

JAPAN'S ECONOMIC OUTLOOK

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3rd ICRIER-PRI Workshop, March 18, 2013



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Understanding - or misunderstanding - Japan and its Economy

- Japanese economy has stagnated and underperformed for the past twenty years – two lost decades.

Is Japanese economy growing at all?

- Japan's fiscal situation is most serious with debt to GDP ratio highest in the world.

How will aging society continue to aggravate the fiscal situation and to affect economic growth?

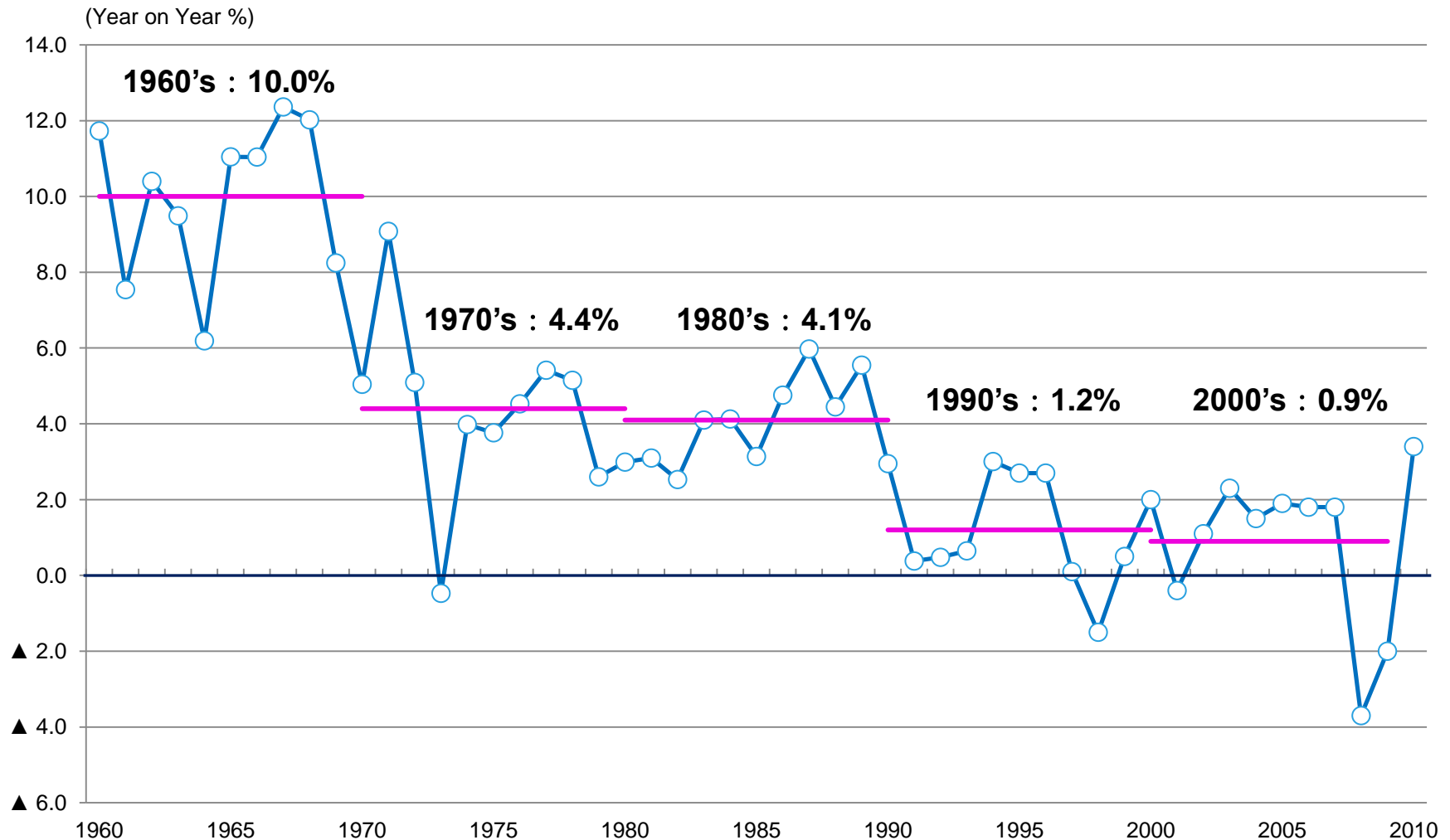
- Japan's trade balance has turned deeply into a deficit.

Has Japan been eclipsed as the manufacturing center by China, and has it lost the technological edge to Korea?

- As a result, Japan no more wields positive influence to the rest of the world.

Is Japan a second-tier economy that does not merit an attention?

