

# How to Restore the Japanese Economy?

## Abe’s “Third Arrow” Will Promote Sustainability of Economic Growth

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### Introduction

The “third arrow” of Prime Minister Shinzo Abe’s economic policies dubbed “Abenomics” — following unprecedented monetary stimulus and active government expenditure on strengthening Japanese infrastructure in preparation for natural disasters in spite of the existing fiscal deficit — was made public on June 14. This third arrow consists of a wide range of policies to achieve as high a growth as possible over the long term, and is thus regarded as a blueprint for sustainable economic growth.

Whereas the first two arrows of Abenomics are considered to be aimed at stimulating the economy in the short run by encouraging confidence among consumers and business firms through a rise in share prices or a weakening yen, the third arrow is supposed to consolidate the basis for growth by strengthening the competitiveness of the Japanese economy.

Since we are living in a globalized world, such a long-term growth strategy can be interpreted as a policy aimed at maximizing the benefits from Japan’s international economic relations, a big potential source of economic growth. In this article I would like to introduce, especially for our readers overseas, the essence of this third arrow of Abenomics.

### Essential Philosophy of Growth Strategy

Since the Lehman shock of 2008 and the subsequent financial crisis, conventional economics has been exposed to intensive criticism for its high appraisal and endorsement of the role of market functions, which have always been considered the best way of allocating resources and producing the best performances for economies, but which in reality have now supposedly only resulted in financial instability. Excessive speculation, possibly encouraged by a lack of rules and discipline in financial markets, was regarded as a culprit in causing such instability.

People who are condemning the market for producing instability also condemn it for creating large income inequalities by making winners and losers through such serious competition. Accordingly, the essential philosophy behind the economic policies adopted by many developed nations today has been to justify interventions to correct such market failures.

According to conventional pro-market economists, such market intervention policies aimed at ensuring income equality, instead of strengthening competitiveness through competition, would deprive

economies of their vitality and thus reduce growth potential.

Abenomics’ third arrow is clearly opposed to market interventionism and is aimed at reconsolidating market functions and competition, and thereby strengthening industrial competitiveness and enhancing growth potential.

Deregulation is considered an important tool to encourage competition by loosening entry regulations. Attracting new companies and not trying to protect any company in decline from exiting from the market should be key to maintaining economic vitality and realizing high economic growth. The growth strategy embodied by the third arrow has adopted this as a fundamental policy philosophy. This idea is reflected very well in the newly established concept of “National Strategic Special Zones” where the Abe administration together with regional governments and the private sector will promote unprecedentedly drastic deregulation in attempting to expand business opportunities in the market.

A second point that clearly distinguishes Abenomics’ growth strategy from the previous administrations’ reforms is that it is attempting to take full advantage of the merits of globalization. Economic growth cannot be produced solely in the domestic economy but requires international trade and investment relations with the rest of the world. Given Japan’s location in Asia, which has the most promising growth potential in the world today, it is obviously important to think about exploiting the benefits of trade and investment in the region.

Abe’s decision to join negotiations on the Trans-Pacific Partnership



Photo: JIJI

Koji Tsuruoka (center), Japan’s chief Trans-Pacific Partnership negotiator, speaks at a press conference after the TPP negotiations in Kota Kinabalu, Malaysia, on July 25, 2013.

(TPP) and other FTA talks as actively as possible certainly reflects the idea of fully utilizing the merits of globalization.

I would now like to elaborate on specific policies reflecting this basic philosophy.

### Measures for Win-Win Relations with Rest of the World

Trade and investment liberalization is a key to taking full advantage of globalization. We could import cheaper goods from overseas with tariff elimination, which will be to the benefit of consumers and encourage competition among domestic producers against less expensive imports and thus revitalize their competitiveness, and we could also export cheaper goods from our country to our trading partners with their own tariff elimination and thus gain profits from trade.

Lowering barriers to investment in Japan and its trading partners would encourage more companies to set up production and sales facilities in trading partner countries and more overseas companies to do likewise in Japan. This would also encourage new entries and exits in the market and thus promote more competition, leading to a revitalization of the economy and business.

Free Trade Agreements (FTAs) would be the most useful policy tool for achieving such an outcome, and the growth strategy of Abenomics aims at raising the proportion of Japanese trade covered by FTAs to 70% by 2018 from the current level of 19% by concluding FTAs such as the TPP, the Regional Comprehensive Economic Partnership (RCEP), a Japan-China-South Korea FTA, and a Japan-EU FTA. In addition to pushing for such FTAs, Abenomics will take strong initiatives for opening up Japan with some extraordinary steps.

By 2020, foreign direct investment (FDI) in Japan should have doubled to reach 35 trillion yen. The government will establish the "National Strategic Special Zones" where deregulations will be implemented in a wide range of areas, including land use related to urban development. Deregulation will not be the only characteristic of such zones but also the creation of an internationally friendly business environment. They will provide transparent real estate information to firms from overseas to enable them to acquire office space at the cheapest price, as well as providing high-quality hospitals and children's education facilities in accordance with international standards.

In order to attract highly skilled labor from overseas, the government will create a new system so that many more such people will be able to work in Japan. For example, it will revise the limits on annual income necessary to qualify as a highly skilled worker and also reduce the number of years of residence in Japan necessary to become a permanent resident from five years to three.

Tourism could also become a stepping stone to FDI in Japan, and



*Abenomics' growth strategy aims at increasing the number of foreign students studying in Japan to 300,000 in 2020.*

so Japan will aim to attract 10 million tourists in 2013 and 30 million in 2030 (8 million tourists visited Japan in 2012). In order to achieve this, visa requirements will be modified, such as exemptions for tourists from Thailand and Malaysia.

Japan will need to draw more attention to itself in order to attract as many tourists as possible, and eventually business. In the light of this, the government is trying to increase sales of broadcasting content by three times the current figure of 6.3 billion yen by localizing content or securing distribution channels for Japanese content in overseas broadcasting companies and strengthening efforts to eliminate imitations of such content by additional protection measures for content creators.

Human relations beyond borders must be the source of future business connections as well. In particular, friendships developed at schools and universities will become an important channel for close business relations between different nationalities in the future. Thus, Abenomics' growth strategy aims at increasing the number of Japanese students studying abroad from 60,000 in 2010 to 120,000 and also increasing the number of foreign students studying in Japan from 140,000 in 2012 to 300,000 in 2020. In order to achieve this, the government and the private sector in Japan will work together to create a new scholarship scheme to make it financially easier for students to study abroad.

Those are the main points I wish to highlight in the growth strategy of Abenomics that readers overseas may find particularly interesting, especially if they hope to start a business in Japan or study in Japan. *Japan SPOTLIGHT* is going to follow up the implementation process of this important growth strategy in due course to keep readers updated on developments in these unprecedented reforms in Japan. **J.S**

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