

Basic Policy on Economic and Fiscal Management and Reform 2018

〔 June 15, 2018
Cabinet Decision 〕

The “Basic Policy on Economic and Fiscal Management and Reform 2018” is as described in the Attachment.

(Attachment)

Basic Policy on Economic and Fiscal
Management and Reform 2018
– Realizing Sustainable Economic Growth
by Overcoming the Decreasing Birth Rate
and Aging Population –

June 15, 2018

Basic Policy on Economic and Fiscal Management and Reform 2018

(Table of contents)

Chapter 1 Current situation of the Japanese economy..... 1

1. Current situation and challenges of the Japanese economy, and direction of actions
 - (1) Current situation and challenges of the Japanese economy
 - 1) Current economic and fiscal condition
 - 2) Future challenges
 - (2) Direction of actions
 - 1) Raising potential growth rate
 - 2) Consumption tax rate hike and smoothing of demand fluctuation
 - 3) Commitment to new fiscal consolidation targets that can be simultaneously achieved with economic revitalization
 - 4) Promotion of regional reinvigoration and revitalization
2. Reconstruction from the Great East Japan Earthquake, etc.
 - (1) Reconstruction and revitalization after the Great East Japan Earthquake
 - 1) Seamless support for affected people and revival of industries and livelihoods
 - 2) Post-nuclear disaster reconstruction and revitalization
 - (2) Reconstruction from the Kumamoto Earthquake and other natural disasters

Chapter 2 Major actions for realizing a strong economic growth..... 10

1. Realization and expansion of human resources development revolution
 - (1) Human resources investment
 - 1) Free early childhood education
 - 2) Free higher education
 - 3) University reform
 - 4) Recurrent education
 - (2) Active participation through diversified human resources
 - 1) Promotion of active participation by women
 - 2) Promotion of employment of the elderly
 - 3) Promotion of employment of disabled people

2. Realization and expansion of supply system innovation
 - (1) Basic concept
 - (2) Changes brought by Fourth Industrial Revolution technologies and new developments: “Society 5.0”
 - (3) Priority areas to be addressed for the realization of “Society 5.0” and Flagship Project as a driving force for change
 - (4) Creating a foundation for economic innovation
 - (5) Early establishment of innovation ecosystem
 - (6) Framework for promoting future growth strategies

3. Promotion of work-style reform
 - (1) Improvement in long working hours
 - (2) Realization of equal pay for equal work
 - (3) Establishment of the Sophisticated Professional System
 - (4) An increase in the minimum wage, etc.

4. Acceptance of new human resources from overseas
 - (1) Creation of new status of residence for foreign people having a certain level of professional and technical skills
 - (2) Promotion of further acceptance of foreign human resources with the current status of residence
 - (3) Development of the environment for accepting foreign human resources

5. Initiatives for important issues
 - (1) Promotion of regulatory reform
 - (2) Promotion of investment and innovation
 - 1) Promotion of science and technology and innovation
 - 2) Improvement of the quality of education, etc.
 - 3) Focus on public investment to strengthen growth potential
 - (3) Promotion of economic partnership
 - 1) Expansion of a new economic order
 - 2) Promotion of overseas development
 - (4) Response by economic sector
 - 1) Building a new era of agriculture, forestry and fisheries
 - 2) Realization of a tourism nation
 - 3) Realization of a cultural and artistic nation
 - 4) Realization of a sports nation
 - 5) Measures for the 2020 Tokyo Olympics and Paralympics
 - 6) Revitalization of the existing housing market
 - 7) Promotion of space development and utilization

6. Promotion of regional revitalization
 - (1) Creating a new flow of people to regional areas
 - (2) Support for SMEs and microenterprises
 - (3) Community development and revitalization
 - (4) Support for motivated local governments and promotion of decentralization reform
 - (5) Balanced development of national land appropriate to the coming era
 - (6) Developing Okinawa

7. Achieving a safe and secure life
 - (1) Enhancing diplomacy and security
 - 1) Diplomacy
 - 2) Security
 - (2) Resources and energy, environmental countermeasures
 - 1) Resources and energy
 - 2) Environmental measures
 - (3) Promoting disaster prevention and reduction, as well as national resilience
 - (4) The safety and security of life
 - 1) Public order and the administration of justice
 - 2) Crisis management
 - 3) Creation of a society based on mutual assistance and peaceful coexistence
 - 4) Universal health care coverage
 - 5) Consumer safety and security
 - (5) Measures to address the decreasing birth rate, support for children and child-raising

Chapter 3 Promotion of "Integrated Economic and Fiscal Reforms" 66

1. Progress towards and evaluations of Integrated Economic and Fiscal Reforms

2. The consumption tax rate hike on October 1, 2019 and curbing demand fluctuations
 - (1) Reassessing how the increase from hiking the consumption tax rate is to be used
 - (2) Implementing reduced tax rate schemes
 - (3) Measures to curb last-minute demand/downturn
 - (4) Countermeasures for durable consumer goods

3. Formulation of the New Plan to Advance Economic and Fiscal Revitalization
 - (1) Basic concept
 - (2) Fiscal consolidation targets and initiatives for achieving them

4. Basic policies and important challenges from the plans for each major policy area
 - (1) Social security
 - (2) Social infrastructure development, etc.
 - (3) Local public administration and finance reforms and cross-sectional initiatives
 - (4) Education, science and technology, etc.
 - (5) Tax system reforms, compression of assets and liabilities, etc.

5. Acceleration and expansion of initiatives toward expenditure reforms, etc.

Chapter 4 Short-term principles in economic and fiscal management and guiding principles in budget formulation for FY 2019 103

Chapter 1 Current situation of the Japanese economy

1. Current situation and challenges of the Japanese economy, and direction of actions

(1) Current situation and challenges of the Japanese economy

1) Current economic and fiscal condition

The Japanese economy has been significantly improved thanks to the promotion of Abenomics over the past five and a half years. During the efforts to establish economic conditions without deflation, both nominal and real Gross Domestic Product (GDP) have increased to the record-high level. Since the change on administration, the Japanese economy has improved moderately but on a continuous basis over a long period, which is proved by the possibility that the duration of economic recovery reaches the second longest since World War II.

Against these background, a virtuous cycle from growth to distribution has been steadily initiated. Corporate profits have achieved a historical record high, and private non-residential investment has expanded at a level exceeding that before the Global Financial Crisis, with those of both manufacturing and non-manufacturing increasing. Expansion in the corporate sector has spread to the household sector, so that the employment and income conditions have significantly improved. The active job openings-to-applicants ratio has reached a 44-year record-high level, not seen since the early 1970's, and exceeded the figure of one in every prefecture, and the unemployment rate hit a record 25-year low. More and more women and the elderly are participating in the labor force, and, as a result, the number of working people increased by 2.51 million people in the past five years, even though the population decreased. On the other hand, labor shortages for corporate sector are severe, almost reaching at the same level as the bubble era in the early 1990s.

Wages maintain their rising trend, including those among mid- and small-sized companies, with an approximately 2% increase on a monthly basis containing an annual regular wage hike in this spring's labor-management wage negotiations. Many companies have achieved a wage hike for five consecutive years, of which the increment in 2018 is larger than that in the previous year in many cases. Bonuses also exceed the level in the previous year, resulting in an active wage hike of 3% on an annual earnings basis. Under the improving employment and income environment, personal consumption, which accounts for approximately 60% of the GDP, has shown positive growth over three consecutive years to FY 2017, while the pace of recovery being subdued.

Thanks to a lasting economic recovery, the Japanese economy has steadily followed a path of overcoming deflation. The negative output gap observed since the Global Financial Crisis shrunk and then turned positive in 2017, leading to the situation where

the actual GDP supported by stronger domestic and overseas demand, exceeds the economic capacity (potential GDP). The consumer price index has been up for a wide range of products, although this is partly due to rising energy prices, showing a moderate upward trend. The Bank of Japan will continue to pursue monetary easing under the price stability target of two percent and aim to achieve this target at the earliest possible time.

On the fiscal side, while annual revenues of central and local governments have increased thanks to the consumption tax rate hike from 5% to 8% in April 2014 and continuous economic recovery, on the expenditures side the budgets have been formulated in line with the benchmarks for general expenditures and the like during the Intensive Reform Period from FY 2016 to FY 2018, resulting in the shrinking primary deficit with 2.9% in FY 2018 (estimated) compared to 5.5% in FY 2012. However, improvement in the primary balance has been slower compared with the estimate indicated in the Plan to Advance Economic and Fiscal Revitalization (hereinafter referred to as the “Revitalization Plan”)¹ owing to a more moderate growth in tax revenue than initial assumption due to decline in economic growth, as well as the impact from the postponement of the consumption tax rate hike to 10% from 8%, and the supplementary budget.² Furthermore, in the “New Economic Policy Package”,³ the government revised the purposes of use of the tax revenue generated from the consumption tax rate hike scheduled for October 2019 for ensuring stable fiscal resources for the Human Resources Development Revolution. Due to these factors, it became difficult to achieve the target of the primary surplus by FY 2020. Additionally, the public debt to GDP ratio is expected to be up moderately to 187.8% by the end of FY 2018 from 179.2% as of the end of FY 2012.

From a mid- and long-term viewpoint, the decreasing birth rate and aging population is continuously a factor in restraining both economic revitalization and fiscal consolidation. It is expected that the 50 year-old-and-older population will exceed 50% of the total population⁴ by 2024 for the first time in history. Thereafter, while the population in the younger generations and the working age will sharply decrease, the elderly population is expected to increase toward a peak around 2040, and approximately 20% of the population will be 75 years old or older by around 2030. Under such conditions, even if more women and elderly participate in the labor market, it is highly likely that the number of working people will change to a downward trend by 2030. Based on the changes in various socio-economic situations such as the accelerating decrease in population, extended average life, and changes in the image

¹ Chapter 3 of the “Basic Policy on Economic and Fiscal Management and Reform 2015 – Without economic revitalization, there can be no fiscal consolidation” – (Cabinet decision on June 30, 2015).

² “Interim Evaluation of the Integrated Economic and Fiscal Reforms” (Issued by the Committee for Promoting the Integrated Economic and Fiscal Reforms in March 2018).

³ “New Economic Policy Package” (Cabinet decision on December 8, 2017).

⁴ Based on the median of birth rate and death rate in the Population Projections for Japan (2017) issued by the National Institute of Population and Social Security Research.

of the elderly, it is necessary to modify a stereotypical image of each age group and systems based on such image accordingly. Looking toward the coming 100-year life era, it is necessary to have discussions on a wide-range of issues, such as the role of individuals and corporations, social security education, and housing and labor policies, as well as use of the My-Number system and rapid technological development.

2) Future challenges

While the negative output gap has shrunk and turned positive, the potential growth rate, through moderately improved thanks to an increasing labor force, is estimated to remain at around 1% owing to declining trend in labor productivity growth. Therefore, raising the potential growth is one of the most important challenges for ensuring sustainable economic growth. A shrinking negative output gap is now reflected in the heightened labor shortages faced by corporate sectors, which is more evident among mid-sized companies, small and medium enterprises and small-scale entrepreneurs. In a situation where the decreasing birth rate and aging population becomes a factor restraining economic growth on a mid- and long-term basis, it is urgently necessary to push up the potential growth rate through enhancing the supply side of the economy by improving the productivity that is supported by a stronger innovative capacity, as well as ensuring human resources in terms of both quality and volume, in order to address the labor shortage issue, overcome growth constraint, and realize sustainable economic growth.

To expand the virtuous economic cycle, it is necessary to carry improved productivity to stronger and continuous rise in wage and income on the distribution side, and thereby ensure overcoming deflation. Additionally, it is essential to distribute the fruits of growth from urban to rural areas and from large corporations to SMEs, as well as realize a society where everyone, including the young and elderly, men and women, people with disabilities or disease, and people experienced a failure in the past, can be dynamically engaged.

While the decreasing birth rate and aging population is a factor obstructing economic growth, this issue can be a burden for fiscal consolidation through the decreasing working generations supporting the social security system and the pressure to inflate budgetary expenditures owing to and expanding medical and long-term care expenses for the elderly, although the decreasing population of the young generation will lead to lower medical expenses to some extent. Particularly, concern about social security sustainability that is strongly felt by the young generation, together with increasing costs of social insurance premiums and child-fostering such as education expenses, have reduced their willingness to consume, leading to the subdued recovery of the personal consumption. From a viewpoint of establishing a social security system for all generations as well as maintaining its sustainability, it is necessary to implement the consumption tax rate hike from 8% to 10% that is scheduled for October 2019, to ensure stable fiscal resources for measures tackling

the decreasing birth rate, pensions, and medical and long-term care issues, in addition to the acceleration and enhancement of expenditure reforms.

As for fiscal consolidation, although it became difficult to achieve the target of the primary surplus by FY 2020, the target of achieving the primary surplus should be firmly maintained. Later in this “Basic Policy on Economic and Fiscal Management and Reform 2018”, the period of achieving the target and a corroborative new plan are explicitly indicated, and it is indispensable to implement it as planned.

(2) Direction of actions

1) Raising potential growth rate

Under the decreasing birth rate and aging population is ongoing and the heightened labor shortages, the most important reform is to thoroughly enhance the supply side for raising the potential growth rate and overcoming the obstacles to growth. On the labor force side, the government promotes further labor participation by preparing a working environment where women can comfortably continue working while rearing children and where the elderly can actively play a role, which can bring about improving income and consumption. Also, further accepting foreign human resources in professional and technical areas is pursued. In addition, it is necessary to ensure diverse human resources with generating high value-added through securing and strengthening the opportunities for human capital investment at various stages of life, thereby mitigating growth constraint caused by the decreasing birth rate and aging population.

Furthermore, for the purpose of increasing the value-added created by individuals, efforts are required to disseminate technological innovation to a wide range of production sites, including those in SMEs, by a technological innovation provided by the Fourth Industrial Revolution consisting of AI (equivalent to the brain in by the case of a human body), sensors (equivalent to eyes in a human body), Internet of Things (IoT, equivalent to the nervous system in a human body), and robotics (equivalent to muscles in a human body). For this purpose, measures that elicit active investment by corporations are essential. Actions are also required to prepare an environment that can promote a flexible re-allocation of resources including promoting business entry and exit, and to realize non-linear innovation not constrained by a conventional wisdom that contributes to improved labor productivity.

As the same time, to establish a sustainable basis for economic growth on a mid- and long-term basis with overcoming demand fluctuation related to the 2020 Tokyo Olympic and Paralympic Games, continuously expanding inbound tourism, and attracting middle-class population in Asian economies with strong growth potential, it is important to stage the investment projects that have strong spill-over effects, including social implementation of the “Society 5.0”. A full-fledged discussion toward profoundly strengthening growth strategy is to be undertaken.

2) Consumption tax rate hike and smoothing of demand fluctuation

Considering the future path for fiscal consolidation, it is necessary to implement the consumption tax rate hike from 8% to 10% that is scheduled for October 1, 2019, in order to ensure stable fiscal resources for the measures against the decreasing birth rate and for social security, toward establishing the social security system for all generations, and to address the concerns about the social security sustainability among the working generations and contribute to enhancement of personal consumption and economic vitalization.

In the previous consumption tax rate hike in April 2014, a large fluctuation of demand driven by a last-minute rise in demand and a subsequent fall was observed, resulting in weakening the strength of economic recovery. The consumer price index rose sharply right after the tax rate hike, and personal consumption (mainly of durable goods) increased by 2% on a quarter-on-quarter basis in the January-March quarter in 2014 immediately before the hike, and decreased by 4.7% (qoq) in the next quarter. On the corporate side, their capacity utilization rate also significantly fluctuated before and after the tax rate hike, resulting in insufficient use of resources.

Conversely, European countries such as Germany and the U.K. have experienced small fluctuations before and after a hike in value-added tax. Based on the lessons learnt from the previous hike and the cases in Europe, it is important to take all possible measures to control the economic fluctuation caused by a last-minute rise in demand and a subsequent fall and smooth out the demand, thereby stabilizing economic activities.

3) Commitment to new fiscal consolidation targets that can be simultaneously achieved with economic revitalization

The government will firmly maintain the basic policy “Without economic revitalization, there can be no fiscal consolidation,” and conduct fiscal consolidation steadily and at a pace and with a flexibility that will not undermine economic recovery. Given the changing population structure such as aging population and a decrease in the working population, it is necessary to strengthen the basis for the social security system by the time the baby-boomer generation start reaching 75 years of age, and surely establish a path for fiscal consolidation by the time all those of the baby-boomer generation reach 75 years of age. From this viewpoint, the new fiscal consolidation targets are set that aim for the primary surplus of the central and local governments by FY 2025 by implementing economic revitalization and fiscal consolidation steadily. At the same time, the government will firmly maintain its aim of reducing the public debt to GDP ratio steadily. To achieve the primary surplus in FY 2025, the period from FY 2019 to FY 2021, before the baby-boomer generation start reaching 75 years of age in FY 2022, is set as the “foundation-reinforcement period” centering around social security reforms during which the government makes efforts to establish the basis for

sustainable economic growth and fiscal sustainability. Regarding budgets prepared during this period, structures for linking the fiscal consolidation targets to budgets formulated in each fiscal year are described, and the budget such as for social security expenditures are prepared in line with the above link.

To accomplish the new fiscal consolidation targets, the New Plan to Advance Economic and Fiscal Revitalization covering the period by FY 2025 is clearly described in Chapter 3⁵ of this Basic Policy and the government will surely implement it.

4) Promotion of regional reinvigoration and revitalization

The government will take measures to thoroughly penetrate the benefits of Abenomics throughout the nation, and provide an environment where people in rural areas can feel the virtuous cycle of growth and distribution.

The trend of overconcentration in Tokyo has continued. To create a new flow to the countryside, the government will promote immigration and exchange at various stages of life such as U-turn, I-turn, and J-turn in conjunction with individuals' "Re-design of life."

Under the decreasing population, with a wider economic zone in mind, it is necessary to strengthen collaboration among regional areas and promote various policies at the level of a wider area.

Technological innovation by the Fourth Industrial Revolution will eliminate a geographical constraint imposed on the regional areas, maximize the appeal of each region, and strongly support local people who make self-help efforts.

In order to gain understanding of these government actions among Japanese nationals as well as disseminating it to the world, the government will conduct an active publicity campaign for gaining further understanding of the basic policies of the Cabinet.

2. Reconstruction from the Great East Japan Earthquake, etc.

(1) Reconstruction and revitalization after the Great East Japan Earthquake

There can be no revival of Japan without the reconstruction from the Great East Japan Earthquake. Seven years have passed since the Great Earthquake, and as a result of our efforts, almost all of the production facilities have been recovered and the infrastructures for life-line have generally returned to normal. The rebuilding of houses is expected to be completed by FY 2018. Steps for reconstruction are steadily being

⁵ Chapter 3 of this Basic Policy is the New Plan to Advance Economic and Fiscal Revitalization (hereafter, "New Plan").

developed. In the areas catastrophically damaged by the Fukushima nuclear accident, actions have been taken for reconstruction and revitalization outside of the difficult-to-return-to zones: The evacuation orders have been lifted for most of the areas with the exception of the difficult-to-return-to zones; and the government has started to set up the Specified Reconstruction and Revitalization Bases⁶ in these zones.

We have now entered the latter half of the Reconstruction and Revitalization Period, the latter five-year phase of the ten-year reconstruction period. The government will continue making efforts for reconstruction and revitalization from the Great East Japan Earthquake as one of the most important issues for the Cabinet and review the basic policy⁷ for the Reconstruction and Revitalization Period during FY 2018 based on progress.

1) Seamless support for affected people and revival of industries and livelihoods

Toward the final finishing of the reconstruction period, the government will tackle various issues that occur as reconstruction steps progress and continuously provide seamless support according to each stage of life reconstruction by mainly focusing on the psychological recovery through physical and mental health care and community formation. Actions taken by the government for revival of industries and livelihoods include the steady development of transportation and distribution networks, exploring sales channels for processed marine products, and the construction of new plants. With regard to tourism reconstruction in Tohoku in particular, the government aims to have 1.5 million overnight stays by international visitors in the six Tohoku prefectures by 2020, and assists Fukushima Prefecture in promoting its appeal nationwide and implementing projects to reinstate educational travel there.

The government has secured financial resources needed for reconstruction projects over the ten-year reconstruction period, amounting to around 32 trillion yen.⁸ This budget ensures steady progress in reconstruction through appropriate management of the scale of the projects each fiscal year and their efficient and proper implementation.

⁶ Specified Reconstruction and Revitalization Bases are part of the difficult-to-return-to zones, where the government seeks to lift the evacuation orders and enable returnees and others to live there.

⁷ Based on the Basic Policy on Reconstruction from the Great East Japan Earthquake in the Reconstruction and Revitalization Period (Cabinet decision on March 11, 2016).

⁸ "Scale and Financial Resources for Reconstruction Period in Five years from FY 2016" (Cabinet decision on June 30, 2017).

2) Post-nuclear disaster reconstruction and revitalization

The government is steadily implementing measures for the reconstruction and revitalization of the areas affected by the nuclear disaster based on the Revised Act on Special Measures for the Reconstruction and Revitalization of Fukushima.⁹

Decommissioning and contaminated water management, and decommissioning in the mid- and long-term are preconditions for the reconstruction and revitalization. The central government plays a leading role in safely and steadily achieving these aims by steadily promoting research and development, cultivating human resources, and gathering knowledge and ideas from around the world. The government makes concerted efforts to accelerate the establishment of and transportation to the Interim Storage Facility, the disposal of radioactive contaminated waste, and volume reduction and recycling of removed soil.

To accelerate the reconstruction and revitalization of Fukushima, the government is further improving living conditions in the prefecture, such as in education, medical and nursing care, and shopping. Relevant ministries and agencies cooperate in steadily implementing measures aimed at a broad-based, self-reliant economic reconstruction of the Hamadori area. These include establishing various bases, developing industrial clusters by attracting businesses, and accelerating human resource developments, for the key fields identified in the Fukushima Innovation Coast Scheme, such as robotics, decommissioning, energy, and agriculture, forestry, and fisheries. The government is also proceeding with the revival of industries and livelihoods through assistance to disaster-affected business operators in recovering their own business, restarting farming, and clearing up negative reputation impact about agricultural, forestry, and fisheries products in the process from production to distribution and sales, with the joint public-private Fukushima Soma-Futaba Reconstruction Team. The government works to clear up negative reputation impact which lacks scientific grounds, and unfounded prejudice and discrimination, based on “The Strategy for the Enhancement of the Elimination of Negative Reputation Impact and Risk Communication,” and effectively publicizing correct information on radiation, the safety of foods and drinking water made in Fukushima, the status of the affected areas in which the recovery is in progress, etc. In close collaboration with the prefectural and municipal governments and the private sector, the government works to give shape to the Proposals by the Expert Review Panel on the Future Vision for 12 Fukushima Municipalities,¹⁰ compiled from a mid- and long-term and broad-based standpoint. The government also promotes the Fukushima Plan for a New Energy

⁹ The “Act of Revising Part of the Act on Special Measures for the Reconstruction and Revitalization of Fukushima” (Law No. 32 of 2017) and the revised “Basic Guidelines for the Reconstruction and Revitalization of Fukushima” in accordance with the revision of the Act (Cabinet decision on June 30, 2017).

¹⁰ Proposals by the Expert Review Panel on the Future Vision for 12 Fukushima Municipalities compiled by the Expert Review Panel on the Future Vision for 12 Fukushima Municipalities and issued on July 30, 2015. The 12 municipalities are Tamura City, Minamisoma City, Kawamata Town, Hirono Town, Naraha Town, Tomioka Town, Kawauchi Village, Okuma Town, Futaba Town, Namie Town, Katsurao Village, Iitate Village.

Society,¹¹ which places the entire Fukushima Prefecture as a place for creating a model for a new energy society in the future.

The government is resolved to taking responsibility for the reconstruction and revitalization of the difficult-to-return-to zones, with a view to lifting all the evacuation orders issued there, however long it may take. Bearing in mind that there are many issues, including radiation levels, the government works to proceed decontamination and develop infrastructures for the purpose of achieving the target timing for lifting evacuation orders that is set in the approved plan of each town and village in the Specified Reconstruction and Revitalization Bases.

Since the reconstruction and revitalization of Fukushima requires mid- and long-term efforts, the central government will continue to take the lead after the Reconstruction and Revitalization Period.

(2) Reconstruction from the Kumamoto Earthquake and other natural disasters

In the areas affected by the Kumamoto Earthquake in 2016,¹² measures toward recovery and reconstruction and the revival of local industries are progressing steadily. In order to achieve a speedy rebuilding of the lives of the affected people, the government works to secure housing by providing public housing and assisting with the rebuilding houses. It is also proceeding with the disposal of disaster waste and the restoration of damaged infrastructure, such as roads and railroads, as well as the repair of Kumamoto Castle. The government will continue to provide tailor-made support, through remaining deeply connected to the pain of each victim.

Since the Kumamoto Earthquake, we have experienced many natural disasters throughout Japan. The government makes its best efforts for recovery and reconstruction from these natural disasters, in deep sympathy with each of the affected people.

¹¹ The Fukushima Plan for a New Energy Society (September 7, 2016, decision by the Council for the Realization of the Fukushima Plan for a New Energy Society).

¹² The Kumamoto Earthquake 2016: The earthquakes occurred on April 14 and 16 in 2016, and other subsequent earthquakes in and around Kumamoto Prefecture.

Chapter 2 Major actions for realizing a strong economic growth

In an environment where a decreasing birth rate and aging population continues, the government places the priority on the Human Resources Development Revolution to improve the quality of manpower and the Supply System Innovation that is a pillar of the growth strategy, as one of the supply-side reform measures, for raising the potential growth rate and following a sustainable growth path, and promotes the work-style reform.

In other words, the government works to construct a society where everyone can be dynamically engaged regardless of age, with an eye toward the 100-year life era by implementing the Human Resources Development Revolution.

The Supply System Innovation is expected to lead to more capital expenditure by corporations, of which earnings have recorded an historical high, and realize the “Society 5.0” by social implementation of the benefits of the Fourth Industrial Revolution such as AI, IoT, and robotics.

The government will realize a society where everyone has a reason for living and can exercise their talents in full, regardless of age, through the work-style reform.

Considering the current serious shortage of workers, the government accepts more professional and technical workers from overseas.

In order to expand the virtuous economic cycle to regional areas, the government makes efforts to ensure employment in the regional areas through support for SMEs that are the basis of the regional economy, and create a new human resource flow, to realize regional reinvigoration.

1. Realization and expansion of human resources development revolution

Japan is a society of longevity, with its healthy life expectancy the longest in the world and expected to lengthen in the future. In a 100-year life era, it is necessary to establish a society where all members from the elderly to young people can have their own playground, continue living actively and healthily, and feel secure. The key for achieving these objectives is investments in human resources, or so-called the Human Resources Development Revolution.

First, the government will accelerate the realization of free early children education under which costs of kindergartens and licensed nurseries will be free for all children between the age of 3 and 5. For other childcare services, the government will assume the costs for children who are recognized as those who need nursing care. For children under the age of 2, the costs of nursing care will be free for children of

households with exemptions from municipal residence tax in conjunction with an effort to eliminate waiting lists for childcare.

Second, to eliminate the waiting lists for childcare, the government promotes the Plan for Raising Children with Peace of Mind,¹³ which prepares 320,000 childcare places by the end of FY 2020, at a faster pace than originally planned, and can respond to female labor force participation rate¹⁴ of 80%. Further improvement of the working conditions of childcare workers will be made.

Third, free higher education such as universities will be realized only for children of low-income household and in need of help. For students in the households with exemptions from municipal residence tax, the exemption of tuition fees and grant-type scholarship will be expanded so that students can cover their living costs. For children of households close to households with exemptions from municipal residence tax, gradual support measures will be taken.

Fourth, the working conditions of long-term care workers will be improved to secure human resources so that no one is forced to leave their jobs for nursing care.

The government will implement the two-trillion yen scale policies mentioned above and make a large investment in child-raising generations and children. These actions are key for turning the Japanese social security system to all-generations type under which both the elderly and young people can live with peace of mind.

