

# Japan: Despite high expectations for 'Abenomics,' anxiety remains

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## Despite high expectations for 'Abenomics,' anxiety remains : Mainichi poll

The Japanese public has high expectations for Prime Minister Shinzo Abe's economic policies, dubbed « Abenomics, » as the number of supporters of drastic monetary easing outnumbers opponents by a margin of nearly 2 to 1, an opinion poll by the Mainichi Shimbun shows.

The Mainichi poll, taken June 29 and 30, shows that 59 percent are in favor of continuing the ultra-loose monetary policy, a pillar of Abenomics, and 31 percent are against the move.

But there is strong skepticism about the government's growth strategy. The ruling Liberal Democratic Party (LDP) and its coalition partner New Komeito are preparing to appeal to voters over the country's economic revival through Abenomics in the July 21 House of Councillors election, but hurdles remain.

When asked about expectations for economic recovery via Abenomics, 55 percent said they have high hopes, down from 65 percent in March, 60 percent in April and 59 percent in May, while 41 percent said they could not anticipate an improvement in the economy. Although 80 percent of Abe Cabinet supporters expressed expectation of success, 89 percent of non-supporters replied they could do not share their enthusiasm.

On June 14, the government approved an economic growth strategy featuring private-sector investment and deregulatory measures over the next five years. It set a target to raise the nation's per-capita gross national income (GNI) by 1.5 million yen in 10 years.

When asked if the target is achievable, only 21 percent said yes against 72 percent who said no. The economic growth strategy, known as « the third arrow » of Abenomics after drastic monetary easing and massive fiscal spending, is said to lack teeth.

The latest Mainichi poll shows that Japanese voters are extremely skeptical about the economic growth strategy. Even among LDP supporters, 39 percent thought the GNI target was attainable while 53 percent said they did not. The ratios among New Komeito supporters were 25 percent and 65 percent, respectively. The poll says 84 percent of supporters of the Democratic Party of Japan

(DPJ), 81 percent of those of the Japan Restoration Party and 83 percent of those of Your Party were negative about the GNI target.

Asked about overall economic growth due to price increases caused by the weak yen possibly resulting in wider economic disparity, 55 percent were against such consequences, compared with 38 percent who prioritized overall economic growth.

*Mainichi Shimbun*, July 1, 2013

<http://mainichi.jp/english/english/...>

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## **Abe growth wish list gets Cabinet's nod — Plans short on detail on how to achieve lofty goals**

The Cabinet of Prime Minister Shinzo Abe adopted two sets of economic and fiscal policy papers Friday filled with dozens of bold economic goals and plans that have already drawn fire for lacking specifics on how to achieve them.

The targets include doubling annual real gross domestic product growth to 2 percent and maintaining it for the next 10 years while halving the primary balance deficit – a key gauge of Japan's fiscal health – by 2015 and posting a surplus by 2020.

Neither set of papers elaborates on how Abe's team will achieve the targets, and thus appear like a continuation of the rosy economic rhetoric coming ahead of the vital July Upper House poll that the ruling bloc hopes to emerge from with a majority, which it lacks at present. The nation's GDP has been growing at an anemic pace of around 1 percent for the past decade.

Abe's debt-ridden government has meanwhile pledged to trim government spending, including on the politically sensitive social security system, and claims it will leave no sanctuaries. Not surprisingly, the plans don't specify which parts of the budget will be pruned or by how much.

One of the two sets of papers lists dozens of "growth strategy" goals and plans that Abe claims will create private demand via deregulation and government-backed projects. But the 94-page wish list looks more like a jumble of individual ministry projects that each hopes to get labeled as part of the "Abenomics" agenda.

On Thursday, a day after the draft of the economic paper were released, the Nikkei 225 stock average dived more than 6 percent, partially reflecting doubt and disappointment with Abe's plans.

Among the projects are proposals to set up special economic zones, ease regulations on international schools, remove the current ban on online drug sales and drastically increase day care centers to help bring more women into the workforce.

The Cabinet, meanwhile, is stressing that almost all of the nation's main economic indicators have been rising recently, although their momentum appears rather moderate. Japan's real GDP for the January-March quarter rose at an annualized rate of 4.1 percent compared with the last quarter.

