforts throughout our country in the public and private sectors.

The sharing of public-private sector information on job openings, job seeking, and career advancement has been delayed. To accelerate this, the government, with the cooperation of private sector data companies and others, will directly undertake an extensive and detailed collection and compilation contract project, including areas previously held by private human resource companies, beginning this fiscal year. Furthermore, the private-sector job information obtained through this process will be consolidated with the job openings and job seeking information held by the public sector (Hello Work, etc.), and the information will be widely disclosed at a granular level that can be used as a concrete reference for private-sector career consultants when providing guidance and advice to workers.

3) Revision of the unemployment benefits system

From the viewpoint of facilitating labor mobility by one's own choice, the unemployment benefit system will be revised. Previously, individuals who left their jobs voluntarily were ineligible for unemployment benefits for two to three months after applying for job placement, different from cases where the departure was at the company's initiative. Starting from April next year, if someone has undertaken educational training within one year prior to the date of resignation, even if it was voluntary resignation, it will be treated the same as cases where the departure was due to the company's decision.

4) Information infrastructure development and management of digital skill information

In order to create an environment where workers can utilize their acquired skills and move to high value-added industries, we will enhance the job information website (job tag) operated by the Ministry of Health, Labour and Welfare (MHLW).

Furthermore, we will realize continuous learning about digital technology through the management of individual digital skills information, and consider system to widely utilize skill information in the labor market.

(3) Support for improving abilities through re-skilling

In the Danish re-skilling program, 70% of the participants are employed, while in Japan, 60% are unemployed. In our country, the practice of relearning tends to diminish once people start working. To promote re-skilling while maintaining the stability of workers' livelihoods, we will strengthen re-skilling during their tenure. [22]

In addition, we will review the content of support measures for re-skilling via companies, and consider enhancing those deemed necessary.

1) Horizontal development of advanced initiatives

We will consider a framework for visualizing the reform in the public and private sectors, such as commending companies that are actively working to introduce job-based personnel management and other advanced efforts that can serve as a reference for other companies in promoting the three-part labor market reform. In combination with the introduction of job-based personnel management, we will also introduce and laterally expand on examples such as proactively accepting secondary or concurrent jobs and apprenticeships (re-skilling inexperienced job seekers prior to formal employment, while paying them a salary).

2) Review of employment adjustment subsidies

In order to strengthen re-skilling by incumbents, the subsidy rate for employment adjustment subsidies was reduced starting this fiscal year for cases where the number of days of payment exceeds 30 days and education and training is not conducted up to a certain percentage.

3) Establishment of a platform for re-skilling

We will develop educational programs that lead to corporate growth and labor mobility through industry-academia collaboration, and build a platform for regional re-skilling through industry-academia-government collaboration.

We will promote re-skilling of all generations.

(4) Labor market reform related issues

1) Promoting coexistence with foreign national workers

Based on the “Act on Partial Revision of the Immigration Control and Refugee Recognition Act and the Act on Proper Technical Intern Training and Protection of Technical Intern Trainees”, we will steadily implement the Employment-for-Skill-Development Program aimed at developing and securing human resources, which will be established to dissolve the current Technical Intern Training Program in a developmental manner. We will promote the acceptance of foreign human resources while giving due consideration to human rights, through the Employment-for-Skill-Development Program which will be newly established and the Specified Skilled Worker System, which now includes the fields of automobile transportation business, railway, forestry, and wood industry as well accepting this year.

In addition, in order to realize a society in harmony with foreign nationals, we will strengthen the implementation of Japanese language education in Japan and abroad, including the use of nationally accredited Japanese-language education institutes. We will also improve the educational environment at schools that accept the children of foreign nationals and international schools etc., including the use of closed schools, in order to further enhance the environment for accepting highly-skilled foreign personnel.

2) Ensuring fair transactions involving freelance contractors

We will smoothly implement Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators from November of this year to ensure appropriate transactions

with freelancers.

As part of the effort, by October this year, we will establish a framework for the competent ministries and agencies 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. In addition, problem cases will be collected, and industries with many problem cases will be identified by October of this year. Based on the results, an intensive survey of these industries will be conducted within this fiscal year.

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

With regard to the disclosure of wage differences between men and women based on the Act on the Promotion of Women's Active Engagement in Professional Life, we will continue to publicize collections of good corporate practices, etc., and further encourage employers to use the "Explanation Section" to describe the analysis of their wage differences, implementations to close the differences and their results. We also encourage employers to utilize and refer to the "Guidelines to Support Labor-Management Efforts to Resolve Wage Disparities between Men and Women" and "Study Group Report on Issues Related to the Wage Disparity between Men and Women", etc. In addition, we will consider extending the requirement to disclose gender pay differences to general employers with 101 to 300 regularly employed workers, taking the implementation status into account.

We will encourage the development of industry-specific action plans based on an understanding and analysis of the actual conditions and issues in industries with larger wage disparities.

4) Strengthening support for study abroad

We aim to increase the number of Japanese students studying abroad to 500,000 by 2033. To that end, we will work to enhance financial support for Japanese students medium- to long-term studying abroad, promote doctoral students studying abroad, and promote studying abroad from the high-school level.

5) Decreasing the burden of higher education expenses

The paid scholarships and reductions/exemptions of class fees will be expanded this fiscal year to include middle-class families with multiple children or students in science, technology, and agriculture, while the reduced repayment system for loan-type scholarships will be reviewed. From FY2025, tuition and enrollment fees at universities, colleges of technology (KOSEN), and vocational schools will be waived up to a certain amount determined by the government for students from multiple-child households with three or more dependent children, without setting an income limit, and the academic requirements for eligible students will be reviewed as necessary. After introducing the deferred tuition payment system at the master's level, further study will be conducted for full-scale introduction including at the undergraduate level, and a conclusion will be reached as soon as possible. It is important to inform students not only at the high school level but also at the compulsory education level, such as junior high school students who may be eligible for the support in the future, about the new system of support for higher education. We will promote the use of this system to ensure that students do not have their future career choices limited.

6) National development of the labor market reform

We will develop a national campaign to promote the above labor market reform, including

consideration of holding a national conference.

IV. Industrial Innovation through Facilitation of Entry and Exit of Firms

1. Implementing the Startup Development Five-year Plan

Over the past decade, investment in startups has increased tenfold. The "Startup Development Five-year Plan" compiled in November 2022 aims to further accelerate this growth and increase investment in startups from 800 billion yen to more than 10 times that amount (10 trillion yen) by FY2027, with the public and private sectors working together to achieve this goal. Furthermore, in the future, by creating 100 unicorns and 100,000 startups, we aim to make Japan the largest startup hub in Asia and one of the world's leading clusters of startups.

As for the amount of investment in startups, the current situation is that the amount of venture capital funding has declined globally since 2022 due to increased geopolitical risks from the invasion of Ukraine and other factors, while market conditions have been stagnant. Preliminary figures for investment in 2023 in major foreign countries show a significant decrease in the amount of investment compared to 2021: -59% in the U.S., -35% in China, and -48% in the U.K. On the other hand, Japan's Startup Development Five-year Plan, which has begun to be implemented, has increased momentum for startup creation and investment among entrepreneurs, business companies, and venture capitalists in Japan and overseas, resulting in a 13% decrease from 2021, to 754 billion yen. The decline is relatively small compared to other countries. In addition, the number of startups in Japan has increased about 1.5-fold from 16,100 in 2021 to 22,000 in 2023, and the base of startups is steadily expanding.

In the future, in order to nurture the growing base of startups and make steady progress toward our investment target, we will further strengthen funding for startups in the later phase, develop a secondary market for unlisted stocks, support the growth of startups after listing, promote open innovation and M&A, support deep tech startups, and assist with overseas expansion.

Based on this perspective, we will continue to pursue the following three pillars of efforts in an integrated manner.

1)Building Human Resources and Networks for Startup Creation

2)Enhancing Funding Provision for Startups and Diversifying Exit Strategies

3)Promoting Open Innovation

Of these, in addition to II.1 (3) "Establishment of cooperative relationships between large companies, SMEs and small businesses, and startups," the following describes matters that require particularly accelerated efforts in the Startup Development Five-year Plan from the perspective of expanding the scale of startups' businesses.

(1) Enhancing funding provision and diversifying exit strategies

With regard to enhancing funding provision and diversifying exit strategies, the amount of investment in domestic and foreign venture capital from public and private funds totaled 90.5 billion yen (FY2022 results), a 1.6-fold increase from the amount before the implementation of the five-year plan (56.8 billion yen in FY2021 results). In addition, based on the five-year plan, we are implementing a 200 billion yen SBIR (Small/Startup Business Innovation Research) program, a 100 billion yen deep tech startup support program through the New Energy and Industrial Technology Development Organization, and a 350 billion yen drug discovery startup support program through the Japan Agency for Medical Research and Development.

Toward the target year of FY2027, we will strengthen the supply of funds and diversify exit strategies, focusing on the following initiatives, in order to attract even stronger investment in startups from Japan and abroad, and to further expand the scale of startups' businesses, which are expanding their base.

1) Attracting investment from leading overseas venture capitalists through public-private funds

By using investments by public and private funds such as the Organization for Small & Medium Enterprises and Regional Innovation, Japan and the Japan Investment Corporation to attract investments from overseas venture capitalists, etc., we will strengthen cooperation and networks between overseas venture capitalists and Japanese venture capitalists and startups.

2) Formation of a secondary ecosystem

In order to activate secondary trading of unlisted stocks (investor-to-investor trading of existing issued stocks), a system to promote the entry of new operators will be developed based on the revised Financial Instruments and Exchange Act, and a comparative study of the secondary market in Japan and the U.S. will be conducted. In addition, based on the practices and needs of the parties concerned, a secondary ecosystem will be formed, including the development of a framework for smooth transactions.

Based on the fact that in the U.S., secondary funds and funds for growth and later stages (business expansion and stabilization stage) acquire venture capital interests, allowing startups to continue to grow beyond the venture capital fund formation period (usually about 10 years), Opportunity Fund managed by a subsidiary of Japan Investment Corporation (a fund whose main business is the purchase of existing venture capital equity) will be expanded. At the same time, the Development Bank of Japan will also accelerate the supply of funds to startups in the growth and later stages through the utilization of Special Investment Operations to promote further growth.

3) Promotion of business development of deep tech startups

To promote financing by financial institutions for deep-tech startups (startups that require long-term R&D and large capital), we will study the expansion of debt guarantee programs for deep tech startups and investigate the need for debt guarantees for project financing.

4) Facilitating the flow of investment funds to startups, from foreign investors

With regard to the taxation of gains on stock transfers by foreign investors, we will examine the taxation system in light of its policy objectives and consistency with other systems, as well as with the situation in other countries.

We will consider the necessity of revisions to the Japanese Controlled Foreign Company Rules in light of the additional administrative burden associated with further domestic legislation of the Global Minimum Tax (a system of taxing multinational enterprises up to the 15% minimum rate), which was internationally agreed upon as a solution to the tax challenges arising from the digitalization of the economy.

With respect to the special provisions for taxation on foreign partners of overseas investors, we will consider how the taxation system should be in promoting investment from overseas LPs (limited partners) to domestic GPs (general partners), taking into account policy needs and issues.

5) Review of listing markets on the Tokyo Stock Exchange

With regard to the "Growth Market" of the Tokyo Stock Exchange (a stock market for

emerging companies with high growth potential), in light of the situation where many companies stagnate in growth after small-scale listings, we will consider the medium- to long-term approach to listing maintenance standards, etc., from the perspective of promoting the growth and turnover of listed companies, while paying attention to the impact of the 2022 market classification revision and ensuring support mechanisms after delisting.

In addition, in conjunction with the reform of the Growth Market of the Tokyo Stock Exchange, we will also consider how the listing maintenance criteria for the Standard Market should be, taking into account the independent relationship between the Growth Market and the Standard Market.

Furthermore, in light of the clarification of the fact that financial results may contain indicators considered important for business management and the requirement to state the calculation method of such indicators, we will work with the Tokyo Stock Exchange, etc., to take further measures to expand performance reporting using indicators considered important for business management, such as "operating income excluding stock-based compensation," etc., and to promote the adoption of such reporting in practical operations.

6) Consideration of goodwill impairment to promote M&A of startups

From the perspective of promoting M&A of startups and creating startups on a global level, further consideration will be given to expanding the voluntary application of International Financial Reporting Standards (IFRS), the global standard for accounting standards, which includes the non-amortization of goodwill.

In addition, considering the fact that many startups, mid-tier businesses, and SMEs are using Japanese accounting standards, we will examine the state of financial reporting including the non-amortization of goodwill.

7) Dissemination of the details of the revised process for setting the IPO price at the time of the IPO.

With regard to the review of the process of setting the offer price at the time of IPO, efforts have been made to set the offer price outside the range of provisional terms and to shorten the listing schedule period, etc., which led to the amendment to the rules of the Japan Securities Dealers Association last year. Based on the subsequent situation, we will take measures to make all relevant parties aware of and thoroughly familiar with the revision.

8) Appropriate contracts between startups and investors

In order to achieve more appropriate contracts between startups and investors, we will revise the "Principal Considerations for Sound Venture Investment Contracts in Japan" during this fiscal year, after making comparisons with international standards.

9) Strengthening support for startups' capital policies and fundraising

We will promote the use of a system that allows startups to consult with experts of capital policy and impact investment, etc. free of charge to support startups in adopting appropriate capital policies. In addition, in order to strengthen support for financing for startups, we will consider the following: extension of the reinvestment period under the angel taxation system, raising the listing maintenance criteria in the Growth Market, etc. to attract funds and promote M&A, reform of the secondary market system, and strengthening of venture debt (a financing mechanism whereby companies receive low-interest loans from financial institutions and issue stock acquisition rights without compensation).

(2) Building human resources and networks

Regarding the building of human resources and networks [23], individual initiatives are progressing at a pace exceeding their targets. For instance, the mentorship support program supported 548 people annually in FY2023, compared to the target of 500 people annually by FY2027, and the program to dispatch 1,000 young entrepreneurs to Silicon Valley and other overseas locations, which has a target of dispatching 1,000 people over five years, has already dispatched 400 people in FY2023 alone.

In addition, in order to improve the environment for promoting the use of stock options, the revised Act on Strengthening Industrial Competitiveness has established a stock option pool system that expands the scope and period of the delegation from the general shareholders meeting to the board of directors with respect to matters to be decided when stock options are issued, and has raised the maximum annual exercise price of tax-qualified stock options to 36 million yen, which is three times the previous limit. For tax-qualified stock options for restricted stock, the requirement to delegate the custody of shares to a securities company after the exercise of options has been removed, provided that the company appropriately manages the shares.

To increase the number of young people who aspire to become entrepreneurs and to broaden the base of entrepreneurs, we will strengthen the building of human resources and networks related to startups, focusing on the following initiatives:

1) Strengthening support for Japanese entrepreneurs' overseas ventures

We will promote support for Japanese entrepreneurs, including serial entrepreneurs (entrepreneurs who launch new businesses in succession) , to develop their businesses overseas, acquire local human resources, and increase opportunities to speak at global events, through programs to send entrepreneurs and others overseas and overseas development measures tailored to the phase of the company.

In addition to expanding the mentoring and acceleration programs (business growth fostering programs) with overseas mentors, offered by the Japan External Trade Organization (JETRO), and programs to attract ecosystem players, including foreign investors, we will strengthen the systems of relevant departments of JETRO.

Furthermore, in order to continue to support the creation of university-launched startups that can expand globally and to support their growth, including support for global expansion after creation, we will enhance and strengthen support for open innovation (joint R&D support, etc.) among startups, universities, and large companies, and investment in university-launched startups.

Additionally, in order to foster globally-minded start-up leaders, we will enhance entrepreneurship education in both quality and quantity, including sending them overseas.

With the Japan Bank for International Cooperation now able to support Japanese startups aiming to expand overseas, we will strengthen cooperation with the JETRO in their various measures and with Startup Cities, etc.

2) Consideration of free share allocation to employees

In light of the fact that listed companies can grant shares to directors as compensation without requiring payment (free allocation), but cannot do the same for employees, appropriate measures, including a review of the Companies Act, should be considered to make this possible.

3) Simplification of procedures for RSU and other similar types of stock-based compensation

In order to improve the regulatory environment for RSUs (Restricted Stock Units) and other similar types of stock-based compensation, which are used as incentive compensation for

directors and employees, the regulations will be revised to allow the submission of an extraordinary report, which is a simpler procedure, instead of the submission of a securities registration statement.

4) Revision of the scope of deductible expenses for officers' remuneration

From the perspective of encouraging Japanese companies to utilize officers' remuneration to enhance their corporate value over the medium to long term, we will review the scope of officers' remuneration that are permitted to be included in deductible expenses.

5) Exemplification of carried interest subject to capital gains taxation

With respect to partnership profits (carried interest) that are distributed in excess of the investment ratio from the partnership business, we will ascertain whether there is any room for further clarification regarding the scope of taxation on members, and identify any issues.

6) Concretization of the Global Start-up Campus Concept

It is an urgent issue to establish a mechanism to create world-class start-up businesses from Japan in collaboration with overseas model universities and research institutions, based on the research seeds of Japanese universities and research institutions, while also taking advantage of the potential of Japanese companies, by organically linking the accumulation of academia and researchers from Japan, the U.S., ASEAN, and other parts of the world with the mobilization of funds from Japan and other countries.

The Global Startup Campus Concept aims to realize a new Japanese innovation ecosystem in the field of deep tech, centered on a flagship hub to be established in Tokyo in organic collaboration with overseas universities, and to promote the transformation of academia in Japan. The institutional design of the concept will incorporate the following elements: the concentration of top-class academia in Japan, the U.S., ASEAN, and other countries, and the pooling of their expertise; the introduction of diverse domestic and foreign funding; a research model directly linked to social implementation and venture capital investment through dialogue with the market; the cultivation of next-generation entrepreneurs and investors by attracting overseas deep-tech venture capitalists and dispatching Japanese deep tech entrepreneur (PhD-CEO) candidates abroad (fellowships); and the development of an institutional framework that also takes economic security into consideration.

The operation of the flagship hub will be based on flexible governance that can realize the above elements while also ensuring the vitality of the private sector, and will realize the public mission of transforming academia by building the entire Japanese innovation ecosystem. We will urgently present a concrete policy for the corporation, etc. that will be in charge of such operations.

In developing the facilities for the hub, we will incorporate operational experiences from global research and incubation facilities, and adopt a framework that enables the creation of architecture capable of attracting global top talents. This architecture will feature world-class design and functionality, fostering various encounters (serendipity) that lead to innovation. Under this framework, we will formulate a plan for facility development.

7) Strengthening functions of Startup Cities

We will review Startup Cities to promote globalization and co-creation between large companies and startups.

To support the formation of communities and their activities through the industry-academia-government-finance collaboration in the startup ecosystem, we will strengthen the program to enhance overseas collaboration functions of Startup Cities. In addition, consideration will be

given to development in rural areas.

8) Strengthening the startup ecosystem in regional areas

To form a startup ecosystem and strengthen the activities of consortiums and other organizations led by local governments, we will utilize the Digital Rural City National Concept Grant and enhance and strengthen measures related to the startup ecosystem, including those in the healthcare sector. To provide focused support for startup development measures implemented by local governments through the Digital Rural City National Concept Grant, we will take measures such as giving extra points to projects related to startups at the time of screening for the adoption of the grant. In addition, the Hometown Tax donation system for enterprises framework will be utilized to provide support.

9) Strengthening MBA education, including the establishment of entrepreneurship development programs by overseas business schools in Japan

In Japan's existing educational institutions, there are limits to providing educational programs with strengths in entrepreneur development. Therefore, we will encourage the establishment of programs such as master's degree courses in business administration focused on entrepreneurship development by overseas universities that can be studied online while in Japan, and consider creating an environment where degrees can be obtained domestically.

10) Promotion of joint research, etc. between startups and SMEs and universities

In addition to collaboration between startups and large companies, we will consider supporting the establishment of an open innovation system, human resource development, and research and development, where startups, SMEs, and universities strategically collaborate to promote joint research and development, etc.

11) Strengthening overseas promotion of the Startup Development Five-year Plan

In order to increase foreign investment in Japan's startup ecosystem, we will enhance integrated policy promotion in English, covering all government initiatives, and relevant ministries and agencies will engage in English policy promotion for their respective initiatives, participate actively in international exhibitions, and host private events targeting overseas investors to enhance the overseas visibility of the Startup Development Five-year Plan. In addition, we will enhance the dissemination of information in English on various procedures for foreign investors and startups to invest in and advance into Japan, including notification and reporting under the FEFTA.

By demonstrating the government's commitment to startup support, we will ensure that key overseas players such as venture capitalists and accelerators (organizations and individuals who support the growth and expansion of existing businesses) are attracted to the country.

2. Entry and exit in accordance with management's intentions

We will further promote growth and productivity improvement by promoting business succession, M&A, and grouping of SMEs and small businesses through making maximum use of budgetary and tax measures, such as a tax system for business succession and a tax system for grouping Leading Medium Enterprises (LMEs) and SMEs.

(1) Facilitation of M&A

Even a profitable enterprise may go out of business due to the absence of a successor. It is important to provide opportunities for presidents who wish to delegate management to others in accordance with their intentions.

M&As have been confirmed to have a positive effect on increasing sales per employee, and groupings through multiple M&As have been shown to be highly successful. [24]

We will remove barriers to M&A and improve the environment.

1) Disclosure of intermediary commission structures

The majority of mid-tier businesses and SMEs find buyers through third-party referrals.[25] In addition, a conflict of interest issue has been raised regarding private intermediaries, who strongly reflect the intentions of the buyer, since they engage in one-time business deals with the seller, while conducing multiple transactions with the buyer.

In many cases, commissions are now collected from both the seller and the buyer based on the amount of the acquisition, and the minimum commission is set at a high level. [26]

In order to accelerate M&A activities, we will proceed with specific studies toward a compensation system that reduces conflict-of-interest structures and commission levels that are acceptable to both sellers and buyers.

In addition, in order for SMEs and small businesses to be able to engage in M&A with peace of mind, we aim to enhance transparency in M&A support agency databases, where M&A participants can verify information about commission structures, compensation standards, etc. for each support agency.

2) Strengthening support for SMEs and small businesses

We will further strengthen support for SMEs and small businesses in terms of fees paid to specialists when they conduct business transfers and M&A.

In addition, we will improve the usability of support measures such as business succession and transfer subsidies. Regarding business succession and transfer subsidies, improvements will be made on the premise of enhanced disclosure of fees and implementation of PMI (Post Merger Integration: business integration work conducted before and after an acquisition), and consideration will be given to shortening the time until payment through simplification of performance reporting procedures.

3) Promotion of PMI initiatives

For an M&A to be successful, it is important that PMI is properly implemented and that the synergies anticipated before the acquisition are realized. We will raise awareness of the importance of PMI for SMEs and small businesses and enhance support for their PMI activities.

4) Consideration of a framework for reviewing personal guarantees by business owners

While some progress has been made in providing loans without personal guarantees by business owners for new loans, in many cases, business guarantees by business owners still remain for existing debts. Considering the fact that both buyers and sellers of M&A do not want to leave personal guarantees, we will consider a framework to review personal guarantees by business owners when main banks, etc. mediate and support business restructuring and M&A.

We will continue to promote the establishment of financing practices that do not rely on personal guarantees by business owners in order to strengthen the financing of SMEs and small businesses. As an option for financing that does not rely on tangible assets such as real estate as collateral, we will promote the active utilization of legal systems that allow financing using the entire business as collateral, including intellectual property and intangible assets such as corporate know-how and customer bases.

5) Strengthening intermediary service operations by regional banks and other financial

institutions

As part of the efforts to strengthen management support for SMEs, we will encourage regional financial institutions to become more active in M&A intermediation and support. To this end, we will promote the development of appropriate business management systems, including the securing of high-level human resources, and support the efforts of financial institutions by providing information on the initiatives of regional financial institutions that are actively providing M&A support, as well as by developing such initiatives horizontally.

6) Developing potential buyers for M&A

The absolute number of potential buyers for the M&A of SMEs and small businesses is still insufficient. Given the strong tendency to avoid selling to other companies in the same industry, we will develop platformers who will be active buyers of mid-tier businesses and SMEs.

It is also pointed out that it is difficult for buyers to raise M&A funds. We will create an environment that facilitates smooth financing that matches the scale of acquisitions.

7) Promotion of appropriate due diligence without excess

We will raise awareness about due diligence in M&A(investigations conducted by the buyer into the seller's financial condition, etc.) as an important process for detecting risk, and promote due diligence that is appropriate and not excessive, depending on the characteristics of the deal, subject to the intentions of the parties involved.

(2) Diversification of business succession support

More than 70% of firms with no successor are profitable. [27] Regarding business succession, in terms of the current stock base of successors, family succession is declining, with an increase in promotions from within companies and appointments from outside through M&As [28]. This is one of the reasons companies without successors are on the decline [29]. We will consider financial, tax, and other support measures to support diverse business successions. In addition, we will promote extensive matching between the public and private sectors in securing management personnel.

1) Review of the officer appointment requirement in the business succession taxation system

Under the current business succession taxation system, a company must satisfy a requirement (the successor must have been an officer of the company for at least three years at the time of the actual succession), and if the special measure is used, the successor must become an officer by the end of December this year (three years before the actual tax succession deadline of December 2027). For businesses that will begin to consider business succession in earnest next year or later, it will be difficult to have successors assume the position of officer by December of this year. From the perspective of making maximum use of the business succession taxation system, we will consider the ideal form of the officer appointment requirement.

Furthermore, we will work to maximize the use of the business succession taxation system by working with the Business Succession and Transfer Support Center, commercial and industrial organizations, and certified tax accountant associations to thoroughly familiarize the public with the system.

In order to promote business succession to third parties outside the family and outside the company, we will encourage matching platforms to improve the quality of information they provide, and actively work to develop search funds from the perspective of facilitating business succession and securing management personnel. In addition, from the viewpoint of widely promoting competent human resources (managers) and further promoting business

succession, the tax system to facilitate business succession to third parties should be further examined.

2) Promotion of the use of the Business Succession and Transfer Support Center, etc.

When looking for a partner company for M&A, the percentage of companies using the Business Succession and Transfer Support Centers (Small and Medium Enterprise Agency), chambers of commerce and industry, or associations of commerce and industry is still low. In collaboration with commercial and industrial organizations and financial institutions, we will strengthen and thoroughly publicize the Business Succession and Transfer Support Centers, including the business succession taxation system.

3) Use and follow-up of capital loans

The capital loans implemented as a countermeasure against COVID-19 by the Japan Finance Corporation and others are expected to make it easier to obtain loans from private financial institutions and contribute to business improvement and restructuring through financial improvement. We will follow up on the utilization of capital loans, and promote their use in areas affected by the Noto Peninsula Earthquake of 2024, etc.

4) Promoting awareness of systems for appropriate advice from specialists

Tax accountants, legal advisors, regional financial institutions, and other professionals who are in a position to support the management of SMEs and small businesses may not fully understand the systems related to business succession, business restructuring, and M&A. The system will be made known to these specialists, leading to appropriate advice to management.

(3) Facilitation of pre-insolvency proceedings

With regard to business restructuring, one of the major changes since the Global Financial Crisis of 2008, has been the increase in pre-insolvency proceedings, in which debt restructuring is carried out by agreement with lenders. We will continue to enhance the environment to empower management to address the current situation effectively. In order to facilitate prompt business restructuring according to the judgment of management, we aim to swiftly submit a bill that permits the reduction of financial debts through a majority vote, similar to practices in other countries.

(4) Promotion of grouping and business coordination to maintain basic living services in regional areas

The labor shortage rate is increasing in the majority of prefectures with the exception of four prefectures including Tokyo. We will consider measures, including grouping and business coordination, to maintain basic services in the community.

3. Content industry revitalization strategy

The overseas sales of content originating from Japan are comparable in size to the exports of Japan's steel and semiconductor industries. [30] In addition, half of the top world rankings for characters are from Japan. [31]

Content such as animation, music, broadcast programs, movies, games, and manga is a proud asset of our country, and we hereby formulate and clearly state the "Content industry revitalization strategy" as follows, and the government as a whole will promote this strategy through public-private partnerships. In doing so, we aim to build a healthy partnership between the public and private sectors, in which the government will attempt to improve the environment for creative industries without interfering in the creation of private content.

(1) Strengthening command post functions related to the creator/content industry

We will clarify the government's command post functions related to the creator/content industry, strengthen the system, and work to discover and nurture creators and support their overseas development.

1) Establishment of the Content Industry Public-Private Council

We will establish the Content Industry Public-Private Council, consisting of the Cabinet Office, Ministry of Education, Culture, Sports, Science and Technology (Agency for Cultural Affairs), Ministry of Economy, Trade and Industry, Ministry of Internal Affairs and Communications, Ministry of Foreign Affairs, Japan Fair Trade Commission, and other relevant ministries and agencies, as well as content-related parties (creators, related industries, etc.). The secretariat shall be the Secretariat of the Intellectual Property Strategy Headquarters, Cabinet Office.

In addition to the development of an environment in which creators can work sustainably and with peace of mind, the mission includes strategic discussions on creators' overseas development and information dissemination, reform of the content industry in response to digitization, etc., measures against piracy, and the ideal support system for the creator/content industry, as well as sharing and confirming progress in the public and private sectors and implementing the PDCA cycle.

2) Establishment of the Film Strategic Planning Committee

A Film Strategic Planning Committee dedicated to film will be established under the above-mentioned Content Industry Public-Private Council. The members will consist of the above-mentioned ministries and agencies as well as people involved in the film industry (creators, related industries, etc.).

The mission is to plan and draft specific measures for the development of a secure and sustainable working environment for film-related creators, the nature of film-related support systems, overseas development and dissemination of films, and the attraction of film locations to Japan.

3) Consolidation of information and enhanced support for individual creativity

While inspecting various support systems for content through the Content Industry Public-Private Council and the Film Strategic Planning Committee, we will create a comprehensive menu that consolidates and streamlines the information of these programs in a manner that is easily understandable to individuals.

In particular, in light of the shift to an economic structure in which individual creators with creativity create added value by utilizing companies as "platforms," the Ministry of Education, Culture, Sports, Science and Technology (Agency for Cultural Affairs) and the Ministry of Economy, Trade and Industry will collaborate to provide medium-term support for individual creators, from discovery and development to production and overseas expansion, in a comprehensive manner.

4) Integration and strengthening of existing businesses related to content policy

In order to provide consistent and strong support for the creator/content industry, the major existing projects will adopt a new system that integrates and executes measures from both the Ministry of Education, Culture, Sports, Science and Technology and the Ministry of Economy, Trade and Industry.

Specifically, both creator support and business support, which have been requested by both ministries, will be bundled together and integrated into the "Creator Support Fund." With a view to strengthening support for creators, the system will be revamped so that it is implemented by category, including education and human resource development, labor environment improvement, production support, international expansion support, strengthening of domestic distribution functions, and enhancement of international presence.

(2) Promotion of overseas development and world-class content production and distribution

In order to promote overseas business development, we will implement business development support to production companies when expanding overseas, support for participation in international trade fairs and international film festivals, support for young people to study abroad, and the development of learning opportunities in Japan.

In addition, we will work on the production and distribution of world-class content such as broadcast programs and music [32], as well as the establishment of a foundation for overseas reputation formation, local initiatives and revitalization of the content industry.

1) Nurturing creators who will lead the next generation

The source of competitiveness of content lies with its creators. To this end, as a program to nurture talented human resources, we will provide support for content production, presentation, and overseas development by selected creators, as well as accompanying support by mentors.

We will provide opportunities for young creators to gain experience in world-class content production by sending them abroad, we will also support the costs of lawyers, accountants, and other professionals involved in contract negotiations during overseas expansion. In addition, for both creators and producers who are expected to succeed on the international stage, support for the formation of international networks and participation in international trade fairs and international film festivals will be strengthened. In addition, we will consider providing support for localization, such as translation and dubbing of works, to creators and production companies seeking to expand their business overseas.

We will provide support for high school and vocational school students who aspire to become creators to study abroad.

We will foster digital creators who use digital technology to create content (support for production conducted on a global platform for game and video production).

2) Overseas expansion of Japanese startups in the entertainment field

We will support the business implementation of Japanese startups that are working to expand their entertainment business overseas, including Silicon Valley on the U.S. West Coast. We will also support companies that are actively working to enter the market from other sectors.

3) Support for content production

To secure funding for the production of globally competitive works, we will support production companies in financing their own projects.[33]

In addition, the use of digital technologies such as VFX (a technology to enhance screen effects during post-production finishing work) and 3DCG has not progressed sufficiently in the field of broadcast program and movie production in Japan. We will: i) Promote the production and archiving of digital assets such as visual backgrounds and architectural structures, ii) Promote the private sector development of studios, and iii) Support location shooting and production of major overseas projects in Japan.

4) Establishment of higher education institutions for creator development

We will provide skill surveys and feedback and basic education programs for creator development, linking the animation, manga, video, music, and other industries with the educational community, as well as creating and promoting courses at university faculties and vocational schools where students can gain the skills necessary for creators and the content industry development. In addition, we will actively accept foreign students in related fields to create an international circulation of human resources.

In order to acquire overseas human resources in the content industry sector, we will explore the use of the Specified Skilled Worker System by examining what kind of work requires human resources and whether the sector is still understaffed even with efforts to improve productivity and to secure domestic human resources.

In order to strongly promote the overseas development of the content industry, we will work on the development of producers with a global market in mind, and develop a support system that goes beyond support for individual content projects to encourage mixed-culture initiatives in collaboration across fields.

5) Support from Japan External Trade Organization (JETRO), Japan Foundation, etc.

Utilizing the overseas offices of the Japan External Trade Organization (JETRO), we will recruit and deploy personnel specializing in content, support local business development of creators and related companies entering overseas markets, and promote local networking.

In addition, while overseas performances are important for artists to gain recognition overseas, they are risky for businesses, and there are issues involved in their smooth implementation. Therefore, we will promote local support in collaboration with relevant organizations at JETRO's overseas offices and support for the holding of overseas performances by utilizing subsidies for overseas development.

Furthermore, in order to promote content, we will promote support from the Japan Foundation, including the Asia Lounge at the Tokyo International Film Festival for fostering exchanges among film professionals.

6) Production and distribution of world-class content such as broadcast programs and music

TV stations, etc. shall voluntarily promote efforts to ensure that harassment, bullying, long working hours, etc. do not take place at the production site of broadcast programs for anyone involved in broadcasting.

In broadcast program production transactions, guidelines will be developed, observed, and thoroughly enforced to ensure that copyrights are not unilaterally attributed to the client and that harassment does not occur.

We will promote the production and distribution of world-class broadcast content and ensure appropriate compensation for creators. We will support the development of an environment for creators to use 4K equipment and VFX, etc., human resource development for acquiring know-how in 4K and VFX production techniques, etc., and streamlining rights processing.

To enhance the international competitiveness of Japan's content industry, we will support strengthening the domestic and international distribution capabilities of domestic internet distribution platforms through collaboration between Japan Broadcasting Corporation (NHK) and commercial broadcasters, facilitating the production and distribution of broadcast content for overseas markets.

7) Centralizing contact points and establishing dissemination hubs for comprehensive overseas expansion

Currently, the overseas expansion of literature, manga, etc. is done on a per-work basis, rather than in a comprehensive manner encompassing an author's entire body of work. We will support the efforts of intermediary businesses (publishers and agents) to centralize contact

points for inquiries from overseas.

In addition, we will consider establishing dissemination hubs that can attract people from both home and abroad.

8) Establishment of a foundation for overseas reputation formation

In the fields of manga, animation, art, literature, etc., we will: i) organize competitions and workshops to discover and foster professional human resources for translation and criticism, ii) provide support for translation costs of proposals necessary for sales and negotiations when licensing out (selling/licensing) Japanese works overseas, and iii) consider support for securing opportunities to exhibit works at influential museums around the world and for the creation of lists of recommended works.

In building a reputation overseas, it is essential to have not only the quality of the work, but also a strategy to create an enthusiastic fan community. We will support the exhibition of Japan Pavilion at international film festivals and international trade fairs and the promotion of works there. For music, we will also use global platforms to encourage the formation of local, dedicated fan communities.

9) Revitalization of content-related initiatives in regional areas

Attracting location filming and holding content-related events in regional areas will help create tourism demand from abroad. [34] We will encourage local initiatives. Attracting large-scale video productions by overseas production companies for location shooting not only stimulates the local economic revitalization and inbound demand, but also leads to the advancement of the domestic video industry. Therefore, we will particularly promote the attraction of productions that involve the use of digital technologies such as VFX.

10) Creation of a new content industry through a combination of intellectual property and different industries

Taking the opportunity of the transition to digitalization [35], we will promote the utilization of various contents lying dormant in Japan and create a new content industry through the utilization of new intellectual property (IP) by combining different contents and industries, etc.

With regard to music, we will consider measures to reorganize rights related to the use of past content and to realize appropriate compensation in response to the age of digitalization, with a view to reconstructing the nature of Japanese brand curation (editing and dissemination of information).

In the area of animation and manga, while overseas platforms have gained market dominance, we will support content providers who are trying to create a Japan-originated platform by utilizing new technologies such as blockchain.

With regard to art, we will consider measures to enhance the functionality of museums throughout Japan, including strengthening cooperation among museums, promoting digital archiving in museums, and improving the fundraising capacity of museums. In addition, we will enhance the presence of the Japanese art scene by strengthening cooperation with art fairs that have international influence and by providing support for domestic events. Furthermore, the collection, preservation, and public display of original works of art and digital archiving will be promoted to enable the exhibition of manga, animation, games, and media art in art museums. We will raise awareness of the use of crowdfunding, etc. to museums, etc., and consider measures to improve the fundraising capacity of museums.

11) Promotion of the utilization of DAOs and advanced technologies

There is room to utilize the DAO (Decentralized Autonomous Organization) mechanism in the production of video and other content and the fair compensation of creators. In addition, the use of technology is very effective in the digital transformation (DX) of production

processes, enhancing the appeal of visual content, etc., promoting overseas expansion through more efficient translation, and ensuring fair compensation for creators. To promote the use of advanced technologies such as AI, VFX, web3, etc., we will support the use of digital technologies by content providers.

12) Strengthening measures against piracy

As concerns grow about pirated Japanese content being used to train generative AI and the worsening of piracy damages overseas, we will strengthen international enforcement, including consideration of introducing penalties for crimes committed abroad, and promote the distribution of authorized copies of Japanese content overseas by leveraging Japanese companies' acquisitions of foreign platforms.

(3) Establishment of an environment in which creators can work sustainably with peace of mind

In order to carry out innovative content creation activities, it is necessary to form an open and broad human network ecosystem in our country. Meanwhile, an environment in which creators can work sustainably with peace of mind has not yet been developed, particularly in terms of the working conditions at production sites and the payment of wages. We will develop an environment in which the creativity of our country's creators can be maximized.

Targeting creators, artists, etc., we will start correcting labor practices and business relationships that hinder appropriate return of earnings and a healthy working environment, etc., and establish a business model that returns earnings to the production side through public-private sector efforts.

1) Preventing abuse of a superior bargaining position, etc. and ensuring proper transactions

It is essential to correct trade practices in order to create a comfortable working environment for performers and others. In light of the current technological innovation, the content industry is shifting its emphasis to individual creativity. With the cooperation of the Japan Fair Trade Commission, we will conduct a fact-finding survey on trade practices in the music and broadcast program fields, with an emphasis on preventing abuse of a superior bargaining position and protecting individuals, to be completed within this year.

In the survey, we will investigate whether there is any practice of effectively preventing performers or creators from working after their transfer to a new firm by the former firm refusing to allow them to use past materials to which it continues to own the rights.

Based on the results of this investigation, from the viewpoint of ensuring proper contracts between performers and firms, guidelines will be developed to indicate that any contrary action may violate the Antimonopoly Act.

In order to develop a trading environment that maximizes the creativity of individual creators of film and animation, etc., a survey on the trading environment for creators in the field of film and animation production will be conducted from the beginning of next year, following the fact-finding survey in the field of music and broadcast programs.

2) Other efforts to ensure proper transactions

Currently, the majority of creators and production companies are in a multiple subcontracting structure, and not enough revenue is returned to the production site. We will strengthen the system of the "Legal Consultation Service for Cultural and Artistic Activities" to protect the rights of performers and creators in the entertainment industry and to correct labor practices.

In addition, creators are often placed in a subordinate position in their relationships with the

companies that place orders, and are forced to engage in work under unfavorable conditions without adequate prior clarification of the nature of the work, the amount of compensation, the timing of payment, etc. Therefore, we will promote the use of the Act on Improvement of Transactions between Freelancers and Undertakings that will come into effect this fall.

V. Investment Promotion

1. investment in decarbonized power sources and grid infrastructure as a basis for investment promotion

The digitalization and social implementation of generative AI are progressing at an accelerating pace and have become important factors in determining Japan's industrial competitiveness. Having AI computing power in Japan is also important from the perspective of economic security, and there is an urgent need to establish data centers and other facilities in Japan and expand investment in them. Companies operating data centers and other facilities require stable and sufficient decarbonized power sources as a precondition for their business, but the progress of technological development is also difficult to predict, making it difficult to accurately forecast the scale and timing of power demand increases.

Even under such circumstances, we will discuss and consider measures to expand investment in decarbonized power sources and grid maintenance in the course of developing the "GX2040 Vision".

2. DX

We will promote social implementation of digital infrastructure through intensive investment by the public and private sectors in order to accelerate the resolution of social issues and industrial development.

(1) Developing the environment for promoting web3

Innovations such as NFTs (non-fungible tokens) and DAOs (decentralized autonomous organizations) based on blockchain technology may enable even SMEs and small businesses as well as individuals to set prices higher than global standards by directly connecting to global markets. In light of the arrival of these innovations, we will improve the environment for the promotion of web3.

The Limited Partnership (LPS) Act for Investment, was amended to allow LPSs to invest on cryptoassets, enabling enterprises' fundraising from LPSs by cryptoassets. We will work on preparing the environment for implementation by next summer.

To realize a decentralized digital society, we will facilitate the use of tokens and payment related to web3, while also taking user protection into consideration.

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

In addition to promoting the development of post-5G information communication systems, for 6G (Beyond 5G), which is the next generation of communication infrastructure, we will establish the necessary technologies within the next 5 years to provide services by connecting different service providers, with a view to introducing optical communication technology, which is leading as an underlying technology, around 2030. We will also accelerate international standardization efforts.

We will accelerate research and development and establish technical standards in order to achieve prompt implementation of a Non-Terrestrial Network (NTN) that enables continuous communication in times of disaster or across extensive areas, including air, sea, remote islands

and mountainous regions where conventional networks do not reach, through satellite communication and communication from the stratosphere utilizing the HAPS (High-Altitude Platform Station).

With regard to advanced technologies, including Open RAN systems, which allow the construction of base station networks by freely combining equipment from different vendors of like-minded countries, we will conduct demonstrations in more than 10 countries, and with the support of JICT (Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc.), we aim to penetrate the global market with Japanese products before the 6G (Beyond 5G) standards are established.

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

1) Cybersecurity

We will promote the development of security personnel in companies, government agencies, etc. In particular, we will promote efforts in the medical field, where damage is concentrated, and in the fields of smart security and semiconductors, where future demand is expected. We will subsidize the installation of security systems for SMEs and enhance cybersecurity throughout the supply chain.

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, and support the development of domestically produced security products that utilize the results of public and private sector analysis. A certification system for an electronic seal, which indicates the organization from which electronic data is issued will be established this fiscal year to ensure secure data distribution between industries.

We will promote collaboration with government procurement to develop and diffuse a system for evaluating the conformity of IoT devices with security requirements by third-party certification bodies.

2) Establishing a new trust framework for the Internet

Regarding Trusted Web, a new trust framework for the Internet, that provides mechanisms to strengthen data control by individuals and organizations without relying on specific services and to improve verifiability of exchanged data and counterparties with whom it is exchanged, we will create use cases in the fields of business-to-business transactions and healthcare by the end of this fiscal year. Furthermore, we will collaborate in identifying issues and improvements with other countries, mainly the G7, and relevant organizations.

3) Promoting the Digital Government

We will promote the digitalization of municipal counter services and administrative procedures, as well as the development of digital infrastructure that can be commonly used by both national and local governments, such as Government Cloud. By the end of fiscal year 2026, we aim to implement reforms such as one-stop counters with data linkage in 300 municipalities.

4) DX for medical care and long-term care

We will proceed with the system development for the electronic medical record information sharing service, which will be the core of a national medical information platform enabling the sharing of medical and long-term care information, aiming for full-scale operation in the next fiscal year. In addition, we will advance the development of a common calculation system for medical fee billing and patient out-of-pocket expense calculation, aiming for full-scale provision in FY2026.

5) Architectural and urban DX

We will promote building verification using BIM (Building Information Modeling: 3D data on the shape, materials, and construction methods of buildings) and disaster prevention and urban planning using PLATEAU (3D models of the arrangement of buildings and roads in urban space). By linking this information with national land numerical information and cadastral development results using real estate IDs, we will promote the digital transformation (DX) of buildings and cities, enabling the utilization of public and private data in the building and urban sectors, and strengthen their international dissemination.

6) Promotion of process-oriented data strategy

We will build a process-oriented data strategy that internalizes responses to new technologies and social changes, and promote measures while autonomously updating the data strategy in coordination with other digital strategies such as human resource development and security.

To this end, the Digital Agency, which serves as a command post for the data strategy, will be strengthened by reinforcing the integrated review of institutions, operations, and systems by the Digital Legislation Bureau, examining the virtuous cycle of digital policy planning and execution and the ideal form of an efficient execution system, etc., while also developing digital public goods, materializing the DFFT, and establishing an international data collaboration infrastructure.

7) Promotion of the Ouranos Ecosystem

We will promote the "Ouranos Ecosystem," an initiative which focuses on building a platform for data sharing and system linkage across the borders between enterprises and industries, in order to promote the creation of new value through digitalization and to achieve both innovation and solutions to social issues such as realization of a decarbonized society and a circular economy. Specifically, we will make steady progress in operating an interoperable data infrastructure (IDI) to calculate the carbon footprint of the battery supply chain as a leading use case, and work to ensure interoperability with overseas platforms such as Catena-X in Europe (a framework for sharing data across the entire automotive value chain in Europe, etc.). Based on these results, we will promote the establishment of an information distribution platform and operational system for data linkage throughout the lifecycle.