Fifth, substantive free education at private high schools for households with annual income of less than 5.9 million yen will be realized, from the standpoint of providing wide range of educational opportunities for children despite their family financial conditions.

Sixth, the recurrent education that enables people to study again and return to work or change their carrier regardless of age will be dramatically expanded, creating a society where individuals can redesign their life plan for a longer span.

Seventh, universities responsible for human resources development also need to change under the situation where the 18-year-old population is significantly decreasing. In fact, of approximately 600 private universities, 39% fail to fill their student quota and 41% suffer deficits. In order to reform to educational institutions that can meet the needs of the times, regions, and industries, the government works to promote university reforms for national, public, and private universities.

¹³ Announced on June 2, 2017.

¹⁴ The labor force participation rate of women from 25 to 44 years old are 72.8% in Japan, 71.1% in the US, 75.5% in UK, 77.8% in Germany, 74.6% in France, and 82.5% in Sweden.

Eighth, towards the 100-year life era, work places for the elderly who are willing to work will be prepared.

Human resources development is a drive towards creating the next era. The government will decisively implement the human resources development revolution detached from traditional uniformed ideas and concepts, changing Japan to a country where everyone has opportunities.

For this purpose, the government plans to implement the following policies in addition to those described in “The New Economic Policy Package”.¹⁵

(1) Human resources investment

1) Free early childhood education

Given the fact that eliminating waiting lists for childcare is one of the highest priority issues, the government is steadily working to provide childcare pursuant to the Plan for Raising Children with Peace of Mind, and provide free preschool education at kindergartens and licensed nurseries, for all the children between the age of 3 and 5 and children under the age of 2 of households with exemptions from municipal residence tax¹⁶ (for kindergartens that are not under the new system of support for children and child-raising, support is provided up to the maximum amount of payment by users of kindergarten under the system). The following describes the scope of other childcare services than kindergartens and licensed nurseries (hereinafter referred to as “unlicensed childcare institutions”) that are subject to free fees measure.

(People and services subject to free fees measure at unlicensed childcare institutions)

Given the fact that the policy of free fees measure at unlicensed childcare institutions is an alternative measure for children who cannot attend a licensed nurseries owing to the waiting lists problem, the criteria is same as that of admission to nurseries, i.e. children whose needs for childcare are recognized but who do not attend nurseries.

The services subject to free fees measures are as follows.¹⁷

- Extended childcare services at kindergartens,¹⁸

¹⁵ The New Economic Policy Package (Cabinet decision on December 8, 2017).

¹⁶ Municipal-level childcare services under the Act on Child and Childcare Support (Law No. 65 of 2012) (small-scale childcare services, family-style day-care services, home-visit childcare services, and childcare within institution services) are covered by free preschool education as for approved nurseries.

¹⁷ In addition, temporary childcare services, childcare services for sick children, and family support center services under the Act on Child and Childcare Support are also included.

¹⁸ This means day-care services at a kindergarten, day-care services provided to Type-I children (authorized as the children prescribed in Article 19, Paragraph 1, Item 1 of the Act on Child and Childcare Support) by kindergartens and recognized childcare institutions, and long-hour childcare at kindergartens under the Act; the same shall apply hereafter.

- Childcare services at unlicensed nurseries (including those originally certified by local governments), baby-hotels, baby-sitters, and unlicensed childcare facilities within workplace,¹⁹ etc. that meet the criteria set out in the supervisory guidelines. However, under the five-year temporary measure, those not meeting the criteria in the supervisory guidelines are also covered during the grace period.

In addition, as for development support for handicapped preschool children (so-called institutions for handicapped children), it has already been decided that the free education/nurseries will be provided at the same time as the introduction of free preschool education. If a child uses both a kindergarten/certified nursery and an institution for handicapped children, the child can receive free education/nursery at both institutions.

(Maximum support)

The maximum amount of support will be same level as the national average of the nursery fee at certified nurseries,²⁰ from a viewpoint of fairness compared with those who use certified nurseries. For extended childcare services at a kindergarten, the maximum amount is the above-mentioned maximum amount,²¹ including the maximum amount for free fees measure of a kindergarten.^{22, 23}

(Implementation Schedule)

As the free fees measures are expanded to unlicensed childcare institutions, given the fact that local governments need to assume new administrative tasks to check whether needs for childcare are recognized regarding the children attending at extended childcare services at a kindergarten or an unlicensed childcare institution, the government aims to start the free fees measures in October 2019 in a full-fledged basis for all the children from three to five years old and children of households with exemptions from municipal residence tax from zero to two years old, covering both an licensed or unlicensed childcare institution, although it originally planned to start in April 2019 and April 2020 in a step-by-step basis.

(Encouraging unlicensed nurseries to improve and obtain license)

As securing of the quality of childcare is important, the government will consider the enhancement of measures to encourage unlicensed nurseries (including those that

¹⁹ Institutions prescribed in Article 59-2, Paragraph 1 of the Child Welfare Act (Act No. 164 of 1947), including the institutions for preschool education other than kindergartens that actually care for babies and infants. According to the notice by the Ministry of Health, Labour and Welfare, whether babies and infants are regarded as being cared for at the institution or not is determined depending on the operation of the institution, but if childcare without parents is generally provided at the institution for at least four hours a day, five days a week, and 39 weeks a year, the child is regarded to be cared.

²⁰ 37,000 yen monthly (or 42,000 yen monthly for children from zero to two years old).

²¹ 25,700 yen monthly.

²² 37,000 yen monthly (or 42,000 yen monthly for children from zero to two years old).

²³ For example, as the average out-of-pocket amount paid for unlicensed childcare institutions is 40,000 yen per month (for three-year-old children), 3,000 yen per month is the amount to be paid by the users in this case.

have not met the criteria in the supervisory guidelines) to improve and obtain the license, and accelerate the shift to the certified nurseries.

(Comprehensive After-school Plan for children)

Considering the increasing female labor force participation rate and needs of childcare, the government will prepare a new plan this summer to add the capacity of After-school Children's Clubs equivalent to 300,000 students by the end of FY 2023 and improve the quality of the program.

2) Free higher education

Free higher education is provided as follows:

(Scope of free education)

Firstly, as for the reduction in tuition fees for students in the households with exemptions from municipal residence tax (annual income of less than 2.7 million yen), the tuition fee of a national university is exempted, and that of a public university is exempted, up to the amount of the tuition fee of a national university. For private universities, the maximum amount is the total of the tuition fee of national universities and a half of the difference between the tuition fee of national universities and the average tuition fee of the private university. The admission fee for freshmen is exempted for students at a national university, and that of a public university is exempted up to the amount of the admission fee of a national university. For private universities, the maximum amount is the average of the admission fee of private universities. Students at junior colleges, colleges of technology (KOSEN), and professional training colleges will receive similar treatment to those who are at a university.²⁴

Secondly, the grant-type scholarship is given to students in the households with exemptions from municipal residence tax, helping them earn sufficient money that is necessary to lead a student life and enabling the students to be fully engaged in studying. What kind of expenses are covered will be determined from a viewpoint of fairness with other students and limited to those that are deemed appropriate under normal social conventions. More concretely, pursuant to the expense category defined by the JASSO²⁵ in the Student Life Survey in FY 2012, 2014, and 2016, expenses for studying,²⁶ expenses for extracurricular activities, school commutation fees, food expenses (only for students who do not live in their parents' house, and limited to the amount exceeding that for students living in their parents' house), housing and lighting/heating expenses (only for students who do not live in their parents' house), sanitation and medical expenses, other daily miscellaneous expenses, including

²⁴ For tuition fees of private junior colleges, colleges of technology (KOSEN), and professional training colleges, the maximum amount is the total of the tuition fee of national universities and a half of the difference between the tuition fee of national universities and the average tuition fee of the school.

²⁵ Japan Student Services Organization.

²⁶ Expenses for texts and reference books.

telecommunication fees, and the amount paid to a university other than the tuition fee (only for private university students)²⁷ are included. Expenses for entertainment/luxury goods are excluded. Additionally, the entrance examination fee for universities, junior colleges, colleges of technology (KOSEN), and professional training colleges (hereinafter collectively referred to as the “Universities, etc.”) can be included. For students at a college of technology (KOSEN), as many students live in a dormitory and thus, the actual living conditions of these students are significantly different from students in other types of schools, an amount corresponding to the actual conditions will be provided.²⁸

Generally, to avoid a cliff or a gap in support, the government will provide students of a household that is similar to a one with exemptions from municipal residence tax with support that is similar to those provided to students in the households with exemptions from municipal residence tax in stages. More concretely, for students of a household of which annual income is less than three million yen,²⁹ the tuition fee and the grant-type scholarship equivalent to two-thirds of that provided for students in the households with exemptions from municipal residence tax is provided; and children of a household of which annual income is more than three million yen to less than 3.8 million yen will receive the amount equivalent to one-third of that provided for students in the households with exemptions from municipal residence tax, for the purpose of leveling the benefit amount.

Students of which household income suddenly deteriorates during their school days will be reviewed to assess whether they are entitled to receive support based on the income after the deterioration.

(Requirements for students subject to the support)

Students who are subject to the support are selected before entering the University, etc. based on their willingness of studying by checking a report and conducting an interview, not just on their performance at high schools. After entering the University, etc. the study performance is checked every year. If the student fails to gain less than 60% of credits required in any one year, or performance is ranked in the worst quartile based on an objective indicator such as the GPA (grade point average), the student will receive a warning through the University, etc. If the student receives consecutive warnings, or is withdrawn or excluded from the University, etc., the benefit will cease. However, in the case where the student receives consecutive warnings owing to the fact that its performance is ranked in the worst quartile, if there is a justifiable reason that should be accounted for, a special exemption may be applied.

²⁷ Under the same treatment as the tuition fee, the amount is a half of the average amount to be paid to a private school other than the tuition fee (excluding a fee for alumni association).

²⁸ 50 to 70% of the amount for university students.

²⁹ Assuming a model household consisting of parents, the student, and a brother/sister at a junior high school.

If the student takes a leave of absence from the University, etc. after completing a pre-defined procedure, the benefit is suspended and may resume when such student returns to the University, etc.

(Requirements for the Universities, etc. subject to the support)

The Universities, etc. that qualify for the support are those that have unique characteristics and strength for fostering human resources and can play an active role in a changing society, and maintain a good balance between academic studies and practical education based on the needs of society and industry. More concretely, the following Universities, etc. may receive the support:³⁰

- The Universities, etc. that establish an environment where lecturers who have working experience (including part-time work) are allocated to classes that account for more than 10% of the credits necessary for graduation, and students can take such classes³¹ (If the Universities, etc. judge that this criteria cannot be met owing to a characteristic of a specific academic field, the Universities, etc. must explain the reason and practical educational activities to be taken in the future);
- The Universities, etc. that appoint several external governors who come from industry, etc.;
- The Universities, etc. that establish a syllabus and objective assessment indicators, and properly manage and publicly announce their management of study performance;
- The Universities, etc. that disclose management information, including financial information and educational activities (including information on the degree of fulfillment of the quota and the graduates' course of life (employment/further education)) pursuant to laws and regulations, and publicly announce it, such as on their Web page, to enable the public to obtain such information. For professional training colleges, results of any school assessment conducted by an external organization is disclosed as part of the management information.

(Support for the middle-income class)

In addition to the above-mentioned support measures only for low-income households and measures for university reform and education/research quality improvement, the government will continue considering measures for equal opportunities to accessing the Universities, etc. for the middle-income class.

³⁰ For example, universities that are subject to management supervision due to a management problem, and have failed to fulfill 80% of the student quota on a continuous basis may not qualify for the support.

³¹ In addition to the classes conducted by a person who has experience in management, technician, researcher, and/or administrative officer, the following classes consisting of practical education are also included in this category: omnibus-type classes conducted by several lecturers from various companies; classes where students study a subject provided by a company (such as preparing a proposal); in the case of treating internship or on-site training as a class.

3) University reform

(Clarification of role and function of individual universities)

For improving the quality of university education, individual universities are required to further clarify their unique roles, characteristics, and strengths. National universities should use the functional support framework that has partly started to clarify a specific direction of each university. Private universities should select based on the three views for human resource development (persons who can lead the world, have a high level of intelligence and professional knowledge, and acquire a practical capability based on a specific occupation and skill), and establish a system that helps clarify the role and function of the university.

(Quality improvement of university education)

For making a curriculum that can respond to the actual needs of society, it is necessary to have a system that can reflect external opinions. For this purpose, when a person who plays an active role at the forefront of the society becomes a lecturer, universities should introduce a system on a faculty basis that enables a lecturer of which the number of classes is small can be a full-time lecturer, for the purpose of increasing the number of lecturers who have practical experience and allowing them to attend a meeting of professors. Universities should also establish an educational program that can flexibly meet new needs emerging from society, by mitigating a rule of appointing a lecturer on a full-time basis only for one faculty in order to use inter-school human resources effectively. In addition to enhancing training for lecturers to improve the quality of lessons and instruction methods, universities should prepare a guideline on their educational activities such as better content in a syllabus and clarification of study performance ratings.

(Visualization of ability and added value acquired by students)

For improving the quality of graduates of universities, the government imposes an obligation on the universities to disclose information, including the number of study hours and study performance of their students, which helps visualize what ability and added value the students acquire during their study in the university. For the industrial world, the government encourages private companies through business alliances that companies should specifically indicate the image and preferable skills of the human resources they seek in the recruitment process and actively use the study performance ratings visualized by the universities in the selection process. It is also necessary that each company sends a message to students that it puts higher priority on their study performance ratings in the Universities, etc.

(Enhancement of management power)

While having several external governors in a university is one of the requirements for universities to receive higher education support, it is necessary to add more external governors from the industrial world for enhancing its management power. For national

universities, the National University Corporation Act³² will be revised to allow a university to exceed the statutory number of governors only in the case where it appoints additional external governors from the private sector. For private universities, the government encourages them to have several external governors through the self-regulatory governance code that is prescribed by a related organization.

(Collaboration between and unification of universities)

For promoting the organizational restructuring of universities, for national universities, the government revises the National University Corporation Act that enables a single corporation to operate several universities. For private universities, the government encourages the establishment of an environment that enables collaboration/unification and smooth business succession such as business transfer on a faculty basis and the promotion of mergers. At the same time, the government instructs universities to make management decisions at an early stage, including withdrawals, and clarify bankruptcy procedures.

For the regional areas, the government will establish a system that enables local higher educational institutions such as a local university, local industries, and a local government to establish the Regional Collaboration Platform (tentative name) for discussing how higher education is implemented in their region.

For the purpose of promoting the above-mentioned measures as well as enabling a collaboration beyond the categories of national, public, and private universities, the government considers establishing the University Collaboration Promotion Corporation (tentative name).

(Promotion of practical vocational education in colleges of technology (KOSEN) and professional training colleges, etc.)

The government works to enhance colleges of technology (KOSEN) that aim at fostering practical and creative technicians, and to promote the practical vocational education by developing a professional education program for universities and professional training colleges as well as establishing professional and vocational university.

4) Recurrent education

(Expansion of educational training benefits)

The government will significantly expand the courses that are entitled to the professional and practical educational training benefits (covering 70% of costs) by adding the Fourth Industrial Revolution Skills Courses, and professional and vocational university courses.

³² The National University Corporation Act (Law No. 122 of 2003).

The courses entitled to the general educational training benefits will also be expanded, and the benefit ratio will be increased to 40% from 20% for courses that are effective for better employment qualifications such as IT skills. Particularly, the number of minimum lesson hours will be reduced to 60 hours from 120 hours for courses approved by the Minister of Education, Culture, Sports, Science and Technology, for easy access for working students. At the same time, the government will consider additional measures to increase the number of participants.

The government will also promote the active use of a mechanism that approves the accumulated credits earned from various schools as graduation diploma (i.e. the credit accumulation system).

(Recurrent education by industry-academia collaboration)

The government will intensively support the development of recurrent education programs that are new, practical, effective as an employment measure, and highly required.

™ Development of program in the advancing areas

The government will commission universities, professional training colleges, and private education and training organizations to develop a program for approximately 20 areas (AI, sensor, robotics, manufacturing using IoT, business management, agricultural technology, nursing, childcare, support of women's reinstatement through corporate internship, etc.) under industry-academia collaboration in advance of other areas, and systematically disseminate it nationwide.

The government will also significantly expand a practical program in collaboration with industrial groups and academic groups, actively provide the archives online, and construct a network of Web pages that provide the information on recurrent education courses provided by private business operators, making it a comprehensive portal site for providing recurrent education information.

™ Recurrent education for Engineers

The government will newly collaborate with various industries such as information processing, biotechnology, fine chemicals, engineering, and robotics to establish recurrent education courses in an academic society that enable researchers and technicians of private companies in these areas to receive state-of-the-art recurrent education, and commission the operation of the courses to the academic society. At the same time, the programs will be provided on a Web page of the academic society and online. For the industrial world, the government will widely disseminate the information and ask individual companies to encourage their researchers and engineers to receive recurrent education courses.

™ Expansion of educational training for current employees

The government will increase educational training courses that are held during evening hours and/or on Saturdays and Sundays to provide easier access for current employees, and promote a learning service provided by private operators online.

Educational training courses for current employees that are held by the national government (polytechnic centers) and local governments (polytechnic schools) will be commissioned to private educational training organizations such as universities and professional training colleges. The government will also extend the number of days for courses that are useful for acquiring and improving state-of-the-art knowledge and skills (currently two to five days), in response to the needs of private companies.

™ Training for fostering practical teachers

The government will develop and implement a program to foster practical teachers (teachers who have a professional background in the subject) and recommend graduates of the course to the Universities, etc. as candidates for practical teachers. It will also conduct match-making between a candidate for practical teacher and a local university and consider providing supportive measures to enable such candidate to work as a teacher at a local university.

™ Training of consultants for increasing productivity

The government will commission universities, industrial groups, financial institutes, the chamber of commerce and industry, and other private organizations to train retired people and senior people in the manufacturing industry who have practical experience of production management as consultants for productivity improvement, and send such people as a consultant.

™ Financial support for recurrent education conducted in long -term leave for educational training

When a company introduces a long-term leave system for educational training and its employees use it to receive re-learning, the government provides financial support to such company by providing the subsidy system to support human resource development. The government will also promote the creation of a social environment where re-learning of employees and side jobs/multiple jobs are encouraged.

(Expansion of mid-career employment by private companies)

The Cabinet Office, the Ministry of Education, Culture, Sports, Science and Technology, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, the Ministry of Economy, Trade and Industry, and the Ministry of Land, Infrastructure, Transport and Tourism will collaborate to establish a council consisting of listed companies that are active in employing mid-career people, to expand the employment of mid-career people.

The government will also use the Guidelines for Expanding Opportunities for Diverse Selection and Employment Regardless of Age to create an economic world environment that promotes mid-career employment.

(2) Active participation through diversified human resources

1) Promotion of active participation by women

With the understanding that active participation by women is critical for driving diversity and more added value, the government steadily implements the Intensive Policy to Accelerate the Empowerment of Women 2018³³ to promote and accelerate social reform and realize a society in which no barrier to labor force participation exists for women and every woman can get the best from herself based on individual wishes,³⁴ and considers what kind of revision is necessary in existing laws and regulations, including a review of the Act on Promotion of Women's Participation and Advancement in the Workplace,³⁵ to realize a thorough visualization of women's participation. The government will also encourage women to work in scientific and engineering fields by providing various information to female students and presenting role models. Seminars that aim at fostering internal and external candidates for female officers will be conducted. To cover various participants, training courses for fostering female leaders are also provided in cooperation with the Universities, etc. that enable the introduction of a wide range of optional programs.

For preparing an environment where women can continue working with peace of mind, the government will promote a comprehensive measure that covers preparation of an environment that accepts various working styles, the promotion of men's participation in childcare and housework, smooth obtainment of childcare leave, balancing of infertility treatment with work, seamless support for pregnancy, childbirth, and childcare, and prevention of harassment.

2) Promotion of employment of the elderly

(Preparation of environment for raising the continuous employment age limit to over 65 years old)

Providing a work place for the elderly who want to work is a national challenge that should be realized through cooperation between the public and private sectors, in terms of fulfilling the hopes of the elderly and raising potential growth power under the environment of a decreasing population. Actually, as the physical age of the elderly is getting younger and they can maintain intellectual abilities, it is not realistic to uniformly treat people at and over 65 years old as "the elderly." Therefore, it is necessary to modify a uniformed concept based on age and realize an age-free

³³ The Intensive Policy to Accelerate the Empowerment of Women 2018 (Issued by the Headquarters for Creating a Society in which All Women Shine on June 12, 2018).

³⁴ For example, the number of women who have not applied for a job but want to be employed has reached 2.21 million (Labour Force Survey (detailed aggregation, January to March of 2018) by the Ministry of Internal Affairs and Communications; excluding the students from 15 to 24 years old).

³⁵ The Act on Promotion of Women's Participation and Advancement in the Workplace (Law No. 64 of 2015).

society where people of all generations can work using their willingness and ability depending on individual wishes.

Based on such recognition, the government will develop an environment for raising the age of continuous employment to over 65 years old. In this step, based on the diversification found in elderly employment, i.e. the difference in the health condition, willingness, and abilities among the elderly, the government will encourage companies to establish an evaluation/wage system that is not uniform but based on business performance. For this purpose, the government will provide financial support to companies that strive to construct a wage system and an ability assessment system for the elderly.

(Employment promotion measures for the elderly)

Given that when a company that has experience in employing even one elderly mid-career person, it tends to have a positive influence on hiring another such employee, the government works to take measures that promote trial employment of the elderly.

The government will also promote the employment of middle-aged people and the elderly by expanding education and training courses of basic IT and data skills for the age group.

Additionally, the national and local governments and other interested bodies will cooperate to promote participation in long-term care by the elderly by introducing first-step training using the funds for securing comprehensive medical long-term care in local communities and matching efforts.

(Raising the mandatory retirement age of public servants)

Considering a longer average life and the progression of the decreasing birth rate and aging population, consideration will be given to raising the mandatory retirement age of government employees to 65 years old step by step, to properly respond to the administrative issues that become more complicated and sophisticated.

In this consideration, the government will also thoroughly check whether human resource management focuses on ability and performance of individual employees and is based on the performance rating.

3) Promotion of employment of disabled people

For building a society, where disabled people can play active roles according to characteristics of their disabilities while fulfilling their hopes, showing their talents and aptitudes and it is quite normal for us to work with disabled people, the government will encourage SMEs that have not employed a disabled person yet to employ disabled people, give supportive measures that enable them to retain disabled people

in consideration of various characteristics of their disabilities, and provide disabled people employment support in regional areas.

2. Realization and expansion of supply system innovation

(1) Basic concept

The New Economic Policy Package announced at the end of last year³⁶ defines the next three years to 2020 as the “period of supply system innovation and intensive investment” and will take all possible measures. The Future Investment Strategy 2018³⁷ will expand the scope and timeframe of the growth strategies and reorganize existing measures. Past efforts will be reevaluated, and a new mechanism will be introduced in order to fully realize “Society 5.0”.

As a result of the Fourth Industrial Revolution, social issues such as the decreasing and aging population, energy and environmental needs can thus be solved by making the best use of Japan’s strengths (technological power, human resources, ample real data, and capital). “Society 5.0”, which is a sustainable and inclusive socio-economic system with a distinctively Japanese character, can then be realized, and it will contribute to achievement of the SDGs.³⁸

For significantly increasing the potential growth power of the Japanese economy as well as further raising the nominal GDP to 600 trillion yen (around 2020), the following measures will be implemented speedily based on the Future Investment Strategy 2018.

(2) Changes brought by Fourth Industrial Revolution technologies and new developments: “Society 5.0”

It is expected that a new development, “Society 5.0” will be realized in every aspect of the socio-economy by a new technological revolution brought about by the Fourth Industrial Revolution.

1) Changes in lifestyle and industry

(Automation: Manpower shortage due to migration and the logistics revolution/reducing the number of vulnerable persons)

Various fields such as car driving and logistics are moving towards automation as a result of advancements in AI and robotics. It will lead to reductions in traffic accidents, increase accessibility to disconnected communities, realize safe and secure society with automated driving, and also leading to greater logistical efficacy and significantly reducing labor burden in spite of labor shortages.

³⁶ New Economic Policy Package (Cabinet decision on December 8, 2017).

³⁷ Future Investment Strategy 2018 (Cabinet decision on June 15, 2018).

³⁸ Abbreviation of Sustainable Development Goals.

(Remote/real time feedback: Creation of new services by overcoming spatial and temporal constraints)

The graphics and sound quality improvements of IoT technology have made the provision of services (such as medical and educational services, and shopping support services) that were once limited by geographical constraints possible.

2) Changes in the “basis” of economic activity

The “Weakness” of Japan is the stability of “Energy” and “Finance” that can be overcome by blockchain technology, smart energy management, and other technologies.

In the data-driven society of the 21st century, the most important basis of economic activity is “real data.” By gathering, analyzing and utilizing the data that has been widely located and latent in the world thus far (big data), goods and services catered to specific needs can also be provided. If we would succeed to establish a basis for using the real data ahead of the world, Japan could become a front-runner in the new digital era.

3) Changes in administration and infrastructure

Under the principle of discriminating from the old analogical administration and ending all the services of the administration procedures from the beginning to the end digitally (from “paper” to “data”), reduce the time, labor and cost burdened by citizens and companies. In infrastructure management of harbors, airports, roads, water supply, and sewer systems, not only can installation and maintenance costs be reduced through private sector initiatives (PPP/PFI, etc.) and technological innovations, the very quality of infrastructure can be improved.

4) Changes in the region, community, and SMEs

The implementation of transport and logistics services or online medical monitoring services can greatly improve the convenience of regions including the elderly with declining and aging population, resulting in the revitalization of local communities. Local factories can be connected with the world in the same manner, stimulating regional innovation and creating value-added employment.

5) Changes in human resources

AI and robots have taken over on the simple, repetitive tasks that have relied on human labor thus far, thereby reducing dangerous or unwanted jobs. Various recurrent education, personalized courses using the digital technology, and remote learning will become essential for men and women of all ages to gain better employment.

(3) Priority areas to be addressed for the realization of “Society 5.0” and Flagship Project as a driving force for change

In future growth strategies, rather than investing resources indiscriminately, the following “Flagship Projects (FPs)” will be implemented by focusing on key sectors that are expected to have large-scale new developments and opportunities as a result of the Fourth Industrial Revolution.

1) “Automation”: Project to build the next generation mobility system

- The aim is to make a transportation system with driverless cars by 2020 and commercialization of autonomous truck platooning system on highways as early as 2022.
- Continued leadership on the matter will be demonstrated at international meetings based on the “Charter for Improvement of the Legal System and Environment for Automated Driving Systems.”³⁹ Necessary legislation for each sector will be also made.
- Create the model city/region that fulfills the needs of users in terms of mobility by combining town-planning and public transportation, the usage of new technologies such as autonomous driving, shopping support, monitoring services, as well as Mobility as a Service (MaaS).

2) Project to create the next-generation healthcare system

- A nationwide healthcare information network with the health records and medical/prescription history of individuals shared among medical institutions will be set up. Full-scale operation is expected to start from FY 2020.
- By FY 2020, patients will be able to access their Personal Health Record (PHR) to check their health and medical records using the My Number Portal (an administrative portal site for individuals)⁴⁰ at any time.
- A public-private partnership platform will be constructed in FY 2018 to develop a verification field for creating new products and services that are aimed at dementia.
- Promote the objective visualization of the quality of services outside of insurance through a voluntary quality assessment system by the industry. Local governments and care managers are encouraged to actively provide users with information on quality of services outside of insurance.
- For the enhancement of “online medicine” including medication instructions on the use of drugs, reforms will be implemented to make measures more current and user-oriented including a system revision such as amendments to the

³⁹ Charter for Improvement of the Legal System and Environment for Automated Driving Systems (by the Strategic Headquarters for the Promotion of an Advanced Information and Telecommunications Network Society and the Strategic Conference for Promoting Public and Private Data on April 17, 2018). It summarizes the government policy that enables driverless driving services in 2020 on the legislative side.

