

“Abenomics”

...and Opportunities for Sustainable Growth

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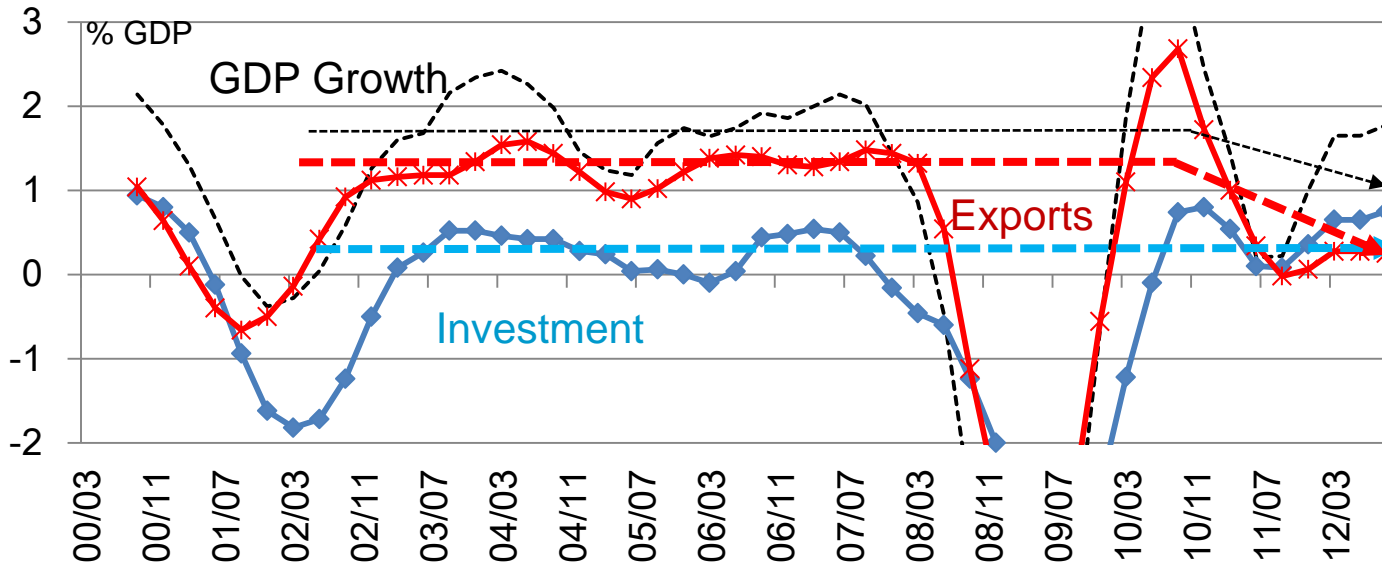
- **Deregulation & Globalization on the Backburner**
 - “We all know what to do, we just don't know how to get re-elected after we've done it.”
(Jean-Claude Juncker)

- **Abenomics: Monetary & Fiscal Policy first, Deregulation later**
 - Traditional instruments: exchange rate & public investment

- **Growth in Ageing Societies: Export, FDI, Services**
 - Overseas investment and profitable services