3. AI

While generative AI will bring about major changes in socioeconomic systems, various risks such as dissemination of Dis-/Mis-information and the sophistication of crime are pointed out, and safety and security are required.

In order to follow the lead of U.S. companies and other companies, Japan is developing computational resources and large-scale models, and is also advancing new research, such as the development of small-scale and high-performance models and combinations of multiple models.

Innovations such as the development and utilization of AI can lead directly to solutions to social issues and Japan’s competitiveness. We will accelerate innovation while suppressing various risks of AI, including generative AI, and ensuring a safe and secure environment. In addition, we will continue to demonstrate leadership internationally through the Hiroshima AI Process and other initiatives that Japan leads.

(1) Accelerating AI innovation and innovation by AI

The government and the private sector will work together to strengthen R&D capabilities and promote the use of AI, as well as to upgrade infrastructure such as computing resources and develop and secure human resources. Data is essential for the evolution of AI, and AI-related policies will be implemented in coordination with data strategies.

1) Strengthening R&D capabilities

To ensure that Japan's computational resources essential for AI development are not inferior to those of other countries and are accessible to a wide range of developers, we will continue to advance the development of these resources through public-private collaboration.

We will collaborate with industry and academia in R&D to promote high efficiency, high precision, multimodalization (the ability to simultaneously process and analyze various types of information such as text, images, audio, and video), and risk mitigation of AI model, as well as maintenance and expansion of high-quality Japanese data set and data set in fields with industrial competitiveness, while supporting startups with innovative technologies.

Through public and private collaboration, we will accelerate the enhancement of the foundation for scientific research data generation (AI for Science: using AI to achieve scientific results), which is one of Japan’s strengths, in fields such as medicine, drug discovery, and materials. In addition, we will accelerate the R&D and implementation of innovative AI robots that contribute to the elimination of labor shortages and promotion of green transformation (GX). Furthermore, we will start developing and introducing a new flagship system with superior AI performance that will be the next flagship system.

2) Promotion of AI utilization

We will further advance the " Agreement on Operational Use of ChatGPT and Other Generative AI (Ver.2)" and the promote appropriate procurement and use of AI by the government and sharing of the obtained knowledge, so that it can serve as a model for other organizations. We will also promote the utilization of AI in various industrial sectors.

In order to enable users and developers to utilize and develop AI without being overwhelmed, we will clarify the operation of systems that require attention, such as the Personal Information Protection Act, the Copyright Act, and various business laws.

3) Upgrading of infrastructure

In order to increase the size and decentralization of data centers, reduce power consumption, and upgrade to cutting-edge network systems such as Beyond 5G (6G), we will expand private investment in infrastructure critical to AI.

4) Training and securing human resources

We will enhance and promote educational content to acquire AI skills and improve AI literacy. We will support for research and living expenses for young researchers and doctoral students who will lead next-generation AI development, etc.

(2) Ensuring AI Safety and Security

Regarding ensuring AI Safety and Security, Japan has a basic policy of encouraging voluntary efforts by business operators based on the AI Guidelines for Business. In the future, we will examine how the system should be based on various risks related to AI and international trends in soft law such as specifications and guidelines and hard law such as laws and legal criteria.

1) Consideration of systems for AI Safety

We will publicize and disseminate the AI Guidelines for Business to a wide range of industries.

Based on “The concept for the AI regulation” approved by the AI Strategy Council in May 2024, the AI Regulation Study Group (tentative name), which will be newly established under the AI Strategy Council, will begin to study how the regulation should be targeting fields that have a large impact on society, such as healthcare, autonomous driving, and finance.

2) Consolidation of advanced technological knowledge for AI safety

The AI Safety Institute (AISI), established at the Information-technology Promotion Agency, Japan (IPA) as a central organization for AI safety, will foster and maintain experts and promotes consolidating advanced technological knowledge.

3) Countermeasures against Dis-/Mis-information

Taking into account international trends, the government will promote comprehensive measures including institutional aspects, such as the promotion of technology and R&D, fact-checking mainly by the private sector, and strengthening of international cooperation, in response to dis-/mis-information, and fake advertising that circulates and spreads on the Internet, including those using generative AI.

(3) Promotion of international Cooperation and Coordination

We will continue to lead international efforts to achieve safe, secure, and trustworthy AI through the Hiroshima AI Process and other initiatives, and continue to promote the creation of innovation in cooperation with Asian countries and the Global South.

To further advance the outcomes of the Hiroshima AI Process, we will use the Hiroshima AI Process Friends Group to promote outreach outside the G7, and we will examine measures to ensure the safety of AI through international networks between AISIs of Japan and other countries.

4. Semiconductor Investment

Semiconductors can be used for advanced, high-speed, power-saving data processing and computation by achieving higher performance and lower power consumption.

Domestic and foreign semiconductor-related businesses have been highly impressed with Japan's speedy support measures and well-developed semiconductor-related supply chains, and have become more willing to actively invest in Japan. In Kumamoto Prefecture, the attraction and investment of TSMC (Taiwan Semiconductor Manufacturing Company), a leading-edge semiconductor manufacturer, has led to broad investment and wage increases in the region. In Hokkaido, construction of a plant for Rapidus Corporation, a design and manufacturing base for next-generation semiconductors, began last September.

Seizing this opportunity, we will focus our support on "growth-driving areas" such as cutting-edge semiconductors required to achieve the sophistication of AI and optimization of power consumption reduction, including investments in TSMC and Rapidus Corporation, and "top priority areas for economic security" such as memory, sensors, power, equipment, and materials that require securing technical superiority and supply capacity in cooperation and role-sharing with other like-minded countries.

1) Concentrating policy support on growth-driving areas

Promoting the sophistication and utilization of generative AI is essential for strengthening industrial competitiveness, and from an economic security perspective, it is also necessary to have the capability to utilize generative AI domestically.

To ensure the international competitiveness of Japanese industry and reduce the so-called digital deficit, we will achieve optimization of the sophistication of generative AI and reduction of power consumption both in terms of providing and using cloud-based generative AI services and installing AI functions in edge devices.

To this end, in growth-driving areas such as cutting-edge semiconductors, policy support will be concentrated on: i) supporting the development of basic models that will serve as the foundation for creating AI services that meet end-user needs; ii) securing mass production capabilities for cutting-edge semiconductors that are essential for achieving higher functionality and lower power consumption in applications and basic models; and iii) supporting the design and development that links applications and basic models with cutting-edge chip manufacturing.

2) Support for the most important areas of economic security

Semiconductors are a fundamental technology that supports DX/GX, and even in areas other than the most advanced, they are extremely important for economic security.

Therefore, in the most important areas for economic security, such as memory, sensors, power, equipment, and materials, it is necessary to ensure technological superiority and supply capabilities through cooperation and role-sharing among like-minded countries, while taking geopolitical risks into consideration. We will undertake: i) Investment support for Japanese companies that have a certain global market share, but whose size and financial position will make it difficult for them to expand investment in mass production to keep up with the speed of market expansion; ii) Support for the development of domestic mass production bases for semiconductors that are in high demand by Japanese industry and currently rely on foreign production and imports, or for which overseas production capacity is expected to expand; and iii) Support for research and development in areas where Japan has strengths in terms of economic security.

5. Health and Medical Care

Japan's healthcare industry is experiencing accelerated growth due to rapid aging, innovation, and other factors. We aim to create a healthcare market that can lead the world by leveraging the many potentials that Japan possesses.

To this end, we will (1) systematically promote the acceleration of growth and (2) implement necessary reforms from the perspective of public security, taking into account the unique characteristics of health care.

(1) Acceleration of growth

1) Cultivating healthcare startups

i) Establishment of "Open Innovation Ecosystem" hubs

We will promote the establishment of networks and hubs of innovation resources scattered throughout Japan. This includes the formation of “Open innovation Ecosystem Hubs” (tentative name: Healthcare Transformation Hubs) by universities, companies, venture capitalists, medical institutions, investors, incubators (supporters at the startup stage), etc.

ii) Establishment of a centralized consultation point and strengthening of accompanying support

We will establish a new centralized contact point at MEDISO, a comprehensive support desk for drug discovery and medical device development, to receive requests related to applications for approval, medical fees, etc. In addition, the accompanying support and follow-up functions will be strengthened in collaboration with the healthcare startup consultation

service (InnoHub) and other organizations. In doing so, consultation on overseas development, etc. will be strengthened to support expansion into global markets. In the long-term care sector, “CARISO (CARe Innovation Support Office)” (tentative name) will be established as a similar consultation service.

We will promote the substantial expansion of support functions and systems for medical startups, and the introduction of a milestone-type development support program for pharmaceuticals and medical devices, etc. To strengthen effectiveness, we will promote analysis of best practices by visualization of business results, etc.

iii) Support for entrepreneurship and incubation functions

To promote entrepreneurship, we will promote healthcare acceleration programs to gain practical training in entrepreneurial strategies, development, business strategies, etc. In addition, we will provide support to ensure incubators can continue to help develop startups from an early stage. We will support the introduction and overseas expansion of healthcare startups' products and services in the medical and long-term care fields. We will alleviate restrictions that have become obstacles to the development and commercialization of startup products.

iv) Human resource development, re-skilling

To systematically develop diverse human resources capable of working in the healthcare field, including medical devices and biopharmaceuticals, we will develop the "Healthcare Human Resource Re-Skilling Package" (tentative name), a package of necessary support measures (for specialized personnel in pharmaceutical affairs and insurance, project management personnel, specialized personnel in CRDMOs (Contract Research Development and Manufacturing Organizations), and transfer from other fields).

2) Expanding investment in healthcare

To strengthen support at the R&D stage for practical application and at the mass production stage, we will foster the domestic venture capital market and promote networking between overseas venture capitalists and startups.

To support the M&A of startups by large companies, etc., for rapid social implementation of promising technologies, tax measures (e.g., open innovation promotion taxation) will be utilized.

Given the global expansion of impact investment (investment that intends to have an impact on solving social issues in addition to financial return) in healthcare, etc., the promotion of impact investment will be strengthened in collaboration with existing measures (J-Startup, Impact Consortium, Social Impact Bonds, "Triple I for GH" (Impact Investment Initiative for Global Health), etc.).

3) Prevention, health promotion, etc. using technology

i) Promotion of prevention, prevention of serious illness, and health promotion using biological and lifestyle data

In order to promote the people's proactive prevention, prevention of serious illness and health promotion, as well as data-driven healthcare, demonstration projects will be implemented to improve lifestyles and prevent illness and serious illness through advice on diet, exercise, medical examinations, etc. based on biological and lifestyle data captured by apps and wearable devices, etc. In doing so, standardization of lifelog data (e.g., number of steps, sleep data, etc.) provided by private PHR (Personal Health Record) services will be promoted, and in conjunction with biological and lifestyle data from the above-mentioned

demonstration projects, etc., an environment will be created where medical institutions can utilize the data for recommending medical consultations and for conducting efficient examinations/diagnoses during visits.

ii) Promotion of prevention and health improvement programs

In order to motivate the elderly to continuously participate in health promotion by the preventive long-term care and lifestyle support, attractive and effective programs will be implemented utilizing private-sector vitality and local resources, including the use of apps. For the efforts of local governments, incentives will be provided, such as more generous financial support based on the results of their efforts, such as the rate of continued participation, to promote creativity and ingenuity in improving the attractiveness of the programs.

iii) Support for women's health

We will provide support for women's health throughout their lives, including enhancement of counseling and support systems in the workplace and community based on gender differences, promotion of Femtech, and enhancement of medical treatment functions and promotion of research at the National Center for Women's Health (tentative name).

4) Strengthening market analysis and support system for international expansion

For service development and market expansion tailored to local needs and user segments (income level, regional characteristics, etc.) as well as resolution of a situation where therapeutic drugs used overseas cannot be used in Japan (drug lag and drug loss), we will strengthen the support system by the hub functions (embassies, Japan External Trade Organization (JETRO), Pharmaceuticals and Medical Devices Agency (PMDA), Medical Excellence Japan (MEJ), etc.).

In particular, through strengthening the functions of MEJ, an international development support organization specializing in healthcare, we will promote solutions to issues in the health and medical fields through collaboration among industry, government, academia, and medicine (the MExx concept), etc., and strengthen development in countries and regions in what is called the Global South.

5) Strengthen drug discovery capabilities

We will position the pharmaceutical industry as a key industry in Japan and strengthen drug discovery capabilities.

Drug discovery requires comprehensive capabilities in social systems and regulations, as well as a wide range of R&D capabilities from basic research to practical application. In order to enhance and develop all the components of the drug discovery ecosystem, including human resources, related industries, and clinical functions, while taking into account international perspectives, and in line with the interim report of the "Conceptual Framework for Prompt Delivery of the Latest Medicines to the Public through Enhanced Drug Discovery Capability," we will work to:

i) develop human resources to lead exit-oriented R&D in collaboration with various players;
ii) develop a system for conducting clinical trials at an international level;
iii) establish a domestic manufacturing system for new modality drugs; and iv) continuously create and foster seeds in academia and startups.

In addition, we will promote the construction of a drug discovery AI platform that controls and integrates the entire drug discovery process with a large number of AIs.

6) Promotion of development of biopharmaceuticals, etc.

Based on global trends in research and development, we will work to establish an internationally competitive research and development environment to quickly commercialize seeds originating from our country. These efforts include:

i) Establishment of production systems for biopharmaceuticals manufactured using microorganisms and cells, such as antibody drugs and regenerative medicine products
ii) Establishment of an internationally competitive system capable of conducting FIH (First in Human) studies, which are clinical trials of innovative drug candidates administered to humans for the first time
iii) Development of investigational drug manufacturing facilities
iv) Promotion of international clinical trials

(2) Visualization of quality and expansion of options to ensure public security and management sustainability

1) Visualization and improvement of the quality of services in the area of prevention and health promotion

In order to make it easier for the public to choose prevention and health promotion services with peace of mind, and to improve quality and contribute to the formation of a sound market, "visualization of quality" will be promoted. This will involve organizing evidence based on global standard methods by academic societies and private organizations, and promoting the development of a framework for third-party objective certification of service quality.

Under such a framework, active utilization of quality-assured services by insurers, etc. will be promoted.

2) Diverse service offerings and management sustainability

On the premise of stable provision of public services, under certain conditions, we will clarify ancillary operations of medical corporations and improve the operation of services not covered by long-term care insurance provided by providers of such as long-term care service facilities, etc., to provide a variety of services and ensure sustainability of management. As a result, this will lead to wage increases for medical and workers.

In addition, small businesses tend to face more challenges in terms of profitability, wage levels, and securing labor, and in recent years, the need for business succession and restructuring has been increasing. Therefore, we will promote the following measures: actively disseminating and utilizing related policies (such as the business succession taxation system, tax incentives under the Act on Strengthening Industrial Competitiveness, and business succession subsidies) as well as regional medical cooperation promotion corporations and social welfare cooperation promotion corporations; providing management support through the Welfare and Medical Service Agency; and facilitating smooth matching of sellers and buyers for M&A through collaboration with Business Succession and Transfer Support Centers in each prefecture and regional financial institutions.

3) Quick access through consideration of revision of the system of uninsured concomitant medical care expenses

We will expand the scope of the system of uninsured concomitant medical care expenses, which allows the combination of insured and uninsured treatments, so that patients who wish to enable quickly access to cutting-edge medical care (regenerative medicine products, cancer gene panel tests, etc.) for which the efficacy has not been sufficiently evaluated can do so without waiting until they are covered by insurance, while balancing the maintenance of universal health coverage with the promotion of innovation. In addition, we will consider utilizing private insurance from the viewpoint of smooth access and reducing the burden on

patients.

Furthermore, we will consider making certain drugs available to patients upon request, such as drugs that have biosimilar or other alternatives and can be selected in treatment covered by health insurance, while maintaining universal health insurance system.

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

Science, technology, and innovation[36] 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 together to expand investment in science and technology to realize a nation that leads in scientific and technological innovation in the Reiwa era.

(1) Quantum technology

We will accelerate and enhance the testbed use environment for quantum computers, quantum cryptography, quantum sensors, etc. Furthermore, we will work on conducting research and development, fostering researchers and specialized personnel, promoting international standardization activities, creating opportunities for global expansion and collaboration, and creating and demonstrating use cases for the establishment of a global supply chain, which is indispensable for Japan.

(2) Fusion Energy Innovation Strategy

Since the realization of fusion energy will contribute to securing Japan's autonomy, increasing national wealth through industrial development, and strengthening overall economic security, including energy, it is necessary to strengthen the country's strategy, legal system, budget, and human resources.

Aiming for the early realization and industrialization of fusion energy, we will develop a cluster of demonstration and testing facilities to create innovation hubs for QST and others, and strengthen the research and development capabilities of the public and private sectors, including startups. In addition, we will strategically promote international cooperation with the U.S., Europe, and other countries, as well as present basic ideas on ensuring safety. The current strategy will be revised with the aim of demonstrating power generation in the 2030s, as well as industrialization. On this basis, we will promptly review and implement measures to: i) secure a level of funding comparable to that of other countries and provide support to encourage competition among various types of fusion reactors, not just Tokamak-type; ii) establish hubs for large-scale testing facilities and equipment; iii) further deepen the government interpretation that the fusion is not subject to the Nuclear Reactor Regulation Act; iv) strengthen funding functions of the New Energy and Industrial Technology Development Organization, Japan Science and Technology Agency, National Institutes for Quantum Science and Technology, etc.; v) address the management of technology, including the handling of export controls and investment regulations under the FEFTA; and vi) enact a basic law aimed at strengthening the promotion system. In the next Strategic Energy Plan, we will enhance the positioning of fusion energy within energy policy and accelerate studies toward a world-leading power generation demonstration.

(3) Next-generation materials industry

To ensure long-term sustainable growth from the R&D phase to the mass production phase in the next-generation materials industry, which is also important from the standpoint of economic security, we will create a highly competitive next-generation materials industry by establishing a system in which industry contributes broadly to financing and risk-bearing,

including industry-government-academia collaboration and the use of long-term purchase commitment contracts.

1) Strengthening research system

At national research institutes and universities, such as the National Institute for Materials Science (NIMS), we will work to improve the research environment to attract top researchers to Japan, improve compensation for researchers and research supporters, and attract and foster young researchers, etc., by strengthening and developing international research centers equipped with cutting-edge facilities and equipment that conduct cutting-edge materials research and human resource development in cooperation with overseas universities and research institutions. In addition, we will strengthen the network for strategic maintenance, shared use, and data utilization of state-of-the-art devices, equipment, and facilities in the materials field.

While leveraging the strengths of Japan's academia, we will promote research and development of new materials, etc. that will contribute to next-generation information infrastructure, and establish a new flagship project that goes beyond underlying technology research to conduct integrated next-generation semiconductor research and development.

In addition, we will develop, utilize, and upgrade SPring-8 (a large synchrotron radiation facility established by RIKEN) and NanoTerasu (a large synchrotron radiation facility established by the National Institutes for Quantum Science and Technology).

2) Facilitation of financing

To promote the commercialization of deep tech startups, etc., we will enhance the support phases, contents, and methods, including subsidies for business development activities from the New Energy and Industrial Technology Development Organization.

In addition to government funding, we will strengthen the use of public and private funds for university research, including donations and funds that manage donations. Considering that in the U.S., charitable activities are conducted while increasing donatable funds through the DAF (Donor-Advised Funds) system, especially for donations derived from stock compensation, we will consider introducing a Japanese version of the DAF system that allows fund management through investment in diverse assets.

3) Promotion of industrialization and market creation

We will consider ways to promote business collaboration while gradually increasing the commitment by business companies to procure startup products and services, and take necessary measures to support the acquisition of long-term purchase commitment contracts (off-take agreements).

Aiming at the creation of integrators, we will develop an environment where various new materials can be tested based on user needs, promote industry-academia collaboration in Japan and abroad, and establish open R&D bases.

For the exit strategy of startups in the next-generation materials industry, we will support research and development and capital investment involving collaboration between large companies and startups to encourage startups to take on challenges. We will also consider market designs that encourage startup growth, including through mergers and acquisitions.

(4) Regenerative and cellular medicine, gene therapy, etc.

We will promote the development of methods for suppressing the onset and progression of neurological diseases such as dementia and the establishment of novel treatments against them. In addition, we will establish a project implementation organization in FY2025 to conduct

whole genome analysis for cancer and intractable diseases, with the aim of 100,000 genomes, and through the return of the results to patients and the development of information infrastructure, we will promote next-generation drug discovery, including genome drug discovery, regenerative medicine and drug discovery using iPS cells, cellular medicine, and gene therapy. In addition, we will promote research and development of health care focused on the life course.

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 bioinformatics and 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.

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

In accordance with the agreement of the relevant ministries and agencies (March 2024), the National Research and Development Agencies, which are responsible for various research and development projects, including those of national importance, will introduce flexible personnel and salary systems, secure human resource development opportunities such as training, and further strengthen research security and integrity by developing information security measures and implementing objective reviews by third party organizations, etc.

(6) Support through the University Endowment Fund

With regard to Tohoku University, which has been announced as a candidate for accreditation as a University for International Research Excellence eligible for support from the 10-trillion-yen university endowment fund, we will decide whether to grant accreditation / approval during this fiscal year. In addition, we aim to begin the next call for proposals within this fiscal year.

(7) 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 develop their strengths and distinctive characteristics. In addition, we will encourage changes in the universities through improvements in the research environment, such as securing research time availability.

(8) Establishment of international brain circulation

We will establish an international brain circulation that attracts outstanding research from around the world to Japan by providing opportunities for outstanding Japanese researchers to experience cutting-edge research overseas while also attracting researchers from overseas research institutions.

(9) 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 establish collective bargaining system of universities to negotiate with academic platformers, promote scholarly publications and scientific data in institutional repositories (archives) and other information platforms as well as linkage between systems, and develop and enhance platforms for the dissemination of research outputs.

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

In order to promote the activities of doctoral personnel and young researchers, we will work to promote initiatives that lead to diverse careers for doctoral personnel, including the use of internships and cross-appointment systems, improve the treatment of young researchers, including doctoral students, and to create opportunities for their activities through collaboration between industry, academia and government.

(11) Development of an international standardization strategy to strengthen standardization activities

After defining priority areas such as economic security, advanced technology, and environmental rules, we will develop a strategy by next spring to fundamentally strengthen public and private sector efforts in international standardization.

In order to promote the social implementation of R&D results, we will expand the initiatives of requiring individual companies to formulate policies for standardization for each individual R&D project, as currently implemented in the Green Innovation Fund Project and the 6G (Beyond 5G) Fund Project, to other R&D projects. In addition, we will promote an accreditation system for industry-academia joint R&D based on the revised Act on Strengthening Industrial Competitiveness. This will encourage standardization activities that anticipate market creation in parallel with the early stages of R&D in companies, universities, and research institutions, as well as active involvement of management in standardization activities.

Furthermore, in order to promote behavioral changes in the private sector, we will promote the understanding of all parties concerned with the standardization activities of individual companies under the commitment of management, while considering concrete measures to improve the positioning of standardization activities in corporate management as we proceed with the development of an international standardization strategy, which is expected to be completed by next spring.

(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.

We will strive to build momentum so that many visitors from Japan and abroad will come to the venue. In addition, the government will promote the initiatives included in the " The Expo 2025 Osaka, Kansai, Japan Action Plan" prepared by the government and new technologies to be showcased at the Expo, with a view to their social implementation after the Expo.

7. Promotion of other domestic investments

Based on the domestic investment promotion package, we will promote domestic investment in areas such as batteries and bio-industry, in addition to semiconductor investment, through public-private partnerships.

With regard to economic security, from the perspective of maintaining and developing Japan's industrial and technological foundation, we will establish a system for analyzing threats and risks, promote investment to acquire technological superiority, and strengthen technology management measures.

1) Promotion of domestic production through tax incentives to promote domestic production in strategic sectors

Amidst the introduction of investment promotion measures for strategic areas in Europe and the U.S., Japan has also established tax incentives to promote domestic production in strategic sectors to promote domestic production in areas where it is difficult for the private sector to make a profitable business, but where a long-term strategic investment is indispensable for the country. This system targets goods with large total project costs and particularly high costs at the production stage (such as electric vehicles, green steel, green chemicals, sustainable aviation fuel (SAF), and semiconductors (microcomputers and analogs)), and provides tax credits based on the amount of production and sales of these goods with a 10-year application period and a maximum carry-over period of 4 years. Through this tax system, domestic investment in strategic sectors will be strongly promoted.

2) Promotion of investment in intangible assets through the innovation box tax regime

In order to strengthen the competitiveness of Japan's location as an R&D hub, an innovation box tax regime was established to provide a 30% income deduction for transfer income and license income arising from intellectual property rights (patent rights and copyrights of AI programs) obtained through research and development conducted domestically by the rightsholder. This tax regime aims to encourage private investment in intangible assets. Additionally, the scope of this tax system will be adjusted based on a thorough examination of the enforcement status and effects of the system, and from the perspective of consistency with international rules, verification of the administrative burden on the government and private sectors, differences from other countries in terms of burden of proof, and enforceability by the tax authorities, including in terms of systems, as well as the state of securing financial resources.

3) Batteries

Batteries are essential to promote GX, such as the electrification of mobility and expanding the introduction of renewable energy, and it is vital that Japan occupies the heart of the global battery supply chain.

To secure a domestic manufacturing base of 150 GWh/year and a global manufacturing capacity of 600 GWh/year by 2030, we will expand the manufacturing base of batteries, materials and manufacturing equipment in Japan and overseas, while promoting initiatives to strengthen the global supply chain, including breaking away from dependence on specific countries, develop next-generation battery technologies, and gain market-share in the next-generation battery market.

4) Bio-industry

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.

5) Data centers

We will support phased decentralized location of data centers from the perspective of utilizing decarbonized power sources, in light of the explosive growth in information processing as the use of AI, especially generative AI, increases rapidly worldwide. In addition, to make Japan a hub for international data distribution, we will realize multi-routing of international submarine cables and establishment of new landing stations for international submarine cables by FY2028, in cooperation with like-minded countries. In addition, the submarine cable installation and maintenance system will be strengthened.

6) Ensuring reliable supply chains

After constant inspection and evaluation of the supply chains of critical commodities, including the effects of past efforts, we will consider effective measures according to the characteristics and issues of the commodities, and implement measures to ensure stable supply, including measures against technological outflows. We will also promote building transparent, resilient and sustainable supply chains through international collaboration.

Maintaining and strengthening a free and open international order based on the rule of law, we will inspect the risks faced by industries in cooperation with allies, like-minded countries, etc., and ensure economic security through a unified government effort.

We will continue to support the development of advanced key technologies through the Key and Advanced Technology R&D through Cross Community Collaboration Program. In addition, to promote international cooperation on key technologies for economic security, we will examine measures to prevent technology leakage and steadily take necessary actions.

With regard to the Critical Economic and Security Information Act, we will steadily prepare for its enforcement, taking into account that the Act will not only strengthen the information security of the Japanese government, but also contribute to securing and expanding international business opportunities for private businesses.

7) Removing land use restrictions for corporate location

To remove land use restrictions for corporate location, we will expedite land use conversion to secure land for industrial use.

8) Promotion of investment by LMEs and SMEs in regional areas

To ensure business growth aimed at higher wages for LMEs and SMEs, we will steadily implement a new subsidy program that supports the establishment of new factories and other bases and large-scale capital investment.

VI. GX, Energy and Food Security

1.GX and energy

What will be important in the future to strengthen industrial competitiveness, including SMEs and small businesses, is stable and resilient energy. The current situation, in which tens of trillions of yen flow out overseas due to energy imports, must be changed. It is inevitable to develop and implement a national strategy to transform the energy structure to one that ensures energy security, leads to decarbonization, and contributes to increased competitiveness. Intensive discussions will be held in preparation for the revision of the Strategic Energy Plan by the end of this fiscal year. In addition, the national strategy for GX, which will underpin the plan, will be expanded as a further development of last year's GX Promotion Strategy.

In addition, industry, government, and academia will work together to promote the transition to a circular economy, in which resources are used efficiently, cyclically, and effectively throughout the market life cycle.

(1) Development of the national strategy for GX with a view to 2040

1) Changes in internal and external circumstances toward realization of GX

While ensuring a stable energy supply as a fundamental premise, to promote GX that aims to simultaneously achieve international commitments such as net zero by 2050 and economic growth with strengthened industrial competitiveness, we have initiated new measures such as investment promotion policies on the scale of 20 trillion yen as a national government. These measures are designed to realize GX investment of more than 150 trillion yen in 10 years by FY2032 through public-private cooperation, by concretizing the "Pro-Growth Carbon Pricing Concept." However, various uncertainties and changes are occurring both domestically and internationally.

In particular, digitalization and the social implementation of generative AI are progressing at an accelerated pace, and are beginning to be used in various aspects of people's lives and economic activities, including education, automated driving, and the development of new materials, making them important factors in determining the competitiveness of Japanese industry. As the social implementation of generative AI accelerates, data centers, which will be the brains of AI, will play an important role, and establishing data centers in Japan will become a national priority from the perspective of economic security. Many companies that operate data centers require large and stable amounts of decarbonized electricity, and in light of this trend, the Organization for Cross-regional Coordination of Transmission Operators is forecasting the first increase in electricity demand in about 20 years. We are entering an era in which the ability to provide stable and sufficient decarbonized power will determine future industrial competitiveness.

While these new movements in DX are progressing, ensuring a stable energy supply in terms of both quantity and price remains a critical issue, especially given the increasing tensions in the Middle East. At the same time, there is a growing need to restructure the supply chain in light of economic security requirements, a growing emphasis on diverse and realistic approaches to climate change countermeasures, and rising expectations for next-generation technologies such as quantum and nuclear fusion.

2) Necessity of developing a national strategy

In order to further enhance the predictability of projects toward the realization of GX and to further strongly encourage domestic investment, which is essential for Japan's growth, we will comprehensively examine industrial structure, industrial location, and energy. Regarding the "GX2040 Vision," which shares a realistic route to decarbonization between the public and private sectors with a view to the year 2040, we will formulate it through discussions mainly by the GX Implementation Council by the end of this fiscal year, and also we will revise the "Strategic Energy Plan" and "Plan for Global Warming Countermeasures." Toward the realization of these GX goals, we will encourage a "just transition" through support for facilitating the labor mobility to growth areas, and support for job changes for advancing the careers of those currently employed.

In addition, for the formulation of the "GX2040 Vision," specific issues to be discussed include: promotion of GX to break away from dependence on fossil fuels in order to protect industries and consumers from severe fluctuations in energy prices due to the situation in the Middle East and other factors; promotion of investment in decarbonized power sources such as renewable energy and nuclear power; development of power transmission and distribution networks with an eye on large-volume consumers and data center locations; and securing

strategic Reserve Power Plants and fuel during the transition period. These points will be taken into consideration for further discussion and examination.

(2) Transition to a resilient energy supply-demand structure and expansion of decarbonized power sources

1) Responding to a complex and uncertain energy situation

In the energy sector, we will promote the transformation to a resilient energy supply and demand structure in response to Russia's aggression against Ukraine and the complexity and uncertainty of the resource and energy situation in the unstable Middle East region. On the demand side, we will promote thorough energy conservation, and on the supply side, we will maximize the use of renewable energy and nuclear power sources, which contribute to improving the self-sufficiency ratio and have a large decarbonization effect. In order to secure stable supplies of oil, natural gas, copper, rare metals, and other important minerals, we will promote resource diplomacy, including cooperation with like-minded countries, and promote upstream development overseas, as well as secure strategic buffer LNG. We will work to develop technologies for methane hydrates, seafloor hydrothermal deposits, rare earth muds, etc. to secure domestic marine resources.

2) Wider introduction of renewable energy

To expand the introduction of renewable energy, which is important as a decarbonized power source, in close cooperation with related ministries and agencies, we will work toward maximizing its introduction as a main power source, while curbing the burden on the public and promoting coexistence with local communities. As international competition in the renewable energy industry sector intensifies, from the perspective of economic security, we aim to improve our technological self-sufficiency rate by taking advantage of our country's strengths. For perovskite solar cells, the next-generation solar cells, we will strongly encourage the creation of its market by establishing robust supply chains including raw materials, establishing introduction targets, creating new categories for perovskite under the FIT and FIP programs, and taking demand support measures in order to encourage predictable investment by the private sector. In addition, based on the development trends of new geothermal power technology in countries around the world, we will provide development support to expand the use of geothermal energy, with a view to its early introduction. As for small and medium-sized hydropower and other sources, necessary support will be provided according to their characteristics, including feasibility studies, technological development, and the use of digital technology.

3) Wider introduction of offshore wind power

In the case of floating offshore wind power, we will promote institutional development in the Exclusive Economic Zone, and also work on developing an international research and development system and international standards through the Floating Offshore Wind Technology Research Association (FLOWRA), while collaborating globally, especially with Europe and the U.S., to establish mass production methods and reduce costs, which are common issues in the world. In addition, we will formulate a strategy that includes the creation of a domestic market and targets for the formation of floating offshore wind power projects, etc., develop the capacity of manufacturing, installation, and maintenance of offshore wind power generation facilities and their components, work to optimize the entire offshore construction process, build a robust domestic supply chain, and establish a system for cooperation between education and research institutions such as universities and colleges of technology (KOSEN) and industry to develop human resources to support the industry.

4) Promotion of renewable energy in harmony with local communities

To promote renewable energy in harmony with local communities, we will appropriately enforce the revised Act on Special Measures Concerning Promotion of Utilization of Electricity from Renewable Energy Sources, which went into effect in April of this year to strengthen business regulations, and we will also discuss the establishment of a system to address the disposal and recycling of solar panels, which are expected to see a significant increase in waste volume in the second half of the 2030s.

5) Grid development and promotion of batteries, etc.

Regarding grids connecting regions, while taking into account future trends in supply and demand and technology, we will promote the development of grids nationwide, including submarine direct current transmission between Hokkaido and Honshu, which is targeted for FY2030, and provide uninterrupted support for the introduction of grid scale batteries for stationary use over a multi-year period. In addition, we will promote the expansion of domestic manufacturing bases and technological development for batteries and related products.

6) Utilization of nuclear power

On the major premise of ensuring safety, we will facilitate the restart of the nuclear reactors that have passed safety reviews by the Nuclear Regulatory Authority and have gained local understanding. Aiming to improve nuclear safety, we will develop and construct next-generation advanced reactors with built-in new safety mechanisms, including fast reactors, high-temperature gas-cooled reactors, and fusion reactors. 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. Other developments and construction projects will be considered based on the future situation. Additionally, we will promote initiatives for investment promotion for safety improvement and so on, while offering stronger support for research and development, training, and supply chain maintenance and enhancement. We will promote the nuclear fuel cycle and steady and efficient decommissioning of nuclear reactors. We will also work on realizing final disposal through government-led efforts to foster public understanding and proactive engagement with local governments and other stakeholders. We will advance the establishment of a nuclear disaster prevention system, including securing evacuation routes through road maintenance.

7) Utilization of hydrogen, etc.

With regard to low-carbon hydrogen and its derivatives, based on the Hydrogen Society Promotion Act, we will promote the construction of supply chains in Japan and overseas through support focusing on price gap and support for domestic hub development, and will provide support for technological development, such as improving the co-firing rate of hydrogen and ammonia in thermal power generation. We will also promote discussions in relevant councils on institutional measures for creating new markets and expanding usage of low-carbon hydrogen and its derivatives in sectors including electricity, gas, fuel, manufacturing, and transportation. We will accelerate technological development of water electrolyzers and fuel cells, and provide support for the realization of a supply chain that includes supply of components and materials. In addition to promoting the introduction of electrified vehicles and electric construction equipment and the development of charging and refueling infrastructure, we will provide intensive support for commercial vehicles, such as fuel cell trucks, and commercial vehicle stations, and support for hydrogen supply. We will consider expanding the scope of introduction targets for non-fossil energy vehicles. For

carbon-recycling fuels, including e-fuel, e-methane, green LP gas, and domestically produced sustainable aviation fuel (SAF), the public and private sectors will work together to promote R&D and capital investment to achieve internationally competitive prices, and work on creating an environment through demand creation, cooperation with other countries, and the establishment of rules related to CO2 emissions. In addition, in the industrial sector, to accelerate a smooth transition to decarbonization, we will promote the conversion to lower-carbon fuels such as natural gas in anticipation of future net zero. Support measures to encourage operators to make investment decisions to start CCS businesses by 2030 will be discussed based on the CCS Business Act and the "Sector-specific Investment Strategies" of GX compiled last December. Additionally, we will implement forest carbon sink measures, etc.

8) Promotion of collaboration among businesses

In order to encourage cooperation among enterprises toward the realization of GX, we will utilize the Antimonopoly Act guidelines revised in April of this year. This will involve engaging in interacting with enterprises and relevant ministries and agencies, and accumulating practical results by promoting awareness and providing consultation. Additionally, we will continue to make further revisions as necessary.

(3) Implementation and further development of Pro-Growth Carbon Pricing Concept

1) Utilization of GX Economy Transition Bond

We will also work to further concretize and implement the measures set forth in the "Pro-Growth Carbon Pricing Concept." Specifically, the GX Economy Transition Bond, mainly issued as the world's first transition bonds by a national government, will be further issued this fiscal year, and bold investment support measures will be effectively implemented in line with the "Sector-specific Investment Strategies" compiled at the end of last year by utilizing the financial resources of the bonds. In particular, we will further advance the "Green Innovation Fund Project," which is promoting the development of innovative decarbonization technologies such as perovskite solar cells (a next-generation solar cell developed in Japan), hydrogen reduction ironmaking, single-fuel firing of ammonia, and solid-state batteries. In addition, for technologies that succeed in this project, to ensure we "win with technology and also in business," we will continuously implement national investment promotion measures not only for technological development but also up to the initial social implementation stage. For investments supported by the investment promotion measures backed by the GX Economy Transition Bond, including but not limited to investments for social implementation of the said new technologies, we will, in light of the basic principles and execution principles, strictly confirm the level of commitment of the business to ensure they emphasize speed and scale with a global market perspective. We will limit support to projects where the commitment of management has been recognized, to maximize the effectiveness of the investment promotion measures.

2) Toward full-scale introduction of pro-growth carbon pricing

As regulatory and institutional measures to promote GX, we will further promote the initiatives and detailed design of "pro-growth carbon pricing." The "GX League," which consists of a group of companies that are actively reducing emissions and account for more than 50% of Japan's total emissions, will be promoted, and the "Emissions Trading System," which was launched on a trial basis as part of the league, will be fully operational from FY2026. In this regard, we will proceed with considerations to submit necessary legislation to the ordinary Diet session next year, with a focus on making the participation of companies that

emit more than a certain amount of emissions mandatory, regardless of industry sector (including industrial, commercial, transportation, and energy conversion sectors), and establishing a third-party certification system for emission reduction targets. In addition, the implementation methods of the GX-surcharge (surcharge on fossil fuel supply) to be introduced in FY2028 and the auctioning to be introduced in FY2033 will also be studied, and based on the results, the necessary details will be included in the bill concerned.

Furthermore, to instill a monetary evaluation of decarbonization-related initiatives throughout society through the formation of a carbon price traded in the market, and to promote carbon reduction and removal projects throughout society in a technology-neutral manner, we will also consider presenting mid- to long-term trading price ranges, activating the trading market, and developing the environment for carbon removal projects.

3) GX promotion in communities, daily life, and SMEs and small businesses

For communities and daily life, we will take measures related to the "GX of living" on the scale of 2 trillion yen over the next three years, including support for retrofitting homes with windows with superior insulation performance, support for the introduction of high-efficiency water heaters such as heat pumps, and support for the purchase of clean energy vehicles as well as ZEH/ZEB. In addition, more than 100 Decarbonization Leading Areas will be selected by the next fiscal year, and "Decokatsu" (the name of a national movement for Decarbonized lifestyle. A newly coined word that combines these words, "DE"carbonization, "ECO", and "Katsu" (Japanese word for activity and lifestyle)) will be promoted to transform people's lifestyles. In addition, the decarbonization of mobility-related sectors, such as zero-emission ships, EV buses, Carbon Neutral Ports, and infrastructure including urban development GX will be promoted, and support will be provided to service station operators to strengthen their management capabilities and maintain their networks in order to ensure the fuel supply system.

In order to promote GX among SMEs and small businesses, we will enhance energy efficiency audits to handle double the number of applications compared to last year, and strengthen support for energy-efficiency capital investment to provide seamless response to multi-year investment plans. These measures are designed to increase competitiveness by reducing energy costs and creating opportunities for more orders by quickly responding to recent trends of soaring energy prices and increasing demands from customers to track and reduce CO2 emissions. In addition, we will promote the development of a system that meets local conditions, including the establishment of a support system in cooperation with local financial institutions, chambers of commerce and industry, and associations of commerce and industry, which have many points of contact with SMEs and small businesses. Through this effort, we will strengthen support for decarbonization management and human resource development for SMEs and small businesses, as well as energy-saving initiatives, which represent the first step towards GX for these enterprises. Furthermore, in order to promote thorough energy conservation not only by SMEs and small businesses but across the board through a combined regulatory and support system, we will consider raising the top runner standard values based on the Act on the Rational Use of Energy for windows and gas water heaters, and advance discussions on systems to disclose information about companies' energy conservation efforts and to promote energy conservation, transition to non-fossil fuels, and demand response (power demand control) in households.

4) Strengthening of startup and financing support in the GX sector

In order to strongly support startups in the GX sector, we will take measures to promote investment of 200 billion yen over the next five years. In addition, in order to promote the supply of risk money from private finance to the GX sector, we will newly engage in financial support through debt guarantees by the GX Acceleration Agency. Furthermore, to promote

transition finance, we will work towards establishing a shared international understanding on methods for evaluating the efforts of financial institutions.

Under cooperation between the public and private sectors, a financing mechanism will be studied to further incorporate various investment funds from foreign and domestic investors in solving these social issues and to enable households, etc. to enjoy the fruits of such investments in a sustainable manner in accordance with the risks involved.

5) Expansion of GX in Asia through the use of AZEC, etc.

We will implement activities of the Asia Zero Emission Community (AZEC) in order to extend Japan's approach and efforts to realize GX to the fast-growing Asian region. We will launch the Asia Zero Emission Center in ERIA and implement specific activities and projects for bilateral cooperation. We will develop initiatives to collaborate across AZEC on technology, finance, policies, and human resources in the power, transport, and industry sectors, which are key to decarbonization. In addition, we will promote transition finance in cooperation with Asia through the Asia Transition Finance Study Group (ATFSG), which discusses and disseminates effective approaches to promoting transition finance with financial institutions, financial authorities, and other organizations operating in Asia.

Through these efforts, we will also contribute to global decarbonization by utilizing Japan's innovative decarbonization technologies and policies.

(4) Transition to a circular economy

Positioning the realization of a circular economy as a national strategy, we aim to contribute to achieving net zero and a nature-positive society. By leveraging regulations and technology, we will seize growth opportunities and enrich local communities and lifestyles through the construction of regional circular models that lead to regional revitalization. Additionally, from the perspective of economic security and securing critical resources, we will lead the world through the formation of international rules. To this end, the following efforts will be promoted by the government as a whole, and will be linked to the Fifth Fundamental Plan for Establishing a Sound Material-Cycle Society, etc.

1) Thorough resource recycling through collaboration among businesses, innovation, etc.

Based on the Act on Sophistication of Recycling Business, etc., which was enacted in the recent Diet session and replaces local government permits with a unified national certification system, we will certify more than 100 advanced resource circulation projects in three years, thereby supporting the strengthening of cooperation between manufacturers and resource circulation businesses involved in waste treatment and recycling, and the sophistication of recycling.

We will utilize Japan Partnership for Circular Economy, Circular Partners, etc., to share examples of collaboration between manufacturers and resource circulation businesses, and to develop cross-sectoral standards.

To ensure a supply system for recycled materials that meets the needs of industry, government, and academia will collaborate to support the introduction of AI and machinery for waste recycling and the improvement of production capacity. In addition, the Ouranos Ecosystem initiative will be promoted to develop a digital infrastructure for the circular economy.

We will consider a system to promote the reuse and recycling of used solar panels.

To achieve the target of introducing 10% sustainable aviation fuel (SAF) by 2030, we will further expand the circular bioeconomy market through the establishment of supply chains for stable supply including procurement of raw materials derived from recycled resources.

In order to secure high-level human resources in the field of resource circulation, we will consider inclusion this field into the Specified Skilled Worker System.

2) Formation of international rules on circular economy and promotion of ESG investment

Based on the Circular Economy and Resource Efficiency Principles endorsed by the Leaders at the G7 Hiroshima Summit, we will contribute to the development of the Global Circularity Protocol, including methods for businesses to disclose circularity information by next year, and promote international standardization. In addition, as a manufacturing-oriented country, we will lead the formation of international rules in cooperation with like-minded countries, including the development of value chain circularity metrics and environmental impact reduction estimation methods by FY2026. Furthermore, ESG investment in the circular economy will be promoted through the formulation of green finance-related guidelines and other measures.

3) Establishment of a domestic and international resource circulation system to ensure economic security

In order to overcome resource constraints, it is essential to strategically secure critical raw materials such as rare metals through resource circulation. Aiming to increase the processing volume for electronic scrap (e-scrap) recycling to approximately 500 thousand tons by 2030 (a 50% increase from 2020), we will support investment in facilities and hubs. Since import/export procedures for e-scrap will become more complicated next year, we will decide on measures to expedite the process, such as digitalization, this fiscal year and take the lead in forming international rules. We will establish an advanced recycling system in Japan while supporting the proper collection of e-scrap in ASEAN countries, among others.

In light of the fact that domestic scrap metal and other materials are improperly processed and leaked overseas, a review of related trade item classifications will be initiated this fiscal year. In addition, to address yards with inadequate environmental measures, we will work on proper management of scrap, prevention of improper exports, etc. If necessary, we will take institutional measures from the perspective of strengthening environmental countermeasures. Furthermore, we will examine whether there are any inconsistencies in international trade rules for scrap metal and other items imposed by neighboring countries.

We will promote the construction of domestic and international resource circulation network hubs and the selection and development of resource circulation hub ports.

To strengthen overseas business expansion, Japan's advanced waste management and recycling systems, technologies, and human resource development will be deployed in developing countries/regions in ASEAN and the Global South to promote environmentally sound waste management and infrastructure.

