

【Title】 Abenomics and the Future of US-Japan Relations: Japan's growth strategy and its impact on the US economy

【Date】 Monday, April 29, 2013 (5:00pm – 6:00pm)

【Host】 U.S.-Japan Research Institute

【Venue】 Capitol Hilton, 1001 16th Street NW, Washington DC

【Attendance】 ~180

【Participants】

- Hon. Yasutoshi Nishimura, Senior Vice Minister of Cabinet Office
- Moderated by: President Uchida of USJI

【Summary】

Nishimura:

Only 15 months ago, he spoke here of the importance of the US-Japan alliance and the path Japan should take forward. At that time, the American audience seemed skeptical of whether Japan was really going in the right direction, but now there seems to be expectations of Japan's recovery and the willingness to make an investment in a country on its way toward restoration. We must end the situation where the prime minister is replaced on a yearly basis, and we must win the Upper House elections in July to end the twisted Diet and ensure political stability. Abe should hold office for at least five years before he can say that he is back.

Since the start of the Abe cabinet, the yen has depreciated and stock prices have risen by more than 60%. At the same time, the US economy has begun to improve and the European debt crisis appears to be calming down, contributing to a positive economic environment. We must, however, recognize the importance of implementing the right policies, as the market still does not have much confidence in the recovery of the Japanese economy. There is a trend for the public to wait and see what growth strategy Abe will pull off. The goal of Abenomics is to rebuild the economic foundation so that Japan can break free from long-term deflation and start on its path of growth. The three-pronged strategy of Abenomics refers to a) aggressive monetary policy, b) flexible fiscal policy, and c) growth strategy. We must make sure that the three work together in revitalizing the Japanese economy.

After the Lehman Shock, central banks around the world relied on quantitative easing to help their balance of payments. Similarly, immediately after regaining leadership, Prime Minister Abe set an inflation target of 2% in order to exit from deflation and to achieve sustainable economic growth. What was crucial about this decision was that it was approved and supported by the Bank of Japan, which was unprecedented. The Bank of Japan decides the specific means of monetary policy, and the appointment of Governor Kuroda was key for Abe. So far he has been successful. He

announced that he would achieve the 2% inflation rate by doubling the monetary base and introducing policies of monetary easing on a different level.

What is also important in complementing the monetary easing is fiscal policy. Unless the funds supplied to the market are circulated in the domestic economy, they will not provide economic stimulus. Abe adopted a dramatic fiscal stimulus including 20 trillion yen of public projects. The increased money supply will be absorbed thoroughly by actual demand generated through fiscal measures.

Finally, the Japanese economy needs a growth strategy in order to fully recover and continue to maintain economic growth over the long term. We will take on the challenge of maintaining a nominal growth rate of 4.5 to 5% with a bold growth strategy. The Japanese population has already begun to decrease. As growth rate is determined by labor input, capital input and productivity, some question the feasibility of maintaining growth with a declining population. This is where Abe's emphasis on women comes in. Highly capable women are an underutilized resource in Japan. The growth strategy will increase the rate of employment of women by increasing the capacity of day care for 200,000 children over the coming two years and 400,000 children over five years. Our GDP could rise by 15% if the female rate of employment increased up to the male level. We can also rely on foreign human resources. We will review preferential treatment systems to accept larger numbers of highly skilled human resources from overseas—we hope to accept 300,000 international students into Japan and to send 150,000 Japanese students to study abroad, while also relying on more tourism.

Capital input must be increased as well by expanding private sector investment opportunities. One plan is the Abenomics strategic economic zone, a zone for R&D and technological advancements. We can encourage innovation and business clusters by setting up special economic zones in, for example, Okinawa. In the meantime, Abe can deregulate the floor-to-area ratios in the cities such as Tokyo, a city which Abe is looking at to create another economic zone that will be a 24-hour international financial center. The Kansai region is another area of focus. The coordination of ports and airports and the effective use of existing infrastructure will lead to international competitiveness of the medical and tourism industries. Japan sees potential in the medical industry in particular, especially with Shinya Yamanaka's Nobel Prize for the study of iPS cells, which could be a breakthrough in medical services. Any further delay in reform would be fatal to the Japanese economy, so we will take this as our last chance and boldly take on challenges that previous governments failed to.

The revitalization of the Japanese economy will be beneficial to the US as well. A strong economy will produce a more attractive market and an environment more conducive to doing business. With regulatory reform and special economic zones, Japan can promote more trade with the US, as well as bilateral flows of people, products and money. Revitalization is contingent upon

fiscal consolidation. We must maintain fiscal discipline in order to cover social security costs and to reach a fiscal surplus. Here, we can rely on increased consumption tax and growth strategies. Through a bold growth strategy, we can establish an economic structure that can withstand a tax increase. As for cutting expenditures, we must be careful not to conflict with the effects of the growth strategy. We will, however, reduce the cost of government rigorously through the opening up of the public sector. The TPP will be another boost for our economy. Japan should proceed with negotiations quickly, while also dealing cautiously with the agricultural and automobile sectors. In fact, the agriculture needs to change in Japan regardless of TPP; productivity improvements, introduction of information technology and expansion of exports are all on the agenda. What is most important, however, is that the partnership can promote trade, investment, intellectual property, government purchases and dispute settlement. These international rules can expand an environment for free trade and investment worldwide. Japan's participation in the TPP will produce a long-term benefit of 7.7 billion dollars to the US and 22.3 billion dollars to the world.