“Abenomics” – Contributions to Growth

Contribution to GDP Growth



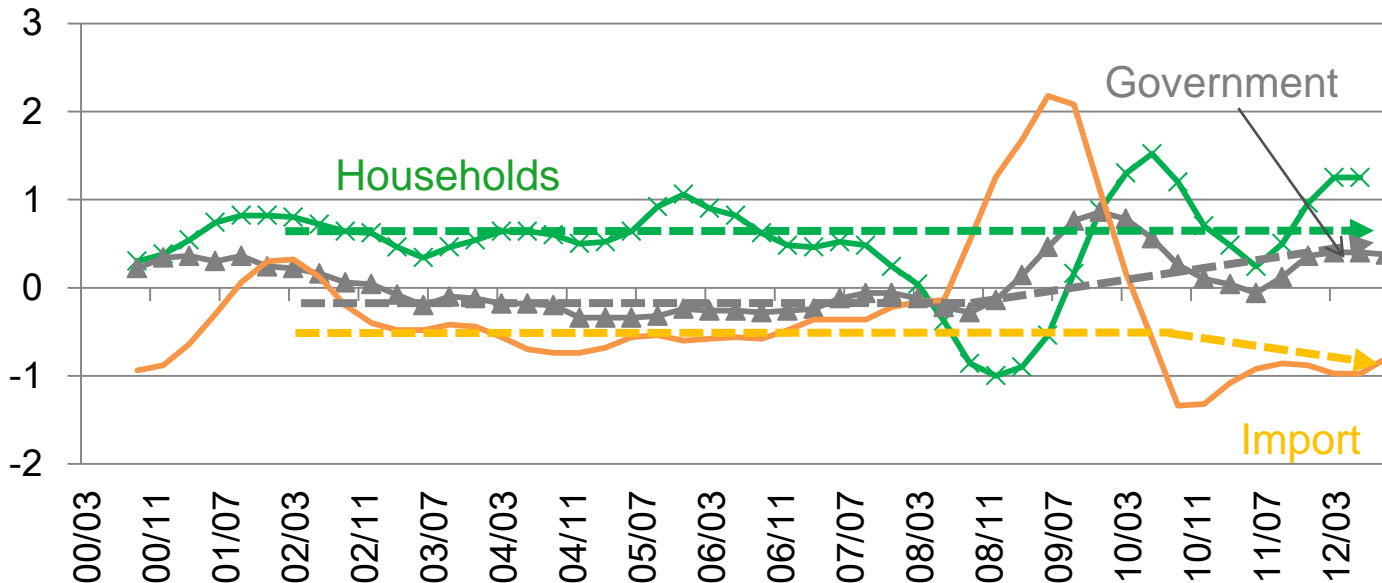
Growth Drivers

Exports

-> Exchange Rate

Investment

-> Structural Reforms



Growth Drivers

Government

-> Infrastructure

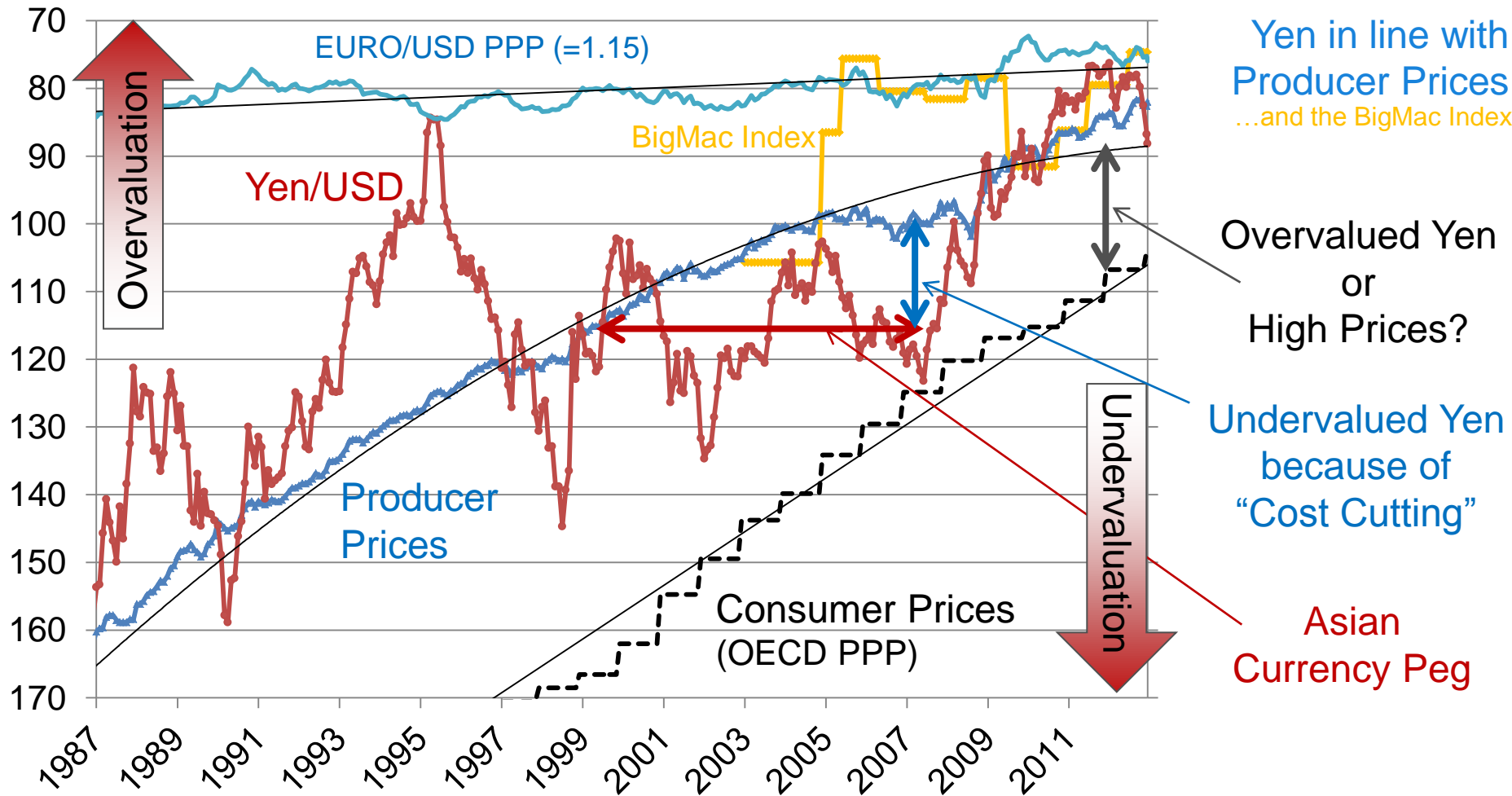
Imports

-> Nuclear Restart

Note: On basis of 2005 market prices.

