

# UPSC Preparation

## Abenomics

Abenomics is a blend of words, “Abe” and “Economics”. It refers to the economic policies advocated by Shinzō Abe, the former Japanese Prime Minister.

In early 2013, after two decades of economic stagnation, Prime Minister Shinzo Abe unveiled a comprehensive economic policy package to sustainably revive the Japanese economy while maintaining fiscal discipline. This program became known as **Abenomics**.

### What is Abenomics?

It is a combination of monetary policy, fiscal policy and economic growth strategies to encourage private investment. As per experts, Abenomics is based on the “three arrows” of

- Aggressive Monetary Policy
- Flexible Fiscal Policy
- Growth Strategy including structural reform.

Specific policies such as inflation targeting at a 2% annual rate, correction of the excessive yen appreciation, setting negative interest rates, radical quantitative easing, expansion of public investment, buying operations of construction bonds by Bank of Japan (BOJ), and revision of the Bank of Japan Act are adopted as a part of this policy. Abenomics aimed at ending the deflation which continued for more than 15 years since 1997, focusing on massive monetary stimulus to build up self-sustaining expectations of moderate inflation.

### Overview of Abenomics

- While Abenomics started as a stimulus measure based on three arrows, over the years it has evolved into a broader blueprint for pro-growth socioeconomic change that aims to lead Japan in tackling today’s challenges head-on.
- The changes are designed to benefit all parts of Japan’s economy— the people, companies, investors, and the country as a whole.

- "Abenomics" is a conventional policy mix: it aims to end deflation and arrest the decline in Japan's real growth potential.
- Abenomics focusses on two things:
  - A pledge to use macro policy levers to end deflation and
  - A pledge to implement supply-side reforms to raise Japan's real potential growth (or more accurately offset some preprogrammed drag on potential growth emanating from Japan's adverse demographics).

## Why was Abenomics vital to the Japanese Economy?

The Japanese government raised consumption tax rates from 3% to 5% in 1997, which had worsened the ongoing recession, deflated the economy. The government raised the consumption tax in 1997 for the purpose of balancing its budget, and then the government revenue decreased by 4.5 trillion yen because consumption declined. The country recorded a GDP growth rate of 3 per cent in 1996, but after the tax hike, the economy sank into recession. The nominal GDP growth rate was below zero for most of the 5 years after the tax hike.

Japan's averaged annual wages grew during 1992-1997, but the wages started to decrease after the consumption tax hike came into effect in 1997. After 1997, the wages decreased faster than the nominal GDP.

Thus, a new policy that was more specific in nature was needed.

## How significant was Abenomics for the Economy of Japan?

This growth strategy is a hyper easy monetary policy and is significant to Japan as:

1. The policy intends to make Japan less reliant on the United States of America for its defence needs, in addition to providing a strong counterweight to China in the Asia-Pacific region.
2. It strategizes to encourage private investment.
3. The Japanese economy is in stagnation. The inflation remains at around zero per cent which reflects unattractive aggregate demand. Abenomics aims at bringing about significant changes in a positive direction.

4. Fall in the unemployment rate, weakening of Japanese currency (intended outcome), increased volume of exports etc in order to rectify the prolonged recession faced by Japan are some outcomes of the implementation of the policy.
5. The International Monetary Fund (IMF) has characterized the program as "a unique opportunity to end decades-long deflation and sluggish growth and reverse the rise of public debt," but argued that "all three arrows need to be launched for the policies to succeed. However, uncertainty about the ambition of fiscal and structural reforms is adding to underlying risks.

However, since Abe stepped down as PM of Japan, citing health reasons, the overall success or impact of "Abenomics" is still being debated.

## Goals of Abenomics

The greatest structural issue facing the Japanese economy is the ageing of society and the shrinking of the population. However, Japan sees this challenge as an opportunity. Demographic change is a social challenge that will soon be shared by most developed countries. However, Japan is committed to achieving sustainable growth and becoming a pioneer in the establishment of a new social model. Therefore, it is called Society 5.0, Japan's vision for the next step in human evolution.

**Goal 1: Achieving Sustainable Growth** - Implementing comprehensive reform to accelerate an economic virtuous cycle, which will help grow GDP to 600 trillion yen. **Japan aims to reach 600 trillion yen GDP.**

**Goal 2: Realizing Society 5.0** - Society 5.0 is a national vision aimed at realizing a data-driven, human-centric society for our future generations. It is a vision in which economic development, digitalization, and solutions for social issues are aligned.

## Solutions in Progress

In a way to achieve the goals, five broad solutions are envisaged as part of Abenomics. These include:

### 1. Innovation in Societal Structures

- To promote a society that is smarter and which innovates to raise productivity, problem-solving across issues such as a decline in population.

### 2. Diversity & Empowerment of People

- The goal is to form a society that welcomes diverse ways of working and empowers all equally, including seniors, women, and expatriate professionals.
- 3. **Smart Regulations & Laws**
  - As markets evolve to reflect changing social needs, it is needed to move quickly, and with an open mind, to help create new businesses and new demand.
- 4. **Attractive International Opportunities**
  - Core issues, like growing sustainably, are faced by all nations. Therefore, Japan believes in innovating together, opening our markets and offering our best products and services abroad.
- 5. **More Competitive Business**
  - Unlocking economic opportunities means opening up all of our potentials, from strength in local regions and the SME sector, to creating an ever more friendly business environment.

## Transformation of Japan

Japan is quickly transforming to become the most business-friendly nation in the world. Japan welcomes investment and is clearly regarded as "The Land of Rising Opportunities". The transformation of Japan can be seen through due to the following three reasons:

1. **Evolving Innovation** - Backed by regulatory reforms, R&D activities are accelerating innovation, and creating new business opportunities, e.g., in digital and medical/healthcare industries.
2. **Market Potential** - Abenomics has helped Japan to become the world's third-largest economy and the country keeps booming by increasing productivity and embracing highly skilled, diverse human resources.
3. **Quality Business Environment** - Sophisticated transportation network, expanding FTAs and growth-oriented policy measures are creating a favourable environment for global business.

## Frequently Asked Questions Related to Abenomics

What are the three arrows of Abenomics?

Abenomics has "three arrows": (i) aggressive monetary policy, (ii) fiscal consolidation, and (iii) growth strategy. The Japanese economy faces an ageing population and expanding social welfare expenses.

What is the main goal of Abenomics?

The main aim of Abenomics was to increase demand and achieve inflation. The rise in the price level signifies that the currency in a given economy loses purchasing power (i.e., less can be bought with the same amount of money).

