Structural Reform Evaluation Report
-Examination of reform effects on corporations and employment and the “Next Move” -
(Main Points)

What the examination of the effect of reform on corporations and employment has revealed
= Private corporations and individuals respond sensitively to reform and demonstrate their
competence

“Next Move” = Extract the power of the private to the fullest extent by further promoting
structural reform

○ Reform is having its effect on corporations and employment.
  ● The establishment of corporate reorganization-related legal and tax systems are highly
  evaluated. Reorganization has become active (M&As increased by 2.5 times in five years).
  Corporations that implemented reorganization posted high profitability.
  ● Thanks to deregulation, jobs introduced by private employment agencies have increased.
  Private employment agencies are faring well, with the turnover period of people who used
  them being short. (private: 2.9 months, public: 4.1 months)

○ However, problems still remain.
  ● The profitability of Japanese companies is still low compared with that of their overseas
  rival companies.
  ● Employment problems for young people continue, such as a decline in the employment of
  new graduates, and a rise in the percentage of unworking young people.

○ “Next Move” based on evaluation and examination
  ● Reform from a global perspective (a promotion of agriculture revitalization and FTA, etc.)
  ● Support for the establishment of lifestyle-oriented new businesses (especially by women
  entrepreneurs).
  ● Attention should be focused on unworking young people not categorized as the
  unemployed.
Structural Reform Evaluation Report
Examination of reform effects on corporations and employment and the “Next Move” (Outline)

Purpose of the report
- The purpose is to evaluate and verify the effects of structural reforms. It is designed to identify the next Action and Plan in the structural reform cycle of Plan-Do-Check • Action.
- A combination of external evaluation (task force consisting of external experts) and examination by the Cabinet Office. The report is the outcome of dialogues between the two.
- Based on the evaluation and examination of the effects of structural reform, the report proposes an agenda for the “next move” to promote reforms.

Theme of the report
Economic revitalization
- Evaluation and examination of reform effects on four policy issues
  1. Business reorganization/revitalization
  2. Promotion of business creation/opening
  3. Employment creation
  4. Labor mobility and manpower development

Task force members (in random order)
Chairman Yutaka Kosai (President of the Economic and Social Research Institute, Cabinet Office)
  Kiyohiko Nishimura (Professor of Economics, University of Tokyo)
  Paul Sheard (Chief Economist Asia, Lehman Brothers Japan)
  Yuji Genda (Assistant professor, Institute of Social Science, University of Tokyo)
  Kunio Ito (Dean, Faculty of Commerce and Management, Hitotsubashi University)
  Yukio Okubo (General Manager, Works Institute, Recruit Co.)
  Yasufumi Kanemaru (President, Future System Consulting Corp.)
Points regarding the data-based evaluation

- Progress has been made in the establishment of an equity-swap system, a corporate divestiture system, and a tax system for business reorganization.
- The equity-swap system and the corporate divestiture system were actively utilized after their establishment.
- Partly due to the utilization of these systems, the cases of corporate mergers and acquisitions (M&As) increased by 2.5 times in five years.
- Corporations that had carried out business reorganization posted high profitability and productivity.

Table 1 (1)-2 Corporations That Had Carried Out Business Reorganization, Such as M&A Posted High Profitability and Productivity

(Note) Comparison of corporations saying they implemented business reorganization through M&A, establishment of a holding company, or other means in the past five years, and corporations saying they did not do so in response to the 2002 Questionnaire Concerning Corporate Activities. (The analysis was made in a way that would not identify individual corporations.)
The Industrial Revitalization Corporation started its activities and decided to provide support to eight cases.

Investment in private corporate reconstruction funds exceeded ¥1 trillion.

Use of the Civil Rehabilitation Law for business reconstruction procedures has increased, shortening the processing period.

Table 1 (3)-3 Use of the Civil Rehabilitation Law Has Increased, Compared with the Composition Law, and its Processing Period Has Been Shortened