⁴⁰ This means a system that enables individuals and family members to check the health condition and prescription history of individuals at any time, contributing to improving daily life and better health.

“Pharmaceuticals and Medical Devices Act”⁴¹ with evaluations of the effectiveness and safety of medical treatments based on the revision of medical fee.

- Under the Asia Health Concept, implement the overseas development of the healthcare industry in Japan.

3) Projects related to the “basis” for economic activity

- In view of 2050, the government will promote technological developments toward energy conversion and decarbonization such as energy management using digital technology, power storage and use of hydrogen. It will also promote ESG investing⁴² through facilitating active proposal and information disclosure by private companies. In addition, the government will promote spread of next-generation vehicles such as electric vehicle, fuel cell vehicles, and others.
- Fintech and cashless society is promoted by considering the revision of financial and commercial regulations in order to transform the current sector-based regulations to function-based and cross-sectorial regulations. The government will consider creating a scheme that enables simple and secure identity verification by using technologies such as blockchain and timestamps. The government will also consider standardizing formats of two-dimensional codes (QR code, etc.), keeping in mind to ensure simple and secure payment schemes.

4) Projects related to administration and infrastructure

- With the submission of the draft of the Digital First Act (tentative name) to the Diet in 2018, a Digital Government will be promoted from FY 2018 to FY 2020 that enables a one-stop service for procedures related to long-term care, moving, death/inheritance, and online procedures on smartphones with an electronic official certificate using the official personal identification certificate.
- The government aims at constructing the Next Generation Infrastructure Maintenance System by clearly indicating the level of requirements (such as performance and costs) based on the needs of the workplace and developing the realization method with open innovation initiatives from private business operators.
- While maintaining the public functions of the national forest, measures to enable private business operators to use in a larger lot and generate long-term revenue will be put in place. The concrete plans to expand PPPs and PFIs will be discussed.

5) Projects related to the region, community, and SMEs

- Smartification of agriculture, forestry, and fisheries will be promoted by connecting the value chain with transaction data from head to toe, optimization of the production and shipment based on marketing information, as well as minimization of the associated costs.

⁴¹ The Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (Law No. 145 of 1960).

⁴² This means investments accounting for environmental, social, and governance factors.

- The government will promote the connection between town-formation and public transportation, and develop the “Compact Plus Network” by utilizing new technologies and public and private data such as the next generation mobility services and ICT.
- The government will strengthen the IT support system in conjunction with management improvement of SMEs and micro businesses, in order to allow the property tax reduction based on “the Act on Special Measures for Productivity Improvement”⁴³ and create a synergistic effect with support measures such as “Subsidy for Manufacturing and Service of SMEs” and IT Introduction Subsidy.

In addition, emphasis will be placed on 4) Administration and Infrastructure and 5) Region, Community, and SMEs as mentioned above through various partnerships on the regional and wider area levels. New frameworks will be proposed and implemented to allow regional areas to tap into the concentration of economic activity in Tokyo.

(4) Creating a foundation for economic innovation

A rise in added value is expected as industries become more connected (Connected Industries), leading to increased innovation. The role of the government is to develop a common infrastructure for the data-driven society, specifically in the areas of data utilization, human resource management, and innovation. Concurrently, bolder regulations, institutional reform, and new rules adapted to “Society 5.0” will also be made.

1) Improvement of common infrastructure of data-driven society

In order to start 5G service that supports high volume and high-speed communication from 2020, allocate frequency at the end of FY 2018 and promote infrastructure development by private operators.

Reforms in education and human resource management in the industrial world will be carried out to foster human resources that can meet the era of AI (programming education at primary schools, high scientific and mathematical abilities in higher education), and the recurrent education will be fully expanded.

2) Bolder regulatory and institutional reform

The government will promote the Regulatory Sandboxes System⁴⁴ that was newly created pursuant to the Act on Special Measures for Productivity Improvement under the unified inter-governmental system. Existing top-down frameworks such as regulations by industries will be modified under institutional reform based on the horizontal viewpoint that focuses on services and functions, including the

⁴³ The Act on Special Measures for Productivity Improvement (Law No. 25 of 2018).

⁴⁴ The new technology verification system.

consideration of needs of institutional changes found through the use of regulatory sandboxes.

For establishing a rule that corresponds to the rise of businesses with platform business models, the government will prepare a basic principle by the end of 2018, and rapidly promote specific measures.

Considering drastic changes in economy and social structure, such as decline in demand due to population decline in regions and intensifying global competition, the government will discuss how the competition policy should be and reach a conclusion by the end of FY 2018.

(5) Early establishment of innovation ecosystem

Under the situation where catastrophic innovation that is not in line with the traditional path is underway all over the world and many are concerned about the relative deterioration of innovative power in Japan, it is necessary for each party, including industry, to change its consciousness and urgently establish an innovation ecosystem where innovation could automatically and continuously occur. Universities should reform themselves for the purpose of playing a role in supporting the ecosystem as a core knowledge center, and the government will connect various proposals created by the Universities, etc. with business and extend Japan's innovation overseas.

1) Promotion of reform to create various ideas

For enhancing the management power of universities, the government will promote university-industry collaboration that includes the promotion of collaboration among and restructuring of universities, preparation of a university governance code, and introduction of a system to obtain private capital. Through the introduction and expansion of an annual salary system based on a proper and effective appraisal, the government will improve human resource mobility and create opportunities for young researchers. Focus will be placed on the support of young researchers when granting competitive research funds.

Additionally, based on the results of the system verification in FY 2017, the government will improve and enhance the research and development method Impulsing Paradigm Change through Disruptive Technologies Program (ImPACT) that allows for failures and enables bold challenges, and disseminate method to concerned ministries and agencies. As ImPACT now marks a milestone, the government will also review related measures, and consider a system that can intensively promote targeted research and development under a more ambitious concept with unified efforts by concerned ministries and agencies (a moonshot-type R&D system) to continuously and steadily promote R&D that can create non-linear innovation.

2) Preparation of environment connecting ideas with business

The government will enhance mutual collaboration by unifying an application point for all related businesses conducted by government agencies and private-public funds to provide consistent support from starting up to commercialization and growth, including venture businesses started from university. Additionally, the entire government will promote the introduction of state-of-the-art technology and the use of SMEs and venture businesses, using the opportunity of public procurement.

(6) Framework for promoting future growth strategies

In addition to the traditional conference system, the government will gather all the knowledge and ideas both from the public and private sectors with the participation of on-site players who are close to a market and the actual working environment, share the image of an ideal socio-economy, and promote specific projects that can change working conditions. In order to proceed with policy formation through evidence by learning lessons from the result of projects, the government will establish an Industry-Government Association for the major areas listed above in (2) and (3).

In the Industry-Government Association, we will share the vision that is to be achieved by 2025 and decide on what measures are required for realizing the vision by next summer. As a flagship project (FP) that will take the lead for new developments in the major areas, the government will implement FP 2000, which is expected to bring early results by 2020, and FP 2025 that will initiate a full-fledged reform of the social system.

We will select some of the projects that can be implemented immediately and change the workplace, and reflect such projects in the budget for FY 2019, tax reform, and regulatory reform, to develop a systemic, organizational, and human resource basis necessary for rapid implementation.

3. Promotion of work-style reform

The government will promote work-style reform as one of the biggest challenges for realizing a Society in Which All Citizens are Dynamically Engaged and realize a society that allows individuals to select their own working style from various options from individual workers' viewpoints. For this purpose, a major revision of the Labor Standards Act⁴⁵ is planned for the first time in 70 years, since its establishment immediately after World War II.

In the revision, we need to consider whether the labor system reform has an impact on the business activities of corporations such as SMEs. Therefore, it is necessary to ensure a sufficient preparation period before enforcement. The enforcement of rules for correcting long working times is planned for April 1, 2019 (application thereof to

⁴⁵ The Labor Standards Act (Law No. 49 of 1947).

SMEs is on April 1, 2020), enforcement of rules for equal pay for equal work is planned for April 1, 2020 (application thereof to SMEs is on April 1, 2021), and enforcement of rules for establishing a Sophisticated Professional System will be in April 1, 2019.

To ensure that small and medium enterprises and small-scale entrepreneurs fully understand labor laws and regulations, the government will disseminate the details of the regulatory reform and other labor laws and regulations. The government will also establish a center supporting the promotion of working-style reform⁴⁶ in all 47 prefectures, which will act as a one-stop consultation center where SMEs can receive advice, and also provide an individual consultation service by sending a labor and social security attorney in cooperation with SME support organizations. The labor standard inspection offices will organize a special team to closely respond to consultation needs from SMEs, and in the case of issuing an instruction, it will firstly encourage them to improve by themselves based on the understanding of working-hour trends, human resource retention, transactions, and other conditions of SMEs. The above-mentioned matters are a basic concept of the work-style reform and will be included in the basic policy that will be prepared in the future based on the current regulatory reform.

Furthermore, various support will be seamlessly provided in the form of assistance of labor management for SMEs, capital investment and introduction of IT that can contribute to the improved productivity, matching of various people both in and outside of the regional area. At the same time, to prevent work-style reform and wage rises in SMEs from being obstructed by work-style reform in large enterprises, the government will make efforts to check and understand the actual transaction relationships. Other measures also to be implemented to improve transaction conditions are careful monitoring of subcontract transactions, steady implementation of voluntary action plans prepared by the industrial world, promotion of preparation of voluntary action plans, and increases in the number of subcontract transaction inspectors.

In addition, to proceed with work-style reform that is appropriate to the actual conditions of each region, the government will use the Local-version Public-Labor-Employer Conference to set up a collaboration system between local government, labor, employers, and other stakeholders.

The work-style reform is not a labor law issue but an issue of the social system that could bring higher productivity by eliminating excessive services. The government will make efforts to raise awareness of this point.

⁴⁶ Centers supporting the promotion of working-style reform can also respond to consultation needs from non-profit organizations such as social welfare corporations.

For the Discretionary Working System for management-related work, the government will understand the current enforcement conditions of the rules, check the scope and health measures of people subject to the system, and discuss this matter at the Labor Policy Council. The government will also provide through instructions.

(1) Improvement in long working hours

By completely eradicating the practice of long working hours and ensure a work-life balance, while women and the elderly can have easier access to the labor market and gain a better environment for working, men can be engaged in childcare and housework more easily.

For this purpose, the government will revise the Labor Standards Act, changing to legislation that will concretely establish a limit on overtime work with penal regulations, which will be a first in Japanese history with agreement between both labor leaders and management. Under the revised Act, this limit cannot be exceeded even under the so-called Article 36 agreement.

In principle, the Act will define the maximum hours of overtime work permitted as 45 hours per month and 360 hours per year, and impose penalties for any violations other than the following special cases where the maximum hours of overtime work are defined as 720 hours per year and cannot be exceeded even in cases with consensus on temporary and special situations between labor and management. In addition, even within this upper limit of 720 hours per year, a minimal limit for a case of a temporary increase of the amount of work,⁴⁷ which also cannot be exceed, will be established.

On the other hand, considering both labor and management reached a consensus on their responsibilities of avoiding agreements with almost the maximum limits of overtime work, in order to further shorten the overtime working hours as possible, the government will establish guidelines that encourage minimizing the excess overtime work as much as possible, and provide both the labor and employers with necessary advice and instructions.

The government will also force business operators to properly understand the working hour conditions and instruct employees who have worked excessive overtime to see a doctor, to maintain employees' health. An instruction will be issued to business operators that impose illegal overtime work on their employees. In addition, the

⁴⁷ The upper limit that is not allowed to be exceeded is as follows: (i) All of the 2-month, 3-month, 4-month, 5-month and 6-month means of overtime working hours including working on holidays must be within 80 hours; (ii) Overtime working hours of any single month including working on holidays must be less than 100 hours; and (iii) Considering the maximum hours of overtime work permitted in principle over 40 hours per week are defined as 45 hours per month and 360 hours per year, we do not allow special exceptions, which exceed these principles, to be applied more than half a year, which means the exceptions can be applied 6 times a year at maximum.

government will prepare an environment to encourage introducing a system that provides an interval time during the working hours, by disseminating good case examples and providing consultation on labor management.

For tasks exempted from the upper limit regulation on overtime work, the government will take measures that are appropriate to such tasks in considering any specific characteristics on a cross-ministry basis in order to reduce overtime, and make efforts to start applying the upper limit restriction to the tasks. In this process, the following should be considered:

- 1) For automobile driving work, the Government Action Plan for Realizing the Work-Style Reform in Automobile Driving Work⁴⁸ will be steadily implemented, and necessary measures will be taken such as reviewing the Notice of Criteria for Improvement.⁴⁹
- 2) For construction work, the government will encourage both the ordering and constructing parties to set a proper work period and support efforts by the industry.
- 3) For doctors, the government will prepare a comprehensive measure for improving working conditions in medical institutions and implement it step by step.
- 4) For the sugar-producing industry in Kagoshima and Okinawa prefectures, the government will provide support to ensure sufficient workers and energy saving.

(2) Realization of equal pay for equal work

The government purpose to eliminate the irrational gap in the working conditions of regular versus non-regular workers. We will enable workers to be treated with their consent no matter what kind of work styles they choose and then to banish the term “non-regular employment” from this country.

For this purpose, the government will prohibit the irrational gap due to the employment style such as regular and non-regular, and enhance rules that can be used by workers who require the correction of the gap to fight in legal battles. For avoiding a situation where a worker gives up resorting to legal actions because of the information owned only by company, the government will impose obligations of explaining the treatment of workers on companies. The government will also operate Alternative Dispute Resolution (ADR) and enable workers requiring balanced/fair treatment to easily utilize it free of charge.

Furthermore, for the smooth introduction of equal pay for equal work, the government will prepare a manual for introduction by industries particularly for SMEs.

⁴⁸ Government Action Plan for Realizing the Work-Style Reform in the Automobile Driving Work (determined by the Liaison Conference of Concerned Ministries and Agencies on the Work-Style Reform in the Automobile Driving Work on May 30, 2018).

⁴⁹ Criteria for reducing working hours of car drivers (Notice No. 7 of 1989 by the Ministry of Health, Labour and Welfare).

(3) Establishment of the Sophisticated Professional System

The government will establish the Sophisticated Professional System, which only allows people who can create significant added value and have a high negotiation ability, to choose the work style under which the performance is assessed not by time but achievements, while maintaining their health.

People subject to the system must (i) have a salary that is significantly high compared with that of the average worker (the level that is three times or higher than the average annual salary); (ii) have responsibilities that are very professional and tasks that are clearly defined in an employment contract in contrast to general tasks taken by general workers (i.e. a job description is prepared); and (iii) understand the system and represent their consent individually in writing. It is also required that procedures to withdraw (iii) must be determined by the labor-employer committee.

To introduce the system, a company must take the following measures for workers subject to the system: The company must (i) have the workers take holidays of 104 days in a year and four days in four weeks; and (ii) take measures to maintain a healthy condition (setting an interval time during the working hours, setting maximum working hours for maintaining employees' health, giving holidays in consecutive two weeks, and/or a temporary health examination; any of which are resolved by the labor-employer committee with a four-fifths majority).

(4) An increase in the minimum wage, etc.

The government plans to raise the minimum wage at a rate of approximately 3% per annum, in consideration of the growth rate of nominal GDP, and aims at achieving the national weighted average level of 1,000 yen per hour.

For developing an environment where small and medium enterprises and small-scale entrepreneurs can raise the wage easily, the government will provide a consultation service for improving the productivity and profitability to industries that are expected to be significantly impacted by the minimum wage increase such as environmental health industry. Additionally, through dissemination of the promotion guideline prescribed in the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises,⁵⁰ the government encourages main subcontracting entrepreneurs to negotiate transaction prices associated with the raise in labor costs that is proposed by subcontractors.

4. Acceptance of new human resources from overseas

Workforce shortages particularly in small and medium enterprises and small-scale entrepreneurs is intensifying and may prevent sustainability of the economic and

⁵⁰ Act on the Promotion of Subcontracting Small and Medium-sized Enterprises (Law No. 145 of 1970).

social base in Japan. To solve this problem, the government will continuously and strongly promote productivity improvement through capital investment, technological innovation, work style reform, etc. and securing human resources domestically. Additionally, it is necessary to construct a system that enables wide acceptance that foreign human resources who have a certain level of professional knowledge and skills can contribute immediately, by eliminating the traditional limitation of only accepting foreign human resources having special professional and technical skills.

For this purpose, the government will focus on the areas that really need foreign human resources and create a new status of residence to expand the acceptance of foreign human resources, with the understanding that such actions are not an immigration policy. For promoting smooth employment of foreign students in Japan, the government will also take further measures to accept more foreign human resources in the traditional professional and technical areas and make efforts to realize a society where foreign people can co-exist comfortably.

(1) Creation of new status of residence for foreign people having a certain level of professional and technical skills

The government will expand the current system and create a new status of residence to accept more foreign human resources who have a certain level of professional and technical skills that can contribute immediately.

1) Accepting industries

Accepting foreign human resources with the new status of residence will be allowed for industries that need foreign human resources for its survival and development even after conducting measures for improving the productivity and recruiting domestic people (such as promotion of labor force participation by women and the elderly and measures for improving employee treatment based on workforce shortages).

2) Government basic policy and acceptance policy in each industry

The government will establish a cross-industrial policy for accepting foreign human resources as a government basic policy in the Cabinet, and ministries responsible for regulations such as the Ministry of Justice and those for operations will determine acceptance policy by industry in light of the characteristics of each industry, based on which foreign human resources are accepted.

3) Technical level and the level of Japanese proficiency required for foreign human resources

When issuing the new status of residence, the required level of technical skills for foreign human resources who are accepted under the new status of residence is knowledge and skills that are necessary for properly working in the relevant industry that is checked by an examination determined by the ministries and agencies with jurisdiction over the work. Basically, the level of Japanese proficiency should be

checked by the test such as the Japanese Language Proficiency Test to ensure that the person can speak Japanese sufficiently to lead a daily life without problems in Japan in principle, and further criteria is determined by each industry to account for the Japanese proficiency level required in such industry. However, foreign people who completed three-year technical intern training are exempted from the above-mentioned examination and deemed to have a sufficient level of technical skills and Japanese proficiency.

4) Measures to gain talented foreign human resources

In order to have talented foreign people work in Japan, it is necessary to take measures for preventing malicious intermediators that force foreign people who seek work in Japan to pay a deposit. Outside of Japan, the government will disseminate information on foreign human resource acceptance, enhancing Japanese language education in foreign countries, and make requests to foreign countries at the government level as necessary, for the purpose of ensuring that skilled foreign human resources be sent from foreign countries.

5) Support to foreign human resources and management of status of residence

For protecting and smoothly accepting new foreign human resources, the government will conduct appropriate management of foreign human resources who reside in Japan and their employment conditions. The relevant company or a registration support organization authorized by the minister of Justice is responsible for supporting foreign human resources in areas such as living guidance, accommodation, Japanese language study for daily life, providing consultations for and responding to complaints, and providing information on various administrative procedures. At the time of giving a residency permit and status of residence, it is necessary to check that a salary equivalent to that of an equivalent Japanese worker is ensured, which is also necessary for people entering and living in Japan with other types of status of residence. Additionally, as a labor administrative effort, the government will provide consultation services and instructions for proper employment management pursuant to labor laws and regulations. To take these actions, the government will enhance the status of residence management system, etc. that enables effective and detailed residence status management and employment management.

6) Accompanying family members and upper limit of period of stay

As the above-mentioned policy is different from the immigration policy, the period of stay for the foreign human resources under the new status of residence is limited to a total of five years, and no family members are allowed to accompany the worker in principle. However, the government will consider a system to upgrade the visa status. For example, if a foreign human resource who is proved to have a higher professional skill such as by passing a certain examination during his/her stay with the new status of residence, such foreign human resource is qualified to switch his/her visa status to

the current professional/technical status of residence that has no limit of the extension of the period of stay and allows his/her family members to reside in Japan.

(2) Promotion of further acceptance of foreign human resources with the current status of residence

To encourage more international students studying in Japan to be employed in the country, the government will clarify the permitted activities under the status of residence as well as mitigate the burden of administrative procedures, for the purpose of smooth switching of visa status, thus expanding the working opportunities for international students after graduation. The government will also add more universities that are qualified to the special addition in the Point-based System for Highly-Skilled Professionals. As a precondition of the above-mentioned measures, the government will enhance Japanese language education in Japanese language educational institutes and provide an environment where international students can properly stay in Japan. Furthermore, to provide a match-making opportunity for students from abroad and Japanese business operators, the government will increase the number of foreign human resource employment service centers at public employment security offices.

With consideration to the quality of long-term care services and the condition of the relevant countries, the government will consider a system that allows technical intern trainees of long-term care work to continue staying in Japan even if the trainee fails to fulfill the Japanese proficiency requirements after one year from their entrance to Japan and that sets the number of candidates for EPA long-term care workers that can be accepted smoothly and properly. As such candidates have achieved a certain level of Japanese proficiency, they are not required to receive Japanese language training. Additionally, the government will also consider measures that enable further promotion of the acceptance of foreign human resources for the purpose of overseas business development in the Cool Japan-related industries and that promote business start-ups by foreign people and the acceptance of foreign entrepreneurs.

(3) Development of the environment for accepting foreign human resources

In addition to accepting more foreign human resources under the above-mentioned measures, as it is expected that the number of foreign people will further increase in the future, it is important to develop a living environment for foreign people who live and work in Japan, such as providing a life-issue consultation service in multiple languages and enhancing Japanese language education. For this purpose, the government will thoroughly review the Comprehensive Measures for Foreign People Leading a Daily Life in Japan⁵¹ that was established in 2006 and instruct the Ministry of Justice, which is responsible for the overall arrangement function and acts as a

⁵¹ “Comprehensive Measures for Foreign People Leading a Daily Life in Japan” (by the Cross-Ministerial Liaison Conference on Foreign Worker Issues on December 25, 2006).

control tower for collaboration with other related ministries and agencies and local governments. Through such actions to prepare for accepting more foreign people, the government will strive to realize a society where the human rights of foreign people are protected and in which they can comfortably coexist.

In collaboration between the Ministry of Justice, the Ministry of Health, Labour and Welfare, and local governments, the government will enhance the residency management system and eliminate people who stay in Japan with illegal/fake residence status or abuse/misuse the recognition of refugee status system.

5. Initiatives for important issues

(1) Promotion of regulatory reform

Under the rapidly changing situation at home and abroad, to create new businesses and jobs and to keep our country rich and vibrant, the government will further promote constant reforms of regulations and systems, including developing new regulation rules and systems to fit for the concept of “Society 5.0”, reducing costs of administrative procedures,⁵² as well as turning agriculture, forestry and fisheries into growth industries.

The government will implement measures specified in the Implementation Plan for Regulatory Reform⁵³ and the Council for Promotion of Regulatory Reform will follow up the progress of the reform.

For the National Strategic Special Zones, the government will promote an intensive reform of “bedrock regulations” for new priority areas, and utilizing area-limited regulatory sandboxes, will promote demonstration experiments of advanced and innovative near-term technologies, including self-driving vehicles and drones.

(2) Promotion of investment and innovation

1) Promotion of science and technology and innovation

To realize “Society 5.0” and establish an Innovation Ecosystem, based on the “5th Science and Technology Basic Plan”⁵⁴ and the “Integrated Innovation Strategy,”⁵⁵ both the public and private sectors will promote research and development. Focusing on support for young researchers and promoting open innovation systems, the government will strengthen Japan’s basic science capability and fundamental technologies, and their social implementation that leads to regional revitalization.

⁵² To improve administrative procedures for corporations, including those of employees’ social insurance, taxation, corporate establishment, and subsidies, the government will promote one-stop services and once-only principle (the same information once provided by a corporation will be not requested again). The government will also sequentially promote one-stop services in administrative procedures for individuals, including moving, death and inheritance, and nursing care. In addition, the government will promote one-stop services in administrative procedures for ownership of light vehicles.

⁵³ “Implementation Plan for Regulatory Reform” (Cabinet decision on June 15, 2018).

⁵⁴ “5th Science and Technology Basic Plan” (Cabinet decision on January 22, 2016).

⁵⁵ “Integrated Innovation Strategy” (Cabinet decision on June 15, 2018).

The government will expand public-private joint research and development investment projects from a mid- and long-term perspective in a specific and planned manner, and at the same time it will support their stable research and development over several years with the national budget. With regard to the government's research and development investment, while securing consistency with the new plan in Chapter 3 of this Basic Policy, the government will make efforts to secure the necessary scale of budget aiming at one percent of GDP.⁵⁶ At the same time, based on the fact that private companies expressed a desire to aim their research and development investments at three percent of GDP, the government will aim to triple the investments from private companies in universities and national research and development institutions by 2025. With these measures, the government will target at least four percent of GDP for public and private research and development investments. In doing so, the government will preferentially promote research and development contributing to solutions of social issues, including dementia, regenerative medicine, genomic medicine, innovative energy technologies, and maintenance and renewal of infrastructures.

To educate and nurture persons who will lead future scientific and technological innovation, the government will aim to improve their academic abilities regarding STEM,⁵⁷ programming, and English language to the world's highest level. For STEM in particular, the government will develop human resources and nurture and secure teachers by establishing strategies, clarifying objectives and organizing processes.

From the perspective of strengthening Japan's international competitiveness, the government will promote the formulation and implementation of the "Intellectual Property Strategic Program"⁵⁸ and the "Artificial Intelligence Technology Strategy Action Plan"⁵⁹ and will make joint efforts by the public and private sectors to consider cyber security measures and international standardization of cutting-edge technologies.

In addition, the government will promote the improvement of logistics efficiency and safety, and the mitigation of traffic congestion by utilizing AI and IoT.

⁵⁶ The scale of the total amount of necessary investment for research and development by the government during the plan will be about 26 trillion yen based on the premise of nominal GDP growth rate in the case of economic revitalization in the "Economic and Fiscal Projections for Medium to Long Term Analysis" (submitted to the Council on Economic and Fiscal Policy on July 22, 2015) at the time of formulating the 5th Science and Technology Basic Plan.

⁵⁷ Science, Technology, Engineering and Mathematics.

⁵⁸ Program formulated based on "Intellectual Property Strategy Vision (decided by the Intellectual Property Strategy Headquarters on June 12, 2018)," mid- and long-term vision of intellectual property strategy.

⁵⁹ Plan to substantiate the content of implementation of Artificial Intelligence Strategy (decided by the Artificial Intelligence Technology Strategy Council on March 31, 2017).

2) Improvement of the quality of education, etc.

Based on the “Third Basic Plan for Promoting Education”⁶⁰ and recommendations by the Council for Revitalization of Education, the government will comprehensively take the initiative to improve the quality of education,⁶¹ including comprehensive human education toward “Society 5.0.”

The government will smoothly implement the New National Curriculum Standards while promoting enhancement of the functions of high schools, which are a core of regional revitalization; review of students’ job seeking practice of one student for one company;⁶² enhancement of children’s experience activities; efficient development of safe and secure school facilities; and school safety promotion with reference to the safety promotion philosophy.⁶³ The government will also improve educational functions at overseas educational facilities. Furthermore, the government will overcome various constraints such as students with disabilities, bullying, non-attendance and lack of Japanese language skills so as to realize team schools and enhance life-long learning activities for people with disabilities.

To improve teachers’ work schedule at school, the government will promote specific and urgent measures,⁶⁴ including thorough management of appropriate work time and the improvement of work efficiency and work selection. At the same time, the government will effectively strengthen and enhance schools’ guidance and administration systems, review work environment reflecting working conditions, including the ideal working hour system according to the actual conditions at each school, and consider flexible management of elementary schools’ curricula.

3) Focus on public investment to strengthen growth potential

Based on “Priority Plan for Social Infrastructure Development,”⁶⁵ etc., the government will promote stable and sustainable public investments, focusing on social infrastructure development for fields to strengthen their growth potential. As a foundation of growth after the 2020 Tokyo Olympics and Paralympics, the government will develop metropolitan beltways, international strategic ports, and international hub airports and aim to expand flows of people and goods through earlier development

⁶⁰ “Third Basic Plan for Promoting Education” (Cabinet decision on June 15, 2018).

