

# Executive increase the overall long-term sustainability of the

[Business](#), [Management](#)



Executive Summary The following report has been prepared as a course work for the subject of Issues in Global Business and Strategic Concepts. The report analyses Japan's current economic status and the reasons behind the woes of the economy. Relevant Domestic and International issues have been discussed briefly but in as much detail as possible. A brief description of the evolution of Japanese economy sets the scene for the analyses, which looks into the post World War II economic situation and the development of the different economic aspects under the light of Globalisation. This follows up with the chapter on the modern economy of Japan, which mainly discusses different aspects of 'Abenomics' - the different fiscal, monetary & regulatory reforms designed and implemented by the incumbent Prime Minister Shinzo Abe of the country. The second chapter of the report brings in the analyses of the possible issue that the Abenomics have been trying to fight since 2012, and the likely problems that resulted even from these new kind of policies. The analysis starts with a macroeconomic overview of Japan, its economy, its foreign policies and relations etc.

through a PESTLE Analysis. The major issues identified through this analysis are outlined in the following chapter. These issues are mainly the ones proposed by the writer for Japan to focus on. The third and final chapter of this report briefly outlines all the major steps that Japan can take to address the issues outlined in the previous chapter of the report. One issue called for multiple steps to resolve.

The proposed steps mainly give the idea of different ways to increase the overall long-term sustainability of the fiscal policies, to stabilise the issue with

toughening wage conditions and to rebalance the employee-vacancy ratio, and to propel the economic growth to a more visible inflationary route.

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8 Reference. i Introduction Japan, a sovereign island nation in East Asia, wakes up every day with the thoughts of being challenged by the nature and being shaken by the mighty earthquakes (42 major quakes between 1945-2017) yet had surprised the world with its economic growth in the 1980s.

Japan became second among the world economies following its robust economic growth which started in late 1960s (Hill, 2016). It was foreseen that

Japan would become the largest economy within 2010. Japan Capital:

Tokyo Population: 126. 4 mil Area: 377, 864 square km Language: Japanese Religions: Shintoism, Buddhism Life Expectancy: Men – 81 yrs.

, Women-87 yrs. Currency: Yen Table 1 Japan Profile (BBC Monitoring,

2017) All of its major leading economic indicators and lagging

economic indicators, like the stock market, manufacturing activities, housing,

retail businesses, GDP, income and unemployment levels, inflation, trade balance etc. changed noticeably throughout the years after the World War II (BBC News Services, 2017).

1. Japan and its Economic Evolution Japan's economy after the World War II faced numerous problems due to the war devastations and its defeat. It was in such a bad shape that was dubbed as 'less-developed country' in 1952 (Jansen, 2000).

Working systematically with its economy, Japan transformed itself to a 'developed' country directly from a 'less-developed' one, and it was the first such country to be able to do so (Buruma, 2003). 1. 1. Japan's Economic Profile Post World War II Among the numerous economic difficulties, few stood out; unemployment, energy and food shortages, and inflation are few such difficulties. The unemployment problem came in the form of underpaid people employed in the massive agricultural projects going on throughout Japan. Although technically these agricultural projects absorbed more than the 13 million people left without jobs after the military was disbanded, this problem of underpaid jobs would persist in Japan long after the WW II. The problem of energy and food shortages ensued as well.

The energy supply of Japan then depended on coal and as such the shortage naturally came after its defeat in WW II. Again the food supply, mainly the rice supply, suffered from shortages too in between 1945 and 1946. On top of all these, inflation came in the form of the large amount of provisions for the military expenses which came in during and after the wars. These

mainly included the payments of the disbanded troops, loss compensations, payments for the troop goods etc. (Takada, 1999). Figure 1 Tax Decreases by Preferential Measures (1950s-70s) (Shinji Yoshioka, 2016) The economy after the war advanced on the broken industrial structure left from the widespread destruction. The journey from a 'less-developed' country to a 'developed' one after the World War II became successful because of some nationwide phenomena, like high percentage of personal savings and noticeable private sector investments as shown in Figure 1, robust work ethic of the workforce, abundant supply of low-cost oil, selective government intervention in the private sector industries, and not to mention the innovative technology.

Figure 1 explains few of these major factors; it demonstrates how savings has been promoted through tax breaks since the mid-60s, while promoting investments in enterprises and industries started from the early 60s (Shinji Yoshioka, 2016). Japan was one of the main beneficiaries of the idea of free trade economy professed in International Monetary Fund; within 1968, the country's economy emerged as the second largest one. It remained in this position throughout the 70s, 80s, 90s, 2000s, until China surpassed it in 2010. Japan's status changed to a donor country in the late 60s and has since been providing aid to different developing countries (Gordon, 2003). 1.

