

Japan's New Economic revolution - A research based Case study of Abenomics -The three arrows

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ABSTRACT - Shinzo Abe is that the third-longest serving Prime Minister in post-war Japan Since 2012 until date. The 2020 Olympics and Paralympics — to be control in Yedo, Japan — are calculable to price the national government 801.1 billion yen (\$7.03 billion), Japanese newspaper The Mainichi.Shinzo Abe's three-pronged approach, dubbed "Abenomics" and launched in (2013), combines (i) Monetary Easing (ii)Fiscal Expansion, (iii) Structural Reform. The three new economic arrows include (2015): (i) Promotion of Economic Growth, (ii) Child-Rearing Assistance to push up the Low Birth Rate (iii) Social Security Measures to Increase Nursing Facilities for The Elderly.

In this paper we will explain these three aspects of Abenomics, and the new arrows launched of the Japanese economy, and examine what further remedies may be required if Japan is to recover from its long-term deflation.

Key words: Abenomics, Three Arrows, Japan, Monetary Policy, Fiscal Stimulus, Structural reforms, Shinzo Abe, Yen, Social Security.

I. THE CONCEPT OF ABENOMICS

Setting the economy on course to overcome deflation and make a steady recovery with the Three Arrows. In early 2013, after two decades of economic stagnation, Prime Minister Shinzo Abe unveiled a comprehensive economic policy package to sustainably revive the Japanese economy while maintaining fiscal discipline. This program became known as Abenomics. The centerpiece of Abenomics has been the three "policy arrows" targeted at aggressive monetary policy, flexible fiscal policy and growth strategy including structural reform.

THE NEED FOR ABENOMICS

Since coming to control in late 2012, Prime Minister Shinzo Abe (Abe) and his administration revealed a thorough arrangement bundle to restore the Japanese economy from too many years of flattening, all while keeping up financial order. This program ended up known as Abenomics. While Abenomics began as an upgrade measure dependent on three bolts, throughout the years it has advanced into a more extensive plan for ace development financial change that intends to lead Japan in handling the present difficulties head-on. The term "Abenomics" is a portmanteau of "Abe" and "Economics".

That Japan needs some new policies is clear. The Japanese economy has stagnated since 1992. Between 1993 and 2012, real GDP growth averaged just 0.8 percent.¹ Prices have fallen most years since 1998. Economists have blamed

Japanese policymakers for an insufficiently aggressive response to these trends. But they do so no longer. His economic program (dubbed "Abenomics") consists of monetary expansion, fiscal stimulus, and structural reforms. In a reference to a Japanese legend, these three components are referred to as the "three arrows"

OBJECTIVE OF RESEARCH PAPER

The objective of the paper is

1. To understand the basic policy initiatives of Abenomics/arrows
2. To understand its progress
3. To understand the recent initiatives of the Abenomics/ New arrows policy

II. RESEARCH METHODOLOGY

The sample unit of study was the Japan. The study analyses Japan's economic performance since the initiation of economic reforms by the present PM Shinzo Abe. The study tries to analyse the impact of the government policy over the years based on some of the key socio-economic and demographic indicators. The study discusses the case of Abenomics using the secondary sources of data from various reports of Government, International sources. This research based Case study was conducted as a part of experiential learning exercise which is a unique learning process as UNIVERSAL BUSINESS SCHOOL by the Post-Graduate Management student.

III. LITERATURE REVIEW

According to Joshua K. Hausman and Johannes F. Wieland (2015), Abenomics, and expansionary monetary policy in particular, continued to weaken the yen and raise stock prices in 2014. It also continued to generate positive inflation, though neither actual nor expected inflation are yet 2%. Real effects of Abenomics have been modest. The response of net exports to the weak yen was small, and there is little evidence that expansionary monetary policy had large effects on consumption.

According to the reports Japanese government report (2019) SMEs, the bedrock of Japan's economy, become more productive and ambitious, Abenomics is creating a forward motion that aims to involve all stakeholders, from regional staff to overseas investors. A shared desire to succeed will yield shared benefits

Peter T. Choi (2015), study on The Abenomics Difference: Three Arrows of Roosevelt Resolve in Japan, investigates Japanese Prime Minister Shinzo Abe's economic policy package, known as "Abenomics." This study examines existing analysis and compare past policies to the present.