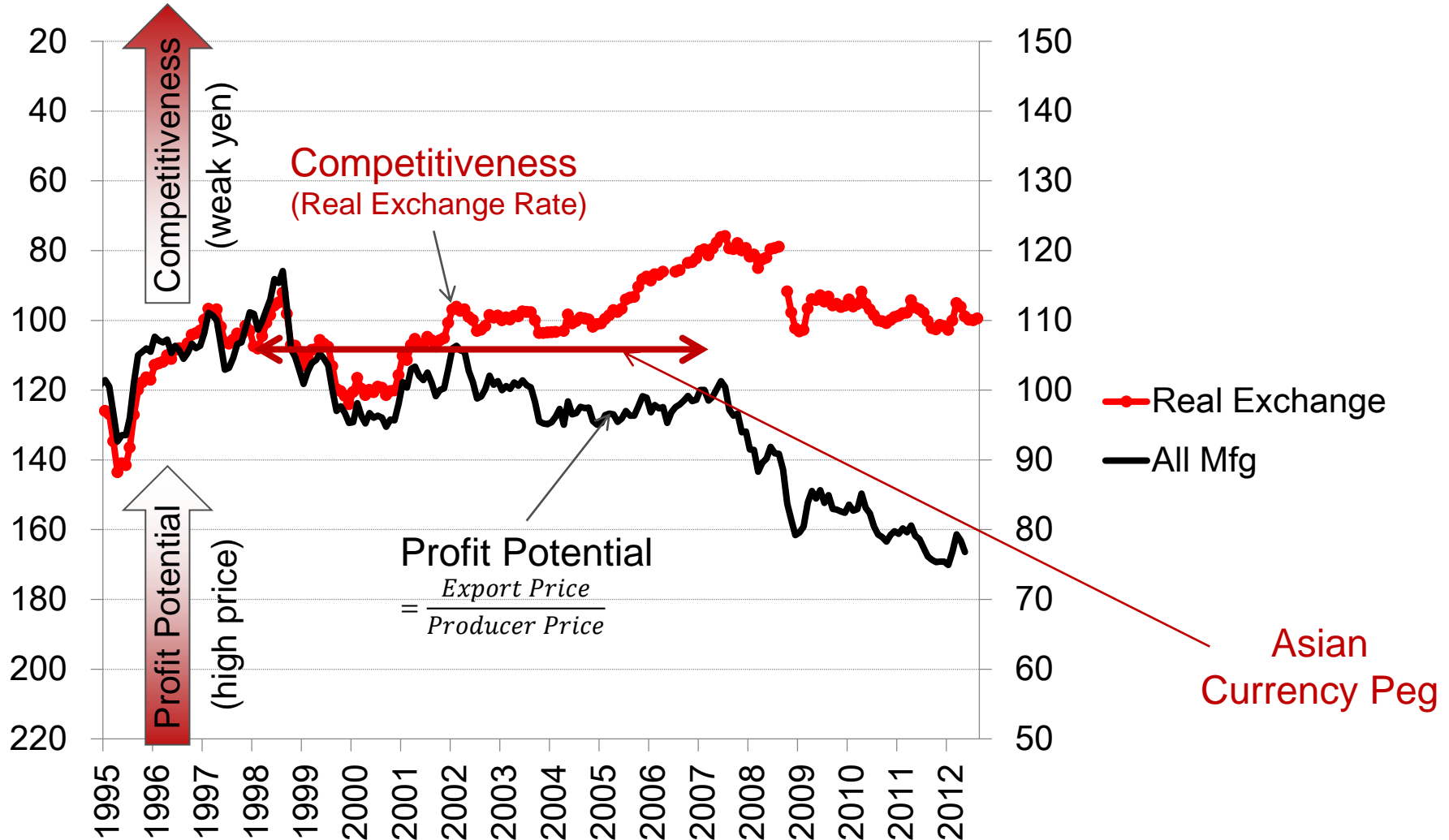
- It's the Economy...
 - About half of Japan's GDP growth comes from export industries
 - Fiscal spending and infrastructure stimulate domestic growth
 - Long-term stagnation on negative demographic trends require disruptive reforms
- Policy: monetary & fiscal instruments
 - “Talking down” the yen, kick-starting the economy
 - Monetary expansion to finance fiscal spending, lowering the yen, end deflation
 - Infrastructure spending to stimulate growth and wages
- Structural Reform: taxes & government, markets later
 - Corporate & investment taxes down, VAT up
 - Public Sector: effective infrastructure investment, energy reform, TPP talks?
 - Private Sector: service & energy & agriculture deregulation, health & finance privatization??

Yen/USD and Real Exchange Rates



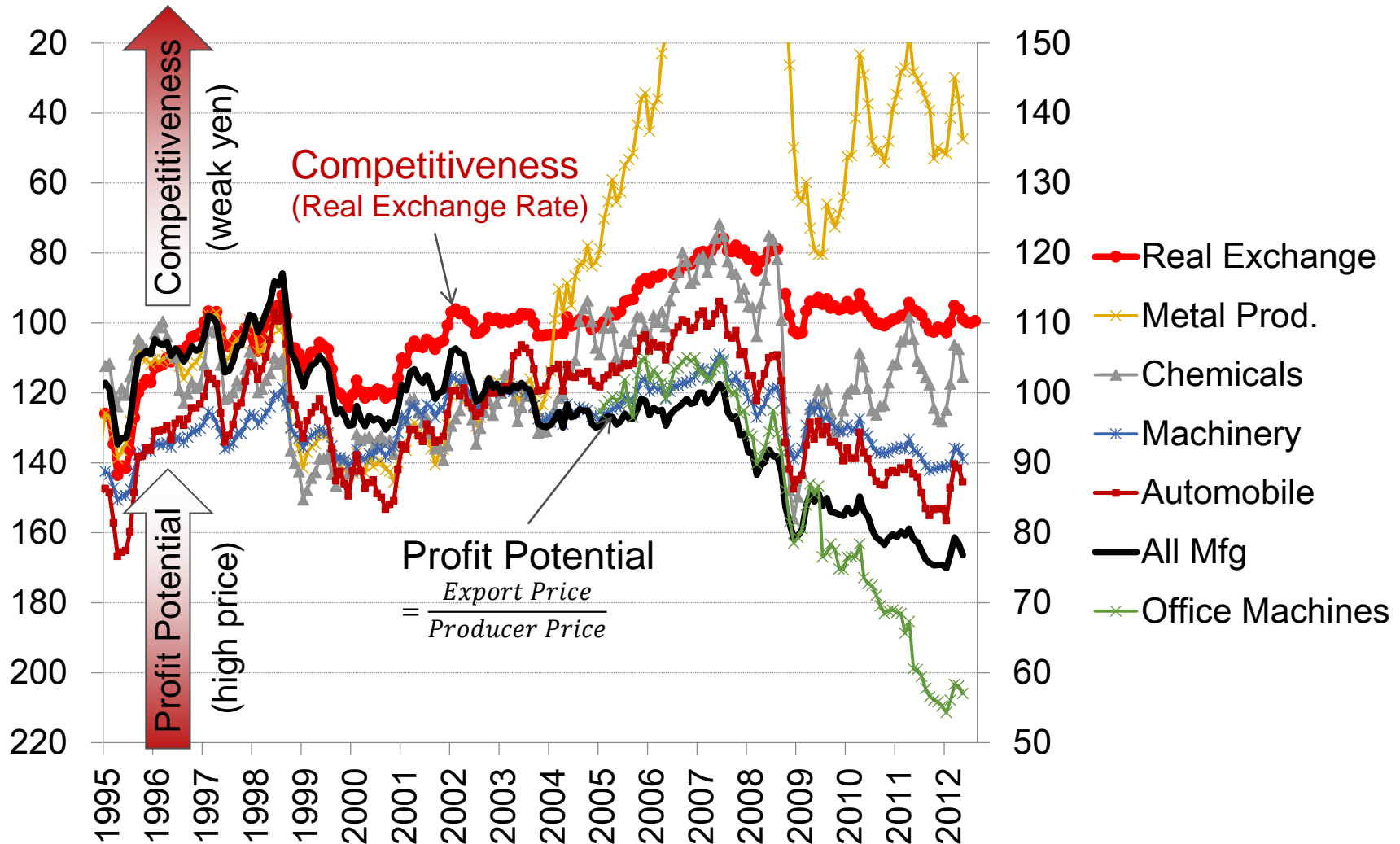
Note: Absolute OECD Purchasing Power Parities (PPP), and relative Producer Price PPP (base period 1982-2008).