GDP Growth : Underlying trend has remained low

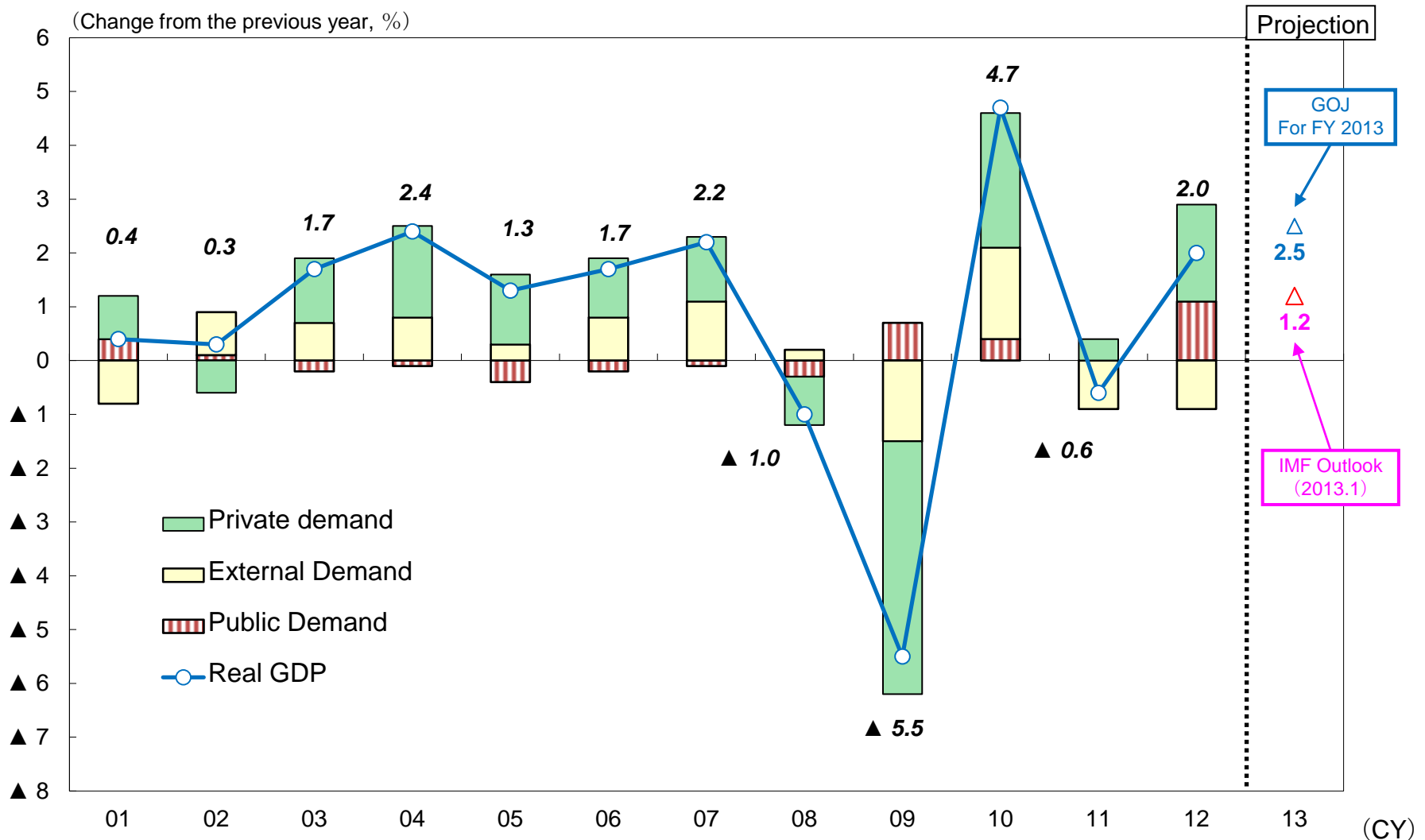


Source : Cabinet Office, Ministry of Internal Affairs and Communications, Japan



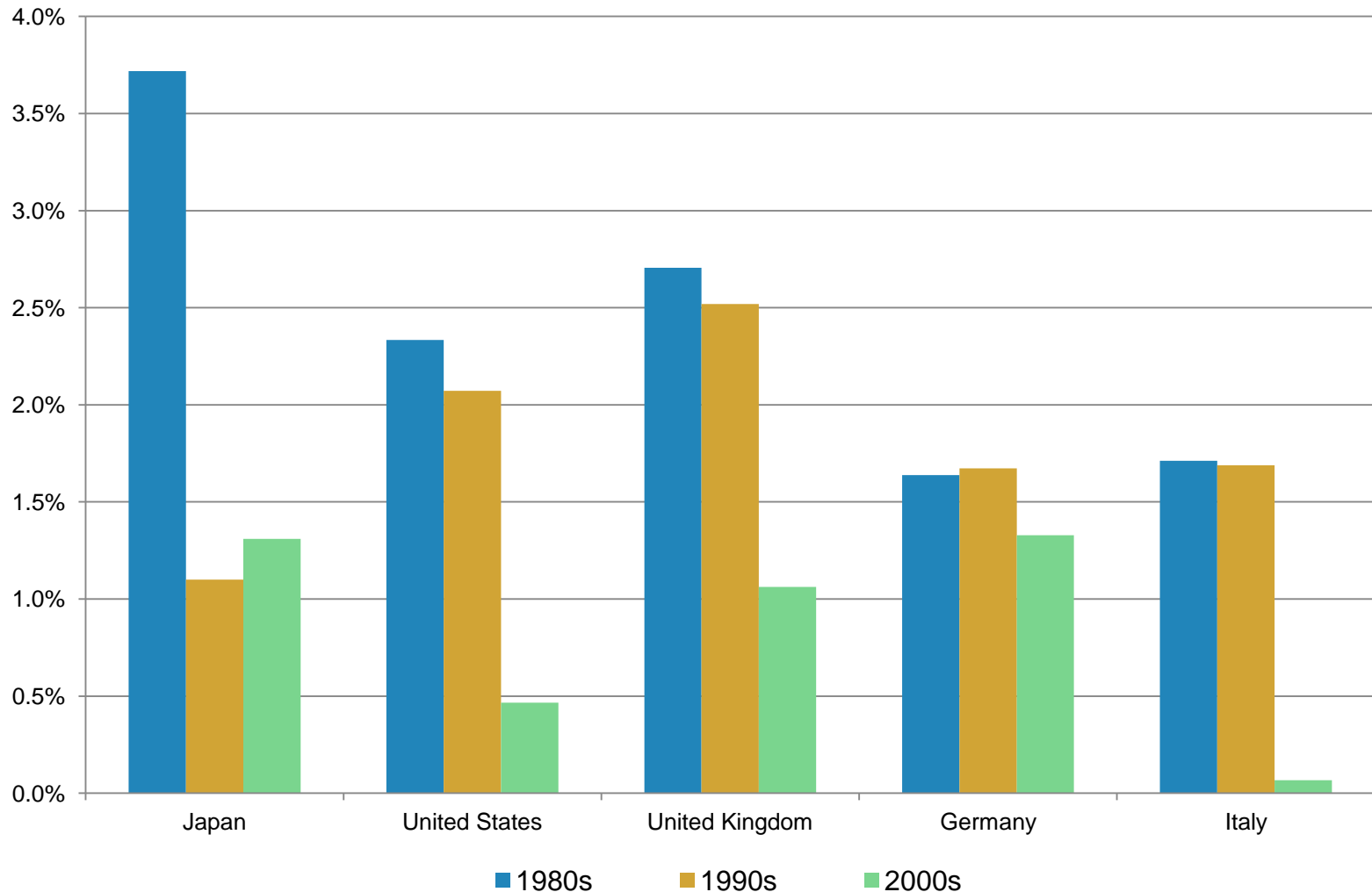
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GDP Growth was steady until Lehman crisis and Great Tsunami hit

