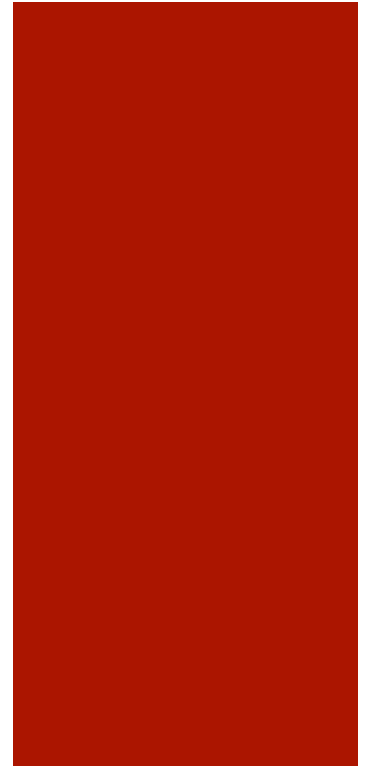
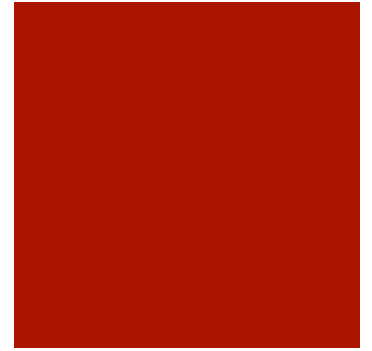


International Policy Forum

14 October 2015
























Today's presentation

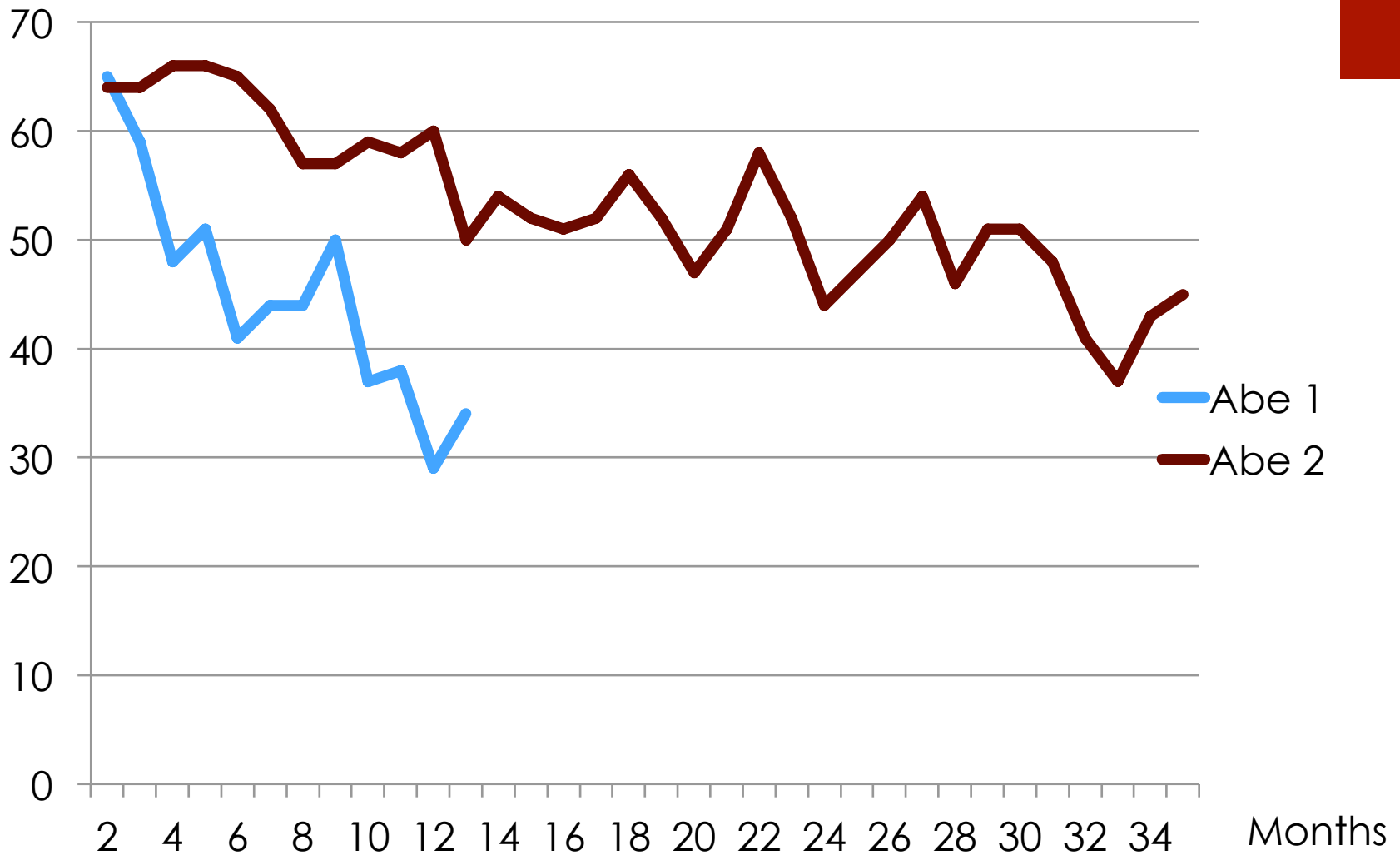
- The Cabinet reshuffle
- Approval ratings – latest development
- The three new arrows – meaning and policy implications
- Economic performance
- LDP tax reform
- Possible topics for an extra-ordinary Diet session



