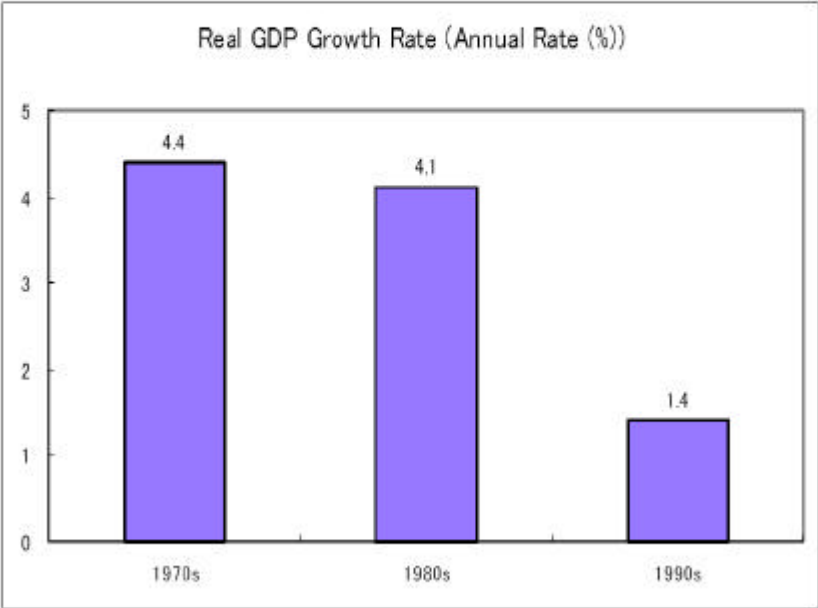


# Economic Reform

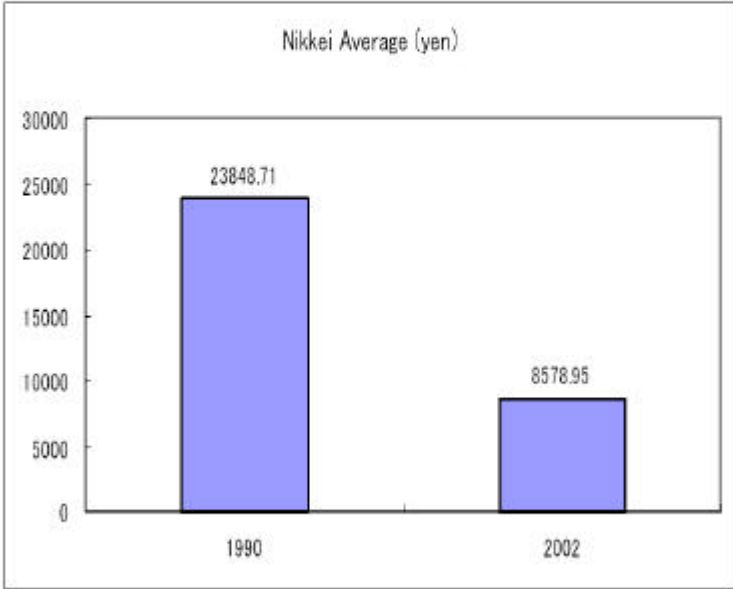
J a p a n

# Japanese Economy in 90's

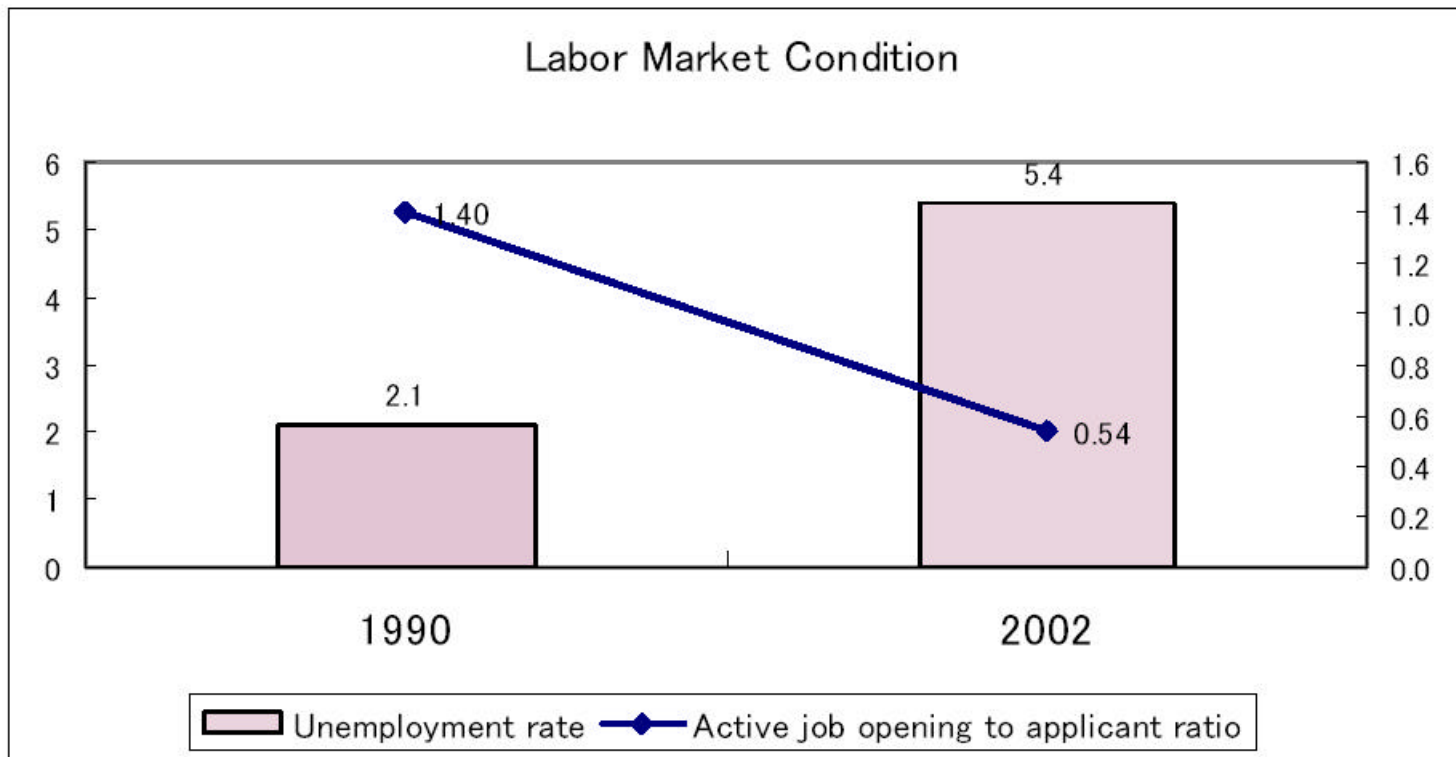
### Real GDP Growth Rate



### Stock Price (Nikkei Average)



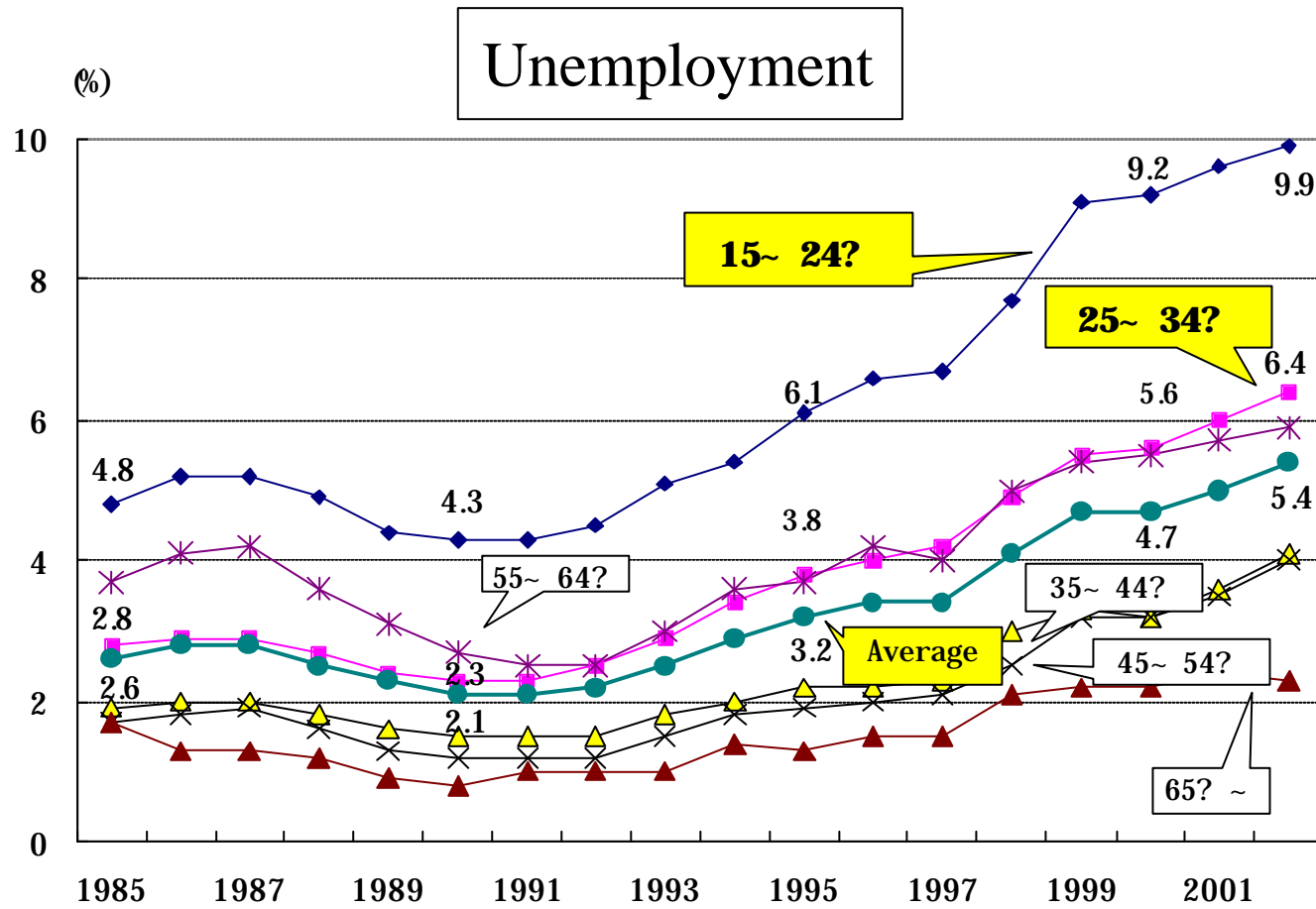
# Unemployment Rate, Active Job Opening to Applicant Ratio



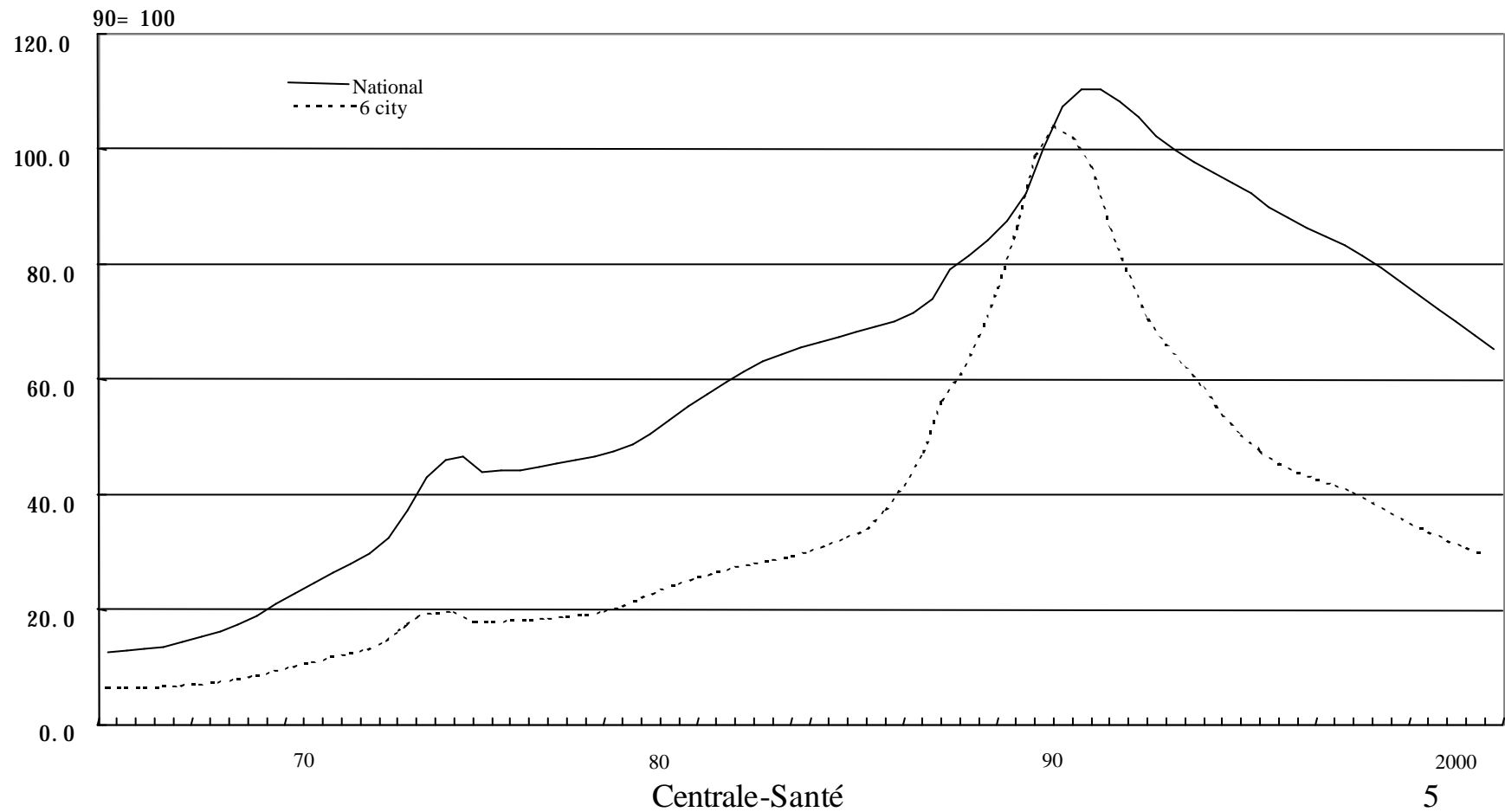
# Changing Fundamentals of Corporate Activity

- Capital: Financial Market (Risk&Profit)
- Labor : Labor Market (Mobility)
- Land : Real Estate Market (Profitability)
  
- Flexible Corporate Structure
- Governance: Internal System? market? Creditor? Labor

# Youth unemployment Rate



# Real Estate Price



# New infrastructures for New Value Addition Paradigm

- IT
  - Telecommunication Tariff, Infrastructure, Tax Incentive-
- R&D
  - Budget Priority, University Collaboration, Tax Incentive-
- Intellectual property Protection
  - Broad, Quick and Effective Protection-
- Business Start-up
  - Minimum Capital Requirement, Tax Incentive-
- Human Resources
  - IT? MOT? IP? Venture-

# IT Environment

## Internet

### Internet

21.4% 1 3 th(1999)



44.0% 1 6 th(2001)



54.5% 1 0 th(2002)