4) Creation of a resource recycling market

i) Support for creation of domestic market through government procurement

In order to increase demand for highly recyclable products and services, we have decided to introduce recyclability standards, such as recycled plastic utilization rates, in principle, for all specified procurement items designated in the basic policy of the Green Purchasing Act by FY2030, and will start this initiative from this fiscal year. In addition, we will promote green purchasing by utilizing environmental labels certified by third-party organizations.

ii) Regional revitalization and regional circular economy market creation through the use of renewable resources

We will develop core human resources who can lead the formation of a network of resource circulation in the region, as well as create model regions and promote their horizontal expansion. In addition, we will support the efforts of SMEs and mid-tier businesses.

We will promote the use of wood for non-housing construction materials, expand the use of new wood-based materials such as glycol lignin, and promote the recycling of forest resources through appropriate forest management.

We will recycle small home appliances and battery-containing products with high rare metal content by setting targets to improve the collection rate and encouraging public participation.

In addition, we will promote horizontal recycling of construction waste, production of manure and feed using biomass such as agricultural residues, their use for power generation and heat utilization, and utilization of sewage sludge resources as fertilizer, while also taking safety into consideration, and promote the construction of a recycling-oriented general waste treatment system.

iii) Urban development and infrastructure development that utilize resource values as much as possible

We will work to establish a maintenance cycle to extend the service life of infrastructure. In addition, we will work to conserve, restore, and create Blue Infrastructure (seaweed beds, tidal flats, etc. and biologically symbiotic port structures) that will contribute to the effective utilization of industrial waste, etc.

We will work on the formation of sustainable housing and real estate stock, such as long-term quality housing and renovation for earthquake resistance, etc. In addition, efforts will be made to promote the utilization of vacant houses and old private homes.

We will formulate and promote measures for the conversion of underused or unused land to use, such as the promotion of green infrastructure and the regeneration of development of green spaces, during this fiscal year.

iv) Expansion of recycling-oriented business

We will promote lifestyle transformation by creating an environment that facilitates reuse, repair, leasing, and the sharing economy, which leads to the long-term and efficient use of products. We will promote environmentally friendly design, disclosure of information on environmental impact reduction benefits, enhanced traceability of reused products, and utilization of platforms for related services, including startups, to encourage the creation of new business models.

In order to achieve the goal of halving food loss and waste by 2030, guidelines for food donation and taking home leftovers will be established by the end of this fiscal year. In addition, we will promote the use of wasted food for feed and fertilizer, and where this is not feasible, for energy through cascade utilization.

We aim to reduce the amount of clothing discarded from households by 25% from the FY2020 level by FY2030. While keeping a close eye on trends in regulations in other countries and with a view to optimizing supply volume, we will promote the disclosure of information by apparel companies regarding the volume and disposal method of unsold products and the establishment of rules for proper repair, reuse, and recycling through public-private partnerships. We will also promote diaper recycling.

2. Food security

Based on the revised Basic Act on Food, Agriculture and Rural Areas, we will revise the Food, Agriculture and Rural Areas Basic Plan during this fiscal year to intensively promote structural transformation of agriculture in the initial five years, and enhance and strengthen

measures to ensure food security, including strengthening the production base of the agriculture, forestry, and fisheries industries as well as the food industry.

(1) Strengthening food security

1) The concept of food security

"Ensuring food security" has been positioned as a basic principle in the revised Basic Act. We will promote efforts to ensure food security, which includes not only securing the total amount of food but also enabling every citizen to access food and enjoy a healthy diet.

2) Strengthening stable supplies of food toward mitigating import risks

Structural reform measures toward ensuring stable food supplies, on the basis of appropriate combination of stable imports and stockpiles, while boosting domestic production in order to reduce reliance on imports, will be advanced. Those measures will include promoting the transformation of paddy fields into general-purpose land or farmland 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 rational price-formation

While taking into account discussions such as the creation of cost indices at the Council, which consists of parties concerned at each stage from production to processing, distribution, sales, and consumption, we will consider a legal system for price formation that takes into account rational costs required for sustainable supply of food in order to ensure the sustainability of the food system.

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 to respond to the so-called 2024 problem in the logistics industry, implement measures for people who have difficulty accessing grocery stores, and make contributions to food banks and children's cafeterias.

5) Building a structure that guarantees food security

New targets for food self-sufficiency and other matters related to ensuring food security will be newly established in the Food, Agriculture and Rural Areas Basic Plan. The status of achievement of the targets will be surveyed and announced annually. In addition, in accordance with the Act on Measures for Situations of Difficulty in Food Supply, a basic policy will be formulated that sets forth the basic stance to efforts during peacetime and countermeasures to be taken in contingencies.

(2) Greening agriculture, forestry and fisheries

In order to establish a food system that is in harmony with the environment, we will steadily implement cross-compliance (prior submission, reporting, and verification of efforts) requiring minimum environmental impact reduction efforts from recipients of subsidy projects toward realization of the MIDORI Strategy for Sustainable Food System, and consider mechanisms to support advanced farming activities to reduce environmental impacts based on plans certified under the MIDORI Act. In addition, we will promote organic agriculture, make producers' efforts to reduce their environmental impacts visible, utilize the J-Credit Scheme in the agricultural sector, and strengthen the role of food companies in reducing food loss and waste.

We will engage with the countries and regions of the so-called Global South by leveraging Japan's agriculture, forestry, and fisheries technologies and knowledge related to disasters and animal and plant diseases, and work to improve the productivity and ensure sustainability in the agriculture, forestry, and fisheries industries, including reduction of greenhouse gases from agriculture, to stabilize global supply and demand of food.

We will make international contributions to reducing environmental burdens in the agriculture and forestry sectors through steady implementation of projects based on the ASEAN-Japan MIDORI Cooperation Plan, utilization of the Joint Crediting Mechanism (JCM) in the agriculture and forestry sectors, and provision of advanced technologies, such as implementation of BNI (Biological Nitrification Inhibition) - enabled wheat developed in Japan.

In addition, in order to achieve net zero, a legal system will be studied to promote the consolidation of forestry management entities capable of forest resource recycling.

We will promote fisheries resource management and operational transformation in light of changes in the marine environment, and expand exports. Furthermore, the introduction of high-performance fishing vessels and the conservation and creation of seaweed beds and tidal flats will be promoted, as well as the nationwide development of the UMIGYO that utilize local resources, etc. to revitalize fishing villages.

(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.

For the export of agricultural, forestry, fishery products and foods, a framework for strategic exporting in which concerted efforts by supply chain participants are made will be developed and strengthened, including through supporting the formation of flagship export production areas, operation of Japan Food Export Platforms that provide detailed on-site support, and the expansion of certified agricultural, forestry and fishery products and food export promotion organizations.

Furthermore, we will strengthen the safeguarding and utilization of intellectual properties, through promoting the work of plant breeders’ rights management organizations that act as agents to apply for and license plant breeders’ rights overseas, 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 based on the Smart Agriculture Technology Utilization Promotion Act, 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. We will work to promote the development and activities of service organizations that support management entities in areas such as management and technology, and consider legal systems to facilitate the conservation and management of agricultural irrigation and drainage facilities, etc. in response to a declining population.

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

VII. Promoting Japan as a Leading Asset Management Center

1. Implementation of the Policy Plan for Promoting Japan as a Leading Asset Management Center

In addition to expanding income from labor, we will take initiatives to promote Japan as a leading asset management center in order to increase household income from financial assets. To promote a package of measures targeting each entity that constitutes the investment chain, including households, financial product distributors, companies, asset management companies, asset owners, and others, we will implement the following specific measures based on the "Policy Plan for Promoting Japan as a Leading Asset Management Center" formulated last December, including content that has been further developed since then.

(1) Support for stable asset formation by households

1) Utilization of NISA

The new NISA (tax exemption program for retail investors) was launched in January of this year, and as of the end of March, the total number of accounts was 23.23 million (up 1.87 million from January to March of this year), and the amount of purchases was 42 trillion yen (up 6 trillion yen in the same period), indicating that NISA is gaining acceptance as a stable asset formation tool among the public. In order to continue to support stable asset formation among a wider range of people, we will encourage asset formation in accordance with individual life plans and life stages, and the appropriate use of the NISA as part of such effort, in cooperation with the financial industry and the Japan Financial Literacy and Education Corporation (J-FLEC). Through these initiatives, we aim to increase the total number of NISA accounts to 34 million accounts and the amount of purchases to 56 trillion yen by the end of 2027. Following that, we aim to double the investment amount (total balance of stocks, investment trusts, bonds, etc.) among households.

2) Enhancing financial and economic education

In order to increase financial literacy among households and promote appropriate selection of financial products, J-FLEC, established in April of this year, will be fully operational in August of this year. J-FLEC will promote and support certified advisors from the customer's perspective, expand and promote education at schools and for employees at companies, and provide opportunities for the public to widely receive financial and economic education. Through these efforts, we aim to increase the percentage of people who recognize that they have received financial and economic education to 20%, comparable to the U.S., by the end of FY2028. To achieve this goal, we will support the efforts of J-FLEC, which will play a central role.

In the development of financial and economic education, we will promote and raise awareness that in order to achieve stable asset formation, it is important to continue accumulating and diversifying investments over the long term without stopping, even during market fluctuations such as market declines, while taking into account one's own asset situation and life plans.

3) Dealing with investment fraud, etc.

We will strengthen and improve the consultation system of the Financial Services Agency and the telephone consultation system of J-FLEC in order to address the diversification and sophistication of financial crimes such as investment fraud and phishing fraud. In addition, we will implement effective measures for providing people with information and raising awareness and strengthen measures by the government and financial institutions.

4) Utilization of various indexes in investment trusts and improvement of investment management

In light of the situation where the Nikkei 225 and TOPIX (Tokyo Stock Price Index) account for 90% of the indexes in Japan, we will encourage creative efforts to promote the provision of products utilizing various indexes in investment trusts that support stable asset formation for households, including products eligible for NISA (Tsumitate (installment-type) investment). In addition, we will promote the provision of high-quality and diverse investment products (including actively managed funds) that appropriately meet customer needs, including not only index investment trusts but also NISA-eligible products.

(2) Ensuring customer-oriented business conduct at financial product distributors, etc.

To create an environment in which households can purchase financial products with peace of mind, we will conduct in-depth monitoring to ensure that distributors, etc. have a system in place for creating, selling, and managing products that serve the best interests of their customers. In particular, for NISA users with limited investment experience, we will encourage more attentive responses, including verifying their needs and risk tolerance, explaining product characteristics and precautions, and conducting follow-up after sales.

In addition, we will monitor the asset management business of financial institutions (including business for corporate pension plans at defined contribution pension plan administrators, etc.) in order to enhance its sophistication.

(3) Corporate governance reforms and enhancement of financial and capital market functions

From the perspective of enhancing the attractiveness of Japanese companies, the Tokyo Stock Exchange requested listed companies to formulate and disclose plans aimed at realizing management that is conscious of market valuation and cost of capital in March of last year, and has published a list of companies that are implementing these initiatives since January of this year. In addition, from next April, the Toyo Stock Exchange will make English disclosure of important information mandatory for companies listed on the Tokyo Stock Exchange Prime Market. Continue to promote corporate governance reforms, including verification of the actual operation of a system under which the companies with a nominating committee, etc., are established and consideration of its improvement.

Specifically, the "Action Program for Accelerating Corporate Governance Reform" formulated last April was updated in June of this year, we will encourage and companies and investors to steadily implement the program.

As part of this effort, we will examine ways to improve the environment so that more companies can disclose their annual securities reports in a timely manner before the general shareholders meeting, in order to promote constructive dialogue between companies and investors. In addition, we will consider revising Japan’s Stewardship Code to promote collective/collaborative engagements and ensure the transparency of beneficial shareholders.

Also, from the viewpoint of improving the functioning of financial and capital markets, the following actions, etc., will be followed up at the Tokyo Stock Exchange, etc.

i) Consideration of support and promotion for information dissemination to investors by listed companies in the Growth Market of the Tokyo Stock Exchange, and consideration of listing maintenance standards, etc. to enhance the Growth Market's functionality over the medium to long term, taking into account its impact on the startup ecosystem, etc.

ii) Consideration of measures to promote stock splits for listed companies with high investment units and measures to enable investment with smaller amounts.

iii) Study on further improvement of TOPIX functionality, etc.

From the perspective of promoting initiatives to strengthen financial functions, such as making it easier to provide products and services that meet customers' needs, and taking into account the status of user protection, such as effectively ensuring customer information management, conflict of interest management, and prevention of abuse of dominant positions, consider how and what measures are necessary for the Banking Standards Firewall Regulations (regulations prohibiting the sharing of non-public customer information between banks and securities companies in a financial group without consent) regarding regulations prohibiting dual registration of representatives, etc.

(4) Reform of asset management sector

The following efforts will be made to enhance the asset management business, which is responsible for managing household financial assets through pensions, insurance, investment trusts, etc. Through this, it is aimed to develop players that can compete with global asset management companies in terms of quality and quantity.

(1) Strengthen the competitiveness of asset management companies and improve governance and systems

Major financial institutions groups were requested to develop and publish a plan to clarify the positioning of their asset management business in their management strategy, to improve their operational capabilities, and to improve and strengthen their governance and systems. The government will follow up on the efforts of each company and ask them to continue to deepen their efforts.

In addition, the FSA will continue to promote the development of the asset management industry to become the fourth pillar of Japan's financial industry alongside banking, insurance, and securities by establishing a department in charge of asset management alongside the departments in charge of supervision of banking, insurance, and securities, and by revising the necessary supervisory guidelines. Furthermore, by encouraging consideration of the merger of the Japan Investment Advisers Association and The Investment Trusts Association, Japan.

Moreover, in order to establish a governance system for quality control of individual products at asset management companies, etc., the "Principles for Customer-Oriented Business Conduct" will be revised by the end of this year and a description of product governance will be included.

(2) Promote new entrants and competition from Japan and abroad

Rectify Japan's unique business practices and barriers to entry, and promote "Special Zones for Financial and Asset Management Businesses" etc.

i) Rectifying Japan's unique business practices and barriers to entry

In June of this year, industry guidelines were established to standardize the accounting process for the practice of daily double-check calculation of NAVs of investment trusts between asset management companies and trust banks. In addition, the FSA's revised supervisory guidelines stipulate points to consider when establishing a materiality policy for each company with respect to NAV calculation errors, and through these measures, encourage the spread of single-check calculations.

In addition, urge system vendors to ensure compatibility within the next fiscal year, in cooperation with related parties, for the public sales network through which asset management companies exchange mutual fund information with distributors.

ii) Promotion of Special Zones for Financial and Asset Management Businesses

In order to promote the new entry and expansion of domestic and foreign financial and asset management companies, and to create an environment in which sufficient funds are provided to startups, GX, and other growth areas, a package of "Special Zones for Financial and Asset Management Businesses" was announced this year in June, which includes the regulatory reforms and other initiatives that will be implemented by the four target regions (Hokkaido and Sapporo, Tokyo, Osaka, and Fukuoka prefectures and cities) as well as the national and local governments related to finance, business, living environment, etc., while also utilizing the National Strategic Special Zone. The government will carry out those initiatives steadily in close cooperation with each local government in accordance with the package.

iii) Implementation of the Emerging Managers Program (Japanese version of EMP (Emerging Managers Program))

In addition to the initiatives for asset owners described below, the following initiatives and others will be implemented as programs to facilitate the supply of funds to emerging asset management companies in cooperation with the public and private sectors.

- Financial institutions will be requested to actively utilize emerging asset management companies and not to exclude these simply because they have a short business history, and examples of initiatives by financial institutions that were identified and publicized in June of this year will be disseminated.
- Under public-private partnership, a list of emerging asset management (entry list) will be prepared and provided to financial institutions and asset owners by this summer.
- Based on the revised Financial Instruments and Exchange Law, which allows for outsourcing of middle and back office operations, etc., promote the development of an environment for cost reduction in the internal administrative divisions of investment management businesses, as well as promote greater efficiency through the use of digital technology at investment management companies.
- In cooperation with local governments, including those in the "Special Zones for Financial and Asset Management Businesses," consider improving efficiency and expanding centralized contact points, such as Financial Start-Up Support Program and Financial Market Entry Office for opening up new locations, to encourage the entry of foreign companies into the market.

(5) Reform of corporate and individual pensions

Corporate and individual pensions, together with public pension benefits, play an important role in contributing to the stability of people's lives and the improvement of welfare, and in helping them lead more affluent lives in their old age. The role of corporate pensions is also important as part of investment in people. In order to maximize these roles and maximize the benefits to participants of corporate and individual pension plans, the following efforts will be made.

1) Reform of defined benefit corporate pension plans (DBs)

Guidelines for DBs will be revised by this fall in order to promote human resource development and other efforts to improve DBs' operational capabilities and spread awareness of fiduciary responsibility, as well as to promote DBs' periodic evaluation and, if necessary, review of their outsourced management partners.

In order to enable more small DBs to utilize the joint investment business by the Pension Fund Association, the Pension Fund Association will support efforts to expand the options for joint investment business as soon as possible, based on appropriate cooperation with financial

institutions and other parties.

In order to visualize (disclose) information that enables comparison with other companies, including the status of DB operations and efforts to utilize specialized human resources, the Ministry of Health, Labor and Welfare will take measures such as consolidating and publicizing such information, and will take necessary measures in conjunction with the next revision of the pension system.

2) Reform of corporate-type defined contribution pension plans (DCs)

With regard to DC, take measures such as promoting initiatives including education on continuous investment and horizontal deployment of examples of such efforts in cooperation with related parties, in order to ensure appropriate selection of management methods at each stage of the management process, such as changing the designated management method to investment products and improving the product composition of investment products, by the management institution, employer, and the participant him/herself. At that time, if principal-protected products are selected as the designated management method, carefully explain to the policyholders that they may not be able to secure real purchasing power under the market environment of rising prices, and encourage business owners to review the composition of investment products as necessary.

In addition, in order to visualize (disclose) information that enables comparison with other companies, including information on each business owner's designated investment method, composition of investment products, and investment status, the Ministry of Health, Labor and Welfare will take measures such as consolidating and publicizing such information, and will take necessary measures in conjunction with the next revision of the pension system.

Also, the comprehensive review through the contribution, investment, and benefit phases will be studied so that pension concerns, especially among the younger generation, can be alleviated.

3) Reform of individual-type defined contribution pension plans (iDeCo)

The iDeCo system, under which individuals who join the system themselves contribute and invest a self-defined amount of premiums, is utilized mainly by the middle class, contributing to an increase in household asset income. In order to further improve the environment for household asset formation toward retirement, the pension reforms that will be discussed toward the end of the year will include not only raising the maximum age limit for iDeCo membership, but also raising the contribution limit in accordance with the need for asset formation. Bold reforms will be considered and conclusions reached, such as by seeking to improve convenience by simplifying procedures and making the system easier to understand, taking into account the spread of NISA.

4) Further promotion of private pensions

At J-FLEC, including the involvement of persons involved in the education on pensions system in the organization, we will collaborate with related ministries and agencies to provide support for education for employees at workplaces, including companies implementing DC (instructor dispatch program), and develop public relations activities related to private pensions, including corporate pensions and iDeCo, on a cross-governmental basis.

(6) Supply of growth capital and diversification of investment targets

For the sustainable growth of the Japanese economy, it is important to improve the environment to promote the supply of funds to startups, to promote the distribution of unlisted stocks, and to promote the provision of various investment products according to the risk-

bearing capacity of investors, thereby diversifying risk and enhancing the investment environment. To this end, the measures and other actions included in the "Policy Plan for Promoting Japan as a Leading Asset Management Center" will be implemented.

(7) Strengthen external information dissemination and communication

From the perspective of promoting measures to successfully frame Japan as a leading asset management center in line with the needs of related businesses and investors in Japan and abroad, as well as disseminating information on the attractiveness of the Japanese market, "Japan Weeks" was held for the first time last fall to intensively invite foreign financial businesses to Japan, and a total of over 10,000 people from Japan and abroad participated in the event.

In order to further develop these efforts and further strengthen information dissemination and communication with the outside world, "Japan Weeks" will be held from late September to early October this year, following last year's event. In this context, the "Asset Management Forum" will be established to exchange opinions on the reform of the asset management industry, including the identification and utilization of emerging asset management companies and the promotion of sustainable finance.

In addition, promote efforts to establish Japan's position as an international financial center, such as improving the living and business environment to support highly-skilled financial personnel by facilitating the opening of accounts at financial institutions, etc., and considering necessary revisions, including the identification of procedural issues related to revitalizing of cross-border investment.

2. Reform of asset ownership

As institutional investors, asset owners who manage pension, mutual aid, insurance, and other funds for beneficiaries and others are also expected to play a significant role. The following initiatives and others will be implemented to strengthen its functions.

(1) Formulation of the Asset Owner Principles

Asset Owners are a broad range of organizations, including but not limited to public pension schemes, mutual aid associations, corporate pension schemes, insurance companies, the funds of JST, educational corporations who manage financial assets and others, and each one has its own challenges. However, asset owners are expected to fulfill their responsibilities, such as achieving their respective investment purposes and targets and bringing appropriate asset management performance to beneficiaries.

To this end, a set of common principles for asset owners (Asset Owner Principles) will be developed by the end of this summer.

In this context, it is required to set investment targets such as acceptable amount of risk and target return, develop the appropriate structure, manage risk, provide information ("visualization"), and give consideration to the sustainable growth of investee companies, taking into account the economic and financial situation. It is also prescribed that not to exclude emerging managers simply because they have only a few years of experience, and asset owners should pay a fee in accordance with the added value provided by the investment trustee.

After the Principles are established, the relevant Ministries and Agencies will disseminate them to the asset owners under their jurisdiction, and the Government will make and publish a unified list that shows the asset owners who accept the Principles.

(2) Initiatives by major public asset owners

In order to fulfill their responsibilities to beneficiaries and their required role in the development of markets, etc., major public asset owners such as the GPIF (Government Pension Investment Fund) and the federation of mutual aid associations are required to accept the Asset Owner Principles, as well as promote diversification of assets under management (AUM), conducting stewardship activities, promote the appointment and development of professional human resources, including the establishment of a Chief Investment Officer (CIO), and regularly disclose their progress.

In addition, in order to enable pension beneficiaries to enjoy more fruits of investment within a certain level of acceptable amount of risk, upgrade the professional investment organization structure, and examine the basic portfolio, alternative investment ratio, and the investment targets that form the premise of this portfolio, based on economic and market trends and investment performance.

In addition, sustainable investment aims to improve medium- and long-term investment returns as well as the realization of a sustainable society. The consideration of non-financial factors, including impact, by GPIF, mutual aid associations, etc., when making investments, from the viewpoint of improving medium- to long-term investment returns, does not constitute "consideration of irrelevant matters" in the same way as ESG considerations. The GPIF, mutual aid associations, and others will consider taking initiatives based on such arrangements.

Moreover, representative public pension funds will complete the signing of the Principles for Responsible Investment by the end of this year, aiming to strengthen sustainable investment initiatives and spread the trend to the entire market.

VIII. Building economic and social systems for solving social issues

1. Comprehensive support measures for impact startups

Toward the goal of solving social issues, promote a multi-stakeholder corporate society by establishing impact investment methods and expanding the number of public and private fund providers for growth areas, thereby creating a mechanism to speedily expand the solution of social issues as a new market.

Promote comprehensive support measures for impact startups, including a certification system for impact startups (social entrepreneurs) and a financial framework to support them, as follows.

1) Create a network through a framework (consortium) to strengthen collaboration among stakeholders

The Impact Consortium, consisting of impact startups, NPOs, relevant divisions of existing companies, investors, etc., will share and disseminate the knowledge of practitioners and, from the perspective of promoting impact investment, will: i) develop impact indicators and data in collaboration with international organizations, ii) disseminate practical knowledge on various investment methods, including unlisted and listed companies, iii) promote local impact investment in Zebra companies (companies that play a leading role in solving local social issues) by utilizing demonstration projects, etc., and iv) work on specific measures such as promotion of public-private partnerships between impact startups and local governments, etc.

In addition, in order to further promote corporate management for the creation of new markets and social and business innovation, discussions on the nature of corporate strategies that lead to the enhancement and creation of corporate value will be promoted, so as to encourage the use of impact assessment.

2) Creation of impact investment projects

Based on the basic guidelines for impact measurement methods and business evaluation, discuss and specify the characteristics of impact companies and facilitate the identification of such companies, thereby addressing concerns about "impact wash" (pretending to have an impact without any real impact), while at the same time promoting an environment that attracts investors, including global investors who have the knowledge and motivation to foster corporate management, and increasing the number of cases of impact startups expanding overseas in the public and private sectors. In addition, public and private institutions will work together to promote equity investment initiatives to expand the impact market. Furthermore, as the impact investment market grows, public-private funds will consider strengthening their investment policies regarding impact investing.

3) Consideration of certification system for impact startups, etc.

Based on the framework for certification of the Japanese version of impact startups (J-Startup Impact) launched last October, additional company certification and further support measures will be considered in addition to the promotion of public procurement from impact startups, including the 30 companies selected to date, as well as from local governments. In addition, a system for a new corporate form to assume a public role in the private sector will be studied over the medium to long term.

4) Matching of impact startups with local governments

To build an ecosystem for solving social issues in the region, examine support for Zebra companies through demonstration projects, promote collaboration between startups and local governments, utilize the Digital Garden City Nation grant, create a regional economic cycle, and promote impact investment.

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

In order to activate public interest activities under the new public interest corporation system and public interest trust system, gradually conduct system improvements such as renovation of the comprehensive information system for public interest certifications, etc. With regard to the public trust system, promote organization with the Trust Business Act.

In order to encourage the efforts of NPOs to solve social issues, support initiatives such as providing highly flexible funding in the early stages of projects, securing and fostering human resources, and training and assigning project coordinators through intermediary support organizations that support projects by NPOs.

Support the efforts of NPOs and local governments that are working on measures to address loneliness and isolation by using the Grants for Loneliness and Isolation Measure Promotion.

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 also has the function of advocating for improvements in these practices or reviews of regulations (advocacy).

Conduct fact-finding surveys in green/digital and new areas, and formulate/revise guidelines based on the results of these fact-finding surveys as well.

4. Development of a competitive environment for smartphone applications, etc.

With problems such as high fees for app stores on smartphones due to the oligopoly of digital platforms, it is important to develop a fair and equitable competitive environment for smartphone apps, etc.

From this perspective, the Japan Fair Trade Commission will operate the Mobile Software Competition Act (MSCA) in a prompt and effective manner while ensuring security and protecting young people, etc., through smooth communication with regulated businesses and other parties concerned, such as application developers.

To this end, the Japan Fair Trade Commission's structure will be fundamentally strengthened in terms of both quality and quantity, such as by promoting the appointment of highly specialized personnel in information technology, information security, and other areas.

5. Strengthening of concessions (including PPP/PFI)

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

For airports, decide specific policies for three locations by FY2026. At Haneda and Narita, 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. Regarding the national government parks, examine to introduce concessions in two parks by FY2026. Accompaniment support will be provided to municipalities for the formation of community centers and other models. In the forestry sector, proceed with selecting candidate sites to establish new timber harvesting rights.

IX. Multi-polarization of the economy and society

1. Realizing regional development and the Vision for a Digital Garden City Nation

Promote the Vision for a Digital Garden City Nation to create a large flow of people to the rural areas and to rectify the concentration of people in Tokyo, as well as to create vibrant local communities with a strong sense of urgency.

(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) Collective reforms of regulations and systems and implementation of real-life projects

The remaining 1,900 regulations on paper-based and in-person processes in seven areas (visual inspection, regular inspection, field audit, residencies/full-time, written-notice, courses in-person, on-site viewing) will be revised. Based on the process chart for the digital completion of administrative procedures, put 1,100 cases online by the next fiscal year.

Promote the initiatives of Super Cities, Digital Garden Health Special Zones, and "Kizuna" Special Zones for Cooperation.

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

With regard to optical fiber installation, set a target of 99.9% household coverage by the end of FY2027, accelerate the shift of optical fiber facilities installed by local governments to the private sector, and designate areas eligible for grants to support maintenance and management costs of optical fiber installed in disadvantaged areas during this fiscal year, and begin operation of the grants by FY2026.

With regard to 5G network, set a mandatory target of 99% population coverage by the end of FY2030 and support the development of base stations in disadvantaged regions with the goal of achieving 99% road coverage of expressways and national highways by the end of FY2030 and conduct maintenance at expressway confluence points, etc.

In addition, by the end of the next fiscal year, we will establish a mechanism to promote the efficient use of 5G frequency bands by conducting an auction of high frequency bands for 5G

and allocating the auction income to measures to strengthen information communication infrastructure and technology, including the effective use of radio waves. For this purpose, we will submit a related bill to the Diet at an early date.

In addition, efforts will be made to deploy submarine cables in conjunction with the development of optical fiber and 5G.

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

We will support regional initiatives in mountainous and hilly areas, aiming to create 150 regional cases by FY2027 in which rural RMOs (Region Management Organizations, which complement the functions of multiple villages, are using smart agricultural machinery to conserve and manage farmland and providing shopping support using ICT.

4) Accelerate horizontal development of good practices using grants, and continue and strengthen "Digi-den Koshien"

Promote the horizontal development of good practices in resolving regional issues in other municipalities with regard to the Grants for the Vision for a Digital Garden City Nation, which supports hardware and software projects carried out by motivated municipalities in cooperation with private sector businesses.

Continue and strengthen the "Digi-den Koshien," which awards pioneering examples of future services in regional areas, with the participation of local governments, businesses, and the people.

5) Improving digital literacy

Regarding courses to improve the basic digital literacy of all citizens, including the elderly, 1 million people have participated in the courses. Concerning workshops on the use of smart phones conducted by Digital Supporters, etc. as lecturers, focus on implementing online-centered workshops in municipalities without cell phone stores (approx. 770 municipalities) and realize the nationwide holding of such workshops by the next fiscal year.

6) Development of digital human resources

By the end of this fiscal year, gradually construct a system that can train 450,000 digital human resources who will lead the way in solving regional issues, and secure a total of 3.3 million people by FY2026. To this end, follow-ups will be conducted to promote the development of digital human resources in various areas, such as training of university and college of technology (KOSEN) students (170,000 people/year), skill enhancement support for working adults (130,000 people/year), and vocational training (135,000 people/year).

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

1) Social implementation of automated driving

Promote social implementation of automated driving starting with low-speed, fixed-route buses, etc., and realize social experiments of automated driving in all prefectures by next year. In addition, also conduct a robot cab demonstration, and by FY2027, realize unmanned, automated transportation services in more than 100 locations. Moreover, promote social implementation of MaaS (Mobility as a Service). Furthermore, promote the development and utilization of geospatial information (G-spatial information) for the safe operation of automated driving, etc.

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

Promote cooperation among railway business operator, local governments, and other local stakeholders, and create 100 local governments entities that lead the way in cooperation and collaboration among diverse stakeholders by FY2027.

From the perspective of using digital technology to pave the way to solving the nationwide transportation shortage, make so-called ride-sharing widely available nationwide on the premise of safety, based on discussions at the Council for Regulatory Reform. Therefore, in order to solve the nationwide shortage of transportation, proceed with monitoring and verification of businesses utilizing private vehicles, etc., and evaluate the results of the verification at each point in time. In parallel, during these verifications, promote discussions on the ideal form of ride-sharing business conducted by parties other than cab operators, including the legal system, based on the summary of the points at issue by the Cabinet Office and the Ministry of Land, Infrastructure, Transport and Tourism.

3) Development of digital lifelines

Based on the "Digital Lifeline Development Plan", which aims to develop social infrastructure for the digital age over the next 10 years, the Early Harvest projects for CAV(Connected Autonomous Vehicles) corridors, UAS(Urban Aircraft System) corridors, and digital transformation of infrastructure management in leading regions will begin this fiscal year, and the results of these projects will be expanded to other regions. In doing so, common specifications, standards, etc. for digital lifelines will be established and operators will be asked to comply with them, thereby avoiding redundant investment. In addition, support the development of Okunoto Digital Lifeline in Ishikawa Prefecture as one of the new Early Harvest projects, aiming for creative reconstruction from disaster, and realize a general-purpose model that can be deployed in other regions.

4) Promotion of GIGA Schools

The GIGA School Program will be promoted through developments such as providing "1device for 1 student" including high school level and installing high-speed networks, and utilizing digital technology will be used to enable optimal learning for children.

With regard to the renewal of devices provided as "1 device for 1 student", steadily promote efficient and systematic renewal through joint procurement, etc., mainly by prefectures, and formulate a policy within this fiscal year regarding the level of maintenance of ICT environment in schools, etc., and encourage local governments to develop such a policy.

5) Improve international competitiveness of SMEs by utilizing social networking services, NFTs, etc.

Provide support through the "10,000 New Exporters Support Program" to meet the diverse challenges of SMEs and small businesses seeking to acquire foreign demand. At the same time, to strengthen international competitiveness and foster a business model capable of providing comprehensive support for overseas development, promote partnerships with companies that possess digital technologies such as social networking services and NFT, as well as regional trading companies.

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

1) Development of wide-area transportation infrastructure

In order to support local lifestyles and economic growth, continue to develop and utilize high-speed transportation networks such as expressways, Shinkansen and Linear Chuo Shinkansen, ports, and international hub airports, as well as maintain and revitalize domestic

and overseas airline networks, etc. For railways, conduct research and study on various issues, both in terms of the basic plan routes and the trunk line railway network, according to the actual conditions of each region, including future directions.

In particular, with regard to the Linear Chuo Shinkansen, promote the early construction of the Shinagawa-Nagoya segment by taking measures to resolve issues, and promote urban development on the segment west of Nagoya, including areas around the stations, in cooperation with local governments along the line to maximize the benefits of the development, by deepening studies on station construction. At the same time, aim to maximize the economic benefits to the region by improving convenience in the Tokai region by utilizing the Tokaido Shinkansen's transportation capacity.

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

Based on the "Fundamental Plan for National Resilience," after securing the necessary and sufficient budget, we will strongly promote efforts that integrate tangible and intangible (IT) measures not only by developing disaster prevention infrastructure, etc., but also by making maximum use of digital and regional capabilities for national resilience, etc., such as upgrading national land resilience measures with new technologies like digital technology, and further strengthening regional disaster prevention capabilities.

In addition to promoting the "Five-Year Acceleration Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience," it is important to promote medium- to long-term, continuous, and stable measures, based on the experience of the Noto Peninsula Earthquake of 2024. In order to steadily promote national resilience after the measures, we will accelerate to the utmost the study for the "Mid-term Plan for Implementation of National Resilience", including the evaluation of the implementation status of the measures, and start its formulation as early as possible during this year.

Also, to foster the DX on disaster prevention and disaster prevention science and technology, promote initiatives such as automatic linkage with related systems and enhancement of image sharing functions through disaster prevention IoT, and by the next fiscal year, establish a disaster prevention digital platform with a new integrated disaster management information system at its core, as well as work to link public and private disaster victim support systems. In addition, based on the challenges and lessons learned from the Noto Peninsula Earthquake of 2024, develop and implement disaster prevention-related technologies.

As for measures to address heat illness, develop a Special Heat Stroke Alert information announcement system and secure cooling shelters.

3) Management and utilization of vacant houses

Promote the management and utilization of vacant houses through encouragement to local governments, etc., based on the Vacant Houses Special Measures Act, etc. In addition, promote multi- residency in both urban and rural areas.

4) Realization of a sustainable local economy and society

Establish a mechanism to link corporate efforts to conserve natural capital to corporate value enhancement in order to shift to a nature-positive economy and social system. In addition to promoting support to companies for information disclosure based on the framework of the Taskforce on Nature-related Financial Disclosure (TNFD), a certification system for initiatives to promote biodiversity in local communities will be launched in the next fiscal year based on the Act on Promoting Activities to Enhance Regional Biodiversity.

Promote the Japan Environment and Children’s Study (JECS) efficiently and effectively.

Promote zoonosis control measures based on a one-health approach in which all concerned parties work together to solve the problem.

2. Promotion of investment in overseas businesses

Create a "co-creation platform for strengthening economic diplomacy" in order to link economic diplomacy strategies with corporate needs and thus to effectively support the overseas expansion of Japanese companies, including start-ups. In this context, also utilize the newly appointed officials in charge of cross-border economic affairs at overseas diplomatic missions to promote collaboration between Japanese companies and local companies with an eye on third-country markets, support overseas development of technologies in which Japanese, especially start-ups and SMEs, have an advantage, and strengthen effective coordination of the government's menu of support for Japanese companies. Through these efforts, full support will be provided to Japanese companies to conduct overseas business investment and to promote exports of Japanese food products (including marine products and alcoholic beverages).

In light of the expanding role of private-sector funds in the field of international cooperation, review the ODA system in order for the government or the related agencies to be able to provide for the risks associated with investment activities in developing countries by companies, in order to create an ecosystem in which private-sector funds, including impact investments, automatically flow into the formation of international public goods, and to utilize the ODA as a "catalyst" for the creation of new investment opportunities for Japanese companies. In addition, review the system to reduce the barriers that companies face in doing business in developing countries so that SMEs, including local firms and start-ups, can utilize their technologies and promote businesses that also contribute to solving social issues in the those countries.

Support the overseas expansion of Japanese companies by leading international discussions on the SDGs with a view to 2030 and beyond.

3. Promoting inbound tourism by capitalizing on Japan's attractiveness

Based on the Tourism Nation Promotion Basic Plan, we promote measures to create sustainable tourism regions, recover inbound tourism, and expand domestic exchanges, aiming to achieve the targets of 60 million international visitors and 15 trillion yen in consumption by 2030, as well as to prevent and control congestion and inconsiderate tourist behavior that accompany increased tourist arrivals.

With regard to culture and the arts, as described in IV. 3. (2), "Promotion of overseas development and production and distribution of globally accepted content," in addition to attracting international art fairs on a full-scale basis, also examine measures to enhance resilience of cultural properties and add value through public-private partnerships, and reach a conclusion during the current fiscal year. Promote community-based activities such as sports tourism and integration with regional development, and also utilize digital technology to achieve high profitability.

X. Initiatives in individual fields

1. Space

In order to contribute to disaster prevention/mitigation and security, etc., promote demonstration projects, development/demonstration of next-generation technologies, etc., and utilization of satellite data to build a constellation of optical/small synthetic-aperture radar

satellites (SAR) and optical communication satellites under public-private partnership. In addition, we will also steadily develop information-gathering satellites and next-generation geostationary meteorological satellites.

Following the successful launch of the H3 rocket, promote efforts to upgrade the launch vehicle and increase the frequency of launches so that domestic and overseas satellite launches can be carried out steadily in the future, and also promote support for rocket development by the private sector. In addition, the public and private sectors will collaborate on the development of new space transportation systems, including the next-generation mainstay launch vehicle.

Regarding the Artemis missions, which aims to conduct human exploration of the Moon, the development of a manned pressurized lunar rover will be started at full scale jointly with the private sector in order to realize the common goal set at the Japan-US summit meeting, which is that a Japanese astronaut is to land on the Moon as the first non-American astronaut. Moreover, based on the successful landing of the lunar explorer SLIM, promote research and development on exploration beyond the Moon and Mars.

As for the Quasi-Zenith Satellite System, which enables 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.

Aim to promptly increase the size of the Space Strategic Fund to 1 trillion yen in order to promote focused technology development, new business creation, and entry into the space sector in areas where start-ups with growth potential and other companies have strengths, as well as to secure long-term government procurement (anchor tenancy) to enable private companies with international competitiveness to realize business development.

In order to enable new space transportation by the private sector, compile the concept of system review within this fiscal year, with a view to revising the Space Activities Act.

2. Oceans

Based on Ocean Development Strategy, promote research and development (R&D) of Autonomous Underwater Vehicles and verification of their use, including linkage with the Quasi-Zenith Satellite System, industrial use of the MSIL (the MDA Situational Indication Linkages), promotion of the Maritime Domain Awareness (MDA) and utilization of information by improving data analysis methods using satellite data, AI, etc., R&D for rare earth production in the waters around Minamitorishima Island, development of geospatial information and topographic mapping systems for preservation of the sea area under the jurisdiction of, ensuring the building of the Arctic Research Vessel (ARV) , and consideration of turning the area into an international research platform an Arctic research vessel planning to use it as an international research platform after the vessel enter into operation, etc. Regarding these efforts, secure multi-year sufficient budgets across ministries, and strongly promote with predictability.

Upgrading ocean observations in exclusive economic zones, conducting global observations, and upgrading simulation technology for the construction of digital twin of the ocean, etc.

For the development of domestic marine resources such as seafloor hydrothermal deposits, methane hydrate, and rare earth muds in the waters surrounding Okinawa, etc., work on the development of necessary technologies, establishment of production processes, evaluation of resource reserve, and understanding of environmental impacts. With a view to utilizing this technology for marine resource development, promote the building of deep-sea research systems, including the development of hadal unmanned research vehicles.

3. Promoting external economic partnerships

Deepen the Japan-Australia-India-U.S. (Quad) cooperation, as well as cooperation with ASEAN, Pacific Island Countries, Africa, Latin America and Caribbean, and other countries, and promote a "Free and Open Indo-Pacific." In addition, maintain and strengthen the free and fair economic order through the use of economic partnership agreements such as CPTPP and RCEP, and frameworks of its ally and like-minded countries such as IPEF, Japan-U.S., and Japan-EU, and by promoting the negotiation of new EPAs and investment agreements. In multilateral frameworks, Japan will also play a central role in international rule-making, such as reforms and e-commerce negotiations in the WTO.

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." In particular, with regard to ODA, promote the formation of specific projects based on co-creation for common agenda initiative (international cooperation in which Japan proactively makes proposals to other countries while taking advantage of its strengths) to achieve economic growth for both developing countries and Japan.

Following its endorsement by the G7 Hiroshima Summit, operationalize DFFT through the Institutional Arrangement for Partnership (IAP), an international and multi-stakeholders mechanism established under the OECD. As such a project, swiftly build a repository of regulations related to cross-border data flows in Southeast Asian countries and OECD member countries, thereby aiming to address the lack of legal certainty suffered by business.

4. Global health

Strategically address global health (international health, universal health coverage) from the perspective of growth of Japan's medical and long-term care industry by reducing health disparities in the Indo-Pacific region, including Asian countries and bringing in dynamic personnel from overseas.

Based on "Triple I", a framework for international collaboration to promote impact investing in order to mobilize new private-sector funding aiming at attracting private-sector capital to the global health sector, promote public relations, investigate methods for measuring and managing impact, and examine the roles of related institutions.

In addition, the Nutrition for Growth summit in Paris to be held next year will be used as an opportunity to encourage the spread of health investment and nutrition improvement, and to promote the procurement of pharmaceuticals and medical equipment from Japanese companies by international organizations, thereby promoting international expansion and international contributions, including medical inbound.

Furthermore, establish the UHC Knowledge Hub in Japan, a global hub for human resource development and knowledge articulation in cooperation with WHO, the World Bank, and other organizations, train foreign medical personnel in collaboration with ERIA, and contribute to the Vaccine Alliance and the Stop TB Partnership. Also promote the efforts of the Alliance for Transformative Action on Climate and Health (ATACH), which aims to build a climate resilient, low-carbon and sustainable health systems.

5. Creation of new industries in Fukushima and other Tohoku regions, and recovery and reconstruction from the Noto Peninsula earthquake

We will promote the Fukushima Innovation Coast Framework, and steadily promote innovation creation and support for attracting companies in the fields of energy, robotics, etc. for creating new industries in the Hamadori area.

In addition, in order to accelerate the efforts of the Fukushima Institute for Research, Education and Innovation (F-REI), we will begin designing the institute's facilities this fiscal

year, and steadily promote research and development, industrialization, and human resource development.

Moreover, we will make utmost efforts for the recovery and reconstruction from the Great East Japan Earthquake, by promoting decontamination and infrastructure development in the Specified Living Areas for Returnees, in order to lift evacuation orders in the Restricted Areas that Japan has designated as areas where residence will be restricted in the future, and promote community development through culture and arts, such as movies, and increasing the number of nonresident population, for ensuring the safety of the decommissioning of TEPCO Fukushima Daiichi Nuclear Power Station and the discharge of ALPS Treated Water, taking measures against adverse impacts on reputation, supporting the continuation of prosperity.

The Noto Peninsula Earthquake of 2024 caused extensive damage. Through support for the development of Okunoto Digital lifeline and the use of new technologies, the project aims to make reconstruction of Okunoto a model for regional revitalization in areas with declining population.

XI. A framework for the realization of a new capitalism

1. Follow-ups

In order to specifically promote this action plan, follow-ups will be conducted every fiscal year on the status of implementation, and the PDCA cycles will be carried out in accordance with the set KPIs.

2. Promotion of EBPM

In pursuing this action plan, EBPM (evidence-based policy making) will be promoted in order to evaluate the current situation and take appropriate measures accordingly, based on the set targets.

3. Easing restrictions on the use of government-held data

In order to carry out EBPM, it is essential to facilitate the use of government-owned data for academic research by researchers at universities and other institutions outside of government agencies, and to use the results for policy making. To this end, the following initiatives will be implemented.

1) A conclusion will be reached by the end of this year on how to use and provide the data acquired and held for academic research purposes for each administrative task, such as unemployment insurance and employee pension, with reference to efforts to use tax and customs data for academic research regarding policy making.
2) With regard to the use and provision of personal information held by administrative entities, etc. for academic studies, consider specific measures to establish the working environment, such as the formulation of practical manuals and unified formats for required documents, based on the rules for use and provision under the Personal Information Protection Act, and reach a conclusion within this year.

4. Cooperation between public and private sectors

A 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 make the most of its power to solve social issues currently considered the government's domain.

Even under the accelerating population decline, raising the potential growth rate and

achieving a virtuous cycle of growth and distribution will be an important foundation for ensuring the long-term sustainability of Japan's economy, public finances, and social security, and for maintaining fiscal credibility. The economy is the foundation of public finance, and there is no contradiction between taking necessary policy measures and working toward the goal of fiscal consolidation. Wise spending will be thoroughly implemented to draw out the vitality of the private sector and lead to economic growth and other outcomes.

<Target values set in this action plan>

In order to specifically pursue this action plan, the following targets have been set in individual areas. Continue to follow up on the status of its implementation.

- Reduce the wage gap that exists between Japanese and foreign companies for the same job, taking into account the differences in economic conditions in each country. Resolve wage disparities based on gender, age, etc.

