

# ABENOMICS: FAILURE OR SUCCESS?

RAYMUND GRADT  
REGIONAL MANAGER FAR EAST & OCEANIA  
AUSTRIAN FEDERAL ECONOMIC CHAMBER



# 1. JAPANESE ECONOMY



# JAPANESE ECONOMY

- **3rd largest economy** of the world
- **Manufacturing** focusses primarily on high-tech goods
- Largest electronics goods industry
- Third largest **private financial assets** in the world
- Rapidly shrinking **labor force**
- Highest ratio of **public debt** to GDP of any developed nation



# STAGES OF DEVELOPMENT

- **Japanese Post-War Economic Miracle (until first half of the 1980s)**
  - **Rapid economic growth** (∅ 10% in the 1960s, ∅ 5% in the 1970s and ∅ 4% in the 1980s)
  - Guidance by the Ministry of Economy, Trade & Industry (MITI)
  - Increasing exports and rising foreign trade surplus played the key role
  - **Factors of growth:**
    - Vital commercial legacy and sophisticated government bureaucracy
    - Highly skilled and educated labor forces with moderate wage demands
    - High level and quality of investments
    - High savings





# STAGES OF DEVELOPMENT

- **Economic Bubble (second half of 1980s - 1992)**
  - GNP per capita increased from USD 9.068 in 1980 to USD 23.801 in 1990
  - Due to enormous foreign trade surpluses **appreciation of Yen** against foreign currencies
  - Growth propelled by **domestic demand**, consumers went on a buying spree
  - Huge investments of companies
  - **Speculation** in the Tokyo Stock Exchange on a massive scale
  - Easily obtainable credits helped create **real-estate bubble**
  - Tripling of land and stock prices
  - Banks granted increasingly risky loans



# STAGES OF DEVELOPMENT

## ■ **Lost Decade (1990s to 2000)**

- The bubble's collapse occurred gradually
- To deflate speculation and fight inflation the Bank of Japan sharply raised inter-bank lending rates in late 1989
- This policy caused the bursting of the bubble and the Japanese stock market crashed
- **In 1991 land and stock prices began a steep decline**
- Within a few years equity and asset prices fell considerably and lost between 60% and 75% of their value



# STAGES OF DEVELOPMENT

## ■ Lost Decade (1990s to 2000)

- Many Japanese banks and insurance companies were left with **huge bad debts** and had to be bailed out through capital infusions from government, cheap credits from the Bank of Japan and ability to postpone the recognition of losses
- Some of them became “**zombie banks**” with practically no net worth and being able to survive only through government credit support
- Still many banks kept injecting new funds into unprofitable “**zombie firms**” arguing that they were too big to fail
- Credits for investments were nearly unobtainable



# STAGES OF DEVELOPMENT

## ■ Lost Decade (1990s to 2000)

- Low growth rates until 1997
- Raising of consumption tax in 1997 let consumption stumble and wages decreased faster than the nominal GDP
- After tax hike economy sank into **recession** for 5 years
- **Chronic deflation**
- Since 1994 interest rates remained below 1%





# STAGES OF DEVELOPMENT

## ■ Lost Decade (1990s to 2000)

- Leading Japanese companies faced stiffer competition (e.g. Sony vs. Samsung or Toyota vs. Hyundai)
- Many Japanese companies replaced a large part of their workforce with temporary workers with little job security and fewer benefits (nowadays more than one third of the total workforce)



# STAGES OF DEVELOPMENT

## ■ Another Lost Decade (2000s)

- It took 12 years for Japan's GDP to recover to the same levels as 1995
- Many attempted economic stimulus packages led to **huge debts** of the Japanese government
- Debt to GDP ratio of 240% is worldwide largest
- Majority of debt is domestic debt
- Real wages -13% compared to 1997
- 2013: Nominal GDP in Japan was at the same level as 1991 while the Nikkei stock market index was at a third of its peak
- Japan's economy was overtaken not only in gross output, but labor efficiency



# STAGES OF DEVELOPMENT

- **Another Lost Decade (2000s)**
  - **Shortage of labor** due to shrinking population because of low fertility rate and ageing population (23,1% of total population is aged 65 or more)
  - Social security is a growing burden on public finances



# 2. ABENOMICS





# ABENOMICS

- Advocated by Prime Minister **Shinzo Abe** in 2012
- **Economist:** „Mix of reflation, government spending and a growth strategy designed to jolt the economy out of suspended animation that has gripped it for more than two decades.”
- Stimulus bill 10,3 tn. Yen in 2013
- Bond buying program of 80 tn. Yen a year



