A REVIEW OF ABENOMICS AND THE JAPANESE ECONOMY IN 2014

Yoshihisa GODO & Sarah Y. TONG

EAI Background Brief No. 990

Date of Publication: 7 January 2015

Executive Summary

1. In 2014, Japanese Prime Minister Abe Shinzo had to tackle the challenges of presenting concrete measures for his New Growth Strategy (NGS) and to decide on the implementation of the second consumption tax (CT) hike.

2. Various announcements were made under the NGS, which may be grouped into three areas. The first involved the introduction of new incentives to modify employment practices of Japanese companies.

3. These include efforts to relax regulations on overtime work and deregulate employment of dispatch workers, or temporary workers from employment agencies. Prime Minster Abe also introduced measures that persuade companies to provide more job opportunities for female workers.

4. The second was the designation of medical and agricultural sectors as strategic industries. Such a decision seems to be largely a political rather than economic calculation, as both industries have serious problems and limited strategic significance for the Japanese economy.

5. The third involved measures, such as the weakening of the yen, relaxation of money supply, adoption of a positive attitude towards the Trans-Pacific Partnership and reforming of corporate taxes, to raise the Nikkei Stock Average.

6. These measures seem inadequate to place the Japanese economy on the path to sustainable growth. The attempts to modify employment behaviours of Japanese companies largely failed. The two strategic industries, namely, medical and agricultural, were unable to generate substantial improvements to the economy and the measures to raise the Nikki Stock Average resulted in only short-term gains.

7. While the economic outcome for the first quarter of 2014 was robust, subsequent growth figures were much less assuring. On 19 November 2014, unexpectedly

poor economic performance made Abe forgo the initial plan of a second CT hike in 2015.

8. Two days thereafter, on 21 November, Abe dissolved the House of Representatives and called for a snap general election in December 2014, in which he emerged victorious.

9. However, the support shown for Abe and the Liberal Democratic Party in the snap election does not necessarily translate to sustainable economic growth. On the contrary, the risks of national bankruptcy and excessive liquidity are seemingly increasing.