  The percentage of those whose wages increase due to job change continuously exceeds the percentage of those whose wages decrease. (III. Early implementation of the trinity reform of labor markets)

  Progress status: In 2022, the percentage of workers whose wages increased (34.9%) exceeded the percentage whose wages decreased (33.9%) after changing jobs.

- Increase the number of Japanese students studying to 500,000 by 2033.

  Increase the number of international students studying in Japan to 400,000, and raise the domestic employment rate for international students after graduation to 60% (excluding those who go on to higher education in Japan) by 2033. (III. (4) (4) Enhancing support for international students studying in Japan)

  Progress status: The number of Japanese students studying abroad reached 97,857 according to the OECD "Education at a Glance" in 2021, etc. and the JASSO "Survey on the Status of Japanese Students Studying Abroad" in FY2022.

  The number of international student studying in Japan reached 279,274 in FY2023.

  The domestic employment rate of international students after graduation reached 53.3% in FY2022.

- Increase the amount of investment in startups by more than 10 times (10 trillion yen) from FY2022 to FY2027, five years later. Furthermore, in the future, create 100 unicorns and 100,000 startups. (IV. 1. Execution of the five-year startup development plan)

  Progress status: The amount of investment in startups has been falling globally since 2022, as venture capital funding has declined due to heightened geopolitical risks from the invasion of Ukraine and other factors, and as market conditions remain stagnant. Preliminary figures for investment in 2023 in major foreign countries show a significant decrease in the amount of investment compared to 2021: -59% in the U.S., -35% in China, and -48% in the U.K. On the other hand, Japan's five-year plan for startup development was launched, and the momentum for startup creation and investment increased among entrepreneurs, business companies, domestic and foreign venture capitalists, and other related parties, resulting in a relatively small decrease of 13% from 2021 to 754.0 billion yen, compared to other countries. In addition, the number of startups in Japan has increased about 1.5-fold from 16,100 in 2021 to 22,000 in 2023, and the base of startups is steadily expanding. The number of unicorn companies as of March 2024 is seven (up one from six in 2022).

- Expand procurement from startups for properties, construction, and services procured by the government and related agencies, and promptly increase the ratio of contracts from SMEs established less than 10 years to more than 3% (300 billion yen scale) as soon as possible. (IV. 1. (1) Strengthening the supply of funds and diversifying exit strategies)

  Progress status: The percentage of contracts with SMEs that have been in business for less than 10 years is 1.11% in FY2022.

- Support 500 persons per year in FY2027 in the mentoring support program. (IV. 1. (2) Human resources and network building)
  Progress status: 74 students per year in FY2022 and 548 students per year in FY2023. In FY2023, the FY2027 goal of 500 students per year was reached.

- Expand the number of young human resources with entrepreneurial aspirations to be dispatched overseas to 1,000 over the five-year period from FY2023 to FY2027. (IV. 1. (2) Human resources and network building)
  Progress status: 400 people dispatched in FY2023. Steady expansion toward the goal of "1,000 persons in 5 years".

- Support the commercialization of university-originated research results for more than 5,000 projects over the five-year period from FY2023 to FY2027. (IV. 1. (2) Human resources and network building)
  Progress status: 410 projects were supported for commercialization from April 2023 to September 2023.

- Increase the production value of quantum technology to 50 trillion yen by 2030. (V. 6. (1) Quantum technology)
  Progress status: Production value from quantum technology is estimated to be 500 billion yen in FY2022.

- Increase the number of doctoral students who will be provided with an amount equivalent to living expenses by three times (equivalent to 70% of those who advance from master's programs) by FY2025. (V. 6. (10) Support for doctoral students, young researchers, etc.)
  Progress status: 2.2 times the previous number (16,300 (estimated)) in FY2022 (7,500 (estimated) in FY2018) and 2.5 times the previous number (18,400 (estimated)) in FY2023, with steady growth toward the FY2025 target.

- Secure manufacturing base of 150 GWh/year domestically and 600 GWh/year globally for batteries by 2030. (V. 7. (3) Batteries)
  Progress status: Domestic production base of around 85 GWh/year is expected to be secured, adding up projects supported by subsidies based on the FY2021 supplementary budget and FY2022 supplementary budget.

- Increase public and private investment in bio manufacturing to 3 trillion yen per year by 2030. (V. 7. (4) Bio-industry)
  Progress status: Public and private investment in biomanufacturing is estimated at 438.9 billion yen per year in FY2022.

- Achieve GX investment of over 150 trillion yen in the 10 years to FY2032 through public-private sector cooperation. (VI. 1. (1) Development of National GX Strategy with a view to 2040)
  Progress status: As for GX investment by the public sector, over 5 trillion yen in budgeted projects, including government debt obligations, were appropriated by the initial budget for FY2024. By

integrating up-front investment support by the government with regulatory and institutional measures, draw out private-sector investment toward the goal of "realizing over 150 trillion yen in GX investment over the next 10 years through public-private sector cooperation."

- Based on the Act on Sophistication of Recycling Business, etc. we will certify more than 100 advanced resource circulation projects in three years. (VI. 1. (4) (1) Thorough resource circulation through inter-business collaboration and innovation, etc.)
  Progress status: The Act on Sophistication of Recycling Business, etc. was passed in the current Diet session.

- Achieve 10% introduction of sustainable aviation fuel (SAF) by 2030. (VI. 1. (4) (1) Thorough resource circulation through inter-business collaboration and innovation, etc.)
  Progress status: SAF is currently almost not supplied, and support measures, etc., are being considered to expand supply.

- Increase the processing volume of e-scrap recycling to approximately 500,000 tons by 2030 (50% increase from 2020). (VI. 1 (4) (3) Establishment of a domestic and international resource circulation system to ensure economic security)
  Progress status: Approximately 350,000 tons to be processed by 2020.

- Aim to reduce the amount of clothing discarded from households by 25% by FY2030 compared to FY2020. (VI. 1. (4) (4) iv Expansion of recycling-oriented businesses)
  Progress status: 458,000 tons in FY2022, down 7.6% from FY2020 (496,000 tons).

- Exports of agricultural, forestry, marine products and food products are to be 2 trillion yen in 2025 and 5 trillion yen in 2030. (VI. 2. (3) Expansion of exports of agricultural, forestry, marine products and food products)
  Progress status: 1,454.1 billion yen in 2023 (up 2.8% from the previous year).
  Export performance in the first half of 2023 was relatively steady at +9.6% y/y. On the other hand, in the second half of the year, exports to China and other countries declined significantly due to import restrictions imposed by China and other countries following the release of ALPS treated water into the sea, resulting in a slight increase over last year's level for the year as a whole.

- The goal is to increase the total number of NISA accounts to 34 million and the amount of purchases to 56 trillion yen by the end of 2027. (VII. 1. (1) (1) Utilization of NISA)
  Progress status: As of March 31, 2024, the total number of accounts was 23.23 million (up 1.87 million from January to March 2024, when the new NISA was launched, and up 8.7% from December 31, 2023), and the purchase amount was 42 trillion yen (up 6 trillion yen and 17.4% from the same period in the previous year).

- By the end of FY2028, the percentage of those who recognize that they have received financial and economic education should be 20%, the same level as in the United States. (VII. 1. (1) (2) Enhancement of financial and economic education)
  Progress status: 7.1% in 2022.

- For the development of optical fiber, the household coverage rate shall be 99.9% by the end of FY2027. (IX. 1. (1) (2) Development of digital infrastructure such as optical fiber and 5G)
  Progress status: Household coverage was 99.84% at the end of FY2022 (99.72% at the end of FY2021), making steady progress toward the target.

- Regarding the development of 5G, etc., 99% in population coverage and 99% in road coverage of expressways and national highways are targeted by the end of FY2030. (IX. 1. (1) (2) Development of digital infrastructure such as optical fiber and 5G)
  Progress: Population coverage was 96.6% at the end of FY2022 (93.2% at the end of FY2021), making steady progress toward the target.

- With regard to hilly and mountainous areas, create 150 areas by FY2027 where rural region management organizations that complement multiple village functions are engaged in farmland conservation management using smart farm machines and shopping support using ICT (Vitalized Hilly and Mountainous Areas by Digitalization). (IX. 1. (1) (3) Improvement of living environment in hilly and mountainous areas through digitalization)
  Progress status: As of the end of FY2023, 55 regions were registered as Vitalized Hilly and Mountainous Areas by Digitalization.

- Increase the number of local government entities that utilize digital technology to solve regional issues to 1,000 by FY2024 and 1,500 by FY2027. (IX. 1. (1) (4) Accelerate the horizontal development of good practices using the grant, and continue and strengthen the Digi-den Koshien.
  Progress status: As of March 2024, the number of entities reached 1,754, achieving the goal of "1,500 entities by FY2027" ahead of schedule.

- Regarding subsidies to local governments that offer courses to improve digital literacy, achieve 1 million participants by the end of FY2023. (IX. 1. (1) (5) Improvement of digital literacy)
  Progress status: 1.02 million people took the course in FY2023, exceeding the goal of "1 million participants."

- Achieve 500,000 participants per year in training sessions on the use of smart phones. (IX. 1. (1) (5) Improvement of digital literacy)
  Progress status: 670,000 persons took the course in FY2023, exceeding the target of "500,000 persons per year."

- Hold nationwide seminars on the use of smart phones by the next fiscal year, including municipalities without cell phone stores (approximately 770). (IX. 1. (1) (5) Improvement of digital literacy)
  Progress status: Training sessions were held in approximately 6,600 locations in FY2023. Of all municipalities (1,741), 1,245 (72%) had conducted training sessions by the end of FY2023. In addition, in municipalities that do not have cell phone stores (approximately 770), training sessions were held in approximately 290 (38%) of all municipalities.

- As for digital human resources who play a leading role in solving regional issues, establish a system

capable of training 450,000 persons per year by the end of FY2024, and secure a total of 3.3 million persons by FY2026. (IX. 1. (1) (6) Training of digital human resources)
Progress status: 330,000 persons in FY2022 and 510,000 persons in FY2023 (including some preliminary figures) were trained.

- Realize driverless automated driving mobility services in at least 100 locations by FY2027. (IX. 1. (2) (1) Social implementation of automated driving)
  Progress status: The number of locations where unmanned automated transportation services will be realized will be organized and materialized during FY2025.

- By FY2027, certify 300 re-designs of regional public transportation to be undertaken by local governments and operators based on the Regional Transportation Law. (IX. 1. (2) (2) Improvement of transportation infrastructure and re-designing of regional public transportation)
  Progress: 99 cases certified by the end of FY2023.

- By FY2027, create 100 local governments entities that lead the way in cooperation and collaboration among various stakeholders. (IX. 1. (2) (2) Improvement of transportation infrastructure and re-designing of regional public transportation)
  Progress status: New initiatives to begin in FY2024.

- Achieve inbound consumption of 5 trillion yen and domestic tourism consumption of 20 trillion yen earlier than 2025.
  Achieve 60 million international visitors and 15 trillion yen in consumption by 2030. (IX. 3. Promoting inbound travel by capitalizing on Japan's attractiveness)
  Progress status: Inbound consumption in 2023 was approximately 5.3 trillion yen and domestic tourism consumption was approximately 21.9 trillion yen, achieving the target earlier than 2025. The number of international visitors to Japan in 2023 was 25.07 million (6.5 times increase from 3.83 million in 2022)

<List of Footnotes>
[1] Basic Data P1: Labor Productivity and Wage Levels
[2] Basic Data P2: International Comparison of Labor Productivity
[3] Basic Data P3: Relationship between Markup Ratio and Salary Level
[4] Basic Data P4: Changes in Japanese Values and Consumer Behavior
[5] Basic Data P5: Potential Growth Rates of Countries
[6] Basic Data P6: Percentage of Workers Using Basic ICT Technologies
[7] Basic Data P7: Price Pass-Through Status and Price Pass-Through Rate of SMEs
[8] Basic Data P8: Inter-Firm Differences in Labor Productivity by Firm Size
[9] Basic Data P9: Productivity and Wages of Companies Using Automation Technology
[10] Basic Data P10: Introducing AI Tools and Improving the Productivity of Low-Skilled Workers
[11] Basic Data P11: Improving Worker Efficiency Through the Use of AI
[12] Basic Data P12-15: Schumpeter's Two Views on the Sources of Innovation
Schumpeter's Two Views and Empirical Results
Sustainable Viability of Companies Using Older Technologies
Investment in Startups by Business Corporations
[13] Basic Data P16: Status of Introduction of Secondary and Concurrent Work Systems
[14] Basic Data P17: Effects of Accepting Human Resources with Secondary or Concurrent Jobs
[15] Basic Data P18: International Comparison of Wages by Length of Service
[16] Basic Data P19: Percentage of Workers Who Wish to Work Until Age 70 or Older
[17] Basic Data P20: Changes in the Wage Curve in Large Companies
[18] Basic Data P21-22: Wage Differential between Domestic and Foreign Workers by Occupation
Wage Gap Relative to Skill Gap
[19] Basic Data P23-24: Reasons Why Japanese Companies Are Introducing Job-based Personnel Management (Job-based Wages)
Differences Between Conventional Japanese Membership-based Employment and Job-based Personnel Management (Job-based Wages)
[20] Basic Data P25: Smoothness of Labor Mobility and Labor Productivity
[21] Basic Data P26: Awareness of Career Development
[22] Basic Data P27-28: Effectiveness of Management Education in Re-Skilling
Japan-Denmark Comparison of Re-Skilling Participants
[23] Basic Data P29: Work Experience and Entrepreneurial Success Rate
[24] Basic Data P30: Effects of Grouping (Multiple M&As)
[25] Basic Data P31: Number of M&As by Intermediary
[26] Basic Data P32: Distribution of Minimum Commissions of M&A Support Agencies
[27] Basic Data P33: Recent Profits of Companies without Successors
[28] Basic Data P34: Trends in Current Management by Appointment Paths
[29] Basic Data P35: Trends in Successor Absence Rates
[30] Basic Data P36-40: Size of the Global Market for Content
Market View of the Global Market and the Size of Japan’s Exports for the Content Industry
Composition of Overseas Sales of Japanese Content by Genre
Comparison of Overseas Expansion of Content Industries in Japan,

China, and South Korea
Overseas Sales of Animation

[31] Basic Data P41: World Ranking of Characters' Cumulative Income

[32] Basic Data P42-45: Change to a More Individual-Centric Approach to Music Production and Sales
The Music Industry's Transition to a Market Dominated by Old Songs
Trends in the Global Concert Market
Status of Media Mix Development

[33] Basic Data P46-47: Advertising Revenues and Program Production Costs of TV Stations
Global Netflix Membership and Revenue Growth

[34] Basic Data P48: Economic Impact of Pilgrimages to Anime Pilgrimage Sites

[35] Basic Data P49-51: Digitalization of the Content Industry
Global Music Market Trends
Magazine Sales and the Size of the Electronic Publishing Market in Japan

[36] Basic Data P52-54: Magnitude of R&D Externalities
Comparison of the Effectiveness of Research Grant Programs That Allow for Initial Failures Versus Normal Programs
(Reference) Comparison of HHMI and NIH Systems

<List of legal names>

The following abbreviations are used for legal names.

Subcontract Act	Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (Act No. 120 of 1956)
Antimonopoly Act	Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947)
Revised Distribution Business Efficiency Act and Revised Motor Truck Transportation Business Act	The Act on Advancement of Integration and Streamlining of Distribution Business (Act No. 85 of 2005) and the Motor Truck Transportation Business Act (Act No. 83 of 1989) as amended by the Act Partially Amending the Act on Advancement of Integration and Streamlining of Distribution Business and the Motor Truck Transportation Business Act (Act No. 23 of 2024)
Revised Construction Business Act	The Construction Business Act (No. 100 of 1949) as amended by the Act Partially Amending the Construction Business Act and the Act for Promoting Proper Tendering and Contracting for Public Works (Act No. 49 of 2024)
Labor Standards Act	Labor Standards Act (Act No. 49 of 1947)
Part-Time and Fixed-Term Employment Act	Act on Improvement of Personnel Management and Conversion of Employment Status for Part-Time Workers and Fixed-Term Workers (Act No. 76 of 1993)
Revised Immigration Control Act and Revised Technical Intern Training Act	The Immigration Control and Refugee Recognition Act (Cabinet Order No. 319 of 1951) and the Act on Proper Technical Intern Training and Protection of Technical Intern Trainees (Act No. 89 of 2016) as amended by the Act Partially Amending the Immigration Control and Refugee Recognition Act and the Act on Proper Technical Intern Training and Protection of Technical Intern Trainees (Act No. 60 of 2024)
Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators	Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators (Act No. 25 of 2023)

Women's Empowerment Act	Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015)
Revised Financial Instruments and Exchange Act	The Financial Instruments and Exchange Act (Act No. 25 of 1948) as amended by the Act Partially Amending the Financial Instruments and Exchange Act and the Act on Investment Trusts and Investment Corporations (Act No. 32 of 2024)
Act on Strengthening Industrial Competitiveness	Act on Strengthening Industrial Competitiveness (Act No. 98 of 2013)
Revised Act on Strengthening Industrial Competitiveness	The Act on Strengthening Industrial Competitiveness as amended by the Act Partially Amending the Act on Strengthening Industrial Competitiveness and Other Acts to Create New Business and Encourage Investment in Industries (Act No. 45 of 2024)
Companies Act	Companies Act (Act No. 86 of 2005)
FEFTA	Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949)
Revised Limited Partnership Act for Investment (LPS Act)	Limited Partnership Act for Investment (Act No. 90 of 1998) as amended by the Act Partially Amending the Act on Strengthening Industrial Competitiveness and Other Acts to Create New Business and Encourage Investment in Industries (Act No. 45 of 2024)
Personal Information Protection Act	Act on the Protection of Personal Information (Act No. 57 of 2003)
Copyright Act	Copyright Act (Act No. 48 of 1970)
Nuclear Reactor Regulation Act	Act on the Regulation of Nuclear Source Material, Nuclear Fuel Material and Reactors (Act No. 166 of 1957)
Critical Economic and Security Information Act	Act on the Protection and Utilization of Critical Economic and Security Information (Act No. 27 of 2024)
Revised Special Measures Act on Renewable Energy	Act on Special Measures Concerning Promotion of Utilization of Electricity from Renewable Energy Sources (Act No. 108 of 2011) as amended by the Act Partially Amending the Electricity Business Act and Other Acts for Establishing Electricity Supply Systems for Realizing a Decarbonized Society (Act No. 44 of 2023)
Hydrogen Society Promotion Act	Act on Promotion of Supply and Utilization of Low-Carbon Hydrogen and its Derivatives for Smooth Transition to a Decarbonized, Growth-Oriented Economic Structure (Act No. 37 of 2024)
CCS Business Act	Act on Carbon Dioxide Storage Business (Act No. 38 of 2024)
Act on the Rational Use of Energy	Act on Rationalization of Energy Use and Shift to Non-fossil Energy (Act No. 49, 1979)
Act on Sophistication of Recycling Business, etc.	Act on Concerning Sophistication of Recycling Business, etc. to Promote Resource Circulation (Act No. 41 of 2024)
Green Purchasing Act	Act on Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities (Act No. 100 of 2000)
Revised Basic Act on Food, Agriculture and Rural Areas	The Basic Act on Food, Agriculture and Rural Areas (Act No. 106 of 1999) as amended by the Act Partially Amending the Basic Act on Food, Agriculture and Rural Areas (Act No. 44 of 2024)
Food Supply Crisis Countermeasures Act	Food Supply Crisis Countermeasures Act (Act No. 61 of 2024)
MIDORI Act	Act to Promote Low Environmental Impact Business Activities for the Establishment of Environmentally Harmonized Food Systems (Act No. 37 of 2022)

Smart Agriculture Technology Utilization Promotion Act	Act on Promotion of Utilization of Smart Agriculture Technologies for Improving Agricultural Productivity (Act No. 63 of 2024)
Trust Business Act	Trust Business Act (Act No. 154 of 2004)
Act on Promotion of Competition for Specified Smartphone Software	Act on Promotion of Competition for Specified Smartphone Software (Act No. 58 of 2024)
Act on Special Measures against Vacant Houses	Act on Special Measures Concerning the Promotion of Countermeasures for Vacant Houses and Other Buildings (Act No. 127 of 2014)
Biodiversity Promotion Act	Act on Promotion of Activities for Enhancing Biodiversity in Local Communities (Act No. 18 of 2024)
Space Activities Act	Act on the Launch of Satellites, Etc. and the Management of Satellites (Act No. 76 of 2016)
Local Transportation Act	Act on Revitalization and Rehabilitation of Local Public Transportation Systems (Act No. 59 of 2007)

Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version

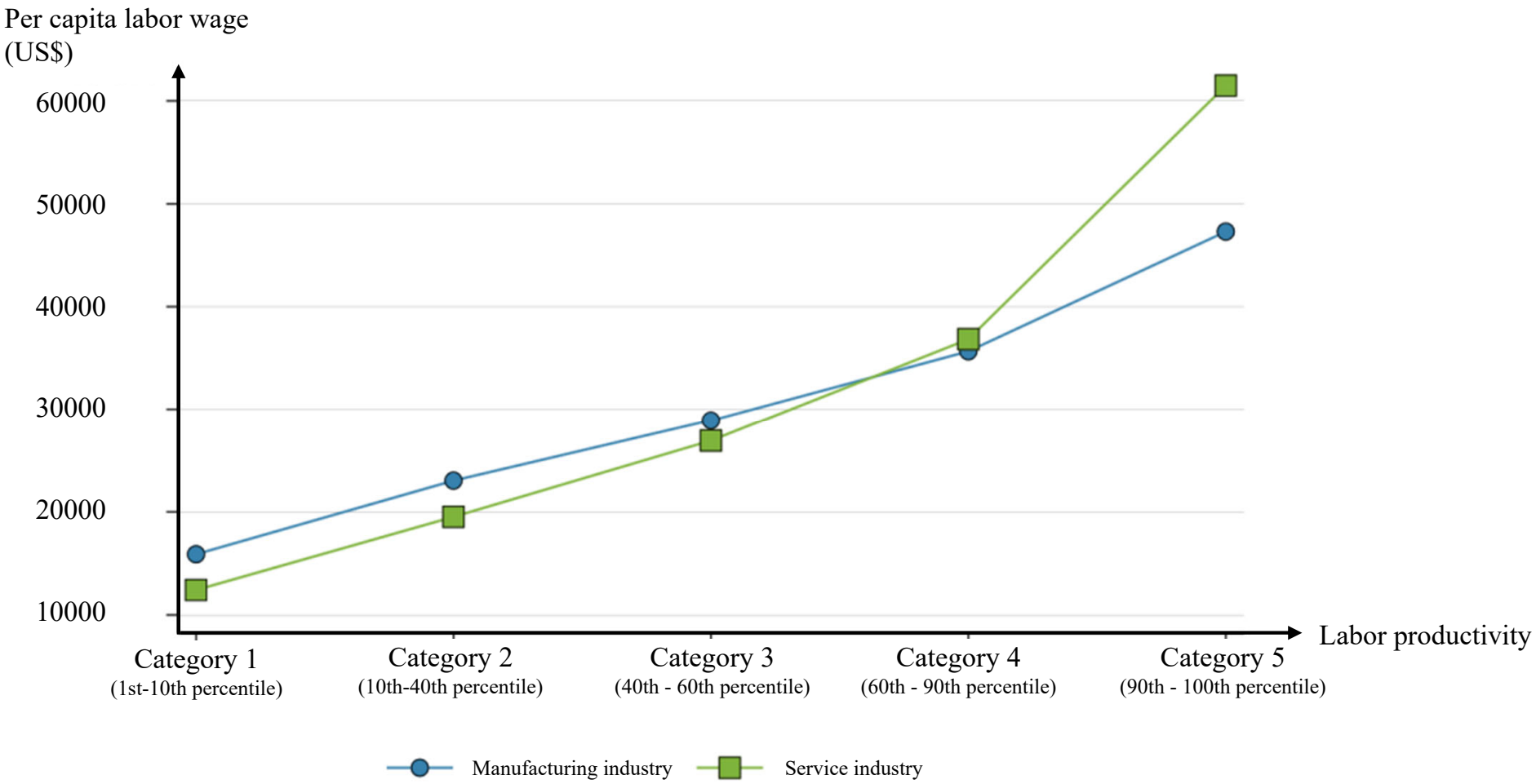
Basic Data

June 21, 2024

Labor Productivity and Wage Levels

○ Taking an average for the 17 OECD member countries, there is a positive correlation between labor productivity and per capita wages, and there is a high probability that wage levels will increase as labor productivity increases.

Labor Productivity and Wage Levels



(Note) OECD MultiProd was used to analyze data from 1994 to 2012 for 17 OECD countries, including Japan. Productivity is divided into five categories (first category (1st-10th percentile), second category (10th-40th percentile), third category (40th-60th percentile), fourth category (60th-90th percentile), and fifth category (90th-100th percentile)), and wages are weighted for each category.

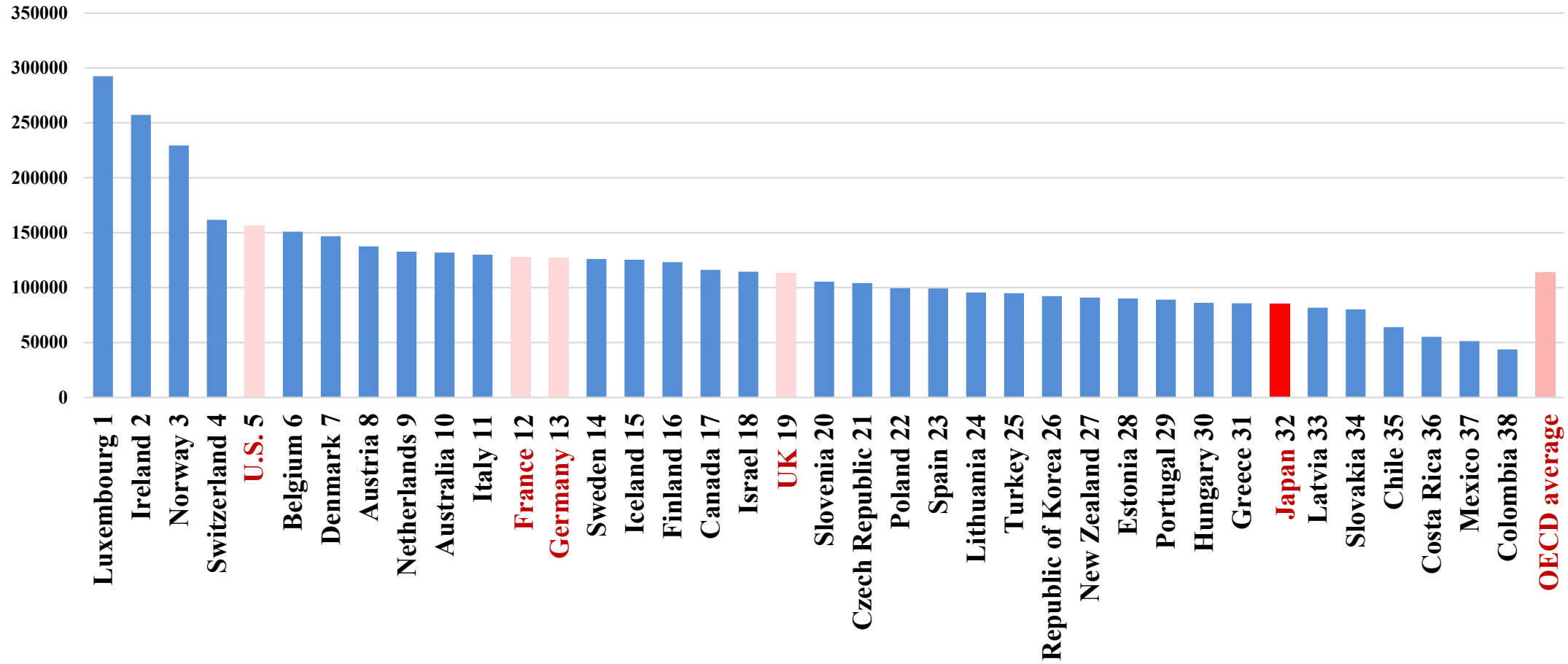
(Source) Created on the basis of Berlingieri, Calligaris, Criscuolo (2018) "The Productivity-Wage Premium: Does Size Still Matter in a Service Economy?" CEP Discussion Paper No 1557, Center for Economic Performance, London School of Economics and Political Science.

International Comparison of Labor Productivity

○ Japan's labor productivity is low, ranking 32nd among OECD member countries.

Labor productivity per worker in OECD countries (2022)

Labor productivity (US$ in purchasing power parity terms)
(Calculated as GDP (in purchasing power parity US$ terms) / number of workers)

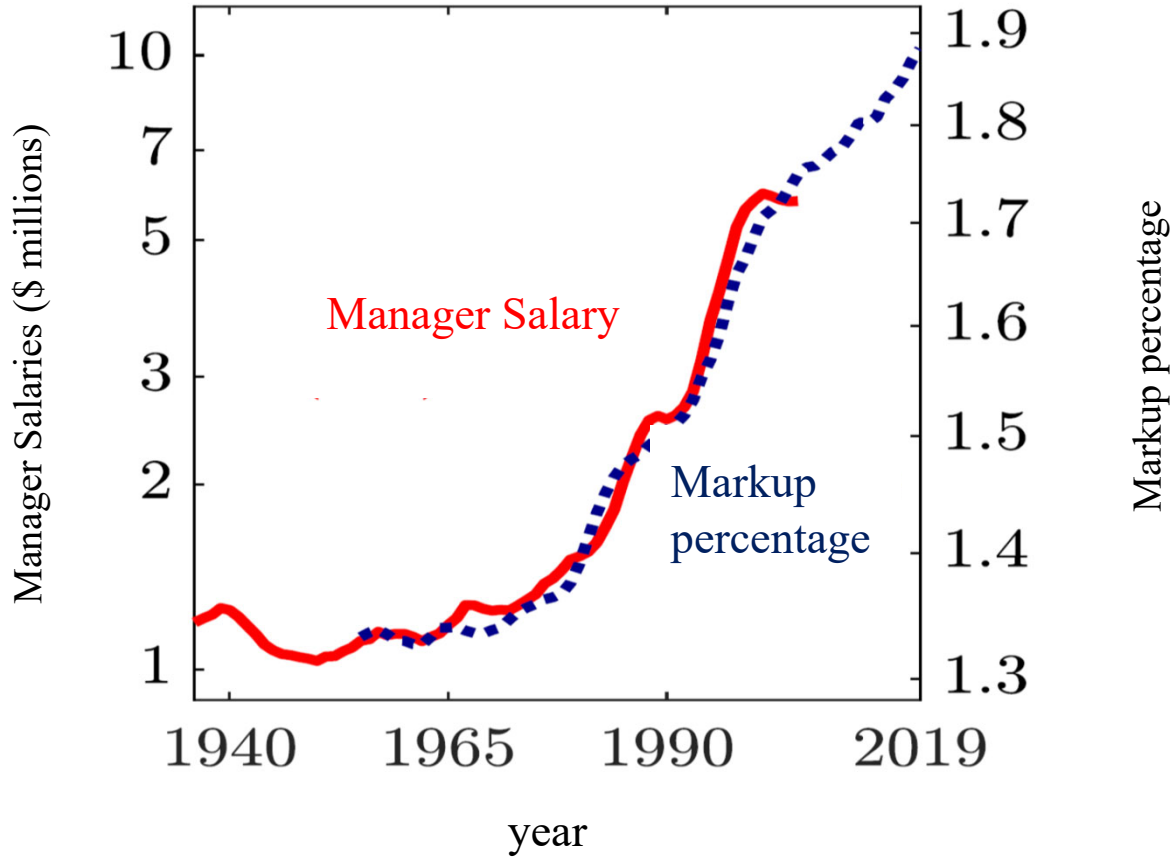


(Source) Created on the basis of OECD "OECD.stats".

Relationship between markup percentage and salary level

○ Higher manager salaries correlate with higher markup percentages.

Manager salaries and markup percentages (U.S. data)

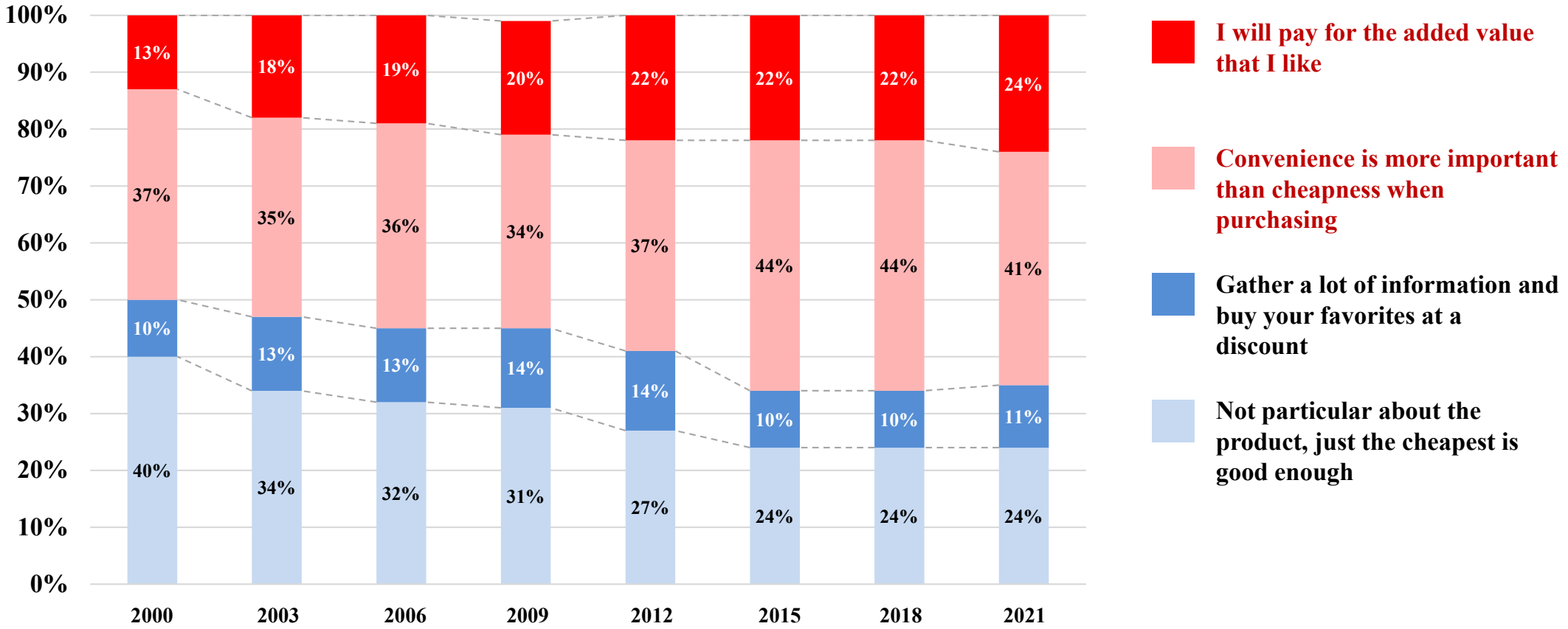


(Source) Created on the basis of Renjie Bao, Jan De Loecker, and Jan Eeckhout(2023). "Manager Pay Inequality and Market Power," ASSA 2024 Annual Meeting.

Changes in Japanese values and consumer behavior

- ○ In Japan, too, over the past two decades, there has been an increase in consumer behavior that emphasizes added value over price, such as "I will pay for added value that I like" and "I value convenience over cheapness when making a purchase."
- ○ Consumer behavior of paying more for added value is taking root in our country.

Changes in Japanese consumption styles over time

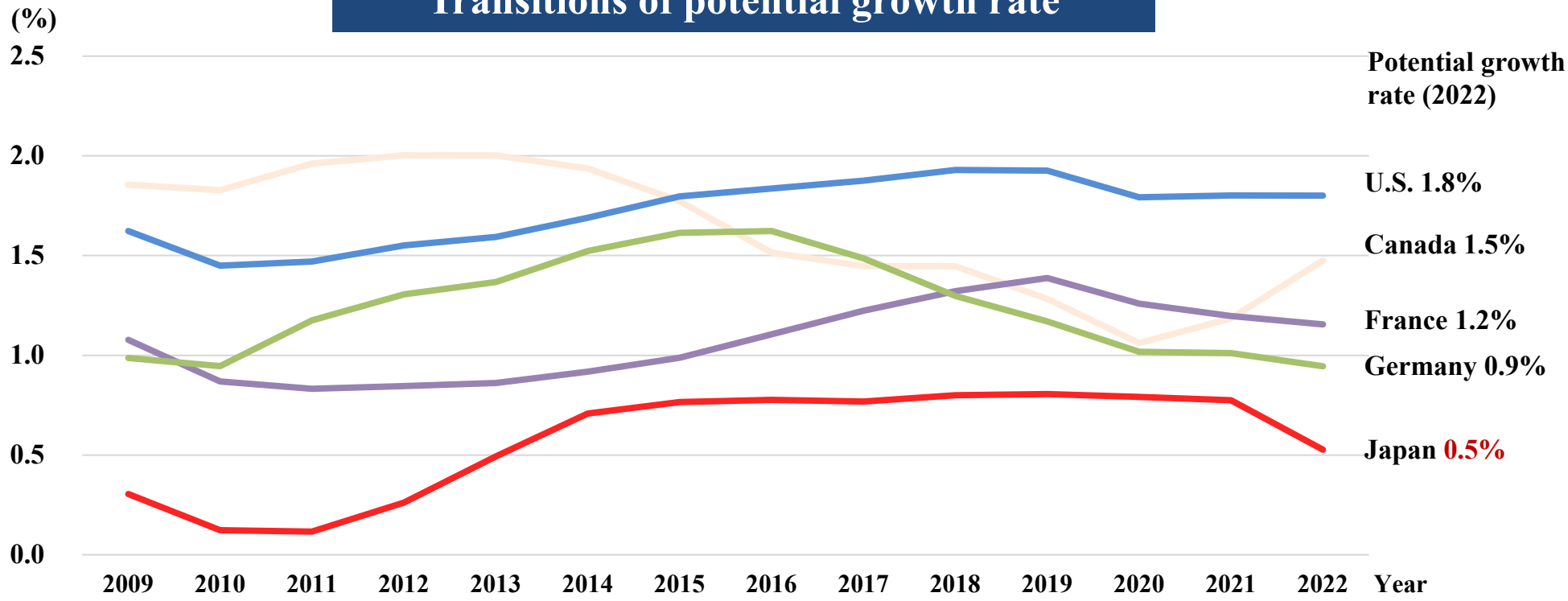


(Source) Created on the basis of Nomura Research Institute, "Survey of 10,000 citizens" (released November 19, 2021).

Potential growth rate of each country

○ According to the OECD, our country's potential growth rate averages just over 0.5%. Shouldn't we aim for a potential growth rate of at least 1%, which is on par with other developed countries?

Transitions of potential growth rate



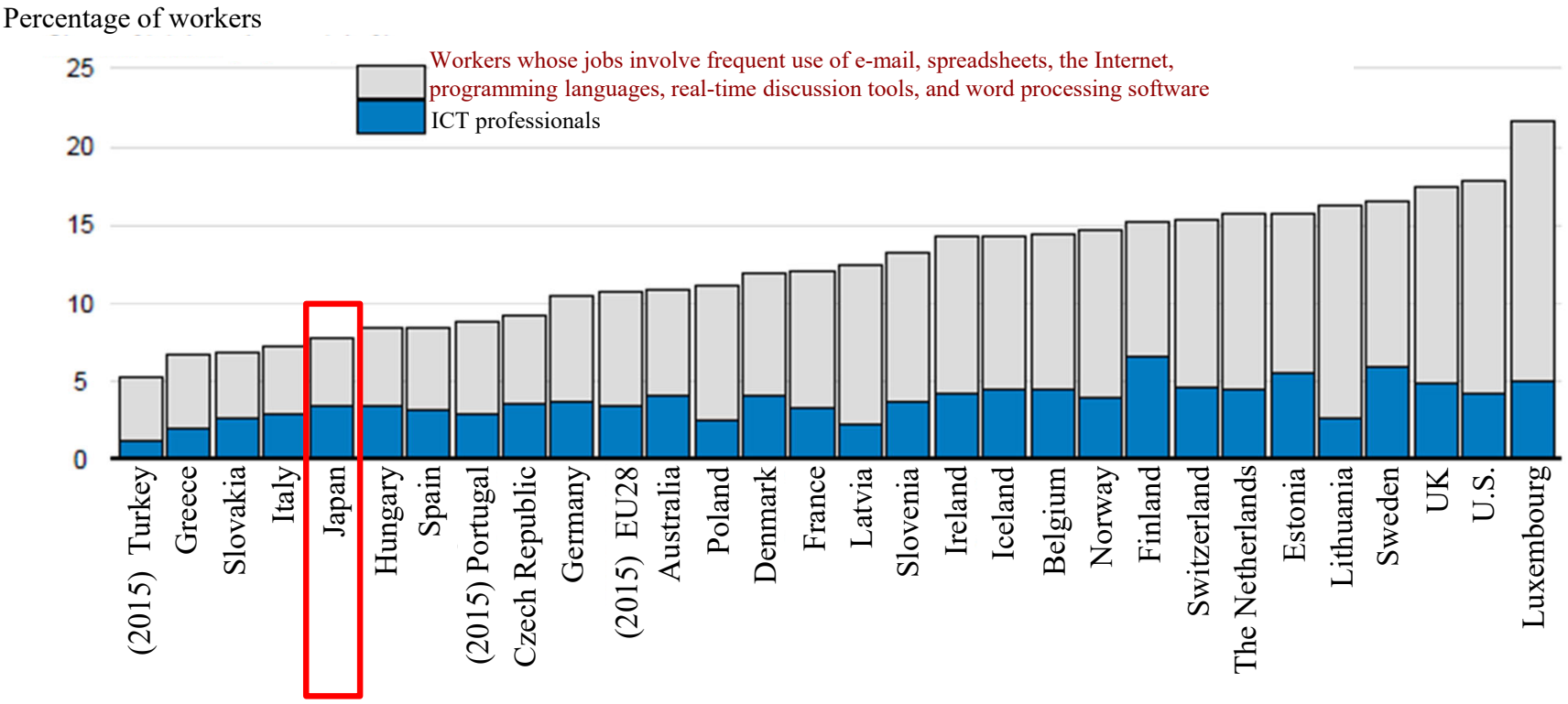
Potential growth rate (%)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average
U.S.	1.6	1.4	1.5	1.6	1.6	1.7	1.8	1.8	1.9	1.9	1.9	1.8	1.8	1.8	1.7
Canada	1.9	1.8	2.0	2.0	2.0	1.9	1.8	1.5	1.4	1.4	1.3	1.1	1.2	1.5	1.6
Germany	1.0	0.9	1.2	1.3	1.4	1.5	1.6	1.6	1.5	1.3	1.2	1.0	1.0	0.9	1.2
France	1.1	0.9	0.8	0.8	0.9	0.9	1.0	1.1	1.2	1.3	1.4	1.3	1.2	1.2	1.1
Japan	0.3	0.1	0.1	0.3	0.5	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.5	0.6

(Source) Created on the basis of OECD "Economic Outlook."

Percentage of workers using basic ICT technology

- Despite claims of a labor shortage, Japan has a particularly low percentage of workers engaged in tasks that require frequent use of e-mail, spreadsheets, the Internet, programming languages, real-time discussion tools, and word processing software compared to other countries in the world.
- The object of re-skilling in our country should be that workers become able to use basic ICT in their respective industries, let alone specialists.

Percentage of workers who engage strongly in information and communication technologies (ICT), 2017

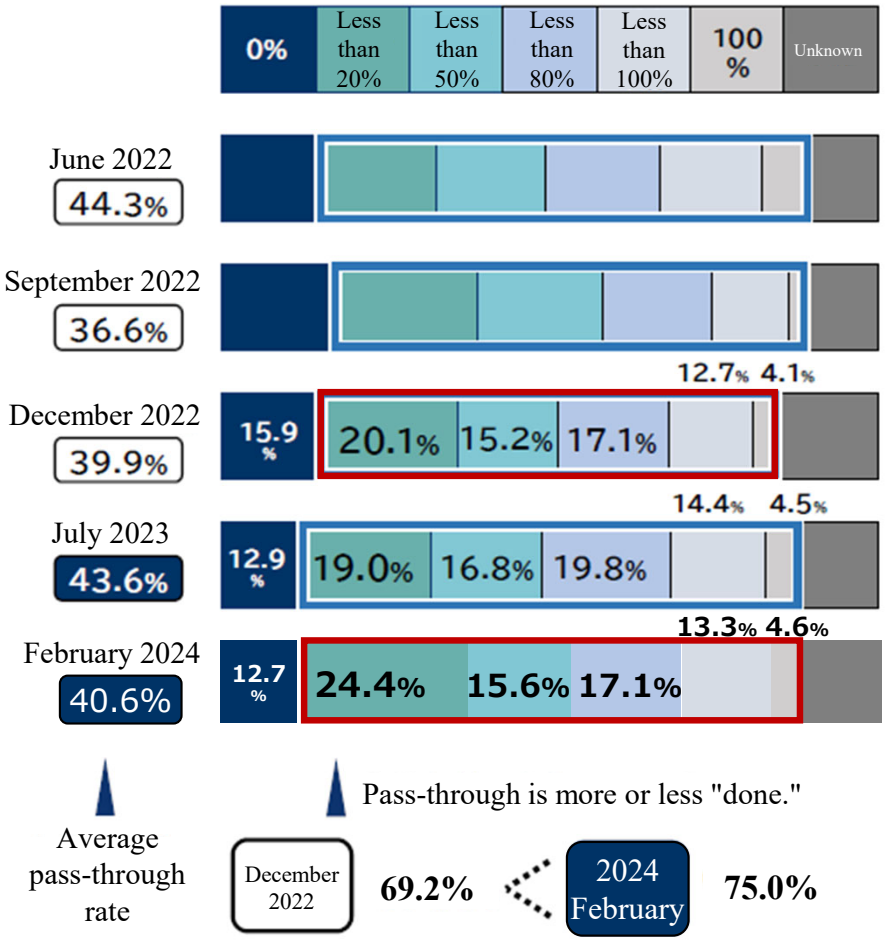


(Note) "ICT professionals" are information and communication technology service administrators, electrical engineers, software and application developers and analysts, database and network specialists, information and communication technology operations and user support, telecommunications and broadcasting engineers, and electronic and telecommunications installers and repairers.
(Source) Created on the basis of OECD (Economic Outlook Version 2019).