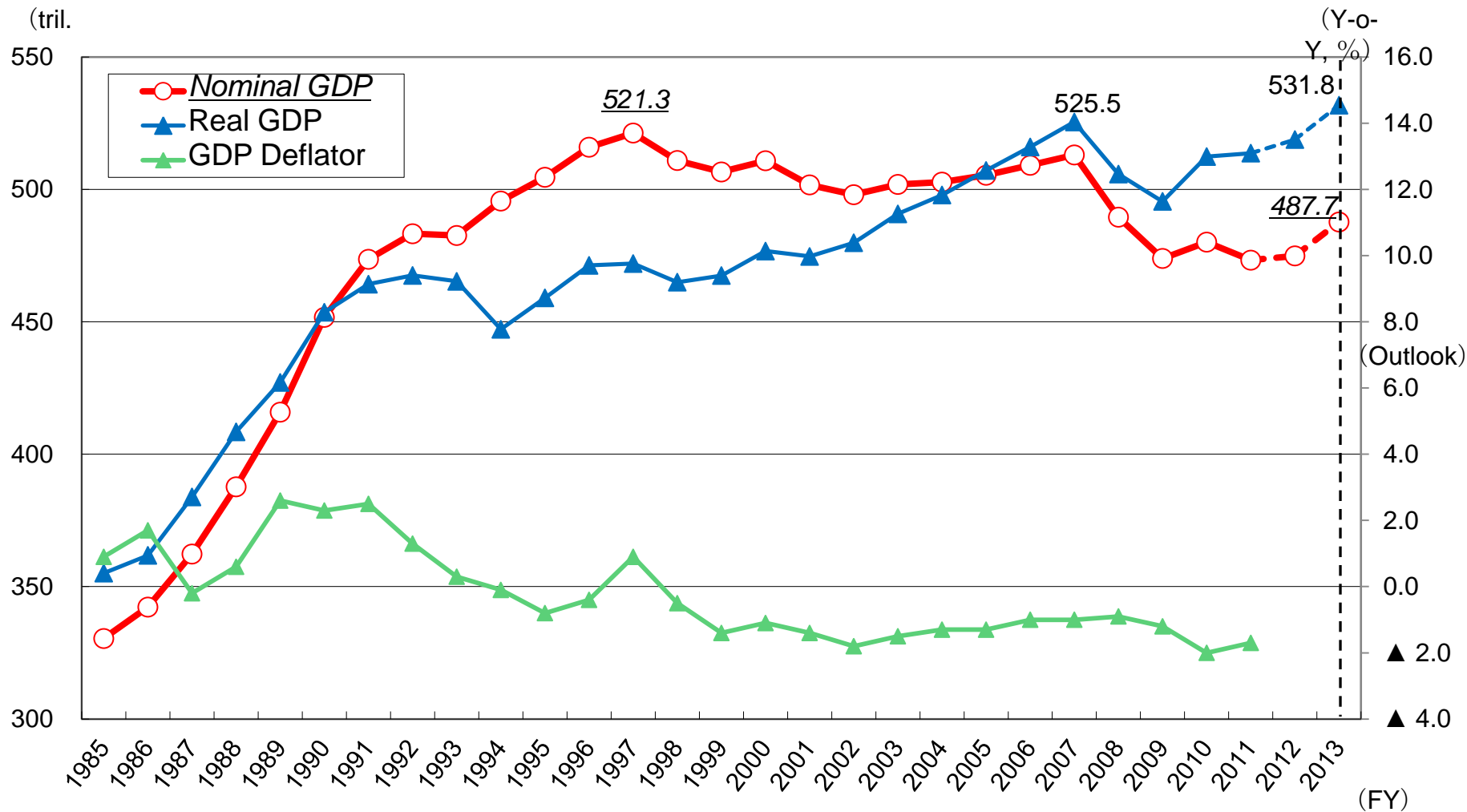


Source : Cabinet Office, Japan, IMF

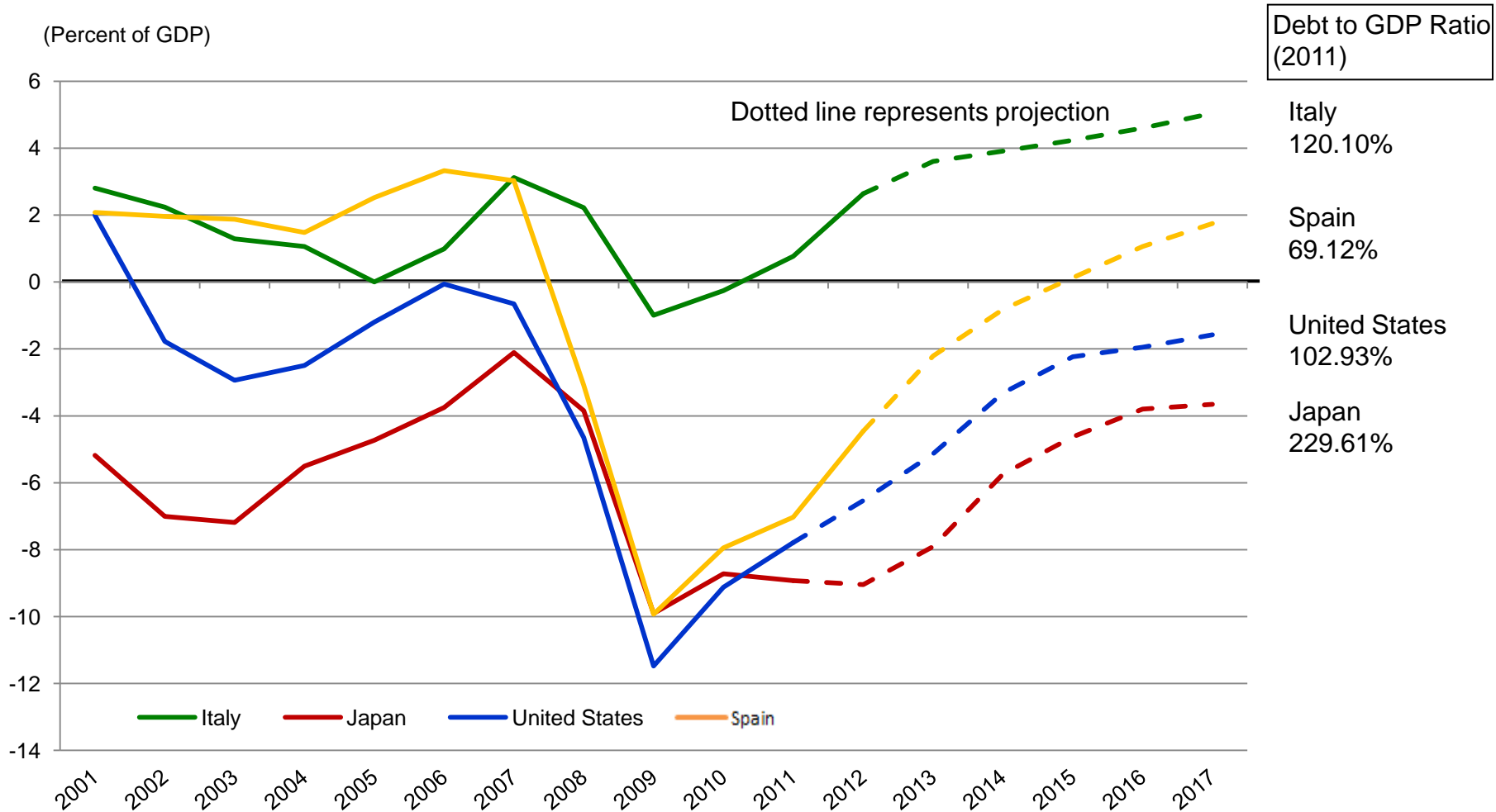
Growth per Working Age Population : Japan is not bad at all



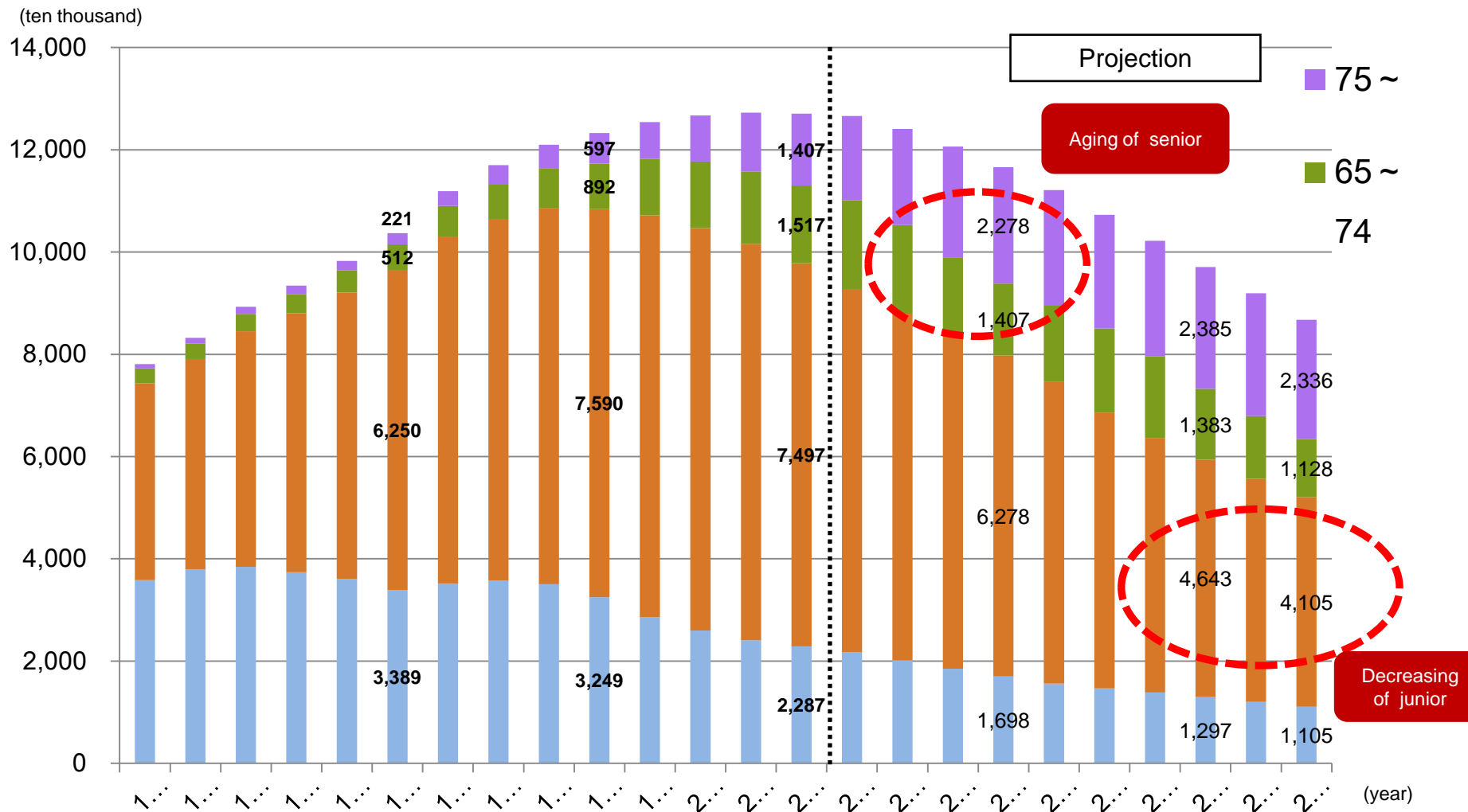
Nominal vs. Real GDP : Level is the thing