Naoyuki Yoshino And Farhad ,Taghizadeh-Hesary (2014), in their analysis of challenges faced by Japan's economy, suggested some key measures,as part of the growth strategy. They put forth a proposal for a new form of financial intermediation called the hometown investment trust (HIT), with the goal of connecting fund providers and their hometowns. This new form of financial intermediation is currently under consideration by the Japanese government as one remedy for addressing Japan's sluggish pace of growth.

Jamal Ibrahim Haidar and Takeo Hoshi (2016), in their study, by looking at details of the World Bank Doing Business ranking, identify various reforms that Japan could implement to improve the ranking among the top three countries of OECD countries. According to their study, in order to be one of the top three countries among OECD countries in terms of ease of doing business, Japan would most likely need to carry out all the reforms including those with high political resistance.

Chie Aoyagi, Giovanni Ganelli, and Kentaro Murayama (2015), assess the ongoing reform efforts in Japan in terms of inclusive growth. They used prefectural level panel data to regress a measure of inclusive growth, which incorporates both average income growth and income inequality, on macroeconomic and policy variables. Their analysis suggests that achieving the Bank of Japan's 2 percent inflation target has a positive effect on average income growth, but an adverse effect on income equality. The package of structural reforms planned under Abenomics is found to be effective in increasing both average income growth and income equality. The main policy

implication of their analysis is that full implementation of structural reforms— especially labour market reforms—is necessary to both foster growth and increase equality.

IV. ANALYSIS

THE POLICY INITIATIVES OF ABENOMICS

Generally, Abenomics has 3 arrows: 1 Aggressive Monetary Policy 2 Fiscal Consolidation 3 Growth Strategy

1 MONETARY POLICY

On January, 2013, the government and BOJ delivered a joint statement on their strategy for overcoming deflation and reviving economic growth. The BOJ set a price stability target at 2 percent, based on the year-on-year rate of change in the consumer price index (CPI). CPI is a globally recognized price index covering the prices of consumer goods. It is a measure of inflation that is used for macroeconomic purposes and forms the basis for inflation targeting. The setting of a target for CPI was very significant as prior to this, the BOJ had historically used the USD/JPY currency exchange rate as a measure of inflation.

As a part of this initiative, The BOJ has been investing in long-run government bonds and increasing the financial base as an expansionary financial policy that primarily targeted on shopping for short government bonds. Demand for Japanese government bonds is increasing from banks, insurance corporations, and pension funds because the sluggish economy has reduced demand for company loans. Financial easing has augmented bank deposits and these funds have typically been invested with in government bonds.

2 FISCAL CONSOLIDATION

Abe's Second Arrow is based on fiscal policy. Fiscal policy refers to a government's use of policy to influence the economy, primarily through decisions on spending and taxation. Abe's Second Arrow initially took form in the area of spending. On January 11, 2013, less than a month into office, Abe announced a ¥10.3 trillion JPY stimulus package as part of the supplementary budget.

Abe's package included ¥3.8 trillion JPY focused on disaster prevention and reconstruction, ¥3.1 trillion JPY for stimulating private investment and ¥3.4 trillion for social and regional expenditures (such as medical care, revitalizing struggling regions, and etc). At the time, the total ¥10.3 trillion JPY stimulus amounted to approximately two percent of Japan's entire GDP. Thus, it was expected for GDP to increase by 2 percentage points and, in addition, to create about 600,000 jobs. In conjunction with such broad economic stimulus, Abe realized that the budget and country's deficit needed to be controlled. In August 2012, under Prime Minister

Noda, the Diet passed a bill that would see consumption tax increase from 5 percent to 8 percent in April 2014, and from 8 percent to 10 percent in 2015.

3 GROWTH STRATEGY

The third arrow of Abenomics is growth strategy. Over the medium and long run, the Japanese government can take measures to strengthen the fight of the economy, overcome energy constraints, and enhance the innovation platform supported a well-defined growth strategy, whereas at the identical time fast the removal of domestic institutional obstacles, together with laws. These and other different reforms were broadly outlined by Abe. These included reforms on taxation, trade, labour, agriculture, finance and banking, and energy, amongst other sectors.

