“Japan’s Economy – from the Bubble Age

To that of Demographic Changes:

Abenomics and Future Perspectives”

Speech on the occasion of Conferment of the “Order of Rising Sun, Gold Rays with Neck Ribbon”, on Prof. Dr. Ulrich Lehner, former President of the Chamber of Commerce Dusseldorf

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Sehr geehrter Herr Prof. Lehner,

sehr geerte Frau Lehner,

sehr verehrte Gäste,

(Einführung)

es ist mir eine besondere Freude, Sie alle heute hier in meiner Residenz in Erkrath begrüßen zu dürfen, um gemeinsam mit Ihnen die Verleihung des „Ordens der aufgehenden Sonne am Halsband, Goldene Strahlen“ an Prof. Ulrich Lehner vorzunehmen. Zunächst darf ich Ihnen, Herr Prof. Lehner, von Herzen zu dieser Auszeichnung gratulieren.

Der Hintergrund und die Verdienste von Herrn Prof. Lehner werden später durch Herrn Semba, den Präsidenten der Japanischen IHK zu Düsseldorf, in seiner Laudatio ausführlich erklärt. Ich möchte jetzt meinerseits diese Gelegenheit nutzen, um über die Geschichte der japanischen Wirtschaft der jüngeren Zeit und den gegenwärtigen Zustand zu sprechen, in der Hoffnung, einen kleinen Blick darauf zu werfen, wie sich Herr Prof. Lehner mit unserem Land und unserer Wirtschaft beschäftigt hat. Somit ergibt sich hoffentlich die Gelegenheit, zu überlegen, wie wir Japaner und Deutsche auf einer gemeinsamen Basis unsere Zusammenarbeit in Zukunft im wirtschaftlichen Bereich vertiefen können.

(Stable growth period – Bubble economy)

Prof. Lehner joined Henkel in 1981. At that time, I was studying law at Kyoto University. When I reached the stage of graduation, none of my friends had any doubt about the future of Japan’s economy. We were enjoying a steadily growing economy for quite some time. Major companies’ recruitment policy was generous. Export industry, in particular, was very robust. At the end of the day, everyone was somehow able to get the job he wanted.

Trade frictions with the United States had reached a serious level, to a lesser degree also with European countries. At G7 Summit Meetings export-oriented countries like Japan and Germany were under pressure from the US and other G7 Member countries. The news on the so-called Plaza agreement of 1985 brought about the sudden upgrading of Japanese Yen. Before, one US dollar was evaluated 236 yen. One year later, it fell down on 154 yen.

That was not a good development for Japan’s economy, because export industry was hit severely. Still, US pressure grew and grew. They said Japan (and Germany) must expand domestic consumption and reduce exports. How do you call this today? – “America first”. So the reaction by the Japanese Government was to ***expand public sector spending*** and ***lowering interest rates***. Official discount rate went down from about 5% in 1985 to 2.5% in 1987.

The result was the ***bubble economy***. A lot of money was spent on ***real estate and stock market***. The Nikkei Stock Average soared, from the level of 13,000 yen in 1985, five years later, it reached the level three times as high as before.

Same was the real estate. In 1990, the total appraisal value of Japan's real estate exceeded ***2,000 trillion yen***, which was ***4 times the total real estate price of the United States*** – that is space-wise 25 times as large as Japan. It was estimated that entire USA could be bought at the price of the area within the circle of Yamanote S-Bahn line in Tokyo.

(Collapse of bubble economy – lost 20 years)

The bubble economy, however, did not last long. It ***began collapsing already in 1991***, when Prof. Lehner was appointed manager of Asia Pacific branch of Henkel. Economic stagnation continued for 2 decades. People call this "the lost 20 years".

(Abenomics 1st stage)

On March 11, 2011, the ***Great East Japan Earthquake*** took place. It paralyzed Japan’s economy for many months and left huge destruction behind including damages of production capabilities. ***Domestic political situation*** was not normal. Opposition party (DPJ) was in control of the Government, and was cutting infrastructure projects everywhere, while subsidizing high school tuition fees and pre-school children, as well as aged people’s healthcare without much strategy. Investment on scientific research was forgotten. ***On diplomatic fronts***, Hatoyama administration ***antagonized the Americans*** by trying to reverse the ***Futenma Airbase construction*** agreement. Following ***Chinese fisher boat crashing Japan Coast Guard vessel*** off the Senkaku Islands, Beijing allowed ***huge anti-Japanese demonstrations*** to freely destroy Japanese business assets like department stores or factories. Overall, ***stagnation of economy and political confusion*** made Japanese public very pessimistic.

This was the situation when Mr. Shintaro Abe won the ***lower house elections in December 2012***. He embarked on ***aggressive economic programs known as “Abenomics”***. It aimed to ***break this pessimism*** and ***bring back confidence to the Japanese people***, as well as to ***drive the economy out of the deflationary circle***.

