

THE ECONOMIC POLICY OF THE JAPANESE GOVERNMENT, KNOWN AS "ABENOMICS"¹

As you know, over the past nearly 20 years, the Japanese economy faced continuous deflation. After 1994, the consumer price index on annual basis was higher than 1% only in 1997 and 2008. Under such circumstances, long-term deflation led to stagnation of corporate activity as companies refrained from capital and new investments. This led to stagnation in wages. The rate of economic growth was stagnant.

In January 2013, the government of Shinzo Abe launched a comprehensive economic policy, developed by the cabinet, aimed at sustainable economic growth for overcoming decline of the Japanese economy. It comes to so-called "Abenomics", which I would like to explain in more details.

First of all, Abenomics is generated on the ground of the three arrows (pillars). The first arrow concerns a *Bold Monetary Policy*. Ever since taking office in January 2013, the Government of Shinzo Abe launched *Bold Monetary Policy* in order to double the money supply in the market for two years and raise prices by 2%. Through financial incentives the government tried to distract the negative minds of deflation enshrined among businesses and households.

The second pillar relates to a *Flexible Fiscal Policy*. The government has undertaken proactive fiscal policy in order to increase the real demand. The government launched an initiative to stimulate demand through the development of budget measures in the economy, amounting to 10 trillion yen toward gradual exit from deflation.

So far, in Japan there was a trend of continuous increase in the number of companies intending to outsource their production abroad due to high yen and expensive energy costs. Here, the government provided subsidies for capital investments as one of the measures within the financial stimulus of 10 trillion yen, which I've already mentioned. By providing subsidies for capital investment to those enterprises that want to outsource their production outside the country, the government set a goal to get back these companies to invest in Japan, and thus create a favorable environment for opening new jobs in the country.

Of course, the positive economic momentum emerging as a result of the measures under these two pillars should not be a temporary trend. This positive economic momentum should be linked to sustainable economic growth. Specific policies for achievement of such a goal have been developed in "*The Growth Strategy*", as the third pillar of Abenomics. In June 2013, this strategy was

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approved by Cabinet decision as a "*Japan Revitalization Strategy*," which was subsequently revised in June 2014.

The third arrow, implemented now, is based on the four basic principles of the Growth Strategy: "*Promotion of Investment*", "*Global Economic Integration*", "*Strengthen Utilization of Human Resource*" and "*Creation of New Markets*." *The Growth Strategy* summarizes various measures, including deregulation measures that allow private companies and individuals to exercise real power. It indicates the path that leads to sustainable economic growth.

Now I will focus on each of the 4 fundamental principles in "*The Growth Strategy*". It is based on a lot of measures, associated with series of reforms, providing more detailed explanation.

First, "*Promotion of Investment*" aims to achieve to maximum extent the strengthening of the activities in the private sector through bold regulatory and institutional reforms, drastic reduction of taxes for investments and incentives for encouraging business investments. A concrete example of this is the *Corporate Tax Reform*. In Bulgaria it is 10%, so that foreign investors determine the tax system in Bulgaria as "attractive", while the real corporate tax rate in 2010 in Japan, which accounts national and local taxes, is 39,54%. Thus, so far Japan not only has not looked attractive enough to foreign investors, but such corporate tax was a big burden to Japanese enterprises as well. Therefore, in April 2014 the effective Corporate tax was reduced by 2,4%. In April 2015 a new reduction of 2,51% followed, in order to become 20% in the next few years.

In Bulgaria the role of "innovation" is considered essential to revive the economy. This view also shared in Japan. In this regard, the Japanese government is developing Programs to promote strategic innovations including 10 programs in priority areas of science and technology such as energy, electronics, etc. Apart from science and technology, Japanese government makes effort to promote innovation as part of the measures in "*The Growth Strategy*" of the Abenomics.

I will give a specific example with determination of "*The National Strategic Special Zones*" which are granted subsidies for urban development. After launching Abenomics, such "National Strategic Special Zones" were set in 6 regions across Japan. Once determined as "National Strategic Special Zones", they are exempted from various effective Regulations or the latter are treated exceptionally by them. For example, in Tokyo, which has been determined as a "National Strategic Special Zone", a large number of pharmaceutical companies are concentrated. Here, the permit for commercialization of generic drugs, generally given by the National Authorizing body, could be obtained from the city of Tokyo from an institution. Thus the period from submission of documents to obtaining permission for commercial sale of generic drugs has been reduced to the maximum 16 months. Once the generic drug is approved for distribution in the network, it is listed on Drugs List for which health insurance is valid. Thus drugs are purchased at a lower price, beneficial for people.

It should be noted that this year in March, the Japanese government announced 5 *promises* for attracting foreign business to Japan.

The *first* is setting up foreign language services and instructions in retail industry, hospitals, restaurants and other public facilities. *The second* is Expansion of Free Wi-Fi Services; *the third* is creation of an environment to receive business jets in all regional airports with a short advance notice. *Fourth promise* relates to enrichment of educational environment for children; and the *fifth promise* refers to setting up a system to make it easy for foreign businesses which have invested much amount in Japan to consult the Government. Henceforth, it is expected that as a result of implementation of the above-mentioned promises one by one, Foreign Direct Investments (FDI) to Japan will increase. I've learned that as a result of the reforms carried out by the Japanese government, not only Japanese companies, but also companies from Israel, England and other countries are studying opportunities for new investments in medical sector. I hope that Bulgarian companies necessarily will be interested as well. Bulgaria is famous in pharmaceutical industry, so there might be opportunities for joint development of generic medicines in Tokyo, why not.