Price pass-through of SMEs

- ○ According to a private research firm, the number of SMEs that have been able to pass on prices to some degree increased from 69.2% as of December 2022 to 75.0% as of February 2024.
- ○ On the other hand, although the percentage of firms that responded that they could not pass on prices at all has decreased (from 15.9% to 12.7%), there are still firms that responded that they could not pass on prices at all, and thorough measures to ensure cost pass-through is necessary. In particular, thoroughness is needed for price pass-through regarding labor costs, which is said to be difficult.

Price pass-through status and pass-through rate of SMEs

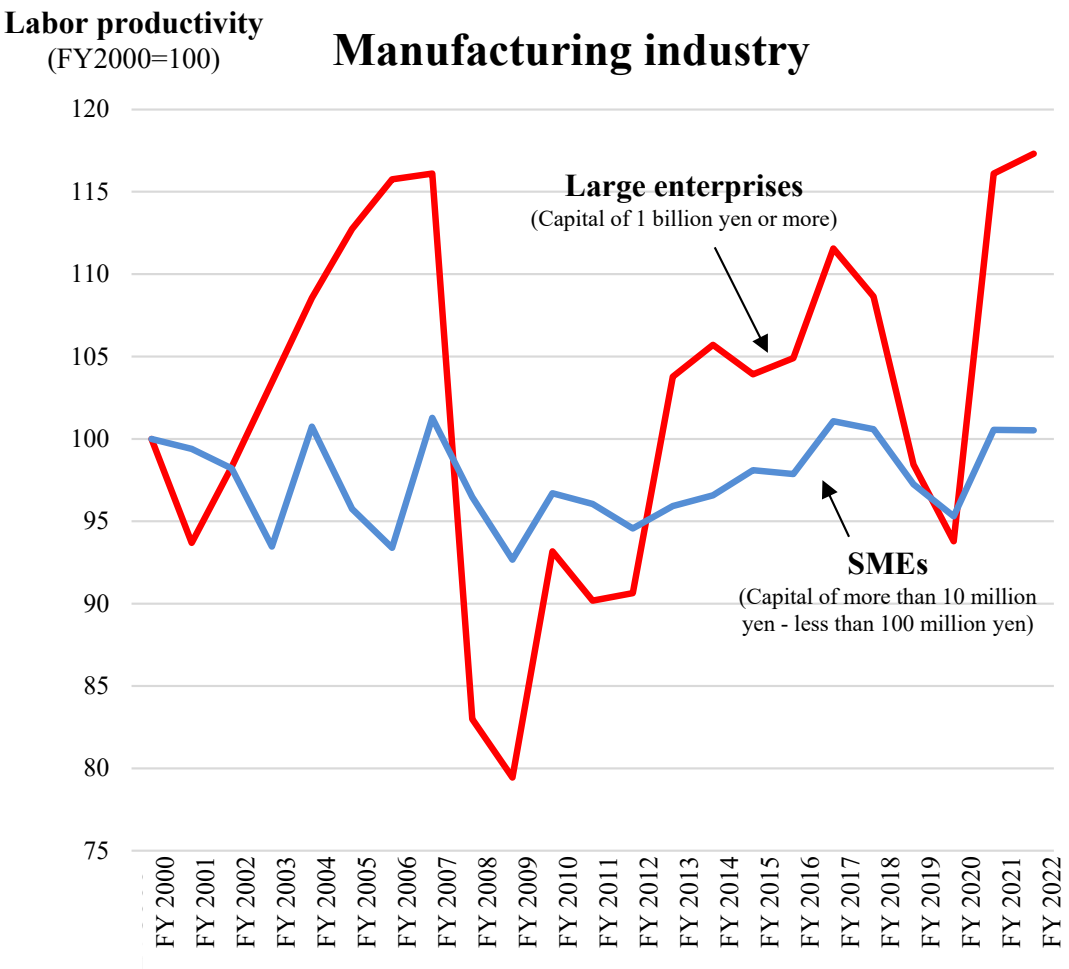


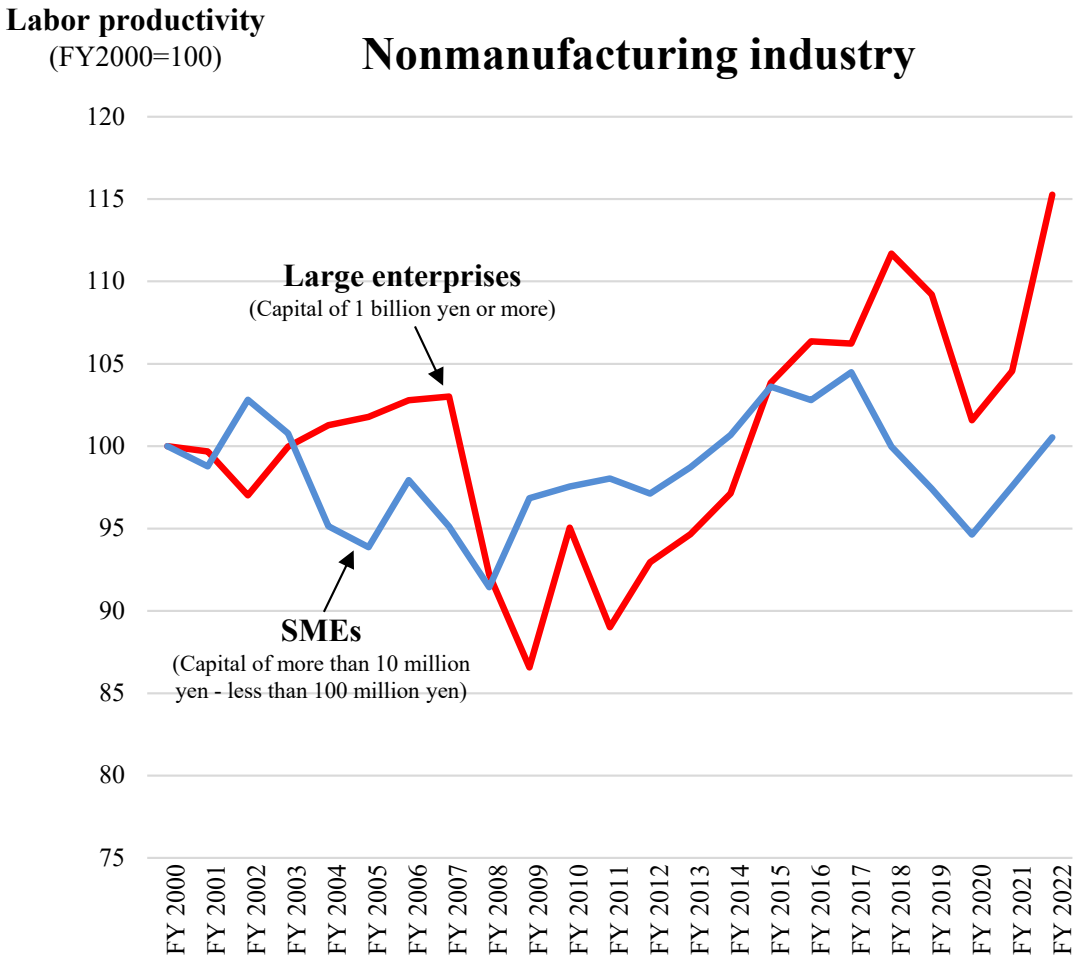
(Source) Created on the basis of Teikoku Databank's "Survey on Actual Conditions Related to Price Pass-through" (March 22, 2024).

Inter-firm differences in labor productivity by firm size

○ The numerical gap in labor productivity per worker has widened in the 2010s, as large enterprises have shown rapid growth in recent years, while SMEs have stagnated. There is an urgent need to correct business relationships and improve labor productivity in SMEs.

Labor productivity per worker by company size
(Assuming that labor productivity in FY2000 is "100")



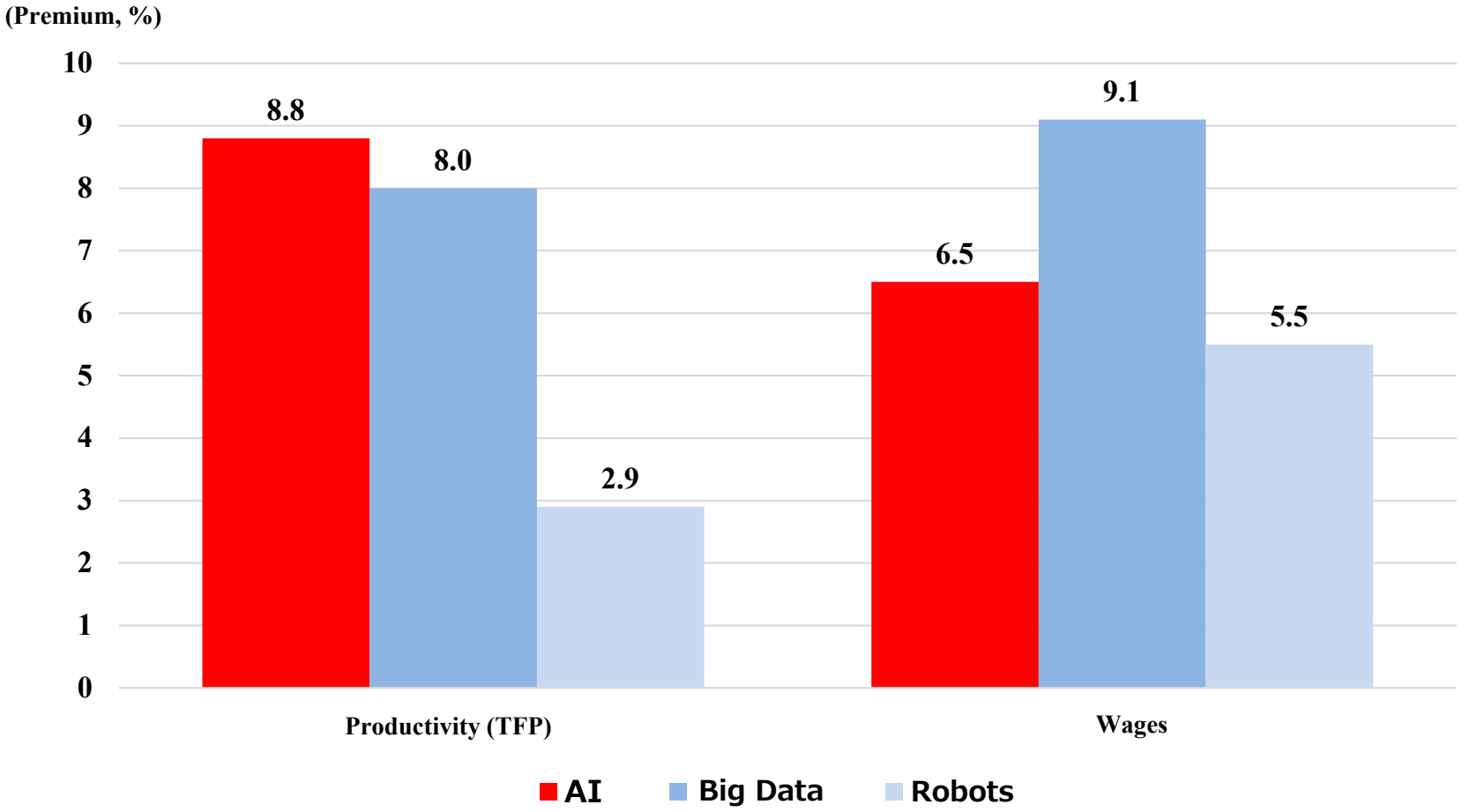


(Note) Added value divided by the average number of employees during the period.
(Source) Created on the basis of "Corporate Statistics," Ministry of Finance.

Productivity and wages of companies using automation technology

○ There is a correlation that firms that use automation technology have higher productivity and wages than firms that do not use it.

Productivity and wages of companies using automation technology

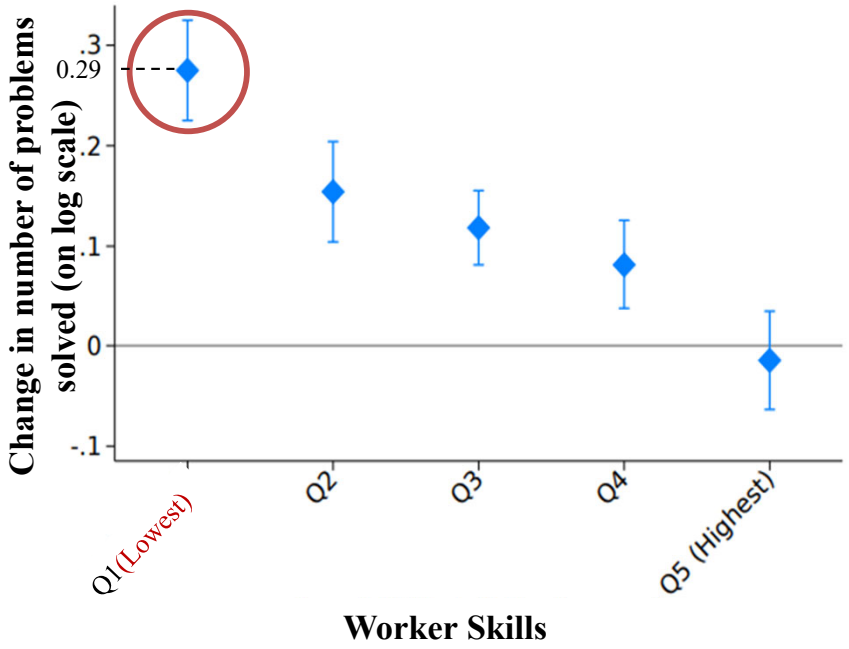


(Note 1) Surveys were conducted in fiscal years 2018, 2021, and 2023 targeting firms with 50 or more employees. The number of respondents was 2,520, 3,191, and 1,439 firms, respectively (of which 647 firms responded three times in a row).
(Note 2) The impact of firms using and not using automation technology on TFP and wages is estimated by the least-squares method.
(Source) Created on the basis of Masayuki Morikawa (RIETI/ Hitotsubashi University), March 2024 lecture (Tohoku University-RIETI symposium "How will generative AI change the economy and society?")

Introduce AI tools and increase productivity of low-skilled workers

- According to an empirical study by researchers at Stanford University, MIT, and other institutions, the use of AI automated conversation programs (chatbots) has increased the number of problems that customer support employees can resolve per hour by 14% on average. The effect was particularly pronounced for lower-skilled employees, increasing the number by 34% (0.29 on a log scale).
- Low-skilled workers especially benefit from AI tools because they reflect the best practices of high-skilled workers.

Impact of AI tool implementation on labor productivity of workers by skill

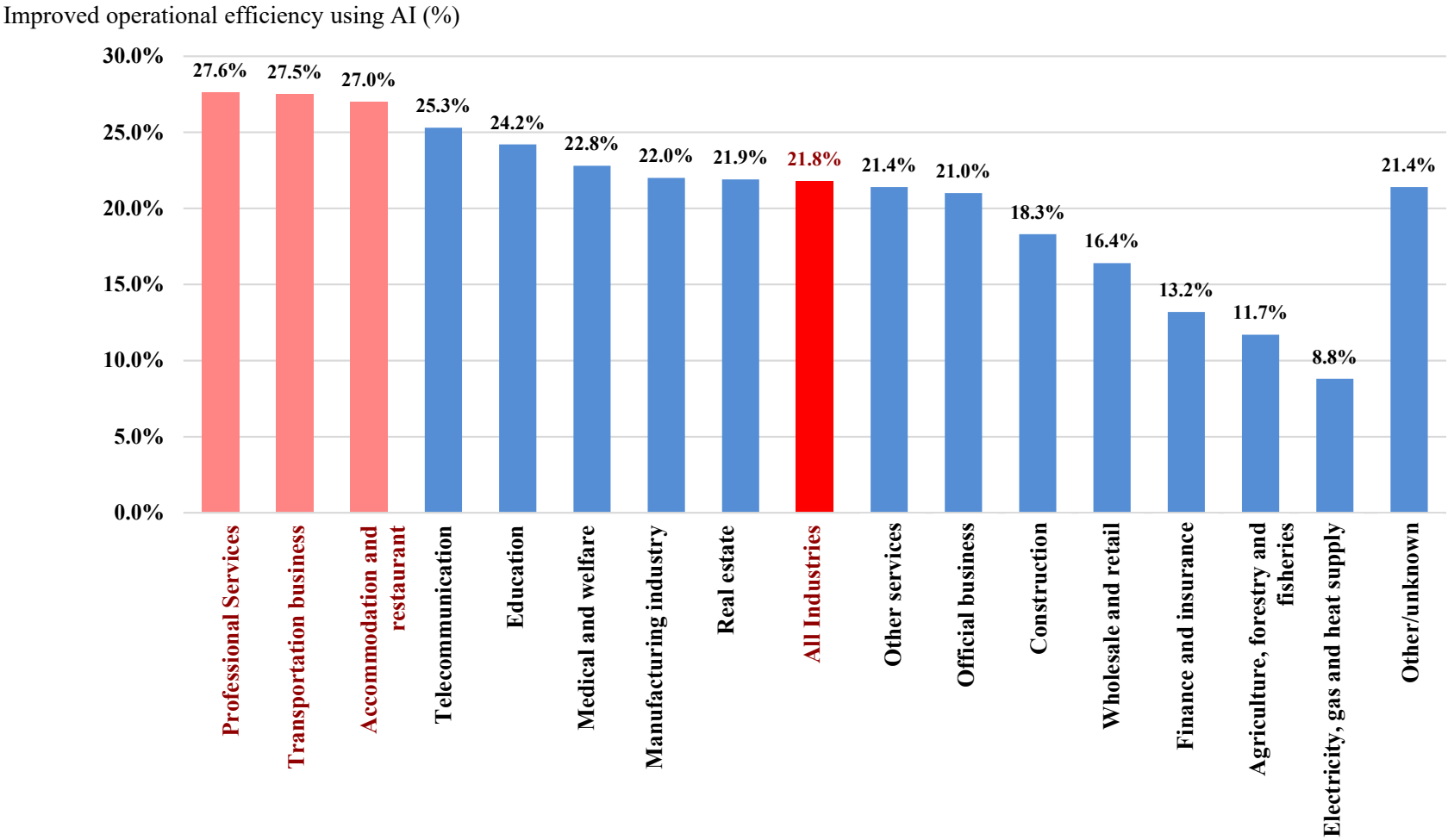


(Note 1) Empirical study using data from a U.S. company that provides AI-based automated conversation programs (chatbots) and its client companies. Analysis of 3 million chats by 5,179 employees in a real customer support setting. AI provides real-time suggestions to employees on how to respond to customers.
(Note 2) The main indicator for measuring labor productivity shall be the number of problems solved per hour by employees.
(Note 3) Worker skills are classified into five levels based on average processing efficiency, problem solving rate, and customer satisfaction survey results prior to the introduction of AI tools.
(Source) Created on the basis of Brynjolfsson, E., Li, D., & Raymond, L. R. (2023). Generative AI at work (No. w31161). National Bureau of Economic Research.

Improving worker efficiency using AI

○ The average effect of using AI at work on improving operational efficiency is 21.8% for all industries.
○ It is even higher in the professional services industry (law firms, CPA firms, design firms, management consultants, etc.) at 27.6%, in the transportation industry at 27.5%, and in the accommodation and restaurant industry at 27.0%.

Improving worker efficiency using AI



(Note 1) 13,150 persons were surveyed in September 2023 according by composition of gender and age in the Ministry of Internal Affairs and Communications (Basic Survey of Employment Structure (2022)).
(Note 2) For the improvement of operational efficiency, each company was asked to voluntarily respond with a value between 0 and 100%, and the results were averaged.
(Source) Created on the basis of Masayuki Morikawa (RIETI/ Hitotsubashi University), March 2024 lecture (Tohoku University-RIETI symposium "How Generative Artificial Intelligence (AI) will Change the Economy and Society?")

Schumpeter's two views on the sources of innovation

- Economist Joseph Schumpeter started the systematic study of innovation. He presents two seemingly contradictory views of its source in his book.
- The first view is that the source of innovation lies in new start-ups (internationally known as "Schumpeter Mark I").
- The second view is that the source of innovation is in large companies that have abundant internal capital and platforms to capture value (internationally known as "Schumpeter Mark II").

Schumpeter's two views on the sources of innovation

Schumpeter Mark I ("The Theory of Economic Development," 1912)

- Innovation occurs when heroic entrepreneurs compete for markets and introduce new products. While existing firms reinforce the current structure, entrepreneurs actively work to disrupt that equilibrium.

Schumpeter Mark II ("Capitalism, Socialism, and Democracy," 1942)

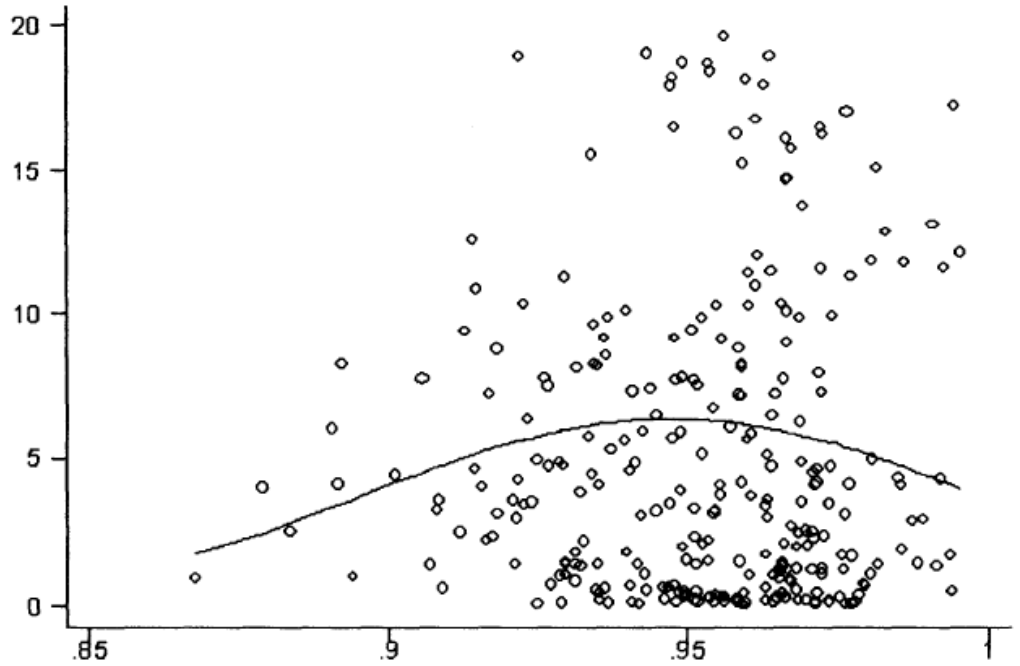
- Innovation comes from internal financial investment, and economies of scale play a large role in R&D. Large companies, which have internal financial liquidity and are more likely to capture the value that innovation creates, are the best platform for research and development.

Schumpeter's two views and empirical results

- Empirical studies by Harvard and Stanford economists on whether startups or large firms are the source of innovation show that innovation is unlikely to occur in a competitive market where only new firms are involved (right side), nor in a market oligopolized by large firms (left side). The view is that innovation is promoted in a market environment that is right in the middle. This indicates that reality is a situation where Mark I and Mark II are mixed.
- In order to promote innovation, it is important to both (1) promote the establishment of start-ups and (2) create an environment in which existing companies can engage in open innovation.

Relationship between the degree of market competition vs the number of patents

Number of Patents (Weighted and adjusted for number of citations)

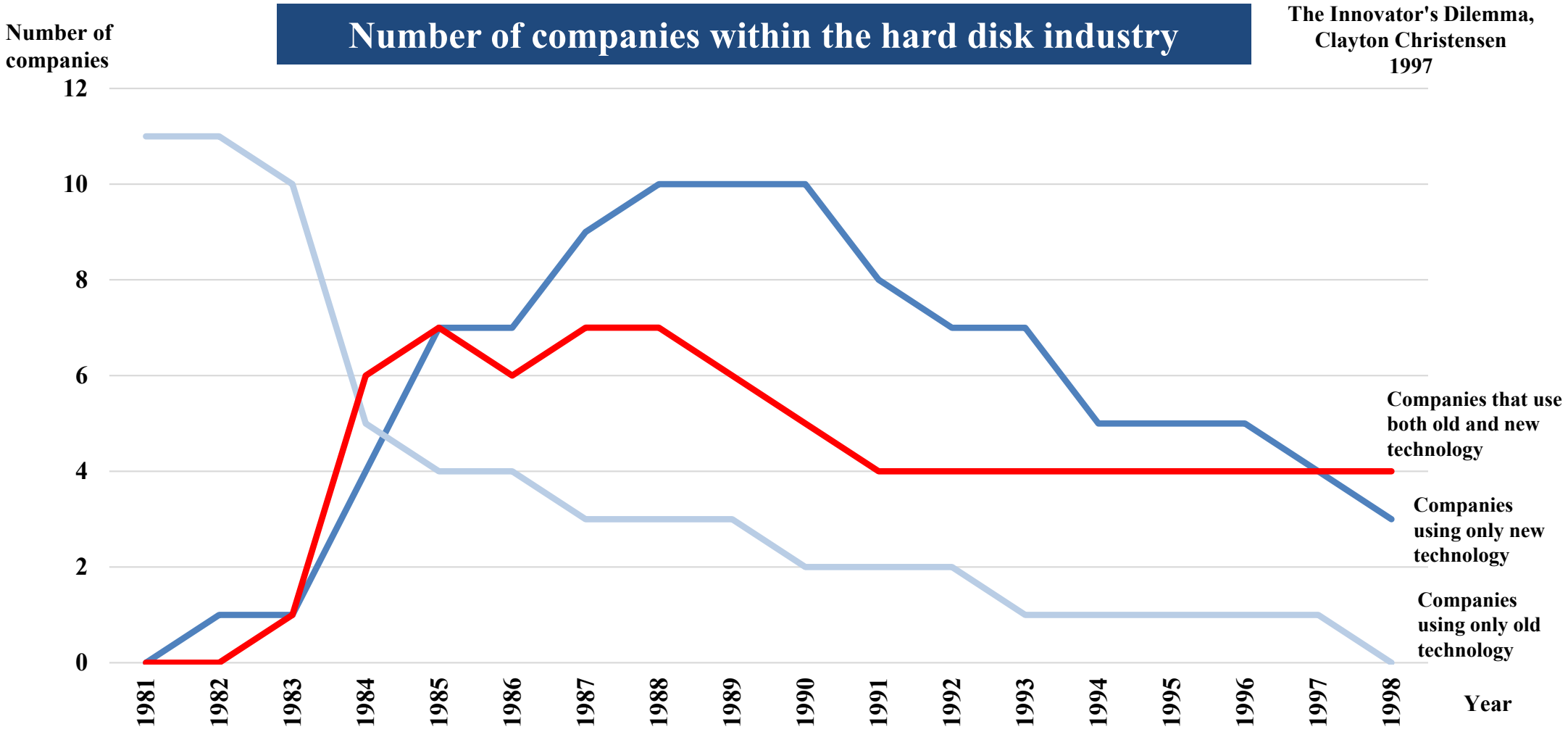


Degree of market competition (The further to the right, the more competition)

(Note) The degree of competition on the horizontal axis is the ratio of a company's operating income to its sales (Lerner index), averaged by industry. The more competition, the closer the selling price is to the marginal cost, the smaller the operating profit, the smaller the Lerner index, and the higher the degree of market competition (1 - Lerner index).
(Source) Created on the basis of Philippe Aghion, Nick Bloom, Richard Blundell, Rachel Griffith, Peter Howitt. 2005. "Competition and Innovation: an Inverted-U Relationship," *The Quarterly Journal of Economics*, Volume 120, Issue 2, May 2005, Pages 701-728.

Sustainable viability of companies using older technology

○ 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. Recent empirical analysis has shown that even firms that have been using older technology can be sustainable (red line) when using it in combination with new technologies.

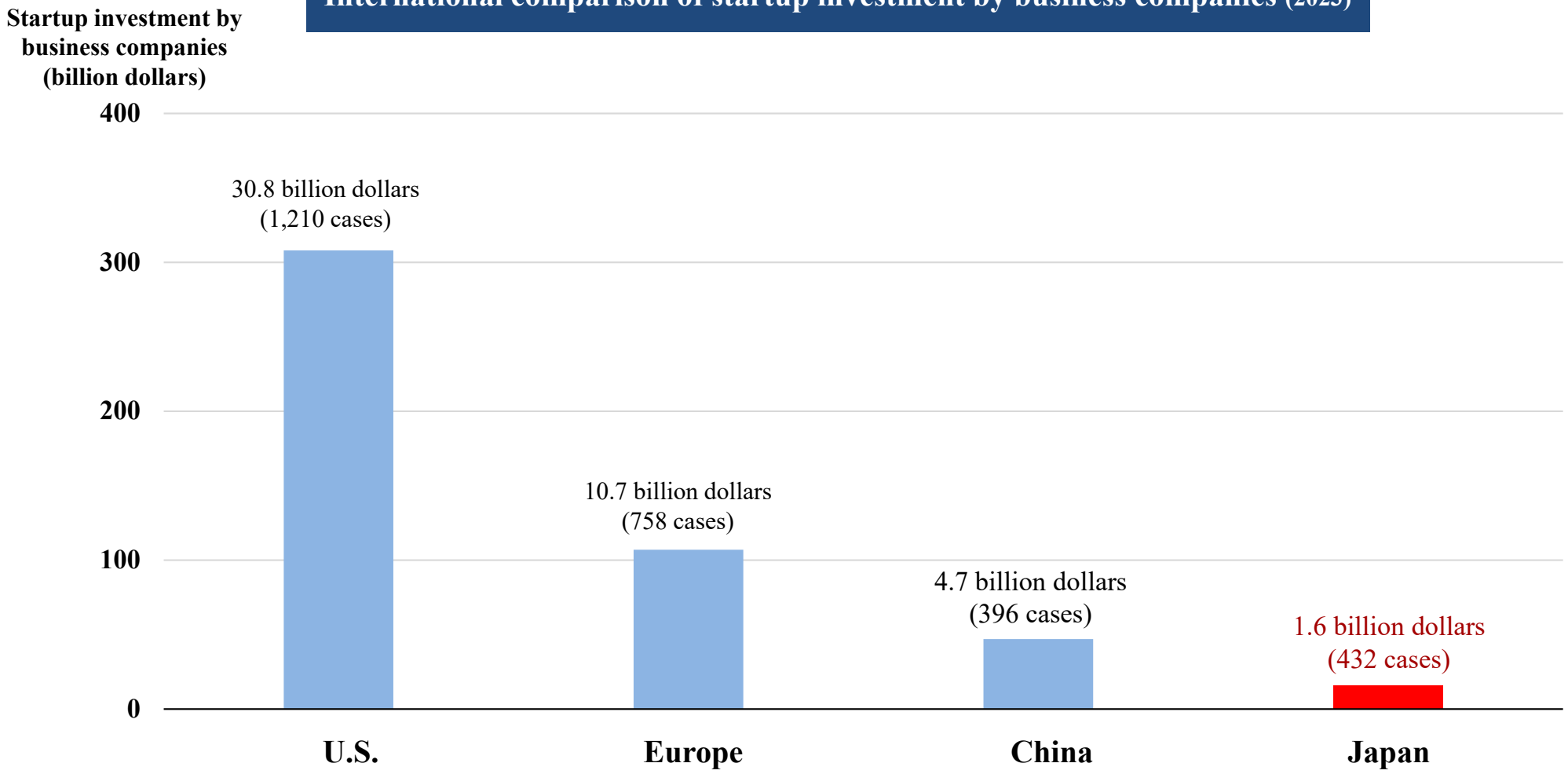


(Note) The change in the number of HDD manufacturing companies around the world was studied, with 5.25-inch disk manufacturing being considered the old technology and 3.5-inch disk manufacturing being considered the new technology.
(Source) Created on the basis of Mitsuru Igami. 2017 "Estimating the Innovator's Dilemma: Structural Analysis of Creative Destruction in the Hard Disk Drive Industry, 1981-1998" *Journal of Political Economy,* University of Chicago Press, vol. 125(3), pages 798-847.

Investment in startups by business companies

- ○ Investment in startups is important to promote open innovation by existing business companies.
- ○ The amount of investment in startups by business companies in Japan is extremely low compared to the U.S., Europe, and China.

International comparison of startup investment by business companies (2023)



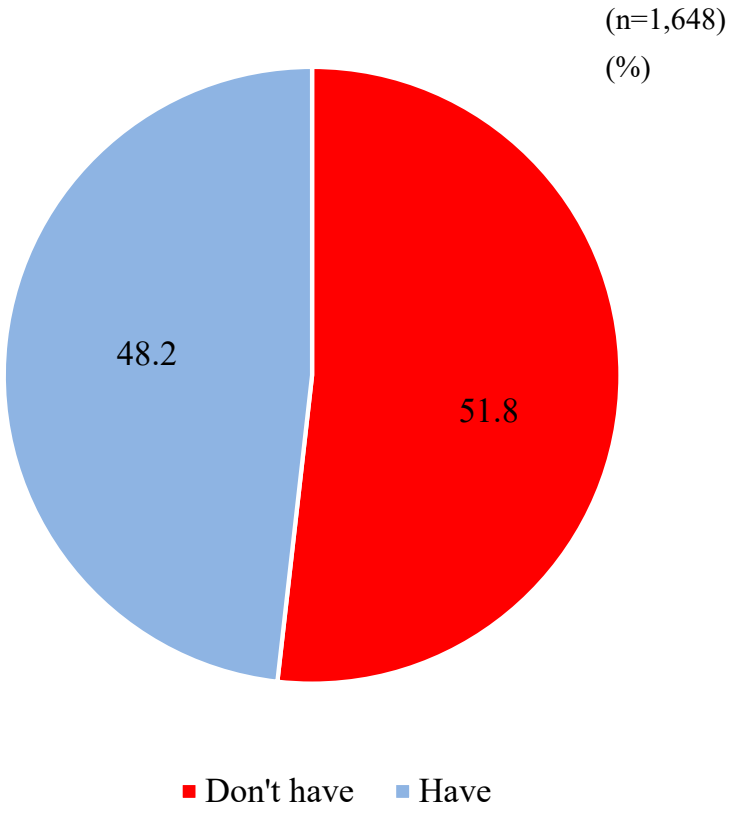
(Note) Amount of startup investment by business companies in 2023 in each country.
(Source) Created on the basis of CB Insights "The State of CVC 2023 report".

Status of introduction of systems for side/concurrent jobs

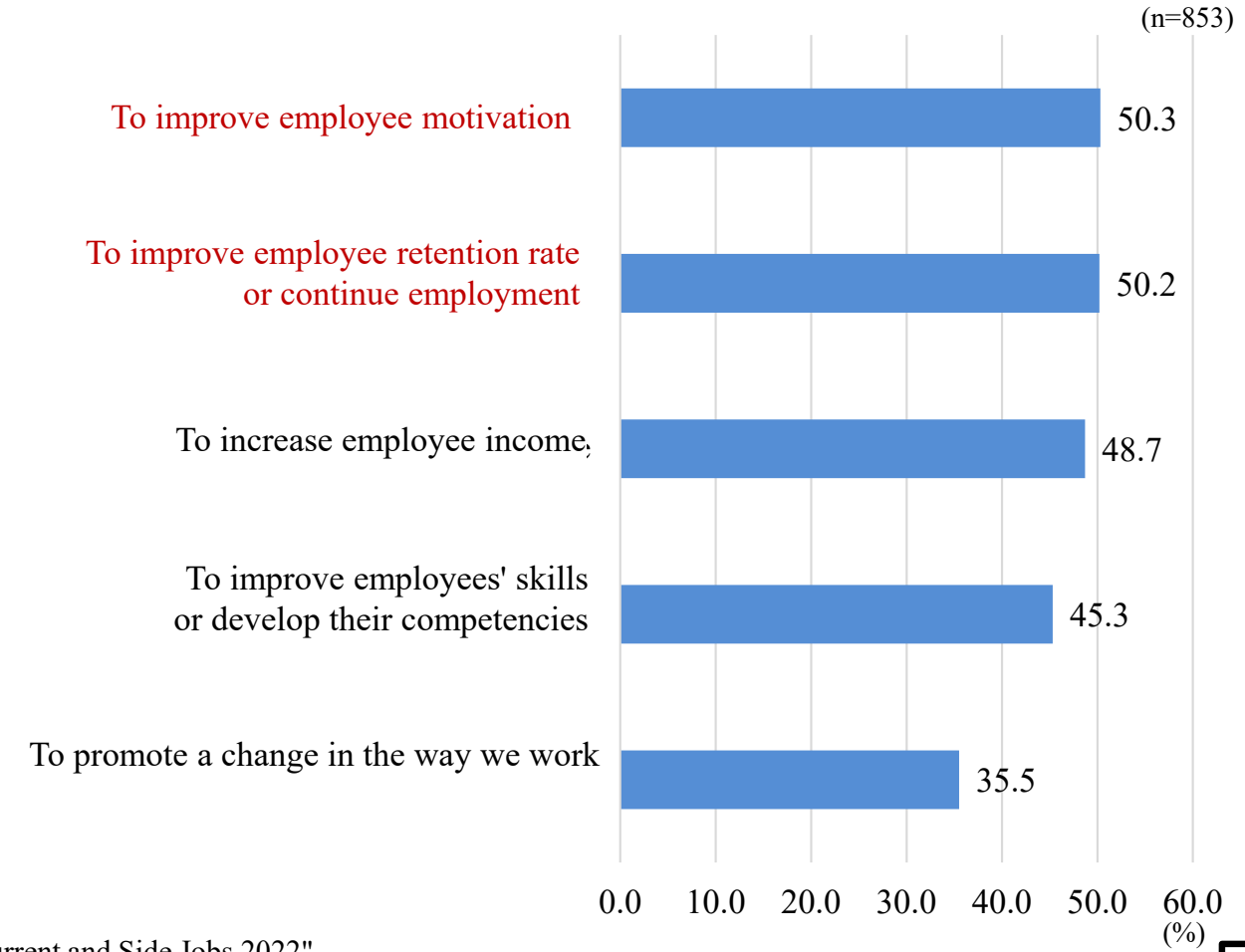
○ The number of companies with a system for side/concurrent jobs is 51.8% in 2022.

○ The purpose of establishing a side/concurrent job system was "to increase employee motivation" at 50.3%, and "to link it to improving employee retention rate and continued employment" at 50.2%.

Percentage of companies that have a system that allows for side/concurrent jobs (2022)



Corporate objectives of personnel systems for side/concurrent jobs

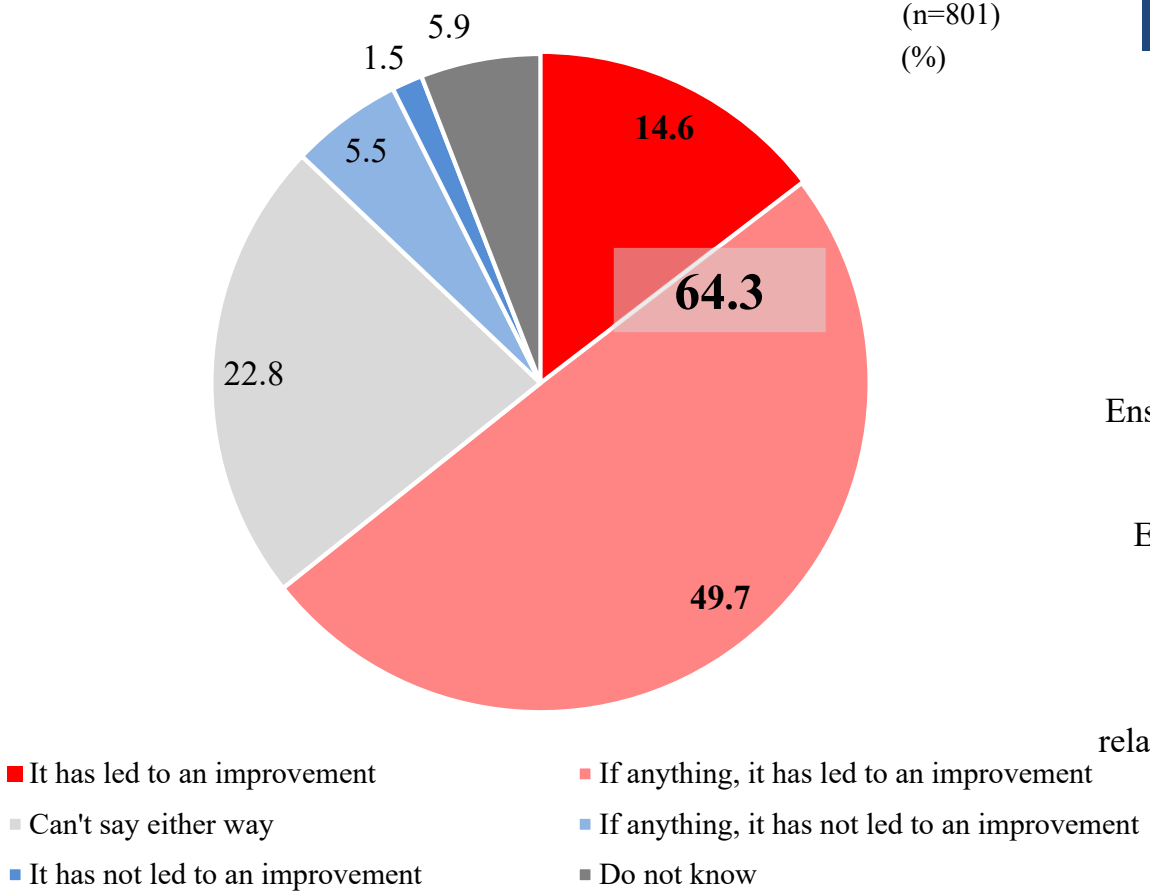


(Source) Created on the basis of Recruit's "Trend Survey Data on Concurrent and Side Jobs 2022".

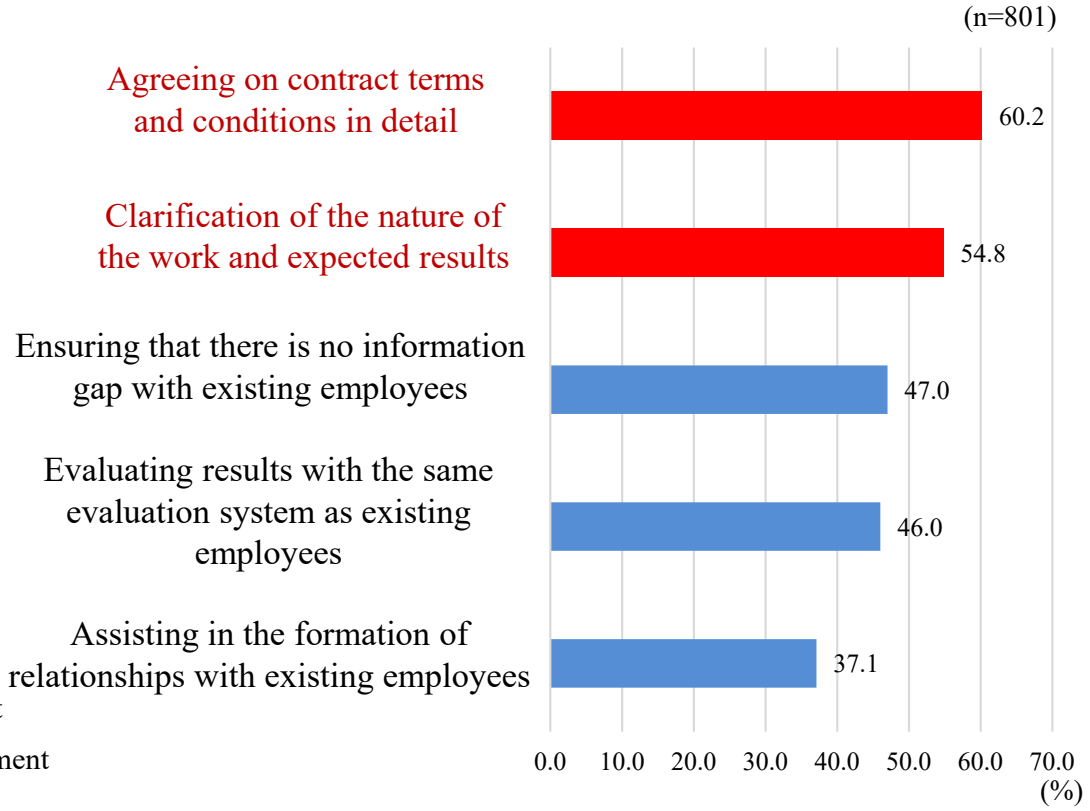
Effects of accepting personnel with side/concurrent jobs

- ○ 64.3% of the companies have improved their business performance by accepting personnel that has side/concurrent jobs.
- ○ Companies where side/concurrent jobs lead to improved business performance are aware of the following matters: "Agreeing on contract terms and conditions in detail" at 60.2% and "Clarifying work content and expected results" at 54.8%, and it is important to agree on these matters in advance.

Effects of accepting personnel with side/concurrent jobs



Matters that companies are aware of in which the use of side/concurrent jobs leads to improved business performance



(Source) Created on the basis of Recruit's "Trend Survey Data on Concurrent and Side Jobs 2022".