<table>
<thead>
<tr>
<th></th>
<th>Composition Law</th>
<th>Civil Rehabilitation Law</th>
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<tbody>
<tr>
<td></td>
<td>(Source: Supreme Court)</td>
<td>(Source: Teikoku Databank)</td>
</tr>
<tr>
<td>No. of utilization</td>
<td>Approved case:</td>
<td>No. of applications:</td>
</tr>
<tr>
<td>cases</td>
<td>1999 175 cases</td>
<td>Fiscal 2000–2002 (for 3 years after the enforcement of the law) 2,648 cases</td>
</tr>
<tr>
<td></td>
<td>2000 116 cases</td>
<td>(2,771 cases, if those transferred from other bankruptcy procedures are included)</td>
</tr>
<tr>
<td></td>
<td>… accounting for 4.6% of the total number of bankruptcies and 33.4% of total liabilities.</td>
<td></td>
</tr>
<tr>
<td>Average processing</td>
<td>From application to approval:</td>
<td>From application to approval:</td>
</tr>
<tr>
<td>period</td>
<td>1999 10.6 months</td>
<td>Fiscal 2000–2002 247.8 days (8.1 months)</td>
</tr>
<tr>
<td></td>
<td>2000 11.2 months</td>
<td>From application to the decision to start procedure: 32.6 days</td>
</tr>
<tr>
<td>(Reference)</td>
<td>Corporate Rehabilitation Law (before revision) From start of procedures to approval: 2 years and 2.4 months</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Source: Ministry of Economy, Trade and Industry) From decision to start procedure to approval: 215.2 days</td>
<td></td>
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</table>
- The establishment of new businesses created employment for 2 million people a year (1999~2001 average).
- The growth rate of employment was 5.0% in the areas where regulatory reforms were implemented, as compared with 3.2% in the areas where regulatory reforms have yet to be implemented (employment created as a result of the establishment of new businesses in 1999~2001).
- As a result of the revision of the Worker Dispatch Law (that has in principle liberalized the manpower dispatching business and extended the dispatching period), the number of dispatched workers increased 2.4 times in five years (1996→2001).

Table 4 (1)-5 The average turnover period of people who used private employment agencies is short (2.9 months, as compared with 4.1 months for the people dispatched by public job placement offices), and the percentage change of their average wage is high (2.2%, as compared with minus 1.8%) (2000).
- Corporations’ extraordinary losses caused by restructuring appeared to have passed a peak and declined in FY 2002.
- There are positive trends, such as an improvement in business investment and an increase in job offers.
- Measures to support the positive trends, such as tax breaks for investment and R&D, were implemented.
- Corporations’ profit structure has improved thanks to restructuring efforts – sales decreased but profits increased as a result of cuts in personnel expenses and other costs.

Table 1 (2)-2 Corporate profits increased amid decreasing sales

Analysis of factors behind year-to-year changes in ordinary profits
• Japan’s return on assets (ROA) is still lower than in the United States.
• The profitability of Japanese IT-related companies is low compared with that of their overseas rival companies.

Table 1 (1)-6 The profitability of Japanese IT-related companies is low compared with that of their overseas rival companies.

• The decline in the employment rate of junior high graduates is especially serious, with one out of every four such graduates failing to get a job.
• With regard to people aged under 35, more than half of those who were part-time workers immediately after graduating from school are still part-time workers.

Table 4 (2)-5 The employment rate of new graduates, especially junior high school students, is declining
● The aging of population is advancing in local regions. Declines in the labor force population and employed population are sharp.
● The growth in the employed population in the service industry is relatively low in local regions.

Table 5-7 The aging of population is advancing in local regions. Declines in the labor force population and employed population are sharp.

(Growth rates are for 1995~2000. Other figures are for 2000) (%)

<table>
<thead>
<tr>
<th></th>
<th>National</th>
<th>3 major metropolitan areas</th>
<th>Outskirts of 3 major metropolitan areas</th>
<th>Local regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate of the population aged 15 and over</td>
<td>2.7</td>
<td>3.3</td>
<td>2.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Growth rate of the labor force population</td>
<td>-1.4</td>
<td>-1.3</td>
<td>-0.4</td>
<td>-1.8</td>
</tr>
<tr>
<td>Growth rate of the number of employees</td>
<td>-1.8</td>
<td>-1.6</td>
<td>-0.8</td>
<td>-2.3</td>
</tr>
<tr>
<td>Growth rate of the number of unemployed</td>
<td>8.5</td>
<td>5</td>
<td>12.2</td>
<td>12.2</td>
</tr>
<tr>
<td>Labor force participation rate</td>
<td>61.1</td>
<td>61.1</td>
<td>62.9</td>
<td>60.5</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>4.7</td>
<td>5</td>
<td>4</td>
<td>4.6</td>
</tr>
<tr>
<td>Population ratio of people aged 65 and over (ratio to the population of people aged 15 and over)</td>
<td>20.3</td>
<td>17.4</td>
<td>20.4</td>
<td>23.6</td>
</tr>
</tbody>
</table>

Note: Service industry includes business services, such as information services, professional services like accounting, and job placement and manpower dispatching services, and personal services, such as medical and insurance service, and leisure-related services.