Competitiveness and Profit Potential (2003=100)



Note: REER left scale, Profit Potential right scale. Export and Producer Prices rebased from 2005 to 2003=100. Office Machines only from 2005.

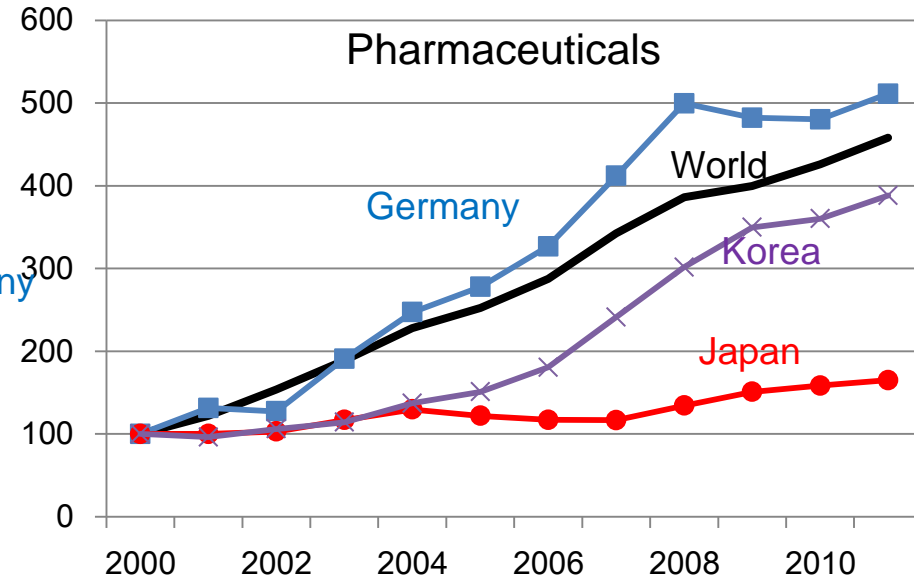