### Mobile Internet

7.5 mil (2000)



**63.3 mil** (2003)

## Broad Band

### ADSL

211 (2000)



7.4mil (2003)

### CATV Internet

0.2 mil (2000)



2.14 mil (2003)

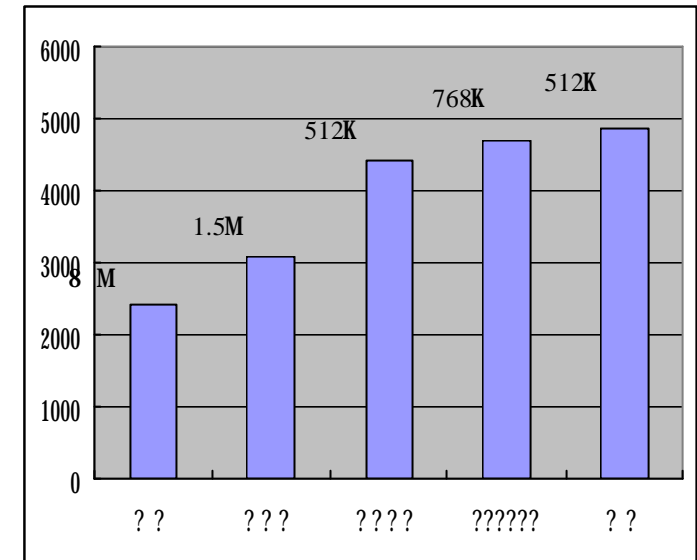
### FTH

0.01mil (2002)



**0.3mil** (2003)

## Tariff

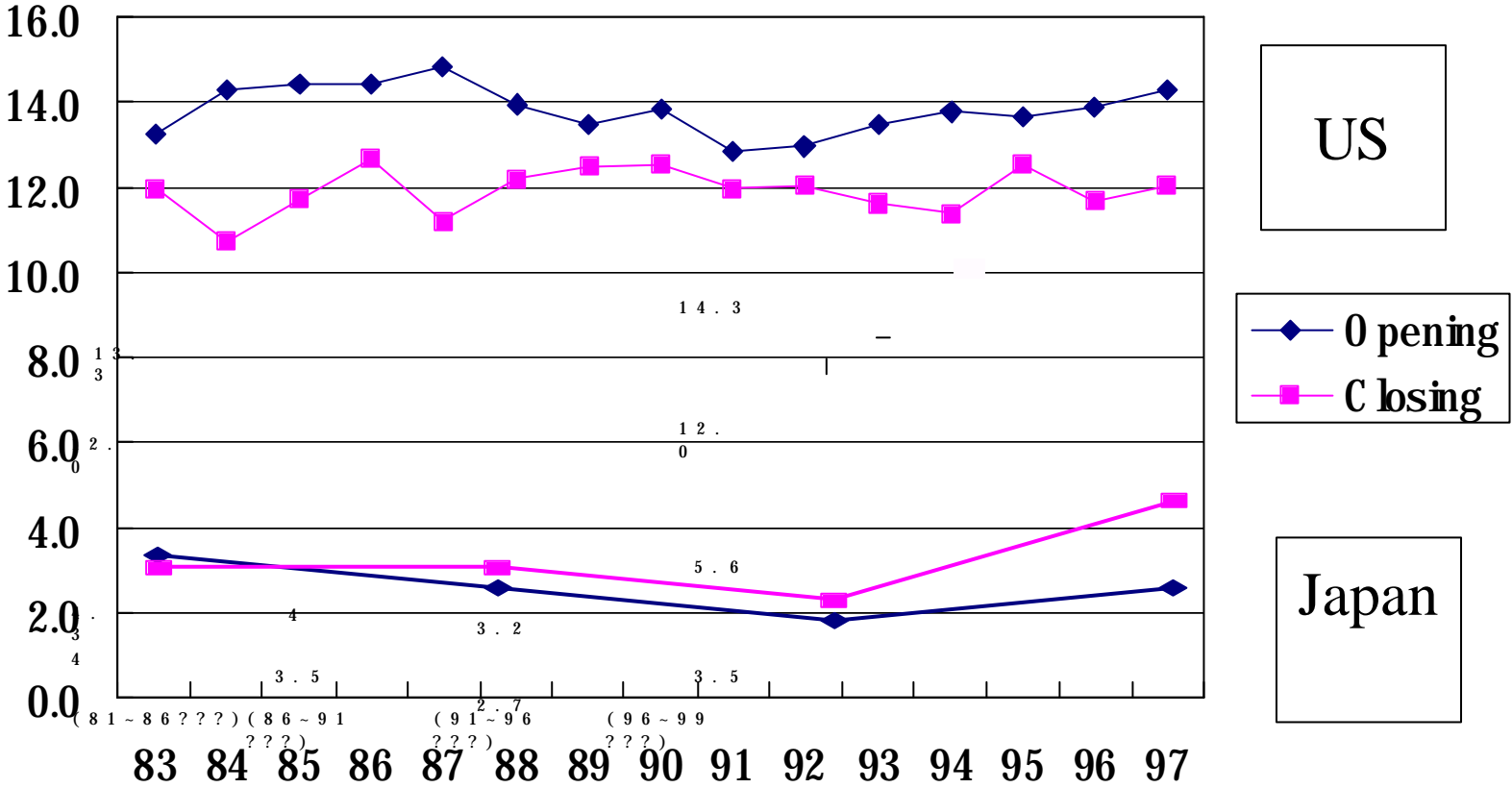


## E-Government

(2003)

- 1 Canada
- 2 Singapore
- 3 US
- 4 Denmark
- 5 Australia
- :
- 15 Japan

# Business Startup



Minimum Capital Requirement  
Tax Reform

Centrale-Santé

# Deflation

- **Sustainable Growth in Domestic Demand**
  - Government investment(Public Work)
  - Consumer Spending
- **Financial Policy**
  - Public Work
  - Transfer to Local Government
  - Tax
- **Monetary policy**
  - Non performing loan
  - Money Supply(Inflation Target)?

# Deflationary Pressure Around the World

## (1) Japan

	(annual average, %)				
	1971-1980	1981-1985	1986-1990	1991-1995	1996-2000
RealGDP growth rate*	4.4	3.3	4.9	1.4	1.5
Inflation rate (CPI)	9.0	2.8	1.4	1.4	0.3

\* The 1971-1980 GDP growth rate is based on the former 68SNA (1990 standards).

## (2) US

	(annual average, %)				
	1971-1980	1981-1985	1986-1990	1991-1995	1996-2000
RealGDP growth rate	3.2	3.1	3.2	2.4	4.1
Inflation rate (CPI)	7.8	5.5	4.0	3.1	2.5

## (3) UK

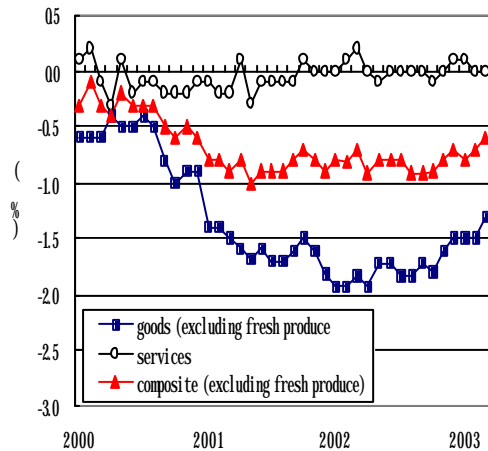
	(annual average, %)				
	1971-1980	1981-1985	1986-1990	1991-1995	1996-2000
RealGDP growth rate	1.9	2.1	3.3	1.6	2.8
Inflation rate (CPI)*	13.7	7.2	5.9	3.4	2.7

\* The inflation rate for 1971-1987 uses the retail price index and the consumer price index is used for 1988 onward.

