

**“Abenomics” with Three Arrows: Towards the Revival of Japan’s Economy**  
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It is indeed a great pleasure for me to have this opportunity to speak at the 9<sup>th</sup> meeting of Japan-Singapore Symposium. I have been attending this gathering since the second meeting which was held in Singapore in 1996, when both Ambassador Tommy Koh and I looked much younger and handsomer.

As you all know, Prime Minister Abe made a speech in Washington, DC in February, declaring “Japan is Back.” It was only seven months earlier in the same capital city when the “Armitage-Nye Report III” was released in which Japan’s character was questioned. Did Japan desire to continue as “a tier-one nation” with a significant economic weight and with leadership on international matters? Our prime minister made it clear that Japan will resume taking on its international responsibility, including that in the Asia-Pacific region, by reviving Japan’s economy. Indeed the revival of Japan’s economy is at the top of the priority agenda for our new government.

My task today is, perhaps, to convince our friends and colleagues from Singapore that the changes now happening in Japan’s economy are real and lasting; and they have significance in solving the common agenda between the two nations, such as the sustainability of the social security system under rapidly aging and decreasing population.

1. Three Arrows of “Abenomics”

Until a little while ago, the majority in our Liberal Democratic Party placed first priority on fiscal consolidation whereas I belonged to the minority camp which considered higher growth of Japan’s economy the top priority. Using the theme that the greatest and most urgent task was the revival of Japan’s economy, Mr. Abe swept to a landslide victory last December. Now our government is forcefully proceeding with an economic policy package that has been called “Abenomics”. The Prime Minister himself has said that he is setting forth “a bold

policy package of a nature totally different from what used to be implemented". The question becomes, "how different"?

You all know that "Abenomics" consists of the "three arrows." First, bold monetary easing aiming at ending deflation and achieving a 2% inflation target. Second, a flexible fiscal policy to sustain economic growth in the shorter-term. And third, a growth strategy to encourage private economic activities in the longer-run.

## 2. First and Second Arrows

With respect to "how different" these policies are, I think the first arrow, monetary easing, has a very new dimension. It took the strong leadership of the Prime Minister to have the Government and the Bank of Japan agree to boldly overhaul our policy framework and achieve a 2% inflation target. We now have a new Bank of Japan Governor and new Deputy Governors. I do believe the new Bank of Japan Governor, Mr. Haruhiko Kuroda, the former president of the Asian Development Bank, will take the necessary steps to clearly end deflation and to achieve a 2% inflation target.

As to the second arrow, a supplementary budget amounting to ¥13 trillion, (which is equivalent to more than US\$140 billion), has already been approved by the Diet. This fiscal stimulus is expected to create 600 thousand new jobs and to lift the growth of Japan's economy by 2% in the coming year. With this fiscal expenditure, uncertainties over Japan's economy have greatly receded and the sentiments both in the business and household sectors have significantly improved. But in the long-term, with an already huge public debt, there is no possible way to keep spending to support Japan's economy through fiscal stimuli. We have committed ourselves not to go back to the old LDP style of vested interests sharing. Thus, if there is any new dimension regarding the fiscal policy hereafter, it would be that we will not be "business as usual" and follow the same old ways.

The first and second arrows have been shot and we can already observe positive economic signs. Investors, both domestic and abroad, have started to buy Japanese shares and the equity prices on the Tokyo Stock Exchange have

substantially increased. Promising figures related to macroeconomic indicators such as the corporate productions and the household consumption are coming out.

### 3. Third Arrow

The third arrow, growth strategy, is still on the way but is extremely important for the sustained growth of Japan's economy. Actually, this arrow addresses issues which were once called "structural reforms". That label sounds somewhat old fashioned but it goes to the core issues which have plagued Japan's economy for decades. We have to strengthen the profitability of firms in Japan by eliminating factors which block competitiveness and innovation. If we miss the mark with this third arrow, I am afraid we may repeat not only "a lost decade", or "lost two decades", but we are in danger of a "lost three decades".