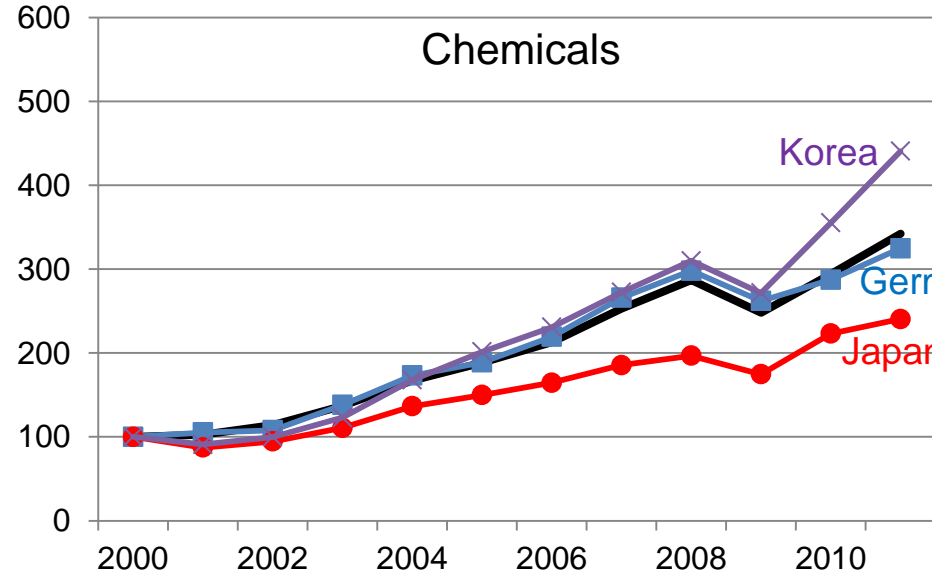
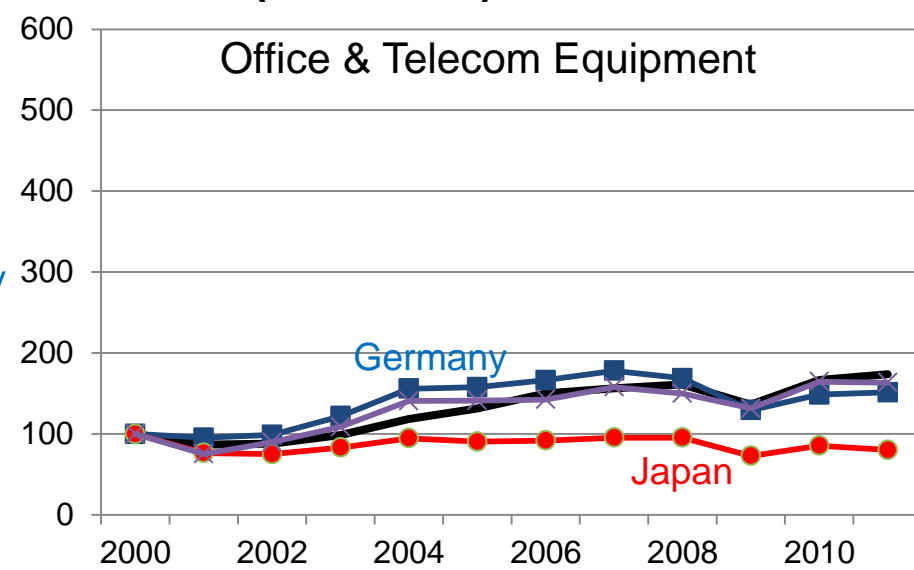
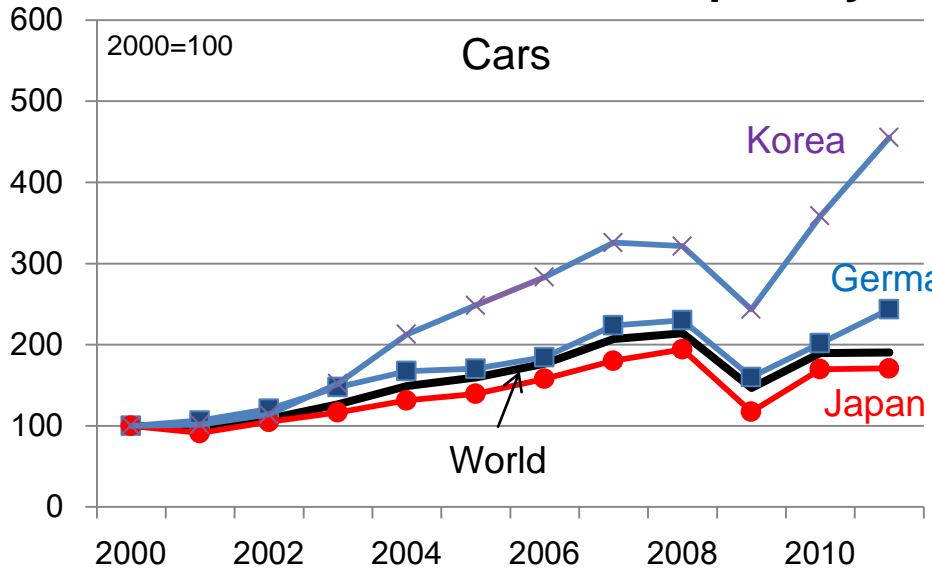
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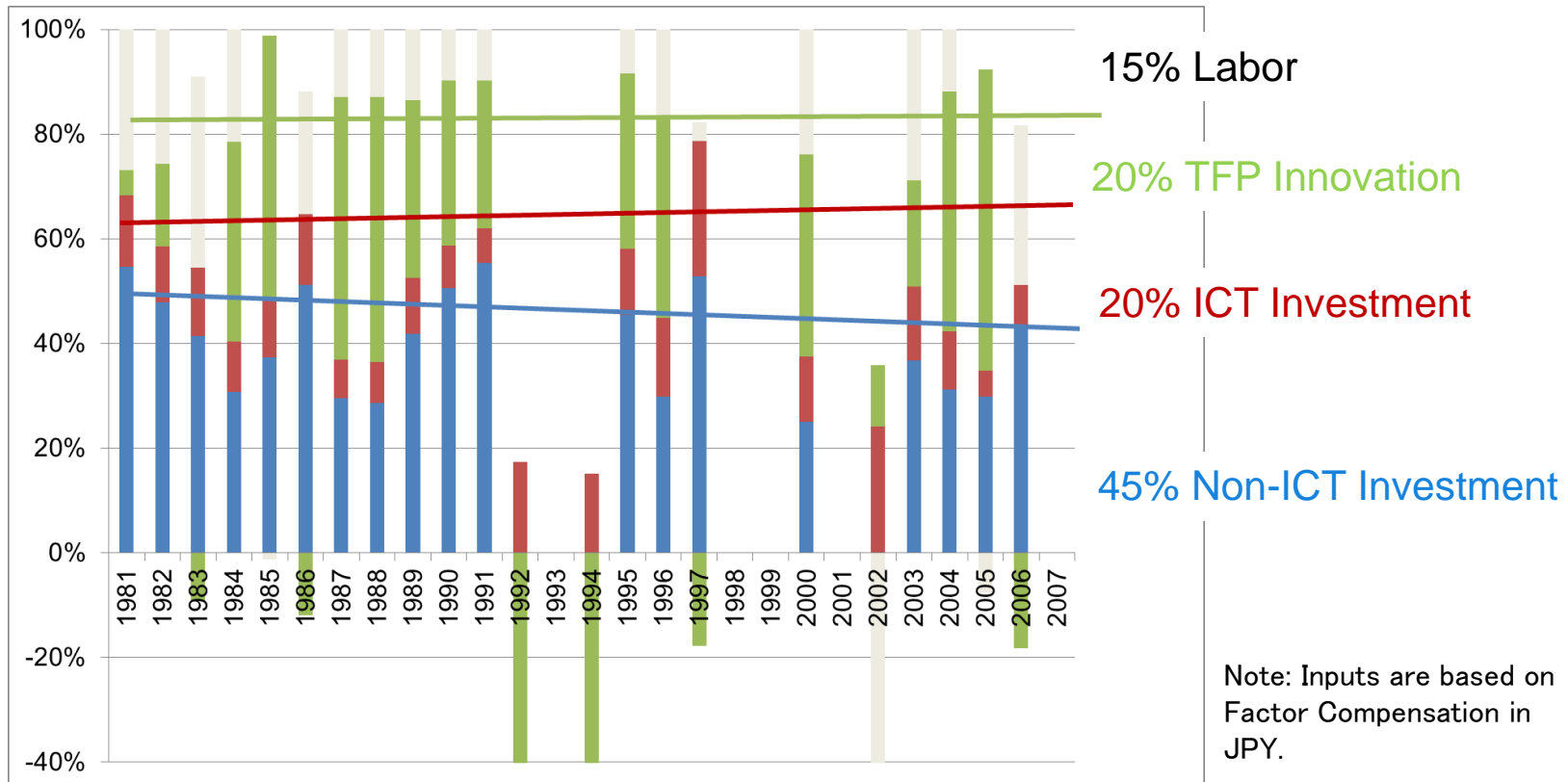
Exporters have been Underperforming for long