## (4) China

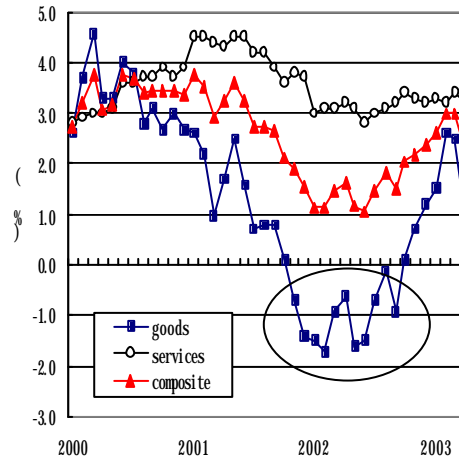
	(annual average, %)				
	1971-1980	1981-1985	1986-1990	1991-1995	1996-2000
RealGDP growth rate	6.3	10.8	7.9	12.0	8.3
Inflation rate (CPI)	-	-	10.7	13.1	1.9

Japan: National Consumer Price Index (compared to the same month the previous year)



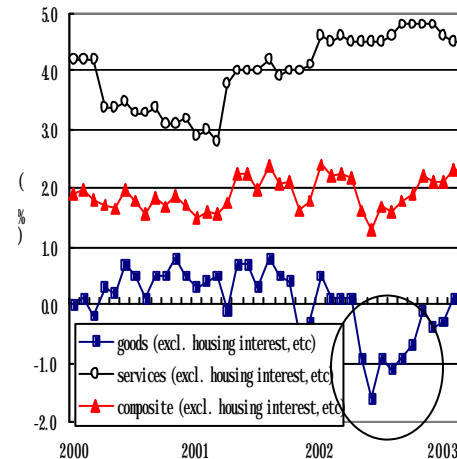
Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications.

US: Consumer Prices (compared to the same month the previous year)



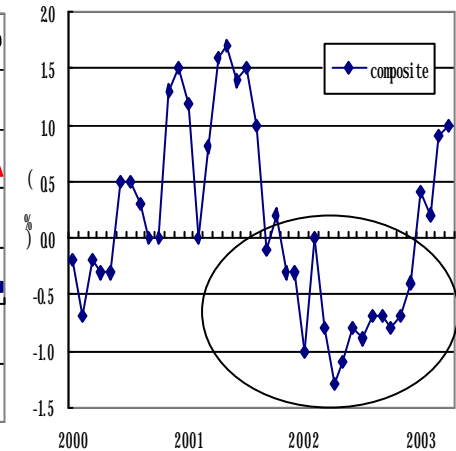
Source: US Department of Labor.

UK: Consumer Price Index (compared to the same month the previous year)



Source: UK Office for National Statistics.

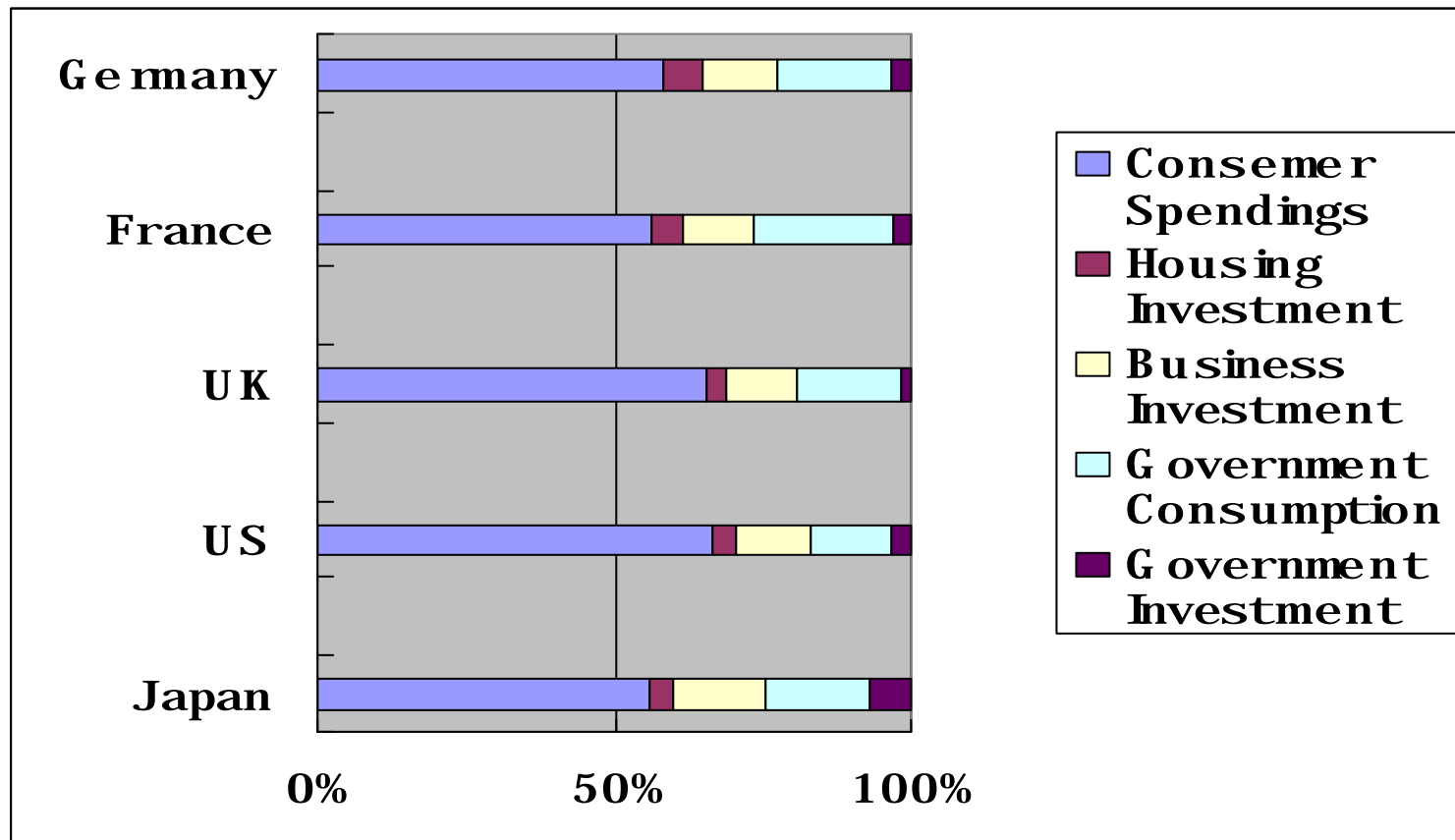
China: Consumer Price Index (compared to the same month the previous year)



Source: Foreign Economic Data.