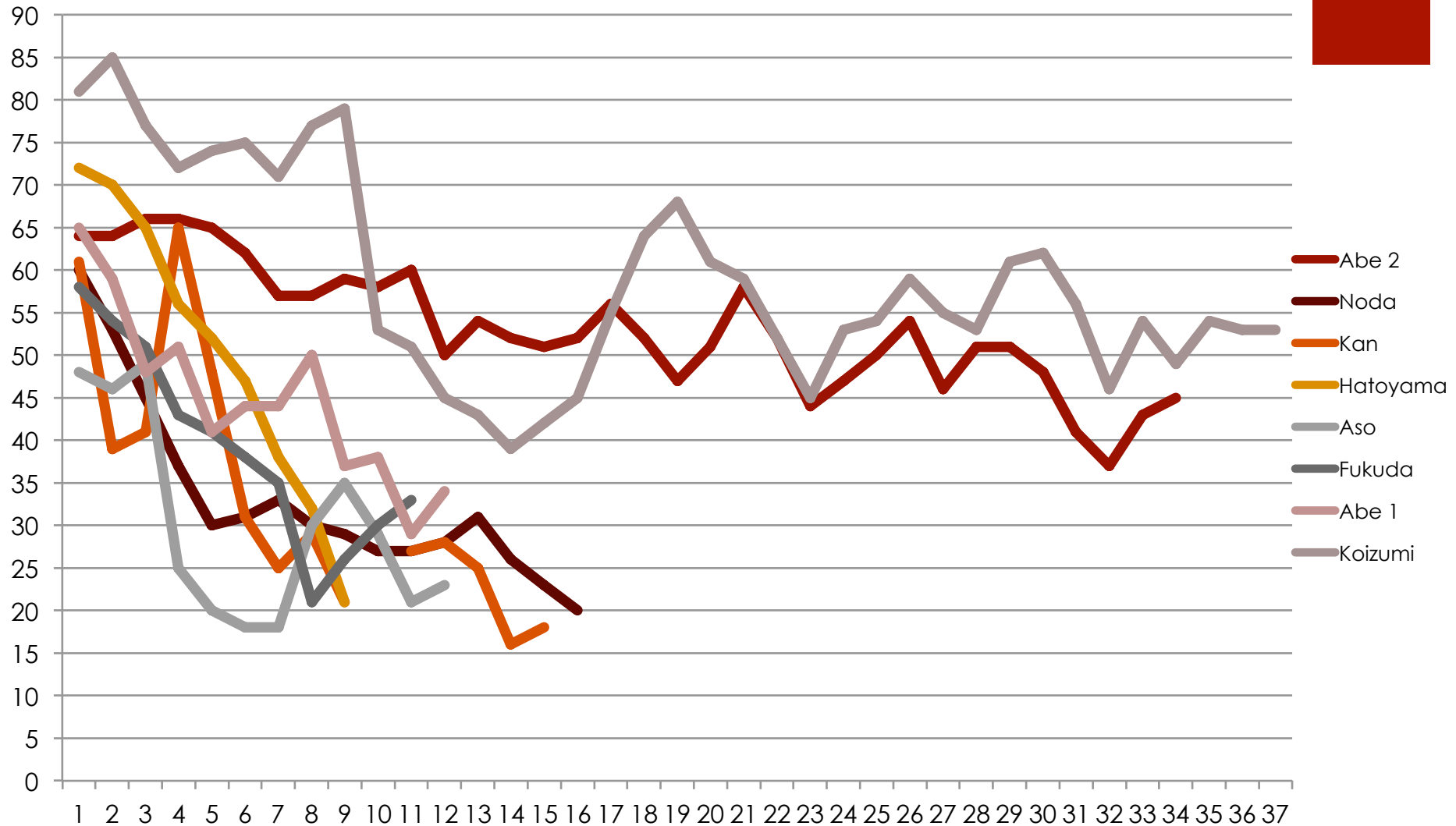
● = newly appointed Minister

	Taro Aso	Deputy Prime Minister, Minister of Finance		Tamayo Marukawa ●	Minister of the Environment
	Sanae Takaichi	Minister for Internal Affairs and Communications		Gen Nakatani	Minister of Defense
	Mitsuhide Iwaki ●	Minister of Justice		Yoshihide Suga	Chief Cabinet Secretary
	Fumio Kishida	Minister of Foreign Affairs		Tsuyoshi Takagi ●	Minister for Reconstruction
	Hiroshi Hase ●	Minister of Education, Culture, Sports, Science and Technology		Taro Kono ●	Chairperson of the National Public Safety Commission
	Yasuhisa Shiozaki	Minister of Health, Labor, and Welfare		Aiko Shimajiri ●	Minister of State for Okinawa and Northern Territories Affairs
	Hiroshi Moriyama ●	Minister of Agriculture, Forestry and Fisheries		Akira Amari	Minister in charge of Economic Revitalization
	Moto Hayashi ●	Minister of Economy, Trade and Industry		Katsunobu Kato ●	Minister in Charge of Promoting Dynamic Engagement of All Citizens
	Keiichi Ishi ●	Minister of Land, Infrastructure, Transport and Tourism		Shigeru Ishiba	Minister in charge of Overcoming Population Decline and Vitalizing Local Economy in Japan
				Toshiaki Endo ●	Minister in charge of the Tokyo Olympic and Paralympic Games

Approval ratings have ticked up...