Global Export by Main Products (2000=100)



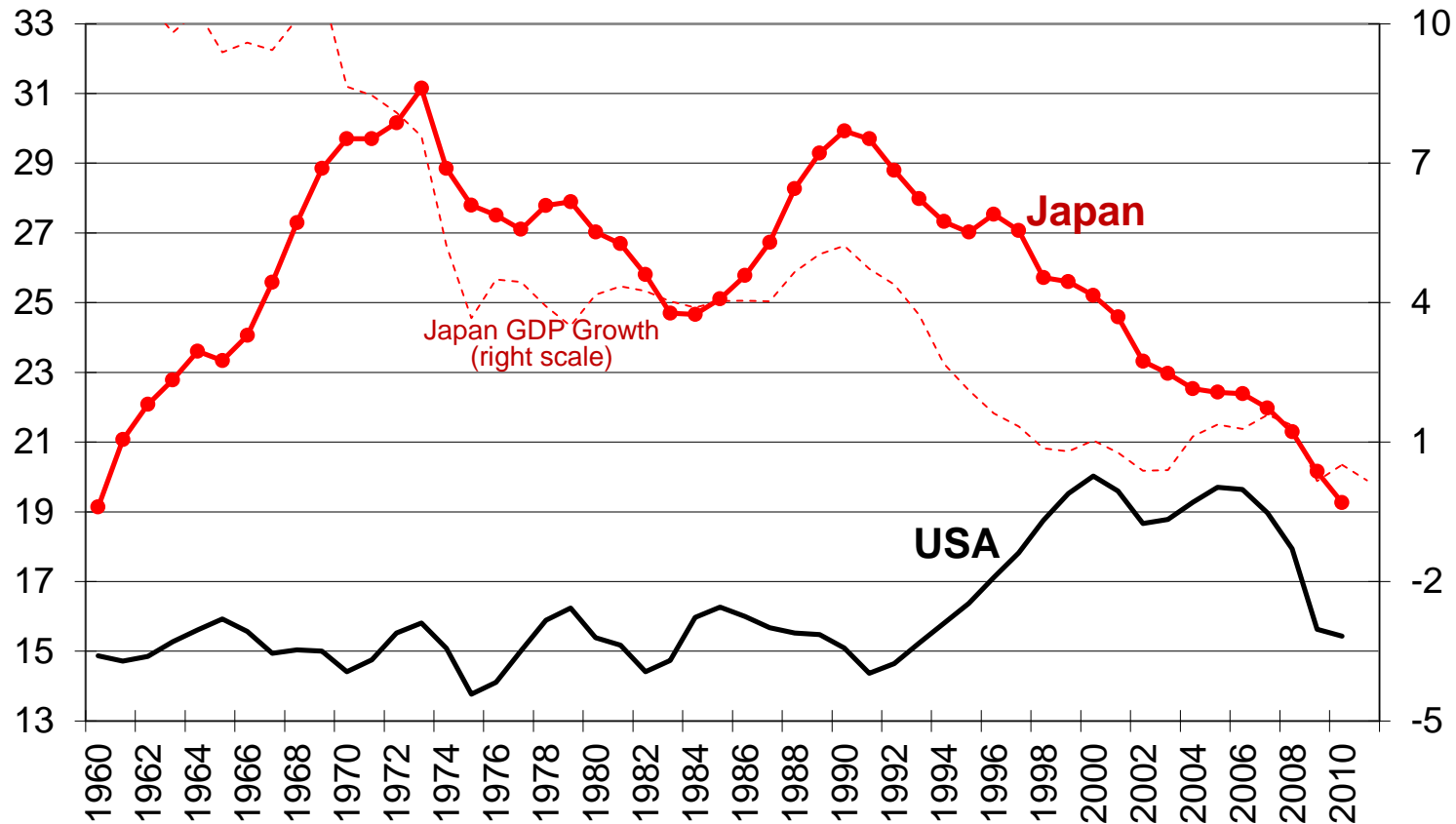
- Why has Japan been Stuck for so long?
 - From “over-investment” to restructuring
 - Ageing and Adjustment
- Why have Companies lost Profit Potential?
 - “Cost cutting” took precedence over new products and markets
 - “Net” (new) investment is key to recovery and growth
- What can be Done?
 - Start with potentials: exports & services

Contribution to VA Growth (Japan 1980-2006)



- Contributions to growth: 65% investment, 15% labor, 20% innovation
- In the US: 50% investment, 40% labor, and 10% innovation
- Investment is key in “ageing” societies

“Over-”Investment: Gross Investment Rates (% GDP)



- High investment rates up to 30% pushed growth until the 1980s
- Deleveraging resulted in depression and deflation