Generally in Germany, only the ***first pillar (or Arrow)*** of Abenomics, namely ①***aggressive monetary policy***, is prominent, – and not highly appreciated. However, it also has ***two other pillars (or Arrows)***, namely; ②flexible ***fiscal policy***, and ③***growth strategy*** targeting at ***liberalizing die-hard protected sectors*** like pharmaceutical industry or agriculture.

German media and German business don’t like Abenomics, not because they don’t like it particularly. In my view, ***what they don’t like is monetary easing itself***. That’s why they don’t like Abenomics in its entirety, because it is the ***opposite of financial discipline or austerity*** – the absolute value for the Germans. It may be true for Germany, but whether it is also relevant for other countries, in my view, can be disputed.

After the ***Lehman Shock***, ***BOJ was very German*** (extremely austerity-oriented). It stuck to its traditional financial discipline policy when economy was down, while ***FRB (US)*** quickly responded by introducing ***quantitative easing***. ***European economy*** was doubly hit by the ***Greek financial crisis***. The result of these developments was the ***appreciation of JPY***. Yen became increasingly over-appreciated (1 USD = 79 JPY, 1 EUR = 100 JPY as of Dec. 2012). Japan’s exported-oriented economy was seriously weakened.

From this viewpoint, ***quantitative easing by the Bank of Japan (BOJ)***, which was called Kuroda Bazooka, ***came already too late***. It was ***a belated response*** to the above-mentioned situation – at the end of the day, no other policy options were available. It started in ***April 2013*** with an ***inflation target rate at 2%***. BOJ then introduced ***negative interest rates***.

According to German media, Abenomics is unprecedented. However, it is far from original. Negative interest was first introduced by Denmark in 2012, then by ECB and Switzerland in 2014. Japan came only later – partially in February 2015, then fully in January 2016.

***Mr. Fitschen***, the then Co-CEO of Deutsche Bank, declared solemnly at the Bank’s New Year reception 2016 that ***Abenomics was already dead***. So ***let’s see if it really is or still alive***.

First, stock exchange: Before Abenomics was launched the Nikkei Stock Average was around 8,800 yen. It has more than doubled since then, and is currently fluctuating somewhere around 20,000 yen.

Second, total GDP: it rose from 495 trillion (2012) to 537 trillion (2016).

Third, on the labor market, 1.85 million new jobs were created in the last 4 years. Unemployment rate came down from 4.5 % to 2.8%. Job per applicant ratio increased from 0.74% in 2012 to 1.48% in 2017.

Corporate ordinary profits increased by 50% from 45.3 trillion yen in 2011 to 68.2 trillion yen in 2015. Capital investment recovered to the same level as before Lehman shock. Wages have been increasing squarely in all branches.

True, the target inflation rate of 2% has not been reached. But imagine how the situation might have been ***if it had not been for the Abenomics…***

According to the Handelsblatt, growth strategy in Abenomics is non-existent. However, the opposite is the case.

***Energy sector***, for instance. For the past 60 years, ***regional monopoly*** (one supplier for one region) was applied to electricity and gas. The producer was the distributer at the same time. The ***monopoly is no more***. ***Upstream and downstream were conceptually separated***. 401 (for electricity) and 1,417 (for gas) ***new enterprises*** have been registered, ***including the renewable energy production***.

Then ***agriculture*** – it constitutes only 1 % of GDP, but the farmers are usually supporters of LDP and possess big political influence. For a long time, structural reform and deregulation were undermined by lobbyists. Now, ***for the first time in 60 years***, a comprehensive reform was introduced. It is based on a paradigm shift, considering that ***farming*** should be a ***growing and competitive business***. “Agricultural Cooperatives” were restructured, and ***export of agricultural products***, including Japanese wines, is being promoted. That’s why I offer my guests Japanese Sake and Japanese wines for dinner and promote Japanese rice. Afterwards you will be invited to taste them.

Another field Abe administration considers future-oriented is ***healthcare***, for simple reasons. Because of the ***aging society***, needs for medical cares are steadily growing. If current inefficient system is not streamlined, ***costs for medical care*** will rise enormously. At the same time, ***market opportunities*** are expanding. If you successfully address these problems with a proper balance, potentials are enormous. The Government foresees the ***size of the market at 26 trillion yen*** in the year 2020. Domestic and foreign medical service/technology providers are invited to explore it.

In Abenomics, fiscal consolidation is also underway. The tax revenue is expected to increase due to economic growth, and the dependence on government bonds is decreasing. We are making progress towards achieving the target of "primary balance surplus by 2020".