Some of the key reforms on government's agenda include boosting private sector participation in public infrastructure projects, liberalizing governance on foreign direct investments (FDI), creation of special economic zones, and improving corporate governance to become more compliant with international standards.

THE NEW ARROWS OF ABENOMICS AND ITS POSITIVE IMPACT IN THE YEARS 2015 TO 2018

Prime Minister Abe proclaimed the "New 3 Arrows", naming the new policy "Abenomics a pair of 2.0" by himself in Sept 2015. He's aiming at building a society "Promoting Dynamic Engagement of All Citizens". The Challenge that economic science management can face within the future is to seek out an answer to beat the provision constraint created by the decline within the labor pool population.

THE PROGRESS OF JAPAN ECONOMY AFTER ABENOMICS (OLD ARROWS)

The initial results to Abenomics, as seen in the financial markets, have been very positive. Appointment of Abe and Kuroda into their respective offices, as well as increased easing by Kuroda in 2014, all had an impact in weakening the yen. The tax hike did not increase USD/JPY; however, it is notable that it did not cause it to go lower either, which indicates that there was existing market expectation for a period of slowdown around the time of the hike.

ECONOMIC INDICATORS

Category	Indicators	Units	Pre-Abenomics	Post Abenomics	Progress
Overall	Nominal GDP	JPY	495 Tn	537 Tn	Increase
Corporate Performances	Nikkei stock average	JPY	8803	19687	Increase
	Corporate ordinary profits	JPY	48.5 Tn	68.2 Tn	Increase
	Capital investment	JPY	71.8 Tn	82.6 Tn	Increase
Job Market	Number of employed persons	Persons	62.7 Mn (26.6 Mn)	64.7 Mn (28.1Mn)	Increase
	Jobs to applicants ratio (regular)	%	0.74(0.44)	1.48(0.97)	Increase
	Unemployment rate	%	4.5	2.8	Increase
Fiscal Condition	Tax revenue	JPY	42.3 Tn	57.7 Tn	Increase
	Amount of JGB issued	JPY	44.2 Tn	34.4 Tn	Increase

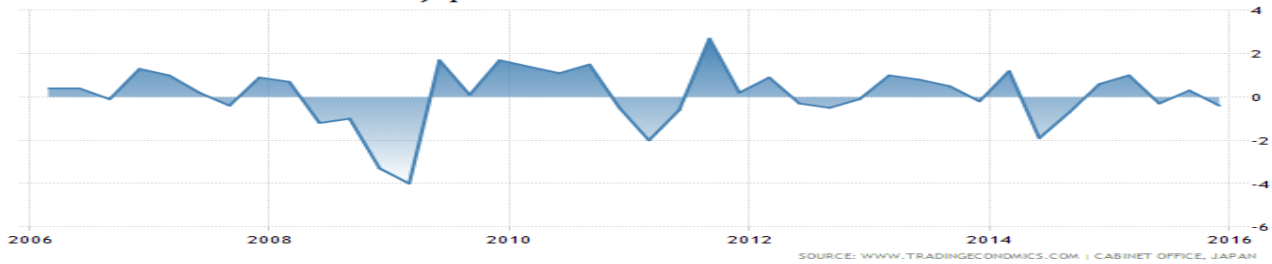
Japan's initial optimism following the introduction of Abenomics resulted in larger consumer confidence and gains in money markets. However, its success was transitory, and also the "three arrow strategy" clearly didn't work given Japan's economic progress and current information. Japan's gross domestic growth continues to seesaw between positive and negative territory, keeping policy manufacturers on their toes.

THE ARROWS OF THE SECOND STAGE OF ABENOMICS ARE

- 1) Strong economy
- 2) Support for child raising and
- 3) Enhanced social security.