Primary Balance : Budget deficit is surely a problem

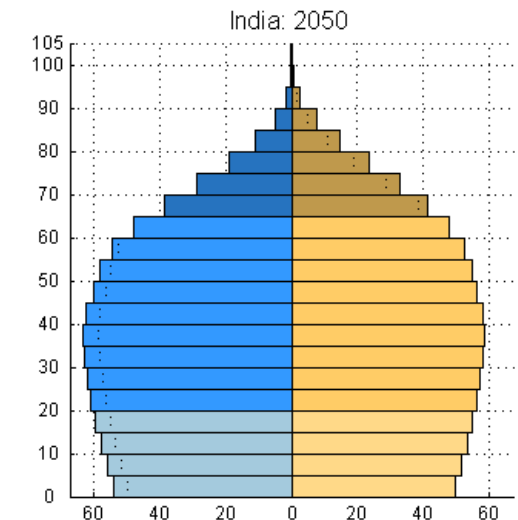
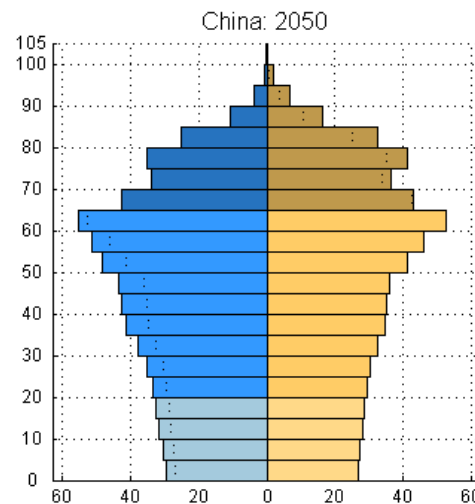
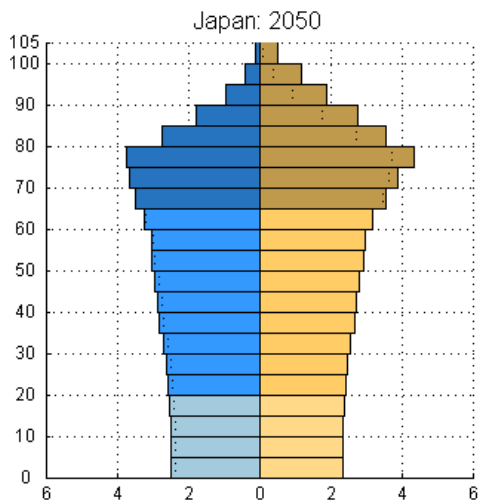
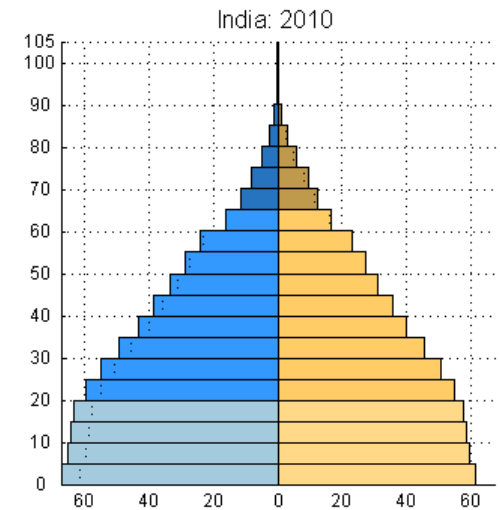
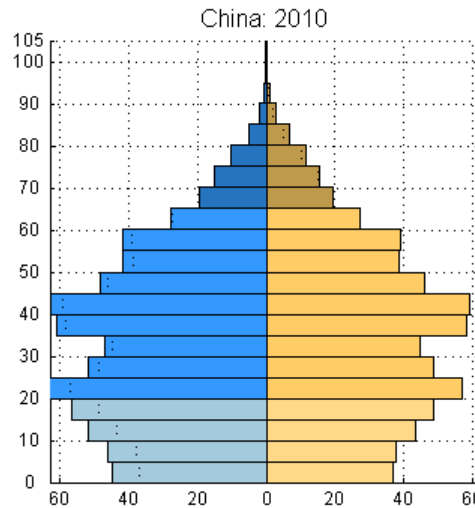
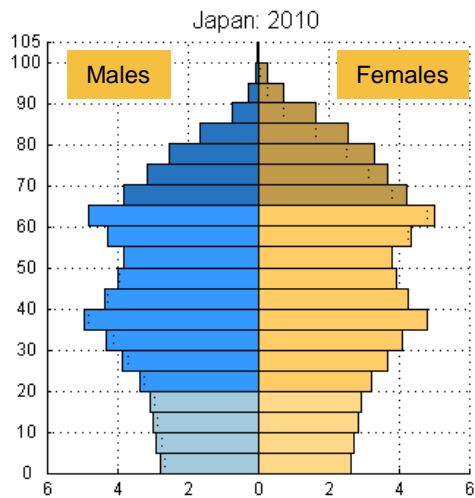