⁶¹ “Third Basic Plan for Promoting Education” sets forth improvement of the quality of pre-school education and promotion of private schools, including wise and clear allocation of subsidies to private schools.

⁶² Job-seeking practice for high-school graduating students where a student can apply for a job at only one company and unless the student receives an informal job offer from the company, he or she can apply at another company.

⁶³ Philosophy where relevant institutions work together to take scientific and empirical safety measures.

⁶⁴ “Urgent measures on work-style reform at schools” (decided by the Minister of Education, Culture, Sports, Science and Technology on December 26, 2017).

⁶⁵ Infrastructure development plan such as “Priority Plan for Social Infrastructure Development” (Cabinet decision on September 18, 2017).

and utilization of wide-area high-speed transport networks.⁶⁶ In this case, the government will consider appropriate utilization of private sector funds and fiscal investments and loans for projects that are surely expected to generate high stock effects⁶⁷ and profitability. With regard to industrial investments, the government will consider ways of utilization and management to reinforce the provision of risk money by utilizing the Development Bank of Japan and other financial institutions.

(3) Promotion of economic partnership

1) Expansion of a new economic order

As a standard-bearer of free trade, Japan will expand a twenty-first century new economic order based on free and fair rules to the world. Japan will continue to play a leading role toward the early entry into force of TPP⁶⁸ that will be, as a standard, a foundation of future economic partnership. After its entry into force, in anticipation of TPP's new rules spreading worldwide against protectionism through accession of other economies, Japan will take the initiative to coordinate with other countries regarding the guideline for new accession and other issues.

To ensure a level-playing field, the government will strive to correct market distorting measures and formulate rules for new fields such as e-commerce, and using various frameworks, the government will work with each country to reconfirm that the rules-based multilateral trade system with WTO at its core is the foundation for the world's economic growth and development.

With regard to trade with the U.S., to realize economic development in a free and open Indo-Pacific region based on fair rules, the government will hold Japan-U.S. Economic Dialogue and talks for free, fair and reciprocal trade deals with a view to further expanding trade and investments for the benefit of both Japan and the U.S.

The government will aim for an early signing and entry into force of the Japan-EU EPA,⁶⁹ which is an important base for the Japan-EU economic relationship, and will strengthen the strategic relationship between the two.

With a view of the entry into force of TPP and the Japan-EU EPA, the government will steadily implement measures such as supporting Japanese companies' further

⁶⁶ This includes high-standard major roads, projected Shinkansen lines, the Linear Chuo Shinkansen line using the superconducting maglev. With the use of fiscal investment and loans, the Linear Chuo Shinkansen will be fully operational eight years ahead of schedule at most. The government will provide the primary construction company with necessary cooperation in preparing for public release of stations and route of the whole line. With regard to Shin-Osaka Station, from a viewpoint of transit convenience between the Linear Chuo Shinkansen and Hokuriku Shinkansen (a detailed route is under research) and for the purpose of strengthening links and resolving capacity constraints, the government will consider a joint project scheme with the private sector to enhance the Shinkansen network.

⁶⁷ Mid- and long-term continuous effects right after the developed social infrastructure starts functioning.

⁶⁸ "Comprehensive and Progressive Agreement for Trans-Pacific Partnership" (TPP-11 agreement).

⁶⁹ Japan-EU Economic Partnership Agreement.

development overseas and strengthening domestic industries, which are incorporated in the “Comprehensive TPP-related Policy Framework.”⁷⁰

Japan will lead the RCEP⁷¹ negotiations towards swift conclusion of a high-quality agreement that is comprehensive and balanced between market access and rule areas.

2) Promotion of overseas development

The government will proceed with the conclusion of investment-related agreements and promote overseas development by Japanese companies. To gain beneficial effects from the expansion of free and fair economies, utilizing ODA, the government will implement comprehensive support for overseas development by mid-sized companies and mid- and small companies and support for the development of legal systems there and local human resource development. In addition, the government will strengthen legal support for their overseas development, including measures for infrastructure development to activate international arbitration, overseas research by legal professionals, and translation of Japanese laws and regulations into foreign languages, and strengthen practical response capability in international disputes.

The government will achieve the target amount of about 30 trillion yen of orders received for infrastructure systems in 2020 and contribute to the realization of Japan’s economic growth. To this end, based on the “Infrastructure System Export Strategy,”⁷² the government will promote various measures, including strengthening of international competitiveness through cooperation between the public and private sectors, international contribution through the promotion of quality infrastructure, expansion of infrastructure investments taking advantage of Japan’s technologies and expertise, and efforts in a wide range of sectors for infrastructure development. The government will also promote the international standardization of quality infrastructure.

(4) Response by economic sector

1) A new era of the agriculture, forestry and fishery industries

By vigorously promoting the comprehensive reform of agriculture, forestry and fisheries industries, the government will promote aggressive development of agriculture, forestry, and fishery industries into growth industries, while the government will also take measures to pass down beautiful and historic farming, foresting, and fishing communities to the next generations. With these measures, the government will pursue food security.

⁷⁰ “Comprehensive TPP-related Policy Framework” (decided by the TPP Task Force on November 24, 2017).

⁷¹ Regional Comprehensive Economic Partnership.

⁷² “Infrastructure System Export Strategy (2018 Revision)” (decision by the Management Council for Infrastructure Strategy on June 7, 2018).

To increase farmers' income, it is necessary to develop an environment which allows farmers to take free business actions, and, at the same time, to solve the structural problems, which farmers cannot solve by their own efforts.⁷³ The government will further accelerate strengthening of international competitive capability by realizing smart agriculture with use of AI and IoT. The development, accumulation and consolidation of farmland will be encouraged by establishing aggregation systems focusing on the Farmland Bank, as well as the smoother coordination realized between farm-field development business and the Farmland Bank. At the same time, as for land improvement project, further steps will be taken to promote turning farmlands into large compartments fit for general use or into dry fields, as well as enhancement of profit-making abilities in hilly and mountainous areas. The government will steadily implement reform of agricultural cooperatives and promote reforms in rice-farming to enable farmers to select crops at their own discretion.

In order to transform forestry into a growth industry, the government will create New System of Forest Management to aggregate and unify forest management to motivated and sustainable forest managers. Based on the formulation of this system, to provide grants to municipalities for forest development, etc. in the tax reform of FY 2019, the government will create Forest Environment Tax (provisional) and Forest Environment Transfer Tax (provisional). In addition, the government will promote the development of forest roads and adoption of high-performance forestry machinery, expanded use of lumber for mid-to-high rise building including CLT,⁷⁴ reform of the production and distribution structures, and research and development of cellulose nanofiber.^{75, 76}

Aiming to strike a balance between appropriate management of fishery resources and promotion of fisheries as a growth industry, increase fishermen's income, and establish a balanced age composition of fishermen, in conformity with "Fisheries Policy Reform,"⁷⁷ the government will establish new management system of fishery resource with scientific and effective methods of evaluation and management; reform the distribution structure of marine products; review the fishery licensing system, to contribute to the improvement of productivity; review the systems related to effective

⁷³ Based on the "Plan for Create Dynamism in Agriculture, Forestry and Fishery Industries and Local Communities" (Revision by Headquarters on Creating Dynamism in Agriculture, Forestry and Fishery Industries and Local Communities, June 1, 2018), the "Basic Plan for Food, Agriculture, and Rural Areas" (Cabinet Decision, March 31, 2015), and the "Agricultural Competitiveness Strengthening Program" (adopted by the Headquarters on Creating Dynamism in Agriculture, Forestry and Fishery Industries and Local Communities, November 29, 2016).

⁷⁴ Cross Laminated Timber: Thick panel made from gluing layers of solid-sawn lumber together at perpendicular angles.

⁷⁵ Nano-structured composite (pulp) of cellulose fibrils obtained from lumber.

⁷⁶ Based on the "Plan for Create Dynamism in Agriculture, Forestry and Fishery Industries and Local Communities" (Revision by Headquarters on Creating Dynamism in Agriculture, Forestry and Fishery Industries and Local Communities, June 1, 2018).

⁷⁷ "Plan for Create Dynamism in Agriculture, Forestry and Fishery Industries and Local Communities" (Revision by Headquarters on Creating Dynamism in Agriculture, Forestry and Fishery Industries and Local Communities, June 1, 2018) appendix 8.

use of sea areas, to contribute to the development of aquaculture and coastal fisheries; and review the fishery cooperation system in conformity with the direction of the reform. To boost these reforms, the government will promote expansion and development of resource research and information collection systems; smooth implementation of measures on reduction of fishing capacity and fishing effort; functional enhancement of stabilizing revenue in the fishery; introduction and renewal of fishing vessels with high productivity; environmental arrangement for aquaculture development; integration of fish markets and securing of the distribution base in consumption areas; development of an ICT utilization system from resource management to distribution; approval of sustainable fisheries and aquaculture; revitalization of fishing villages; functioning of national border surveillance; and securing of resources and strengthening of education and training. In addition, the government will strengthen fishery inspectional system for strict management of fishery resources.

To boost exports of agriculture, forestry and fisheries products, the government will make efforts to provide necessary information to producers, formulate global product area,⁷⁸ develop matching environment, and promote strategic marketing by JFOODO.^{79, 80} In particular, the government will support effective expansion of rice exports by making the most of the two rice milling factories and five fumigation facilities that have been recently built for export to China. Capitalizing on the 2020 Tokyo Olympics and Paralympics, the government will strategically promote utilization of standards and certifications such as JAS,⁸¹ HACCP,⁸² and GAP⁸³ and international standardization, and progress the development of effective and efficient export hubs in terms of both software and hardware.⁸⁴

The government will strengthen countermeasures against harmful birds and animals and promote use of safe and secure wild game.

2) Realization of a tourism nation

To realize an advanced tourism nation and make tourism a key industry by achieving the target of 40 million foreign visitors to Japan and the target of travel consumption of

⁷⁸ Global product area: Product area where overseas buyers can buy anything they want, as much as they want and at any time they want based on a market-in concept.

⁷⁹ The Japan Food Product Overseas Promotion Center.

⁸⁰ Based on the "Strategy to Strengthen Exports of the Agriculture, Forestry and Fishery industry" (adopted by Headquarters on Creating Dynamism through Agriculture, Forestry and Fishery Industries and Local Communities, May 19, 2016).

⁸¹ Japanese Agricultural Standard.

⁸² Hazard Analysis and Critical Control Point: Method of food sanitation control.

⁸³ Good Agricultural Practice.

⁸⁴ Based on the "Development Program on Export Infrastructure for Products of Agriculture, Forestry, and Fishery" (adopted by Headquarters on Creating Dynamism through Agriculture, Forestry and Fishery Industries and Local Communities, November 29, 2016).

8 trillion yen by 2020,⁸⁵ the government will take higher-level measures, including creating a stress-free and comfortable travel environment, while using funding from the International Tourist Tax to be newly established.

With the exploitation of tourism resources and achievement of comfortable and enjoyable travel environments, the government will attract foreign repeat visitors to regional areas, enhance experiential tourism, and promote measures to attract foreign tourists to stay longer in Japan. The government will further open public facilities to the general public, utilize Japanese traditional houses as tourist attractions, create towns with beautiful landscapes, and promote infrastructure tourism such as dam and riverfront tourism. The government will preserve and utilize national parks and cultural assets, and promote the use of VR⁸⁶ and effective use of night time in Japan. The government will enhance the functions of metropolitan airports, build a hub port for international cruise ships, and create a bicycle-friendly environment.

The government will communicate the charm of tourism in Japan to the world in an effective manner utilizing platforms at home and abroad, and strive to strategically relax visa issuance and promotion of MICE.⁸⁷ The government will facilitate the entry and departure procedures at international airports and harbors through the use of cutting-edge technologies and the planned enhancement of CIQ,⁸⁸ and realize world-class tourism services by offering free-to-use Wi-Fi service. The government will nurture and train DMOs,⁸⁹ promote the development of practical and capable human resources and utilization of foreign talent, and expand interactive human exchange. To respond to diverse needs for accommodation, the government will promote expansion of the good renting of private houses and rooms, including countermeasures against illegal renting. Furthermore, the government will prevent unlicensed taxi businesses. To improve medical services for foreign tourists, the government will make efforts to establish an acceptance system for foreign patients at regional medical facilities by establishing an evaluation system for medical interpreters and training medical coordinators. The government will also develop a cashless environment, provide multilingual support, change Japanese-style toilets to western toilets, and improve consultation services. To promote the provision of safe and secure accommodation facilities available to anyone, the government will promote building barrier-free and quake-resistant accommodation facilities.

⁸⁵ From “Tourism Nation Promotion Basic Plan” (Cabinet decision on March 28, 2017) and “Tourism Vision to Support the Future of Japan” (determined at the meeting of the Council for Tourism Vision to Support the Future of Japan on March 30, 2016). In addition, the Plan has set a target of 70 million foreign visitors staying overnight in regional areas and a target of 24 million foreign repeater tourists by 2020.

⁸⁶ Virtual Reality: Use of computer technology to create a simulated environment.

⁸⁷ Abbreviation of “Meeting,” “Incentive,” “Convention,” and “Exhibition/Event.”

⁸⁸ Comprehensive abbreviation of “Customs,” “Immigration,” and “Quarantine.”

⁸⁹ Abbreviation of Destination Management/Marketing Organization: Corporation that plays a leading role of creating sightseeing areas.

The government will realize a globally competitive and attractive long-stay tourism by promoting IR,⁹⁰ which provides complex of facilities including international convention halls, exhibition halls, and family-oriented entertainment facilities and introduces the contents representing Japanese tradition, culture and arts. At the same time, all possible measures will be taken for people's various concerns by developing the world's strictest regulations on casinos and their enforcement systems. In addition, the government will implement countermeasures against problem gambling thoroughly and comprehensively.⁹¹

The Cabinet will make full effort to win the bid to host the World Expo 2025 in Osaka, Kansai.⁹² To ensure that the World Masters Games 2021 Kansai proceeds smoothly, the government will coordinate with the Organizing Committee and other organizations.

3) Realization of a cultural and artistic nation

Based on the "Basic Plan on the Promotion of Culture and the Arts"⁹³ and "Cultural and Economic Strategy,"⁹⁴ the government will allocate the years around 2020 as a focused period for the promotion of cultural policies and expand the economic scale of cultural industry (cultural GDP) by establishing a culture-based national brand strategy, developing a profitable culture, and nurturing the art industry. The government will also promote the utilization of private-sector funds and cutting-edge technologies in the cultural area, including high-definition replicas of cultural assets and creation of VR.⁹⁵ The government will promote cultural and artistic activities for children and people with disabilities and strengthen the functions of national cultural facilities, and with a view to protecting cultural assets, it will arrange the repair of cultural assets in an appropriate cycle, and preserve, utilize and hand them down to the next generation. Furthermore, to transfer the Agency of Cultural Affairs to Kyoto, the government will steadily enhance its functions. The government will aim to attract location shooting for movies and revitalize the art market. At the same time, through a nation-wide development of cultural programs, certification and utilization of Japan Heritage, and ICOM Kyoto 2019 25th General Conference,⁹⁶ the government will spread the fascination of Japanese culture and Japanese beauty inside and outside Japan.

⁹⁰ Integrated Resort.

⁹¹ "Countermeasures against problem gambling" (decided at the meeting of Cabinet ministers on countermeasures against problem gambling on August 29, 2017).

⁹² Japan submitted bid for the World Expo 2025 in Osaka, Kansai, based on the cabinet decision on April 11, 2017.

⁹³ "Basic Plan on the Promotion of Culture and the Arts" (Cabinet decision on March 6, 2018).

⁹⁴ "Cultural and Economic Strategy" (decided by the Cabinet Secretariat and the Agency of Cultural Affairs on December 27, 2017).

⁹⁵ Virtual Reality: Use of computer technology to create a simulated environment.

⁹⁶ ICOM (International Council of Museums): The 25th ICOM General Conference will be held in Kyoto for the first time in Japan in September 2019. (Museum experts from 141 nations and areas will be expected to participate in the event.)

With regard to cultural resources, the government will archive each field's resources and promote the establishment of an integrated portal that can be easily used by users at home and abroad. In addition, the government will strengthen all possible countermeasures against pirated sites on the internet. The government will promote the development of an information base of media arts, including manga, animation and games, implemented by Designated Judicial Persons.

The government will create and spread Japan's unique charms, including contents, clothing, food and housing; deepen the Cool Japan Strategy⁹⁷ aimed at overseas development of products and services and expansion of inbound tourists' consumption; develop human resources to lead regional revitalization and utilize public facilities at home and abroad; and develop environments where people can enjoy entertainment and events at reasonable prices.

The National Archives will have additional facilities to enhance its functions.

4) Realization of a sports nation

With a view to the future beyond 2020, the government will expand the sports market and return its profits to the improvement of sports environments to create a virtuous cycle that increases participation in sports. The government will promote the use of private sector funds for sports in general to make sports a growth industry through renovation of stadiums and arenas, to promote college sports, including the establishment of the Japanese version of NCAA,⁹⁸ and to promote regional revitalization with sports as its core, including sports tourism. The government will also aim at the promotion of comprehensive disabled sports, enhancing high performance sport, improvement of the sports implementation rate,⁹⁹ and health promotion and international contributions through sports so that these can influence each other in a virtuous cycle. Furthermore, the government will take measures to reinforce the governance of sport organizations to secure sports integrity.¹⁰⁰

5) Measures for the 2020 Tokyo Olympics and Paralympics

The 2020 Tokyo Olympics and Paralympics and the 2019 Rugby World Cup are sports festivals for the entire nation of Japan, offering the best opportunity to create legacies and disseminate Japan's potential to the world. To host the events, the

⁹⁷ Includes e-Sports (An abbreviation of "electronic sports." In a broad sense, the word means amusement, competitive games, and sports in general using electronic equipment, and it refers to competition using a computer game or video game that is regarded as a sports game.)

⁹⁸ National Collegiate Athletic Association: Organization across colleges and athletic events in the United States that administers intercollegiate athletics in an appropriate manner and promotes college sports business.

⁹⁹ This is the ratio of people who do physical exercise and sports. The Second Sports Basic Plan (decided by the Minister of Education, Culture, Sports, Science and Technology on March 24, 2017) aims to increase the sports implementation rate of at least once a week for an adult from the current 42% to around 65% by FY 2021.

¹⁰⁰ Sports integrity means the state of no unfairness such as doping, violence or harassment. It is internationally understood as the honesty, health and generosity of participants in sports. Measures to reinforce the governance of sport organizations include preparation of indicators to evaluate sport organizations' management and monitoring of them based on said evaluation indicators.

government will take all possible public security measures and cyber security measures and steadily progress smooth preparations for the events, including the establishment of efficient transportation systems and countermeasures against the heat.¹⁰¹ The government will promote the development and expansion of volunteers; realize “Olympics and Paralympics for Revitalization,”¹⁰² regional revitalization and international exchange by host towns; and disseminate the charms of Japanese culture through the “beyond2020” program¹⁰³ and others. By coordinating with local governments and private companies, the government will promote initiatives to create a new Japan through the events, including development and spread of automatic translation systems by deep learning¹⁰⁴ and creation of a mental barrier-free society and towns of universal design.¹⁰⁵

6) Revitalization of the existing housing market

Anticipating a life expectancy of 100 years, the government will aim to provide people with homes to meet their various life stages.

In this regard, while utilizing the housing safety net system of the private-sector’s rental houses and public rental houses, the government will make high-quality housing environments where young people and the child-rearing generation can get married and raise their children with peace of mind and elderly people can live in peace, and will support their move to other homes in an integrated manner.

In addition, the government will utilize vacant houses and revitalize the existing housing market by improving houses to qualified and energy-saving houses, promoting renovation and improving real estate management business.

7) Promotion of space development and utilization

With regard to the Quasi-Zenith Satellite System,¹⁰⁶ the government will establish a seven-satellite system and improve its functions and performance and create an advanced utilization model in cooperation with the G-Space project.¹⁰⁷ In addition, aiming at further expansion of the space industry, the government will steadily develop

¹⁰¹ Based on the “Basic Policy for Promoting Measures related to Preparations for and Management of the Olympic and Paralympic Games in Tokyo in 2020” (Cabinet decision on November 27, 2015).

¹⁰² The 2020 Tokyo Olympics and Paralympics is positioned as an opportunity to support recovery from the Great East Japan Earthquake and show the situation of the recovering disaster-stricken areas to the world.

¹⁰³ Decided and implemented on March 2, 2016 by the “Meeting of relevant Ministries and Agencies to make opportunities through Japanese culture toward the 2020 Tokyo Olympics and Paralympics.” With a view to the future beyond 2020, this program certifies and broadly supports activities conducted by various organizations to create legacies that lead to a multicultural society and internationalization.

¹⁰⁴ Computer learning using multi-layered artificial brain neural networks.

¹⁰⁵ Creation of a mental barrier free society and towns of universal design based on “Universal Design 2020 Action Plan” (decided by a meeting of the Universal Design 2020 Cabinet ministers on February 20, 2017).

¹⁰⁶ Artificial satellite that orbits almost directly above Japan. Operating multiple satellites enables stable and high-accuracy positioning.

¹⁰⁷ Based on the “Basic Act on the Advancement of Utilizing Geospatial Information” (Act No. 63 in 2007), the project intends to secure a safe and peaceful life for people and Japanese economic growth by realizing a society where it is possible to use the world’s most advanced technologies on geospatial information (information on a specific spatial position and its relevant information. It is called “G-space information”).

a system that facilitates the use of government satellite data in order to encourage the creation of new businesses. While developing the next-generation launch vehicle H3, increasing the number of information-collecting satellites and demonstrating technologies contributing to space exploration activities in an efficient manner, the government will promote environmental improvement to encourage Japan's further space utilization.

6. Promotion of regional revitalization

To enlarge the economic virtuous cycle driven by Abenomics, it is essential to spread the fruits of economic growth from urban areas to regional areas, and from major companies to SMEs and small-scale entrepreneurs.

It is necessary to support mid-sized companies, SMEs and small-scale entrepreneurs that play a central role in regional economies. Japan needs to create a new flow of people to regional areas where “jobs” call for “people” and “people” call for “jobs” to contribute to community development and revitalization of communities. By networking these revitalized areas, the government will correct the over-concentration in Tokyo toward the balanced development of national land appropriate to the coming era.

To stop population decline and realize regional revitalization, it is essential not only to consider policies in local government concerned, but also deepen cooperation with other local governments to promote policies having broader economic zones in mind.

(1) Creating a new flow of people to regional areas

To reduce the number of young people who move from regional areas to metropolitan areas for university entrance and employment, which comprises most of the flow of people from regional areas to metropolitan areas, the government will establish a local human resources eco-system that aims to develop and return local human resources by closely coordinating with local governments, universities, high schools and local industries. Furthermore, based on the Act on Revitalization of Local Universities and Industries,¹⁰⁸ the government will promote university education and employment for young people by creating niche-top local universities. At the same time, the government will support the promotion of local industries to create job opportunities and steadily progress the transfer of government-related organizations based on the Basic Policy of the Transfer of the Government-related Organization.¹⁰⁹ In addition, the government will encourage the transfer of part of the functions of companies' head offices and the establishment of community-based companies through industry-academia-finance-government coordination. The government will

¹⁰⁸ “Act on Promotion of Young People's University Entrance and Employment by Revitalization of Local Universities and Increasing Job Opportunities” (Act No. 37 in 2018).

¹⁰⁹ “Basic Policy of the Transfer of the Government-related Organization” (decided by the Creation of Communities, People and Work Headquarters on March 22, 2016).

implement promotion of regional foreign direct investment¹¹⁰ to link the strengths of each region to the sales channels, technology, human resources and knowhow of foreign companies. To communicate the charms of life in regional areas, the government will promote effective and strategic information provision to attract people's interest.

To promote migration to regional areas and human exchange between regional areas and urban areas according to various life stages, including that of young people, local governments will support nationwide matching for those who want to make a UIJ turn, for women and elderly people in regional areas to carry out a smooth business start-up, business succession in SMEs, and new employment. At the same time, the government will provide necessary financial support using subsidies for Regional Reinvigoration and employment-related subsidies. In addition, the government will promote the utilization of overseas pro-Japanese foreign human resources, call for excellent professional human resources to regional areas, and enhance the Community-Reactivating Cooperator Squad who work by moving their living quarters.

To increase opportunities to move to regional areas, the government will provide people outside the relevant towns with opportunities to engage in community development, and systematically promote agri-tourism and children's rural experiences in agricultural, mountain and fishing villages. While striking a balance between sociality and profitability, the government will consider the development of a business environment to promote social businesses to solve local problems and effective methods of that environment to use them.

(2) Support for SMEs and microenterprises

SMEs and microenterprises, which play a central role in regional economies, are facing a severe shortage of workers. The government will support them to secure human resources both in quantity and quality and strengthen support for their productivity and management.

Specifically, the government will support them to secure work-ready workers and promote the utilization of a potential workforce of young people, women and elderly people. In addition, the government will develop existing human resources and boost management support organizations' support functions to find human resources.

To increase productivity, the government will promote the introduction of IT tools into about one million companies over the next three years by utilizing the "Productivity Strategy Platform for SME Services and Other Businesses" and the introduction and utilization of IoT and robots for production sites, and support advancement toward

¹¹⁰ "Support Program for Regional Foreign Direct Investment in Japan" (Adopted by the Council for Promotion of Foreign Direct Investment in Japan on May 17, 2018).

up-and-coming fields, including electrically operated motor vehicles. The government will aim to support about 2,000 core companies over the next three years in regional areas by intensively providing various support measures for specific businesses that drive regional economies, taking advantage of regional characteristics to create high added value. The revision of the Basic Plan for the Promotion of Small Enterprises¹¹¹ will indicate ways to provide support reflecting actual conditions of regional industries.

To strengthen management support, the government will encourage financial institutions to fulfill financial intermediary functions to promote loans that are not overly dependent on collateral and guarantees, and enhance the contents of support provided by support institutions, including the Societies of Commerce and Industry, the Chamber of Commerce and Industry, and “Yorozu support centers”. As for business succession, the government will provide seamless support before and after succession, including stronger support for M&A in addition to enhanced business succession taxation. The government will promote comprehensive support, including budgeting and taxation regarding business succession of microenterprises and individual business owners and their tie-ups with mid-sized and large companies. The government will also simplify administrative procedures for SMEs and microenterprises.

(3) Community development and revitalization

The government will support a new flow of people to regional areas and promote sustainable community development where people can live with peace of mind despite the population decline.

While promoting higher-level universal design,¹¹² the government will make efforts for the development of “communities suitable for child-rearing.” At the same time, the government will promote the development of compact communities bringing vital functions together where elderly people can live with peace of mind in addition to health promotion. The government will form districts with a certain population¹¹³ and promote cooperation among neighboring municipalities in medical, traffic, educational, and industrial fields. For community development activities conducted by primarily private organizations, the government will promote utilization of the support system¹¹⁴ to secure financial resources. To promote the private sector’s urban development projects, the government will support information sharing on community development

¹¹¹ “Basic Plan for the Promotion of Small Enterprises” (Cabinet decision on October 3, 2014).

¹¹² Design living environments for a diversity of people to feel comfortable, regardless of disability, age, gender or race.

¹¹³ regional collaboration among cities and urban areas (a very large-sized district having central functions where relevant municipalities cooperate in making a compact network to maintain a vigorous society and economy despite their declining population, decreasing birth rate and aging population).

¹¹⁴ Regional Revitalization Area Management Contribution System: Public-private cooperation system where municipalities collect costs of area management activities contributing to regional revitalization from beneficiaries and grant the money to the area management organization in order to promote the development of “profitable communities” aimed at enhancing regional profitability and regional value.

plans and others¹¹⁵ and promote concerned people's consensus-building and investors' understanding.