...almost keeping track with Koizumi...



...despite the public saying they're
unimpressed with the new Cabinet

How do you view the
Cabinet reshuffle?

	Positive	Negative
Kyodo	35.4%	40.1%
Mainichi	39%	47%
Nikkei	26%	31%



Japan Innovation Party splitting up

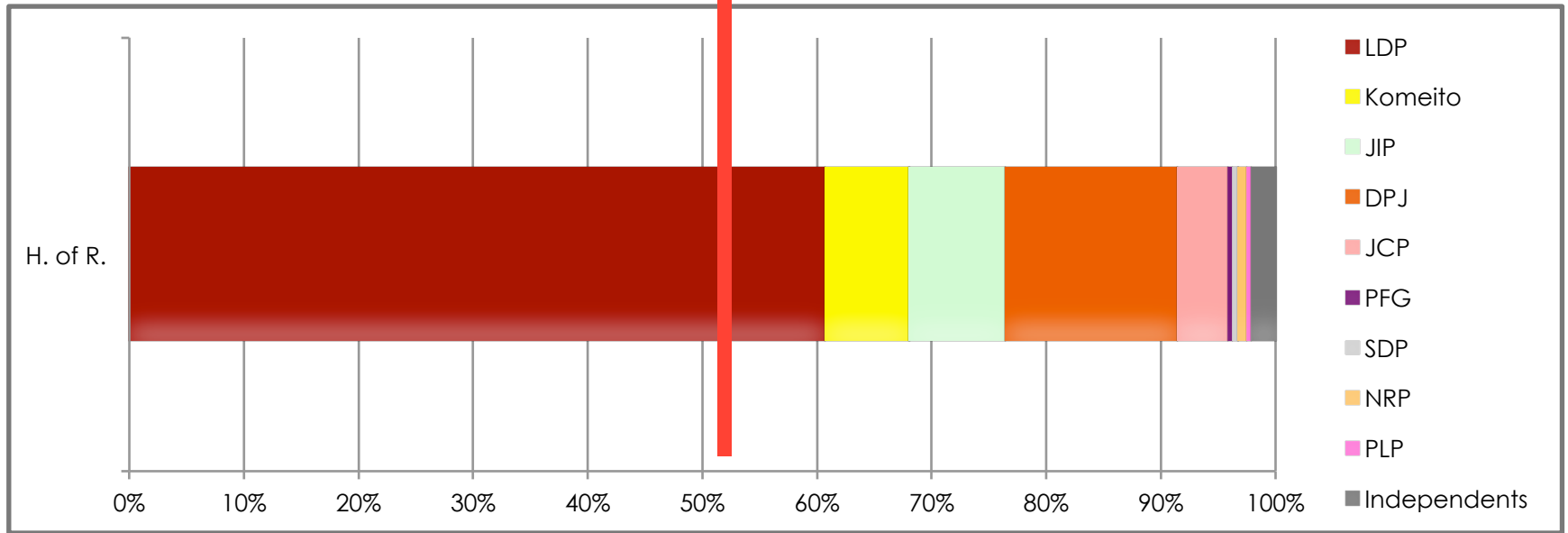
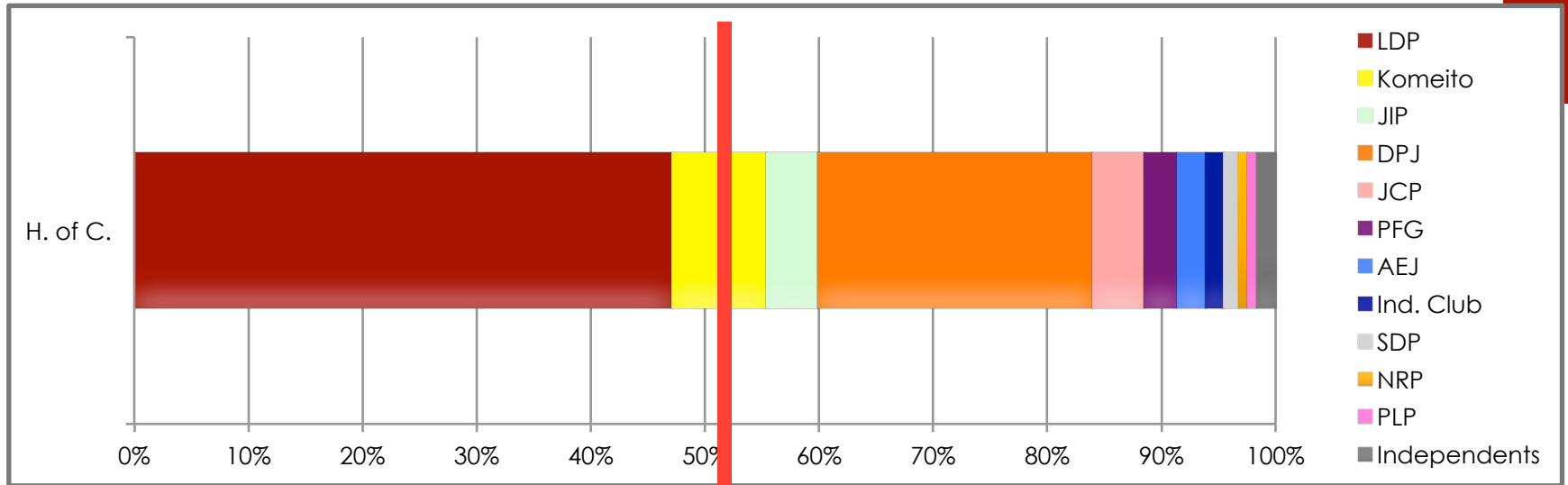


Non-Osaka JIP members like Mito Kakizawa (left) and Yorihiro Matsuno (middle) are looking to join forces with Katsuya Okada's **DPJ**.