Demography : Japan is aging very rapidly



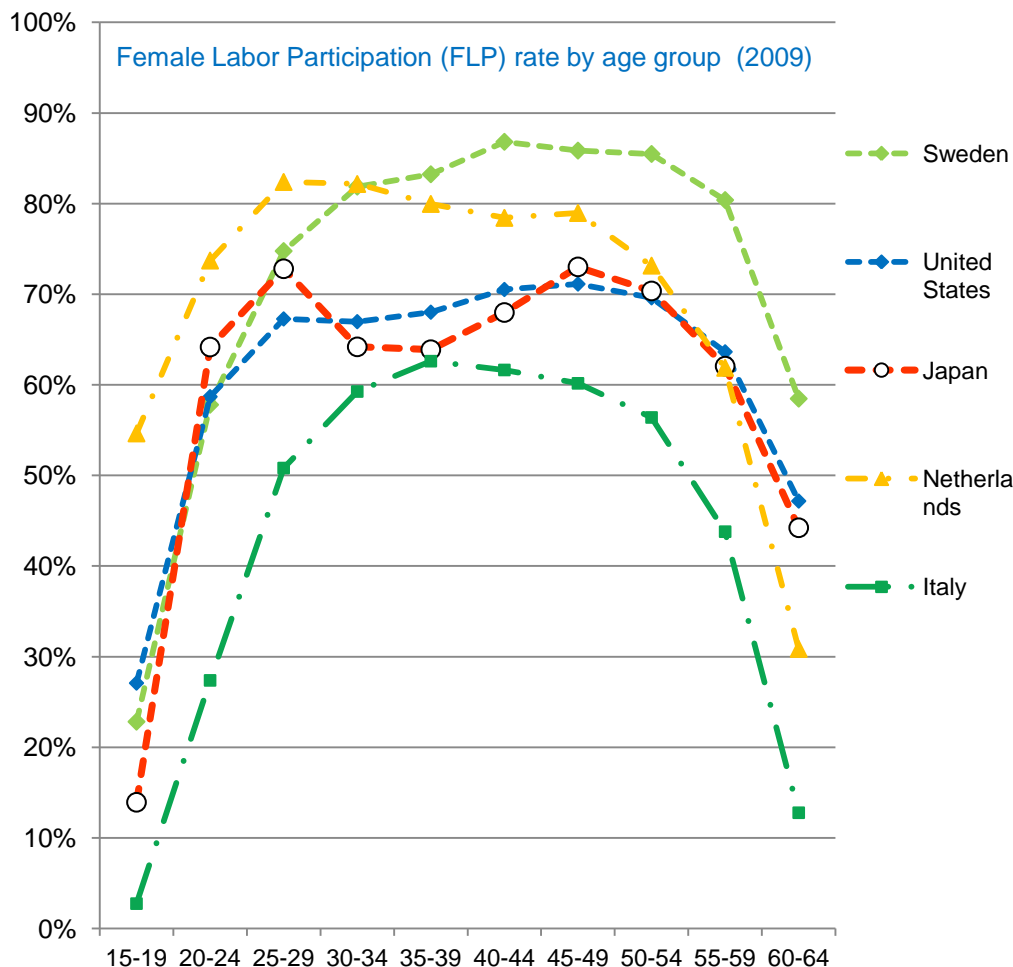
Source : Ministry of Health, Labor and Welfare
: National Institute of Population and Social Security Research

Demography : So is China, and so will India in the future



Source : United Nations, Department of Economic and Social Affairs

Female Employment : Women can save Japan



IMF Working paper 2012

Key point

- Japan is under the rapid decline of working-age population accompanied by aging society.
- A key for revitalizing Japanese economy is to promote female worker's employment.

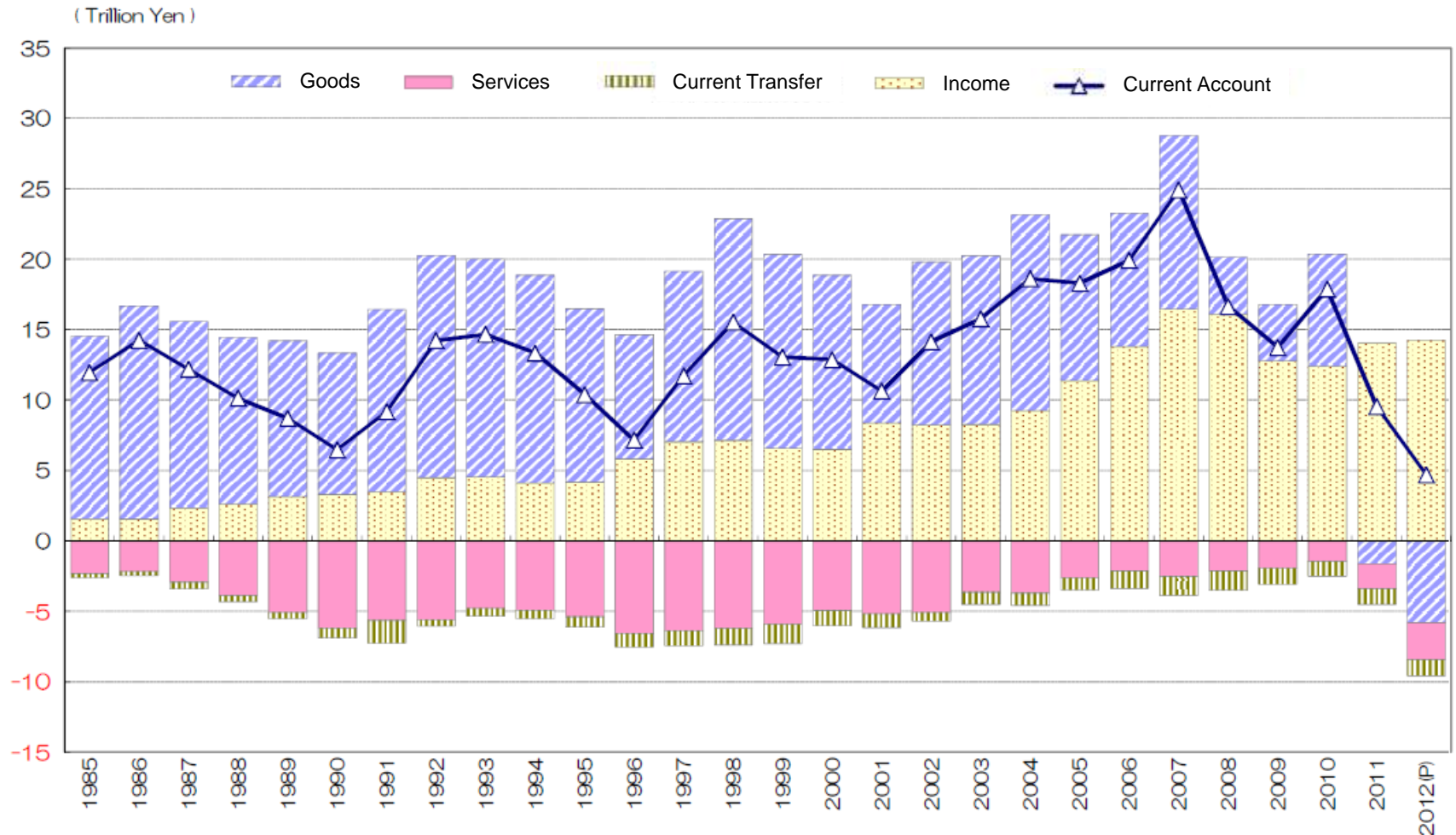
Analysis

- M-shaped curve is not observed in other developed countries.
- If Japan can raise its Female Labor Participation (FLP) ratio to the level of the other G7 member countries, GDP per capita would increase by approximately 4%.
- Japan should increase the number of female managers and board members.
- Better balancing of family life and work is necessary.

Successful example –Netherlands –

- The hourly wage of part-time workers is now equal to that of full-time workers.
- FLP ratio in 70's was only 30%, but it had risen up to 70% in 2011. Japanese FLP ratio was surpassed by that of Netherlands in 1995.
- Female workers contributed economic recovery.

