

Lecture at Chatham House by Minister Amari on May 7, 2014
“Abenomics: Growth Strategy in the Globalizing World”

Distinguished guests, Ladies and gentlemen

1. Introduction

- As the Minister in charge of Abenomics, I would like to thank you for giving me this precious opportunity to talk about Abenomics here at Chatham House, one of the most traditional and highly influential think tanks in the world.

- I would like to congratulate Chatham House for the successful organization of four monthly roundtables since January, which intensively discussed the keys to ensuring Japan’s revitalization. I am delighted to hear that the inspiring speech delivered by Prime Minister Abe at the conference cohosted by Chatham House in June last year impressed Dr. Robin Niblett and distinguished leaders, and motivated Chatham House to organize this series of events.

- I also appreciate the new project by Chatham House of conducting joint research with the Anglo-Japanese Centre for International Intellectual Exchange Asia-Pacific, which is to be newly established and will deepen the studies about Abenomics with researchers from Japan and Europe. Today, I would like to talk about the policy efforts of Abenomics, particularly, the Abe Cabinet’s growth strategy in the globalizing world.

2. “Three-Arrows” Strategy of Abenomics

- To begin with, I would like to explain what we have done to promote Abenomics policies and what we have achieved so far. One year and five months have already passed since the Abe administration was formed. Needless to say, the top priority for the administration has been economic revitalization.

- To revitalize the Japanese economy, the Abe administration has been committed to a comprehensive policy package, namely the three-arrows strategy, which includes an aggressive monetary policy, flexible fiscal policy and a growth strategy that encourages private-sector investment. Thanks to this three-arrows strategy, the Japanese economy is regaining the confidence that had been lost owing to prolonged deflation.

- Abenomics has brought about excellent results so far. We have seen positive GDP growth for five consecutive quarters, and this has been driven mainly by steadily increasing private-sector demands. Economic growth has resulted in a significant improvement in the labor market. The jobs-to-applicants ratio, which fell to 0.42 shortly after the Lehman Brothers bankruptcy, recovered to above 1.0 for the first time in six

years. This indicates that job offers exceed job seekers. In the latest results of wage bargaining, the rate of wage increases was 2.14 percent, the highest level in 10 years. We have witnessed wage increases gaining momentum, which we have not seen in recent years.

- We believe that it is important to get the Japanese economy back on a track of sustained growth with the “three-arrows” strategy of Abenomics, and regain Japan’s position as a driving force in the world economy.
- Meanwhile, we are also making the best efforts in fiscal policies. Against the background of the positive economic trends, we are aiming to realize a positive cycle in which economic revitalization facilitates fiscal consolidation and the advancement of fiscal consolidation contributes to further economic revitalization. We raised the consumption tax rate from 5% to 8% last month, after having taken economic measures to substantially mitigate the impact to the economy after the consumption tax hike. We will also continue our efforts to achieve the primary balance target of the Medium-term Fiscal Plan, which aims at halving the primary deficit in terms of GDP ratio by FY2015, compared to the FY2010 level, and achieving a primary surplus by FY2020.
- On the other hand, in order to achieve sustainable economic growth, it is extremely important to create an environment where private companies or individuals can fully exploit their potentials through a steady implementation of the growth strategy that we formulated last year. Today, I would like to explain about our latest efforts so that you can strongly feel that Japan is about to change with Abenomics or rather Japan is already changing.

3. The Features of the Growth Strategy and Major Developments

- I would like to present the two distinguishing features of the Abe administration’s growth strategy. One of the features is that formulating the growth strategy is not a goal, but a starting point. We monitor and review the progress of the growth strategy, and if necessary, we identify barriers and take additional measures. The growth strategy is continuously evolving under the strong leadership of Prime Minister Abe.
- The other feature of the growth strategy is converting social challenges to be overcome to new business frontiers. Japan will create new markets and provide solutions to the world by addressing universal issues, such as an aging population combined with the diminishing number of children, energy constraints, or the maintenance of infrastructure.
- We have already taken various measures. Last June, we formulated the Japan Revitalization Strategy, a package of structural reforms. Since then, we have been committed to the earliest possible materialization and implementation of measures and policies included in the strategy.
- First of all, in the extraordinary Diet session of last autumn we successfully enacted nine important bills to realize structural reforms. In the current session, approximately 30 relevant bills have been submitted and are being enacted sequentially.