"The real economy is steadily improving," Abe insisted to reporters Friday morning after the Cabinet

officially adopted the two sets of documents. "I believe this the only path for us. We'd like to strongly keep pushing the promotion of policies" based on the two sets of papers, he said.

In the past two weeks, investors have apparently begun questioning the feasibility of Abe's economic strategy, in particular those aimed at spurring private-sector growth.

To win the critical Upper House election and gain total control of the Diet, the revisionist leader appears to be bombarding the media with rosy economic rhetoric to keep the stock market afloat until the election, expected July 21.

His main tool has been the Bank of Japan, which kicked off a drastic monetary easing experiment that is turning out to be a one-sided effort to pull Japan out of prolonged deflation. The drastic easing campaign, played up in advance, has clobbered the yen and pulled investors into the stock market with sure bets on exporters.

Nevertheless, Abe remains under pressure to hammer out steps that can spur sustainable growth because an economic recovery cannot be attained through monetary measures alone.

Investors are also concerned about the BOJ's aggressive credit-easing measures and the ruling Liberal Democratic Party's return to heavy fiscal spending despite the government's heavy debt load. Without real structural reforms, these steps are only delaying the day of reckoning for Japan's dying economy, they say.

Abe's Cabinet was quick to respond to foreign investors and analysts after the Nikkei started to tumble late last month. On June 6, Chief Cabinet Secretary Yoshihide Suga said the government would consider lowering corporate taxes in an apparent bid to encourage foreign investors to buy more Japanese stocks.

A senior government official close to Abe, who has been closely monitoring the stock market, said foreign investors are the key to boosting prices as they have remained net buyers on the Tokyo Stock Exchange in recent months.

Some of Abe's economic steps were thus targeted at attracting foreign businesses, the official said, speaking on condition of anonymity.

"Foreign investors are paying particular attention mainly on three areas," the official said earlier this month. "One is whether the government is really serious in removing die-hard regulations. Another is corporate tax breaks, and the last one is how Japan can make up for its decreasing workforce in an aging society."

Those growth strategy measures, however, so far have failed to persuade foreign investors to prop up the TSE.

Nevertheless, the official pointed out that the recent plunges of the Nikkei have yet to affect still-high public support rates for Abe's Cabinet - at least for now.

**Reiji Yoshida**, *Japan Times* Staff Writer, June 14, 2013

<http://www.japantimes.co.jp/news/20...>

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**Gist of growth, fiscal blueprints. The economic growth strategy**

- + Targets nominal economic growth of 3 percent, 2 percent in real terms, by boosting per capita gross national income by at least ¥1.5 million within 10 years.
- + Aims for a 10 percent increase in total business investment to ¥70 trillion annually over three years.
- + Permits online sales of over-the-counter drugs.
- + Seeks to set up special economic zones to promote deregulation.
- + Calls for idled nuclear power plants to be restarted after their safety is confirmed.

#### The fiscal policy strategy

- + Aims to halve the ratio of Japan's primary balance deficit to gross domestic product by 2015, from the fiscal 2010 level.
- + Plans to return the primary balance to a surplus by fiscal 2020.
- + Calls for a review of ballooning social security costs with nothing to be deemed off-limits.

#### **Kyodo News**

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### **Abe's economic growth strategy may end up bringing risks**

TOKYO (Kyodo) — Prime Minister Shinzo Abe's failure to generate enthusiasm for his government's economic growth strategy, the last of the three arrows of « Abenomics, » may trigger a downside risk to the economy that some Japanese analysts are sarcastically calling « Abenorisk. »

The first two arrows of « Abenomics » — aggressive monetary easing by the Bank of Japan and large-scale public works projects — had successfully pushed up stocks amid expectations that a rebound in exports, supported by the yen's slide, and pump priming would shore up the economy.

Hopes lasted only six months. As details of the growth strategy became clearer, skepticism grew over whether Abe's government would really try to accelerate structural reform to shake Japan's economy out of nearly two decades of deflation, dampening share prices as a result.

« The growth strategy lacks concrete steps, » said Yuichi Kodama, chief economist at Meiji Yasuda Life Insurance Co.