For revitalization of communities, the government will strengthen the community development promotion system and promote private investments that create high spillover effects. With regard to the sharing economy, from the viewpoint of promoting innovation and new business creation while protecting consumer safety, the government will promote its dissemination. At the same time, the government will promote the rapid introduction of ICT, including cross-field data use and automation by robot and AI. Promoting the use of the My Number card and the experimental incentive point system sponsored by local governments to add credit card points, etc. to their points, the government will introduce and develop a system promoting local cashless payment throughout the country. The government will promote social implementation of near-future technologies and urban renewal projects that generate effects of the Super-Mega-Region.¹¹⁶ The government will boost regional economies through revitalization of maritime clusters¹¹⁷ and enhancement of ports that support industries.

(4) Support for motivated local governments and promotion of decentralization reform

To create a new flow of people to regional areas and revitalize “communities,” it is important that each local area is motivated to take the initiative to solve its own issues. The government will support such motivated local governments in terms of information, human resources and finance.

To encourage local governments' ingenuity, the government will steadily and strongly promote decentralization reform. The government will call for proposals under the principle of making efforts to realize proposals from local governments, and disseminate sound cases and improve information transmission so that people can realize the outcome of the reform. The government will conduct necessary deliberations on the regional government system in light of the progress of basic bills.

(5) Balanced development of national land appropriate to the coming era

Faced with population decline, decreasing birth rate and an aging population, the government will aim at a balanced development of the country appropriate to the coming era, making the most of regional characteristics. Based on this viewpoint, the

¹¹⁵ i-Urban Revitalization: Information infrastructure that “visualizes” community development plans and effects, using 3D maps.

¹¹⁶ The world's largest area composed of the three major metropolitan areas in Japan, which creates innovation by highlighting and integrating their characteristics with a view to the launch of the Chuo Shinkansen (maglev train).

¹¹⁷ Geographic integration of relevant industries and relevant organization of the maritime industry, including seamen, shipboard industry, ship-chartering, port-related maritime industry, finance insurance, education and research institutions, focusing on the maritime transportation and shipbuilding industries.

government will promote the “National Spatial Strategies,”¹¹⁸ which aims to create a country generating diverse synergies among regions, including wide-area regional cooperation beyond administrative boundaries. Furthermore, to improve the overconcentration in the Tokyo area, the government will enhance the functions of major regional cities, and consider and prepare a definite plan of specific measures within this year in order to make those cities attractive so that the invitation of companies and expansion of local businesses invigorate business activities and attract people and universities together.

For geographically disadvantaged areas, including peninsulas where the population has been seriously declining, remote islands and the Amami Islands, while promoting exchange/collaboration and harmonious growth with neighboring areas,¹¹⁹ the government will aim to form small hubs which ensure the functions of daily life and regional management organizations, maintain the transportation systems, and maintain and revitalize those areas by establishing an independent community taking advantage of their regional resources and ingenuity.

Based on the “Hokkaido Comprehensive Development Plan,”¹²⁰ the government will promote the expansion of export of Hokkaido’s agricultural and fishery products and the development of neighboring areas of the Northern Territories. While promoting the restoration, creation and people’s understanding of the Ainu culture, to contribute to international tourism and international goodwill, the government will open the Ethnic Symbolic Space consisting of the National Ainu Museum and National Park for Ethnic Culture in April 2020, aiming to achieve one million visitors a year. In tandem with this project, the government will promote measures to hand down the Ainu culture, regional promotion and business promotion by the local government and the business community to enhance synergetic effects, and make comprehensive consideration of the Ainu policies, including legislative measures.

(6) Developing Okinawa

Okinawa has major advantages and potentials, including the geographic feature of being positioned at the entrance of the burgeoning Asian region and having the highest birth rate in Japan. Taking advantage of these aspects, the government will comprehensively and actively advance the Okinawa promotion measures as a national strategy to make Okinawa the driving force of Japan’s economy.

The government will promote a strategic development of the tourism industry and formation of an international logistics base, including the improvement of tourist convenience by taking advantage of the National Strategic Special Zone system, the

¹¹⁸ Second National Spatial Strategies (National Plan) (Cabinet decision on August 14, 2015) and Regional Plan (decided by the Minister of Land, Infrastructure, Transport and Tourism on March 29, 2016).

¹¹⁹ Include collaboration on World Heritage listing.

¹²⁰ “Hokkaido Comprehensive Development Plan” (Cabinet decision on March 29, 2016).

development of port environments to accept cruise ships, and the additional runways at Naha Airport. In addition, the government will realize human resources development revolution and supply system innovation in Okinawa by developing human resources to lead IT and manufacturing, enhancing education in English in cooperation with the U.S., promoting measures to support children in poverty, along with expanding the Okinawa Institute of Science and Technology Graduate University (OIST) with the aim of it becoming an international base of science, technology and innovation.

The government will promote effective use of returned U.S. military installations in a prompt manner. Regarding the former housing block for the U.S. military in West Futenma, in coordination with relevant government ministries, the relocation of the University of the Ryukyus Faculty of Medicine and its attached hospital will be implemented, and the formation of Okinawa Health Medical Center which reflects Okinawa's characteristics will be moved forward.

The government will also facilitate the promotion of Okinawa alcoholic beverages through the export project of Ryukyu Awamori and other measures.

7. Achieving a safe and secure life

(1) Enhancing diplomacy and security

1) Diplomacy

Japan must take the initiative to promote international peace and prosperity by collaborating with countries that share its fundamental values, including freedom, democracy, human rights, and the rule of law. At the same time, amid growing protectionism and inward-looking sentiment worldwide, Japan, whose political base is stable, must take a leading role in the international community in disseminating such fundamental values to the world, along with open, fair, and high-level trade and investment rules. Centered on the Japan-U.S. Alliance, Japan will implement the policy of "Proactive Contribution to Peace" and advance the diplomacy that takes a panoramic perspective of the world map.

In 2019, Japan will host the G20 Summit in the Osaka for the first time. Japan demonstrate a strong leadership for strengthening international cooperation in order to achieve the economic growth and market stability.

Under the banner of "Proactive Contribution to Peace" with a view towards achieving the Sustainable Development Goals (SDGs), Japan will demonstrate strong leadership at the international community by setting forth its own SDGs Model.¹²¹

¹²¹ The SDGs Action Plan 2018 was decided at the fourth meeting of the SDGs Promotion Headquarters (held in December 2017). This plan calls for the establishment of Japan's SDGs Model, which is based on the three pillars of promoting "Society 5.0", regional vitalization, and the empowerment of women and next generations, and sharing this with the international community.

This is designed to resolve all manner of challenges related to human security, including poverty countermeasures, health and hygiene, education, global environment and climate change, the empowerment of women,¹²² and the rule of law. For the Seventh Tokyo International Conference on African Development¹²³ that will be held in Japan in 2019, Japan will contribute to solving the challenges that Africa faces, including human resources development in the field of industry through public-private partnerships, while promoting investment by Japanese companies in Africa. In addition, Japan will take all possible measures to welcome and receive the foreign representatives including heads of states when they visit Japan on the occasion of the ceremonies of the Accession to the Throne.

Japan engages in resolute diplomacy with North Korea in order to induce the country to change its policies. Japan will urge it to dismantle all of its weapons of mass destruction and ballistic missiles of all ranges in a manner that is complete, verifiable, and irreversible, while also continuing to resolve the abduction issue as a challenge of the utmost importance.

In partnership with countries that share its fundamental values, Japan will proactively engage in diplomacy that takes a panoramic perspective of the world map while also utilizing its soft power. Through this, Japan will contribute to global peace and prosperity, while also pursuing its national interest in a bold and proactive manner. Japan will promote the “Free and Open Indo-Pacific Strategy”¹²⁴ by strengthening connectivity within the region and beyond, through the use of ODA. This is designed to treat the vast expanse of ocean stretching from the Pacific Ocean to the Indian Ocean as a public good that brings about peace and prosperity for all people without distinction, into the future. Japan will also proactively work to address a number of other initiatives, including strengthening safety measures for Japanese nationals and diplomatic missions and other facilities abroad, strengthening function of information collection and its analysis related to international terrorism in order to ensure the safety of Japanese citizens abroad, and increasing the number of Japanese staff working at international organizations. Other such initiatives include further strengthening its strategic communications, undertaking initiatives to strengthen the Japan-U.S. relations from the grassroots level, enhancing development of human resources that are pro-Japan or Japan experts by taking measures including the JICA Program with Universities for Development Studies, and strengthening collaborations with communities of Japanese immigrants and descendants (“Nikkei”) in Latin America and the Caribbean.

¹²² The World Assembly for Women (WAW!) has been held every fiscal year since 2014 in order to demonstrate international leadership when it comes to the empowerment of women. It carries out activities like spreading the word on initiatives to promote the active participation of women in Japan and around the world to the international community.

¹²³ Seventh Tokyo International Conference on African Development (TICAD 7).

¹²⁴ Prime Minister Abe announced this on August 27, 2016 as a new diplomatic strategy to improve connectivity between Asia and Africa through a free and open Indo-Pacific to promote the stability and prosperity of the region as a whole.

Japan will also utilize international organizations and ODA appropriately, efficiently, and strategically and strengthen development cooperation through ODA.

Japan will move forward with improving the foreign policy implementation structure that is a foundation for these initiatives. This will include improvements to its personal structures and diplomatic missions, and strengthening effort aimed at efficient and agile diplomacy.

2) Security

In recent years, the security environment around Japan has become increasingly severe, as evidenced by the fact that the modernization and strengthening of military force by surrounding countries and the trend in which they are intensifying their military activities have been strikingly apparent. Given this, the government will implement national security measures in a more strategic and systematic manner under the control tower function of the National Security Council (NSC) based on the “National Security Strategy.”¹²⁵

Based on the close cooperation between Japan and the United States, Japan will maintain a high level of alert in preparation for all manner of circumstances. In addition, in order to closely safeguard the lives and peaceful lifestyles of the Japanese people in any and all circumstances, Japan will substantially strengthen its defense capabilities, with this to include information collection, analysis functions and crisis management functions.¹²⁶ In addition, for the defense industry that supports this, Japan will work on initiatives such as utilizing the knowledge of the civilian sector, ensuring a competitive environment, and thoroughly reducing costs. Japan will also strive to increase efficiency and robustness with a view towards any corporate reorganization and mergers that may potentially arise in the end.

Japan is promoting making revisions to its National Defense Program Guidelines¹²⁷ and reviewing its next Medium Term Defense Program with a view towards the end of 2018. In light of the fact that utilizing new domains such as cyberspace and outer space have taken on critical importance, Japan will set forth an ideal vision for the defense capabilities that are truly necessary for it to safeguard its populace, including strengthening response capabilities in these domains. In conjunction with this, Japan is also working on initiatives, such as promoting the realignment of the U.S. Forces in Japan and measures for the issues related to the U.S. facilities and areas.

¹²⁵ “National Security Strategy” (Cabinet decision on December 17, 2013).

¹²⁶ Including information transmitted via the National Instant Warning System (J-ALERT), etc.

¹²⁷ “National Defense Program Guidelines for FY 2014 and Beyond” (Cabinet decision on December 17, 2013).

The government will also carry out various measures on the basis of its new “Basic Plan on Ocean Policy,”¹²⁸ “Policy on the Strengthening of the Coast Guard System,”¹²⁹ and others that adopt the “comprehensive maritime security” that is broadly seen within ocean policies as its fundamental approach. These initiatives include maintaining and enhancing the international order of the seas based on the “rule of law”; strengthening territorial water protection, ocean observation functions and ocean survey system; improving capabilities of maritime domain awareness¹³⁰ such as by enhancing structures for collecting and sharing information; preserving remote border islands and their local communities.

(2) Resources and energy, environmental countermeasures

1) Resources and energy

The government is taking on the challenges of overcoming energy constraints, converting the country’s energy portfolio with a view towards the year 2050, and decarbonization.¹³¹ For this, in addition to promoting independent initiatives by industries, the government will promote independent initiatives and thoroughly commit to energy conservation efficiency through both regulations and support in every sector, including residences/buildings and automobiles. When it comes to renewable energy, the government will strike a balance between the maximum utilization of renewable energy and curbing the burden placed on the public. To achieve this, it will work to cut costs, improve the business environment, overcome structural constraints, and ensure coordination capabilities in aiming to make renewable energies a major energy source. The government is promoting a number of initiatives in order to erect a new energy system. These include curbing the burden placed on the public via measures like revitalizing competition in the electricity and gas markets, accommodating environmental compatibility and stable supplies under liberalization, expanding the demand for hydrogen and establishing structures for supplying it based on the “Basic Hydrogen Strategy,”¹³² utilizing advanced regulation power such as virtual power plants, and encouraging the local production and local consumption of energy.¹³³ Japan will also work to develop outstanding low-carbon technologies and promote their deployment overseas, thereby contributing to reducing global emissions of greenhouse gases.

¹²⁸ “The Third Basic Plan on Ocean Policy” (Cabinet decision on May 15, 2018).

¹²⁹ “Policy on the Strengthening of the Coast Guard System” (Ministerial Council Decision on the Strengthening of the Coast Guard System, December 21, 2016).

¹³⁰ Based on “The Policies and Measures to Strengthen Japan’s Maritime Domain Awareness (MDA) Capability” (Headquarters for Ocean Policy Decision on May 15, 2018).

¹³¹ Decarbonization refers to reducing emissions of greenhouse gases through efforts like lessening dependence on the use of fossil fuels with a view towards achieving an equilibrium between the amount of greenhouse gases emitted as a result of human activity with the amount removed from the atmosphere via sinks worldwide by the latter half of this century.

¹³² “Basic Hydrogen Strategy” (Decision by the Ministerial Council on Renewable Energy, Hydrogen and Related Issues, December 26, 2017).

¹³³ For example, utilization of waste biomass such as sewage sludge.

With regard to nuclear power, safety will be given priority above all else. In the case that the Nuclear Regulation Authority confirms the conformity of nuclear power plants to the new regulatory requirements, which are the strictest in the world, the government will respect the Authority's judgment and said nuclear power plants will be restarted. The government will stay in front and work to promote understanding and cooperation from local governments and other interested parties in the plant areas. In addition, other efforts that will be carried out include strengthening voluntary safety improvements and disaster prevention measures by business operators, initiatives related to the reprocessing of spent nuclear fuel and the final disposal of radioactive waste, technological development, human resource development, international cooperation, and more. In addition, it will also steadily promote effective nuclear regulations, such as preparations geared towards the smooth implementation of the new inspection regime.

To strengthen the competitiveness of Japan's resource development industries while promoting the ongoing acquisition of resource interests via supplies of risk money,¹³⁴ the government will promote data accumulation capabilities by updating geophysical survey vessels, the acquisition of revolutionary technologies that harness AI/IoT, and other initiatives. The government is also promoting efforts to develop demand for liquified natural gas (LNG) in Asia, create bases for LNG bunkering,¹³⁵ and so forth. In addition, the government will also strengthen initiatives related to ensuring stable supplies of the mineral resources that are needed now as a result of the electrification of vehicles and spread of renewable energy and alternative energy devices in Japan and overseas. At the same time, in Japan the public and private sectors will come together to promote the development of petroleum and natural gas and develop and commercialize marine resources including methane hydrate, sea-floor hydrothermal deposits, and rare earth elements. In addition, regardless of whether it is peace time or not, measures to efficiently maintain and strengthen the supply chain will be implemented to secure a stable supply of petroleum and LP gas in Japan. The government will also work to enhance the functionality of fueling stations as a form of local community infrastructure.

2) Environmental measures

To address the threat of climate change on a worldwide basis under the Paris Agreement¹³⁶, the government will work to balance economic growth with significant reductions in Japan's domestic green-house gas emissions pursuant to its "Global Warming Prevention Plan."¹³⁷ As the host country for the 2019 G20, Japan will achieve a virtuous cycle between the environment and economic growth. Under its resolve to spur on global decarbonization efforts, it will formulate long-term low

¹³⁴ Response by the Japan Oil, Gas and Metals National Corporation (JOGMEC).

¹³⁵ Providing LNG fuel to ships.

¹³⁶ Paris Agreement: Entered on November 4, 2016 (Japan agreed on November 8, 2016 with effect on December 8, 2016).

¹³⁷ "Global Warming Prevention Plan" (Cabinet decision, May 13, 2016).

greenhouse gas emission development strategies on the Paris Agreement to serve as a growth strategy.

To avoid and mitigate the damage caused by the effects of climate change, Japan will promote the establishment of adaptation platform and adaptation measures related to agriculture, disaster prevention and other fields under the Act on Climate Change Adaptation.¹³⁸

The Japanese government will undertake a number of initiatives aimed at creating local communities oriented towards recycling and coexistence with nature. These include renovations for sewage disposal projects, improving resource productivity¹³⁹ by making effective use of waste, creating Regional Circular Decarbonized and Ecological Sphere (Regional CDES) by harnessing regional characteristics, and maintaining or recovering a sound water cycle. Other such initiatives include the international development of waste disposal and septic tanks; the conservation of biodiversity; implementation of measures to address marine litter such as micro-plastics; chemical substances control; and the development, introduction, and international deployment of green (low GWP) refrigerant technology.¹⁴⁰

(3) Promoting disaster prevention and reduction, as well as national resilience

Given its natural conditions, Japan is located in an environment where every part of the country is prone to occurrences of a variety of different natural disasters. In order to safeguard the lives and property of the people, the government continues to make efforts to improve structures based on recent occurrences of disasters and the effects of climate change. Concurrent with this, it also promotes disaster prevention and reduction measures and initiatives for national resilience across both hard and soft aspects.

In striving to provide rapid lifesaving and relief activities for victims and minimize damage, the government will enhance information sharing through the use of ICT. In addition, it will also strengthen its firefighting structures by expanding the range they cover, while also enhancing emergency relief structures from outside the region in question.¹⁴¹ It will also make efforts to improve local disaster response capabilities, such as by enhancing the disaster relief structures of the national and local governments. What is more, for the public facilities that serve as disaster preparedness centers and evacuation shelters during disasters, their seismic

¹³⁸ Act on Climate Change Adaptation (Law No. 50 from 2018).

¹³⁹ Resource productivity: Added value per input amount of natural resources.

¹⁴⁰ Technology related to refrigerants with low greenhouse gases from switching to alternative CFCs and devices that use these.

¹⁴¹ This includes emergency firefighting relief teams (these are firefighting relief units that rush to afflicted regions from outside said regions upon the request of the afflicted region when large-scale disasters or special disasters occur that the firefighting agencies from the afflicted region cannot handle on their own) and systems for ensuring relief personnel in afflicted municipalities (an arrangement for dispatching relief personnel uniformly from throughout Japan in order to assist afflicted municipalities when large-scale disasters occur).

reinforcement will be promoted along with improvements to their restroom environments and the securing of functional continuity. In addition, it will provide training and education for voluntary disaster prevention organizations and the like, and enhance and strengthen regional disaster prevention abilities with fire brigades at their core. It will also work to increase the sophistication of river management by harnessing new technologies, and further expedite evacuations through such efforts. It will also be quicker about designating major disasters as such with a view towards the prompt restoration and reconstruction of the afflicted region, while also augmenting and enhancing the structure and functions of Technical Emergency Control Force (TEC-FORCE) teams.¹⁴² The government considers arrangements for preparing assistance plans for each victim in order to provide them with finely-tuned assistance. The government will establish a new warning system for a Nankai Trough Earthquake, while also striving to enhance its public outreach for promoting accurate understanding among the public.

In order to create a strong yet flexible country, the government will revise the “Fundamental Plan for National Resilience”¹⁴³ and soundly promote the “Action Plan for National Resilience 2018.”¹⁴⁴ It will work to address flood control measures, such as constructing dikes and regenerating dams, as well as earthquake countermeasures that include securing alternative networks of roads, including roads to be used for evacuations when disasters strike, as well as seismically reinforcing wharfs and dikes, and more. It will also work to address disaster countermeasures that include tsunami countermeasures and countermeasures to snow damage. The government will provide full support for the establishment and implementation of regional plans. In addition, the government will encourage initiatives by local governments and the private sector, which include enhancing accreditation schemes for business continuity to ensure that companies working to contribute to society during disasters and the like are certified, while also working to achieve resilience with the productive capacity of companies. Initiatives to create safe communities will be advanced. These include anti-seismic retrofitting and strengthening the foundations of houses and buildings, dismantling densely built-up wooden residential areas, removing utility poles, and utilizing private investment. In addition, the government will promote efforts like the strengthening of the command tower functions of disaster medical assistance teams. It will also promote verifications regarding the medical care modules¹⁴⁵ needed in disaster areas in the course of medical activity drills. Moreover, through “World Tsunami Day,” the government will communicate and disseminate the importance of anti-tsunami measures domestically and abroad.

¹⁴² These are units of personnel from the development bureaus in each region dispatched in order to provide smooth and prompt technological assistance for the efforts of the afflicted local government when large-scale natural disasters and the like occur. This includes quickly determining the extent of the damage, preventing said damage from spreading, and the prompt restoration of the afflicted region.

¹⁴³ “Fundamental Plan for National Resilience” (Cabinet decision on June 3, 2014).

¹⁴⁴ “Action Plan for National Resilience 2018” (Decided by the National Resilience Promotion Headquarters on June 5, 2018).

¹⁴⁵ An item which makes medical care portable by the stowing of medical equipment in a container, etc.

The government will promote a number of measures to counter nuclear disasters. These include formulating evacuation plans, human resource development via training and education, road improvement projects and the like to secure evacuation routes, ensuring smooth evacuations through model verification projects, the construction of radiation-proof protection facilities, and improving the quality of healthcare during nuclear disasters. The aim with these is to enhance and strengthen the country's disaster preparedness structures.

(4) The safety and security of life

1) Public order and the administration of justice

The government will enhance its countermeasures against the crimes that have been growing increasingly severe in recent years, and will ensure excellent public order by working together with a large number of agencies and organizations as needed. Examples of these increasingly-severe crimes include organized crime perpetrated by criminal syndicates, cybercrimes, drug-related crimes, bank transfer fraud and other types of special fraud, and violence against women and children, including sex crimes and child abuse. What is more, the government will promote measures to roll out one-stop support centers nationwide without any regional disparities, along with measures to support victims of crime. In order to prevent groping offenses, the government will partner with railway operators and others to enhance initiatives against this.

As things currently stand, roughly half of the persons arrested in Japan are repeat offenders. Based on the Re-offending Prevention Promotion Plan,¹⁴⁶ the government will strengthen initiatives like vocational training and job assistance; promote the use of welfare programs; offer guidance suited to the unique characteristics of women; encourage the activities of volunteer probation officers, cooperative employers, and offender rehabilitation facilities; harness private capital; partner with local governments; and improve the environments in correctional facilities. It will strengthen the system for investigating causes of death through efforts like analyzing and sharing information on the causes of death among children¹⁴⁷ and encourage examinations and autopsies on deaths due to overdoses of illegal drugs.

The government will strengthen human and material bases as well as international networks in public order, maritime security, and the judicial field. It will also enhance preventive judicial functions with a view towards preemptively preventing legal disputes in Japan and overseas. In conjunction with this, it will foster international judicial human resources with knowledge of international law and other such matters. The government considers the strengths of the Japanese judicial system as an

¹⁴⁶ Re-offending Prevention Promotion Plan (Cabinet decision on December 15, 2017).

¹⁴⁷ Child Death Review (CDR): Analyzing the causes of death among children and sharing the information via a databank.

important soft power, and will partner and work together with the United Nations and other relevant countries for the success of the Kyoto Congress 2020.¹⁴⁸ It will promote “The Diplomacy for Justice,” which is an initiative in the judicial fields in Japan and other countries, in a comprehensive and strategic manner throughout Japan under a centralized diplomatic approach.

Together with this, in line with the ideals of the Act on Promotion of Judicial System Reform,¹⁴⁹ the government will collectively promote judicial system reforms that include ensuring reliable administration of justice in which it is easy to access comprehensive legal support, promoting legal education, and more. It will also promote initiatives to do away with hate speech and human rights violations via the internet, and also promote activities to protect human rights focused mainly on challenges faced by youths. It will also move forward with appropriate awareness-raising activities based on the actual conditions behind violations of human rights, as well as traffic safety measures that include measures for elderly drivers.

2) Crisis management

The government will make every effort to preemptively prevent outbreaks of terrorism and undertake cyber-security measures in preparation for the hosting of the 2020 Tokyo Olympic and Paralympic Games. To accomplish this, it will strengthen its structures and capabilities for the gathering, collection, and analysis of terrorism-related information (with this including the use of cutting-edge technologies). It will also enhance border control, immigration control, and warnings and defense through coordination with the international community, industry, and academia. With regard to strengthening terrorism countermeasures for railways, the relevant governmental ministries and agencies will work together in an effort to handle this, including for bullet trains as well. Together with this, the government will promote domestic countermeasures to infectious diseases, while also strengthening international frameworks, research, tests, medical structures, and countermeasures against antimicrobial resistance. For the G20 Summit, the government will establish a structure for smoothly providing defense.

3) Creation of a society based on mutual assistance and peaceful coexistence

The government attracts private human resources and funds for public-interest activities that contribute to solving various social problems. In order to promote public interest activities by the private sector, the government will disseminate methods for properly measuring their outcomes, as well as promoting the development of a culture of donating; collaborations between the government, business, and NPOs (Collective

¹⁴⁸ 14th United Nations Congress on Crime Prevention and Criminal Justice (scheduled to be held in Japan in 2020).

¹⁴⁹ Act on Promotion of Judicial System Reform (Act No. 119 of 2001).

Impact Initiatives¹⁵⁰); and the use of social finance¹⁵¹ via crowdfunding and public-private partnerships. The government is also promoting efforts aimed at preparation for full operation of the Scheme for the utilization of funds related to dormant deposits in FY 2019.

The government will realize regionally-cohesive societies where all people get together to create and enhance community, livelihood, and meaningful lives.

The government will encourage the disabled to take part in work and community life, with this including transitioning over to community life and coordination between agriculture and welfare.¹⁵² For developmental disorders, it will strive to promote understanding on the part of society as a whole and provide support to families. It will work to round out statistics on the disabled in line with the Master Plan Concerning the Development of Official Statistics¹⁵³ in order to make it possible to perform comparisons between the disabled and non-disabled.

From the standpoint of achieving the early detection and prevention of abuse of the elderly and disabled, as well as determining the actual state of self-neglect,¹⁵⁴ the government will strive to improve the expertise of the related agencies, strengthen coordination among them, and set in place structures for this. Pursuant to the revised Act for Supporting the Self-reliance of Needy Persons,¹⁵⁵ the government will promote improvements to inclusive support structures for the needy, who are beset by challenges when it comes to their work, family finances, and housing. Based on the Basic Plan for Promotion of the Adult Guardianship System, the government will encourage the formulation of municipal plans and advance measures like establishing core agencies for regional coordination networks in a comprehensive and systematic manner.

The government will promote correct understanding of sexual orientation and gender identity and promote the creation of environments where the entire society accepts diversity. Together with this, the government will work to provide support to the elderly, disabled, and others regarding the use of ICT to achieve an inclusive society in which there is no digital divide.

¹⁵⁰ Collective Impact Initiatives are long-term commitments by a group of important actors from different sectors to a common agenda for solving a specific social problem. Their actions are supported by a shared measurement system, mutually reinforcing activities, and ongoing communication, and are staffed by an independent backbone organization.

¹⁵¹ Private trusts offering compensation based on achieve, social impact bonds, etc.

¹⁵² Agricultural work and employment in agricultural areas for the elderly, disabled, needy, and so forth.

¹⁵³ Master Plan Concerning the Development of Official Statistics (Cabinet decision on March 6, 2018).

¹⁵⁴ This refers to when elderly persons and others living at home fall into a state there they fail to carry out, or lack the capacity to carry out, actions they should normally carry out as part of their everyday lives as people living on their own, which in turn threatens their personal mental and physical health and safety.

¹⁵⁵ Act Partially Revising the Act for Supporting the Self-reliance of Needy Persons to Promote the Self-reliance of Needy Persons (Act No. 44 from 2018).

The government will encourage consultations related to matters like bullying through the use of SNS and other such means. In addition, it will promote comprehensive countermeasures against suicide through efforts like consultations with and support for youths, enhancing support for initiatives at the local level, and more. In addition, it will work on countermeasures against chronic pain, such as by creating guidelines and enhancing medical care structures.