# Demand Structure

- Consumer Spending: Japan(55.2%), US(66.2%),UK(67.2%)



# Consumer Spending (Japan and US)

## Japan

	1975	1980	1985	1990	1995	2000
<b>Durable</b>	<b>4.92%</b>	<b>5.76%</b>	<b>5.92%</b>	<b>6.19%</b>	<b>5.92%</b>	<b>6.03%</b>
Auto	1.48%	1.53%	1.86%	2.14%	2.12%	2.29%
Furniture	3.06%	2.30%	2.30%	2.15%	1.94%	1.52%
<b>Nondurable</b>	<b>58.35%</b>	<b>51.12%</b>	<b>46.76%</b>	<b>45.56%</b>	<b>41.77%</b>	<b>39.05%</b>
Foods	36.01%	30.61%	27.42%	25.64%	23.39%	21.99%
Clothing	10.35%	8.72%	7.70%	8.00%	6.54%	5.30%
Fuel	0.93%	1.45%	1.62%	1.46%	1.54%	1.41%
<b>Service</b>	<b>36.74%</b>	<b>43.12%</b>	<b>47.32%</b>	<b>48.25%</b>	<b>52.30%</b>	<b>54.92%</b>
Amusement	4.54%	4.86%	5.27%	5.96%	5.98%	5.99%
Transportation	1.92%	2.15%	2.26%	2.48%	2.37%	2.32%
Communication	1.65%	2.22%	2.27%	2.25%	2.24%	3.06%
Health	1.92%	1.85%	1.63%	1.81%	1.76%	2.10%
Heat	5.33%	6.50%	7.17%	6.13%	6.59%	7.10%
Housing	4.68%	4.76%	4.76%	4.87%	6.60%	6.23%
Loan	3.35%	5.86%	8.14%	8.19%	9.79%	11.48%

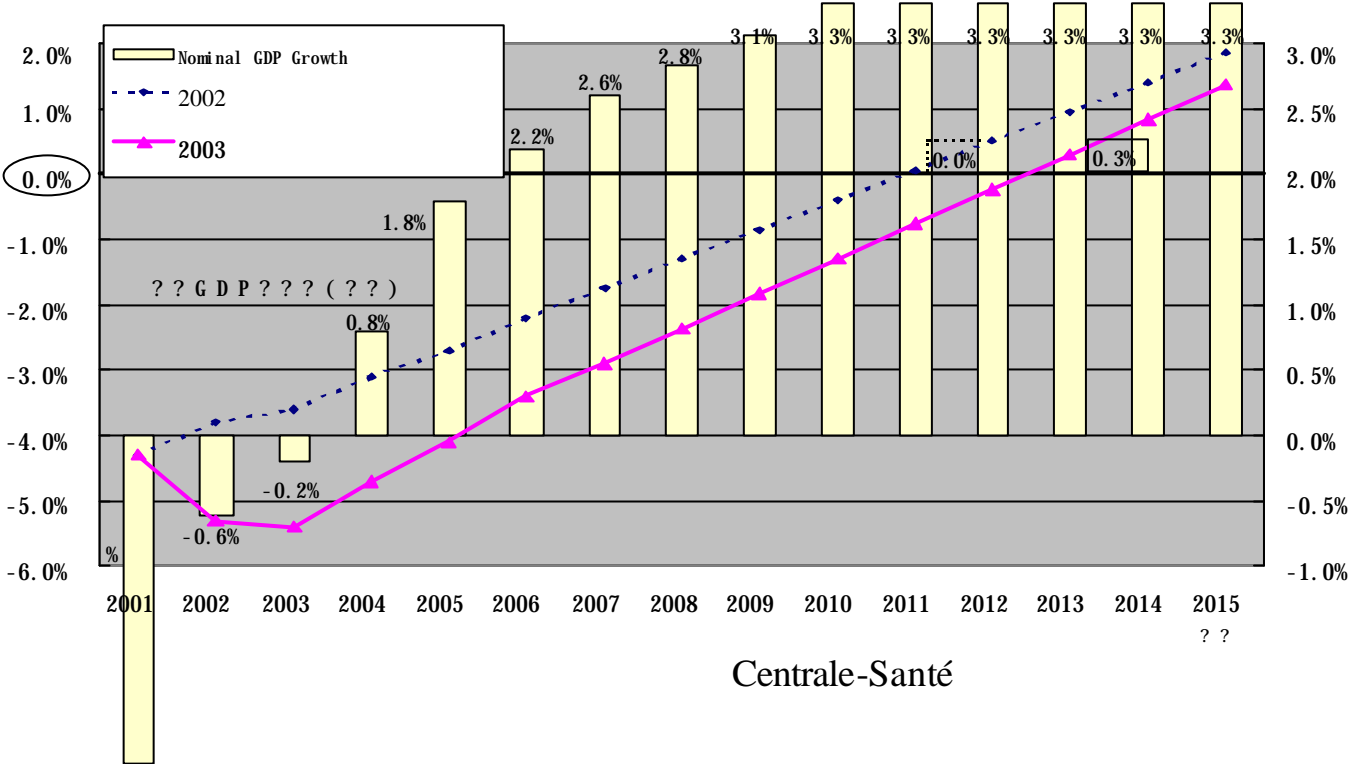
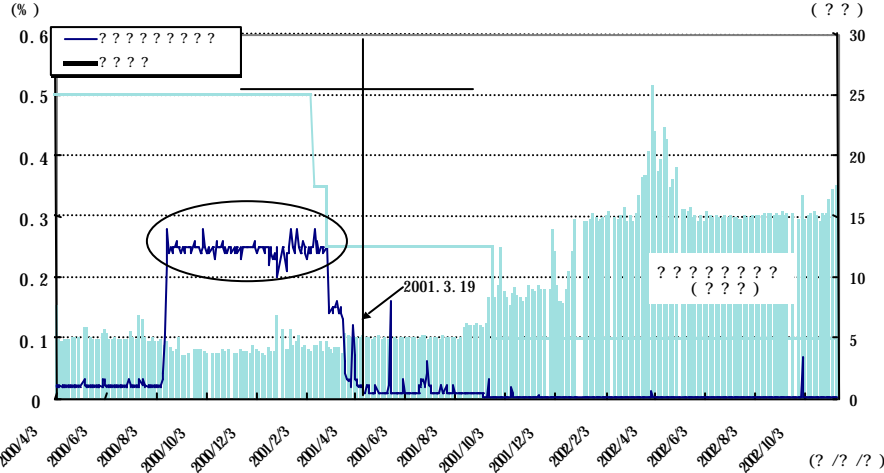
## US

	1960	1970	1980	1990	2000
<b>Durable</b>	<b>13.04%</b>	<b>13.10%</b>	<b>12.15%</b>	<b>12.20%</b>	<b>12.18%</b>
Auto	5.92%	5.47%	4.94%	5.39%	5.15%
Furniture	5.41%	5.51%	4.92%	4.47%	4.57%
Others	1.71%	2.12%	2.29%	2.34%	2.46%
<b>Nondurable</b>	<b>46.00%</b>	<b>41.91%</b>	<b>39.48%</b>	<b>35.52%</b>	<b>29.57%</b>
Foods	24.78%	22.16%	20.19%	16.62%	14.23%
Clothing	8.11%	7.36%	6.09%	5.33%	4.74%
Fuel	4.77%	4.06%	5.79%	3.14%	2.72%
Others	8.33%	8.33%	7.41%	7.44%	7.87%
<b>Services</b>	<b>40.97%</b>	<b>44.99%</b>	<b>48.37%</b>	<b>55.27%</b>	<b>58.25%</b>
Housing	14.49%	14.48%	14.47%	15.28%	14.25%
Light&Heat	6.10%	5.85%	6.48%	5.94%	5.73%
Transportation	3.37%	3.65%	3.67%	3.70%	4.05%
Health	5.29%	7.77%	10.28%	14.11%	14.81%
Amusement	2.09%	2.32%	2.43%	3.15%	3.81%
Others	9.62%	10.92%	11.04%	13.09%	15.60%

# Financial Policy and Monetary Policy

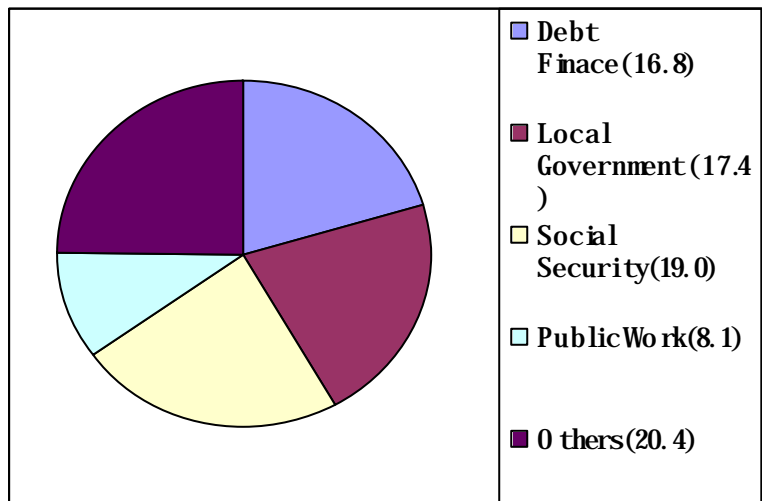
**Government Debt**

	1993	1995	2000	2002
Japan	69.0	80.4	123.2	141.5
US	75.8	74.5	59.4	58.0
UK	58.7	60.6	53.8	50.9
Germany	47.4	57.1	60.8	62.5
France	51.6	59.3	64.1	65.4
Italy	117.9	123.1	110.8	105.2
Canada	116.2	119.8	103.2	95.1