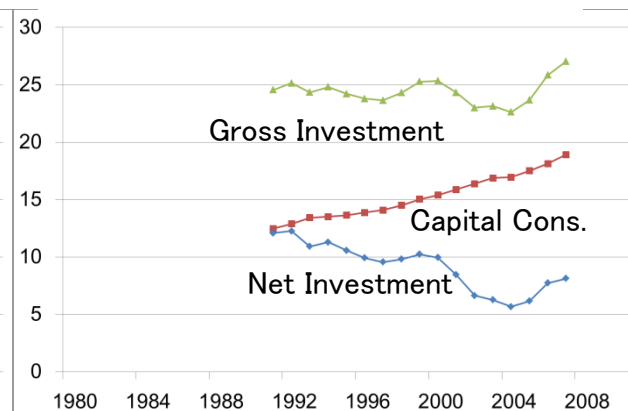
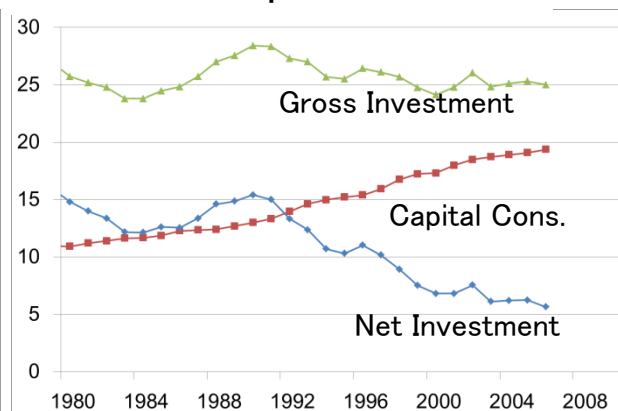
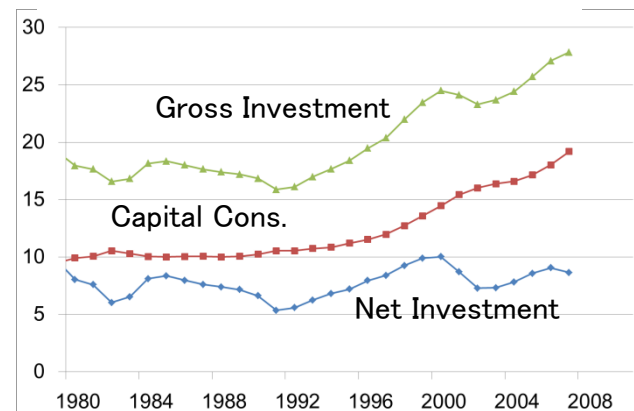
Note: Ratio of Gross Fixed Capital Formation over GDP. In year to 2000 prices. The dotted line is a 6-year moving average of the GDP growth rate.

Real Fixed Investment (%GDP)

USA

Japan

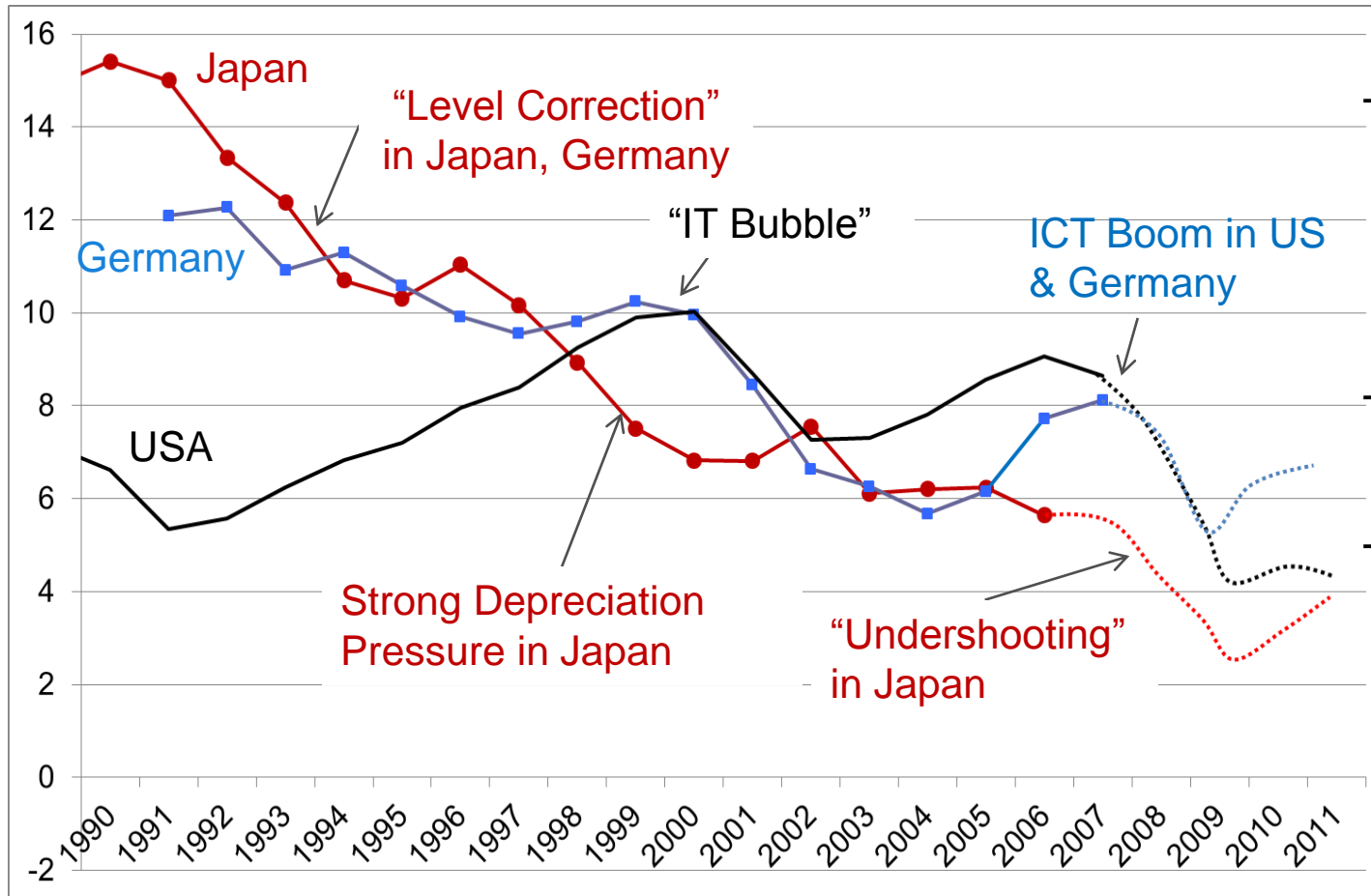
Germany



- During structural change, depreciation can over-shoot lastingly
- Restructuring of capital stock (cost cutting) becomes the engine of growth
- “Maintenance” of an ageing capital stock dominates “future” investment