With a view towards the lowering of the age of majority to 18 years old slated to take place in April 2022, the government will promote the necessary environmental improvements by making use of the liaison conference among related governmental ministries and agencies.¹⁵⁶ Examples of this include effective notification activities that reflect the opinions of youths, rigorous credit examinations, support for self-reliance, and reviewing how Coming-of-Age Ceremonies are carried out.

4) Universal health care coverage

Japan's universal health care coverage, which is among the best in the world, has promoted the health of the public and served as a cornerstone for public peace of mind and economic growth. The government will establish a social security model for all generations that is suited to the new era. In addition, it will also maintain its universal health care coverage and pass it down to subsequent generations to ensure security and safety in the lives of the public.

5) Consumer safety and security

To protect consumer safety and security, the government will enhance consumer education for minors with a view towards the lowering of the age of majority and build networks that protect the elderly and other vulnerable consumers. It will also enhance measures like strengthening governance for business operators by adopting certification schemes pertaining to whistleblower programs, ensure food safety through efforts like promoting hygiene management in line with HACCP, and standards for labelling genetically modified foods. It will also work on efforts to reduce food loss. Examples of this include promoting civil movements through partnerships of national and local governments, businesses, consumers, and various other concerned parties, promoting initiatives by private companies through the use of ICT, and more.¹⁵⁷

(5) Measures to address the decreasing birth rate, support for children and child-raising

The decreasing birth rate is a national disaster with the potential to shake Japan down to the roots of its society and economy, but one which the government will overcome. To achieve this, the government will set in place an environment that allows each

¹⁵⁶ Liaison Conference of Related Governmental Ministries and Agencies on Improving the Environment with a View Towards Lowering the Age of Majority.

¹⁵⁷ "Consumer Basic Plan" (Cabinet decision on March 24, 2015).

individual to get married at the time of their choosing, and which eliminates the gap between the number of children people would like to have with the actual number born in aiming to achieve a “desirable birth rate of 1.8.”

The government will make efforts to increase the diversity of those lending their support for child-raising, while also working to provide seamless support from the stages of marriage, conception, and childbirth. Examples of this include having individuals extend a cordial helping hand when it comes to child-raising and fostering a social sentiment of mutual support and encouragement, while also encouraging seniors with the energy and motivation to do so to get involved in their local communities. What is more, it will also create an environment in which both men and women can choose from a diverse array of lifestyles that would allow them to raise children while continuing to work should they so choose.

Furthermore, in order to improve the quality of support for children and child-raising even further, appropriate financial resources will be secured, including from sources other than the consumption tax.

As measures to break free of the intergenerational cycle of poverty, efforts will be made to support single-parent households and support child learning, enhance educational consultations provided by school counselors and others, support women facing issues such as violence from a partner, and ensure that everyone is registered to the family register. It will also work to achieve sound payments of child-support and opportunities for safe meetings and interactions in the wake of divorces. Through such initiatives, the government will work to eliminate child poverty throughout society as a whole.

The government will promptly and forcefully promote social child-raising through a number of initiatives to ensure that tragic incidents involving the loss of children’s lives are never repeated. Such initiatives include enhancing the personnel structures and expertise of municipalities and child consultation centers, enhancing cooperative structures with the relevant agencies among local governments when it comes to matters like appropriate information sharing, and measures to prevent child abuse by instituting efforts like appropriate temporary custody.¹⁵⁸ Other such initiatives include special adoption schemes based on general rules on prioritizing child-raising in the home, the establishment of support structures for having foster parents raise children, shifting to small-scale, locally decentralized orphanages and other such facilities,

¹⁵⁸ The 2016 and 2017 revisions to the Child Welfare Act (Act No. 164 from 1947) clarified the ideals of the Child Welfare Act, and further strengthened a series of measures from preventing the occurrence of child abuse to providing support for self-reliance.

functional enhancements that include strengthening the standards for deploying personnel, and switching functions to support child-raising at home.¹⁵⁹

The government will provide support for infertility treatment. It will also promote examinations to ensure that pregnant women at high risk can receive the support they need from early on by receiving medical exams at their maternity and gynecology department.

¹⁵⁹ In August 2017, the Minister of Health, Labour and Welfare proposed the New Vision for Social Child-raising, which embodies the ideals of the Child Welfare Act.

Chapter 3 Promotion of “Integrated Economic and Fiscal Reforms”

1. Progress towards and evaluations of Integrated Economic and Fiscal Reforms

The Abe Cabinet enacted its Revitalization Plan under the basic policy “Without economic revitalization, there can be no fiscal consolidation.”, and has aimed for integrated revitalization of the economy and public finances by proceeding with the following three pillars: overcoming deflation and revitalizing the economy, expenditure reforms, and revenue reforms. Fiscal consolidation targets and the like were established and the first three years of the plan period (FY 2016 to FY 2018) were designated as the “Intensive Reform Period.” In addition, specific policies were established for reforms in individual fields, “the reform time schedule” was created, and initiatives for this were promoted.

In addition, “the Interim Evaluation of the Integrated Economic and Fiscal Reforms”¹⁶⁰ was submitted to the Council on Economic and Fiscal Policy in March 2018.

(Comprehensive evaluations of the Integrated Economic and Fiscal Reforms)

To date, Abenomics has produced significant results when it comes to overcoming deflation and revitalizing the economy. But Japan is still halfway through the realization of the goals found in the Revitalization Plan of overcoming deflation and achieving economic growth above about 2% in real terms and about 3% in nominal terms.

As for fiscal consolidation, during the Intensive Reform Period, on the expenditures side the budget was formulated in line with the benchmarks for general expenditures and the like set in the Revitalization Plan.¹⁶¹ In addition, on the revenue side the expectation is that central and local tax revenue for FY 2018 will be revised upwards to record high levels. However, owing to a more moderate growth in tax revenue than initial assumptions due to decline in economic growth, as well as the impact from the postponement of the consumption tax rate hike and the supplementary budget, the expectation is that the primary deficit to GDP ratio¹⁶² for FY 2018 will be about 2.9% and delayed progress will be seen versus the initial assumptions. What is more, in order to ensure stable financial resources for the Human Resources Development Revolution, the decision was made to revise the purposes of use of the tax revenue generated from the consumption tax rate hike scheduled for October 2019. As a result, the period of achieving the target of the primary surplus was affected, and it became difficult to achieve the target of the primary surplus by FY 2020. The rise in the public

¹⁶⁰ “Interim Evaluation of the Integrated Economic and Fiscal Reforms” (Issued by the Committee for Promoting the Integrated Economic and Fiscal Reforms in March 2018).

¹⁶¹ General expenditures increased about 1.6 trillion yen and social security expenditures increased about 1.5 trillion yen over the three years of the Intensive Reform Period. The increase from the aging population over this same period came to about 1.5 trillion yen.

¹⁶² In the Revitalization Plan, this was set at approximately 1% as a benchmark of reform measures.

debt to GDP ratio has been moderate, but has not yet reached the point of steady reduction.

On the expenditure reform side, it is taking some time for the initiatives to promote behavioral changes on the part of the public, companies, local public organizations, and others through “visualization” and strengthening the incentives to become widespread. In addition, delayed progress has been seen with the institutional reforms pertaining to benefits and burdens.

In the 2020s the baby-boomer generation will start reaching 75 years of age, which will lead to an increase in social security expenditures. In addition, unless some sort of measures are taken for the social infrastructure that has been set in place since the period of high economic growth, then the burden for maintaining and upgrading this will grow larger. On top of this, new demands on public finances are also anticipated as a result of responding to the increasingly severe security environment and so forth. What is more, consideration must continue to be given to the potential for social transformation as a result of the coming 100-year life era, the use of AI, and other such factors.

2. The consumption tax rate hike on October 1, 2019 and curbing demand fluctuations

Regarding the consumption tax rate hike to 10% on October 1, 2019, initiatives will be enhanced such as mitigating the burden of education, supporting people raising children, and ensuring long-term care workers, while consideration will also be given to low-income earners. Suppressing the economic fluctuations—such as the surge in last-minute demand and downturn that will accompany the hike in the consumption tax rate—to the extent possible will be beneficial for the economy as a whole, and so the government will promote the following initiatives. It will also publicize to the general public the necessity of the consumption tax rate hike, measures to mitigate the impact this will have, and so forth in an easy to understand manner.

(1) Reassessing how the increase from hiking the consumption tax rate is to be used

In order to ensure a stable source of funding for the reforms in human development while still striking a balance between enhancing social security and fiscal consolidation, the government reassessed how the increase from hiking the consumption tax rate, which is scheduled for October 1, 2019, will be used. Specifically, of the extra 5 trillion yen in tax revenue that will come from the 2% hike in the consumption tax rate, conventionally the decision had been made to use one-fifth of this to enhance social security and to use the remaining four-fifths on fiscal

consolidation.¹⁶³ This will be changed so that roughly half of this is allocated to mitigating the burden of education, supporting people raising children, ensuring long-term care workers, and so on,¹⁶⁴ while the other half is allocated to fiscal consolidation.¹⁶⁵ As part of this, improvements to the treatment of long-term care workers will be instituted to coincide with the date the consumption tax rate is hiked on October 1, 2019. In addition, the aim will be to make preschool education free, while also mitigating the negative economic repercussions from hiking the consumption tax rate.

(2) Implementing reduced tax rate schemes

For the hike of the consumption tax rate to 10% on October 1, 2019, consideration will be given to low-income earners. From this perspective, reduced tax rate schemes will be implemented for food and beverages (excluding alcohol and dining out) and newspapers published twice weekly or more with which people conclude subscription contracts. Preparations continue to be advanced for the smooth implementation of these schemes.

(3) Measures to curb last-minute demand/downturn

Since the consumption tax was introduced in Japan in 1989, the perception has broadly taken hold that this is a tax system that has raised prices uniformly and simultaneously both when it was adopted and whenever the tax rate is increased. As opposed to this, in European countries value-added taxes were introduced between the 1960s and early 1970s, and they amassed a wealth of experience with hiking the tax rate. In these countries, when hiking the tax rate business owners were respectively free to determine things like what sorts of prices to set at what times. Therefore, uniform and simultaneous increases in prices that include tax do not occur on the day the tax rate is increased, nor do substantial last-minute demand or downturns arise around when the tax rate is hiked.

The consumption tax is an institution disposed towards striving to equitably and broadly spread the tax burden across consumption. In light of this, specific consideration will be given to methods for curbing last-minute demand and downturns by means of allowing business owners to freely set prices at their own respective discretion according to demand around the time the tax rate hike scheduled for October 1, 2019 occurs.

On the other hand, the government will ensure that businesses do not refuse to pass the consumption tax onto subcontracted small and medium enterprises (SMEs),

^{163, 165} Reduce the burden passed onto future generations and increase expenditures resulting from the hike in the consumption tax rate regarding the four types of social security spending.

¹⁶⁴ The “and so on” here refers to measures to enhance social security, such as support payments for pensioners, which it was previously decided would be implemented when the consumption tax rate is hiked to 10% (about 1.1 trillion yen).

small-scale entrepreneurs, and so forth. To do this, it will make efforts to monitor and crack down on refusals to pass this on, provide instructions to businesses, and provide thorough notification in striving to take complete and thorough measures regarding passing this on. It will also promote the revitalization of shopping districts, the adoption of IT/payment devices by SMEs and small-scale entrepreneurs, and the spread of point systems and cashless payments.

(4) Countermeasures for durable consumer goods

When the consumption tax rate was hiked in April 2014, this produced last-minute demand and a downturn primarily centered on durable consumer goods. In light of this, when the consumption tax rate is hiked on October 1, 2019, specific consideration will be given to adequate countermeasures via the tax system and budget to equalize any demand fluctuations with respect to support for purchasing automobiles, homes, and so forth following the tax rate hike.

3. Formulation of the New Plan to Advance Economic and Fiscal Revitalization

(1) Basic concept

The government will firmly maintain the basic policy “Without economic revitalization, there can be no fiscal consolidation” as it continues to accelerate and expand the following three pillars reform: overcoming deflation and revitalizing the economy, expenditure reforms, and revenue reforms. What is more, it will properly and soundly implement responses based on the progress and evaluations to date of Integrated Economic and Fiscal Reforms, and responses to challenges with a view towards major changes and risks expected to occur in the future.

- 1) While the country has yet to soundly achieve sustainable economic growth driven by private demand, there is the possibility that a decline in corporate earnings owing to factors like the falling growth rate of the global economy will produce delays in restoring tax revenue. Fiscal consolidation will be conducted steadily and at a pace and with a flexibility that will not undermine economic recovery.
- 2) While the negative output gap is shrinking, it will be crucial to bolster the supply side in order to realize a 600 trillion yen economy. The budget ordinarily required for things like Supply System Innovation and Human Resources Development Revolution and so forth will be allocated to the initial budget and the government will focus on such policy areas. In addition, the government will adopt a mid- and long-term perspective in systematically implementing investment projects with significant spillover effects that will serve as a foundation for future growth and result in an affluent lifestyle for the general public. It will also promote initiatives geared towards expanding disposable income, as well as increasing ongoing investments in corporate equipment, research, and human resources in order to expand the virtuous cycles of growth and distribution.

- 3) Through initiatives conducive to changing the thinking and behavioral changes of the public at large,¹⁶⁶ the government will: (i) Strengthen potential growth rate through measures like improving the efficiency of the public sector, effectively utilizing public capital stock¹⁶⁷ and internal reserves, and encouraging the optimal deployment of human resources which are in short supply. (ii) On the demand side, the government will successfully curb public spending while curtailing the downward pressure on the economy by creating new services without reducing the quality or level of public services.
- 4) The government will promptly restore the ability of public finances to handle external shocks like those from large-scale natural disasters or international financial crises. In the interest of doing this, it will continue to get ahead of reforms while backcasting from its ideal vision for the future with a view towards the changes predicted to occur in the 2020s.
- 5) The government will work to soundly hit its targets by accelerating and expanding initiatives aimed at accommodating important challenges in each major policy area and expenditure reforms. It will work on reforms starting from FY 2018, and also reflect the initiatives for this into the drafting of the budget for each fiscal year as well as all plans, basic policies, institutional reforms, and so forth. To do this, it will revise the reform time schedule and set forth a new reform time schedule by the end of 2018 based on this Basic Policy.

(2) Fiscal consolidation targets and initiatives for achieving them

(Fiscal consolidation targets)

For the setting of the fiscal consolidation targets, the government must expand the scope of initiatives and enhance their quality to a greater extent than ever before without loosening up on its initiatives to date on the expenditure or revenue side.

Achieving the primary surplus by FY 2024 will come into view¹⁶⁸ by achieving sound improvements in the balance of revenues and expenditures based on the Economic Growth Achieved Case indicated in the “Economic and Fiscal Projections for Medium to Long Term Analysis” (hereafter referred to as the “Medium to Long Term Analysis”).¹⁶⁹

¹⁶⁶ Initiatives to “incentives reforms,” for “visualization,” for the “dissemination of advanced and excellent practices,” to “industrialization of public services,” and “Business innovations utilizing technological innovation” designed to encourage forward-thinking behavioral changes.

¹⁶⁷ Social capital, land, information, etc.

¹⁶⁸ Under the Abe Administration, the extent to which the primary balance improved up through FY 2015 (when the target of halving the primary deficit to GDP ratio was achieved) came to around 0.46% points on average annually (versus FY 2012; excluding the improvement from the consumption tax rate hike in April 2014). Assuming that this rate of improvement were to continue as is, then the expected performance for the primary deficit to GDP ratio for FY 2017 of 3.4% will improve by 3.6% points total over the seven years through FY 2024, coinciding with the improvement from the consumption tax rate hike scheduled for October 2019 (of 0.4% points), bringing the FY 2024 primary balance to GDP ratio to a surplus of about 0.2%.

¹⁶⁹ Announced by the Cabinet Office on January 23, 2018.

However, it is anticipated that there is the potential for the economic recovery to slow down and social security expenditures to become magnified in the future. If necessary, the government must respond flexibly to ensure that the economic recovery will not be undermined, and respond so as to soundly achieve economic growth. What is more, it is necessary to enhance the basis for the social security system by the time the baby-boomer generation start reaching 75 years of age, and surely establish a path for fiscal consolidation by the time all of the baby-boomer generation reach 75 years of age.

Therefore, regarding the fiscal consolidation targets the government will:

™ Aim for the primary surplus of the central and local governments by FY 2025 by implementing economic revitalization and fiscal consolidation steadily.

™ At the same time, firmly maintain the aim of reducing the public debt to GDP ratio steadily.

(Considerations in designing the strategy to achieve the targets)

- 1) The government will raise the potential growth rate via priority initiatives for achieving strong economic growth (Chapter 2) and soundly overcome the demand fluctuations resulting from factors like the consumption tax rate hike. With the policy management of the Bank of Japan for achieving a price stability target of 2% as soon as possible will continue, the expectation is that the deflationary mindset that has taken hold will be dispelled. Through this, achieving growth above about 2% in real terms and about 3% in nominal terms will be essential for fiscal consolidation. However, the government must also pay heed to the risk factors inherent to protectionism, such as potentially shrinking global trade and the impact it can have on financial and capital markets.
- 2) The government will formulate a strategically focused budget¹⁷⁰ based on objective data such as cost-effectiveness in aiming to further improve the quality of the budget. It will continue initiatives to directly curb prices as well. What is more, given the expectation is that wages and prices will rise, for expenditure reforms priority will be given to initiatives that accelerate and expand upon the reforms through dissemination of behavioral changes. The government will work to address the budget by giving top priority to such initiatives, while also promoting consensus-building in order to implement the budget at a faster pace and broader scope than ever before.
- 3) Upward pressure on social security expenditures is mounting. Given this, promoting structural reforms geared towards establishing a social security system that strikes a balance between benefits and burdens for all generations by improving the quality of social security while eliminating waste will contribute significantly to fiscal consolidation.

¹⁷⁰ Reorganizing budgets to increase highly effective budgets while decreasing ineffective budgets.

- 4) The government will view additional increases in expenditures as necessary, and will secure appropriate and stable financial resources. For expenditures that will occur during a finite period of time, the government will continue to secure funding from resources such as the sale of assets to strictly maintain fiscal discipline. It will promote expenditure reform initiatives geared toward improving the primary balance through not only the initial budget, but in a consistent manner with supplementary budgets as well.

(Setting the “foundation-reinforcement period” centering around social security reforms)

To achieve the primary surplus by FY 2025, it is essential that the government strives to achieve a number of initiatives centered around reforming social security. These initiatives include curbing the natural increases in social security expenditures, achieving moderation with, improving the efficiency of and improving productivity of structures that provide medical and long-term care services, and moderating benefits and burdens. In FY 2020 and FY 2021 the growth in the number of elderly people reaching 75 years of age will be slow, but from FY 2022 the baby-boomer generation start reaching 75 years of age, with a rapid proliferation in social security expenditures anticipated as a result. The government set the years from FY 2019 to FY 2021 leading up to this as the “foundation-reinforcement period,” during which it makes efforts to establish the basis for sustainable economic growth and fiscal sustainability. The government will also bear in mind the fact that ensuring the sustainability of the social security system will underpin the economic recovery and provide backing for achieving sustainable economic growth.

(Structures for linking the fiscal consolidation targets to the budgets formulated in each fiscal year)

The government will reassess all individual expenditure items without exception to balance economic revitalization with fiscal consolidation. Budgets in the foundation-reinforcement period will be formulated in line with the following benchmarks in order to link the fiscal consolidation targets to the budgets formulated in each fiscal year. However, considering the fact that the increment of social security expenditures varies by year as a result of the aging population and the like, it should be noted that the government will seek to control the year on year expenditure flexibly, not evenly.

- 1) For social security expenditures, in the Revitalization Plan the government set forth a policy of aiming to keep the essential increase in social security expenditures within the levels equivalent to the expected increase due to population aging towards FY 2020. Based on this, as well as the future economic

situation and price movements and the like, the government will continue with this policy from FY 2019 through FY 2021.¹⁷¹

The planned increases based on the consumption tax rate hike (enhancements of social security that have been previously established; alleviation of education burden, child-rearing support, and securing of long-term care workers indicated in the “New Economic Policy Package”;¹⁷² and economic burden borne by the public concerning the four types of social security expenditures) will be considered separately.

For those of FY 2022 and later, the government will consider, reflecting such factors from the aging population as the baby-boomer generation starting to reach 75 years of age and social security expenditures surge, and with comprehensive consideration for factors such as the population decline, the future economic situation and price movements, and the situation surrounding social security.

- 2) Regarding general expenditures other than social security expenditures, the expenditure reform initiatives carried out thus far by the Abe Cabinet will be continued with consideration of the future economic situation and price movements and other such factors.
- 3) Regarding local government expenditures which will be controlled in line with the efforts of the central government, the total amount of general revenue sources which would be necessary for stable fiscal management of local governments including those receiving local allocation tax grants, shall be maintained substantially at the same level as in the FY 2018 Fiscal Plan of Local Governments, and not below.

If lasting rises in revenue¹⁷³ from institutional reforms in order to accommodate the increases in the demands for public finances that are truly needed is secured, consideration will be given to expenditure reform initiatives.

(Setting intermediate indicators)

The government will confirm the progress status of initiatives for achieving the fiscal consolidation targets. To do this, it will set intermediate indicators for FY 2021, which is the midterm year leading to the target fiscal year for achieving the primary surplus of FY 2025, taking the recent performance from FY 2017 as its starting point, as benchmarks for managing the progress for this. Regarding the primary deficit to GDP ratio, this will be set at substantially half of this figure from FY 2017 onward (around

¹⁷¹ The increase from the aging population consists of the fluctuations resulting from the changing demographics and the proportional change in pensions. Regarding the fluctuations resulting from the changing demographics, the increase based on the expected growth in the number of elderly people in the fiscal years in question will be reflected. And regarding the proportional change in pensions, the actual results will be reflected. As a result, expenditure reform efforts similar to those over the three-year period leading up to this will continue.

¹⁷² “New Economic Policy Package” (Cabinet decision on December 8, 2017).

¹⁷³ Establishing a tax on international tourists and forest environment tax (tentative name), by way of example.

1.5%).¹⁷⁴ As for the public debt to GDP ratio, this will be set in the low 180%-range, while the fiscal deficit to GDP ratio will be set at 3% or below.¹⁷⁵

(Future initiatives for achieving the plan)

The government will review the progress of efforts to responsibly conduct economic and fiscal management. In order to take steady steps towards establishing a sound social security system for all generations, the government will promote comprehensive discussions; and start sequentially putting them into practice in the time period planned. The government will review the state of progress focusing mainly on the social security reforms thus far in FY 2020. Policies that must be addressed in a comprehensive and prioritized manner for social security, including modalities for benefits and burdens, will be compiled into “Basic Policy on Economic and Fiscal Management and Reform”, and the government will move forward with instantiating such reforms from early on.

The progress made on Integrated Economic and Fiscal Reforms will be assessed at the halfway point of the new plan (FY 2021), with this to be reflected in subsequent efforts for expenditure and revenue reforms to achieve the primary surplus by FY 2025.

The Council on Economic and Fiscal Policy will carry out the progress management check and assessment of the reforms. In addition, the Cabinet Office will periodically analyze discrepancies that arise with the performance in the Medium to Long Term Analysis.

4. Basic policies and important challenges from the plans for each major policy area

(1) Social security

(Basic concept)

Social security is a priority area of expenditure reform. The government will achieve a quality society in which the public can plan for their lives with a sense of security and outlook for daily life on into the future, thereby allowing them to take part in society in a diverse number of different ways. This will be done by aiming to accurately respond to changing social structures and establish a sustainable social security system. Through these sorts of initiatives, the social security system will form the foundation that underpins economic growth and lead to revitalizing both consumption and investment. At the same time, efforts will be made to strike a balance between curbing

¹⁷⁴ Level at which this has been formally halved in the intermediate fiscal year (FY 2021) leading up to surplus by FY 2025, excluding the improvements (0.4%) from the consumption tax rate hike.

¹⁷⁵ The expected performance for the public debt to GDP ratio in FY 2017 is around 189% (level of the ratio of outstanding debt to GDP from the Medium to Long Term Analysis). In order to reduce the public debt to GDP ratio steadily, the government must steadily improve its fiscal deficit to GDP ratio (the expected performance for FY 2017 for this is around 4.8%). In the EU, 3% of the fiscal deficit to GDP ratio is regarded as a benchmark for preventing excessive fiscal deficits from occurring.

the rising burden on the public and stabilizing the social security system by means of increasing its efficiency.

The government will steadily promote a total of 44 items for the revitalization plan's reform time schedule. It will accelerate and expand a number of initiatives like thoroughly eliminating waste in, and improving the efficiency of, medical and long-term care by changing people's behavior and so forth, establishing regional service structures with a view towards the aging population and its population decline, and more. The government will soundly continue striving to ensure the sustainability of social security by reassessing benefits and burdens. On the basis of evidence-based cost-effectiveness, the government will extend people's healthy lifespans in order to maintain social dynamism. It will also promote initiatives designed to improve productivity in areas like medical and long-term care with a view towards ensuring service despite labor shortages.

Regarding the priority challenges for the foundation-reinforcement period, policies that must be addressed in a comprehensive and prioritized manner will be compiled based on the aging population and population decline, as well as the increasing sophistication of medical care. The creation of schedules starting from within this period, the translation of these into action, including for institutional reforms, and the growth in social security expenditures in general accounting and finance will be carried out in accordance with structures for linking the fiscal consolidation targets to the budgets formulated in each fiscal year.

For such initiatives, it will be important to broadly share a vision for how social security benefits and burdens should be structured and stir up a national debate over this with a view towards the year 2040 or thereabouts. The relevant governmental ministries and agencies will work together to present a specific outlook for the future based on factors like the percentage of people receiving medical care, productivity trends, the drop in the number of people supporting this, and advances in the sophistication of medical technology. Additionally, the government will set forth and promote specific targets, as well as KPIs for the various measures conducive to achieving these, with a view towards reducing the percentage of people receiving medical care and successfully improving productivity via prevention¹⁷⁶ and health.

Through these sorts of initiatives, the government aspires to establish a social security system for all generations, maintain world-class universal health coverage and pensions for the public, and pass these down to subsequent generations.

¹⁷⁶ Referring to disease prevention and preventing illnesses from increasing in severity.

(Promoting prevention and health)

The government is aiming to extend people's healthy life expectancy and reduction of disparities between average life expectancy, with this serving as a foundation for encouraging the elderly and others to take part in work and society in a variety of ways and to maintain the dynamism of society as a whole.

The government will give priority to the prevention of diabetes and other lifestyle-related diseases, chronic kidney diseases that lead to dialysis, as well as dementia. When it comes to preventing diabetes and other lifestyle-related diseases from increasing in severity, the government will meticulously work over the next three years to accelerate the dissemination of advanced and excellent case examples, such as the initiatives of Saitama Prefecture being promoted through the joint efforts of the prefecture, the Federation of National Health Insurance Associations, medical associations, and more. The government will constantly reassess the substance behind how cancer screening are carried out for diseases that cause cancers, such as stomach cancer. In addition, it will also tie this in with early detection and early treatment, including for cancers that are difficult to diagnose early, such as pancreatic cancer. The government will also work to balance cancer treatment with work by means of promoting the adoption and use of medical leave. For the Nippon Kenko Kaigi (Japanese Health Council), the government will promote prevention and health throughout society as a whole, including among the apathetic and people with few opportunities to receive physical exams, via partnerships among a diverse array of actors. For example, it will promote the holding of meetings by this organization at the prefectural level and so forth. The government will promote the organization and analysis of data in medical and long-term care systems, and augment the functions of insurers. It will also set in place structures that provide compensation of sorts to people who do their best when it comes to prevention and to maintain their fitness by prioritizing measures based on scientific evidence.