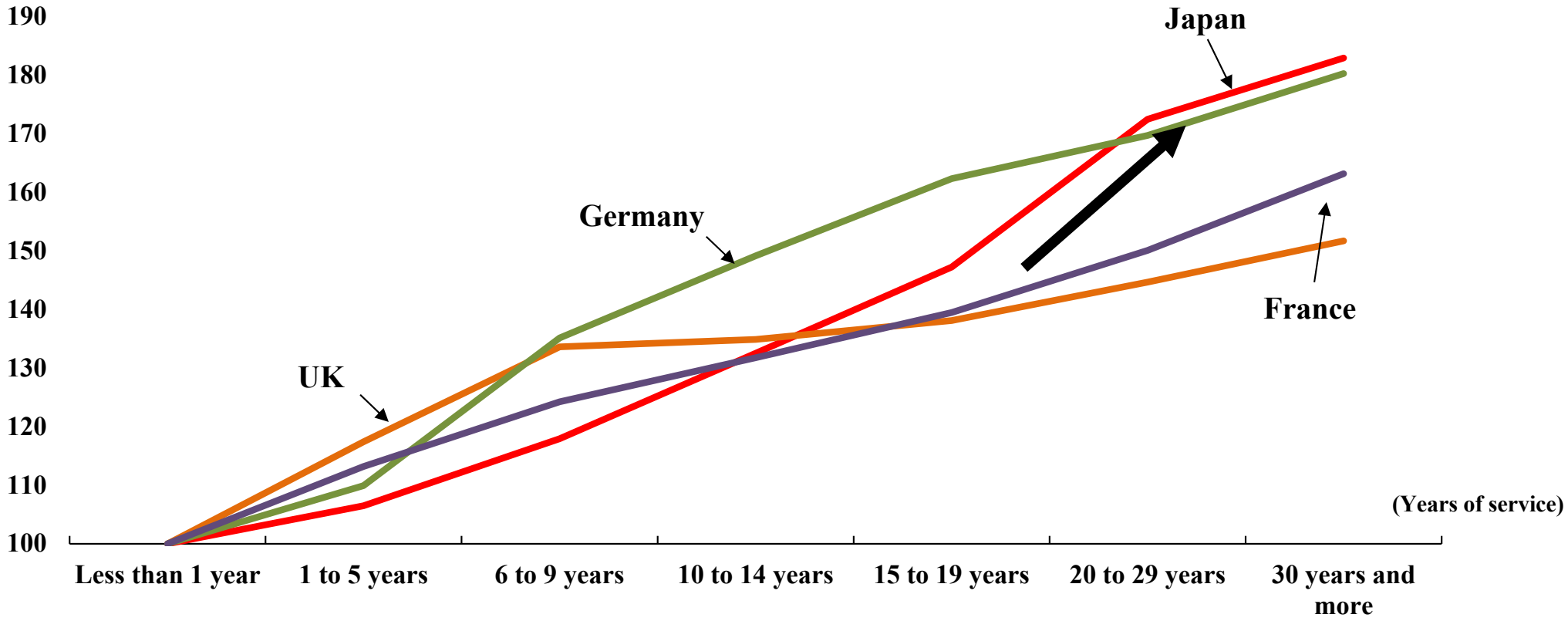
International Comparison of Wages by Length of Service

○ An international comparison of wages by years of service with the same company shows that in Japan, wages for younger generations tend to be low and increase rapidly after 15-19 year of employment.

○ This has a negative impact on the increase in the percentage of unmarried people and the low average number of children born.

International comparison of wages by length of service (hourly wage, 2018)

(Years of service: Less than1 year= 100)



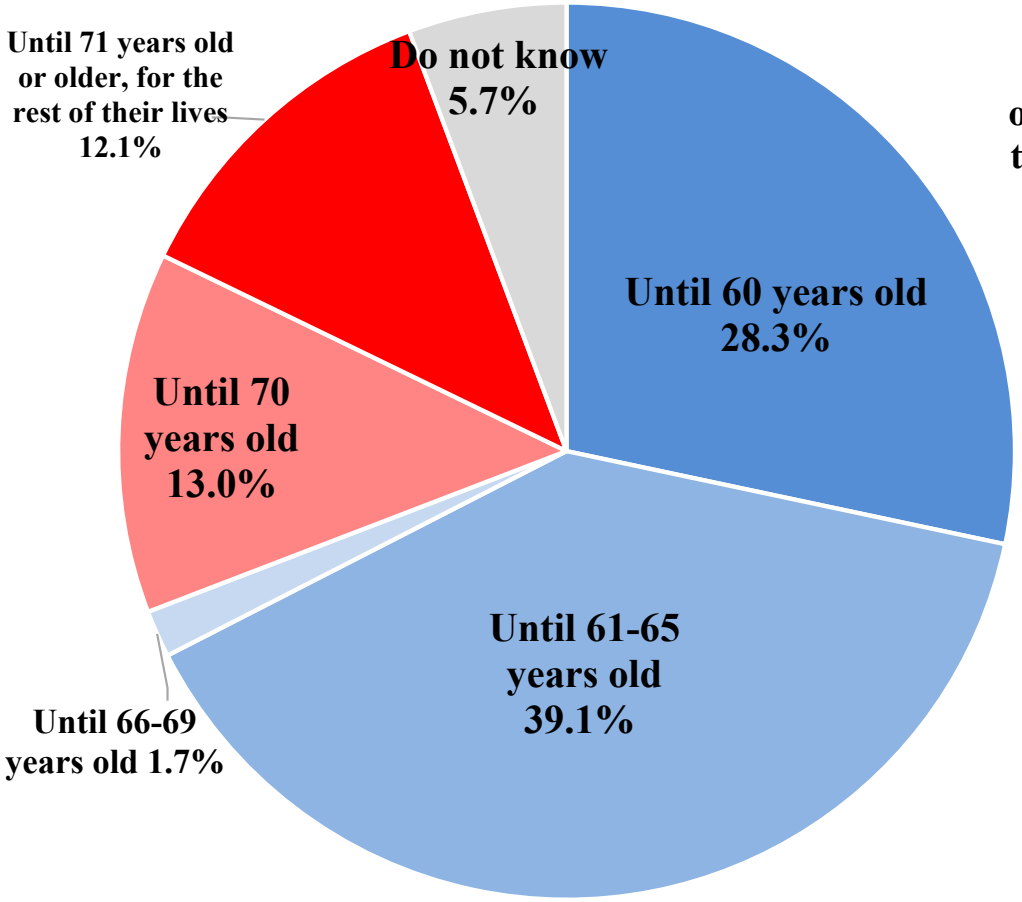
(Note) Years of service in Japan: 1 to 5 years corresponds to 1 to 4 years, and 6 to 9 years to 5 to 9 years.
(Source) Created on the basis of Eurostat, "Basic Survey on Wage Structure", Ministry of Health, Labor and Welfare.

Percentage of Workers Who Wish to Work Until Age 70 or Older

○ When asked to what age the respondents would like to continue working, 25.1% of those in their 50s and 41.4% of those in their 60s indicated that they would like to continue working until they are 70 years old or older.

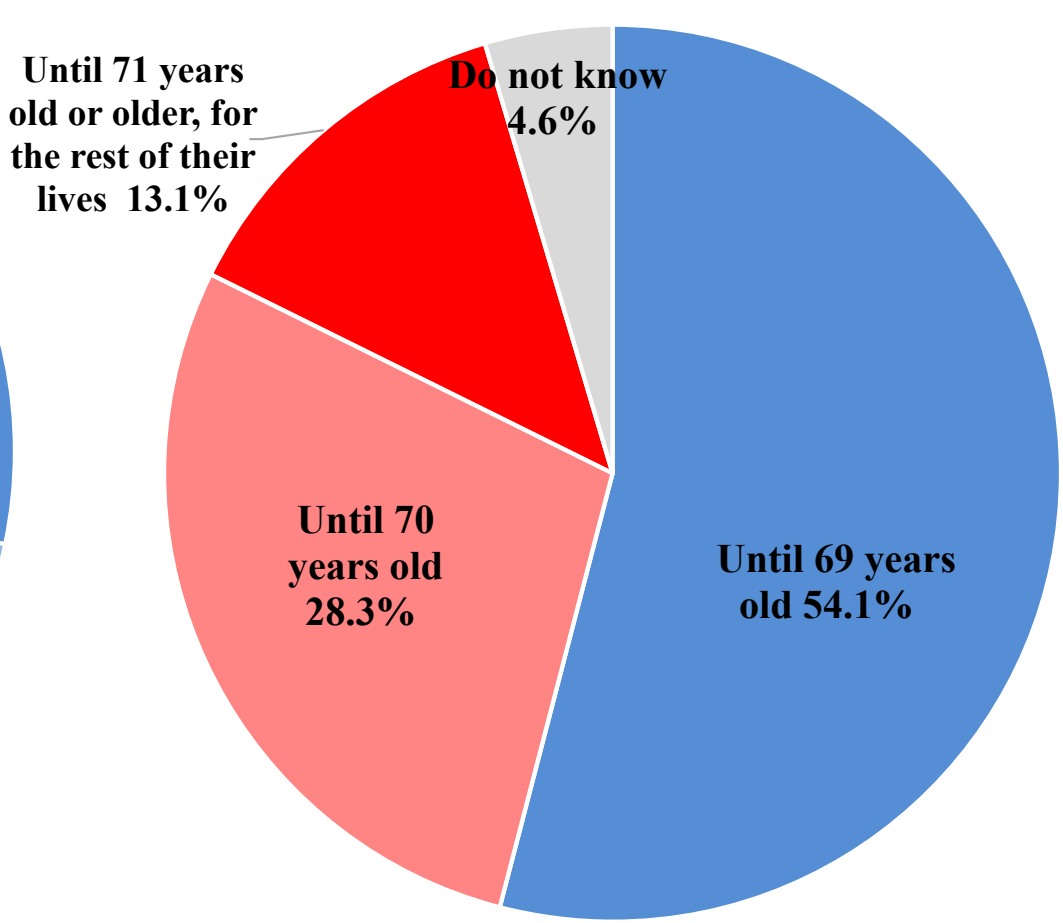
Employees currently in their 50s

(n=1,829)



Employees currently in their 60s

(n=1,171)

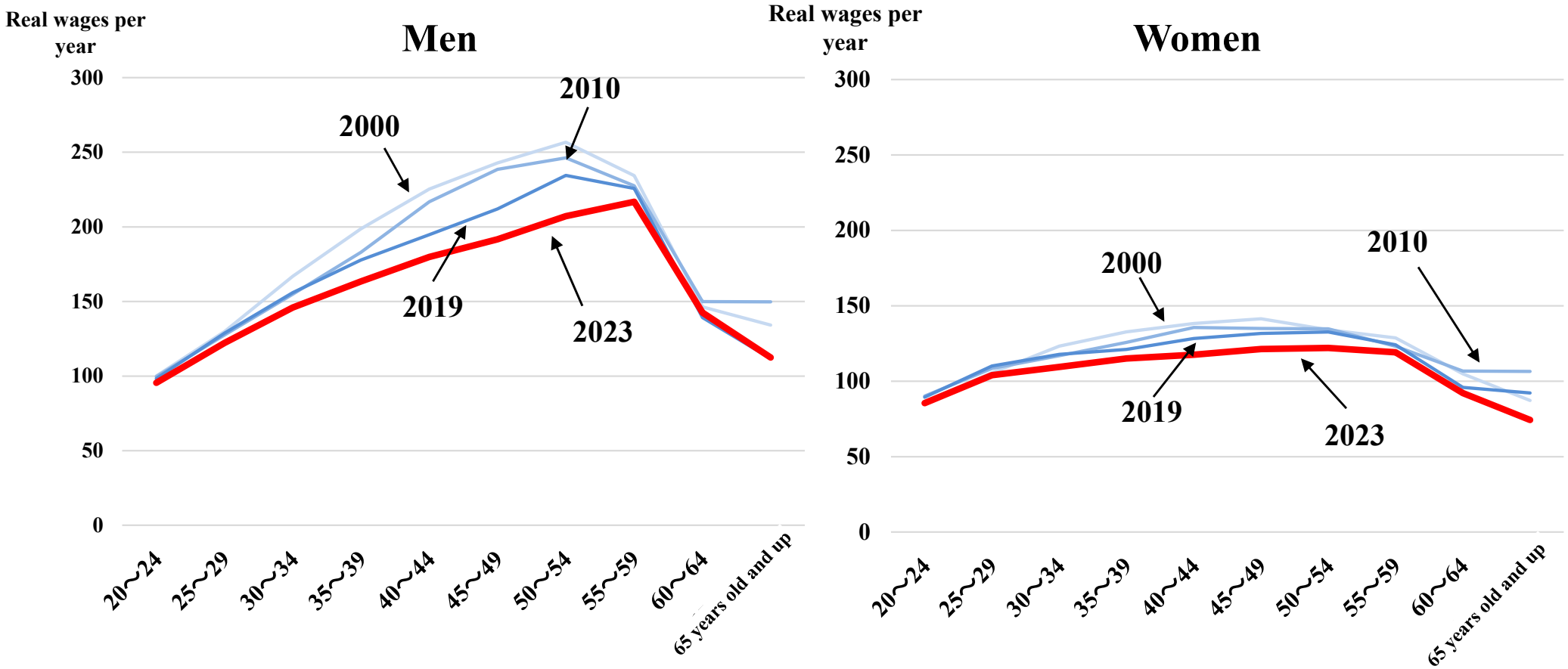


(Source) Created on the basis of "Quantitative Survey on Work Attitudes of Senior Employees and Their Colleagues," Persol Research and Consulting Co., Ltd., May 2021.

Changes in the Wage Curve in Large Companies

○ The wage curve is gradually flattening, although there is no change in the structure in which men's annual income peaks in their 50s, and there is still a trend toward the seniority-wage system.

Real annual income by age for establishments with 1,000 or more employees
(Annual income of males aged 20-24 in 2000 = 100)



(Note) For "general workers" in companies with 1,000 or more regular workers in the "Basic Survey on Wage Structure," the figure is obtained by multiplying "regular salary" by 12 and adding "annual bonus and other special salaries". It is also substantiated by the consumer price index (total excluding imputed rent for owner-occupied housing).
(Source) Created on the basis of the Ministry of Health, Labor and Welfare's "Basic Survey on Wage Structure" (2000, 2010, 2019, 2023).

Wage Differential between Domestic and Foreign Workers by Occupation

- ○ Between Japan and other developed economies, significant wage differentials exist despite the same duties. 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.

Domestic and foreign wage differentials 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) Regarding the global level of total cash compensation by job category as of January 2023 (senior professionals 7-10 years), the average wage in local currency for each job category in each country was realized using purchasing power parity dollars (OECD) in 2021, and the wages for each occupation in each country are shown as a percentage of the Japanese figures, with wages for each occupation in Japanese firms set at 100.
(Source) Created on the basis of materials from Mercer LLC.

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, the total for all occupations being 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) Regarding the global level of total cash compensation by job category (senior professionals, years 7-10) as of January 2023, for each country, the ratio of total wages for all jobs to total wages for each job category is shown for each country, with the total for all job categories set at 100.
(Source) Created on the basis of materials from Mercer LLC.

Reasons Why Japanese Companies Are Introducing Job-based Personnel Management (Job-based Wages)

○ The reason why Japanese companies are forced to consider a shift to job-based salaries (wages based on capability) is that they believe it is necessary to secure human resources in order to compete in the global marketplace.

Reasons why Japanese companies are adopting job-based personnel

Appropriate treatment	➢ For employees who are treated highly simply because of their age, optimize their compensation (reassess compensation based on work and performance).
Recruitment of highly specialized human resources	➢ Toward a compensation structure that enables the hiring of personnel with expertise, including personnel with cutting-edge knowledge (e.g., digital)
Selecting the best young talent	➢ A certain degree of linkage between skills and job assignments enables young people who could not be assigned to important jobs in the past to be selected from the viewpoint of the right person for the right job
Retention of promising employees	➢ Provide appropriate compensation to young employees with high potential who could not receive high compensation under the previous system, and prevent them from leaving the company
Responding to Globalization	➢ Since hiring job-based personnel is common in developed countries other than Japan, it will soon become difficult to retain human resources in Japanese companies unless we move toward a common compensation system that transcends national and regional boundaries

(Source) Created on the basis of material from Korn Ferry, Inc.

Differences Between Conventional Japanese Membership-based Employment and Job-based Personnel Management (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 will be effective or not depends on personnel changes. 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.

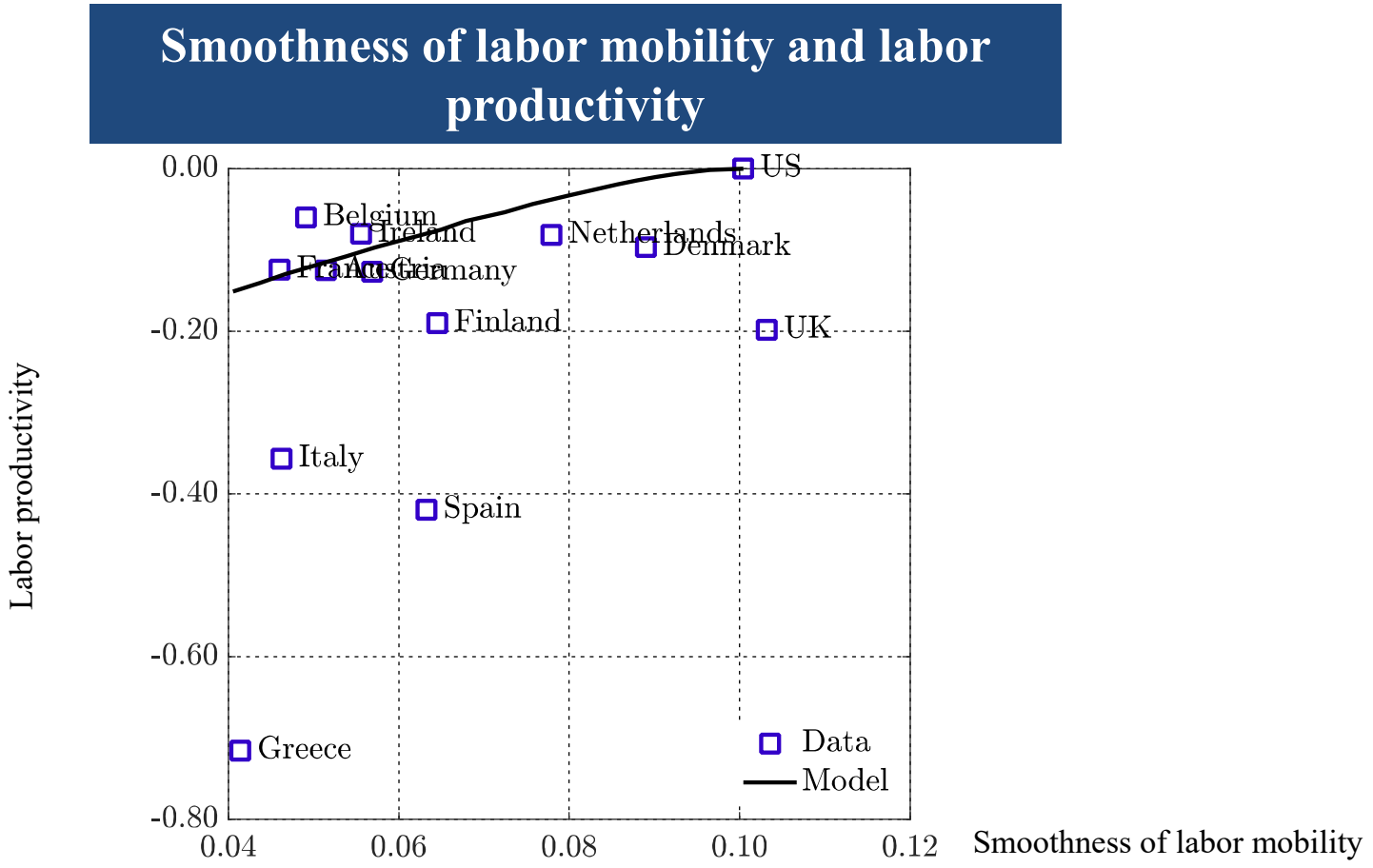
○ There is a need to shift to a system that sets required skills corresponding to individual jobs, and in which employees select their own jobs and contents subject to re-skilling in consultation with their supervisors, with a view toward overcoming the skill gap.

	Membership-based employment	Job-based employment (wages based on capability)
Basic stance	➢ No personnel entry or exit in principle ➢ Fairness of results ➢ Relationship between company and employees: Protector and protected persons	➢ Personnel entry and exit occurs (internal labor market and external labor market are seamlessly connected) ➢ Fairness of opportunity ➢ Relationship between company and employees: Partners relationship
HR system	➢ Grade: Job Function ➢ Remuneration: Seniority-wage, 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	➢ Personnel planning: Existing personnel - retiring personnel + fresh graduates ➢ Job definitions: Not required	➢ Personnel planning: Business-based ➢ Job definitions: Required
Career development	➢ Career development is company-led • Work hard at assigned jobs. • Uncertainty about career, but employment is guaranteed • Whether re-skilling for the future will be effective or not depends on personnel changes	➢ Career development respects the will of individuals • Achieve results with the goal of realizing the desired career • Employees utilize in-house recruitment and job changes 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) Created on the basis of materials from Mercer LLC.

Smoothness of Labor Mobility and Labor Productivity

○ Countries with smoother labor mobility between firms have higher national labor productivity (real GDP per hour worked).

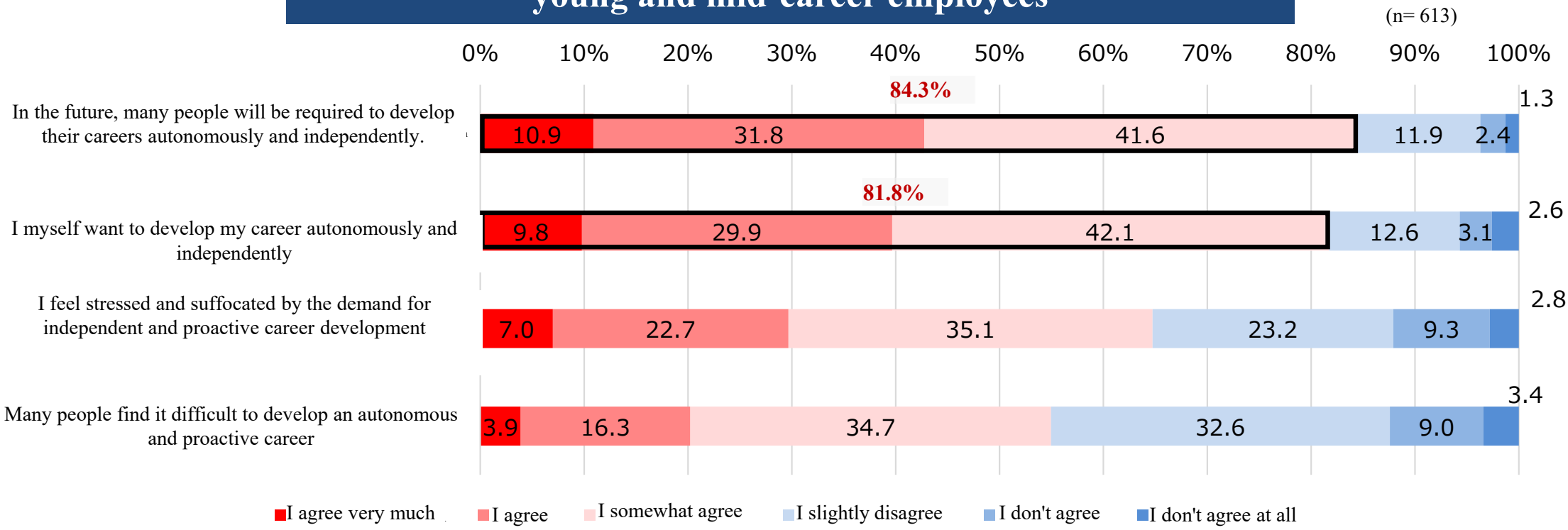


(Note) Labor productivity is real GDP per hour worked in 2014 (purchasing power parity dollars of 2004) relative to the U.S. Smoothness of labor mobility is the percentage of those who started working for their current employer within the past 11 months among those who were employed in the past year.
(Source) Created on the basis of Niklas Engbom (2022), Labor Market Fluidity and Human Capital Accumulation. NBER Working Paper Series, Working Paper 29698.

Awareness of Career Development

○ More than 80% of employees aged 25-44 believe that many people will be expected to develop their careers autonomously and independently in the future, and they themselves want to develop their careers autonomously and independently.

Views on autonomous and independent career development of young and mid-career employees

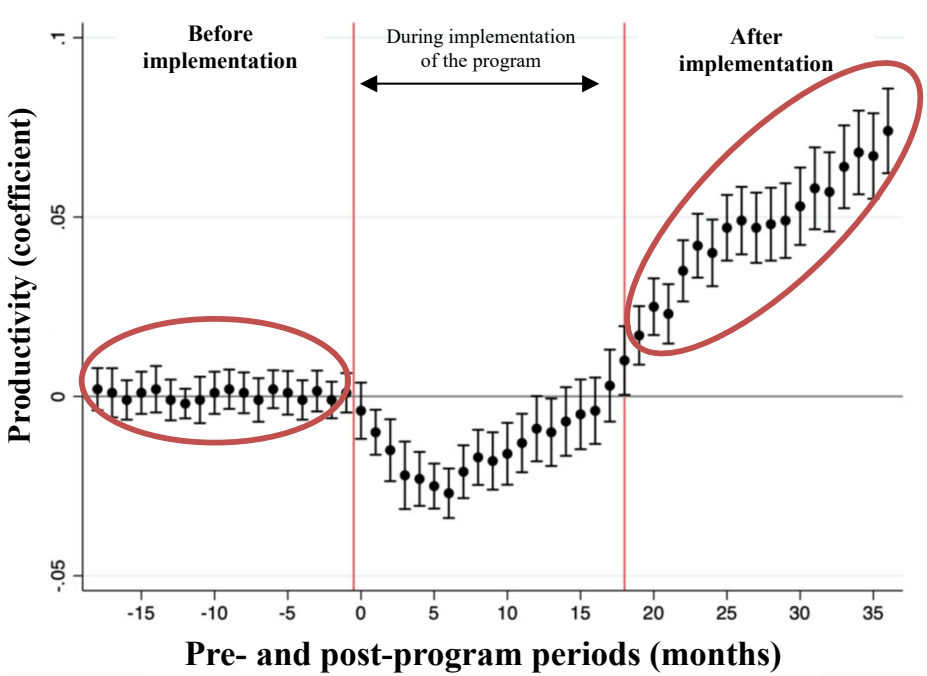


(Note) Survey of 25 to 44 year old people.
(Source) Created on the basis of Recruit Management Solutions' "Survey on Attitudes toward Autonomous and Proactive Career Development of Young and Middle-Career Employees" (2021).

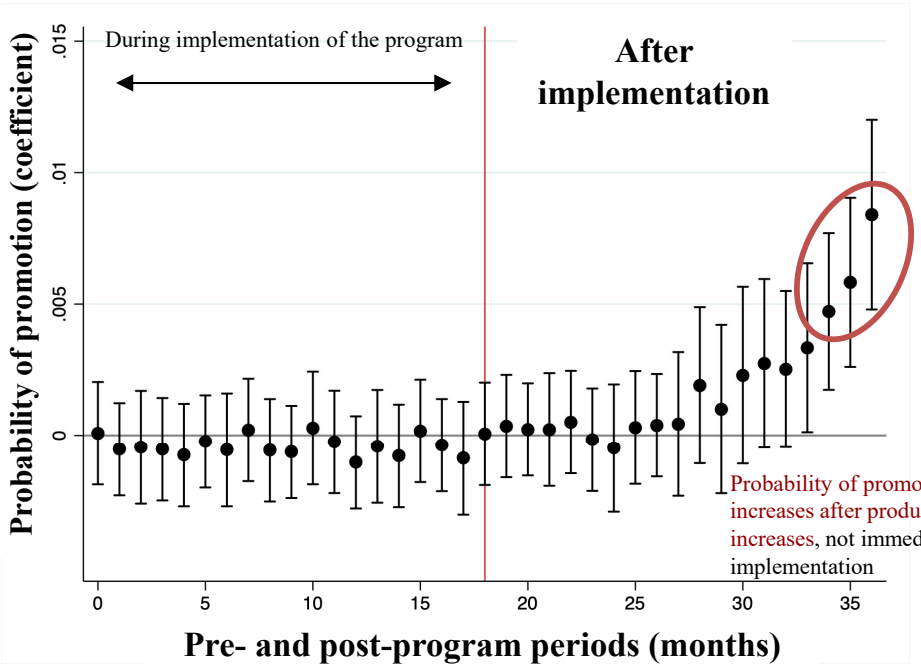
Effectiveness of Management Education in Re-Skilling

- Comparison between individuals who just barely passed and then received training in an MBA-type educational program and those who just barely failed.
- We were able to confirm that successful applicants have since moved up the career hierarchy.
- The reason for this **was not** the signaling effect of having an MBA title, but rather the statistical confirmation that the productivity of facilities where trained individuals worked increased compared to those where non-trained individuals worked, resulting in a higher career hierarchy.
- With re-skilling, productivity increases and compensation improves as management skills are improved.

Increased productivity of the facility



Increased probability of promotion



(Note 1) During World War II, the U.S. government provided an 18-month MBA-type educational program (ESMWT (Engineering, Science, and Management War Training)) free of charge to middle managers working in war-related industrial facilities.
(Note 2) The analysis was conducted using a method to estimate causal effects by focusing on participants who are just above the threshold and nonparticipants who are just below the threshold, using a passing score of 80 on the program's entrance exam as the threshold.
(Note 3) Facility-based data was obtained from Manpower Commission Surveys which surveyed 8,908 firms that had applicants to the program. Note that the decrease in productivity seen during the implementation of the program was due to the fact that the participants became involved on a part-time basis.
(Source) Created on the basis of Michela Giorcelli (2024) "The Effects of Business School Education on Manager Career Outcomes," ASSA 2024 Annual Based on the ASSA 2024 Annual Meeting.

Japan-Denmark Comparison of Re-Skilling Participants

- ○ In the Danish re-skilling program, 70% of the participants are employed, while in Japan, 40% are employed.
- ○ In our country, the practice of relearning tends to diminish once people start working. To promote re-skilling while maintaining the stability (security) of workers' livelihoods, it is necessary to enhance re-skilling during their tenure in our country.

Participant attributes of Japanese and Danish re-skilling

	Denmark (2010)	**Japan (FY2021)**
Participants	421,994 persons	211,812 persons
Period	Average 7 days	Average of 16 hours for tenured employees Average of 6 months for unemployed
Age	Average age 40	Average age 38
Gender	Male 64.5% Women 35.5%	Male 57% Women 43%
Skill level	Low 33% Medium 56% High 11%	Basic: 74% Specialty: 26%
Labor market attributes	Employees (incumbents) 67% Self-employed 4% Unemployed 24% Non-employed/unknown 5%	Incumbents 44% Unemployed 56%

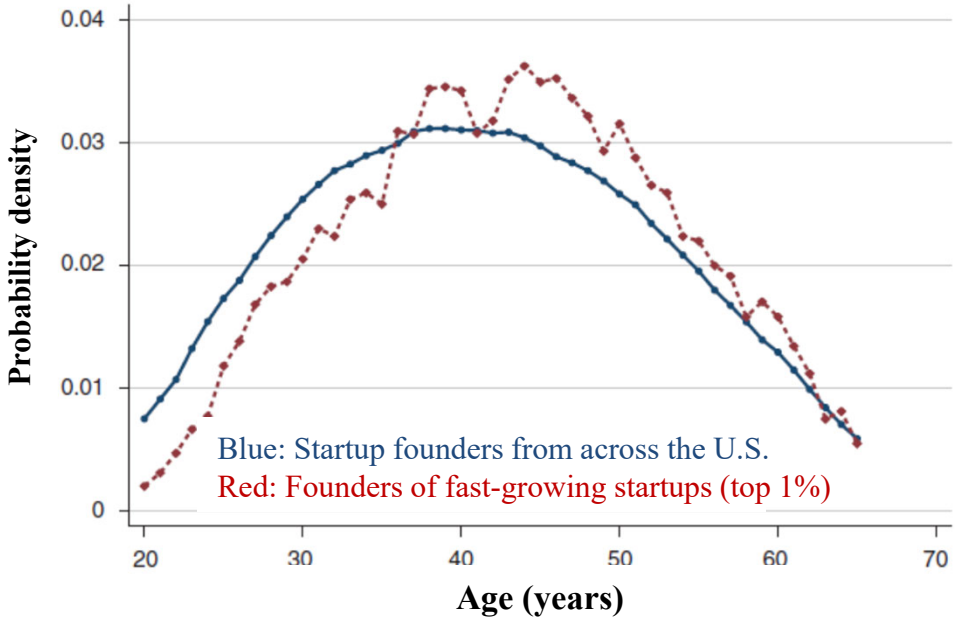
(Note) Re-skilling skill levels in Denmark are defined as low - "high school and below", medium - "vocational education", and high - "higher education".
Japan combines public job training (for both incumbents and dislocated workers) and training to support job seekers. "Age" in Japan excludes age-specific data of public job training for incumbent workers provided by prefectural governments, since such data are not available. Skill levels in Japan are defined as basic - "public job training for incumbents and leavers by prefectural governments, and job seeker support training" and specialized - "public job training for incumbents by the Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers.

(Source) Created on the basis of MHLW materials, Anders Humlum, and Jakob R. Munch and Mette Rasmussen. 2019. "Globalization, Flexicurity and Adult Vocational Training in Denmark" In *Making Globalization More Inclusive*, (WTO), etc.

Work Experience and Entrepreneurial Success Rate

- In the midst of a labor shortage, it is important to ensure opportunities for middle-aged and older workers who are willing to work.
- A recent study by U.S. economists on the case for entrepreneurship found that the average age of fast-growing start-ups (top 0.1%) at inception was surprisingly high, at 45 years old.
- We found that starting a business where one can use one's past work experience increases the probability of entrepreneurial success.

Age distribution at establishment



Work experience and entrepreneurial success rate

Fast-growing startup	Top (percentage) 10%	Top (percentage) 5%	Top (percentage) 1%	Top (percentage) 0.1%	Successful M&A/IPO
Similar work experience among founders (based on NAICS 2-digit industry classification)					
no experience	8.6%	4.1%	0.9%	0.11%	0.13%
1-2 years of experience	10.1%	4.8%	1.0%	0.11%	0.10%
More than 3 years of experience	15.0%	7.7%	1.7%	0.22%	0.20%

(Note 1) Survey of all 2.7 million founders who started a business in the U.S. between 2007 and 2014. Companies with a higher than average employment growth rate in the first five years after establishment are considered to be fast-growing startups. The average age at founding was 41.9 years for all founders, compared to 45.0 years for the top 0.1% of firms and 43.7 years for the top 1% of firms.

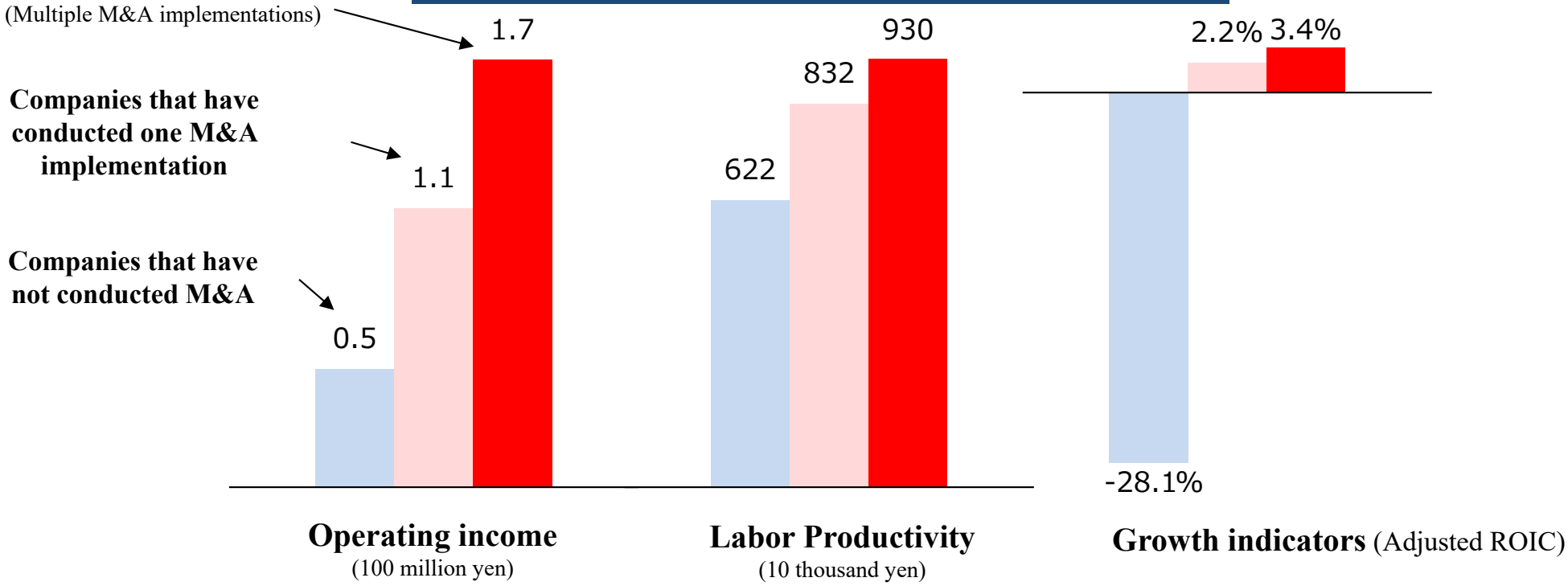
(Note 2) NAICS is the North American Industry Classification System, and the 2-digits-codes represent the largest business sector (e.g., manufacturing).

(Source) Created on the basis of Azoulay, P., Jones, B. F., Kim, J. D., & Miranda, J. (2020) "Age and high-growth entrepreneurship" American Economic Review: Insights, 2(1) 65-82.

Effects of Grouping (Multiple M&As)

○ Firms with grouping efforts (multiple M&As) achieved higher results than firms without M&As and firms with one M&A, outperforming in sales, profit, labor productivity, and growth indicators (adjusted ROIC).

Financial indicators by number of M&A experience (Acquisition Performers)



(Note 1) Figures are averages for FY2022 financial results. The number of samples is 162 companies.

(Note 2) Labor productivity = Added value*1 / Number of workers (including non-regular employees) *1 Added value = Operating income + Labor costs

(Note 3) Adjusted ROIC = Operating income after tax / (Interest-bearing liabilities + Total stock price*2) *2 Total stock price is calculated as total net assets.

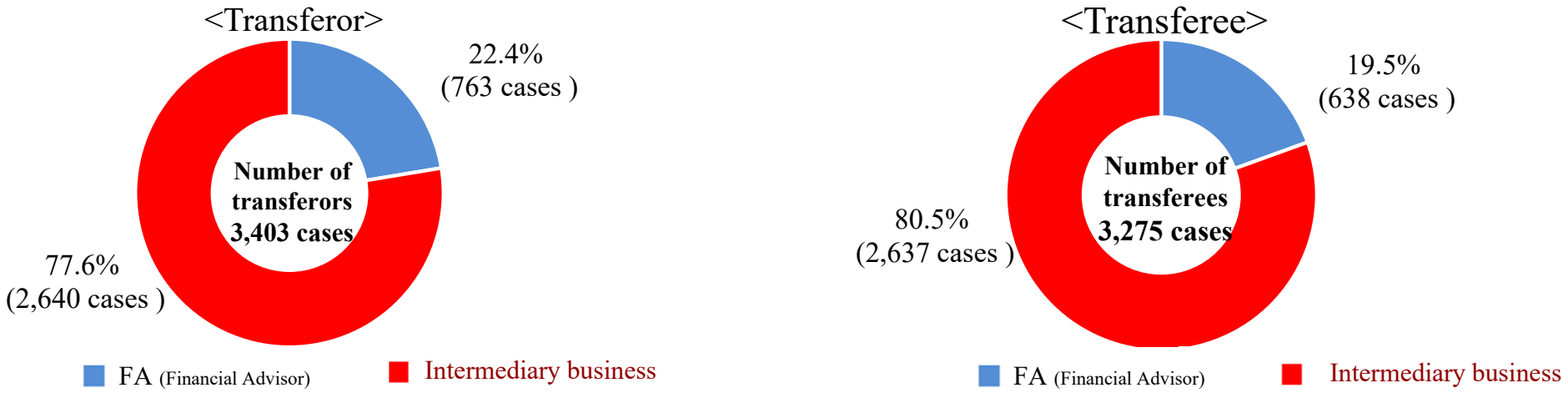
(Note 4) Operating income after tax = Operating income x (1 - Effective tax rate*3) *3 Calculated assuming an effective tax rate of 0.232.

(Source) Created on the basis of "FY2023 Questionnaire Survey on M&A of Small and Medium Enterprises" by the Small and Medium Enterprise Agency .

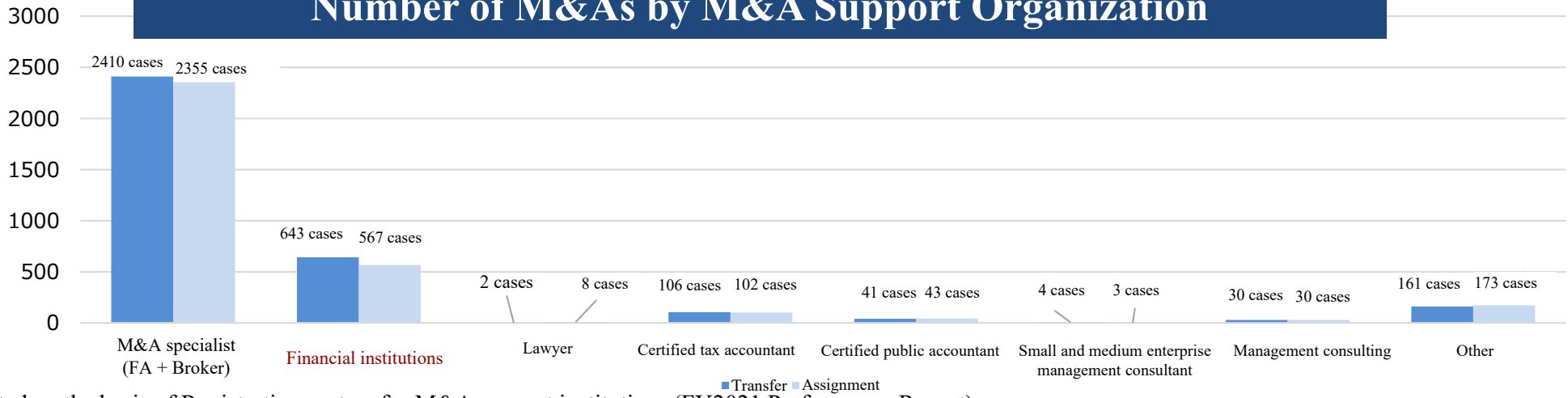
Number of M&As by Intermediary

- ○ A larger proportion of M&A transactions are mediated by intermediary businesses than by financial advisors.
- ○ It has been pointed out that intermediary businesses are in a conflict of interest because they receive commissions from both the transferor and transferee sides.
- ○ From the perspective of business integration work before and after M&A (post merger integration (PMI) : business integration work conducted before and after an acquisition), we would like to see a significant increase in intermediation by regional banks and others.

Number of M&A (by financial advisor/intermediary)



Number of M&As by M&A Support Organization

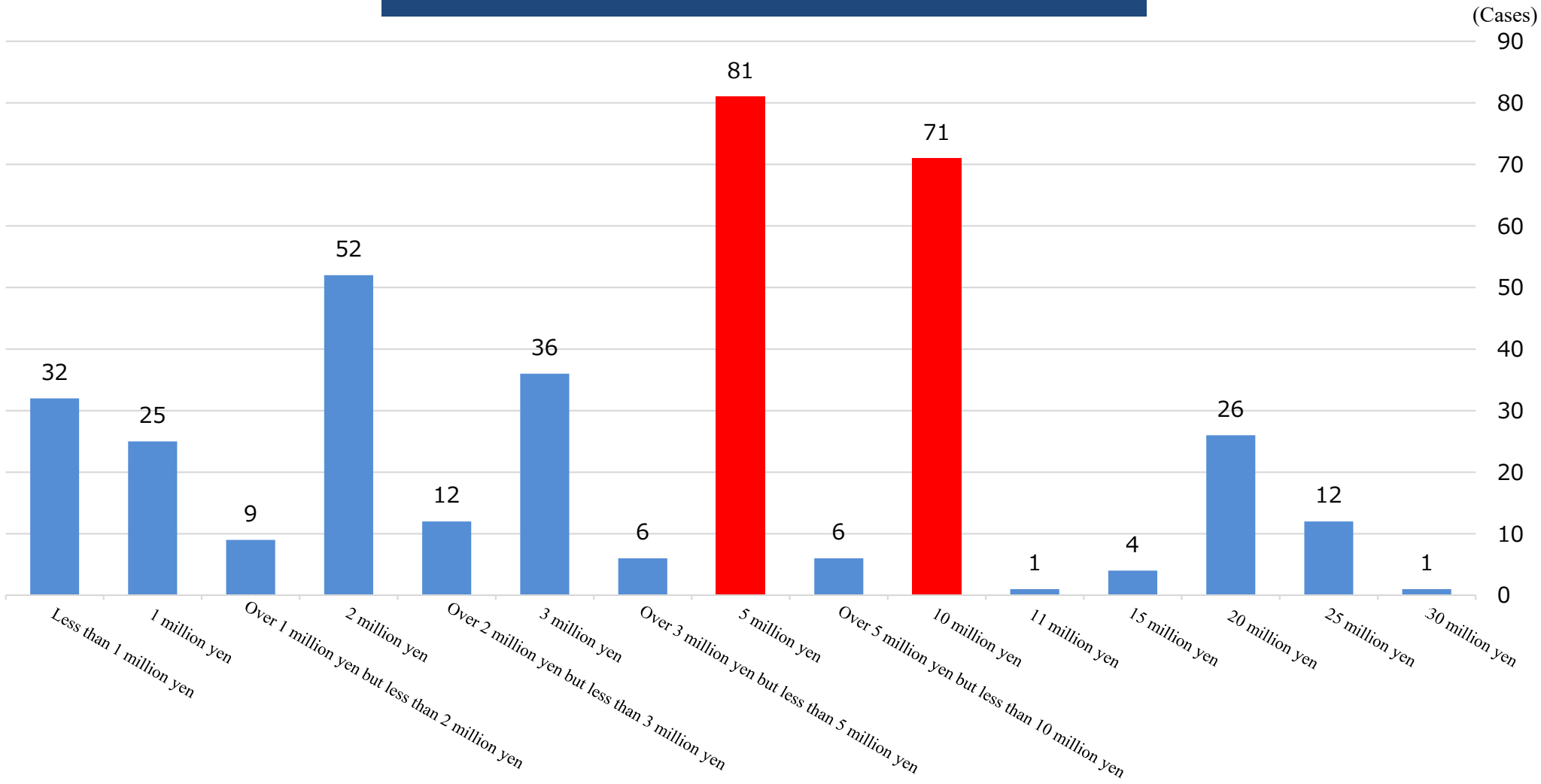


(Source) Created on the basis of Registration system for M&A support institutions (FY2021 Performance Report) .