2. Japan in the Global Economy 1. 2. 1. 'Abenomics' & Japan To come to the modern Japan's economy, it has grown out to be a highly export-driven one. However, the economy has suffered the downside of a mostly export-

dependent economy; its GDP fell into a decreasing trend from 1997 and this dragged the economy to a deflation till 2012 as shown in Figure 2.

While Japan fought deflation for about a decade, Shinzo Abe came in the ground as the Prime Minister of Japan in 2012 election and thus began the journey of 'Abenomics' and Japan's long-term recovery path. The special term was given to the collection of monetary, fiscal and economic reform measures Shinzo Abe proposed and implemented subsequent to his assumption of office in late 2012. This was also the year Japan's economy demoted to the third largest one from the second largest status. These reforms implemented certainly spiked up the overall economic condition and these continue to have impact on the continued expansion and growth of Japanese economy (Cabinet Office, Japan Macro Advisors, 2017). Figure 2 Real GDP Growth YoY % (Cabinet Office, Japan Macro Advisors, 2017) Till 2016, about 61% of Japan's GDP was contributed by private consumption, about 21% by government consumption and only about 15% and 17% by exports and imports respectively Table 2. Items in Year on Year (YoY) %

	GDP	Private Consumption	Private Capital Expenditure	Government Consumption	Exports	Imports
2013	2.7	2.4	7.1	5.1	3.6	2.9
2014	-0.4	-1.8	2.5	1.3	6.2	9.2
2015	1.1	0.2	3.3	3.0	3.1	12.6
2016	1.5	0.7	0.1	-0.4	0.7	0.7
2017 / Q3	2.1	0.9	3.8	1.7	0.2	4.8

5 1. 3 6. 2 9. 2 2014 -0. 4 -1. 8 2.

3 0. 3 12. 6 4. 7 2015 1. 1 0. 2 3. 3 2.

1 -0. 4 0. 7 2016 1. 5 0.

6 1. 7 0. 2 4. 8 -1. 6 2017 / Q3 2. 1 0. 9 3. 8 0.

2.6.4.2.4 Table 2 Real GDP of Japan & the Components (YoY%) (Cabinet Office, Japan Macro Advisors, 2017) As the situation in the third quarter of the Financial Year 2017 stood, its economy continued to grow very moderately, where the trend of moderate rise on exports continued, corporate fixed investments kept on increasing (as the profits of corporations are on the rise moderately), and although the public investment increased, the housing investments hardly improved.

However overall, Japan experienced this moderate growth for the seventh quarter at a row (Trade Economics, Cabinet Office – Japan, 2017). 2.

Key Issues for Japan to Prioritise 2. 1.

Japan's PESTLE Analysis Before diving into the national and impactful international issue which Japan needs to prioritise in its national and foreign policies, a macro-analysis is provided through PESTLE Analysis of Japan as a country: Politically Japan is a monarchy with multiparty parliamentary democratic system. Here, the monarch acts as a ceremonial leader, and the Prime Minister is the head of government and the state. Currently Japan has five political parties, namely Liberal Democratic Party, Democratic Party of Japan, the People's New Party, the Social Democratic Party, and the New Clean Government Party. Japan is a United Nations member country and one of the countries from the G8. As an economic entity, Japan is a member of ASEAN (Association of South East Asian Nations) and APEC (Asia Pacific Economic Cooperation). Japan has international disputes over energy, marine resources, land etc. with countries like Russia, South Korea, Taiwan, and China (Frue, 2016).

Economically Though Japan has the potential to be the strongest economy in the world, few economic and international indicators dragged it behind China and the USA. The country is going through a deflationary trend, although inflation is picking up, but rather slowly. Unemployment reached its lowest since 1993 in 2017 (Q3), to a 2.

7%, but wages and as such household spending is still low - although the household spending rose (1.7%) above the expected value (0.5%). This rising household spending is however expected to get a blow again as the prices of fresh food and possibly oil are expected to rise by 2018 (Nohara, 2017). With more than 127 million Japanese residents, socially Japan emphasizes a collective culture. Social inter-dependence is emphasized even in modern Japan (U. S.

Library of Congress, 2017). Japanese women are expected to contribute to earnings, unsurprisingly birth rates have been particularly low for few years since 2014 (IMF Country Report, 2017). Technologically Japan is one of the most advanced in the world, especially in terms of telecommunications. Japan leads the world in research and development, particularly in biomedical works, electronics, machinery, robotics, automobiles etc. Japan also uses the most robotic technologies in manufacturing plants and other industrial and/ research projects (Tokyo Times, 2016).