- Based on laws which have already been enacted, innovative systems including National Strategic Special Zones have been created as breakthrough measures for regulatory reforms.
- As for the National Strategic Special Zones, target areas were designated recently. As in the case of “Food Valley” in the Netherlands or “Medicon Valley” in Denmark, under the basic concept of creating areas which will be ranked as one of the five most competitive industrial clusters in the world, we carefully screened six areas. Companies in the special zones will, from the outset, be free from longstanding issues such as regulations on the floor area ratio, the number of hospital beds, farmlands and publicly-funded and privately-run schools. Furthermore, in the designated areas, the central and local governments and companies now are working together to advance discussions toward the materialization of special zone plans, including suggestions for further easing of regulations. Concrete special zone plans will be proposed by summer if all goes smoothly.
- As I have explained so far, the growth strategy is generating concrete outcomes in various areas. Besides these outcomes, I would like to explain other outcomes and policies under consideration.

4. Major Outcomes and Policies for Future Consideration

(4-1. Globalization Strategy)

- Recognizing the fact that Japan has been, and will be increasingly integrated into the global economy, we have developed globalization strategies.
- The top priority of our globalization strategies is the completion of the TPP, the Trans-Pacific Partnership. The TPP is an ambitious attempt aiming to establish a new 21st century rule for economic integration and form a single economic zone. To illustrate the economic importance, I will pick up the aggregate share of GDP of the 12 countries participating in negotiations: it is around 40% of the global GDP. After hard consultations between Japan and the United States, we identified a pathway on the important issues between Japan and the US. I am sure that this outcome will become a key milestone of the TPP negotiations, and will create momentum for all of the negotiations. Japan is now engaged in tough negotiations with other countries, but we will make the best effort to achieve an early conclusion to the TPP.
- Furthermore, we are now negotiating the Japan-EU EPA, and the EU is now negotiating the TTIP, the Trans-Atlantic Trade and Investment Partnership. We expect that deepening economic ties between Japan, the EU and the US will result in the establishment of common global rules for trade and investment. Japan is also participating in the RCEP, the Regional Comprehensive Economic Partnership. We also expect that we can expand the efforts to establish global trade and investment rules for East Asia through the RCEP.

(4-2. Promotion of Foreign Investment in Japan)

(Reductions in Corporate Tax)

- We also aim to promote inward foreign direct investment. We lowered the effective corporate tax rate by 2.4% this April by abolishing the special corporate tax for reconstruction one year ahead of schedule. However, the corporate tax rate in Japan is still higher than the OECD average and remains high compared to the international level. We are now making specialized discussions for further corporate tax reforms with a view to becoming the world's best country for companies where they can demonstrate their abilities.

(Globalizing Japan)

- In order to facilitate innovation in the country, it is important to thoroughly promote globalization within Japan.
- We are now fully committed to the promotion of foreign direct investment in Japan to attract excellent technologies and human resources throughout the world and to realize growth through innovation.
- In order to double the balance of inward foreign direct investment in Japan to 35 trillion yen by 2020, we have decided to carry out intensive promotions to find and attract foreign direct investment opportunities. To that end, we will mobilize not only JETRO but also diplomatic missions abroad, and actively conduct top-level promotion by the Prime Minister and other ministers.
- Likewise, on April 25th, we established the ministerial-level Council for the Promotion of Inward Foreign Direct Investment in Japan. The council aims to promote efforts by relevant ministers and meetings toward the realization of necessary systemic reforms to promote investment in Japan. Japan always welcomes and appreciates direct investments from the U.K.
- Hosting highly skilled foreign professionals is also essential. In order to facilitate hosting highly skilled foreign professionals, we introduced the points-based Preferential Immigration Treatment for Highly Skilled Foreign Professionals in May 2012. In addition, in December last year, we relaxed eligibility requirements and reviewed preferential measures. We also relaxed the requirement on the annual income and expanded the scope of accompanying family members to include parents and domestic workers. Furthermore, in the current diet session, a bill was submitted to amend the Immigration Control and Refugee Recognition Act which includes a provision to shorten the required length of stay in Japan to obtain a permanent residence permit. We are committed to an early enactment of the bill.