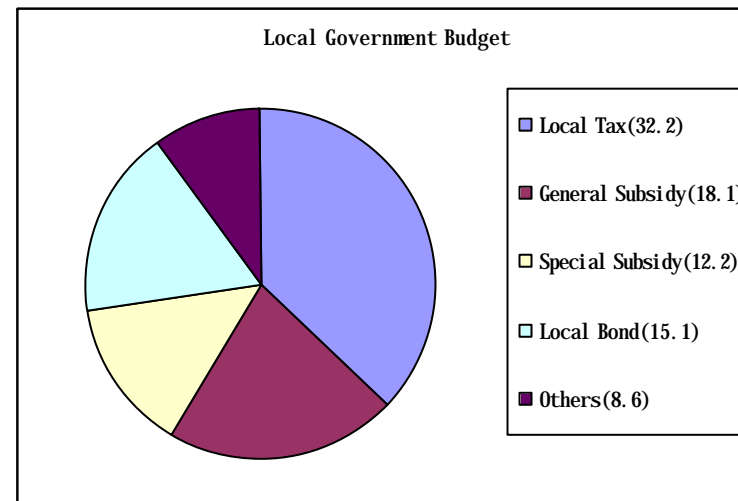
# Central Government and Local Government

## Central Government Budget



(trillion Yen)

## Local Government Budget

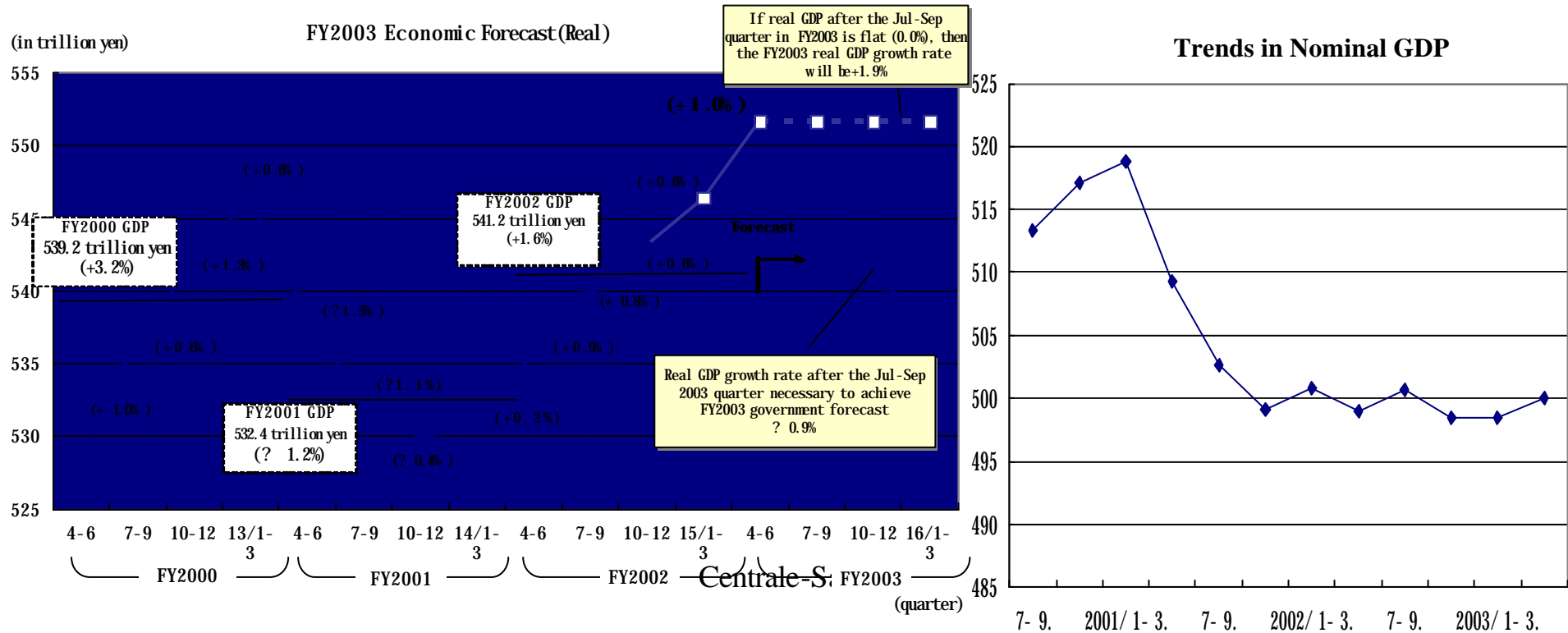


(trillion Yen)