Our government has a strong incentive to make this third arrow a powerful breakthrough to rescue and revive Japan's economy. A Headquarter for Japan's Economic Revitalization has been established in order to craft a comprehensive policy package and an Industrial Competitiveness Council has been established underneath it. The Prime Minister himself chairs the Council and its members are the related cabinet ministers and private sector experts. It will formulate the first set of growth strategy plans by early June, focusing on areas like the scrapping and building of businesses, the enhancement of human capitals, infrastructure competitiveness, clean and efficient energy, health and longevity, agriculture, and scientific innovations.

### 4. More Contents for the Third Arrow

In order to make the third arrow even more effective, I believe the Abe Administration needs more actual policy contents. In this regard, the LDP has established its own headquarter, which I am the acting head of, to draft new policy plans for economic growth. To show our seriousness and commitment to economic growth, inside LDP headquarters, we have eight teams that cover many subjects ranging from macroeconomic policies to education.

From my point of view, the scrapping and building of businesses is essential to economic revitalization. Compared with other advanced economies, new business starts and old business scraps are extremely stagnant in Japan. This must be changed. We should discourage easy lending by banks to zombie companies. Mutual stock holdings among firms and financial institutions should also be an area to reform. Stock holding by banks might be another area. This “I-scratch-your-back-and-you-scratch-mine” type of interdependence is by no means good for profitability and productivity of Japan’s economy.

In order to remove this “conspiracy” among old fashioned businesses, I believe corporate governance should function more efficiently. Businesses should be statutorily required to have an independent director on the board of directors. More diversity within the board members of Japanese firms should also be achieved. Financial markets adhering to full global standards are also essential. We cannot take too much time before adopting the International Financial Reporting Standards. Improvement of asset management policy of GPIF (Government Pension Investment Fund), with assets of over one trillion US dollars, must be realized by expanding the scope of investment such as private equities, as well as by strengthening the staff by adding more asset management professionals.

More open domestic markets are also crucial. The size of domestic markets will inevitably shrink along with our continuing aging population. We must maximize benefits from the global trade which will also lead to benefits for our trading partners. Prime Minister Abe has decided to join the negotiation process of the TPP(Trans Pacific Partnership Agreement). Let me say that TPP is just one of several mechanisms which can be used to further open up Japan’s economy, and eventually expedite the process of the change in Japanese industrial structure. Simultaneously, we will keep working on EPA or FTA arrangements with other countries and regions.

Further deregulation is another important challenge. Japan has long discussed deregulation and while you may believe that the situation has not changed remarkably, but this time, let me repeat, this time, the determination of our government is different.

Last month, Prime Minister Abe said in Washington, DC not only “Japan is back” but also “I am back”. We in the LDP are strongly backing him up, committed to rescuing and reviving Japan’s economy. I am confident that many actual policies for the growth of Japan’s economy will be emerging from LDP headquarters as well, in a timely manner.

#### Timeline

The Abe Administration and the LDP acknowledge a timeline. Naturally, one of the first milestones is the Upper House election scheduled for this coming July. It is all the more important, because it is likely that there will be no national-level election within three years after that. In order for us to create a cohesive and effective government which can efficiently and effectively implement policies which will benefit Japan, it is desirable for our ruling coalition to enjoy majority status in both the Lower House and Upper House. Not having majorities in both Houses increases the risk that indecisive politics may return to haunt us again.

Before ending my remarks, let me touch upon the 3.11 earthquake and tsunami devastation. Just two years have passed and the reconstruction effort is still underway. There are still 320 thousand people living in temporary housing, of which 160 thousand cannot yet go back home because of the nuclear accident in Fukushima. I would like to express my sincere gratitude to the government of, and people of Singapore for your warm and generous support after the disasters. The Japanese will never forget the profound kindness shown to us during this time of hardship.

Recovery from the disasters goes hand-in-hand with our efforts to revive the economy. We have to keep in mind that “a robust recovery in Tohoku will only be achieved with a strong revival of the Japanese economy”. And ultimately, we will recover confidence and pride in our nation.

Thank you very much for your kind attention.