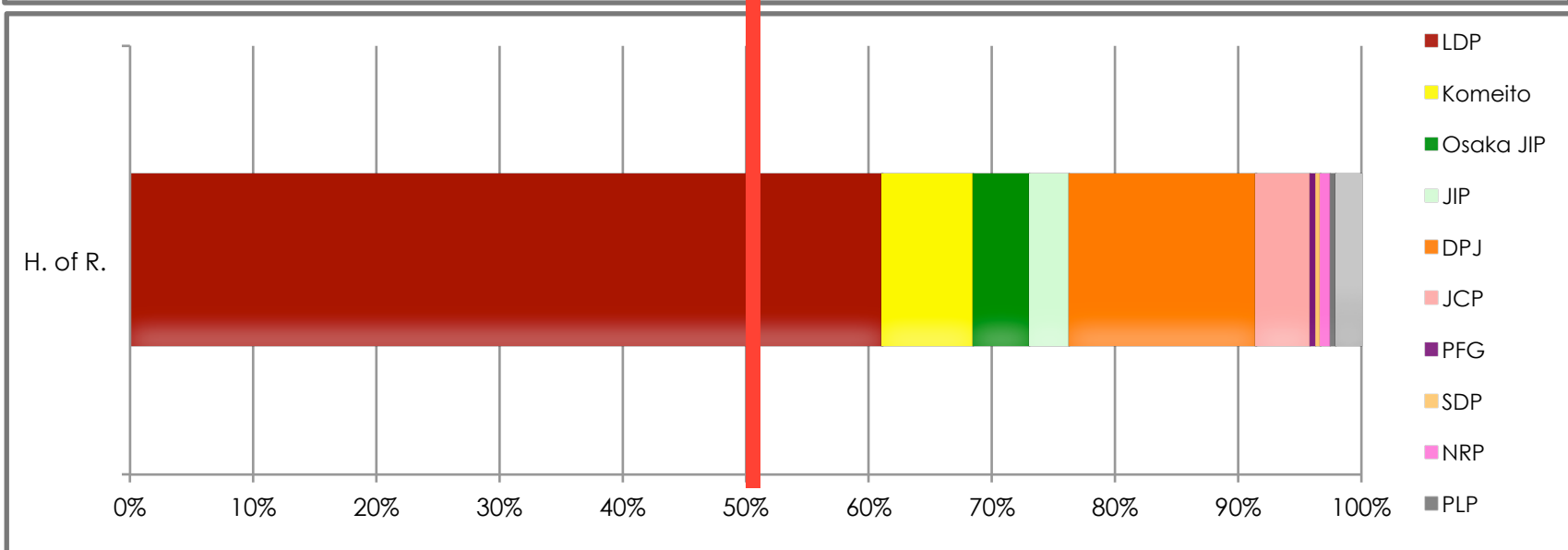
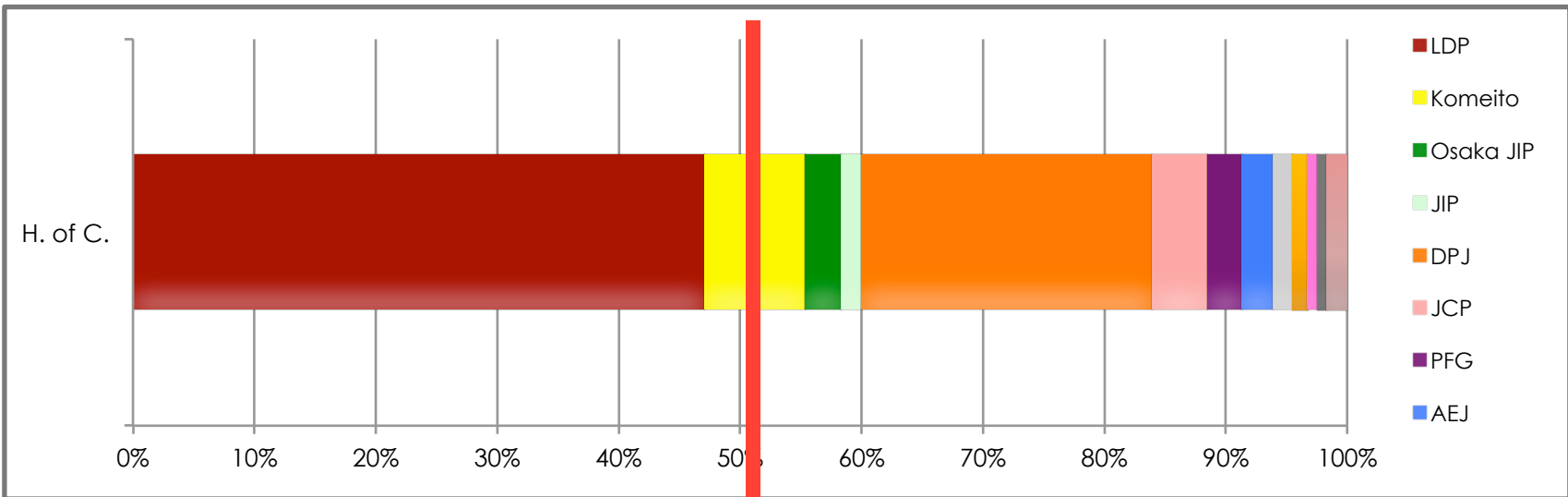