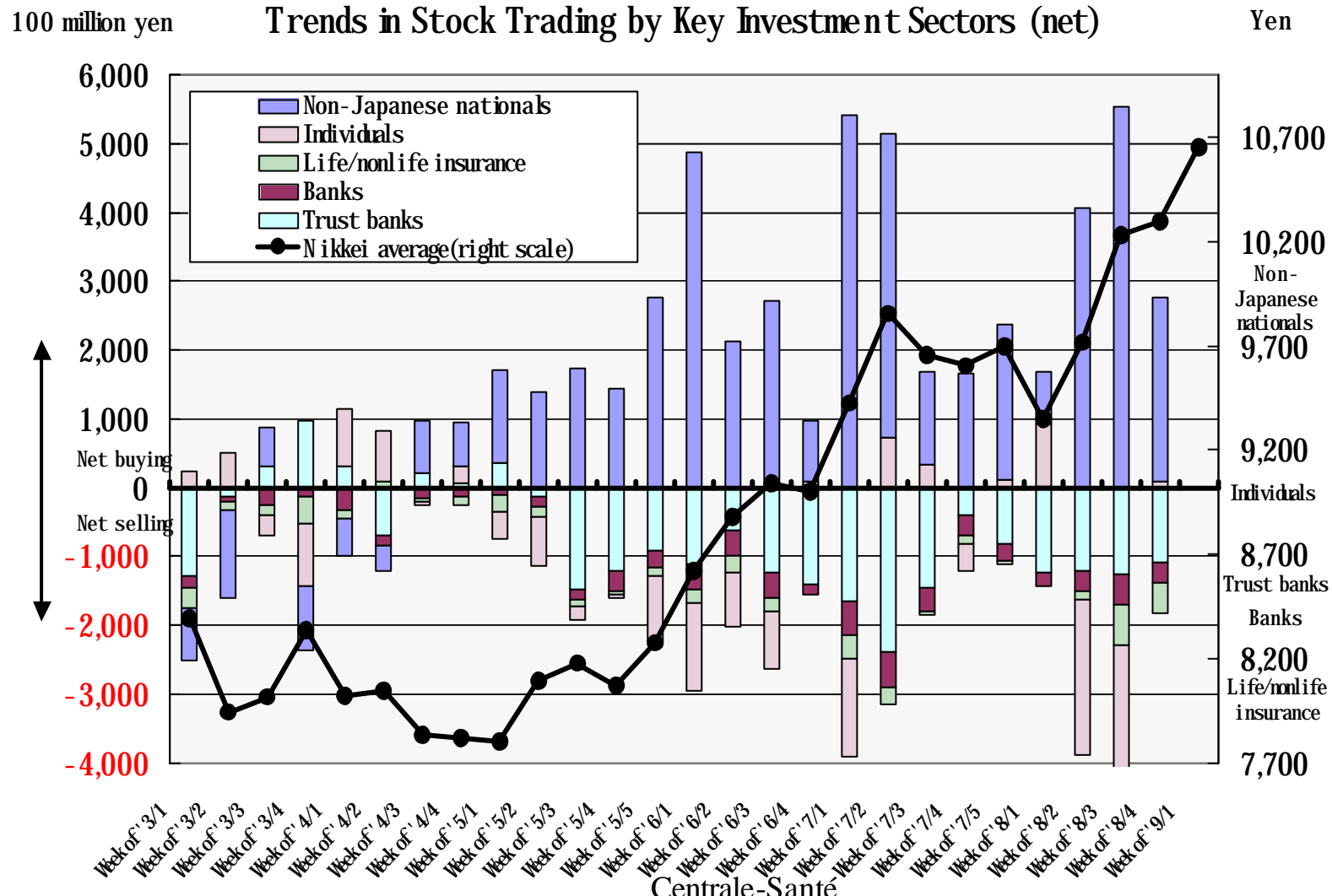
# Trends in GDP

	Government Economic Outlook		Seasonally adjusted real growth (compared to previous quarter)						
	FY2002 (Estimate)	FY2003 (Forecast)	FY2000	FY2001	FY2002	2002:Jul-Sep	Oct-Dec	2003:Jan-Mar	Apr-Jun
Real GDP	+ 0.9	+ 0.6	+ 3.2	? 1.2	+ 1.6	+ 0.8	+ 0.6	+ 0.6	+ 1.0
(Private consumption)	+ 1.5	+ 0.4	+ 1.1	+ 1.5	+ 1.4	+ 0.7	+ 0.0	+ 0.4	+ 0.4
(Residential investment)	? 2.6	? 2.0	? 0.2	? 8.0	? 2.9	? 0.1	? 0.8	? 1.0	? 0.3
(Equipment investment)	? 4.0	+ 1.8	+ 10.0	? 3.6	? 0.1	+ 1.9	+ 3.5	+ 2.5	+ 4.7
(Government consumption)	+ 2.4	+ 1.9	+ 4.8	+ 2.2	+ 1.9	+ 0.8	? 0.0	+ 0.4	? 0.1
(Public investment)	? 4.1	? 4.4	? 7.4	? 4.9	? 6.3	? 2.8	? 2.5	? 3.2	? 1.9
(Net Exports) *	+ 0.5	+ 0.1	+ 0.2	? 0.5	+ 0.8	? 0.2	+ 0.4	+ 0.0	+ 0.2
Nominal GDP	? 0.6	? 0.2	+ 1.1	? 2.5	? 0.7	+ 0.3	? 0.5	+ 0.0	+ 0.3
Deflator	? 1.5	? 0.8	? 2.0	? 1.3	? 2.3	? 1.9	? 2.4	? 3.5	? 2.5

\* indicates the contribution to changes in GDP.



# Trends in the Stock Market



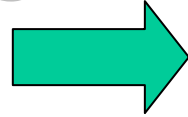
\* Nikkei Stock Average is the weekly average.

Source: Tokyo Stock Exchange, Inc.

Market participants (62 companies) with funds of 3 billion yen or more are included in the total.

# Improved Investment Environment through Regulatory Reforms

## Deregulation by Sector



Competitive market brings lowered

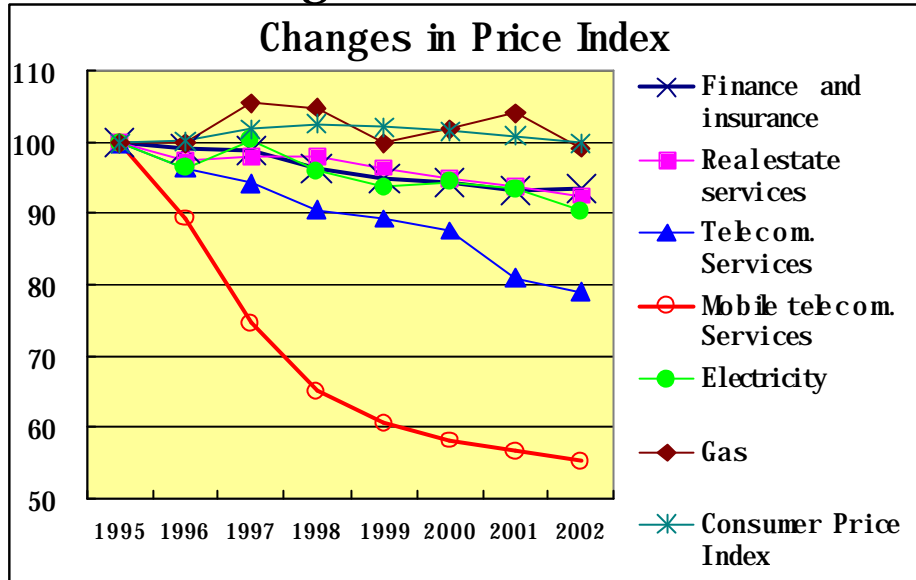
After the latter half of the 90s, entry barriers have been deregulated in the finance, telecommunications, energy, and distribution sectors.

### Cases of Foreign Investment

Finance: GE Edison Insurance, Nikko Citigroup

Telecom: Vodafone

Distribution: ToysRus, Walmart



## Business Environment Improvement

Amendment of the Commercial Code (e.g., introduction of corporate divestiture

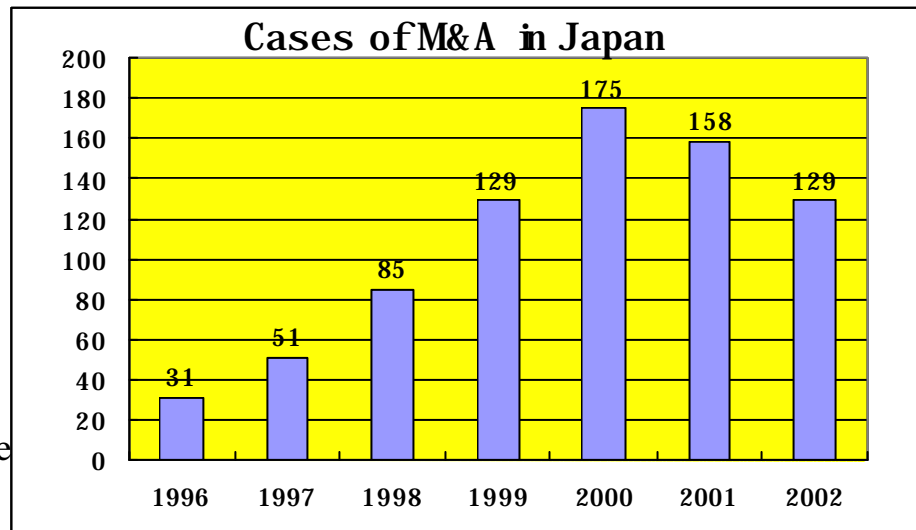
system)

and insolvency laws to promote business

reform in industry

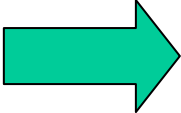


Accelerate corporate realignment through M&A



## Consistency with International Accounting Standards & Auditing System

Implement measures consistent with International Standards to ensure greater accounting transparency and reliance



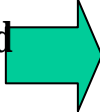
Reduce due diligence costs by developing consistency with international evaluation criteria

1999	Review the consolidation range, introduce cash-flow statement and tax-effect accounting, and review R&D expenses.
2000	Introduce retirement-benefit accounting and financial-instruments fair value accounting.
2005	Introduce impairment accounting.
Under examination	Business-combination accounting.