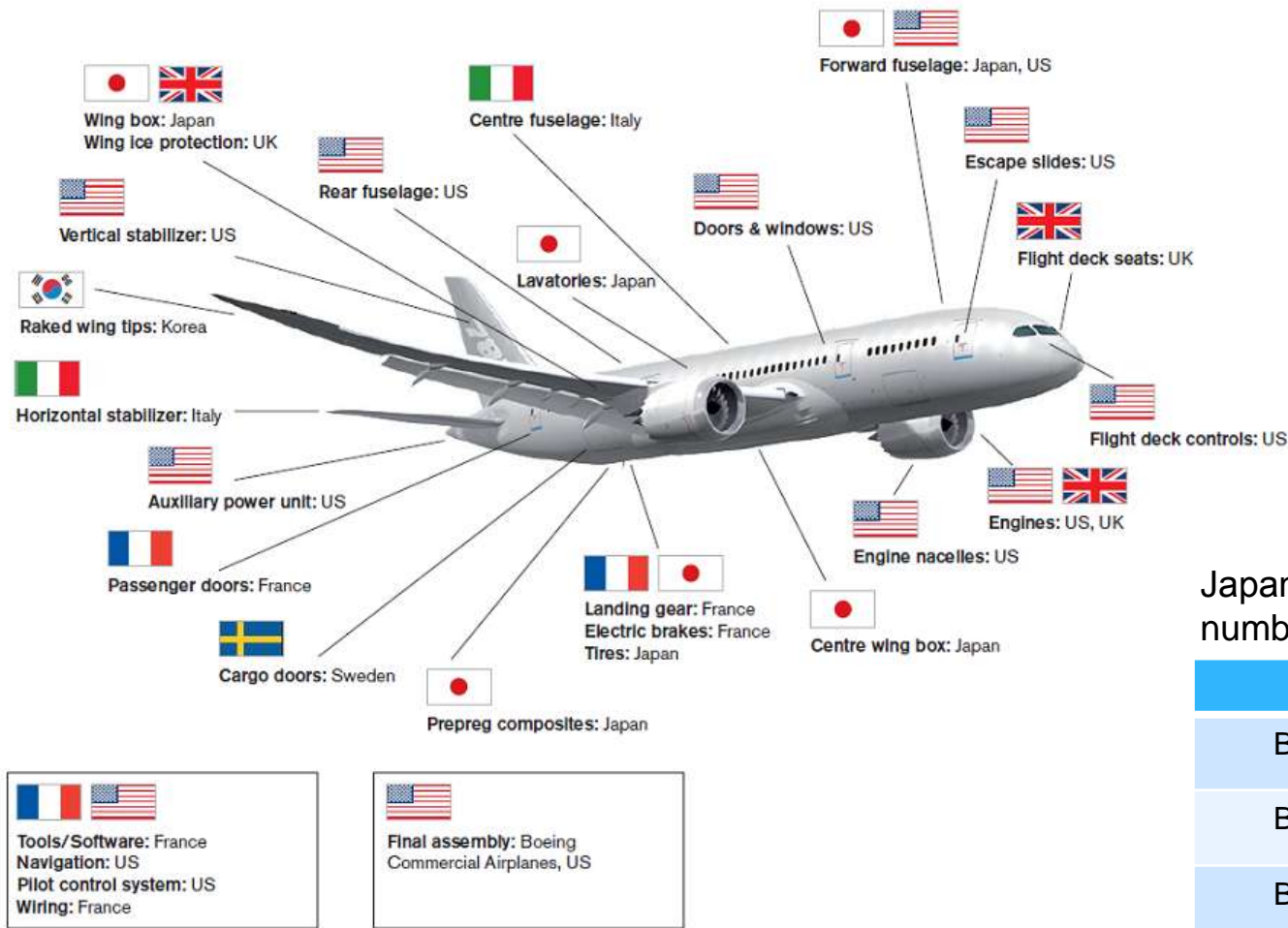
Balance of Payment : Trade in goods turned into red, but income surplus remains high



(P) shows preliminary figures.

Produced Globally : Who makes a jet fly ?

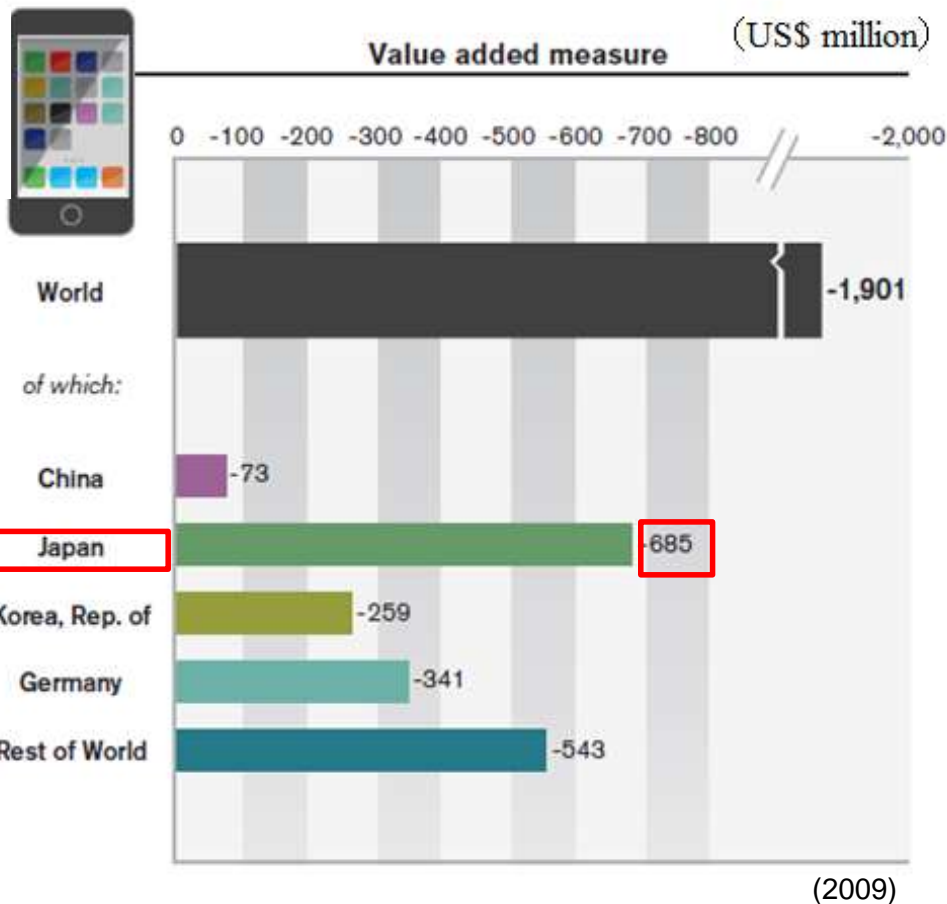
Ex) Boeing 787 dream liner



Japan's ratio of components' number in air plane

Model	Ratio
Boeing 767	15%
Boeing 777	21%
Boeing 787	35%

iPhone 3G : Made in China ? Not quite



Ratio of Materials in iPhone 3G

Country	Cost (USD)	Share
Japan	60.6	33.9%
Germany	30.15	16.8%
Korea	22.96	12.8%
United States	10.75	6.0%
Others	48	26.8%
Total Bill of Materials	172.46	96.4%
China (Manufacturing costs)	6.5	3.6%
Grand Total	178.96	100%

Source : Meng and Miroudot (2011)