Note: Investment as Real Gross Fixed Capital Formation (RGFCF). Deflated by 1995 asset prices.

Key to Growth: Real Net-Investment (% GDP)



- Capital investment deceleration from "high growth"

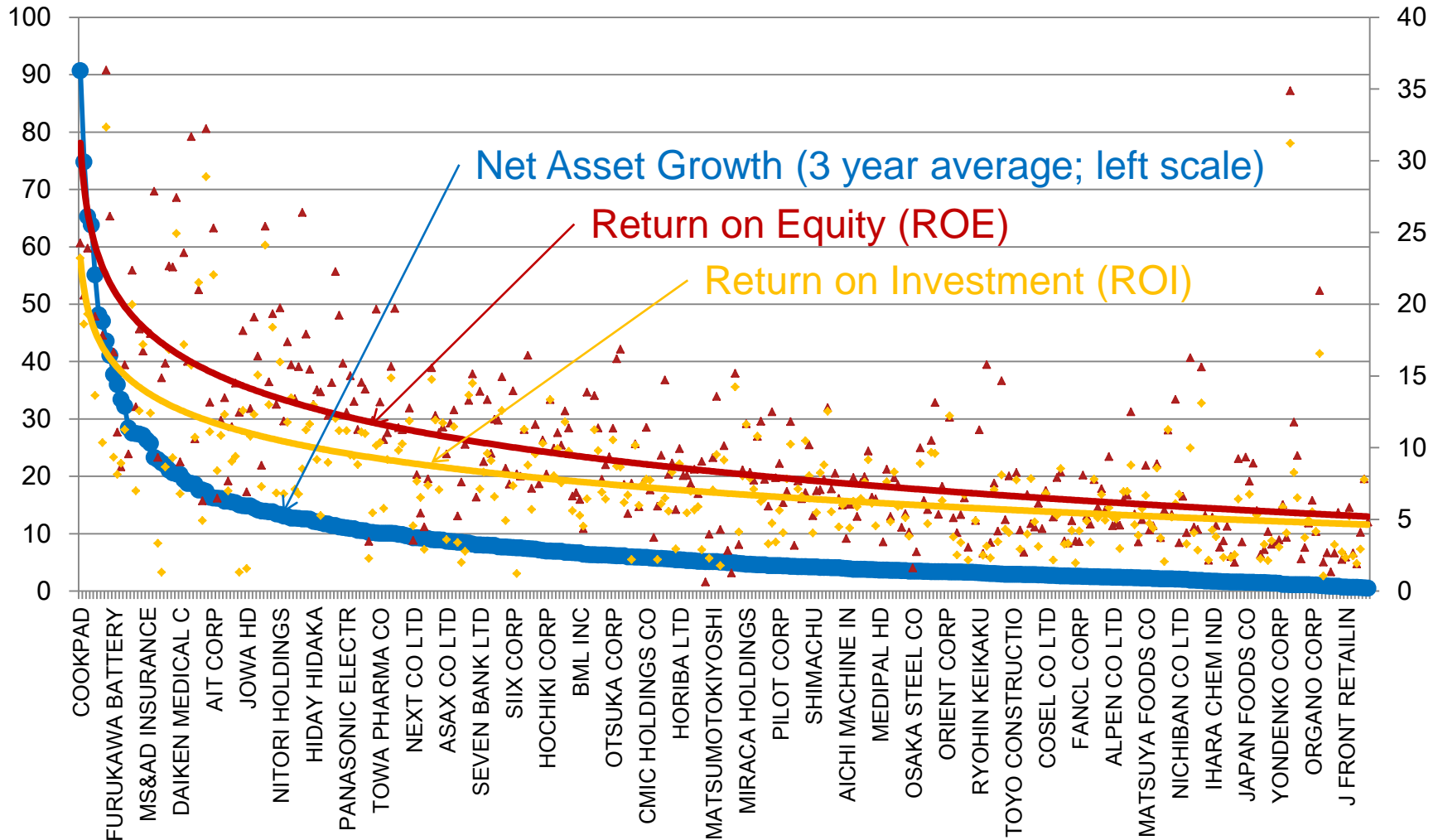
- Bubbles

- "Bottom Out" at 5%?

Note: Investment data are estimates for real net fixed capital formation. Forecasts from 2007 (J: 2006), based on GDP Statistics.


“Net” Investors show the Way: Services & Export Specialties

Topix – Net Asset Growth, ROE and ROI



Note: Topix Top 350, ranked by Net Asset Growth (CAGR) over the last three years. (2012.03.09)

- In ageing Japan, growth comes from exports; but even exporters have lost competitiveness
- Decades of “cost cutting” and restructuring in closed markets have taken their toll
- Ending deflation through “Abenomics” can be a start if higher prices are matched by more opportunity
- Growth requires a revival of “new” investment into overseas markets and dynamic services
- The success of “Abenomics” and the revival of growth will depend on better integrating Japan in the Asian growth process, and deregulating dormant service markets



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