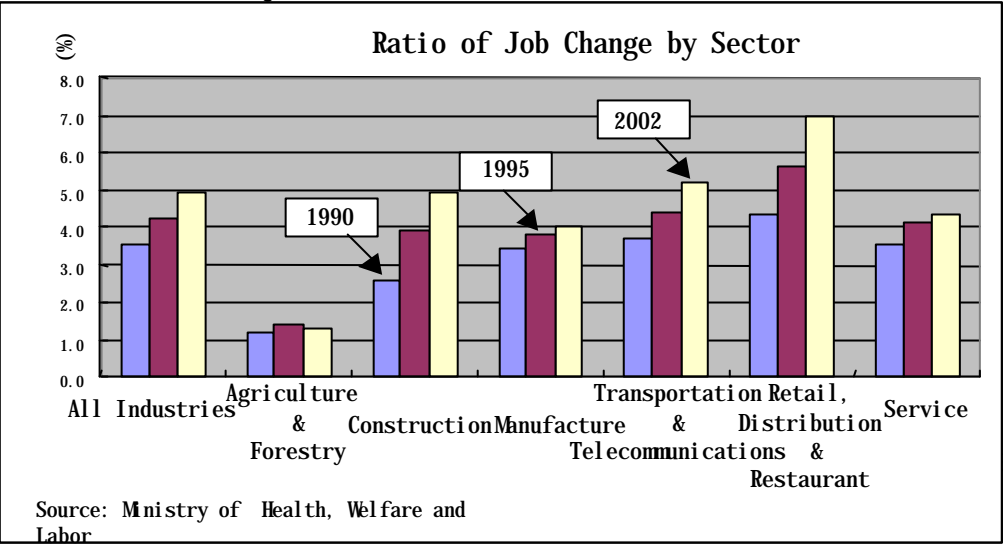
## Labor

### Mobility

The Labor Standards Law has been revised to promote a more flexible employee system and the Defined Contribution Pension system has been started to



The improved visibility of prompting labor mobility and foreign capital companies leads to foreign businesses being able to recruit human resources more easily.



**Number of foreign companies in the top 100 popular companies for university students in Japan**

Humanities Students  
 1995: 1 ? 2002: 12

Science Students  
 1995: 9 ? 2002: 24

# Program for Promoting FDI into Japan

~ Japan will develop into an attractive country for foreign businesses~

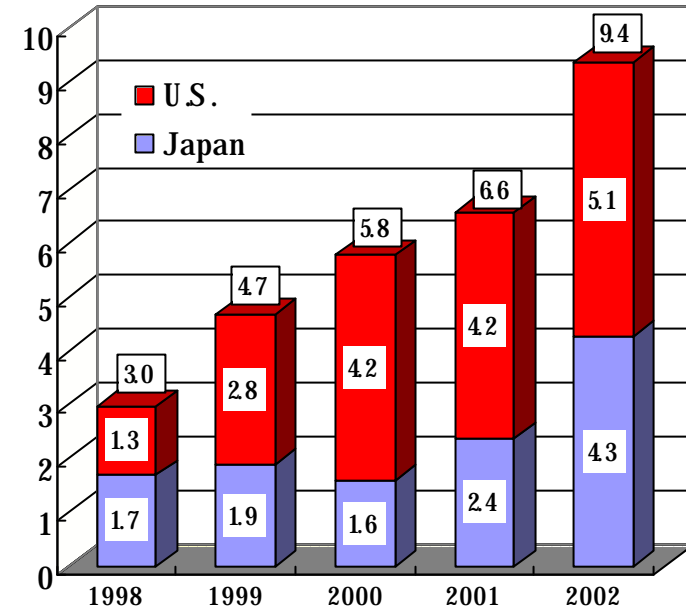
**Government Policy:**  
**Doubling the cumulative amount of FDI in the next five years**

**General Policy Speech by Prime Minister Koizumi (January 2003)**  
 "FDI in Japan will bring new technology and innovative management methods, and will also lead to greater employment opportunities. Rather than seeing FDI as a threat, we will take measures to present Japan as an attractive destination for foreign firms with the aim of doubling the cumulative amount of FDI in five years."



**Program for Promoting FDI: 5 Priorities, 74 Measures**

**Trends in Inward FDI Stocks in Japan**



Source: Bank of Japan

(1) <u>Reviewing Administrative Procedures</u> ? Make the administrative procedures simpler, faster and clearer; clarify legal interpretation.		
(2) <u>Improve business environment</u> Facilitate cross-border M&As; effectively utilize debt-equity swaps depending on the nature of the target of the purchase; secure transparency and reliability of corporate information, improve corporate governance; increase entry by the private sector to public services.	(3) <u>Improve employment and living environments</u> Meet the need for diverse ways of working; improve systems related to entry and residence of foreign nationals; make donations to qualified international schools tax-deductible.	(4) <u>Development of local and national framework</u> Support local governments' autonomous efforts to attract FDI; utilize special zones for structural reform system; utilize the Office of the Trade and Investment Ombudsman (OTO); provide information and support procedures by JETRO.
(5) <u>Disseminate information within Japan and abroad</u> ? Promotion by national leaders, diplomatic missions abroad, <del>Central-San</del> public relations on the attractiveness of Japan and success stories of foreign firms in Japan, and on the Program for the Promotion of Foreign Direct Investment in Japan.		

# ***High Potential for FDI into Japan***

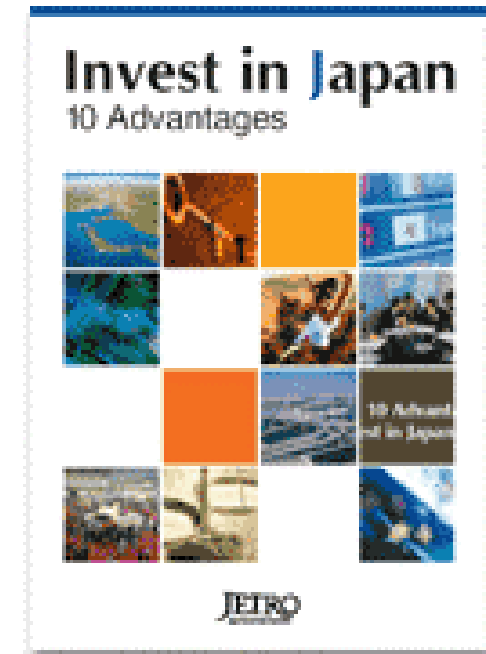
## **10 Advantages of Investing in**

### **Japan**

( Reference: J E T R O brochure “Invest in

Japan”)

- The world’s second largest market (15% of the world’s GDP)
- The business hub of Asia’s growing economies  
( 2 hours to Seoul, 2.5 hours to Shanghai, 5 hours to Bangkok)
- Abundant highly skilled human resources
- Innovative high-level technologies
- Efficient infrastructure for dynamic business activities
- Reformed legal framework for investment
- Successful investment in Japan
- Lowered business costs
- Abundant market opportunities
- Excellent public safety and comfortable living environment



# Policy Making Process Reform

- Change in Election System and Political Fund Law(1994)
- Administrative procedure Law(1994)
- National Public Service Law(2000)
- Central Government Reform(2001)
- Independent Administrative Institutions(2001)
- Freedom of information Law(2001)
- Judicial System reform(2002)

# METI

- **Name**
  - Ministry of Commerce and Industry
  - Ministry of international trade and industry
  - Ministry of Economy, Trade and Industry
  - (Research Institute of Economy, Trade and Industry)
- **History**
  - Reconstruction of Japanese industry
  - Internationalization
  - Economic reform
- **International Exposure**
- **Political Capital**
- **Access to critical Information**
- **Human Resources**
- **Position in political System**