The biggest problem, he said, is that the government did not specify how to achieve numerical targets set in the strategy endorsed Friday, including augmenting the total amount of business investment by 10 percent during the next three years to bring it up to around 70 trillion yen.

« The best way to lead Japan's economy to stable growth is to change industrial structures on the initiative of the private sector by drastically prompting structural reform » in tightly regulated but promising areas such as health care and agriculture, Kodama said.

Abe, however, « apparently avoided forcing through reforms in those fields so as not to generate any friction ahead of the House of Councillors election » in July, sparking disappointment with the growth strategy, he added.

Hajime Takada, chief economist at the Mizuho Research Institute, echoed the view, saying a strategy devoid of a strong message on structural reform has provided an opportunity for foreign investors to sell Tokyo stocks.

Lower share prices could again worsen corporate sentiment and, coupled with the yen's rise — rekindled by speculation over the U.S. Federal Reserve reducing the pace of its asset purchases earlier than expected — would choke Japan's economic recovery, some analysts said.

« What worries me most about the recent stock plunge and the appreciation of the yen is that they may erode the confidence of business managers, » said Norihiro Fujito, senior investment strategist at Mitsubishi UFJ Morgan Stanley Securities Co.

« If they become cautious about capital spending, that would negatively affect the economy, » he added.

Masanobu Ishikawa, general manager of spot foreign exchange at Tokyo Forex & Ueda Harlow, voiced even more wariness about the future course of the world's third-largest economy, noting Abe's administration « cannot do anything more. »

« Without expansion in exports on the back of the yen's depreciation, it would be difficult for the Japanese economy to grow, but the government and the BOJ have already done all they can to drive down the yen, » Ishikawa said.

« Mr. Abe's plan has fallen through, or rather, he has created a downside risk to the economy. We can call it Abenorisk, » he added.

Still, other analysts said it is impossible to make an assessment on Abenomics in the short-term.

« The growth strategy stipulates what Japan should do to spur the economy. The most important thing is whether the government can carry it out, » said Takeshi Minami, chief economist at the Norinchukin Research Institute.

« It would take a while before the effects of the strategy emerge. It is too early to say Abenomics has ended in failure, » he said.

Political commentator Norio Toyoshima said even though stocks are on a downward trend, Abe's Liberal Democratic Party can win the upper house election and break the deadlock in the divided Diet, where the LDP lacks a majority in the chamber.

« As opposition parties have failed to garner public support, Mr. Abe may build a stable government, » said Toyoshima, a former journalist covering political affairs, adding, « Mr. Abe is likely to try to push through structural reform and deregulation after the election. »

Since taking office on Dec. 26, Abe has implemented a series of measures to boost the economy, including drawing up a stimulus package and urging the BOJ to take bolder monetary easing steps to attain a 2 percent inflation target.

Until late May, the 225-Nikkei Stock Average had surged more than 80 percent from mid-November, when the House of Representatives was dissolved for the general election on Dec. 16 that brought

Abe's LDP back to power.

The central bank's « quantitative and qualitative monetary easing, » introduced in April, also devalued the yen sharply. In mid-May, the U.S. dollar briefly topped 103 yen for the first time in more than four and a half years.

But the equity market suddenly became turbulent on May 23, when the Nikkei tumbled 7 percent. The index plummeted around 19 percent since May 22 through Friday. The yen has begun to strengthen again, blurring the outlook for Japan's exports, a key engine of economic growth.

A rising yen usually weighs on exports by making Japanese firms' products more expensive abroad and decreases the value of overseas revenue in yen terms.

**Kyodo News**, June 15, 2013

<http://mainichi.jp/english/english/...>

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### **Abe's growth plans fail to ease farmers' TPP fears**

The economic growth strategy endorsed by the Cabinet on Friday included bold agricultural plans to boost crop exports and raise income among farmers, but fell short of allaying their worries about joining the Trans-Pacific Partnership trade talks.

Under Prime Minister Shinzo Abe's "third arrow" to lift the economy out of long-standing deflation and kick-start growth, his government pledged to double crop exports to ¥1 trillion and agricultural earnings to ¥6 trillion by 2020.