Source: Establishment and Enterprise Census, Ministry of Public Management, Home Affairs, Posts and Telecommunications
“Next Move” for reform based on the evaluation and examination

What the examination of the effect of reform on corporations and employment has revealed
= Private corporations and individuals respond sensitively to reform and demonstrate their competence

“Next Move” = Extract the power of the private to the fullest extent by further promoting structural reform
Enhancing the burgeoning changes in corporations and employment and spreading the effect of reform throughout the whole economy

1. “Next Move” to further educe the power of the private
[Reform from a global perspective]
○ Strategic reform of the corporate tax system, etc. from a global perspective
    In order to promote domestic investment by Japanese and overseas corporations, various systems surrounding corporations should be reviewed strategically by properly evaluating and examining them. When doing so, necessary reviews should be made from various angles with regard to corporations’ public burdens like tax and social security, including the treatment of, for example, consolidated tax surcharges and losses.
○ Promotion of agriculture revitalization and FTA
    In order to promote corporations’ international activities and stimulate trade and investment, it is essential to promptly promote FTAs. Amid progressing moves toward internationalization, such as FTAs, it is a pressing issue to strengthen the vitality and international competitiveness of Japanese agriculture. In order to revitalize and strengthen Japanese agriculture, measures should be taken for the enhancement of the efficiency of farm management and for regional vitalization, including the expansion of the entry of joint stock companies into agriculture throughout the country.

[New systems and practices]
○ Personal guarantees to be limited in order to promote establishment of new businesses
    Limits should be set on the duration of personal guarantee and guarantee amounts. In order to prevent such limits from decreasing loans, systems that do not depend too much on security and guarantee should be established for small and medium-sized enterprises, such as a system that reflects corporations’ intellectual property on security and lending terms.
○ Distribution of jobs, not money, by utilizing government procurement and outsourcing
Conventional bidder qualifications and bidder selection criteria (such as the number of years in operation, size, and past records of orders received from the government) make it difficult for new companies to get business from the government. The government should enhance its knowledge and evaluation capability concerning the private sector’s technology and management in order to give business opportunities to capable new companies. Through this, it is hoped that the government will train experts and promote creation of new businesses through spin-offs.

○ Private-led regional vitalization through the “social investment fund” scheme
   The “social investment fund” scheme should be newly developed in order to realise private-led job creation, by spurring potential demand for projects that are not economically viable to be undertaken by the private sector alone (such as local urban redevelopment and wind power generation). Efficient investment decision and management through private initiatives will be promoted by shifting social investment expenditures from subsidies to capital investment.

[Reform to be further expanded]
○ Drastically opening the job introduction and training business to the private sector
   The scope of job seekers from whom job introduction fees can be collected should be expanded drastically. In the public job placement business, the scope of private sector utilization, including consignment, should be drastically expanded. Through public-private collaboration, a more practical ability rating system should be established, and the consignment of job training to the private sector should be expanded introducing a contingent fee system.

○ Regional vitalization by promoting establishment of lifestyle-oriented businesses
   In terms of promoting regional vitalization and employment, it is important not only to support the creation of promising venture companies but also to support the opening of lifestyle-oriented businesses. Especially, women’s efforts to establish lifestyle-oriented businesses should be supported. In the United States, for instance, various measures are being implemented to facilitate the establishment of new businesses by women, such as setting a government’s order target to be placed with women entrepreneurs and prohibiting financing discrimination by gender (the equal loan opportunity law).

[Manpower holds the key to future growth]
○ Attention should be focused on unworking young people not categorized as the unemployed.
   Since most of the high school dropouts, absentees, and nowhere kids do not make job-hunting efforts, having lost interest in social participation, they are not categorized as the unemployed and are not given adequate support. Therefore, the government should provide support for their social participation and employment by helping them acquire basic skills to respond to social life.

○ Promoting junior high school students’ social participation and job experience throughout the
country
Efforts to put social participation and job experience opportunities to junior high school students, such as the “Try Week” implemented in Hyogo Prefecture and “Learning from the Society—’14-year-old’s Challenge’” implemented in Toyama Prefecture, should be expanded throughout the country.

○ Overcoming the problem of absolute lack of executive manpower is essential for business reorganization and establishment of new businesses.
Business reorganization and revitalization systems and measures to support business creation and opening have been established, but there is a complete lack of management manpower or experts who can take full use of these measures. Fostering executive manpower is a problem that should be addressed by the private sector. However, in view of the magnitude of the problem, policy measures, such as expansion of graduate schools for specialists, should be investigated.

2. For future reform evaluation
○ Establishment of Plan-Do-Check • Action cycle of structural reform
The purpose of measures to be implemented and their expected effects and side-effects should be made quantitatively clear at the stage of reform planning in order to facilitate ex-post evaluation, on condition that evaluation will be made on a regular basis.

○ Statistical information is important social infrastructure for reform
Good policies cannot be planned and promoted without objective analysis. Since basic information such as statistics constitute important social infrastructure, their improvement and flexible application should be promoted.