Distribution of Minimum Commissions for M&A Support Agencies

○ Looking at the distribution of the minimum commission for M&A intermediaries by value, 5 million yen is the most common amount. The next largest number of supporting agencies set the amount at 10 million yen.

Distribution of minimum fees

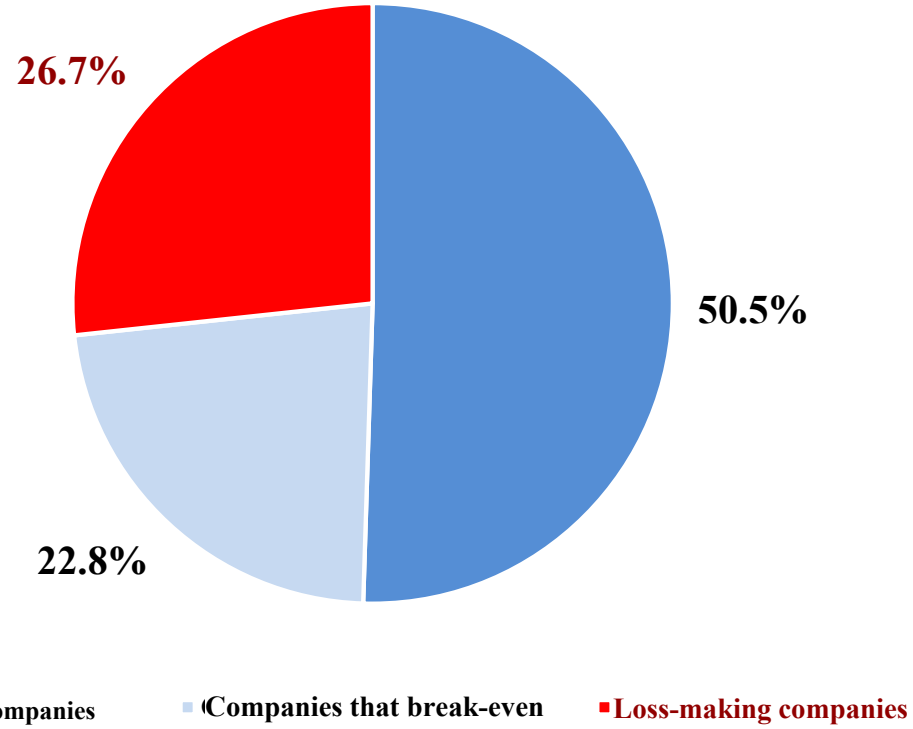


(Source) Created on the basis of Registration system for M&A support institutions (FY2021 Performance Report)

Recent Profits of Companies without Successors

- ○ Of the firms that responded that they have no successor (want to continue business with a successor but have not decided + will go out of business in their own generation), only less than 30% of the firms are loss-making.
- ○ In many cases, even profitable companies may go out of business due to the absence of successors. For such managers, it is important to drastically improve the environment for business succession, M&A, etc.

Recent earnings of companies without successors



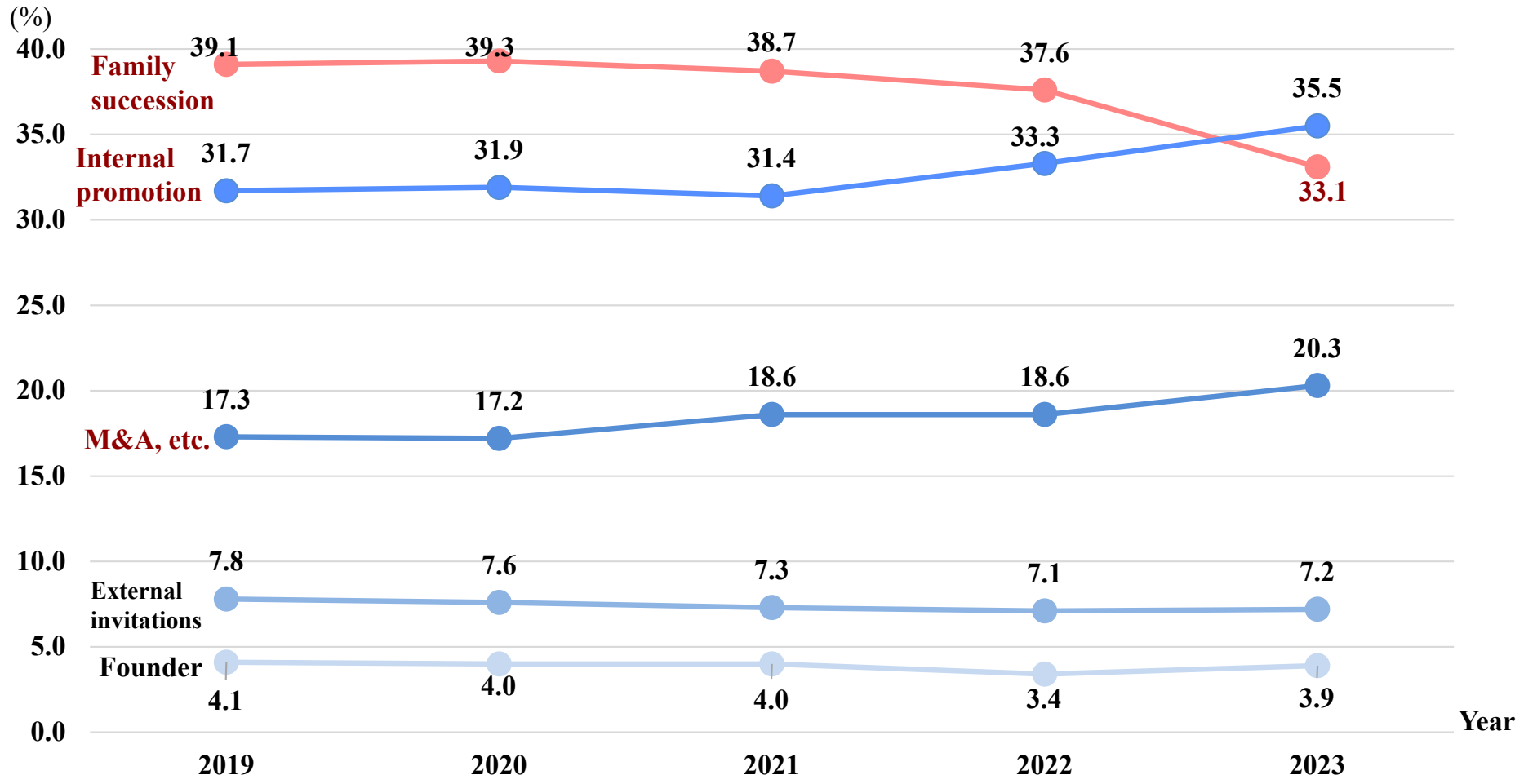
(Source) Created on the basis of "Results of Questionnaire Survey on Business Succession," JCCI, March 22, 2024.

Trends in Current Management by Appointment Paths

○ In terms of management, the current trend, even on a stock base, is a decline in traditional family succession, and an increase in "internal promotion" and "firms appointing from outside through M&As."

○ Regarding the future, we expect to diversify the succession.

Changes in current management by appointment history

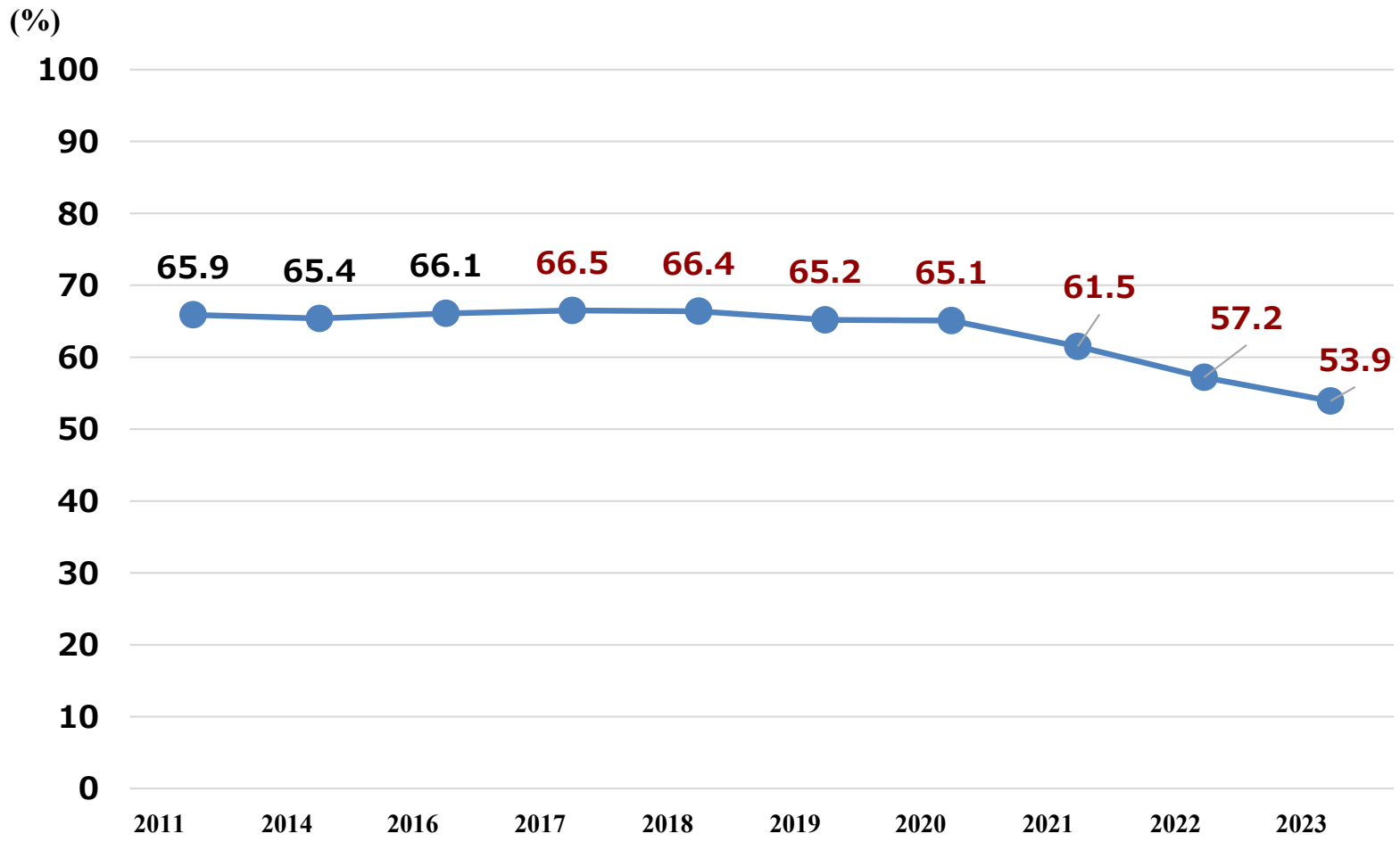


(Source) Created on the basis of the database of Teikoku Databank.

Trends in Successor Absence Rates

○ The number of companies without successors has been declining since 2017 (66.5%).

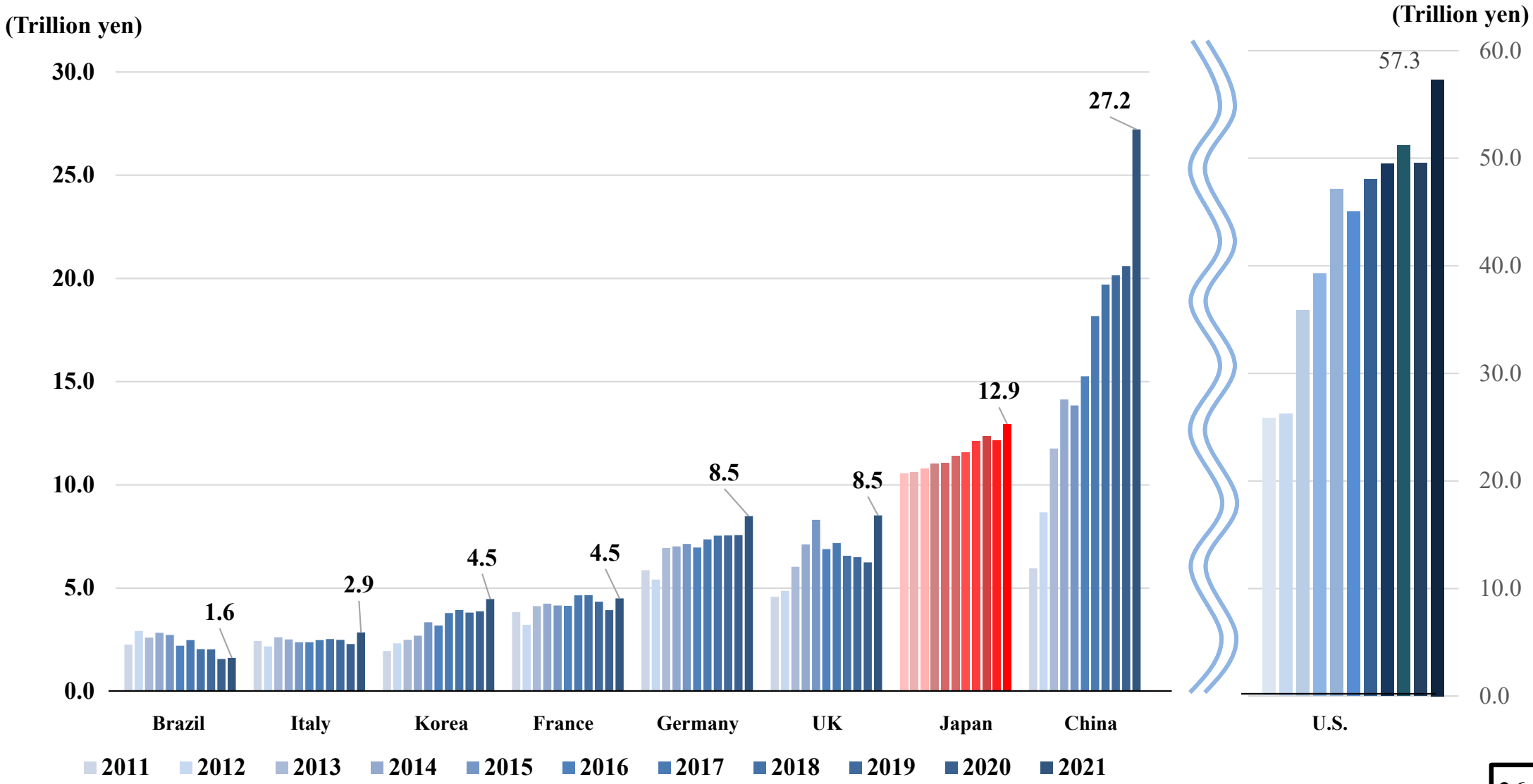
Changes in the rate regarding absence of succession



(Note) Survey conducted nationwide and across all industries. (270,000 companies were surveyed in 2023)
(Source) Created on the basis of the Teikoku Databank "Nationwide 'Succession Rate' Trend Survey" (2023).

Size of the Global Market for Content

- ○ Japan ranks third in the world in terms of the size of the global market for content. 12.9 trillion yen in 2021.
- ○ China surpassed Japan to become the world's second largest in 2013. As of 2021, the market is twice the size of Japan (27.2 trillion yen).

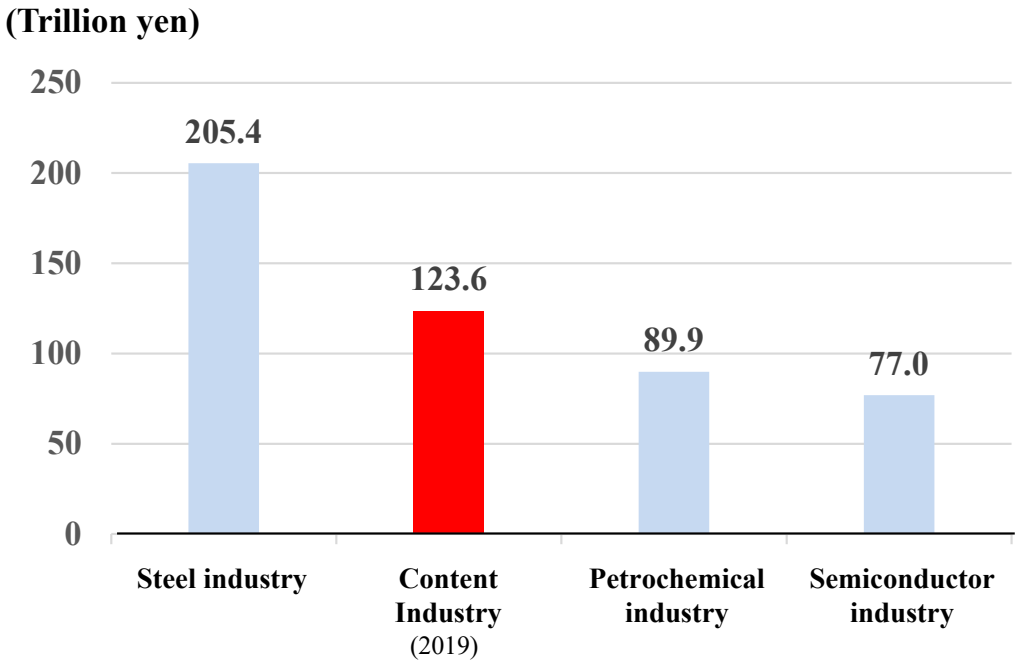


(Source) Created on the basis of "Current State of the Content Industry" (March 2023, survey commissioned by Keidanren), Human Media, Inc.

Market View of the Global Market and the Size of Japan's Exports for the Content Industry

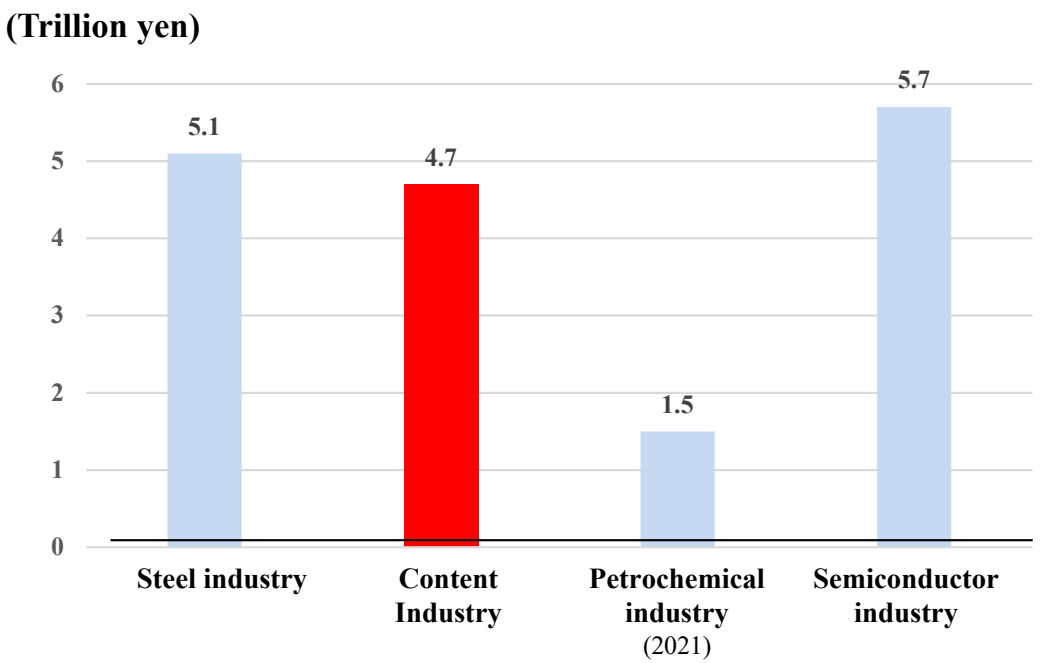
- ○ The global market for content is larger than the petrochemical and semiconductor industries.
- ○ Overseas sales of Japan-originated content are comparable in size to the exports of the steel and semiconductor industries.

The size of the global market for the content industry



(Note) Data for 2022 (but only for the content industry, data for 2019)

Comparison of the scale of exports, etc. of Japanese industries



(Note) Data for 2022 (but only for the petrochemical industry, data for 2021)

(Note) Calculated at 109.0 yen to the dollar in 2019 and 128.4 yen to the dollar in 2022.
(Source) Created on the basis of following.

Steel
Global Market ...Global Information, Inc. "Steel Market Size Forecast to Reach US$1.9286 trillion by 2027" https://japan.zdnet.com/release/30847425/
Exports ...The Japan Iron and Steel Federation, Summary of Iron and Steel Imports and Exports https://www.jisf.or.jp/data/boeki/index.html

Content
Global Market ... Japan External Trade Organization (JETRO) "Survey on Promotion Measures and Cases of Korean Content Industry in the Platform Era" (Note) Simplified correction to eliminate duplicates after extracting publishing, comics, music, games, movies, animation, broadcasting, and characters.
Exports ...Human Media, Inc. "Japan and World Media x Content Market Database 2023 (Fixed Version)" (December 31, 2023) *Overseas market sales http://humanmedia.co.jp/database/PDF/DB2023v3tirashi.pdf

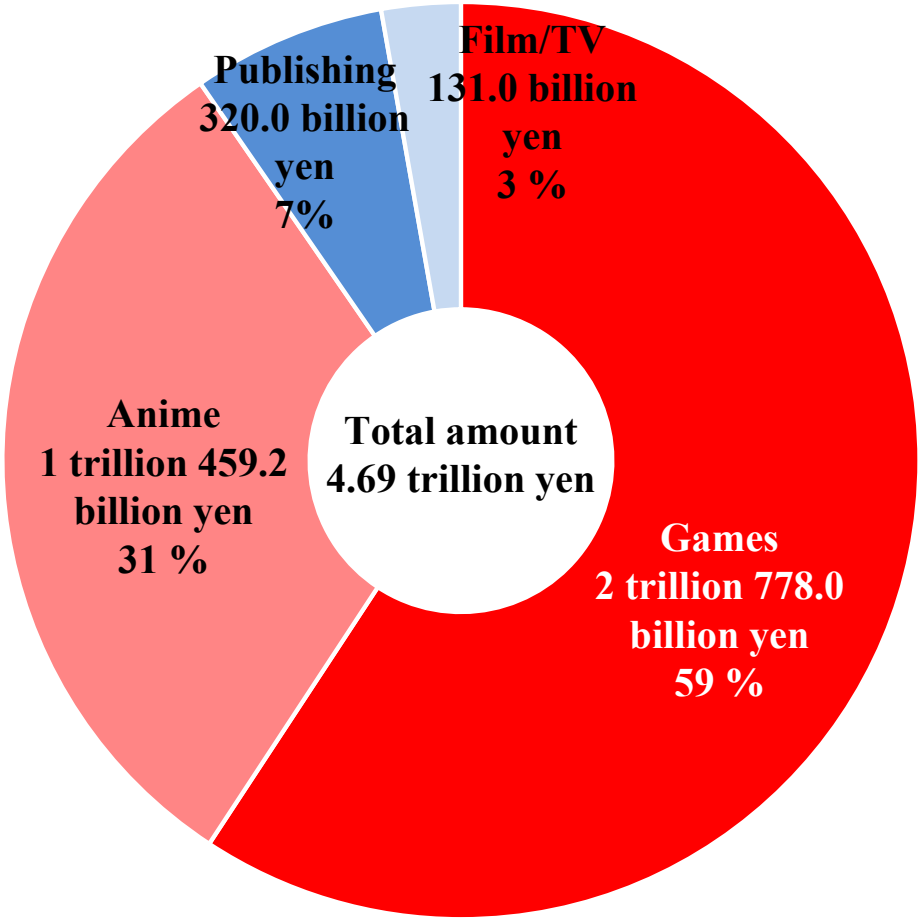
Petrochemical
Global Market ...Global Information, Inc. "Petrochemicals Market Size Forecast to Reach US$786.74 billion by 2027" https://japan.zdnet.com/release/30892496/
Exports ...Japan Petrochemical Industry Association, Petrochemical Exports by Country https://www.jpca.or.jp/statistics/annual/kuni_ex_im.html

Semiconductor
Global Market ...WORLD SEMICONDUCTOR TRADE STATISTICS
Exports ...Trade Statistics of Japan (semiconductors and other electronic components)

Composition of Overseas Sales of Japanese Content by Genre *Excluding music

○ The percentages of overseas sales of Japanese content by genre are 59% for games, 31% for anime, 7% for publishing, and 3% for film/TV.

Percentage of overseas sales of Japanese content by genre (2022)
(Unit: 1 billion yen)



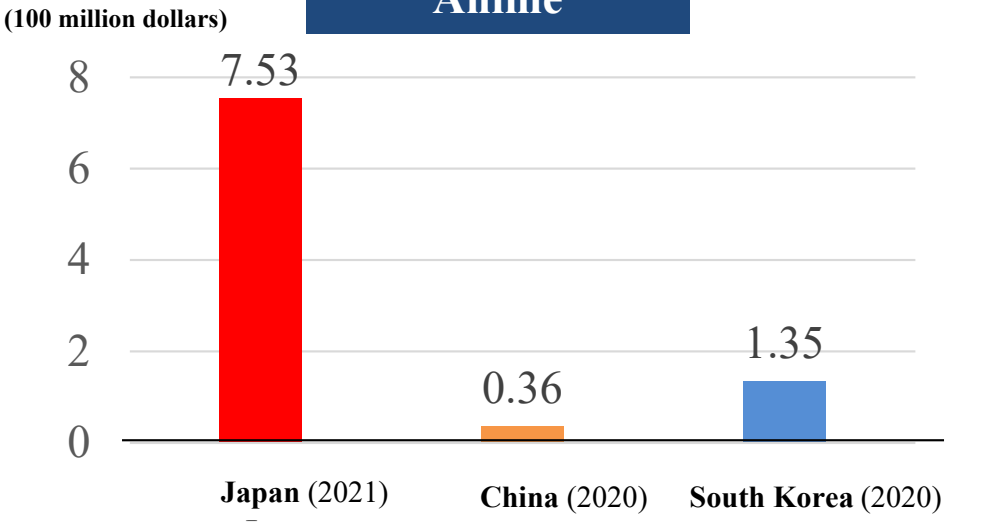
(Note) The figures do not include overseas exports of music.
(Source) Created on the basis of Human Media, Inc. "Japan and World Media x Content Market Database 2023" (December31, 2023).

Comparison of China, Japan, and South Korea in the Overseas Expansion of Content

○ Japan is ahead of China and South Korea in overseas revenues from anime and home video games, but below South Korea in overseas revenues from live-action films.

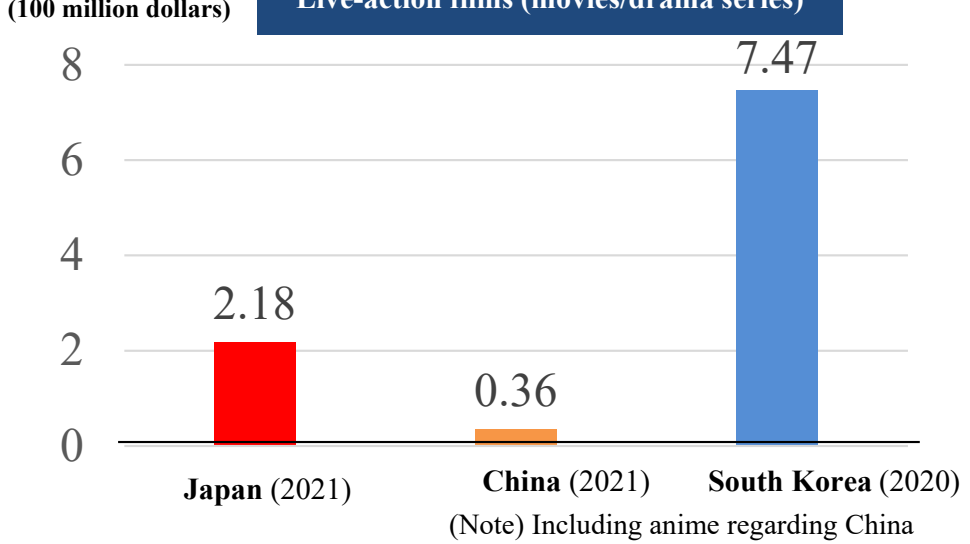
○ Japan is below China and South Korea for PC and smartphone games.

Anime



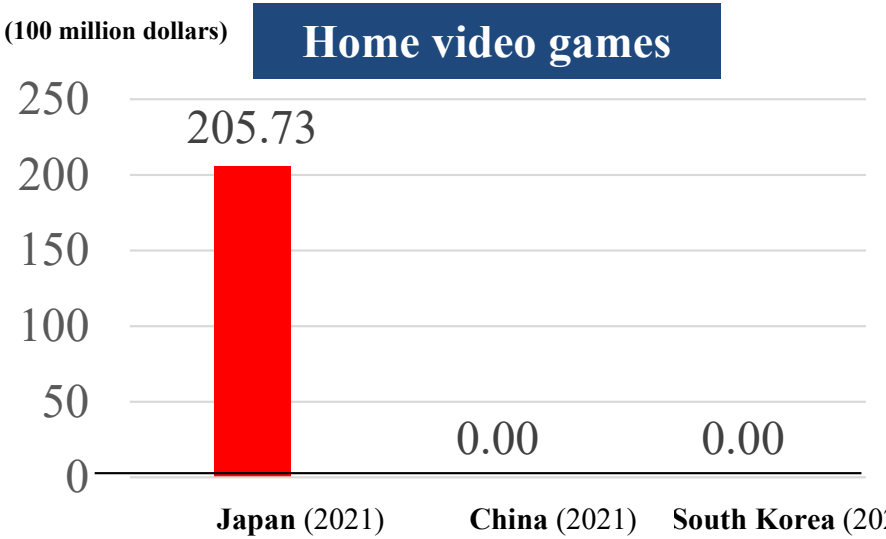
(Note) Including live-action films regarding China

Live-action films (movies/drama series)



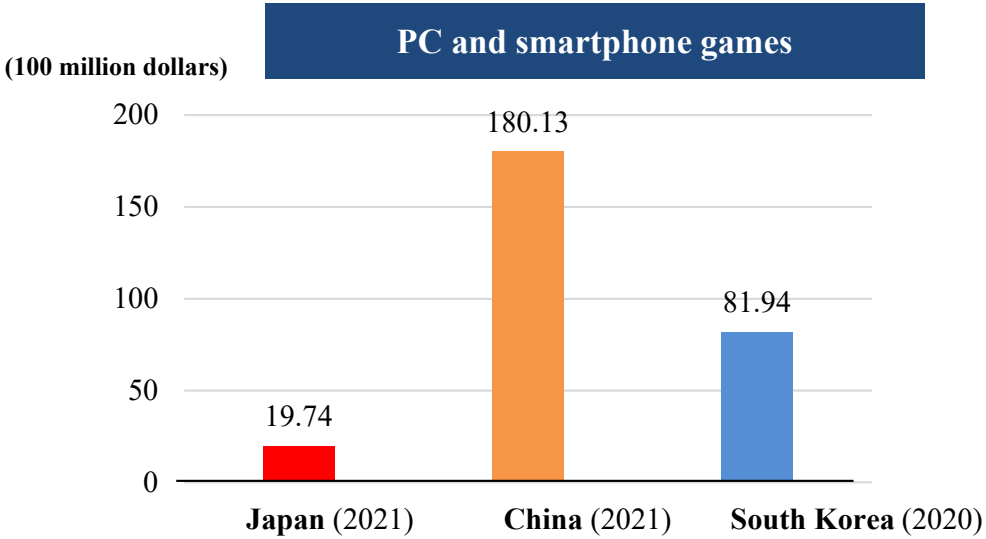
(Note) Including anime regarding China

Home video games



(Note) China and South Korea create almost no home video games

PC and smartphone games

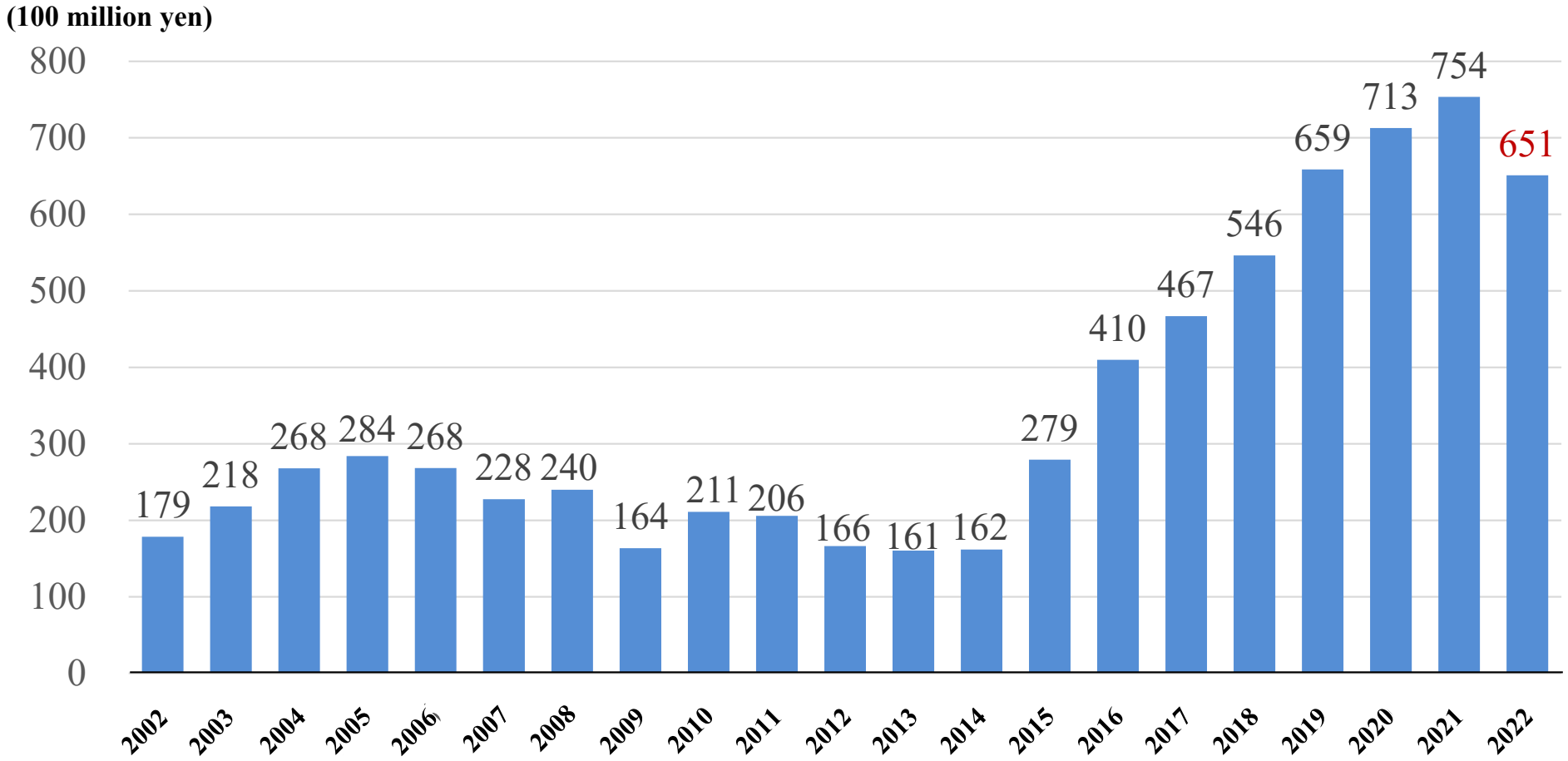


(Source) Created on the basis of "Current State of the Content Industry" (March 2023, survey commissioned by Keidanren), Human Media, Inc.

Overseas Sales of Animation

○ Overseas sales by anime production companies are on the rise (65.1 billion yen). One reason is that "Dragon Ball," "Pokémon," etc. continue to be broadcast on terrestrial TV and pay channels overseas.

Total overseas sales by anime production companies



(Source) Created on the basis of "Animation Industry Report 2023" by Japan Animation Association.

World Ranking of Characters' Cumulative Income

○ In the ranking of cumulative income (in US dollar terms) since the characters were created, Japanese content such as Pokémon, Hello Kitty, Mario, etc. are ranked in about half of the world's TOP 25.

Cumulative income associated to characters (until 2018)

[1st-10th place]

Media franchise	Cumulative income
1. Pokémon	**92.1 billion USD**
2. Hello Kitty	**80 billion USD**
3.Winnie the Pooh	75 billion USD
4.Mickey Mouse & Friends	70.6 billion USD
5.Star Wars	65.6 billion USD
6.Anpanman (Let's go! Anpanman)	**60.3 billion USD**
7.Disney Princess	45.2 billion USD
8. Mario	**36.1 billion USD**
9.Shōnen Jump / Jump Comics	**34.1 billion USD**
10.Harry Potter	30.9 billion USD

[11th-25th place]

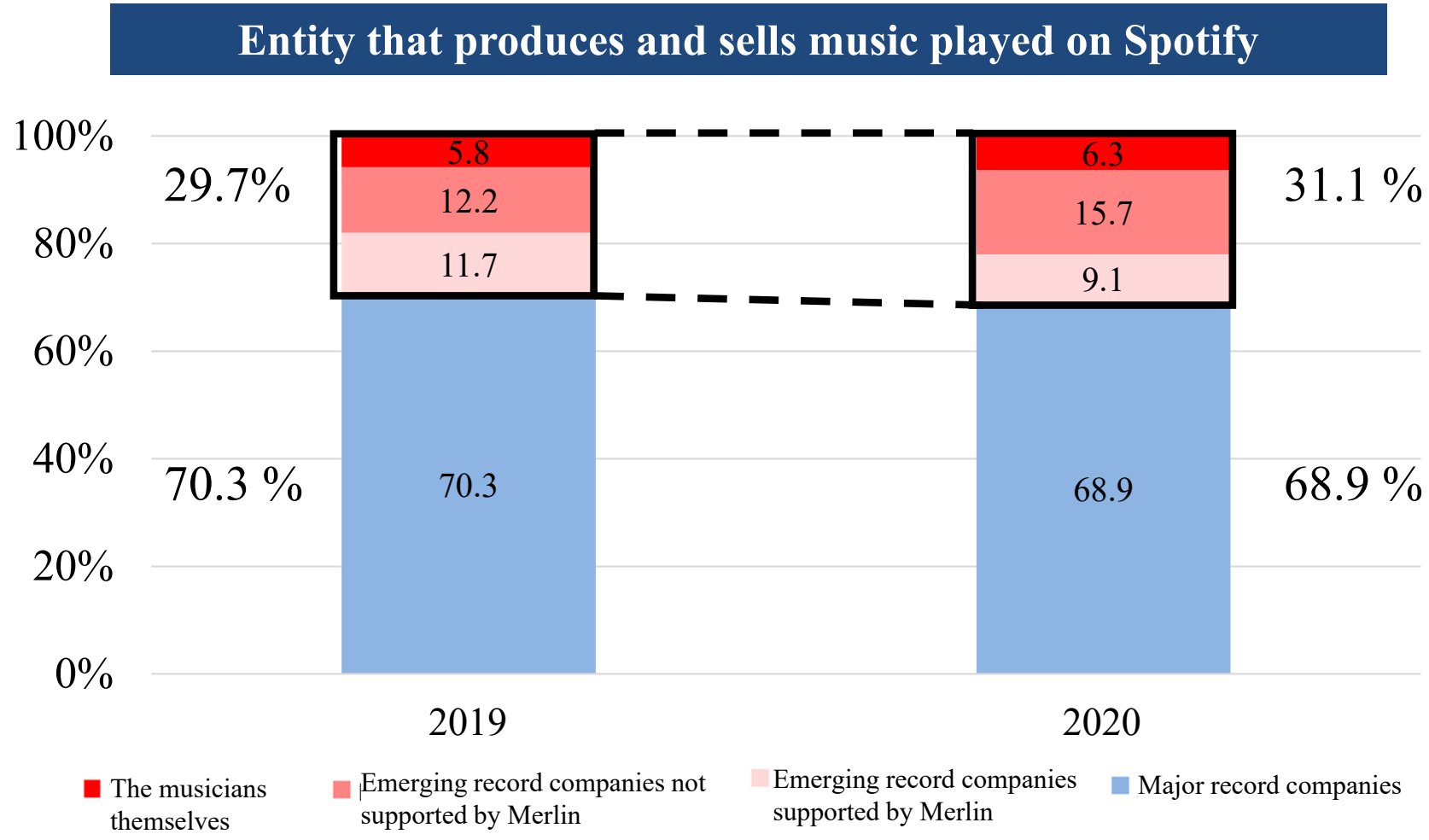
Media franchise	Cumulative income
11.Marvel Cinematic Universe	29.1 billion USD
12.Spider-Man	27.1 billion USD
13. Gundam (Mobile Suit Gundam)	**26.5 billion USD**
14.Batman	26.4 billion USD
15.Dragon Ball	**24 billion USD**
16.Barbie	24 billion USD
17.Fist of the North Star	**21.8 billion USD**
18.Cars	21.8 billion USD
19.Toy Story	20.7 billion USD
20. One Piece	**20.5 billion USD**
21.Lord of the Rings	19.9 billion USD
22.James Bond	19.9 billion USD
23.Yu-Gi-Oh!	**19.8 billion USD**
24.Peanuts	17.4 billion USD
25.Transformers	17.2 billion USD

(Note) Figures are estimated reference values gathered from each company's website, etc., and the latest information may have been updated since some of the information cannot be confirmed at present.
(Source) Created on the basis of TITLEMAX "The 25 Highest-Grossing Media Franchises of All Time"
https://www.titlemax.com/discovery-center/money-finance/the-25-highest-grossing-media-franchises-of-all-time/ (viewed October 13, 2023).

Change to a More Individual-Centric Approach to Music Production and Sales

○ The music industry is changing to a landscape where individuals can produce and sell their own music.

○ Of the music played on Spotify, the percentage of music played that comes from major record companies is declining, and distribution by individual musicians and similar distribution channels is expanding.



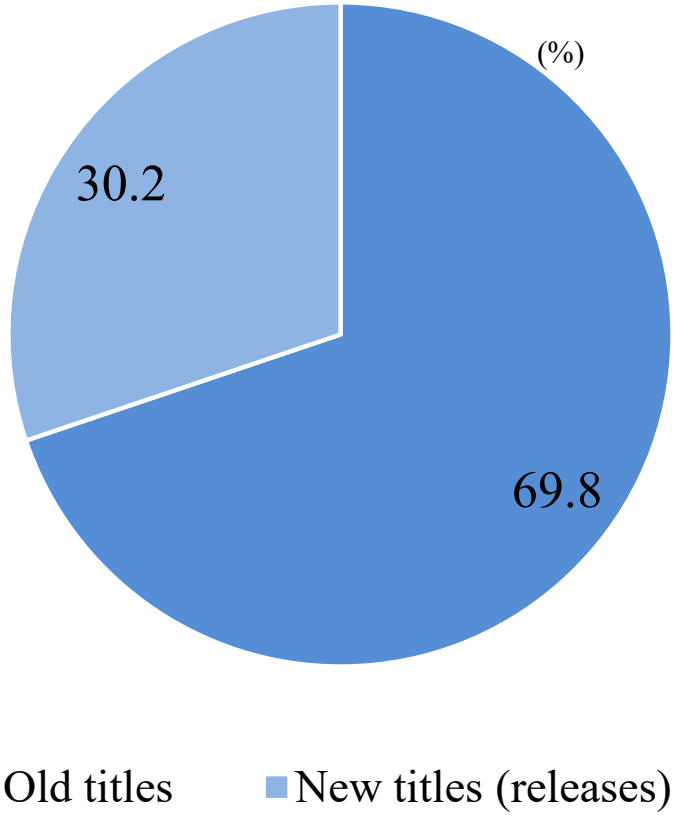
(Note) Merlin: A support group that helps emerging record companies compete with major record companies.

(Source) Created on the basis of MIDiA Research, "Smaller independents and artists direct grew fastest in 2020."

The Music Industry's Transition to a Market Dominated by Old Songs

- ○ With the increase in the number of subscription services with search function (a form of service in which users pay a regular fee on a monthly or yearly basis) , the release date of music titles is becoming less meaningful. New releases used to account for the majority of CD sales, but now old titles (released more than 18 months ago) account for 70% of sales (in the U.S.).
- ○ This is advantageous for Japan, which has an extensive collection of old titles, and an opportunity to establish the "Japanese brand."
- ○ On the other hand, there is an argument that the old titles are difficult to use due to practices in Japan, and it is a challenge to make contracts appropriate.