When it comes to "*Global Economic Integration*", the Japanese government implemented a series of various measures related to: Attracting foreign visitors to Japan by relaxation of visa requirements, or visa exemption; Expansion of Consumption tax exemptions for foreign visitors; Promotion of Economic partnership negotiations, namely Promoting negotiations for Trans-Pacific Partnership Agreement (TPP) and Economic Partnership Agreement between Japan and the EU (EPA); Intensifying visits of Japanese politicians at high level abroad, providing opportunities to export advanced Japanese technology in TPP and NPP; Promoting sale of most advanced medical technologies, agricultural products and others; Supporting presentation of Japanese cuisine and Japanese fashion to show the attractiveness of Japan.

As for the Economic Partnership Agreement between Japan and the EU, last year in November in the conversation of Japanese Prime Minister Shinzo Abe with European Commission President Jean-Claude Juncker, both confirmed the intention of the EU and Japan to make efforts to move the Framework Agreement in 2015.

The Strengthen Utilization of Human Resources envisages measures for preparing supportive infrastructure so to enable women to reconcile work and family life. Women in Bulgaria perform activities as ministers and in other spheres of public life. Japanese society, as considering the aging and decline of population, wishes to promote the advancement of women's role as workforce in the society. There are plans to increase the number of nurseries and kindergartens, and the size of benefits and children's allowances so that women feel safety to rise their children while continue working. In parallel, measures are taken to determine the proportion of women at managerial positions in the state and local governments

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and private companies with employees over 300 people. Efforts are made to oblige the administration to develop action plans for promoting the workforce of women in the society.

Efforts are made to expand job opportunities for foreigners through simplified visa requirements for highly skilled human resources from overseas, etc., and temporary adopted urgent measure by 2020, including the newly created system for admitting foreign workers, who once acquire technological skills in the sectors of construction and shipbuilding, have the opportunity to stay and work in Japan over the next two years.

The major goal of the measure, related to the *Creation of the New Markets* is to open new markets by solving existing problems, one by one. For example, now individual consumers cannot choose electric suppliers. However, full liberalization of the energy market is expected by 2020. Full liberalization of prices of electricity retailers will be achieved in 3 stages.

In addition, now Japanese consumers could easily buy non-prescription drugs online which makes drugs for treatment of minor ailments easily accessible.

In agriculture sector under consideration is the revision of Rise Production Regulation of the last 40 years. It should relief from regulation allowing free rice production in 5 years.

The average size of farms in Japan are 2.27 hectares, which is 1/1300 of that of Australia, 1/75 of that of the US, 1/6 of that of the EU and about 1/5 of the average area in Bulgaria. For more efficient use of farmland is envisaged creation of "*integrated bank of farmlands*" that should motivate those who want to work in agriculture to consolidate into competitive, large-scaled aggregated agricultural farmlands.

In parallel with the implementation of Abenomics, the efforts of the Japanese government aimed at solving of the following most important tasks:

The first task concerns stabilization of the financial system. Japanese financial system which annually emits government bonds in huge amounts is in extremely unfavorable situation from historical and international perspective. Sovereign bonds issued at the end of 2014 amounted to 780 trillion yen. According to a report of the Organization for Economic Cooperation and Development (OECD) as of May 2014, the national debt of Japan exceeds 2.3 times the Gross Domestic Product (GDP). This level is comparable to that at the end of World War II. Fortunately, 90.7% of the emitted government bonds are at the expense of the country. Moreover, the financial assets of households at the end of 2014, amounting to 1,694 trillion yen, could still absorb the amount of the emitted debt. Hence, the financial system is still far from collapse. However, without any doubt, the stabilization of the financial system along with the exit from deflation is of major importance.

At the same time, another important task, associated with decline of population due to aging and low birth rate, is associated with the need to proceed with *reform in the social insurance system*.

One of the measures to solve the above two problems is to increase the rate of Consumption tax. Last year in April, consumption tax has been increased from 5 to 8%, and in April 2017 it should be raised up to 10%. According to some analysts, the increase of consumption tax could lead to delay in Abenomics, but I think rather there will be a short-term effect.

Only two years have passed since the implementation of the measures under the first pillar of Abenomics, but there is a significant improvement in a number of economic indicators such as stock prices, economic growth, corporate profits, employment, etc.

If we compare the real growth of the Gross Domestic Product (GDP) in the 4th Quarter of 2012, before the implementation of Abenomics with the 4th Quarter of 2014, after its implementation, we could see that the real GDP grew by 1,5%. Moreover, for nearly 2 years after the implementation of Abenomics, stocks have risen by 84%. The ratio of effective job offers stood at a high level of 1.14. The ratio of job offers in November 2012 was 0,82 that means that labour force supply exceeded demand. And now demand exceeds supply. In addition, after the inauguration of the Abe administration, female employees increased by 910,000 people, as reaching 27 440 000 in January 2015.

The Government of Japan intends to speed up the recovery in North-eastern Japan, affected by the Great East Japan Earthquake. It aims to firmly work toward the exit from deflation, to implement confidently "The Growth Strategy" of the third pillar of Abenomics and to achieve sustainable economic growth.