(Promoting Women's Participation)

- The promotion of women's participation is one of the top priorities of the Abe administration's growth strategy. In order to get the Japanese economy back on a track of sustainable growth, it is necessary to enable women to demonstrate their capacities to the fullest. Within one year of the establishment of the Abe administration, the number of female employees increased by 530,000.

- We will make further efforts. We will secure childcare services for additional 400,000 children by the end of FY2017, so that mothers can leave their children in the care of such services and go to work.

(Reviewing the Implementation, etc. of GPIF and Reinforcing Corporate Governance)

- The management policy of the world's largest pension fund will change drastically. GPIF, with assets of 130 trillion yen, will review its current portfolio which mainly consists of Japanese government bonds.
- It is also important to reinforce corporate governance to boost productivity and increase business earnings.
- We have formulated a Japanese stewardship code as a principle to make corporate investors assume their fiduciary responsibility. Corporate investors are required to improve not only investment returns but also the medium- to long-term value of Japanese companies by exercising their voting rights.
- Likewise, in order to support aggressive corporate management, a bill to amend the Companies Act to promote the introduction of outside directors is being discussed in the Diet. Major companies have already activated their efforts to introduce outside directors ahead of the enactment of the bill.

(4-3. Addressing challenges and Creating New Markets)

(Structural Reforms in the Medical Sector)

- In order to support the public need for the health, longevity and the sustainability of the social welfare system at the same time, it is important to promote uninsured services.
- We will also review relevant systems so that we can utilize advanced drugs, etc. in an expeditious manner. Last year, we established a mechanism to promote the acceleration and streamlining of the evaluation of advanced medical care. Likewise, we will drastically expand the scope of eligible advanced medical care that patients can receive in conjunction with the services covered by the public medical insurance. We first applied this system to anticancer drugs. We are also planning to expand the scope of the system to cover regenerative medicine and medical devices by the end of this fiscal year.

(Structural Reforms in the Agriculture Sector)

- In order to strengthen Japanese agriculture, among others, it is important to increase productivity through the consolidation of agricultural land. With the establishment of intermediary institutions to manage farmland, it will be easier for new actors, such as private companies, to enter the large-scale farming business.
- Furthermore, we will abolish the production adjustment system known as the "rice paddy-reduction program". Through this measure, producers will be able to determine the amount of production themselves by assessing market demand. We believe that the introduction of such a market mechanism will enhance competitiveness of the agriculture sector.

5. Conclusion

- As I have explained, we are now taking various measures to reinforce the international competitiveness of Japanese industries. Finally, I would like to present my plan for the reform strategy to revitalize Japan as the most innovative country that I proposed recently.
- This plan aims to strengthen the ability to create innovative technological seeds and promote open industry-academia-government innovations. Likewise, it will serve to reinforce the bridging function that leads these technological seeds to prompt commercialization by private companies.
- In particular, the core of this reform is to reinforce the function of public research institutes which assume this bridging function between businesses and universities, in line with the reform of universities or graduate schools. Do you know which workplace ranked first in the ranking of the most attractive workplaces in Germany? It was not BMW or Porsche, but the Fraunhofer-Gesellschaft, a public research institute which works as a bridge between industry and universities.
- There is much that Japanese public research institutes could learn from the efforts by the Fraunhofer-Gesellschaft, such as sharing human resources with universities, fostering human resources for marketing, accepting research requests by companies and transferring technologies to companies. We will consider a plan for realizing such a system with reference to such examples.
- Compared to the first and second arrows which involved direct actions by the government or the Bank of Japan, the third arrow, which aims to get the private economy back on a track of growth, may require a longer time before we see its effects, and it is difficult to predict the outcomes. I hope that participants today have gained at least a sense that our growth strategy is steadily yielding results in various areas.
- In the middle of this year, we are planning to revise the growth strategy to include various reforms, including some of the measures that I have mentioned today. I am sure that its contents will prove impressive for those who are paying particular attention to Japan's efforts for structural reforms. I hope you will continue to keep your particular interest in Japan's transformation through Abenomics.

Thank you for your attention.