# ABENOMICS: 3 ARROWS OF 2013

Monetary Policy

## **Remove deflation:**

2% Inflation within 2 years

**Depreciation of Yen**

**Negative interest rates**

Quantitative and qualitative **Monetary Easing**

(Creating new money by BoJ to buy government bonds or other financial assets to stimulate the economy)

Flexible Fiscal Policy

**Creating domestic demand** (public works) to lead the economy out of deflation

Growth Strategy

## **Structural reforms:**

Strengthening Corporate governance

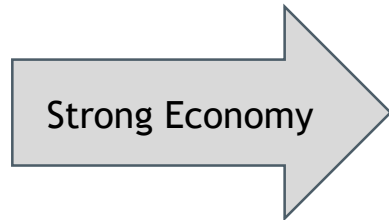
Corporate tax reforms

Promoting female labor participation

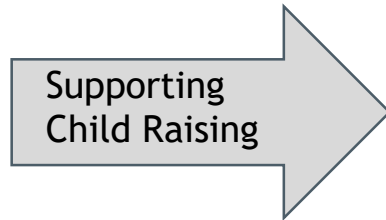
Public / Semi-public funds

Renewable Energy

# ABENOMICS: 3 NEW ARROWS OF 2015



**Targeting Nominal GDP of 600tn Yen**  
(vs. 490 tn Yen in 2014)



**Targeting Birth Rate of 1,8**  
(vs. 1,4 at present)



**Ensure that nobody leaves work to care for elderly relatives**  
(Intensive care homes)



# ABENOMICS: PERFORMANCE CHECK

	2012	Current state
GDP	517 tn. Yen	540 tn. Yen
Economic growth rates	+1,7%	+0,5%
Inflation	-0,03%	+0,2% (end of 2016)
Yen - USD Exchange rate	76,94 (Jan. 2012)	103,81 (Oct. 2016)
Interest rates	0%	-0,1%
Operating profits of companies	126 tn. Yen	152 tn. Yen (Sept. 2015)
Employment	62,2 mio.	64,8 mio.
Nominal Wages Changes	-1%	+0,4%

Sources: Japanese Cabinet Office, Bank of Japan, Goldman Sachs



# ABENOMICS: PERFORMANCE CHECK

	2012	Current state
Corporate tax rate	39,5%	29,97%
Consumption tax rate	5%	8%
Taxpayer ID System	None	Introduced 2016
Corporate governance code	None	Implemented 2015
Fertility rate	1,4%	1,45%
Female Employment rate	60,7%	66%
Childcare leave benefits	Half monthly salary x months on leave	First 6 months: 2/3 monthly salary from 7th month: 1/2 monthly salary

Sources: Japanese Cabinet Office, Bank of Japan, Goldman Sachs

# ABENOMICS: PERFORMANCE CHECK

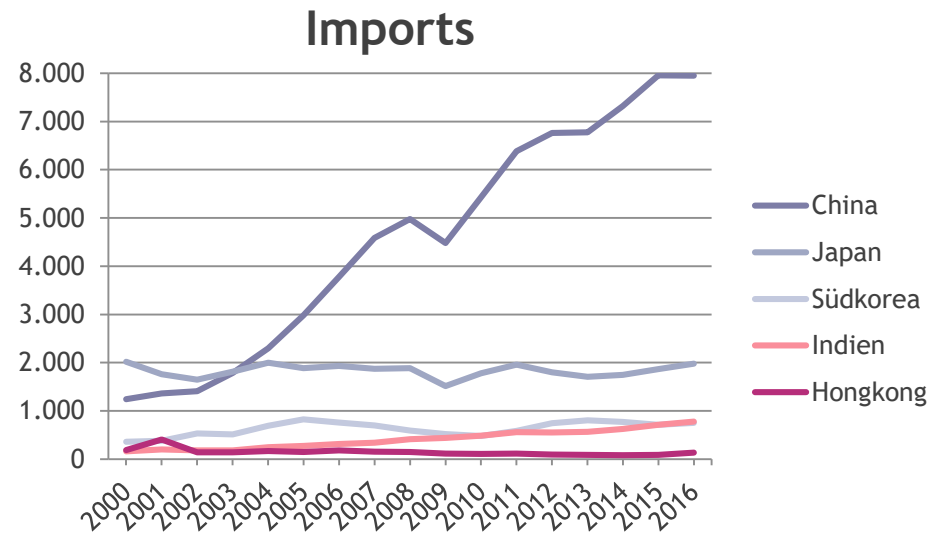
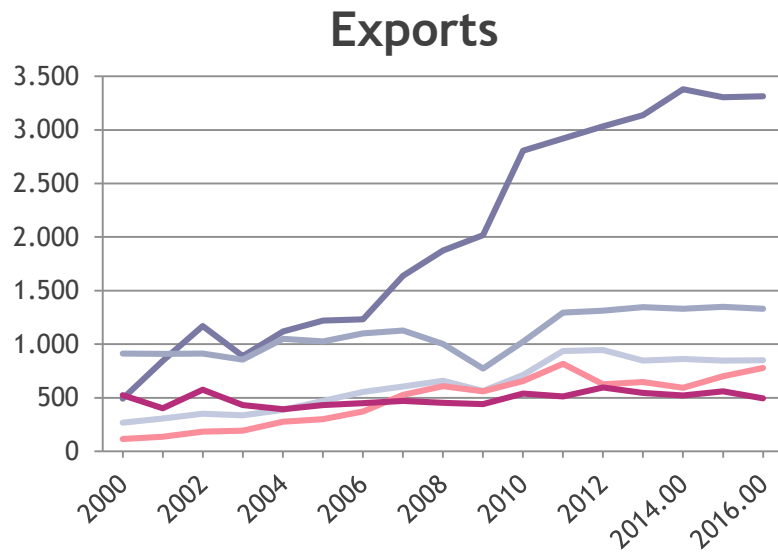
- Progress has been made, but mixed results, so far!
- Economic growth still weak due to weak private consumption and business fixed investment, but government is optimistic (forecast 2017: +1,2%)
- More structural reforms (e.g. legal system, labor market) needed
- Problem of labor shortage due to demographic trends will not be solved only by increasing fertility rate, Japan has to consider employment of foreigners, but Japanese society is very restrictive