During the virtually six years of Abenomics the Social Security payment inflated from 29.12 trillion yen, a share of 31.4 % of the budget, within the financial year 2013/2014 to thirty-two.97 trillion yen in 2018/2019. In the financial year 2018-2019 planned military expenditures are as high as 5.19 trillion yen and account for a share of 5.3 % of the budget, compared to 4.75 trillion yen in, 5.1 % of the twelvemonth 2013/2014 budget (Ministry of Finance Japan 2013d, six and 2018b, 5), cash that might have contributed to Social Security and pensions higher than to national defense. Correspondingly, the full quantity of cash spent on debt service inflated per annum from 22.42 trillion yen within the twelvemonth 2013/2014 to 23.3 trillion yen within the twelve-month 2018/2019 accounting for Associate in Nursing virtually constant share of regarding 24 % of the budget. The amount of issued Japanese Government Bonds declined per annum, from 170.5 trillion yen within the twelvemonth 2013/2014 to a planned 149.9 trillion yen within the twelvemonth 2018/2019.

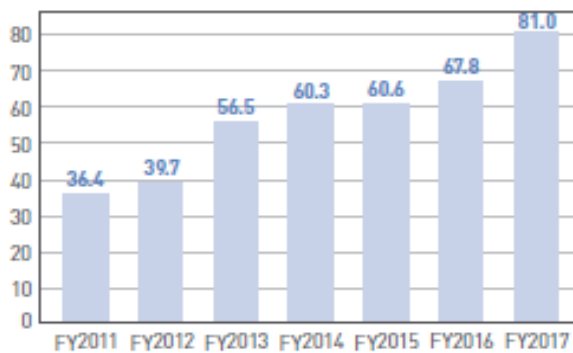
Japan's GDP Growth Rate



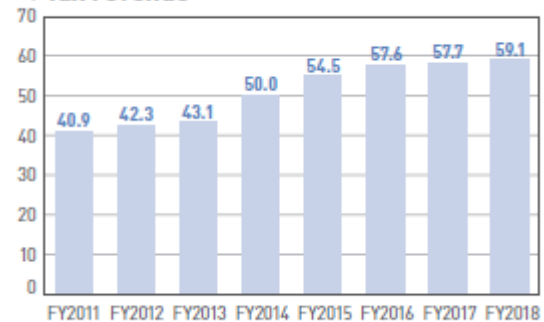
From 2012 to 2014, Japan was eminent to keep the worth of yen down against the greenback that helped sustain its exports. However, the yen has been gaining strength, and at an equivalent time aging companies in Japan still sit on money however refuse to boost wages or offer out dividends, that may boost Japan's weak domestic demand. To combat these problems, and supply a recent impetus to disposition and investment, the Bank of Japan recently adopted a negative rate policy.

Given the economy's recovery since the beginning of Abenomics, the tax hike was implemented in April 2014 despite the expected negative effects on economic growth and inflation data.

CORPORATE PERFORMANCE (Source- Abenomics-Invest Japan –Report by Government of Japan)

(JPY tn) Corporate pre-tax profit³


FISCAL CONDITION

(JPY tn) Tax revenue⁷


Achievements

From 2012 to 2018, the number of women joining the workforce increased by about

2.9 million

Source: Ministry of Internal Affairs and Communications "Labour Force Survey"

Women in management positions in the private sector approaches

10%

Source: Ministry of Health, Labour and Welfare "Basic Survey on Wage Structure"

From 2012 to 2018, employment rate of people over the age of 65 increased by

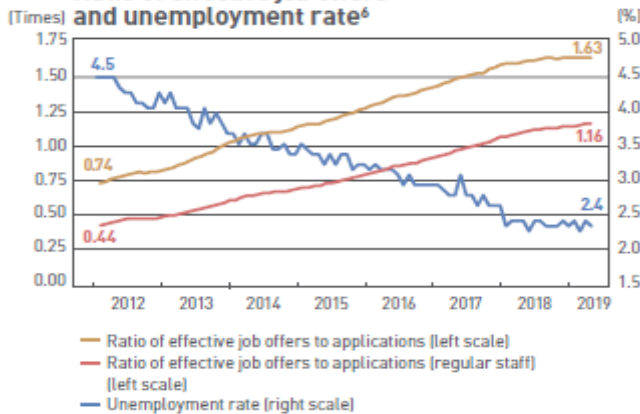
4.8%

Source: Ministry of Internal Affairs and Communications "Labour Force Survey"

