Publisher's Note

2015 — Year of the Sheep, Year of "Signs of Growth"

By Kazumasa Kusaka

The New Year is well underway. Here I would first like to reflect on what December's Lower House election in Japan meant. The ruling Liberal Democratic Party and Komeito coalition won the election by a landslide, claiming a two-thirds majority. The snap election called by Prime Minister Shinzo Abe as a referendum on his economic policies gave him a mandate to pursue the third arrow of Abenomics, namely structural reforms. What were the wedge issues?

From Abe's perspective, the main issue was his decision to postpone the second hike in the consumption tax until April 2017, to create room for the Japanese economy to recover from the previous increase. For the opposition parties, they articulated their differences from Abe on income disparities, social security, and nuclear power generation, tilting toward big government in economic and social policy. On the other hand, in foreign policy and security policy areas, the opposition insisted that Japan's role should remain passive and limited. According to various opinion polls, the public generally accepted and appreciated Abe's achievements in foreign policy, with some news media, both domestic and foreign, interpreting the election as being based on Abe's "proactive contribution to peace" policy.

Hisayoshi Ina, a columnist at the *Nikkei Shimbun*, analyzed that over the last half century election outcomes were mostly dictated by the Nikkei Stock Average. In the United States, studies also point out that the reelection of a U.S. president reveals a strong correlation with the economy's performance. The most well-known case was the failure of President George H. W. Bush after the overwhelming support for his leadership in the Gulf War, when the economic recovery statistics arrived a couple of months too late for the November election day. The key phrase at that time was "It's the economy, stupid!" Here is a great lesson for election strategists, as politics is generally the same beyond national borders.

Overall, economic growth and the broad permeation of its benefits through society are a "mandatory course" for the new Abe government, and after securing a "pass grade" in this, it could become more ambitious on other courses.

The year 2015 is the Year of the Sheep in the Oriental zodiac. However, we can trace the original meaning of "the year of the sheep" in a Chinese character corresponding to "sheep", meaning "yet to grow into a tree". This Chinese character can make the zodiac more visible to the public. In short, this character meaning "yet to grow into a tree" indicates a sign of growth too small to be identified but suggesting the possibility of growth. In other words, though we may have only a small sign of growth, this year presents an opportunity to make growth happen with the right strategy through innovation, a spirit of enterprise and structural reforms. Such efforts could make a small sign bigger and clear and a shoot will turn out to be a tree.

I have touched on political circumstances and zodiacs. What about the economy? Of course it is borderless, and the Tokyo stock market tends to be linked to New York or other markets. However, is the oil price collapse from \$100 per barrel to \$50 bad news? We have to differentiate between the recipients of the news.

Naturally the immediate short-term interpretation is that this is bad news for the United States, but how about oil-importing Japan? Until recently economists blamed the 40% increase in fossil fuel imports for the decline in domestic purchasing power following the suspension of nuclear power generation. But now a regression has begun. In addition, the current sag in the economy is regarded as the fallout from the spring 2014 consumption tax increase from 5% to 8% that reduced disposable income.

So from a macroeconomic perspective, the fall in crude oil prices is a gift worth ¥7 trillion, far offsetting the ¥3 trillion increase in consumption tax. The beneficiaries are not only Japan but also most Asian and European economies that are fuel importers. Unless we can articulate and communicate the positive aspects of oil price falls, ordinary investors will not be able to tell what is good news for Japan, perhaps being overwhelmed by the eloquence and power of the New York markets.

Of course, if the major cause of energy price falls is the demand side shock from the recession of the world economy, no country would say that is good news. This time it was "paper oil" traded in massive amounts by commodity market players like hedge funds and investment banks against the backdrop of Quantitative Easing that had pushed oil prices high and not a world recession that caused an oil price decline. So unless the loss shouldered by these players leads to financial system risks, the impact on the global economy would seem to be positive.

So is this going to be a good year for Japan and the global economy? There cannot be a "one-country economy" or any "closed economy". The global demand side would suffer from recessions in oil- and gas-producing countries, and in the transition period we have to watch how speculators and commercial players weather the huge losses they may shoulder without any solvency or liquidity risks surfacing into the financial system.

The resources, powers and tool-boxes of governments are limited, especially compared with market power. Each country's capacity to govern economic policy is limited and the impact of a policy action by any individual country could be offset by another country's policy without international policy coordination. We would need coherent collaboration among nations to achieve a positive and consistent impact upon the world economy. After the oil crises in the 1970s, French President Giscard d'Estaing created the economic policy coordination mechanism G5 to overcome the economic crisis. Since then, the number of global players has increased and their interests have been diversified, while markets have been further empowered.

This year presents us with a challenge and an opportunity, in the spirit of pioneers, to improve effective ways of global economic governance for global growth.

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