The Global Competitiveness Index 2012-2013 rankings

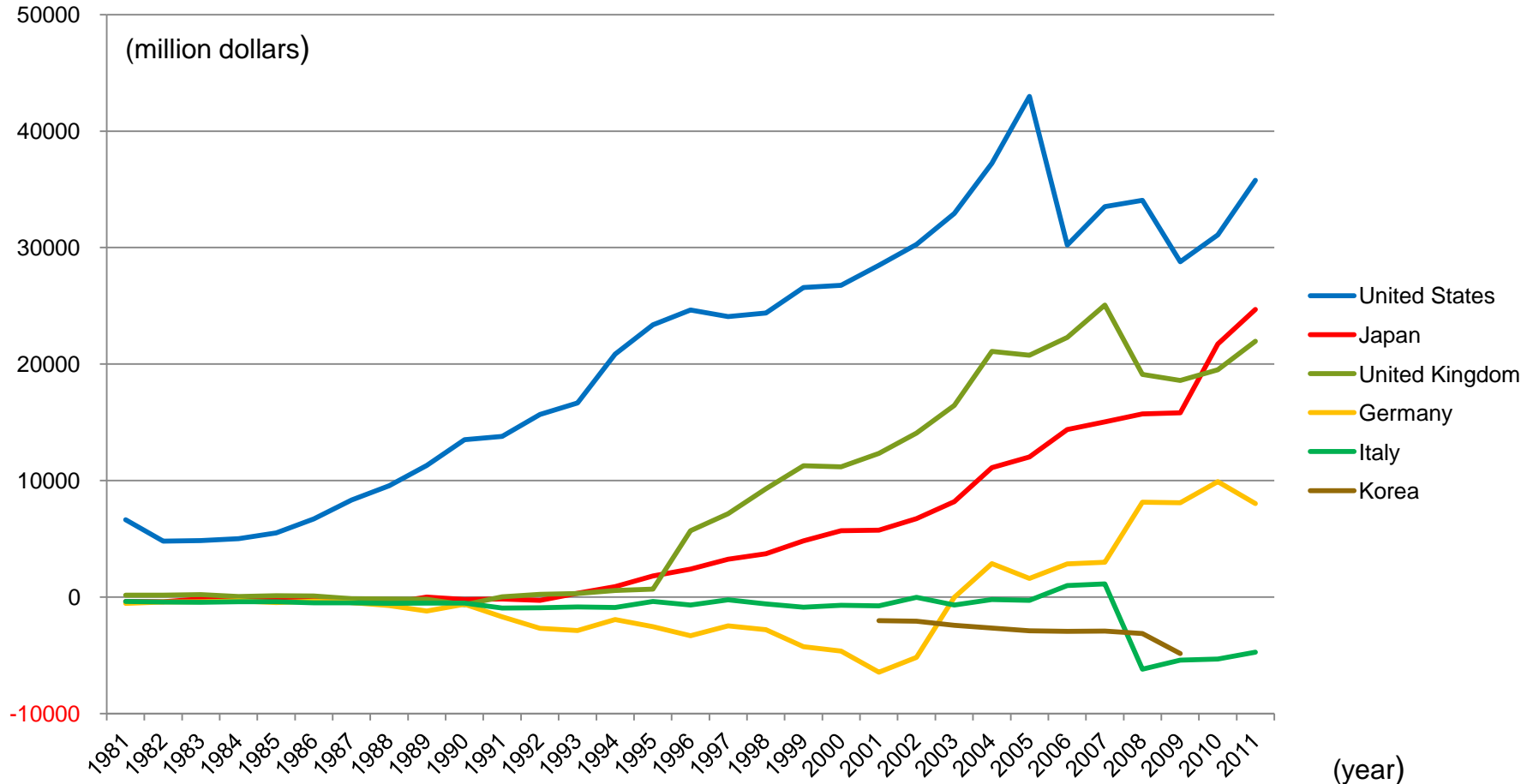
GCI 2012-2013		
Country/Economy	Rank	Score
Switzerland	1	5.72
Singapore	2	5.67
Finland	3	5.55
Sweden	4	5.53
Netherlands	5	5.50
Germany	6	5.48
United States	7	5.47
United Kingdom	8	5.45
Hong Kong SAR	9	5.41
Japan	10	5.40
Qatar	11	5.38
Denmark	12	5.29
Taiwan, China	13	5.28
Canada	14	5.27
Norway	15	5.27
Austria	16	5.22
Belgium	17	5.21
Saudi Arabia	18	5.19
Korea, Rep.	19	5.12
Australia	20	5.12
}}		
India	59	4.32

Where Japan does or does not excel

Category	INDICATOR	RANK
Infrastructure	Quality of railroad infrastructure	2
Macroeconomic environment	Government budget balance, % GDP	143
	General government debt, % GDP	144
Health and primary education	Malaria cases/ 100,000 pop	1
	Life expectancy, years	1
Goods market efficiency	Imports as a percentage of GDP	143
	Degree of customer orientation	1
Labor market efficiency	Cooperation in labor-employer relations	7
	Hiring and firing practices	134
Technological readiness	Firm-level technology absorption	4
	Mobile broadband subscriptions/ 100 pop	3
Market size	Domestic market size index, 1-7 (best)	4
Business sophistication	Local supplier quantity	1
	Local supplier quality	3
Innovation	Control of international distribution	1
	Production process sophistication	1
	Capacity for innovation	1
	Company spending on R&D	2

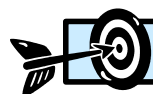
Technology Balance of Payments : Japan is No.2 behind U.S.

The technology balance of payments (TBP) registers the commercial transactions related to international technology and know-how transfers. It consists of money paid or received for the use of patents, licenses, know-how, trademarks, patterns, designs, technical services and for industrial research and development (R&D) carried out abroad, etc.



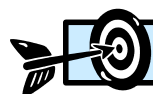
Source : OECD Database

“Abenomics” – three-arrowed economic booster plan



Aggressive Monetary Policy

- ✓ Bank of Japan has adopted 2% inflation target
- ✓ New Governor and Vice Governors of BOJ to be appointed



Flexible Fiscal Policy

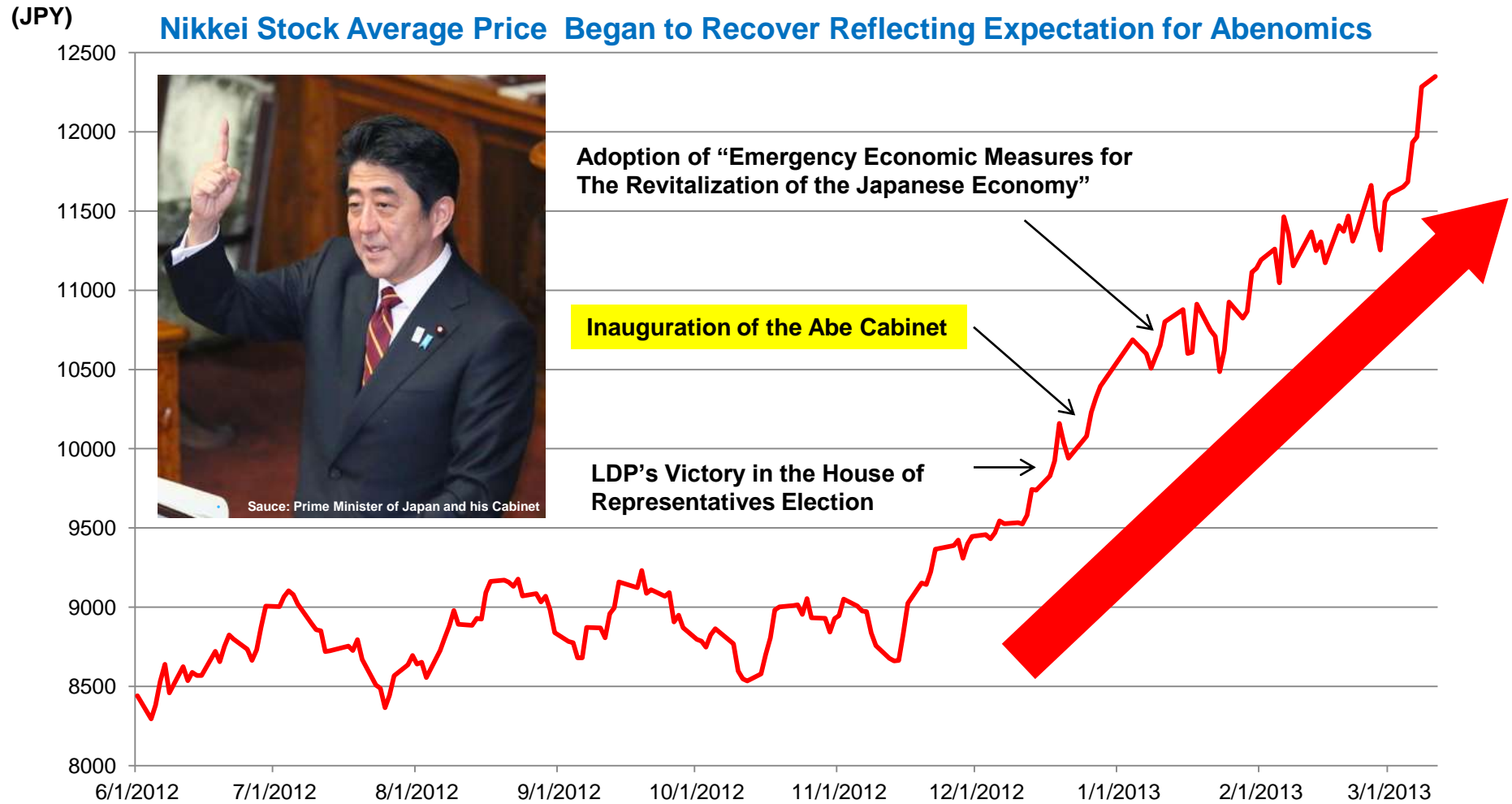
- ✓ Supplementary budget to boost the economy and create jobs
- ✓ Priority on reconstruction after tsunami and disaster resilience
- ✓ Medium-term plan to halve the primary budget deficit by FY2015