While **Osaka JIP** members, led by Toru Hashimoto (Left) will focus on the new Osaka offshoot and try to tie up with PM Abe's **LDP**

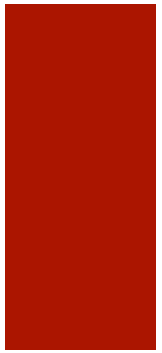
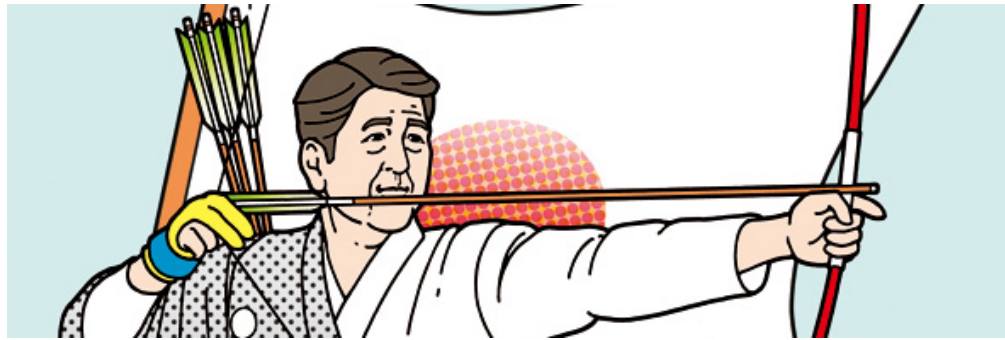
Current seat distribution in the Diet



Seat distribution after the predicted split of Japan Innovation Party



Three arrows –
old and new



Old arrows

Old targets

New arrows

New targets

Monetary Stimulus

2%
inflation

Strong Economy

¥600
trillion
GDP

Fiscal Stimulus

3%
annual
GDP
growth

Dream for Future

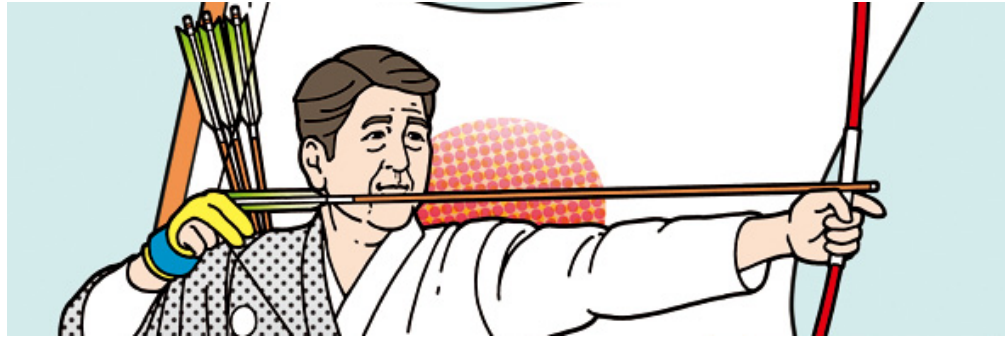
Fertility
rate to
1.8%

Regulatory Reform

Social Security

No one
quitting
employment
to care for
parents

Policy implications



First new arrow

Promotion of next-generation technologies (driverless cars, hydrogen society, Internet of Things)

