

Chapter 2

Abenomics and Active Pacifism: How Abe's Age Influenced the International Business

Vittorio D'Aleo

Università degli Studi di Messina, Italy

Giacomo Morabito

Università degli Studi di Messina, Italy

Walter Vesperi

Università degli Studi di Messina, Italy

Roberto Musotto

Università degli Studi di Messina, Italy

Davide Di Fatta

Università degli Studi di Messina, Italy

Salvatore Lo Bue

Università degli Studi di Messina, Italy

ABSTRACT

Against deflation and stagnant growth in 2013 Abe and his ministers launched a mix of fiscal and monetary policy and structural reforms but these do not appear of successful for the principal economic indicators. Japan recorded a negative GDP trend rate range from 1.6% by 2013 to -0.1 in 2014. Some of the major competitiveness indices of the World Bank showed a negative trend. Nevertheless, the abenomics represents an important development not only for Japan and East Asia but an example of different way for the entire world. The adoption of a Keynesian approach represents a breaking political, intellectual and economic with the opinions that have dominated public discourse in recent years, especially in Europe. Japan is performing rearmament; this could mean that Japan would employ a new international role. The aim of this study is focus on the economic and geopolitical impact that could have the new Abe's "active pacifism". Objective of this analysis is examine the economic prescription by Abe and his possible long-term impacts on the international economy.

INTRODUCTION

With a population of 127 million and measured on a Purchasing Power Parity (PPP) which adjusts for price differences, Japan in 2015 stood as the fourth-largest economy in the world after China (which surpassed Japan in 2001) and India which eclipsed Japan in 2012 (CIA Factbook, 2016). The Japanese economy remains one of the most solid and developed in the world. The Shinzo Abe government has

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promoted a growth policy aimed at bringing the country out of a long period of economic stagnation. Although there are still different tariff and non-tariff barriers-to-entry that make Japan an atypical protectionist country, the local legal system does not provide restrictive or discriminatory law against foreign entrepreneurs except for a few sectors (e.g., agriculture, leather, and mining sectors strategic for national security). A very high number of non-written laws governing trade relationship ensures the high solvency of loans, offering prospects for long-term growth. The gradual relocation of activities to trans-border promotes policies that are intended to boost Foreign Direct Investment (FDI), allowing domestic growth for the Tohoku reconstruction. The “Special Reconstruction Areas” provide tax breaks and streamline bureaucracy for companies which can count on the rest of the national territory on an excellent infrastructure network and efficient services and highly qualified local staff.

Abenomics

The election of Shinzo Abe of the Liberal Democratic Party (LDP) led to a revolution in the economic policy field. The main innovation is the so-called “Abenomics”. For the first time it deployed a macroeconomic approach and this represents a reversal from previous economic policies (Bojkova, 2015). The democratic governments of Kan and Noda contained public debt and promoted fiscal conservatism during a time when Japan’s debt was nearly 250% of Gross Domestic Product (GDP) and the population was in steep decline. Therefore, the democrats prioritized debt reduction. However, Abenomics is not just a simple alternative to the conservatism of Noda and the Democratic Party (DPJ). The implementation of expansionary policies by the government and the Bank of Japan (BOJ) helped to solve the structural problems of the country: deflation and low growth rate. Abe’s recipe consisted of three main points:

1. An expansionary fiscal policy aimed at stimulating growth through an increased public spending;
2. A long-term policy of quantitative easing and structural reforms with an increase in private sector investment; and
3. More competition and a rise in the rate of the working population (Yoshino & Taghizadeh Hesary, 2014; Hausman & Wieland, 2014).

The first step made by Japan’s Prime Minister was a stimulus package of about ¥10.3 trillion (€90 billion), equal to 2% of GDP. The government provided support primarily for the rebuilding of Fukushima Prefecture and damaged areas by the earthquake and tsunami in March, 2011. Moreover, a part of the fiscal stimulus was spent to promote research, technological development, and private investment. Another objective of Abe’s fiscal policy was the expansion of welfare for families. He favored female participation in the labor market which is relatively scarce compared to other developed countries. Eventually he promoted the development of new infrastructure (Kortelainen, Paloviita, & Viren, 2016).

The fiscal expansion offset an increase in consumption tax (value-added tax or VAT) by 5% to 10% in 2015. Abe’s critics remembered how the deflation period begun in 1997 when Hashimoto’s government raised the VAT from 3% to 5%. The Abe fiscal stimulus was “settled” in line with the Keynesian tradition for an expansionary monetary policy. The government attempted to coordinate two macroeconomic levers that hit the country in recent years: growth economy and deflation (or negative inflation). Monetary expansion of US\$1.4 billion included an access into the system of additional liquidity with the objective of achieving 2% inflation (Aoki, 2013).

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