Growth Strategy for Promoting Investment

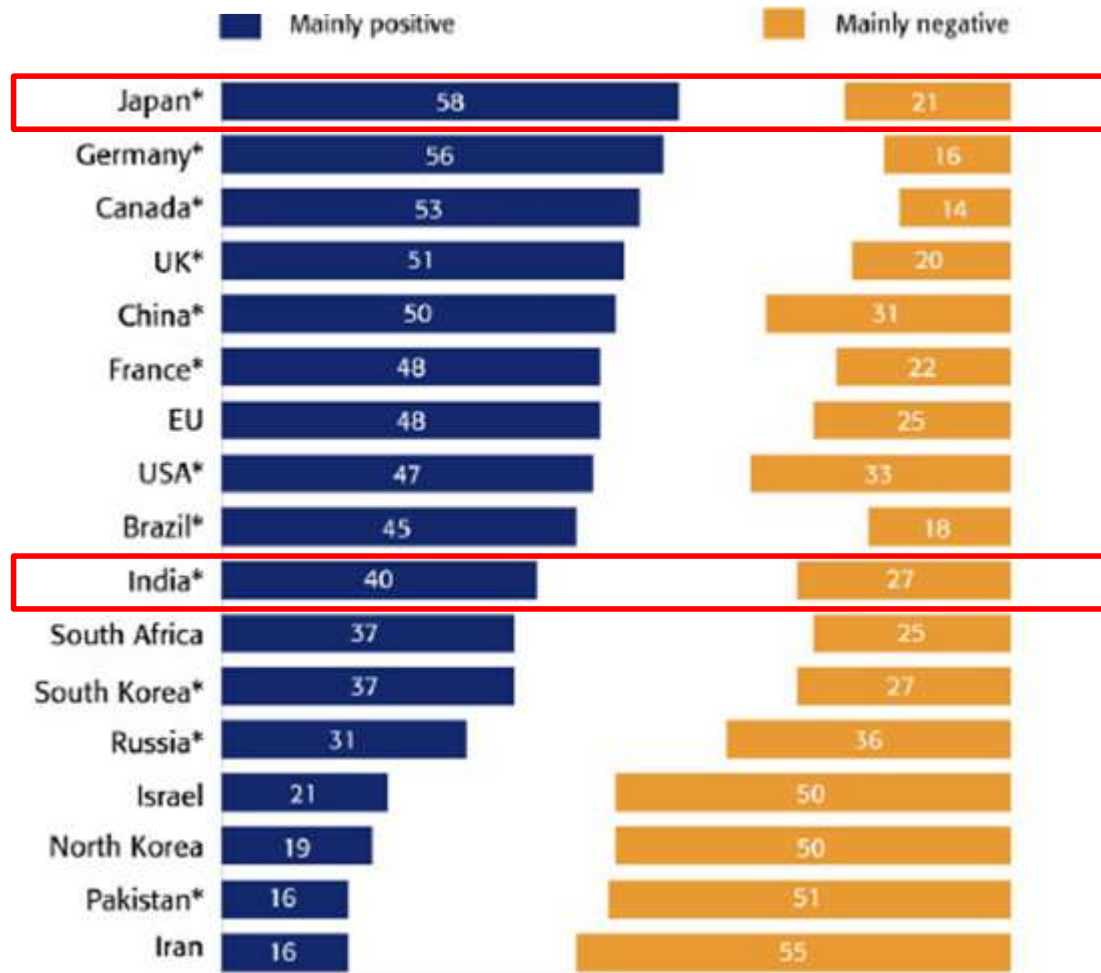
- ✓ Tax incentives, deregulation and other policy measures to stimulate private investment and to spur innovation
- ✓ Assisting Japanese companies operation overseas
- ✓ New growth strategy to be formulated mid-2013

Japan is baaaaaaack !!



Source : Bloomberg

Survey of 22 tracking countries, 2011-2012 : Japan's influence is viewed to be most positive

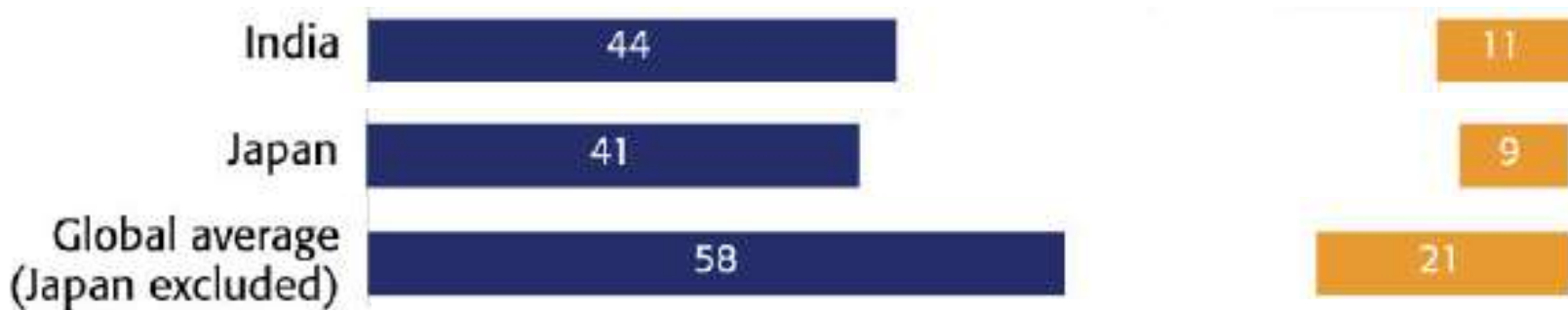


Survey of 22 tracking countries, 2011-2012 : But not necessary by the Japanese

Views of Japan's Influence

Mainly positive

Mainly negative



Views of India's Influence