The government will promote research and development related to dementia in a prioritized manner, while also collecting and disseminating advanced and excellent case examples related to dementia prevention. By implementing the New Orange Plan,¹⁷⁷ the government will continue to augment the functions of the Dementia Medical Center as a command center for cyclical networks to ensure that timely and appropriate medical and long-term care are provided according to the conditions of dementia.¹⁷⁸ It will also promote improvements to community-based total care systems by means of establishing consultation functions and promoting partnerships with community-based total care centers, among others. It will also create local communities of mutual-aid that allow people with dementia to live their lives while maintaining their dignity.

¹⁷⁷ "Japanese National Dementia Strategy (New Orange Plan)" (revised on July 5, 2017).

¹⁷⁸ Including pneumonia and other physical complicating illnesses.

The government will give consideration to structures to be implemented in an integrated manner by municipalities in partnership with prefectures and others. Such initiatives include preventing the need for long-term care and countermeasures against frailty¹⁷⁹ focused mainly on venues frequented by elderly people, the prevention of illnesses like lifestyle-related diseases and preventing said illnesses from increasing in severity, and supporting people's participation in work and society. It will also apply incentives in aiming to eliminate the regional disparities in the length of healthy lifespans. What is more, the government will work to apply new Dietary Reference Intakes that will contribute to countermeasures against frailty of the elderly, while also further promoting health initiatives for the public as a whole in each region with the participation of a diverse array of actors, including businesses and local governments. Moreover, from the perspective of health promotion movement, the government will thoroughly enforce countermeasures against second-hand smoke with a view towards the 2020 Tokyo Olympic and Paralympic Games. Oral health is tied with a person's overall physical health, and so the government will work to enhance oral health and medical care through a variety of initiatives. These include enhancing dental exams throughout one's lifetime, enhancing dental and oral health, such as by promoting the management of oral functions among the public (including hospital patients and people who require long-term care), and creating partnerships with medical and dental clinics in local regions. The government will work to strengthen health assistance for women throughout their lifetimes. It will address efforts like the centralized use of health information for infants and school-aged children. Based on the Basic Policy on Countermeasures to Allergic Diseases,¹⁸⁰ the government will promote measures designed to prevent allergic diseases from increasing in severity and to mitigate their symptoms.

In addition, as it continues to promote self-medication, the government will advance initiatives for health support pharmacies. As pharmacies found close to home for local residents, these pharmacies undertake functions like consultations on health maintenance and promotion, properly supplying over-the-counter medicines and the like, and offering advice.

(Playing active roles throughout one's life, at-home end-of-life care, etc.)

In light of the increasing diversity of work styles, the government will conduct reviews in aiming to achieve universal insurance programs¹⁸¹ for workers that provide

¹⁷⁹ Frailty is regarded as a preliminary stage leading to conditions that require long-term care. It signifies a high-risk condition where the sufferer is prone to suffering from multifaceted problems that include not only physical weakness, but also mental/psychological weakness and social weakness that leaves them prone to health problems such as impediments to their independence and even death. It has been determined that it is possible to maintain and improve everyday functions via the appropriate intercessions and support, including guidance related to exercise, oral health, nutrition, and so on.

¹⁸⁰ Basic Policy on Promoting Countermeasures to Allergic Diseases (Notification No. 76 from the Ministry of Health, Labour and Welfare from March 21, 2017).

¹⁸¹ Further expanding the application of employee insurance.

extensive coverage for workers via employee insurance. In doing so, it will verify the results for expanding applications of employee insurance to date and the impact that this has had on workers' employment behavior. The government will establish a neutral public pension scheme for elderly workers by means of increasing the flexibility surrounding the age at which people can begin receiving their pensions, reassessing schemes for old-age pensions for current workers, and more. What is more, the government will harness financial incentives for local governments, including existing measures, to expand initiatives for training and hiring healthy elderly people who are motivated to keep working in service areas peripheral to professional jobs, such as long-term care and child-raising, nationwide. The government will aim to enhance and strengthen children and child-raising to achieve social security for all generations. As part of this, it will be important to continue providing effective and efficient support, and so the government will perform reviews that include assigning priority to different initiatives.

The final stages of a person's lifetime represent a critical juncture in their lives. As such, the government will work towards the nationwide expansion of processes¹⁸² for holding adequate discussions on modalities for how medical treatment and care should be handled in this stage of life between the person in question, their family, medical professionals, and others. To do this, it will carry out initiatives involving the relevant organizations, provide notification,¹⁸³ and move forward with creating structures that would allow the concerned parties to confirm the intentions and will of the person in question as needed. What is more, the government will work to analyze advanced and excellent case examples of at-home end-of-life care in places where the person is accustomed to living and to disseminate these.

To ensure that people with mental disabilities can live after their own fashion with peace of mind as members of their community, the government will continue promoting the establishment of integrated community care systems that can accommodate mental disabilities. To counter dependence on alcohol, drugs, gambling, and other such addictions, the government will continue to improve its consultation and treatment structures, while also working to provide support to private organizations.

(Improving the efficiency of structures for providing medical and long-term care and supporting prefectural initiatives geared towards this)

The government will encourage the intensive reviews that are continuing on from the previous fiscal year regarding specific response policies for individual hospital names and the number of sickbeds to be converted in order to achieve its vision for

¹⁸² Called Advance Care Planning (ACP).

¹⁸³ Regarding APC, the government is envisioning efforts like the general solicitation and selection of a name that has mass appeal among the public, as well as setting up a day for thinking about medical treatment and care in the final stages of people's lives.

community health care, and will move forward on formulating said policies sometime in FY 2018. With respect to public medical institutions, based on factors like the demand for medical care in local regions, the government will reassess medical functions to prioritize advanced acute phase/acute phase medical care that cannot be handled by private medical institutions in the community, as well as the provision of medical care in unprofitable departments and underpopulated regions and so forth. It will also promote discussions on reorganizations and consolidations in order to achieve this. In cases where progress has not been made on differentiating the functions of sickbeds and achieving coordination between them through such independent initiatives, reviews will promptly be promoted at the relevant review meetings and the like regarding how authority is to be structured to ensure that prefectural governors can properly fulfill their roles. The government will soundly promote initiatives like converting sickbeds and a shift to long-term care facilities. It will achieve this by verifying the effectiveness and costs of the promotion policies to date, such as the results of reorganizing sickbeds by reassessing the “Integrated Securing of Funds for Regional Medical and Preventive Long-term Care” and the revision of a payment method for acute patient and long-term care sickbeds. The government will examine the necessary responses, and consider additional policies to support downsizing sickbeds. The government will take measures to promote the efficient allocation of expensive medical equipment, such as by further promoting joint/communal use. In addition, it will consider measures for promoting improvements to operating rates as a result of this.

For FY 2020 and FY 2021, the government will largely maintain the current, temporary number of students at medical schools while carefully scrutinizing the need for these to an extent that does not exceed the number of medical school students from FY 2019. From FY 2022 onward, estimates of the demand for doctors will be performed periodically, based on which the policies for the number of doctors to be trained will be reviewed with a view towards the decline in the number of medical school students in the future out of consideration for factors like work-style reform and the current maldistribution of doctors. What is more, the government will promote reviews on the work-style reform of doctors by verifying the impact that this will have on the provision of medical care locally.

In order to halve the regional disparities in per-capita medical costs and reduce the regional disparities in per-capita long-term care costs, the government will undertake progress management and visualization regarding region-specific initiatives and outcomes by having the national and prefectural governments proactively fulfill their roles. It will also analyze regional factors behind why progress has been delayed and consider additional responses, such as further enhancing insurer functions. To achieve fiscal soundness for the National Health Insurance system, the government will make efforts to provide support for and disseminate advanced case examples, such as eliminating extra-legal transfers, while also promoting visualization of the

system's benefits and burdens. With respect to the medical fees unique to each region based on Article 14 of the Act on Assurance of Medical Care for Elderly People,¹⁸⁴ the government will review how specific usage measures that contribute to decisions by the prefectures are to be handled.

The government will continue to promote the optimization of polypharmacy through the use of health insurance claims information. This will be done by creating structures whereby doctors and pharmacists can view the patient's medication history (with the consent of the patient in question) and via incentives for proper medication in the reimbursement system. The government will publicly announce the evaluation results via evaluation indicators for the financial incentives for long-term care insurance, and promote the visualization of and improvements to the status of initiatives. Regarding the policy on utilizing adjustment subsidies during the eighth Insured Long-term Care Service Plan period, the government will bear in mind the fact that it plays an important function in adjusting the income level gradations between insurers based on the achievement status for initiatives by insurers through new subsidies via the revised Long-term Care Insurance Act,¹⁸⁵ the application status of evaluation indicators, and more. In addition, the government will perform reviews and come to a conclusion on specific policies based on the opinions of relevant officials from public organizations from during the seventh period.

The government will promote coordination between regions over initiatives like expanding the coverage area for providing medical and long-term care in major cities and rural regions based on the new future population estimates for each region.

(Improving the productivity of medical and long-term care services)

Through the use of technology, the government will aim to improve the productivity of medical and long-term care services at a level whereby the services deemed necessary as of the year 2040 can be properly ensured.

For prevention and fitness initiatives, data health, and health projects, the government will promote diverse and comprehensive outsourcing to the private sector and continue to raise the quality and efficiency of said services. It will promote health management by companies through partnerships with insurers by working to strengthen industrial physician and industrial health functions and promoting the use of services that underpin health management. In addition, it will work to disseminate advanced and excellent case examples for promoting prevention and fitness nationwide. Moreover, the government will continue to promote the adjustment of and improved efficiency for medical fees and long-term care fees. It will also continue to

¹⁸⁴ Act on Assurance of Medical Care for Elderly People (Act No. 80, 1982).

¹⁸⁵ Act for Partial Revision of the Long-term Care Insurance Act, etc. to Strengthen the Integrated Community Care System (Act No. 52, 2017).

spread payments method based on outcomes, such as by improvement of ADL,¹⁸⁶ to ensure that high-quality health services are provided in a stable manner.

The government will promote data health reforms, make health insurance number for individuals, and introduce the system that can be checked health insurance IDs online. It will work on the Healthcare Data Platform with the aim of beginning its full-scale implementation in FY 2020. The government will interlink the Clinical Innovation Network (CIN) with the PMDA's medical information database (MID-NET) to perform clinical trials, develop pharmaceuticals, and make use of this for safety measures and the like. For the inspection and payment organizations for medical insurance, the government will steadily promote the reforms listed in the Plan/Schedule for Improving the Efficiency/Increasing the Sophistication of Payment Fund Services and other places.

The government will promote initiatives geared towards the implementation of AI; create databases for collecting and analyzing data on the contents of care; and encourage the use of robots, IoT, AI, and sensors. This is designed to ensure that efficient medical and long-term care and welfare services can be provided through a limited number of workers as the population declines. In addition, it will set in place doctor training programs that are consistent from pre-graduation to post-graduation in order to improve their diagnostic and treatment capabilities, while also promoting the training of general practitioners. The government will promote initiatives like reassessing the division of duties of employees and their efficient allocation, making use of a diverse array of human resources, such as long-term caregivers and child-raising assistants, and reforms for office management. The government will also make effective use of human resources and other resources by increasing the scale of long-term care management and making it more cooperative.

(Visualization, service innovations that harness technological innovations, disseminate advanced and excellent case examples, etc.)

The government will promote the dissemination of advanced and excellent case examples by making further use of incentives, such as adding additional evaluation indicators for the insurer effort support system, and providing support via the strategic dissemination of information.

When it comes to the ordinary adjustment subsidies for the National Health Insurance system, the government will promote verifications on modalities for adjustments and distributions related to regional disparities from the perspective of having incentives function to moderate medical costs while still maintaining income adjustment functions. The government will also consider prompt reappraisals between the

¹⁸⁶ Activity of Daily Living. This refers to daily activities such as eating, getting dressed, going to the bathroom, bathing, getting around, and so on.

concerned parties that give consideration to smoothly operating a new system in which the prefectures serve as the entities responsible for the financial management of the National Health Insurance system.¹⁸⁷

The government will promote science-based long-term care, and disseminate long-term care with a view towards supporting people's independence and preventing their health conditions from growing more severe, with this to include improving nutrition. In particular, it will promote initiatives aimed at the practical implementation of science-based care plans that make use of AI to contribute to supporting people's independence and preventing their health conditions from growing more severe. It will also review modalities for the work of care managers in the interest of improving their quality.

The government will work to achieve consistency with existing measures for research and development, as well as implementation, conducive to resolving social challenges such as dementia and genome medical treatment for cancer. In addition, the government will assign levels of priority and allocate budgets in a prioritized manner based on these, while also clarifying the scope of projects over the mid- and long-term and moving ahead with these.

(Reforms related to pharmaceuticals, etc.)

Based on the Basic Policy on Fundamental Reform of the National Health Insurance Drug Price System,¹⁸⁸ the government will work to mitigate the public burden and improve the quality of medical care, while also converting to an industrial structure in which the pharmaceutical industry possesses excellent drug discovery capabilities. The government will strive to promote research and development on biopharmaceuticals. In addition, it will steadily promote initiatives aimed at enhancing the international competitiveness of the pharmaceutical industry. This will be done, for example, by promoting research and development of and the popularization of biosimilars by gaining an understanding of their effectiveness and safety based on the "Basic Policy on Economic and Fiscal Management and Reform 2017."¹⁸⁹ The government will continue to review specific contents when it comes to the full-scale implementation of cost-effectiveness evaluations, and will come to a conclusion in FY 2018. Regarding the annual drug price surveys and annual drug price revisions, revisions will be carried out for all drugs in FY 2019¹⁹⁰ and FY 2020.¹⁹¹ In addition,

¹⁸⁷ The reviews will be carried out based on opinions to the effect that standard medical costs adjusted by the enrollees' sex and age should be allocated as standard, and the view that income adjustment functions between regional organizations responsible for ordinary adjustment subsidies are extremely important, and so forth.

¹⁸⁸ "Basic Policy on Complete Reform of the National Health Insurance Drug Price System" (December 20, 2016, Decision by the Chief Cabinet Secretary, State Minister in Charge of Economic and Fiscal Policy, Minister of Finance, and Minister of Health, Labour and Welfare).

¹⁸⁹ "Basic Policy on Economic and Fiscal Management and Reform 2017" (Cabinet decision on June 9, 2017).

¹⁹⁰ FY 2019 is the fiscal year in which the hike to the consumption tax rate is scheduled to occur.

¹⁹¹ FY 2020 is the fiscal year in which the drug price revisions that occur once every two years will be carried out.

for the scope of the drug price revisions to be carried out in FY 2021,¹⁹² the scope for this will be decided sometime in 2020 by taking comprehensive account of recent trends in market prices; the extent of discrepancies in drug prices; and the impact on pharmaceutical wholesalers, medical institutions, pharmacies, and more. Moreover, the government will reassess how drug prices are calculated in cases where pharmaceuticals eligible for premium for promoting new pharmaceuticals creation, are used as drugs for comparison with a view towards the FY 2020 drug price revisions. It will also review the necessary measures when it comes to efforts like evaluating the innovativeness and usefulness of drugs as a result of the addition of usefulness, how the period should be structured leading up to phased price reductions for long-listed drugs, and more. To achieve a patient-centered separation of medical and dispensary practices, the government will continue to review how dispensing fees are structured so as to enable pharmacies to carry out their functions effectively and efficiently in their local community. What is more, the government will continue to move forward with reviews of the proper way to prescribe drugs, including the cost aspects for polypharmacy measures for the elderly and drugs for treating lifestyle-related diseases. It will also continue working to promote the use of generic drugs.

(Achieving fair cost burdens according to people’s ability to pay, realizing appropriate fees, and reestablishing the division of roles between self-help and mutual assistance)

Amidst demographic changes like the aging population and the sharp decline in the working-age population, the government must continue to ensure that its universal health insurance system is sustainable. The government must continue to reassess the scope of self-help, mutual assistance, and public assistance as it provides the necessary insurance benefits in as efficient a manner as possible, while giving consideration to the extent of the burden placed on the working generation to provide medical care for the elderly.

For programs providing medical care for the elderly and programs for long-term care, the government will give consideration to imposing burdens on people according to their ability to pay by properly evaluating the extent of not only their income, but their assets as well. It will also review how over-the-counter payments for later-stage elderly are to be structured in the interest of ensuring intergenerational fairness and the sustainability of the system by the time the baby-boomer generation join the ranks of the later-stage elderly. Reviews of how benefits are to be structured will also be carried out regarding the preparation of long-term care plans, room rates for multi-bed rooms, and daily life support services for those with a minor need for long-term care. As the number of people receiving a pension while still working increases, the government will consider reassessing the criteria for determining “income on par with

¹⁹² FY 2021 is the fiscal year of the initial drug price revisions (fiscal year between the drug price revisions carried out once every two years).

that from their working days”¹⁹³ for medical and long-term care in the interest of balancing this with the income from their working days.

When new pharmaceuticals and medical technologies are covered by insurance, the government will review factors like the use of their economical valuation (such as their cost-effectiveness and financial impact) and the use of medical care outside of insurance. The government will promote surveys, research, and reviews of modalities for evaluations of medical technology, while also moving forward with training human resources and data collection and analysis to achieve this. The government will continue to review raising the out-of-pocket expenses for medications at the relevant review meetings from a broad-based perspective that includes the eligible coverage range. These reviews will be based on perspectives such as striking a balance between the prices of commercially-available drugs and ethical pharmaceuticals, promoting the proper use of pharmaceuticals, and so on. The necessary measures will then be taken based on the results of this. While promoting functional differentiation and functional tie-ups between hospitals and health clinics, the government will promote the spread of primary care physicians, dentists, and pharmacists based on modalities for primary care. It will also review the introduction of fixed-cost charges when patients receive outpatient health exams and the like.

Previously, the government had determined the level for medical costs by means of its revisions to medical fees, and has adjusted the burden from this as needed through a combination of efforts like reassessing insurance premiums, out-of-pocket expenses borne by patients, and public expenditures. As the working-age generation that forms the core of support for this decreases and their ability to bear this burden falls, the government will give consideration to comprehensive responses to this. Such responses include regularly performing visualizations for things like balancing the insurance benefit rate (insurance premiums and the portion paid from public expenditures) and the rate of out-of-pocket expenses borne by patients from the perspective of shaping public understanding concerning the reforms, as well as those for medical fees, the insurance premiums and the portion paid from public expenditures, and out-of-pocket expenses borne by patients.

(2) Social infrastructure development, etc.

(Basic concept)

The government will move forward in increasing the efficiency of expenditures by prioritizing budgets and implementing programs that pursue efficiency in order to maximize stock effects, such as improving productivity. While striving to maintain the infrastructure that is crucial for community life, the government will promote streamlining and efficiency improvements in response to the decline in population, such as adjusting and optimizing decisions on where to locate. Moreover, it will

¹⁹³ Income requirement of 5.2 million yen, etc.

strategically deploy policies and projects that provide a foundation for economic growth and an affluent lifestyle throughout every part of the country by adopting a mid- and long-term perspective to pass high-quality stock down to future generations.

Given its financial constraints, in addition to prioritizing budgets the government will secure new investment resources such as by effectively using public property and private funds. Based on a mid- and long-term outlook, it will promote strategic and systematic initiatives as it promotes stable and sustainable public investment. Moreover, for project selection and implementation, it will promote equalization and systematic initiatives, while also thoroughly ensuring early detection and preventative maintenance when it comes to the operation and maintenance of infrastructure.

Given the outlook for the macro-economic environment in terms of rising wages and prices and labor shortages, the government will accommodate the demand fluctuations that will result from the hiking of the consumption tax rate in order to set the economy on track for stable growth.

The infrastructure that was installed at a massive scale during Japan's high-growth period is deteriorating. So for the future, the government will establish and thoroughly adhere to a maintenance cycle based on preventative maintenance, while also reducing life cycle costs. In addition, it will promote strategic initiatives from every angle, such as PPP/PFI, the development of new technologies and their implementation in society, and establishing information bases, with these to include concentration and integration.

The government will further enhance wise spending through such initiatives.

(Thoroughly improving the efficiency of public investments and securing leaders for this)

For the construction periods for public works, the government will respond to the demand fluctuations that will arise as a result of hiking the consumption tax rate. It will also promote the setting of quantitative targets in order to promote efforts for equalizing when construction is carried out throughout the fiscal year.¹⁹⁴ Through these sorts of initiatives it will move forward with securing human resources and improving operating rates, while also reflecting the actual status of cost cuts in the costs calculated by the national and local governments in a phased manner.

The government will promote i-Construction with the goal of improving the productivity of construction sites by 20% by FY 2025. In addition, it will make use of the Public/Private R&D Investment Strategic Expansion Program and other such

¹⁹⁴ The use of debt obligations, integrating with the outlook for orders placed by the national and local governments at the local level, etc.

programs to promote the implementation of cutting-edge technologies. Examples of this include establishing infrastructure data platforms, making data freely available and converting it to 3D, thoroughly digitizing data,¹⁹⁵ and robotics and AI developed through open innovation in partnership with universities and companies. Through the use of these new technologies, the government will successfully improve the efficiency of public works, including cost reductions.

In addition, the government will work to disseminate excellent case examples of new technologies nationwide through forums like the National Convention for Infrastructure Maintenance. It will also clarify the initiatives and policies for improving the efficiency of infrastructure operation and maintenance work and reflect this into existing plans. What is more, it will enhance information platforms on social capital in partnership with governmental ministries and agencies, and promote the effective use of existing infrastructure and soft countermeasures.

Together with this, the government will promote a number of initiatives in order to secure onsite leaders over the mid- and long-term. These include measures for social insurance enrollment, ensuring appropriate wage levels, achieving a five-day workweek, and improving long working hours.

(Clarifying priority projects, prioritizing public-private funding, and maximizing stock effects)

The government will clarify projects that work to address certain sectors in a prioritized manner. These include setting in place an environment for receiving visitors, such as by augmenting supply capacity by looking ahead to the government's target for the number of inbound visitors in 2020 (of 40 million people), enhancing Japan's international competitiveness with excellent stock effects, national resilience, disaster prevention and natural disaster preparedness, and more. It will also systematically set in place an environment that prioritizes public-private financing, including the Fiscal Investment and Loan Program. By effectively utilizing existing infrastructure and soft countermeasures, the government will maximize stock effects while also going through the Plan-Do-Check-Act (PDCA) cycle based on quantitative and objective data when it comes to efforts like performing rigorous cost-benefits analyses.

(Promoting PPP/PFI)

The government applies private funding and know-how to the extent possible, while also promoting the use of a diverse array of PPP/PFI in a prioritized manner based on the "Future Investment Strategy 2018" and "Action Plan for Promoting PPP/PFI"¹⁹⁶ in aiming to minimize the public burden.

¹⁹⁵ Deploying the paperless tablet device measures being carried out for rivers under national management nationwide, digitizing the ledgers for inspections of national and local infrastructure, etc.

¹⁹⁶ "Action Plan for Promoting PPP/PFI (revised in 2018)" (Decision by the Council for the Promotion of Private Finance Initiatives on June 9, 2018).

The government will adopt policies to make it easier for local public organizations and the like to work on addressing PPP/PFI.¹⁹⁷ For water and sewage services in particular, it will promote a number of initiatives in order to ensure efficient installation and management, as well as sustainable operations. These initiatives include visualizing the regional differences in the operating status of each local government, extending infrastructure over a wide region and making it communal, adopting a diverse array of PPP/PFI such as concessions, and using ICT. What is more, in aiming to achieve independent management of loss-making airports, the government will work to maximize compensation for operating rights and promote the adoption of concessions at all airports as a general rule, including locally-managed airports.

The government will support the implementation of PPP/PFI, such as through the application of effective prioritized reviews by local public organizations with jurisdiction over populations of more than 200,000 people. In addition, it will also instantiate reform processes within the year to ensure that local public organizations with jurisdiction over populations of less than 200,000 people can easily address these. The government will achieve cash flow by expanding the use of PPP/PFI when it comes to public real estate and work to cut operation and management costs.

(Promoting the Compact Plus Network)

The government will promote the development of Site Optimization Plans and Regional Public Transport Network Plans, and reappraisals of land use planning and the structure of public transport as a whole through these plans. It will also make forward progress in a comprehensive manner by means of creating and disseminating model cities; prioritizing cross-cutting support across governmental ministries and agencies; and encouraging local governments seeing substantial declines in their populations to formulate the above-mentioned plans.

The government will compile together the challenges and countermeasures for when reassessing city planning roads into a handbook in aiming for dissemination. It will also promote initiatives such as enhancing the usage environment for data related to urban planning by making these data freely available, urban planning techniques by utilizing big data, and more.

(Optimizing public capital stock)

The government will thoroughly work to realize longer service lives for facilities and respond to its deterioration in an effective and efficient manner, with this including the non-subsidized services of local governments. It will also promote the reorganization and consolidation of public facilities based on the thinking behind the Compact Plus

¹⁹⁷ This includes promoting the use of measures based on the Act Partially Revising the Act on Promotion of Private Finance Initiative (Revised PFI Act; enacted June 13, 2018), developing PPP/PFI techniques that are flexible and effective, disseminating excellent case examples, and more.

Network and so on in response to the actual circumstances in each region. The government ministries with jurisdiction over infrastructure will publicize their forecasts for mid- and long-term maintenance and renewal costs as soon as possible, with this to include the effects of improving efficiency by means of extending their operating lives and other initiatives. It will also encourage local public organizations to indicate results they have had when it comes to improving efficiency by extending operator lives within three years via technical and financial support, including by providing software for estimating renewal costs to said organizations.

The government will enhance content regarding visualization for Comprehensive Management Plans for Public Facilities, including listing descriptions pertaining to public enterprise facilities. For sectors with a low rate when it comes to formulating Individual Facility Plans, the relevant governmental ministries and agencies will provide support for formulating effective plans by enacting guidelines, drafting requirements for when formulating plans regarding subsidies and the like, and so on. What is more, they will visualize things like the plan formulation status of each local public organization and whether or not they have taken measures to realize longer service lives for facilities in order to disseminate advanced and excellent case examples.

The government will promote revisions and the enhancement of the Comprehensive Management Plans for Public Facilities by FY 2021 based on the Individual Facility Plans.

(Drastically overhauling institutions to accommodate the coming era of population decline)

With a view towards the coming era of population decline, the government is laying out an overview for institutional reforms and steadily promoting initiatives for this. This includes prioritizing internationally-competitive infrastructure, concentrating and integrating infrastructure for daily life, responding to challenges such as the lack of medical and long-term care facilities in major cities, and public transport in underpopulated regions. What is more, it is also strengthening structures for restoring infrastructure, land, and so forth across the board with a view towards improving the productivity of cities and towns. In order to circulate vacant houses and vacant lots on the market and make use of them,¹⁹⁸ the government will promote cutting-edge initiatives by local governments, real estate organizations, and others; provide support for the use or demolition of vacant facilities; and enhance information on this. It will also review measures for financial resources based on having beneficiaries pay when it comes to sectors that are setting in place social capital.

¹⁹⁸ Including using vacant houses as housing for young people and children-rearing generation as part of the housing safety net.

When it comes to land without readily-identifiable owners, the government will promote measures with specified end-dates based on the basic policy¹⁹⁹ for this. Specifically, the government will review obligations that should be imposed on owners in relation to the management and use of land and guarantee policies for these, as well as measures for the smooth, prompt promotion of cadastral surveys, including for cases where the owner is not readily-identifiable. It will also review structures for reflecting inheritance and other such information in registrations (including by making inheritance registrations mandatory), structures for smoothly determining owner information through coordination with registers and the family register, and structures for relinquishing land. Through this, and by indicating a specific direction for its institutional reforms sometime in FY 2018, the government will aim to achieve the necessary institutional reforms by 2020. In an effort to eliminate irregular registries,²⁰⁰ the government will aim to submit the necessary bill to the next ordinary session of the Diet, while also promptly setting in place the structures necessary for this. In addition, it will promote initiatives like the smooth adoption of safekeeping systems for wills and preparing maps of the registry office. It will also continue to review extending the retention period for deleted records, such as certificates of residence.