# 3. AUSTRIAN - JAPANESE ECONOMIC RELATIONS



# AUSTRIAN TRADE WITH ASIA (TOP 5)



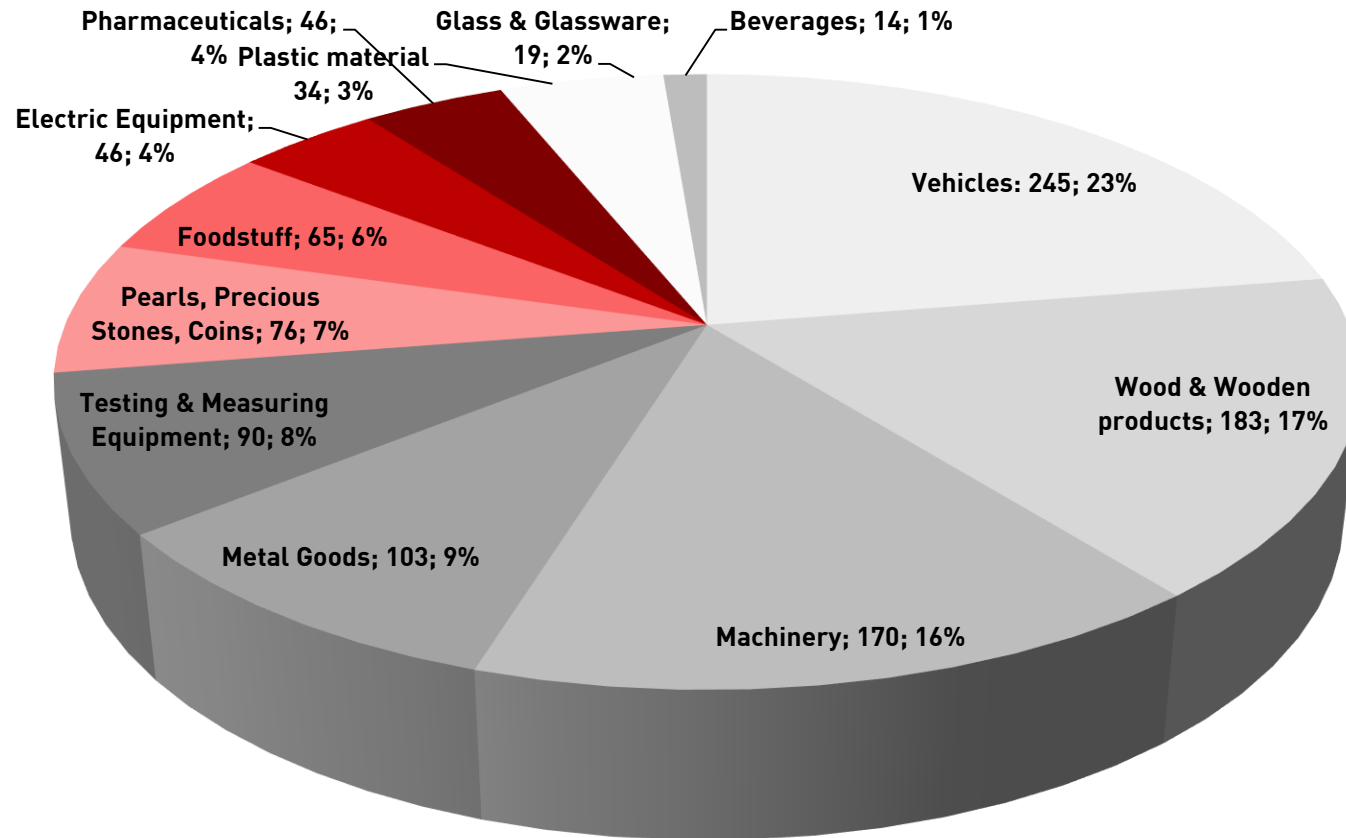


# AUSTRIAN TRADE WITH JAPAN

Foreign Trade Austria - Japan	2014	2015	2016
Exports to Japan (mio. EUR)	1.330,8	1.349,7	1.332,3
Change in %	-1,1 %	+1,4 %	-1,3%
Imports from Japan (mio. EUR)	1.746,1	1.867,3	1.975,5
Change in %	+2,3 %	+6,9 %	+5,8%
Trade Balance (mio. EUR)	-415,3	-517,6	-643,2



# AUSTRIAN TRADE WITH JAPAN



# BUSINESS OPPORTUNITIES

<b>ENERGY</b> RENEWABLE ENERGIES, BIO MASS, <i>ECO-CITIES</i> , <i>SMARTGRID</i>	<b>FOODSTUFF</b> FOODSTUFF PROCESSING, PACKAGING
<b>FORESTRY</b> FORESTRY EQUIPMENT TRAINING	<b>HIGH-TECH MACHINERY &amp; EQUIPMENT</b>
<b>TRANSPORTATION &amp; INFRASTRUCTURE</b> RAILWAYS AUTOMOTIVE	<b>INFORMATION &amp; COMMUNICATION TECHNOLOGY</b>
<b>AGING SOCIETY</b> MEDICAL EQUIPMENT PHARMACEUTICALS	<b>CREATIVE INDUSTRIES</b>



# 4. EU - JAPAN



# JAPANESE ECONOMIC PARTNERSHIP & FOREIGN TRADE AGREEMENTS

- **Japan concluded a number of Economic Partnership Agreements including elements of Free Trade Agreements, e.g.**
  - ASEAN
  - Indonesia
  - Vietnam
  - India
  - Switzerland
  - Australia
  - TPP (Trans-Pacific Partnership): US withdrawal on 23 January 2017
  
- **Under negotiation, e.g.**
  - Republic of Korea
  - Canada
  - Turkey
  - CJK - China, Japan & Republic of Korea (negotiations started 2013)
  - European Union





# EU - JAPAN JAPANESE ECONOMIC PARTNERSHIP & FOREIGN TRADE AGREEMENT

## ■ EU-Japan Economic Partnership Agreement

- Strategic framework agreement
