

Beginning a Communication



Author Kazumasa Kusaka

By Kazumasa Kusaka

Since 2003, *Japan SPOTLIGHT* has devoted its first page to the publisher's messages to readers. During his chairmanship, Noboru Hatakeyama contributed more than 60 times to the "Publisher's Note" column, covering topics from the WTO system to FTAs and global governance. I plan to continue that practice, and I welcome suggestions about topics that you would like us to address as well as opinions readers would like to share with others.

In this, my first column, I would like to share my thoughts on perception, mindset and expectation.

New Prime Minister Shinzo Abe's top priority is to revitalize the Japanese economy by adopting a three-pronged strategy consisting of a bold monetary policy, a flexible fiscal policy and a growth strategy that promotes private investment.

Even before he officially took office, he seems to have succeeded in convincing the markets of his effort to jump-start the economy with so-called "Abenomics".

The key instruments are two. First, as the machine, he needed a new team in the Bank of Japan and he had the new governor, Haruhiko Kuroda, the Asian Development Bank president, approved by parliament in mid-March. Kuroda will engage in more aggressive monetary policy easing as quickly as possible in order to reach the 2% inflation target within two years.

Secondly, the vehicle for structural reforms as a growth strategy to enhance investor confidence is FTA negotiations.

In mid-March, the prime minister announced that Japan will participate in the TPP negotiations led by the United States, and towards the end of March he and European Union leaders announced the official launch of Japan-EU FTA negotiations.

What is the difference between the old team and their policies and Abe's new team and policies? Half of the secret of success is substance, and the other half is how to communicate with the markets, households and business community. The perception that the BOJ "has done too little" had undermined the effectiveness of previous policy measures, while in contrast the "bold new team" perception has brought about a change in mindset.

Outgoing BOJ governor Masaaki Shirakawa is also known as a scholar and as kind enough to point out any limitations in monetary policy and their side-effects when he prescribes economic medicine. In real medical treatment, patients might become insecure if they are told too much about risks while even a placebo could sometimes work.

There is a Japanese saying, "All illness comes from the mind" (written with two Chinese characters *byo-ki* meaning literally illness and mind). The Japanese word for "economic condition" – *kei-ki* –

consists of scenery and mind. So the business community used to say that a takeoff or downturn in the economy depends on mental/business confidence, even before economists came up with "expectation theory", "wealth effect" and other concepts.

In the manufacturing world, where the Japanese are so proud of their state-of-the art products, a company often feels "mission accomplished" at the factory gate, forgetting to market or communicate with consumers about how attractive the merchandise is.

The same applies to government policies. The effectiveness of a policy or of public spending *per se* is limited without concurrently disseminating a strong message about it.

To take another example, in Asia FDI-driven *de facto* economic integration has been proceeding and even before commitments to tariff elimination business responds to the anticipated change in business environment.

It is important for us to learn about how the mindset of EU countries, facing the single market of 1992, changed so that they could understand that markets should be broader than national borders and that each member country needed structural reforms to achieve a common market. Japan's growth strategy needs to be based upon a "perception" that its domestic market will be shrinking in the long run due to depopulation and will need structural reform to achieve a broader common market.

Japan also has to learn about deepening the process of regional economic integration from Europe's experience. We should bear in mind that in discussions in Japan on whether to participate in TPP negotiations or not, there are a variety of groups opposing the TPP in addition to traditional agri-stakeholders. This means that there would be more economic agents affected by deepening integration and thus eventually the daily life of the public would be visibly affected. In this process, we should learn from the EU's experience and the current development that a sense of participation or sense of ownership is critical for any democratic government.

I am an optimist. I believe what is happening in Europe or in Japan over economic integration is a healthy and necessary process because working on mindsets is the engine of growth strategy.

We at *Japan SPOTLIGHT* will aim to communicate with readers on interpretations of issues of mutual interest.

Kazumasa Kusaka is chairman and CEO of the Japan Economic Foundation (JEF), as well as being a professor of public policy at the University of Tokyo. He previously served as special advisor to the prime minister on global warming after having been vice minister for international affairs at the Ministry of Economy, Trade and Industry.