(3) Local public administration and finance reforms and cross-sectional initiatives

(Basic concept)

It is important that Japan restores regional economies that have individuality and dynamism, while at the same time handing down sustainable local government finance structures to subsequent generations. This will be done by means of promoting regional reinvigoration; correcting the over-concentration towards Tokyo; and encouraging flows of people, goods, and money from Tokyo to local regions. To achieve this, the government will engage in backcasting over challenges by looking ahead to about the year 2040 to implement the initiatives that will be needed for this. It will also work to address expenditure reforms over which the national and local governments are in sync, and work to improve efficiency.²⁰¹

Specifically, in the midst of the decreasing birth rate and aging population, for local government expenditures efforts will be made to accelerate and expand upon expenditure reforms that are in sync with the initiatives of the national government. This will lead to constricting the issuance amounts for extraordinary financial

¹⁹⁹ “Basic Policy on Promoting Countermeasures for Land without Readily-identifiable Owners” (Decision by the Liaison Conference of Related Governmental Ministries and Agencies on Promoting Countermeasures for Land without Readily-identifiable Owners, June 1, 2018).

²⁰⁰ Registries to which the name and address of the heading-section owner have not been recorded in the normal manner.

²⁰¹ The majority of local government expenditures consists of spending that is legally mandated and subsidized projects from the national government. As a result, soundly implementing the expenditure reforms of the national government, such as overhauling institutions, is crucial when it comes to expenditure reforms for local governments. Various governmental ministries are working together to promote institutional reforms on the basis of the actual conditions for such applications by local public organizations.

measures loans and other forms of debt, efforts to repay said loans and other forms of debt, as well as the joint achievement of the primary surplus of the central and local governments.

The government will also provide support to local governments doing everything it can to improve the efficiency of expenditures. It will also increase their motivation to reform and provide backing for the dissemination of highly effective advanced and excellent case examples by means of promoting visualization, by way of example. At the same time, it will provide support for the digitization and standardization of services, as well as expanding them so they cover a broad range and more.

The government will cope with a number of challenges such as the upward pressure on social security-related expenses that will grow larger in the future; challenges for local communities and social networks; the rising demand for new services pertaining to welfare, education, and human resource development; and the maldistribution of tax revenue between regions. To ensure that local governments can engage in administrative and fiscal management with more independence and a greater degree of freedom, the government will work to improve the sustainability of local public administration and finance.

The government will ensure stable administrative and fiscal management for local governments under the trends of population decline and the aging population. It will also promote reforms of local public administration and finance, such as local allocation tax schemes, from the aforementioned perspectives.

(Establishing sustainable local public administration and finance structures)

Under the trends of population decline and the aging population, the relevant governmental ministries and agencies will work together to verify future trends and review the necessary response measures regarding spending and institutional challenges related to areas like medical and long-term care, education and children/child-raising, and the infrastructure for maintaining lifelines, with this including non-subsidized services by local governments. This is based on estimates in social security benefits and burdens, the mid- and long-term outlook for spending to maintain and upgrade infrastructure, such as school facilities and water supply/sewage systems, and more.

The government will promote a variety of broad-based partnerships across every administrative sector with a view towards improving efficiency when it comes to administrative costs. Moreover, the government will promote the use of institutions related to partnerships and complementarity between local governments with less population and limited administrative and financial capabilities and core cities and prefectures in the areas surrounding them. In light of the fact that the state of progress on municipal mergers differs across each region according to the actual

circumstances surrounding local public organizations, the government will consider how to respond to the fact that the current special mergers law²⁰² is approaching its end date at the end of FY 2019. In addition, the government will steadily promote initiatives to provide public services over a wider area and in a joint manner.

The government will continue to ensure stable administrative and financial management on the part of local governments, and improve the degree of freedom for subsidies based on the actual circumstances with said governments. It will also review ways to strengthen the allotment of local allocation taxes in response to reform efforts and the like. The government will review how the administrative and financial institutions of local public bodies should be structured in response to the changing demographics in the future, with this to include how standard financial requirements should be handled. What is more, it will promote initiatives to secure financial resources unique to local governments, and to use these to improve the administrative services that said local governments provide on their own.

In response to the growing disparities in financial capabilities between regions, the government will establish local tax structures with minimal maldistribution when it comes to tax sources that offer stable tax revenue. For this, it will consider new measures to correct the maldistribution of tax sources from the imposition of taxes on local corporations, and will reach a conclusion regarding the revisions to the tax system in FY 2019.

(Reforms of local allocation tax and other fiscal systems of local governments)

When it comes to local allocation taxes, the government will promote a shift to calculating the Expense on Vitalizing Local Economies according to the achievement status for results of initiatives to reinvigorate local regions from the perspective of enhancing structures that support the initiatives of local governments that are making every effort.²⁰³ Concerning various measures associated with the Expenses Related to Priority Issues²⁰⁴, the government will take necessary measures, taking into account the identification and visualization of the outcomes of local governments' efforts up through the previous fiscal year, and the consideration of ways to implement the related measures in the following fiscal years.

While working to expand efforts in advanced operational reforms, the government will quantitatively identify the effects of the streamlined spending made by local governments in accordance with the reform time schedule. For the outsourcing of over-the-counter operations, it will strengthen initiatives for making use of local incorporated administrative agencies, expanding the scope for and nationally

²⁰² Act on Special Provisions of the Merger of Municipalities (Act No. 59 from 2004).
²⁰³ For the Expense on Special Measures Program Costs for Population Decline, the government's aim is to set allocations that reflect the results to 50% or greater in response to the achievement status for the results of initiatives based on Regional General Strategies.
²⁰⁴ Items of expense used to calculate the local allocation tax for each local governments.

deploying of standard outsourcing specifications, and more. Based on these conditions, it will perform reviews that focus on the FY 2019 adoption of the Top Runner program. In doing so, it will bear in mind the fact that operational reforms are designed to enable local governments to continue providing administrative services of an even higher quality in an efficient and effective manner. Regarding the Subsidies for Regional Reinvigoration, the government will reinforce their effects by assessing the effects of individual and overall programs. The results of these operational reform initiatives and so forth will be properly reflected in the Fiscal Plan of Local governments and the basis for calculating standard financial demands while ensuring that this does not undermine the local governments' motivation to reform.

(Fundamental managerial reforms for public enterprises, the third sector, etc.)

The government will speed up fundamental managerial reforms that include expanding the range covered by public enterprises, as well as their partnerships, reorganization, and integration. The government will promote fundamental reforms by means of formulating managerial strategies for public enterprises and going through the PDCA cycle, among other means. Such reforms will cover upgrade costs and fees, income and expenditures such as the status of inward transfers of funds from other accounts, including transferred funds from outside transfer standards, the visualization of manager information, careful scrutiny and reassessments of transfer standards, doing away with projects, privatization, extending coverage areas, and making use of outside knowledge. Together with this, the Ministry of Internal Affairs and Communications will forcefully promote progress on reforms and quantitative determinations of their results, and will encourage that the managerial foundations of public enterprises be further strengthened and their management improved. The government will clarify a new road map for sewage and small water supply systems, and further promote the application of public enterprise accounting at bodies overseeing populations of less than 30,000 people. With respect to the third sector, the government will promote the formulation and publication of policies designed to ensure the sound management of local public organizations based on the state of their financial risk.

For water supply and sewage systems, the government will review policies for ensuring their sustainable operation, including promoting the expansion of such systems over wider regions and making them communal, and formulate a specific policy within the year. It will also announce improvements to the efficiency of expenditures from advanced case examples and the results this has had on income and expenditures, while also promoting the adoption of diverse PPP/PFI, moves to expand their coverage area, and partnerships between them. In addition, it will promote the reorganization of and creation of networks among public hospitals.

(Improving the efficiency of national and local governments, wider use of IT, and operational reforms)

The relevant governmental ministries and agencies will work together to establish standardized and efficient operating processes that make use of ICT, AI, and other technologies, while also promoting the standardization of operating procedures and cost reductions. This will be done by performing comparisons between bodies across a variety of different local government administrative sectors.²⁰⁵ Together with this, the government will set forth KPIs and extend these to cover the entirety of Japan regarding advanced initiatives by local governments. Moreover, it will formulate plans for the adoption of cloud computing by public bodies to further promote local government cloud computing, with the national government managing the progress for this. The government will also work to further secure and train IT human resources.

In order to reduce the cost of governmental procedures, the relevant governmental ministries and agencies will work together to instantiate policies that promote initiatives for simplifying the procedures for permits, licenses, and subsidies by local public organizations, and for unifying forms and formats, in concert with the national government. The government will also steadily promote initiatives for the batch abolishment of attached documents for governmental procedures. In addition, the government will promote support for local governments that are proactively working to digitize data and move their services online.

The government will promote the use of the My Number system across fields of a highly public nature, such as family register administrative work, while also expanding the scope of administrative work subject to information coordination. The government will forcefully promote public and private initiatives for My Number Cards based on the road map for this, and will check and assess the state of progress. For example, it will steadily promote initiatives for their full-scale application starting from FY 2020 to confirm online qualifications for medical insurance, and to encourage the use and widespread adoption of the Japanese Public Key Infrastructure in the private sector.

(Visualization and dissemination of advanced and excellent case examples)

During the foundation-reinforcement period, the government will visualize the differences and corresponding relationships between the various revenue and expenditure items in the Fiscal Plan of Local governments and its financial results. This is designed to ensure that the said plan and their financial results can be compared in a manner that is even easier to understand. What is more, it will also use quantitative data to determine the actual conditions surrounding the non-subsidized services (soft aspects) of local governments with a corresponding relationship to the general administrative expenses (individual) from the Fiscal Plan of Local

²⁰⁵ For example, inspections, maintenance, and repairs on infrastructure, administrative work for the National Health Insurance system and long-term care benefits, admissions examinations for nursery schools, etc.

governments and visualize this, including the connection with laws and ordinances. When it comes to local governments' thinking on funding, reasons for changes in it, and policies for the future, the government will encourage them to publicize this information in a standardized format, examine it so as to allow for easy comparisons, and strive to list out and summarize this.

The government will promote the use of local public-sector accounting through uniform standards to improve asset management. Examples of this include setting in place ledger sheets of fixed assets and detailed statements of investments and the like, promoting a thorough adherence to and expanding the scope of information disclosures in a manner in which the information can be compared, and so forth. It will also establish performance indicators for and visualize national treasury disbursements, and promote clear distinctions when it comes to allocations.

The government will strategically disseminate information and promote operational reforms that will lead to the utilization of visualized data (such as comparisons of spending levels among similar organizations of the same size) and to enabling local governments and residents to detect, resolve, and improve challenges on their own.

(4) Education, science and technology, etc. **(Basic concept)**

The government will ensure that all children can acquire the abilities they need and maintain and develop their qualities. Based on mid- and long-term outlooks regarding matters like the decreasing birth rate and deterioration of facilities, the government will allocate well-defined budgets, such as by enhancing structures for rewarding educational institutions that are doing their best and by using a diverse array of resources, including outside human resources.

The government will aim to expand public and private investments in research and development with a view towards creating a world-class innovation-producing nation. For the government's investments in research and development, it will aim to attain a ratio of 1% versus GDP for this while ensuring consistency with new plans, and will work to ensure budgets of the necessary scale and scope. It has set a target of increasing combined public and private investments in research and development to 4% versus GDP.

The government will promote the following reforms centered around thorough adherence to the PDCA cycle in an evidence-based manner. Examples of this include improving the efficiency of budgets based on the advances in the decreasing birth rate, improving the efficiency of expenditures by producing innovation, and more.

(Improving the efficiency of budgets based on the advances in the decreasing birth rate, raising the quality of education, etc.)

The government will formulate medium-term outlooks for the fixed number of teaching faculty at public elementary and junior high schools that receive budgetary support based on research for validating educational policies. These will be designed to improve the quality of education given the advances in the decreasing birth rate and harsh financial conditions. With a view towards reforming approaches to work at schools, the government will promote cooperation and collaboration between schools and communities. This will involve initiatives like rounding out external human resources like specially-licensed teachers for subjects like English and programming, as well as making use of external human resources and private institutions for extracurricular activities. The government will also work in an integrated fashion on the formulation of facility plans for extending the operating lives of facilities, school mergers, and promoting the use of closed school facilities, with this to include disseminating advanced and excellent case examples regarding school facilities. It will also set forth KPIs and promote them by creating processes for these when it comes to jointly carrying out school administrative work, ICT in education, and other initiatives.

In order to qualitatively improve education and research, the government will strive to organize the connections between the multiple, overlapping university evaluation systems and improve their efficiency. It will also work to improve said evaluations so that they are relative, clearly-defined, and carried out rigorously by third parties based on objective indicators. When it comes to financial support for universities, the government will enhance the clear distinctions in this according to each university's reform efforts and educational results, and will provide backing for the initiatives of universities that are making every effort towards these. As for subsidies for the operating expenses of national university corporations, the government will promote the establishment of the PDCA cycle, visualize in-school allocations and the way money is spent, and increase the share of strategic allocations. The government will strive to enhance reductions for the subsidization of private schools. This will include drawing clear distinctions in universities according to the quality of the education they provide, as well as halting subsidization to universities that cannot ensure the quality of their education and which cannot meet their student quota, universities operating at a deficit, and so forth. When it comes to supporting students to get an education, the government will ensure a quality education and provide the appropriate support to the students who need it in a prioritized and efficient manner with a focus on Universities, etc. for which there is a social need. The Ministry of Education, Culture, Sports, Science and Technology and Ministry of Internal Affairs and Communications will strengthen their partnerships with local governments for the thorough visualization of financial support and achieving well-defined support according to educational results so that the conversion of private schools to public ones contributes to university reforms that truly contribute to communities.

(Improving the efficiency of expenditures by generating innovation, etc.)

The government will promote research and development conducive to resolving social challenges through both the public and private sectors with a view towards mitigating the burden placed on the public by means of improving the quality of the people's lives and increasing the efficiency of expenditures. It will also promote innovations when it comes to government programs, institutions, and more. In the interest of efficiently implementing its budget, the government will work to open up large research institutions to common use among industry, academia, and government to the utmost extent possible. It will also use new structures when it comes to areas like public-private cooperation for large research institutions offering major induced benefits from private investment.

(Thorough adherence to the PDCA cycle in an evidence-based manner)

Based on the Third Basic Plan for the Promotion of Education, effective, evidence-based PDCA cycles will be established according to the respective authorities of the national, prefectural, and municipal governments for educational policies as a whole throughout the life stages from preschool education through to higher education and continuing adult education. The Ministry of Education, Culture, Sports, Science and Technology and local governments will thoroughly visualize the relevant data, including costs and outcomes. They will also promote the smooth use of the data possessed by local governments, such as that on scholastic ability throughout Japan and surveys on the state of learning, by a broad range of researchers. The Ministry of Education, Culture, Sports, Science and Technology will also promote a number of initiatives in partnership with the relevant governmental ministries and agencies. These include establishing structures for designing experimental studies and verifying the analytical results for the entire gamut of educational policies, logically designing the connections between policy objectives and measures via the creation of logic models, and more.

For science and technology areas, the government will make efforts to establish evidence for budgets, perform visualizations that include costs and results, promote the switch to Evidence Based Policy Making (EBPM), and improve the quality of its budgets.

For the aforementioned major expenditure areas, as well as all other expenditure areas, the government will promote reforms without considering anything off-limits. This will include organizing and consolidating similar projects, thoroughly eliminating redundancy, and improving the efficiency of projects.

(5) Tax system reforms, compression of assets and liabilities, etc.

(Basic concept)

By accelerating overcoming deflation and economic revitalization, the government will achieve economic growth and further ensure increase in tax revenues. Moreover, by proceeding with industrialization of public services, the government will increase tax revenues through broadening the tax base by increasing private-sector share in economic activities.

The government will maintain and promote sustainable economic growth despite the major changes taking place with Japan's economic and social structures, such as the rapid falling birth rate and aging population as well as changing work styles. In addition, it will proceed with an overhaul of the entire tax system from the perspective of constructing a stable base for tax revenue that will not impede economic growth. What is more, it will give consideration to revenue reform efforts²⁰⁶ designed to deal with the increase in fiscal demand that are really necessary as part of its promotion of expenditure reforms in the future.

(Tax system reforms)

For individual income tax and property tax, the government will continue to promote meticulous reviews of these by ascertaining the results of successive revisions. These will be based on perspectives like those for the work-style reform and by looking ahead to a 100-year life era, as well as improving redistribution functions, accommodating the increasing diversity of work styles, and preventing inequality from being fixed.

The government will encourage companies to take initiatives to raise wages and improve productivity by taking advantage of growth-oriented corporation tax reforms that have previously been promoted. It will also conduct a necessary review of special measures concerning taxation by ascertaining their application status and policy effects every fiscal year.

With steady implementation of advice issued by the "BEPS Project" through international cooperation, the international taxation system will be reconstructed in response to structural changes in global economic activities and the actual activities and conditions of multinational corporations. In addition, the government will promote further information sharing among taxation authorities in different countries.

The government will improve convenience concerning the payment of taxes to allow taxpayers to file their taxes easily and accurately by making further use of ICT, etc. It will also promote digitization of tax procedures from the perspectives of cutting costs throughout society as a whole and improving corporate productivity. With the rapid

²⁰⁶ Establishing a tax on international tourists and forest environment tax (tentative name), by way of example.

development of globalization and ICT, the government will strengthen measures of both the institution and execution in order to realize proper and fair taxation and to ensure credibility of the tax system.

(Compression of assets and liabilities, etc.)

For assets owned by national and local governments (including those in special accounts, etc.), the government will continue to promote the effective utilization of government-owned land in cooperation with local governments. It will also make efforts to sell off unnecessary properties. Revenue from such sales will be effectively appropriated to debt repayment and the cost of recovering from disasters, among other initiatives.

5. Acceleration and expansion of initiatives toward expenditure reforms, etc.

In order to accelerate and expand initiatives to encourage changes in behavior, the government will reexamine KPIs on the reform time schedule so that the outcomes of the reforms are grasped in a more quantitative manner, as well as prioritizing budget allocation to such efforts, promoting visualization, effective dissemination of information, and presenting available options in order to enhance backing for them.²⁰⁷ The government will carry out assessment and visualization based on the state of progress on these efforts and reflect the results in budgetary requests made by each ministry and agency, while also designing budgets that incorporate prioritization reflecting policy results, through the budget formulation process.

Each ministry will implement thorough review of administrative operations in all fields of expenditures, promote EBPM while securing and training human resources as well as collecting the necessary data for that, in order to improve budget quality and verify its results. Together with these efforts, the government will develop a range of indicators of satisfaction and quality of life and incorporate these into related KPIs in each field, to realize improvements in the satisfaction and quality of life of people.

(Incentive reforms)

Systems of resource allocation based on reform efforts, innovativeness, and the result such as degree of achievement of objectives²⁰⁸ will be adopted and expanded drastically. Together with moving forward on nationwide dissemination of incentive-reform efforts in areas such as preventive care and health improvement by

²⁰⁷ For example, the method of nudging will be employed in each policy field through improving to methods of communication of information and presenting options to encourage individuals to make better choices without infringing on individual freedom of choice.

²⁰⁸ Efforts such as promoting strengthening of the functions of grants to support health insurer efforts, Expense on Vitalizing Local Economies, and grants for operating expenses of national university corporations, as well as efforts for purposes such as preventing the worsening of lifestyle-related health conditions and improving health.

health insurers, the government will advance further enhancement²⁰⁹ of incentive systems. It will advance diverse and comprehensive public-private partnerships (PPPs) to improve the quality and efficiency of services as well as adopting incentives to encourage efforts by local governments, including use of contingency fees. The relevant ministries will implement a wide range of model projects as well as other efforts including standardization of evaluation indicators and sharing of results.

(Visualization)

Visualization serves as the driving force behind expenditure reforms. Together with visualizing cost-benefits and the state of progress on reforms through means such as comparisons among regions and among health insurers and factor analysis of variation, the government will provide backing for reforms through strategic dissemination of information to enable local governments and residents themselves to identify, resolve, and make improvements on issues. Visualization also will be used as objectives for reform efforts, for example by using the level of the top one-third as a target indicator for others to achieve. Furthermore, with regard to Database of "visualization" of Economic, Public finance and living standards Index, efforts such as classification of local public organizations and standardization and enhancement of data will be advanced, so that similar agencies will be compared with one another.

In each field, through efforts such as moving forward on development of standardized, comprehensive data platforms, PDCA cycles and EBPM based on objective data will be established.

In addition, statistics reforms,²¹⁰ including systematically securing necessary resources such as personnel, will be advanced and together with statistics improvement such as improvement in the consistency and reliability of government statistics, the statistical literacy of the society as a whole, including local public organizations, will be promoted.

(Dissemination of advanced and excellent practices, etc.)

For the model projects underway by each ministry and agency in advanced fields, the government will quantitatively grasp, evaluate and publicize the effects of streamlining of spending and economic effects,²¹¹ and for projects with strong outcomes the ministries and agencies in charge will be responsible for advancing strategic nationwide dissemination and following up on the state thereof. The results of model

²⁰⁹ Such as swift adoption on a trial basis of incentive systems through means including adding the system to support insurers' efforts to evaluation indicators, study of reviewing of ordinary adjustment subsidies for National Health Insurance, and prioritization in allocation of grants for university operating expenses through evaluation in accordance with matters such as acquiring of private capital.

²¹⁰ Based on the Master Plan Concerning the Development of Official Statistics (Cabinet decision on March 6, 2018).

²¹¹ With accountability for the reasons why if quantification and publicizing of results is difficult.

projects implemented by local governments will be grasped, evaluated, publicized, and disseminated in a similar manner.

In order to disseminate advanced practices in preventive care and health improvement nationwide, the quality of information will be improved through means including description of their practical implementation processes, analyzing key points to problem-solving and quantitative analysis of cost-benefits and other matters, and ensuring comparability among similar organizations. In addition, the inhibiting factors behind efforts that are not necessarily demonstrating results will be eliminated. Efforts utilizing means such as effective dissemination of information and presentation of options will be promoted.

(Business innovations utilizing technological innovation)

In order to streamline necessary public services while maintaining their quality, the government will incorporate the results of technological innovation in various fields of government services and administration. The government will reduce the costs of administrative procedures²¹² by about 20% or more through efforts including thorough digitalization of administrative procedures through thoroughly advancing the flagship project²¹³ by FY 2020 and other means. Thorough efforts will be made as well to streamline operations in the field of statistics, including reducing the burdens required in preparing, reporting, and using statistics by about 20% or more.

As a basic principle in order to incorporate technological innovation, related agencies, local governments, and other related parties will cooperate to advance standardization of services, administrative procedures, etc. over wide areas, to resolve issues such as differences among local governments in documents and data collected as well as differences in handling of anonymization of data. For those items for which standardization is difficult, these parties will have accountability for the reasons why.

(Industrialization of public services)

The government will accelerate and expand efforts toward industrialization of public services, including data health measures, PPPs/PFIs, and subcontracting of local administrative services to the private sector—all under public-private cooperation.

To facilitate participation by private-sector businesses through growing benefits of scale, progress will be made on environmental improvements including outsourcing

²¹² Efforts based on the Implementation Plan for Regulatory Reform (Cabinet decision on June 15, 2018) and “Simplification of Administrative Procedures that Impede Productivity: Procedures and Systems” (liaison conference of related ministries and agencies to improve the vitality of SMEs and small-scale entrepreneurs), January 11, 2018.

²¹³ Efforts intended for purposes such as to provide one-stop services for related administrative procedures in areas such as moving, death and inheritance, employee social insurance and taxes, and corporate establishment, to improve public convenience, Japan’s business environment, and businesses’ productivity.

and diverse interregional cooperation among multiple local governments, public-sector enterprises, etc., and reforms on regulations on private-sector participation and private-sector management of operations will be promoted.

The government will promote support for local governments in the area of expertise through means including one-stop liaisons and advice; classification, visualization, and dissemination of accumulated specialized knowledge such as related issues and prior case studies; and standardization of operational procedures under the leadership of related ministries.

(Expenditure reforms through means including effective utilization of existing resources and capital)

Together with enabling the necessary reinvestment even amid tough financial conditions, through means including effective utilization of existing resources and capital, the government will realize smart budget expenditures while also improving budgetary measures through means such as strengthening smooth efforts over the medium term.

Measures will be studied to increase revenue from sources such as radio spectrum usage fees and concessions,²¹⁴ while also giving consideration to costs borne by beneficiaries, and together with putting funds secured from such revenues to effective use through means such as investments necessary for the future, PDCA cycles will be developed and evaluated thoroughly. In addition, study will proceed on measures involving charges to adjust transportation demand, for purposes including improving productivity and promoting tourism. For research and development at institutions such as national university corporations and national research and development corporations, cooperation with private-sector businesses and acceptance of donations will be promoted.

Regarding public-private funds, while continuing unceasing confirmation by regulators and investors of matters such as efficacy in terms of policy intention and projected earnings, appropriate support decisions reflecting consideration for supplementing private-sector businesses as well as setting of KPIs, among other measures, will be used to promote more efficient and effective use of such funds. At the same time, the government will promote reforms to the structures of earnings through means including improving operational efficiency by consolidating funds and institutions, while for government investments and surplus funds with little prospect of use measures such as refunding and payment of dividends to the national treasury will be conducted without delay.

²¹⁴ Concession revenues from the private sector related to airport operation, revenues from cultural properties, revenues from stadiums and arenas, etc.

(Reforms to public procurement)

With regard to defense procurement, to improve cost-effectiveness even further while maintaining an effective defense capability, thorough further streamlining and rationalization of defense budgets will be implemented through procurement reforms and other efforts, conducted through means including unceasing and thorough reductions in unit costs of equipment; enhancement of project management throughout the life cycles of equipment; amending procurement contracts to contribute to the correction of high-cost structures; devising procurement methods through means including bulk purchase and utilization of commercially produced products; securing transparency of the cost and closely reviewing on prices, and promoting technology transfer, in procurement of overseas defense equipment; and appropriate control of new purchases charged to later years.

Together with advancing efforts such as utilization of public procurement as an opportunity for businesses, including SMEs and new business ventures, to adopt advanced technologies, the government will strive to support implementation of advanced technologies in society and streamline spending through their adoption in government activities, systems, etc., including public works and social-security services.

Chapter 4 Short-term principles in economic and fiscal management and guiding principles in budget formulation for FY 2019

The Japanese economy is in a moderate recovery, with a virtuous circle progressing, in which improvements in the corporate sector are spreading to the household sector. Under the continuous recovery in overseas economies, the economic recovery centered on private demand is expected, as the employment and income conditions further improving, helped by the effects of various policies. However, attention should be paid to risk factors such as economic uncertainty overseas, including the development in trade issues, and the effects of fluctuations in financial and capital markets.

To tackle with the Japanese economy's greatest challenges of the decreasing birth rate and aging population, and realize sustainable economic growth, the government will aim to raise the potential growth rate through realizing and expanding human resources development revolution and supply system innovation, together with enhancing virtuous cycle of growth and distribution. The government will develop the economic environment so that the consumption tax rate hike from 8% to 10% scheduled for October 1, 2019 can be certainly implemented, and take all the possible measures to smooth out the demand fluctuation caused by the tax rate hike.

The government expects the Bank of Japan to pursue monetary easing under its price stability target of two percent and achieve this target at the earliest possible time.

(Short-term guiding principles in budget formulations)

- 1) Based on the experience with the previous hike in the consumption tax rate in April 2014, temporary special measures will be taken in the initial budgets for FY 2019 and FY 2020 in order to respond flexibly to demand fluctuations accompanying the hike in the consumption tax rate on October 1, 2019, separately from the policy of continuing expenditure reform efforts. Specifics of such measures will be examined during the budgeting process for each fiscal year, based on the degree of the impact on demand fluctuations of the consumption tax rate hike planned for October 1, 2019 and economic conditions, etc.
- 2) As the first year of the foundation-reinforcement period that will serve as the basis for social security reforms under the new plan, the budget for FY 2019 will be formulated in accordance with a policy of continuing expenditure reform efforts in social security costs, non-social security costs, and other areas.
- 3) The government also will eliminate waste in budgeting and allocate more money to really necessary measures based on strict prioritization.