- Covering political, global and sectoral issues
- Negotiations launched in April 2013
- Most difficult issues remain some political provisions

## ■ EU-Japan Free Trade Agreement

- Tariffs
- Non-Tariff Barriers
- Negotiations launched in April 2013, 18 rounds concluded, both sides work to conclude the negotiations in 2017



# IMPACT OF EU - JAPAN FOREIGN TRADE AGREEMENT

## ■ EU

- Japan is the EU's seventh largest trading partner and the EU is Japan's third largest one
- EU exports over 80 bio. EUR of goods and services to Japan every year
- More than 600.000 jobs in the EU are linked to exports to Japan
- Japanese owned companies in the EU employ more than half a million people in the EU
- Additional exports: 131 bio. EUR
- Additional jobs in EU: 420.000
- Additional GDP growth: +0,29%

Source: IFO

# IMPACT OF EU - JAPAN FOREIGN TRADE AGREEMENT

## ■ **Austria**

- Additional exports: 2,2 bio. EUR
- Additional jobs in Austria: 5.000
- Additional GDP growth: +0,34%

Source: IFO

## ■ **Workshop „EU-Japan Free Trade Agreement“**

Wednesday, June 7th 2017, 09:30 - 12:15

Wirtschaftskammer Österreich

Saal 2

Wiedner Hauptstraße 63

A-1045 Wien



Raymund Gradt  
AUSSENWIRTSCHAFT AUSTRIA  
Regionalmanager Fernost / Ozeanien  
T +43 5 90 900/4352  
E [aussenwirtschaft.fernost@wko.at](mailto:aussenwirtschaft.fernost@wko.at)  
W [wko.at/aussenwirtschaft](http://wko.at/aussenwirtschaft)