At the same time, however, the government promised to promote trade liberalization and raise the ratio of trade conducted via free trade agreements in value terms to 70 percent from the current 19 percent by 2018.

Japan is set to become the 12<sup>th</sup> member of the TPP free trade negotiations from late July and is in talks on forming a trilateral FTA with China and South Korea. It is also angling for a trade liberalization pact with the European Union.

"A promise to double income while pursuing the TPP is like shaking someone's hand and kicking them at the same time," said Tomohiko Teramachi, a Hokkaido farmer who fears his wheat and sugar beet will be unable to compete with cheap foreign imports if tariffs are eliminated under the TPP.

Joining the Pacific Rim initiative is estimated to slash Japan's agricultural output by ¥3 trillion, a figure excluded from the government's growth strategy.

Hideo Kumano, chief economist at Dai-ichi Life Research Institute, said the plan to transform agriculture into a major money-making industry may be somewhat "idealistic," given its years-long stagnation.

"Japan's agricultural exports have remained very small in scale at around ¥450 billion. . . . I have some doubts about it turning into a ¥1 trillion industry all of a sudden," he said, pointing to such

pressing issues as the rapid aging of farmers and the shrinking food self-sufficiency rate.

The president of the Central Union of Agricultural Cooperatives, Akira Banzai, voiced support for the government plans, saying they are “in line” with the group’s goals. But even its members have shown skepticism.

“While we are looking in the same direction (as the government), we have not set specific target figures because they are not easy” to achieve, said a senior official of the group.

The latest steps include many proposed by previous administrations, including Abe’s first team from 2006 to 2007, such as realigning farmland and creating an entity for managing and leasing farmland to others, including agricultural corporations.

Still, economic revitalization minister Akira Amari insisted the growth strategy marks major progress on many pressing matters, such as boosting crop yields.

While the real challenges of implementing the strategy lie ahead, “we will pursue these measures at an unprecedented speed,” Amari assured.

**Kyodo News**, June 16, 2013

<http://www.japantimes.co.jp/news/20...>

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## **DPJ to play up dark side of “Abenomics” in Upper House poll**

The Democratic Party of Japan has unveiled a final draft of its campaign platform for July’s House of Councilors election, criticizing Prime Minister Shinzo Abe’s economic policies.

The platform of the DPJ, which lost power in the Dec. 16 general election, also attacks Abe and his Liberal Democratic Party for rushing to revise the pacifist Constitution, the draft showed Monday.

Currently the largest opposition party, the DPJ will stress the “strong side effects” on the economy from “Abenomics,” aimed at beating chronic deflation with large budgetary spending, bolder monetary easing and other stimulus, and will warn of “various concerns, such as excessive weakening of the yen and vicious inflation.”

“Abenomics is turning into something that could devastate people” lives, Ah DPJ leader Banri Kaieda told a news conference. He pledged that his party will protect people’s livelihoods “while upgrading pension systems and medical services through comprehensive social security reforms.”

The DPJ plans to argue there is a need to improve public finances by revising government spending, promise fiscal discipline legislation to halve the country’s primary budget deficit by March 2016 and vow to achieve a surplus five years later.

The party will also vow to boost the economy with a growth strategy focusing on promoting energy-efficient technologies, increasing exports of agricultural and fishery products, and assisting small and midsize firms.

On the Constitution, it will stipulate its opposition to any move by Abe to amend Article 96 to ease

the rules for initiating constitutional reform. "We oppose relaxing conditions for revision without discussing what is to be revised" first, the draft platform says. It is believed Abe is angling to ultimately amend the war-renouncing Article 9.

Among other pledges, the DPJ will promise Japan's exit from the Trans-Pacific Partnership free-trade negotiations unless the nation's interests can be protected, and to end operations at all nuclear power plants by the 2030s.

The party is scheduled to finalize its campaign platform later this month. Voting in the Upper House election will likely take place July 21.

**Kyodo News**, June 12, 2013

<http://www.japantimes.co.jp/news/20...>

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### **Cabinet support rate off to 68% amid bourse fall**

Support for Prime Minister Shinzo Abe's Cabinet dropped to 68 percent in the latest poll from 70.9 percent last month, a Kyodo News survey showed Sunday.