Promotion of infrastructure system exports to Asian growth markets

Greater use of Big Data and Internet of Things

Focus on improving labor productivity

Financial support for SMEs, especially outside metropolitan areas

Promotion of inbound tourism

Second new arrow

More child-care assistance

Introduce three-year parental leave

Shorten working hours

Tax support for working couples and for families not owning houses

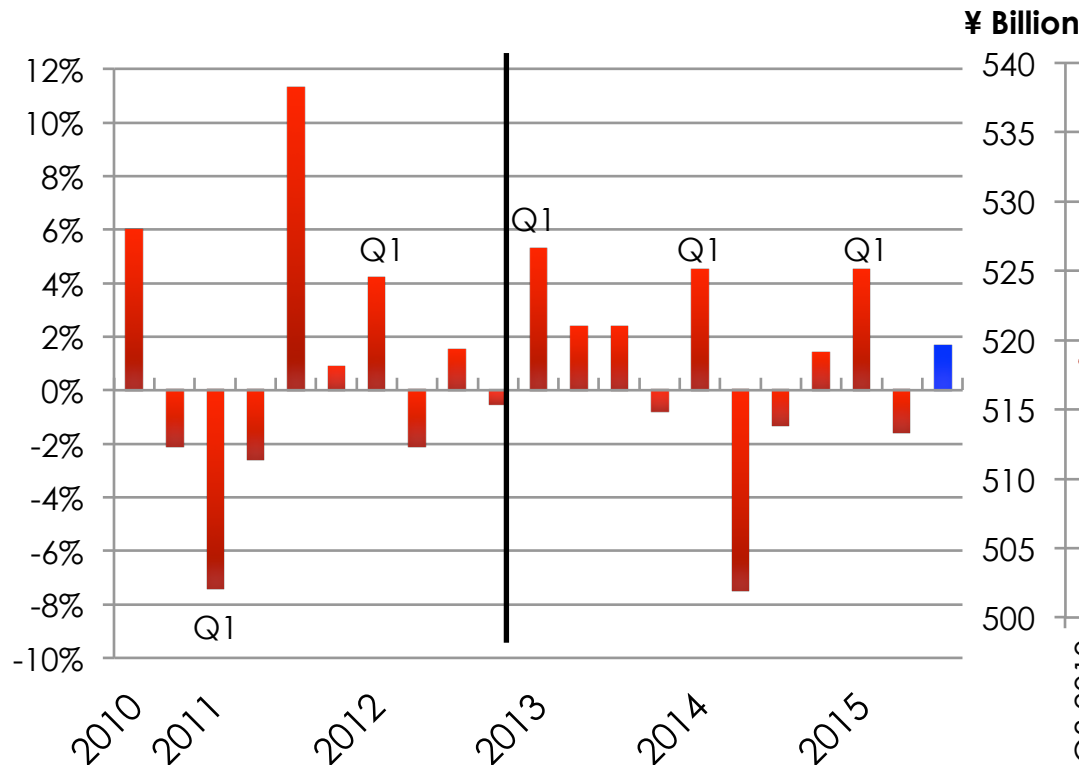
Third new arrow

Boost number of facilities for elderly care

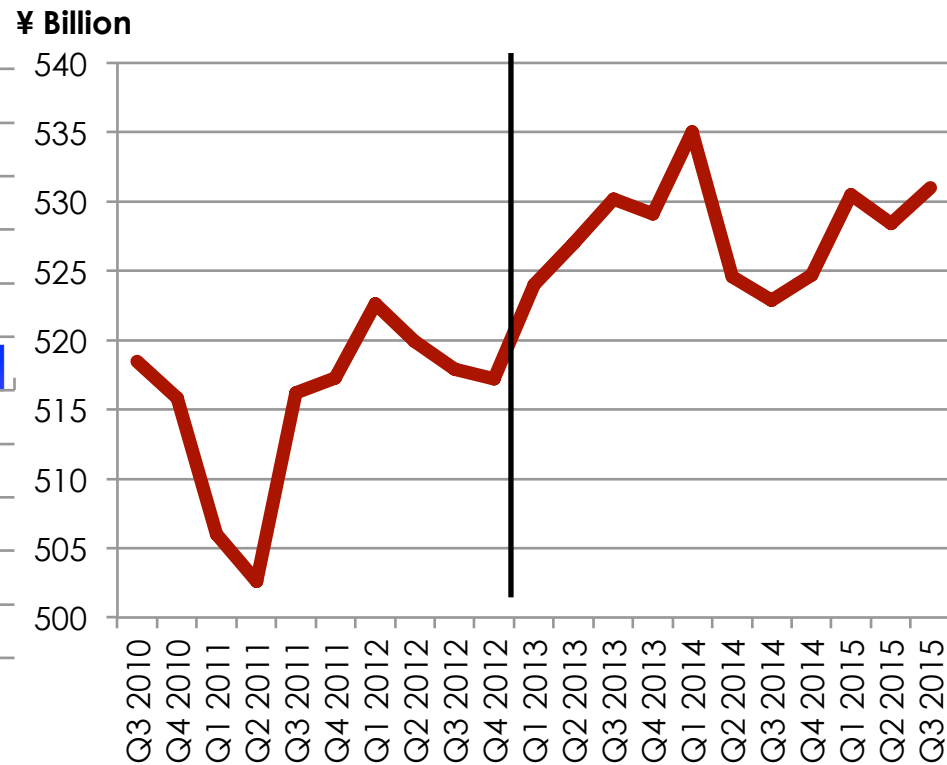
Liberalize rules on use of existing care support scheme

