



SMAM

“Growth Strategy” - Pillars of Basic Frames Revealed

1. What is “Growth Strategy” ?

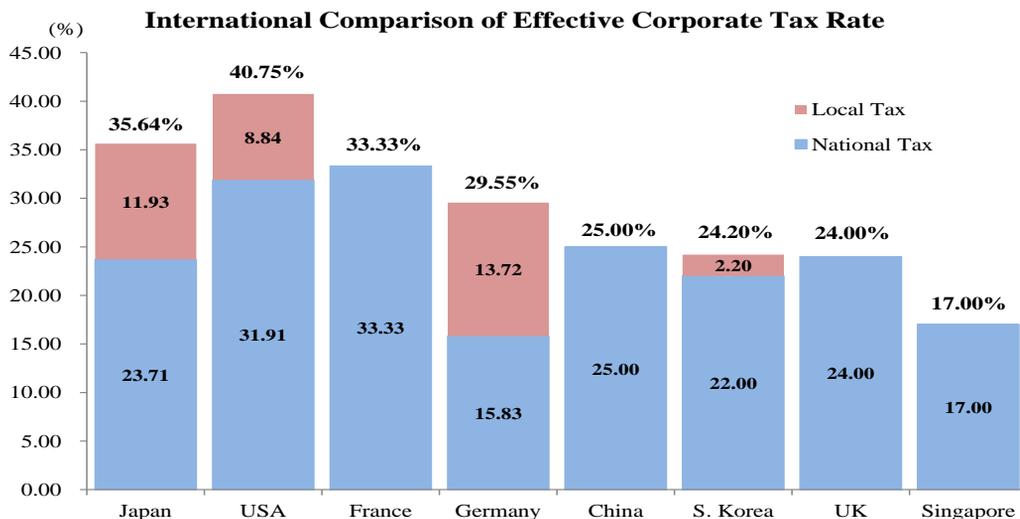
The Abe administration had set the policy of “Growth strategy that promotes private investment” as the third arrow of Abenomics. The growth strategy which was announced in June last year was named “the Japan Revitalization Strategy – JAPAN is BACK”. The “Japan Revitalization Strategy” sets out three action plans which are “Plan for Revitalization of Japanese Industry”, “Strategic Market Creation Plan” and “Strategy of Global Outreach”.

2. Latest Trend

On June 10, the Industrial Competitiveness Council released outline of revised Japan Revitalization Strategy. The focus is on the responses to unresolved issues in the area such as i) employment & labor policies, ii) medical & long-term care (LTC) and iii) agriculture, forestry & fishery industries. Revision of the policy of working hours is believed to be a selling point this time.

On June 13, Council on Economic and Fiscal Policy, an advisory council of the Prime Minister, prepared a draft known as “2014 Economic & Fiscal Reform Plans” (“Big Bone Policy”). This draft plan contains responses to resolve four issues which are i) pullback of rush demand ahead of consumption tax hike, ii) sustainability of virtuous economic cycle, iii) sharp decrease in population & unprecedented ageing society and iv) fiscal soundness consistent with economic reform.

On the same day, the Council for Regulatory Reform, a council with the objective of reviewing various regulations that would help revitalize the economy, submitted a report called “Regulatory Reform Implementation Plan”. This plan covers broad areas such as energy, childcare and business start-up. People’s expectation is high particularly on the realization of regulatory reform of medical and employment area, so called “bedrock regulations”, which is deemed difficult to drill holes.



(Notes) 1. Tokyo rates used for Japan, California rates used for USA, Seoul rates used for S. Korea.

2. Tax rates are as of January 2013.

(Source) SMAM, based on the Ministry of Finance data.



3. Future Outlook

It is expected that “Japan Revitalization Strategy” (revised outline), draft of “Big Bone Policy” and “Regulatory Reform Implementation Plan”, released in succession, will form pillars of the basic frames of growth strategy which will be put together by this month end. In addition, PM Abe stated clearly that the effective corporate tax rate will be cut to below 30% within few years starting from FY2015 which was printed in an attachment to the “Big Bone Policy”. The market took this positive and the Japanese stock market rallied when this was announced.

As the outline of “growth strategy”, the third arrow of Abenomics, was announced, the market seemed to have almost discounted this event. The market reacted calmly on the decision of alternative revenue source of corporate tax cut to be postponed to the year end probably as this was already spread in the market. From here, one of the focal points of the market will be on how the alternative source of corporate tax cut be secured.

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