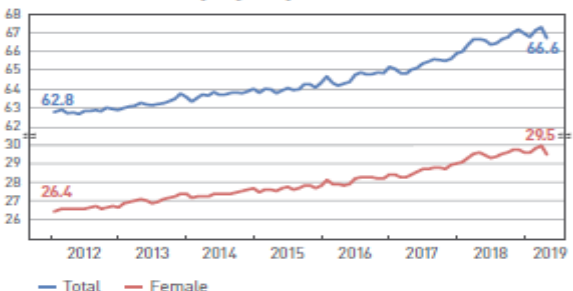
71%

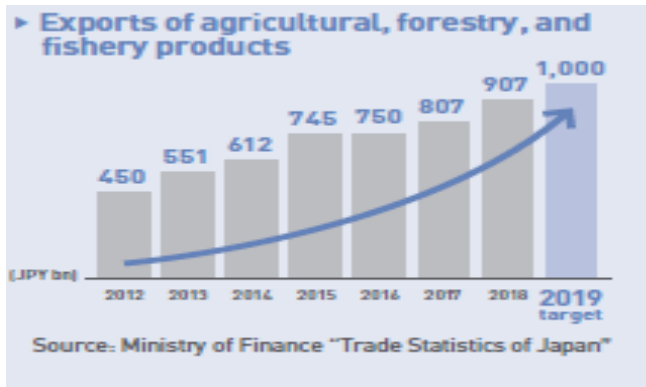
of seniors report that they would like to continue to work past retirement age

Source: Cabinet Office "Research on daily life of seniors" 2014

(Times) Ratio of effective job offers and unemployment rate⁶


JOB MARKET

(mn pers.) Number of employed persons⁵




The above data shows that Abenomics keeps boosting Japan's economy- Setting the economy on course to overcome deflation and continue steady growth

Abe's Second Arrow of fiscal stimulus has been seen as being an initial success. Theoretically, the stimulus has helped ensure a shrinkage of the GDP gap to hasten an exit from deflation. Also, continued signs of success helps the government build public support to gain more seats in the Upper House of Councillors. Abenomics is on track to deliver inflation the "old fashioned way"—by increasing demand. Though the process is slow, the conditions are ripe for wages to pick up, which would create a virtuous circle of further inflation. It can be observed that although the First Arrow (monetary policy) and Second Arrow (fiscal stimulus) have been able to achieve initial success, Abenomics may struggle to succeed without a firmly executed Third Arrow (structural reform).

CHALLENGES

The per centum has fallen from over four percent to 2.8 percent. Clearly, the economy has improved considerably. Among different signs of this reinvigoration, the quantity of arriving tourists shot up from around eight million in 2012 to twenty-four million last year, due to deregulating of visa necessities and therefore the edges of the weaker yen. The quantity is calculable to stay rising to twenty-eight million this year.

On the opposite hand, variety of great challenges stay. Efforts for financial consolidation and betterment of regional economies stay slow, whereas the increasing

financial gain inequality between the rich and poor has been left unaddressed. But what's additional crucial is that despite the sharp improvement of the economy, Japan's position within the world has deteriorated even additional. Japan is rated at a sluggish twenty sixth within the World Bank's aggressiveness ranking of states this year.

V. CONCLUSION, OBSERVATIONS AND SUGGESTIONS

In this paper, the current status of the Japanese economy was described, including Japan's government budget deficit-to-GDP ratio, which breached 200% in 2010; problems caused by Japan's aging population; the lack of efficiency and effectiveness of public investment; and the country's sluggish economic growth. In order to address some of these concerns, the government of Shinzo Abe, which was elected in December 2012, introduced a reform program called Abenomics, which aimed to revive the sluggish economy with "three arrows": fiscal consolidation, more aggressive monetary easing from the Bank of Japan, and structural reforms to boost Japan's competitiveness and economic growth

Japan Revitalization Strategy disclosed in includes some promising ideas, but it also includes some ideas that would not contribute to growth or outright counter-productive ideas. The most serious concern is its lack of focus. For Abenomics to truly succeed in restoring growth, the government will have to come up with more focused version of the Abenomics with new arrows modification.

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