Development of real GDP over past five years

Annualized Quarterly Growth-Rate



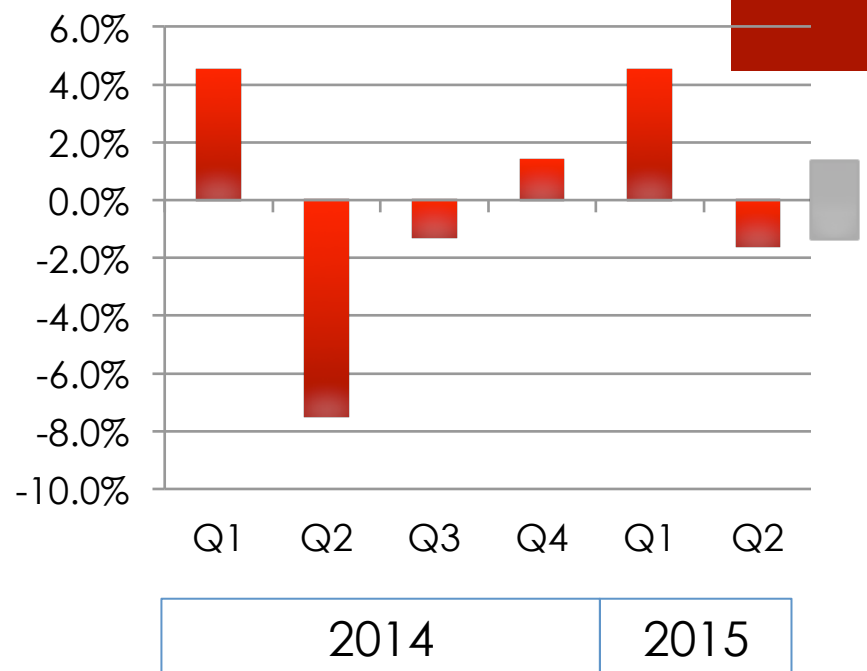
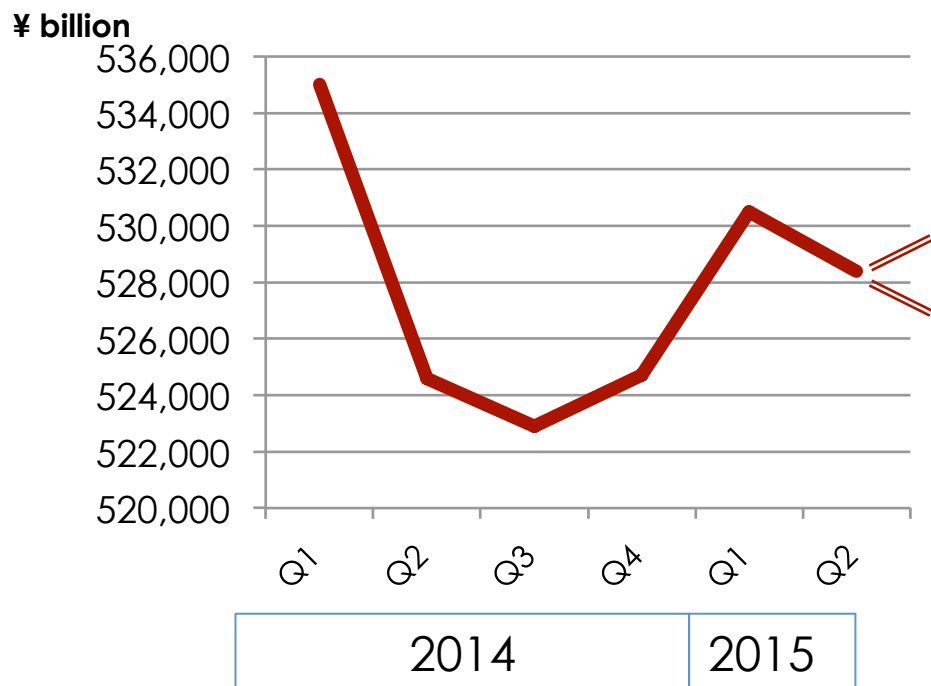
Total GDP



*2015 Q3 figure is based on a poll conducted by Japan Center for Economic Research of 41 major think tanks

Source: Nikkei

A case for renewed economic stimulus?



- The release of Q3 GDP figures on 16 December could trigger discussion on the need for a new extraordinary budget of more than ¥3.6 trillion.
- Poor figures could trigger calls to postpone the planned rise in consumption tax.
- Extra financial support for farmers to compensate for TPP is likely to be included in any package.

Tax reform 2016 discussions

- Change at top of LDP Tax Committee (Miyazawa for Noda) a major development.
- Renewed focus on Corporate Income Tax – LDP trying to push effective tax rate “down to 20s” by FY2017, from current 32.11% and FY2014 rate of 37%. Focus this time will be on speed of lowering the rate and financing.
- Deliberation on introduction of differentiated tax rates for different products at time of consumption tax increase to 10%.
- Consumption tax rise in 2017 will trigger discussions (again) on annual price revisions for pharmaceuticals and medical equipment.
- Tobacco Tax rise requested for first time by Ministry of Education (MEXT) in preparation for a “smoke-free Tokyo Olympics”. Reaction of the parliamentary league for protection against passive smoking will be key.
- Changes to tax treatment of spouses: removal of spouse tax deduction likely, although pace and method still to be decided.
- Tax incentives for renovation and restoration of old houses (to slow the rise in empty and uninhabitable houses).

Topics for a possible extraordinary Diet session

- Opposition parties want to know the positions of new ministers and thinking behind the “new three arrows”.
- Review of TPP negotiations. Not discussing ratification yet, because the agreement has not been signed.
- Review of the LDP's discussion on tax reforms.
- Remaining bills from last session:
 - Easing conditions for defined contributions plans – 401K
 - Updating regulation of consumer contracts in the Civil Code
 - Revision of Labor Standard Law to introduce “white collar exemption” from the requirement to pay employees over-time
 - Revision of Code of Criminal Procedures to allow plea bargaining
 - Integrated Resorts Promotion Bill
- ICT Usage Promotion Bill?
- Extraordinary budget ?

The Trans-Pacific Partnership

- TPP negotiations finally concluded on 5 October 2015 in Atlanta. The 12 participating nations' legislatures will now move to ratify. The US Congress in particular faces pressure and a strict timeline, with presidential elections next year.
- As expected, the agreement combines phasing out of tariffs, setting new standards for labor markets and the environment, and liberalizing markets for dairy products and automakers.
- However, the phase out periods are much longer than predicted and final tariff rates much higher for many products, including the five products Japan identified as "sensitive" (rice, beef/pork, dairy, wheat and sugar).
- Protection for drug patents a major point of contention. The US pushed for 12 years protection, but compromised at 8 years when Australia was unwilling to budge on its 5-year demand. The final agreement is "in the 5-8 year range", with 5-years mandatory and 8-years more or less optional.
- Reaching an agreement, not content, seems to have become the highest priority at the very end of the negotiations
- Popular support for TPP in Japan is strong, with 58% approving and 28% disapproving, according to a Yomiuri Shimbun poll.