(Abenomics Ver. 2.0)

***In 2015***, a new ***three-pillar-package*** was announced to further accelerate economic growth. This is called ***“Abenomics Ver. 2.0”***. In addition to the macro-economic policy of the first stage, "Abenomics 2.0" encompasses now wider ranges of issues, namely, ***support for the next generations*** and ***new concept for social security***. In other words, it is an attempt to ***address fundamental challenges*** Japan faces today, such as the ***demographic change*** and ***low productivity***. Another ambitious target was announced – to ***increase current GDP*** of 537 trillion by 20% ***to 600 trillion yen*** by the year 2020.

***Population is shrinking***. But ***no new immigrants*** are coming. What is the answer to this question? Where do we still have potential? In three areas: ***women, older people and robots.***

As for ***women***, after marriage or giving birth to a child, many of them had to leave their jobs. One problem was the behavior of the employers. ***“Baby leave”*** for women was treated as ***a burden, a non-economic cost for the company***. This mentality should be changed. But moreover, ***social infrastructure*** is far from sufficient. ***More kindergartens or nurseries*** have to be built and ***more care-takers*** trained. The Government intends to ***secure childcare capacity*** for approximately ***500,000 children*** by the end of FY 2017. Yokohama, Chiba and Fukuoka already achieved the ***goal of “no waiting list for children*** queuing up for care”.

***"Work Style Reform"*** is another big deal by Mr. Abe to ***improve productivity***. When I was working in Bangkok, my Thai counterparts joked at me and said, “Thai Embassy people bring visitors to Government Headquarters in Tokyo after dinner around midnight. All Ministry buildings are lit up, not from illumination, but because the officials are still working inside.” Private companies were not much different.

But ***long working hours*** mean nothing but ***low productivity***. Therefore, the Government is seriously working on ***reducing working hours*** and improving ***work-life balance***. In this respect, Japan has a lot learn from Germany.

Another issue relating to productivity is to improve the ***treatment of so-called “non-regular” workers*** who constitute 40% of all employment. They are treated irrationally compared to "regular" workers. Abenomics aims to improve treatment of non-regular workers by realizing ***"equal pay for equal work"***, thus enhancing motivation and, accordingly, the productivity.

In Japan, both ***people and business move more and more to greater Tokyo area***. The ***gaps between big cities and rural areas*** are widening. However, many of Japan’s industrial infrastructures are still available in the provinces as well. ***Promotion of “Local Abenomics”*** is also campaigned for the growth of regional economies by means of ***projects related to “revitalization of provinces”***. ***Tourism*** is one of the tools to achieve this.

Given the ***declining working population*** of today, even on booming markets like medical or elder people’s care, ***not enough labor is available***. This is where ***innovation model “Industrial 4.0”*** involving IoT, Big data, AI, ***robotics*** etc. is increasingly needed. By mobilizing services out of these innovative technologies and applying them to each individual's needs, we wish to establish what we call ***“Society 5.0”***, in which various social problems can be solved on this basis and possibly, 600 trillion yen GDP target may be achieved.

(Note)Hunting Society → Agricultural Society → Industrial Society → Information Society → Society 5.0

(Promotion of free trade)

Last but not least, ***promotion of free trade*** is also part of Japan’s future strategy and part of Abenomics. While population declines and ***domestic market shrinks***, it is only logical to try ***ensuring a basis for economy*** that is more promising – a global market. This is why we wanted ***TPP for Asia-Pacific***; this is also the reason why we are working toward the ***Japan-EU EPA***. The announcement on a framework agreement on the eve of the G20 Summit in Hamburg was therefore very important. An early conclusion of the negotiation is awaited.

(Prospect for Japanese-German economic cooperation)

In conclusion, let me summarize the ***implications of Abenomics for Japan-German business perspective***.

In the last three years, the ***Japanese community in Dusseldorf*** has been ***steadily increasing*** – from about ***6,000 in 2015*** to ***8,000 in 2017***; ***in entire NRW*** from ***11,000 to 14,000***. I interpret this as a ***proof that Abenomics is working***. Without the ***return of self-confidence*** to Japanese business, such a sustainable, positive trend cannot be explained.

Recently, I learned ***a number of Japanese-German joint business in NRW***, both in ***traditional sectors*** like ***mining machines or carbon electrodes***. ***New business*** model is also emerging, following the ***MOUs concluded between NRW and Fukushima prefecture*** in the field of ***renewable energy and medical technology***. ***The more exchanges of people, the more we are mutually enriched by learning from each other.*** This is the cooperation model that we should pursue.

Likewise we both have a lot of ***common interests***, among others to ***promote Industry 4.0 and digitalization*** for the betterment of our society, in the direction of Society 5.0. ***To this end it is better that we, Japanese and Germans, work together closely, including for the FTA and beyond***.

This was also the cause for which Prof. Lehner has been working. I therefore take this opportunity to reiterate my heartfelt gratitude to him for all his efforts. Thank you again, Prof. Lehner, for being a true friend of Japan, and it is my sincere hope that you remain so; and that many of us present here will follow his path in the future as well.

Thank you all for your attention.