Ratio of new to old music titles in the U.S. (2021)

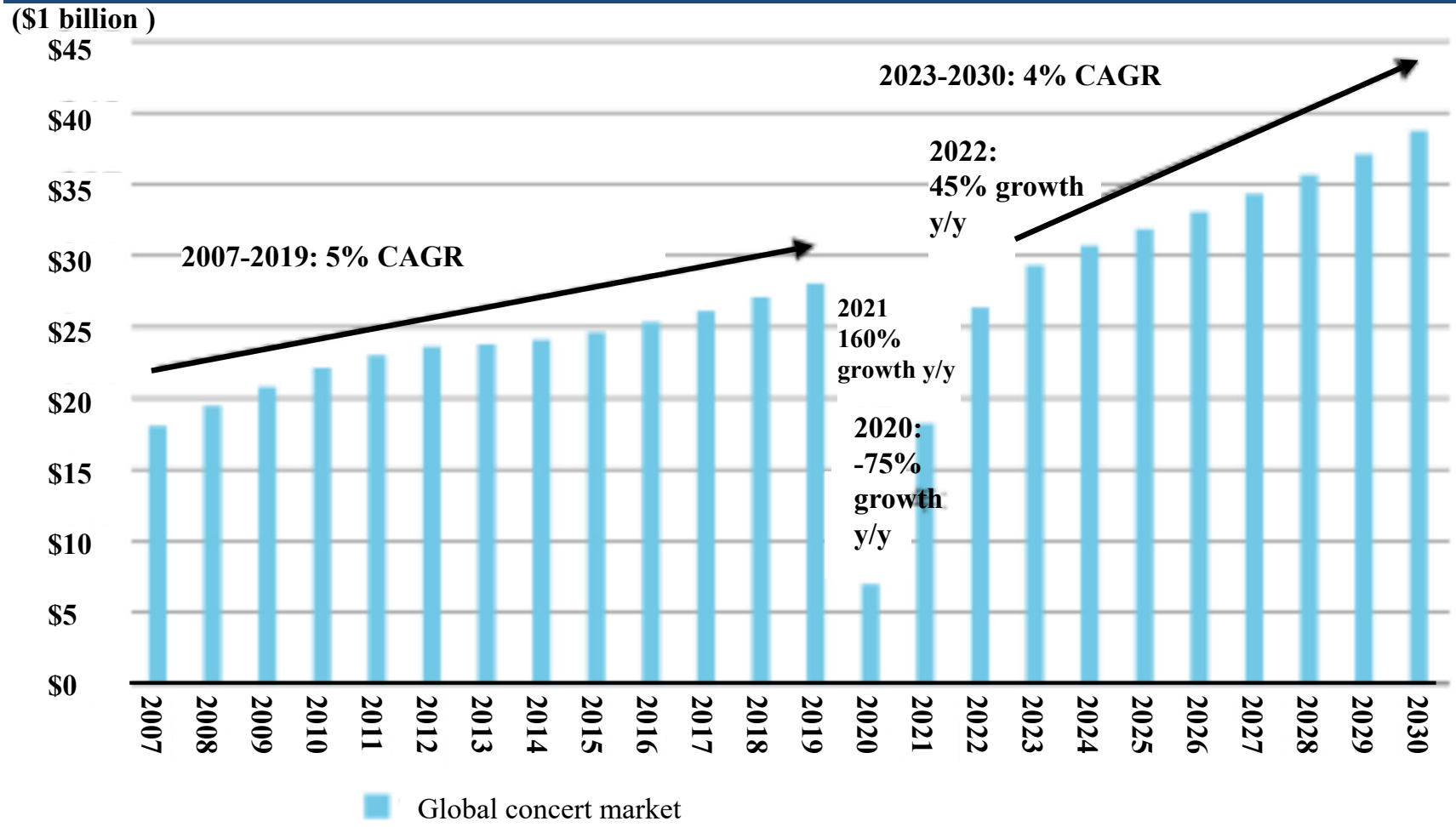


(Source) Created on the basis of MRC Data, "2021U.S. Year-End Report."

Trends in the Global Concert Market

- On the other side of the music market's shift towards streaming, concert revenues (sponsorship rights + ticket sales) worldwide are increasing year after year, except during the COVID-period, as people seek for rea-life experiences.
- The CAGR for the period 2023-2030 is analyzed at 4%.

Growth rate of the global concert market

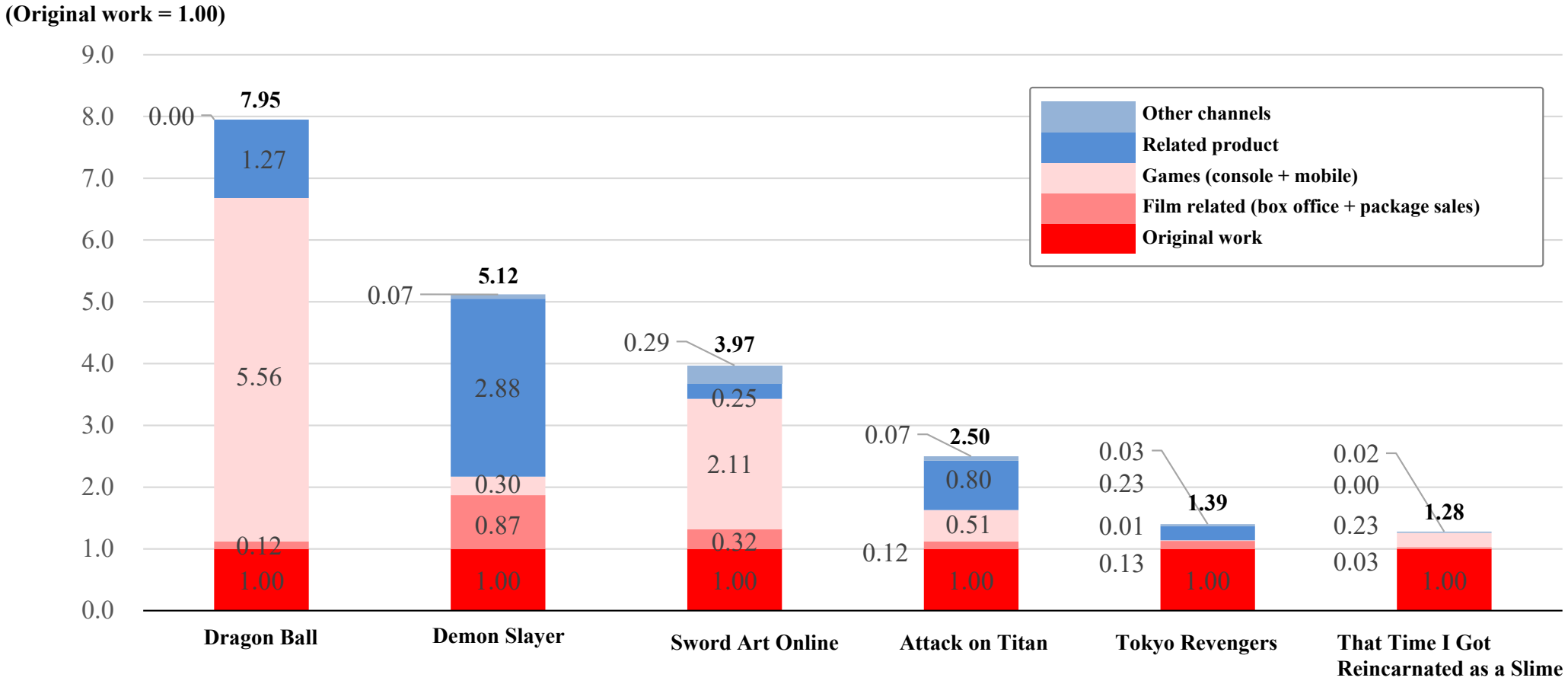


(Source) Created on the basis of GoldmanSachs, "Music in the Air (2020)."

Status of Media Mix Development

○ The total sales of the original work with media mix development reaches up to 7.95 times the sales of the original work in the Japanese domestic market, when the sales of the original work are set as 1.

Sales from other channels when the sales of the original work are set as 1



Origin	Manga	Manga	Light novel	Manga	Manga	Light novel
Year of Deployment	2009	2019	2012	2013	2021	2015

(Note) Sales of "Dragon Ball" other than the original work are counted after the reboot of "Dragon Ball Z Kai" (from 2009).
(Source) Created on the basis of PwC Strategy&, "The Power and Potential of the Media Mix: Investment Inflows as the Key to Overseas Market Strategy, Visualization of the Spillovers of the Content Economy is Priming the Way." (2024).

Advertising Revenues and Program Production Costs of TV Stations

○ All of Tokyo's key TV stations have experienced a decline in advertising revenues over the past six years, correlating to a decline in program production costs.

Changes in advertising revenues and program production costs (Unit: 100 million yen)

	FY 2016		FY 2022	
	Advertising revenue	Program production costs	Advertising revenue	Program production costs
Nippon TV	2,558	980	2,369(-189)	875(-105)
TV Asahi	1,956	908	1,720(-236)	773(-135)
TBS Television (Japan)	1,716	982	1,629(-87)	952(-30)
TV Tokyo	810	403	730(-80)	334(-69)
Fuji Television	2,015	882	1,604(-411)	721(-161)

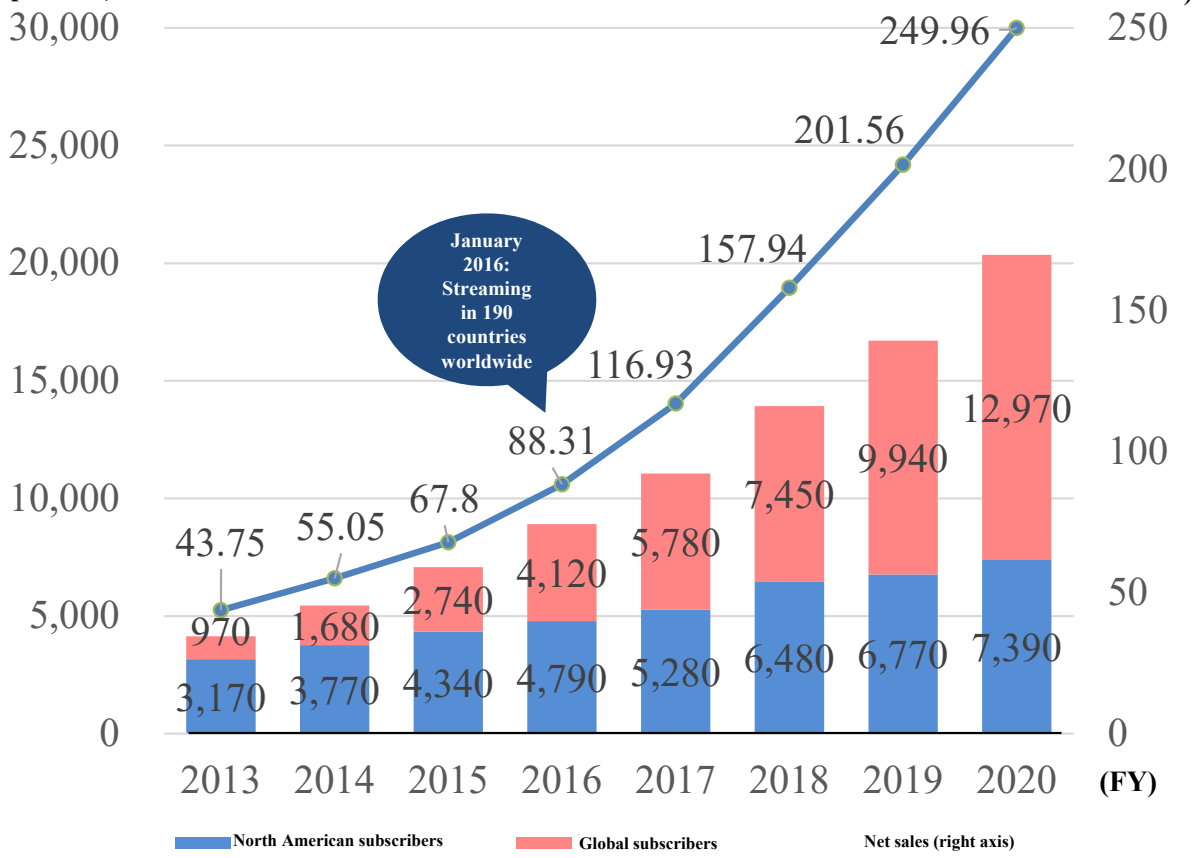
(Source) Created on the basis of each company's financial data for FY2016 and FY2022.

Global Netflix Membership and Revenue Growth

○ Global Netflix membership and revenue grows year after year. As of 2020, global sales are 25 billion dollars.

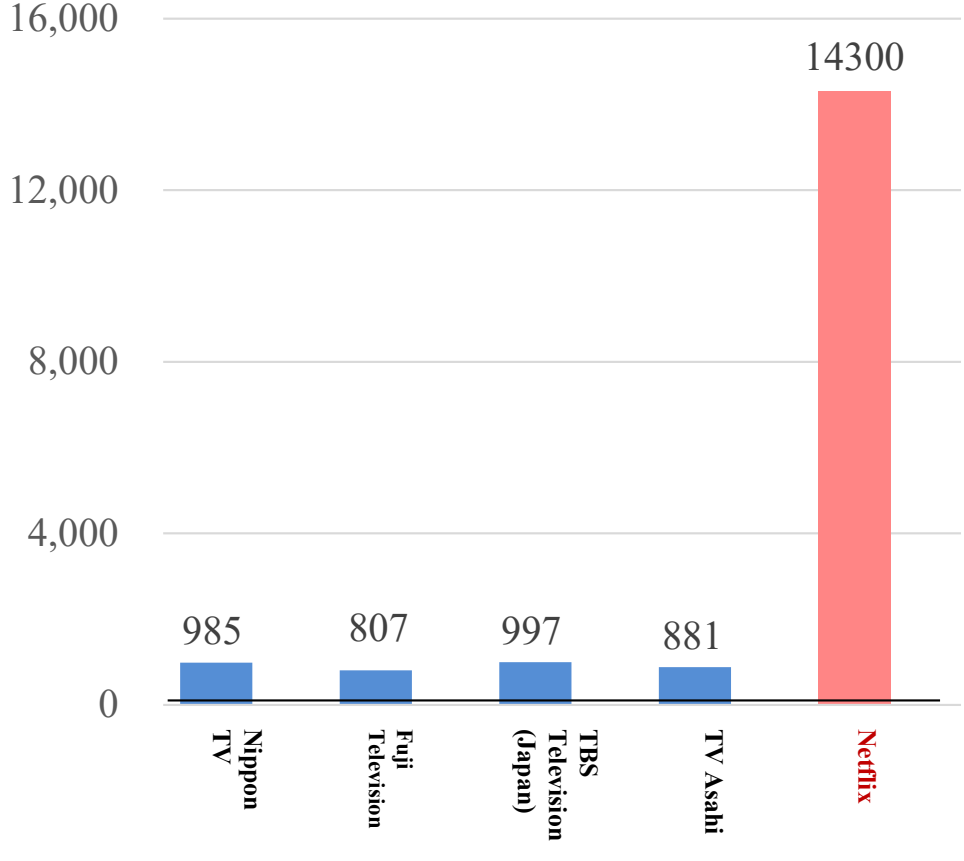
○ The total production costs of the four Japanese TV stations is only a quarter of Netflix's production costs.

Netflix membership breakdown and revenue trends



(Source) Created on the basis of Mizuho Bank, "Mizuho Industry Research: Content Industry Outlook 2022: Winning Streaks for Japanese Companies"(March 24, 2022).

Netflix and each station's production costs

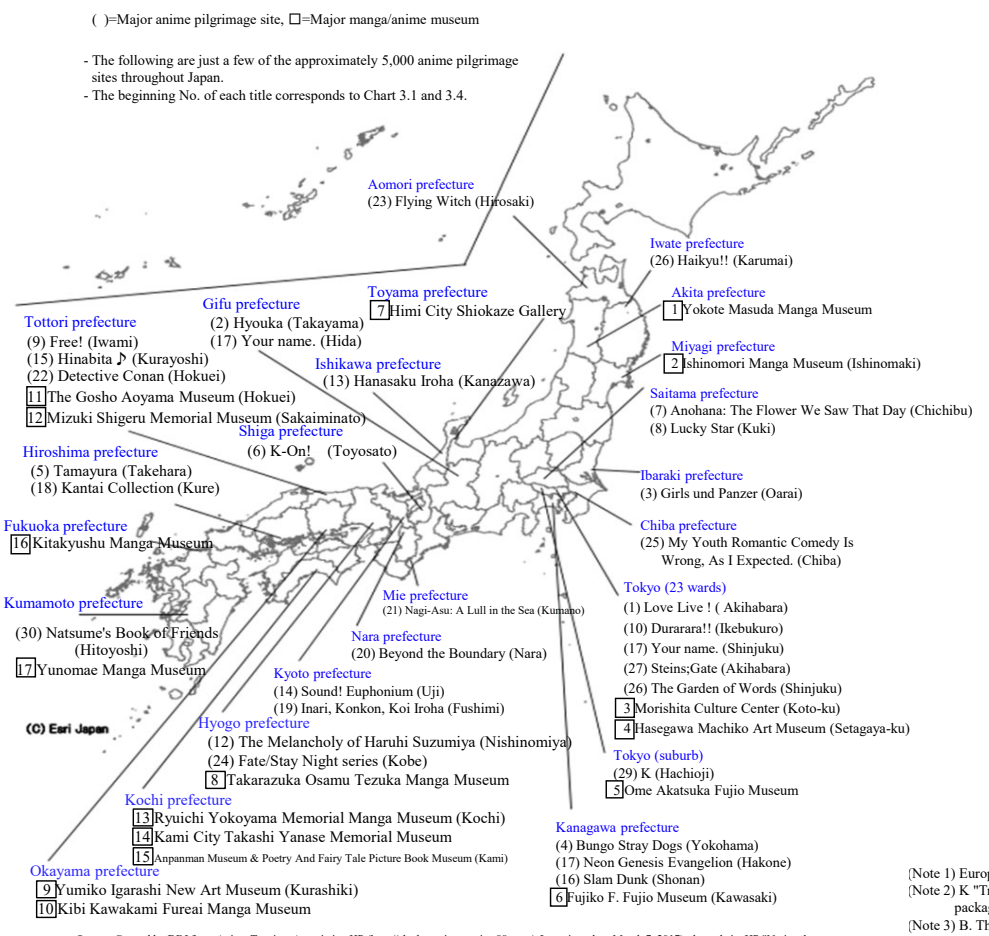


(Note) Converted at 110 yen to the dollar.
For Japanese stations, FY18 ended March 31 and for Netflix, FY18 ended Dec
(Source) Created on the basis of Diamond Weekly, April 20, 2019.

Economic Impact of Pilgrimages to Anime Pilgrimage Sites

- ○ There are anime pilgrimage sites throughout Japan. Among inbound tourists, 1.15 million people made pilgrimages to anime pilgrimage sites, the purchase amount in anime-related goods was 35 billion yen.
- ○ Demand from potential pilgrims to anime pilgrimage sites is estimated to be 2.6 million persons, and 400 billion yen of domestic consumption is expected.

Manga and anime museums located in major anime pilgrimage sites and places related to major authors throughout Japan



Source: Created by DBJ from Anime Tourism Association HP (http://shadan.animetourism88.com/. Last viewed on March 7, 2017), the website HP "National Manga/Anime Museum Map" (http://sam.or.jp/map/.Last viewed on March 2, 2017), etc.

Foreign visitors to Japan, current situation of pilgrimages to anime pilgrimage sites, etc. (Estimate based on 2016 figures)

Category	Total	Europe	U.S.	Australia	Russia
A: Number of visitors to Japan (2016 performance: 1,000 persons)	**24,039**	940	1,243	445	55
B: What I did this time (Selection rate: %, multiple answers) "Visiting places associated with movies and anime."	4.8	10.3	8	8.3	9.5
C: Number of pilgrims to anime pilgrimage sites (estimate: 1,000 persons) [C=A×B]	**1,148**	97	99	37	5
D: Shopping expenditures (purchase rate: %) "Manga/anime/character related products"	13.6	21.2	14.5	16.3	12.7
E: Purchasers of anime-related goods (estimate: 1,000 persons) [E=A×D]	3,272	199	181	72	7
F: Shopping expenditures (per purchaser: 1,000 yen/person) "Manga/anime/character related products"	10.9	9.6	8.8	11.3	9.8
G: Purchase price of anime-related goods (estimate: 100 million yen) [G=E×F]	**356.4**	19.2	15.9	8.2	0.7
H: Percentage of satisfied persons among those who visited places associated with movies and anime (%, multiple answers)	90	89.7	94.9	82.7	87.3
I: What I want to do next time (Selection rate: %, multiple answers) "Visiting places associated with movies and anime."	11	14.1	13.6	13.2	15.6
J: Potential number of pilgrims to anime pilgrimage sites (estimate: 1,000 persons) [J=A×I]	**2,637**	132	169	59	9
K: Travel expenditures (2016 performance: 1,000 yen/person)	155.9	190.5	171.4	246.9	190.9
L: Expected domestic consumption by pilgrims to anime pilgrimage sites (estimate: 100 million yen) [L=J×K]	**4,112**	252	290	146	16

(Note 1) Europe: U.K., France, Spain, Germany, Italy
(Note 2) K "Travel Expenses" is the total amount spent during the stay in Japan (lodging, food and beverage, transportation, shopping, entertainment, etc.) plus the amount paid in Japan for participation in package tours.
(Note 3) B. The total number of respondents who selected "What I did this time" and "What I want to do next time" and the total selection rate were 32,365 (572.1%) and 31,285 (487.8%), respectively.
(Source) Created by DBJ on the basis of the Japan Tourism Agency's "International Visitor Survey Spending Trends in Japan 2016 (Annual Report)" and the Japan National Tourism Organization's "Number of Foreign Visitors to Japan."

(Source) Created on the basis of "Content and Regional Revitalization: 100 Years of Japanese Anime, Focusing on Pilgrimages to Anime Pilgrimage Sites," Development Bank of Japan Inc. https://www.dbj.jp/topics/region/industry/files/0000027774_file2.pdf.

Digitalization of the Content Industry

○ Digital content is expected to continue to drive growth in the global market for the content. Japan is lagging behind in digitalization, depending on the sector.

Digitalization rate of film (2022)

Film distribution/total market

- China 100%
- U.S.A. 94.3%
- Japan 71.0%

Digitalization rate of music (2022)

Music distribution/total market

- China 100%
- U.S.A. 87.1%
- Japan 52.5 %

Digitalization rate of games (2022)

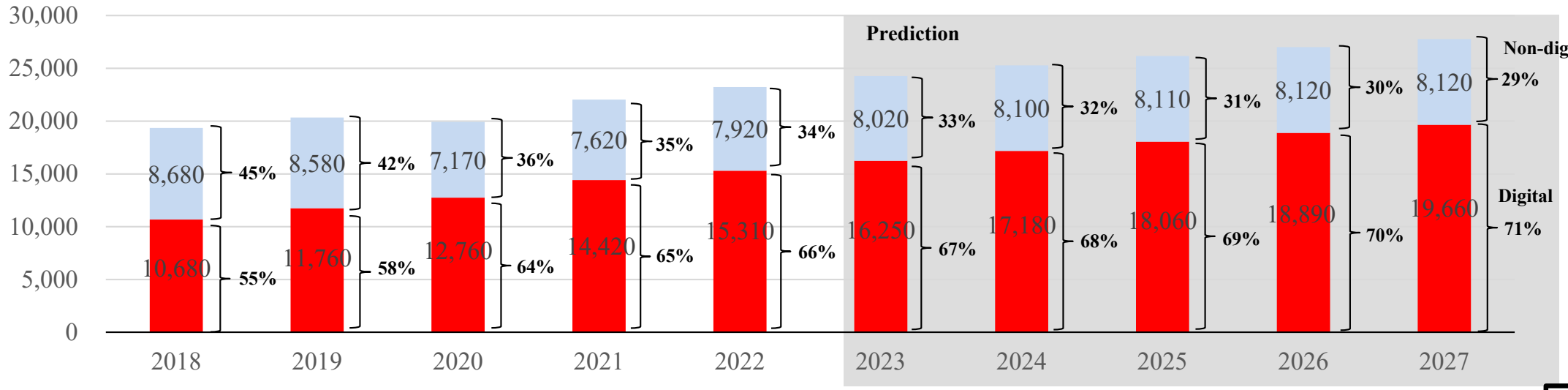
Online games + PC games + smartphone games / Total market

- China 99.3%
- Japan 90.9%
- U.S.A. 91.9%

(Source) Created on the basis of Human Media, Inc. "Japan and World Media x Content Market Database 2023" (December31, 2023).

Prospects for the digitalization in the global content industry

Global entertainment & media revenue
(100 million dollars)

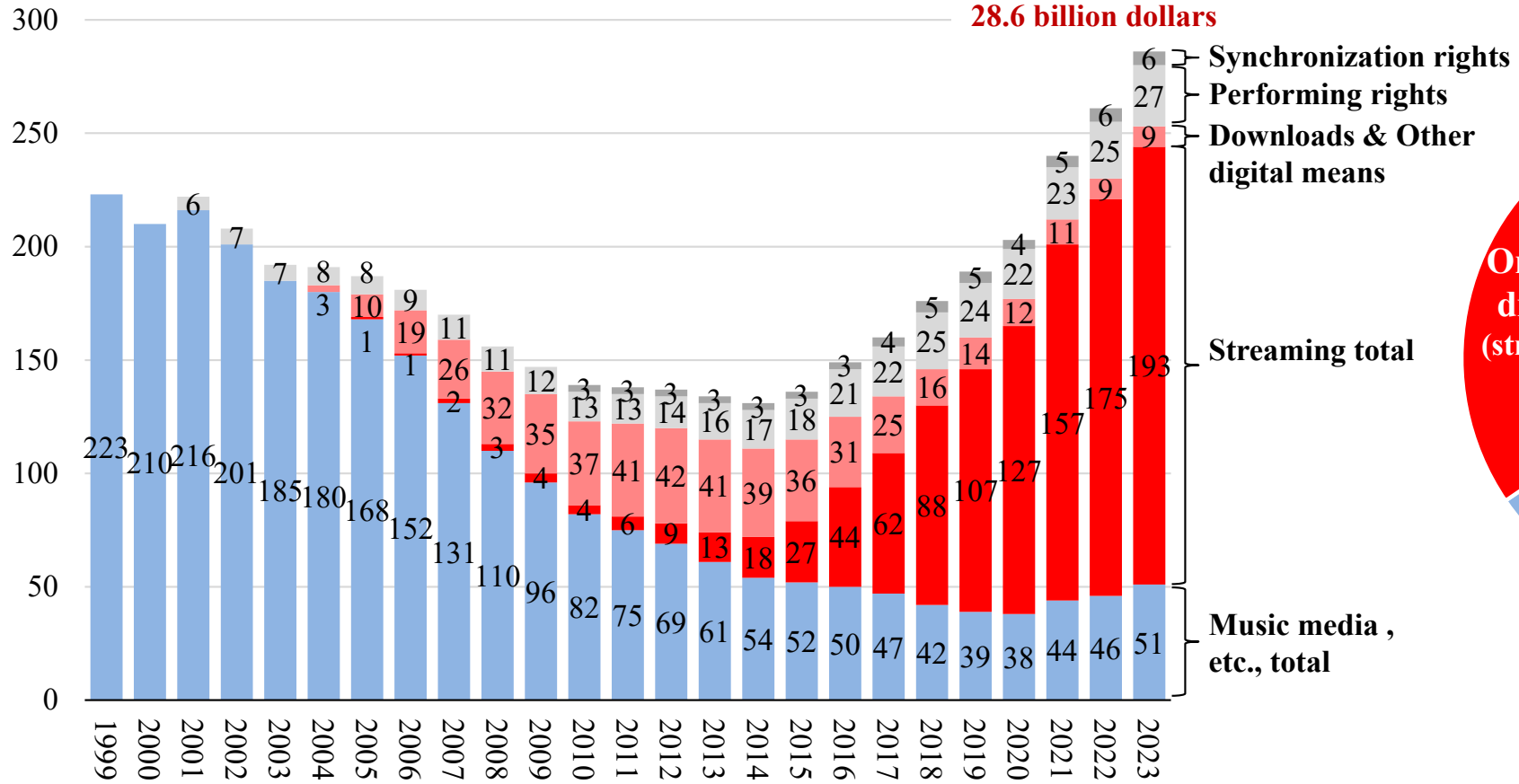


(Source) Created on the basis of PwC, "Resetting expectations, refocusing inward and recharging growth."

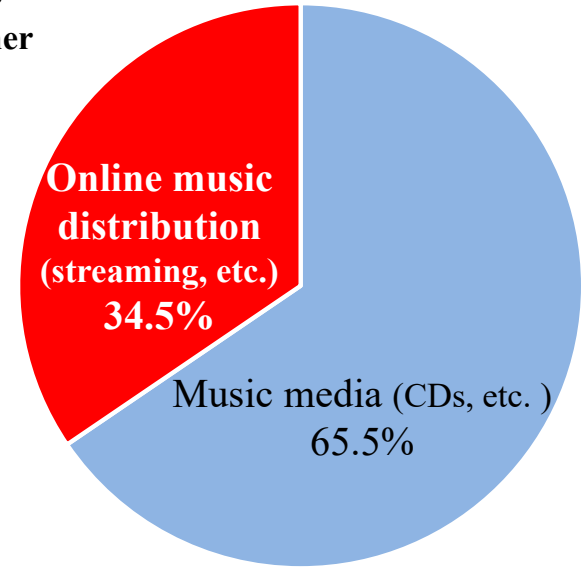
Global Music Market Trends

- ○ The global music market has reversed from contraction to 28.6 billion dollars since 2015 due to digitalization (especially streaming).
- ○ In Japan, music media (CDs, etc.) account for 66% of the music market, while online music distribution (streaming, etc.) accounts for 35%, indicating that digitalization is lagging behind.

Worldwide sales in the recorded music industry (1999 - 2023)



Japan music media and online music distribution ratio by sales amount (2023)



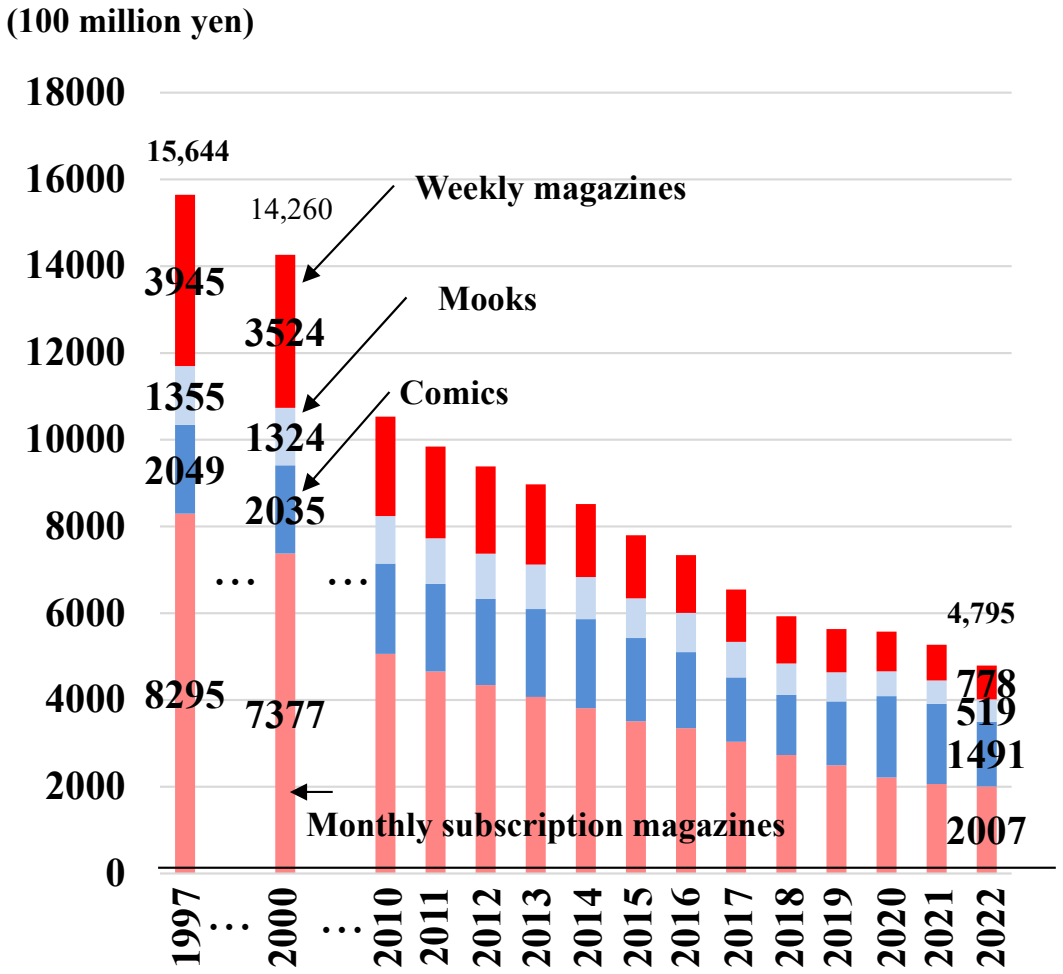
(Source) Created on the basis of "IFPI Global Music Report 2024" by the International Federation of the Phonographic Industry (IFPI) and "Japan's Recording Industry 2024" by the Recording Industry Association of Japan.

Magazine Sales and the Size of the Electronic Publishing Market in Japan

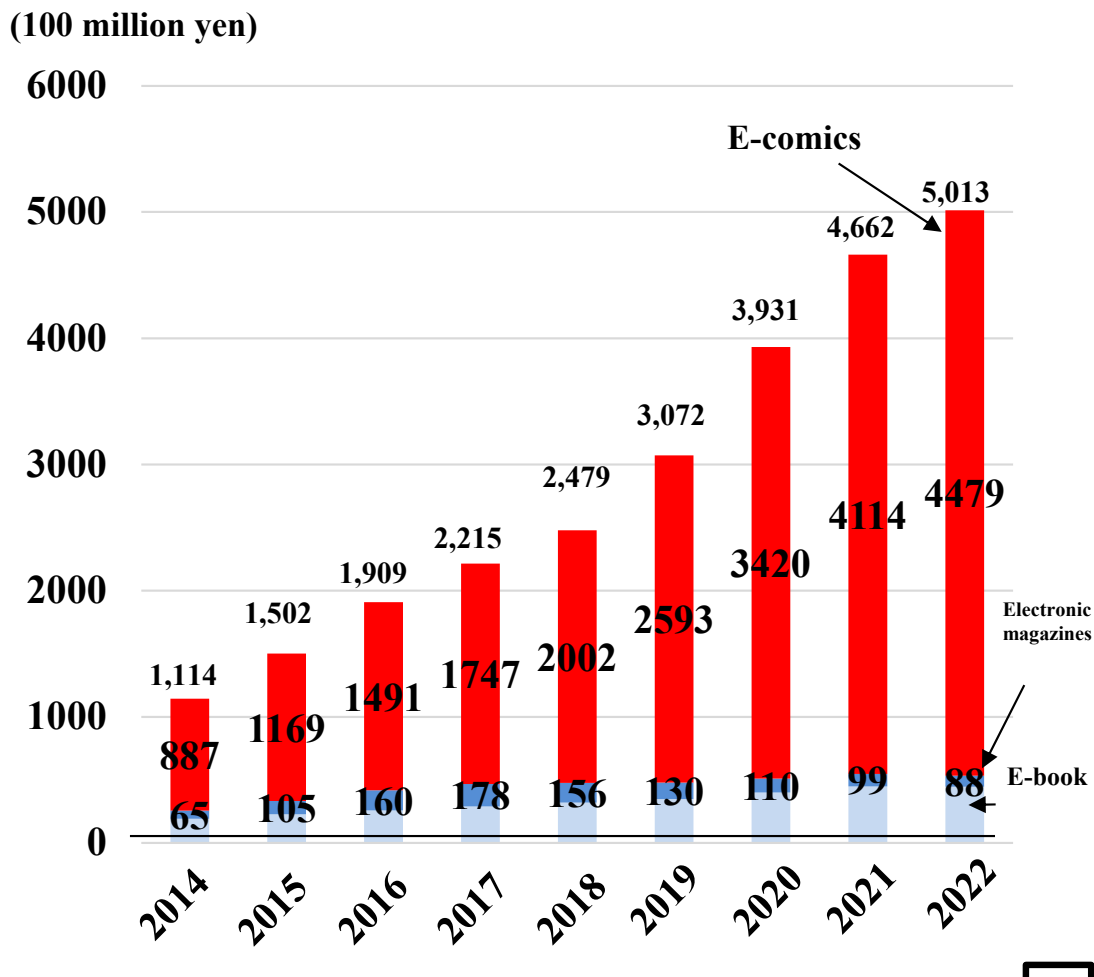
○ Magazine sales have been in steady decline since 1997 and have shrunk to one-third of the total by 2022.

○ Meanwhile, the size of the electronic publishing market has increased significantly. The majority of this growth is due to the increase in the number of e-comics that can be read on smartphones and other devices.

Change in magazine sales value



The size of the electronic publishing market in Japan

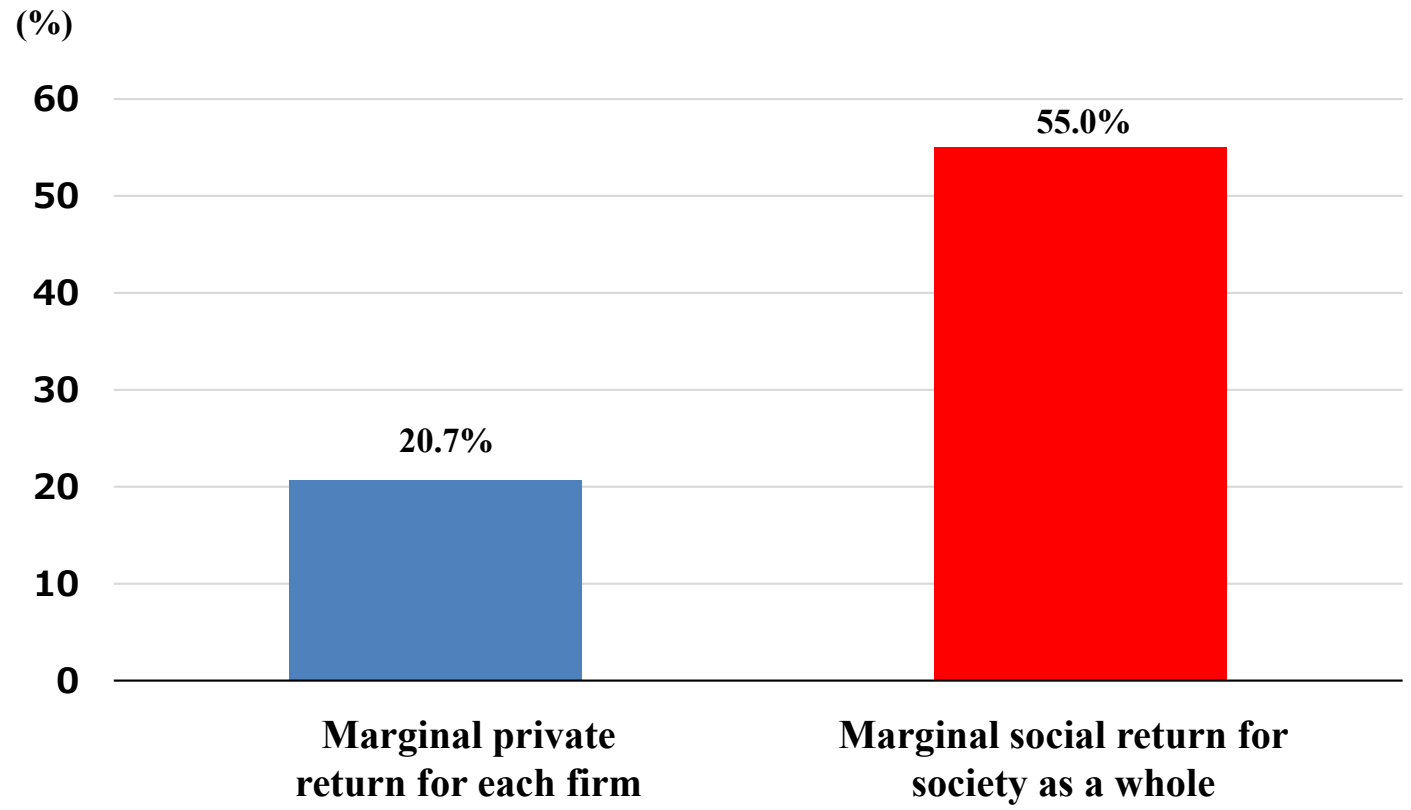


(Source) Created on the basis of "Publishing Index Annual Report 2022," Institute of Publication Science.

Magnitude of R&D Externalities

- According to a study published in a prestigious academic journal by economists from MIT, Stanford University, and other institutions, when comparing the increase in sales of an individual firm due to increased R&D expenditures of that firm (marginal private return) with the positive and negative external effects of other companies on the entire firm (marginal social return), the external effects are positive, and, the society-wide rate of return is estimated to be more than 2.5 times the private rate of return.
- For this reason, it is important that public and private sectors work together, as R&D is likely to be underinvested if left solely to private companies.

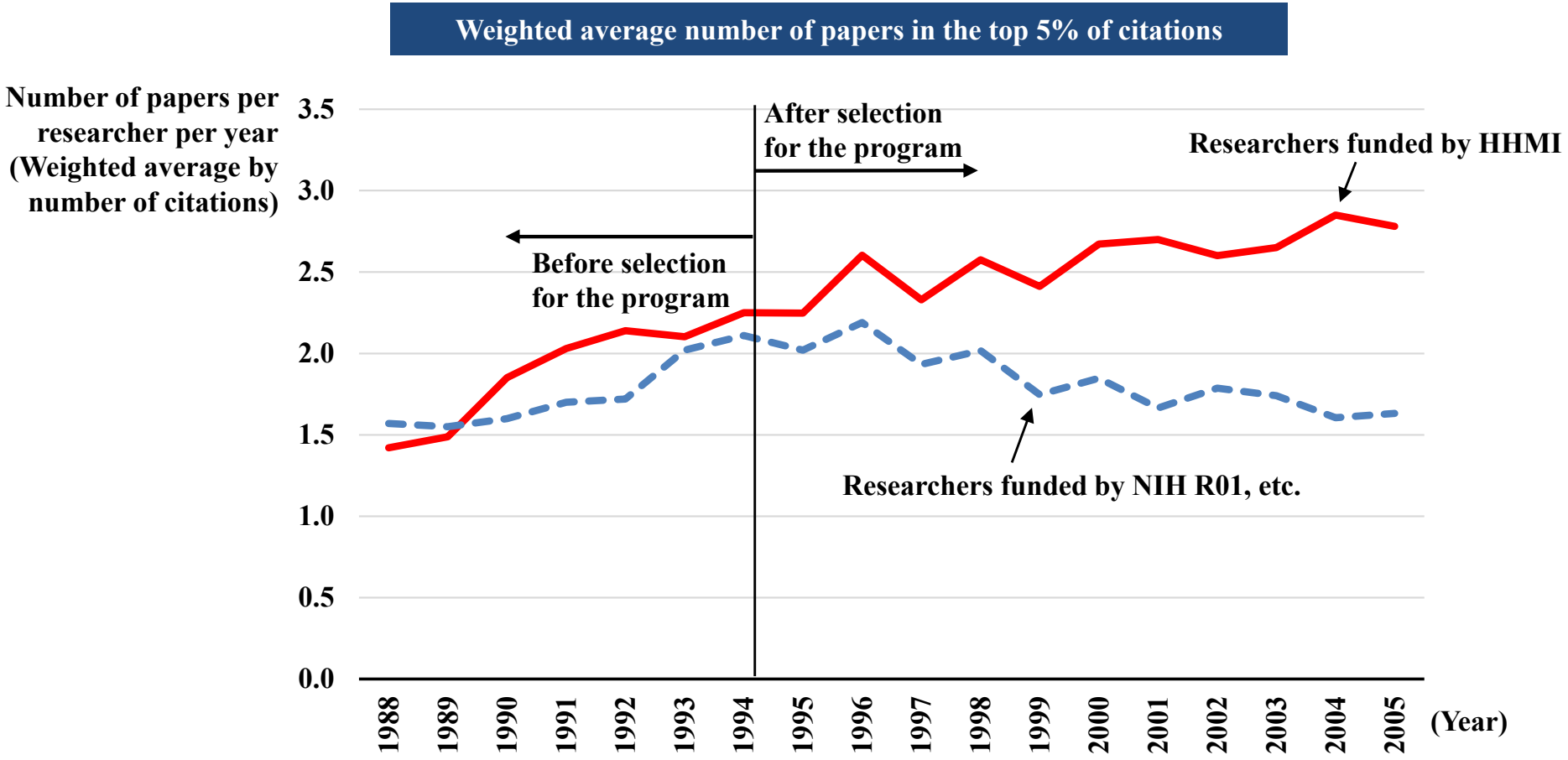
The marginal private return for each firm and the marginal social return for society as a whole of R&D investment



(Note) Study of 715 U.S. companies that have been granted patents since 1963. Estimated by adding up the positive external (spillover) effect of one company's R&D that results in the transmission of technology to other companies and the negative external (spillover) effect of other companies losing market share for their products.
(Source) Created on the basis of Bloom, N., Schankerman, M. and Van Reenen, J. (2013), Identifying Technology Spillovers and Product Market Rivalry. Econometrica, 81: 1347-1393.

Comparison of the Effectiveness of Research Grant Programs That Allow for Initial Failures Versus Normal Programs

○ A comparison of the effects of grant programs that allow for initial failure and allow for discretion in research content and long-term evaluation (the Howard Hughes Medical Institute (HHMI) Fellowship Program) and those that are project-based and evaluated at regular intervals (the R01 Research Project Grant Program of the National Institutes of Health (NIH)) shows that the former is more effective than the latter in generating twice as many top research papers (in the top 5% of citations) according to empirical studies conducted by economists at MIT and other institutions.



(Note) Comparison of the number of papers per year in the top 5% of citations of 73 scientists selected for the 1993-95 HHMI program and 393 scientists in similar fields who received an NIH R01 Grant and five prestigious scholarships selected by the authors. The effect of sampling bias due to being elected to HHMI itself is controlled.
(Source) Created on the basis of Pierre Azoulay & Joshua S. Graff Zivin & Gustavo Manso, 2011. “Incentives and creativity: Evidence from the academic life sciences," RAND Journal of Economics, vol. 42(3), pages 527-554.

(Reference) Comparison of HHMI and NIH Systems

	Howard Hughes Medical Institute (HHMI) Research fellowship program	National Institutes of Health (NIH) R01 Research Project Grant Program
Research grant period	Paid for 7 years	Paid for 3-5 years
Funding targets	Research grants are awarded to individual scientists, not to projects. It is available to adjust research content as research progresses	Research grants are awarded for projects agreed upon in advance
Review at the time of renewal of the research grants period	During the initial review, failures are tolerated, and the committee looks to see if the researchers are trying something challenging.	From the initial review, the committee determines whether the research results were achieved.
Period of transition	In the case of non-renewal in later years, the payment is not immediately suspended, but is gradually reduced over a period of two years.	If renewal is stopped, research grants is immediately suspended
Persons who received the grant	It has produced 33 Nobel laureates out of 918 participants (about 3.6%). Japanese laureates include Susumu Tonegawa (Nobel Prize in Physiology or Medicine 1987) and others	NIH as a whole has produced 168 Nobel laureates out of about 300,000 participants (about 0.06%)

(Note) Information was added and updated based on Azoulay et al. (2011), referring to the HHMI website.
(Source) Created on the basis of Pierre Azoulay and Joshua S. Graff Zivin & Gustavo Manso, 2011. “Incentives and creativity: Evidence from the academic life sciences," RAND Journal of Economics, vol. 42(3), pages 527-554, 09. and the HHMI website.