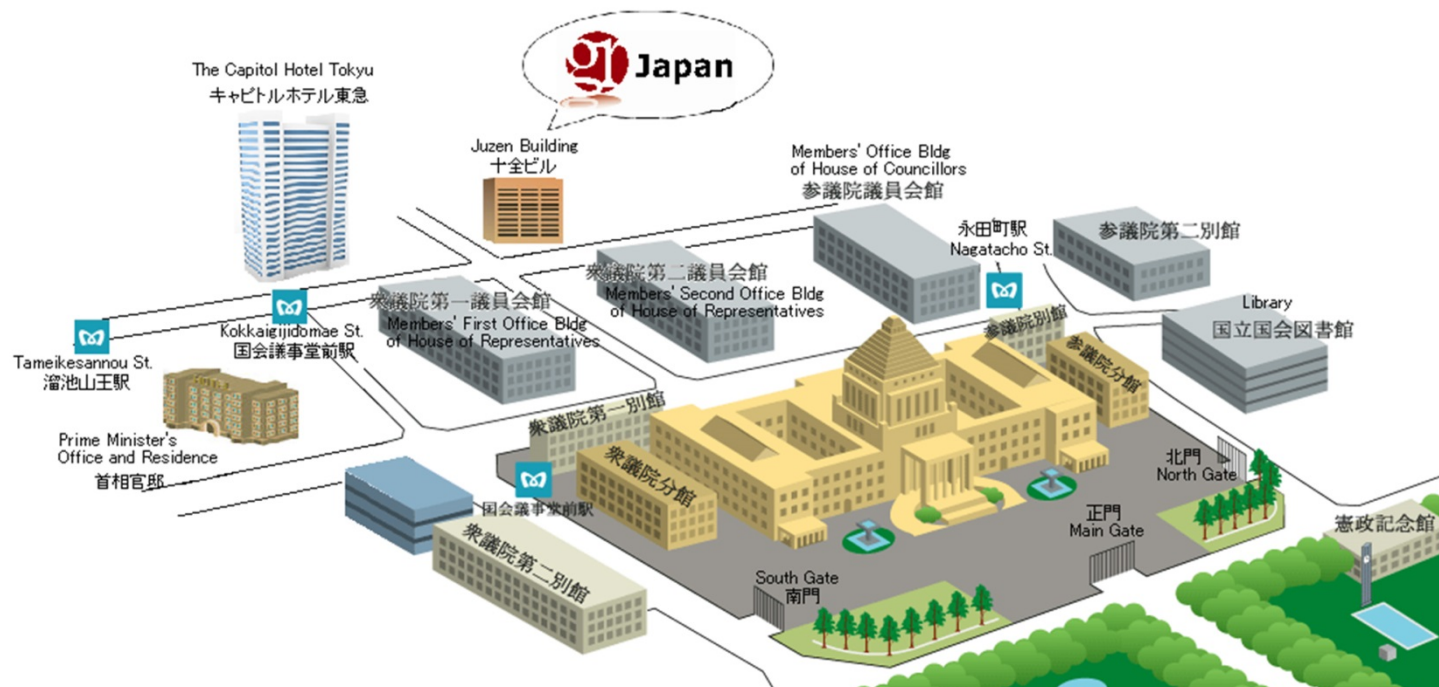
The political schedule

- 15 October: Scheduled restart of Sendai 2 Nuclear reactor
- October: Restart of LDP Tax Committee Discussions; First meeting of “Council for Promoting the Dynamic Engagement of all Citizens”
- Beginning of November: Japan-China-South Korea trilateral summit in Seoul
- 15-16 November: G20 Leaders Summit in Turkey
- 16 November: Release of Q3 GDP Figures – if bad, could re-open discussion on delay in consumption tax rise.
- 18-19 November: APEC Meeting in Manila
- 22 November: Osaka Mayoral and Gubernatorial Elections
- 15 December: G20 Meeting in Ankara
- Mid-December: LDP releases FY2016 tax reform proposal
- Mid-December: Announcement of “Mid-term strategy for the promotion of dynamic engagement of all citizens”
- December: COP 21 (UN Conference on Climate Change) in Paris
- December: Scheduled restart of Ikata nuclear reactor

Snapshot political analysis



- PM Abe has been bolstered by the successful conclusion of TPP negotiations. Together with the Cabinet reshuffle, Abe has almost restored his approval rates despite the national security bills discussion.
- There is not much excitement, however, about the new Cabinet as the political focus is shifting again toward the economy, after a summer focused instead on the national security bills.
- Politics seems to be returning to the ways of the pre-Koizumi LDP, where everything is given to everybody, vague policy promises and little sense of any need to prioritize.
- At the same time, the opposition is unlikely to provide much of an alternative. On the contrary, a large part of the opposition, led by Toru Hashimoto, is likely to move closer to LDP.
- An Extraordinary Diet Session is unlikely but the government could choose to take control of the process rather than having the opposition be seen to drag it to an extraordinary session
- Economic data could force the government to adopt a new extraordinary budget and, possibly, start discussing a delay in the consumption tax rise.
- Tax reform will set the policy agenda for the weeks to come, this time with a new chair of the LDP Tax Committee with new ideas.



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