It is the first time since January that the Cabinet approval rating has fallen below 70 percent. Analysts say recent stock market turbulence is believed to have weighed on the support rate, but high expectations for Abe's economic policies are expected to support his administration ahead of the July Upper House election.

The disapproval rating stood at 16.3 percent, up a tad from 16.2 percent in the previous survey.

In a telephone survey conducted Saturday and Sunday, 65 percent of respondents said they expect positive results from "Abenomics," or the economic policies being pursued by Abe, to turn around Japan's deflation-battered economy, against 29 percent who replied they are not expecting much.

The latest nationwide survey covered 1,440 eligible voters, of whom 1,010 responded.

On Abe's controversial proposal to revise Article 96 of the Constitution to make constitutional amendments easier, 51.6 percent opposed the proposal, topping 50 percent for the first time since March, when the question was added. Some 37.2 percent expressed support.

The survey also found 49.8 percent supported Japan's export of nuclear power technology as promoted by Abe, while 43 percent were against it.

As for Japan's current monetary easing policy, 25.6 percent said it should be maintained and 20.2 percent called for a review, while 50.3 percent said they had no opinion on the matter.

Asked which party they will vote for in the proportional representation section of the House of Councilors' election this summer, 44.6 percent of respondents said they will support the ruling Liberal Democratic Party, up 0.2 point, followed by 7.9 percent who said they will vote for the Democratic Party of Japan. That figure was up 1.1 points.

New Komeito came in third at 6.4 percent, up 2 points, while Nippon Ishin no Kai (Japan Restoration Party) fell to fourth place at 4.5 percent, down 1.2 points, following party co-leader Toru



Hashimoto's contentious remarks about wartime sex slavery, which drew harsh criticism both at home and abroad.

**Kyodo News**, June 4, 2013

<http://www.japantimes.co.jp/news/20...>

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## **Frustration with "Abenomics" starts to build among LDP lawmakers**

Liberal Democratic Party lawmakers have begun to openly express discontent over Prime Minister Shinzo Abe's economic growth strategy ahead of July's Upper House election.

Many LDP members have turned on "Abenomics" since the Nikkei 225 stock average nosedived Wednesday on the market's underwhelmed reaction after Abe unveiled the "third arrow" of his strategy earlier that day.

The sky-high approval ratings for the Abe Cabinet have been bolstered by the resurgence of the benchmark Nikkei since the government and the Bank of Japan hammered out a set of drastic fiscal and monetary stimulus steps earlier this year. The stock market's downturn, therefore, has created a sense of crisis among some members of the ruling LDP.

As stock prices plummeted following the announcement of Abe's structural reforms for the economy and a draft of his government's fiscal consolidation plan, Hitoshi Kiuchi, a Lower House LDP lawmaker, told a joint meeting with the government Friday that "this shows the market expects little (of Abenomics)."

At the gathering, Kozo Yamamoto, another LDP member of the House of Representatives, demanded the government implement fiscal measures that can fully offset the negative impact of the consumption tax hike scheduled for next April. Raising the levy to 8 percent from the current 5 percent "is the biggest risk for Abenomics," he stressed.

Many other LDP participants voiced their opposition to the growth measures unveiled by Abe last week, especially a plan to eliminate the current ban on online sales of nonprescription drugs. Scrapping this regulation runs counter to the policy platform presented to voters during the LDP's victorious campaign for December's Lower House election, one party member argued.

If the Abe administration keeps sidelining the LDP regarding policy management, in disregard of deteriorating macroeconomic indicators, it will have an adverse impact on the party's fortunes in the upcoming House of Councilors poll, the party sources said.

"Abenomics could fail" and to prevent this, the government should adopt the ruling party's proposals, a veteran LDP lawmaker stressed.

Yet the LDP is still expected to give the nod to Abe's growth strategy and other policy measures as early as Monday to avoid internal strife before the looming election, analysts said.

Still, if stock prices and long-term interest rates continue to fluctuate with their recent volatility, this would shake the LDP even deeper, they added.

**Jiji Press**, June 9, 2013

<http://www.japantimes.co.jp/news/20...>

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