Legal System in Japan is independent and fair; overall score of Japan's Judicial Effectiveness is 73.8, which is considered to be of a fair system. The system also is apparently fair in terms of protecting property right. Only because of



the close network in certain related industries, corruption can occur when it comes to Government project tenders (The Heritage Foundation, 2017). Much like other industrially urbanised countries, Japan faces challenges in terms of environmental issues.

Waste Management has been a major issue for the country. Once, the country's efforts to dispose of industrial wastes made its air pollution problem more visible. Among the disastrous events, the Fukushima nuclear incident which resulted in deadly environmental pollution comes to fore. However, Japan is one of the few countries which aggressively implements clean technology measures (Clark, 2017). 2. 2.

Three Key Issues to Focus on The first issue for Japan to focus on is the imbalance of employable population to the employments available (with a still tighter wage streak). The country's unemployment has been historically low, but the ratio of position openings to prospects is 1.49, which indicates a labor shortage. This phenomenon has been widely attributed to a combination of a decreasing employable population (at a rate of about 700,000 people a year) and low rate of wage increases by the employers because of the prolonged period of low inflation. The habit of workers of staying with the same employer for their lifetime can be another reason (Kalish, 2017). This issue is resulting in overall low household wage gains and as such the private consumption decreased about 0.5% (Nohara, 2017). An ever increasing government debt, mainly domestically held debt, is the second issue that Japan needs to work on to be on a better track of national growth and international competition.

The government debt to GDP ratio has crossed 220% recently, which is alarmingly high for the country (Organisation for Economic Co-operation and Development (OECD), 2017). In 2016, this debt was 15 times the tax revenue. Deflation has plagued Japan, as mentioned in the previous chapter, subsequently Abenomics got implemented. Central Bank of Japan reduced the debt of government by reducing interest rate and purchasing government bonds, supplying the financial system with more cash to induce inflation. However, it has been predicted by multiple world class analyst organisations and financial bodies that if everything remains constant, Japan's debt repayments will exceed its tax income within 2041; this prediction assumes that the interest rate stays around 1.1%, however if the rate increases, government has to default earlier (Pham, 2017). The third most important issues Japan needs to focus on is conservatism towards International Trade deals, especially bilateral ones. As apart of the deregulation, Japan was expectant on the Trans-Pacific Partnership (TPP) to ease up the international free trades, but hope was abandoned when the USA pulled out of the agreement.

For Japan to function better in the world economy, it has to participate, and lead in more bilateral trade agreements, as export oriented countries like China and Germany may start aggressive devaluation to gain more export market share, which will eventually weaken Japan's already weakened currency (James McBride, 2017).

3. Steps to take for Japan Steps for reflating the economy of Japan, establishing its economy in a state of a faster growth trend, constructing and implementing policies to influence

private spending while aging populace is increasing and achieving an overall sustainable fiscal are important. Few such possible steps are outlined below: Although a rise in total income of Japan's population may not directly result into increased consumption and increased households expenses, even a 1% increase in total income within 2018 may result in the expected deflation of the Japanese economy (Nohara, 2017). Increasing the participation of women in the employment sector through incentives, not by negative reinforcements like the currently used withdrawal of spouse tax benefits, is also important to encourage faster economic recovery. Moreover, a more dense inflow of immigrants along paired with more national investments (by relaxation of regulations against competitiveness in similar industries) in the market will help to push the inflation up and boost the economy faster (Kalish, 2017). A reform in the fiscal policy needs to be done to reduce the debt-GDP ratio to maintain the building trust on Japan's Fiscal sustainability.

Maintaining this trust is absolutely important to keep its financial sector afloat and the real economy thriving; otherwise, the world economy may experience a negative ripple effect. (Organisation for Economic Co-operation and Development (OECD), 2017). Trade protectionism has been a key characteristic of Japanese foreign trade policy. However, steps need to be taken to stabilise Yen's devaluation and still maintain the export growth rate currently achieved through trade liberalisation. This can be achieved in part by initiating bilateral free-trade deals with other Asian giants like China. Conclusion Japan will eventually be able to overcome the slower growth of its

economy and almost non-existent liberal trade deals through following the Abenomics currently implemented, if only no major shock like the explosion of debt-GDP ratio occurs; this may happen due to widening gap between its nominal interest rate and the nominal GDP rate. Otherwise, the speculations of an impending doom on the overall Japanese economy will most likely be blown out (Wakatabe, 2017). Reference BBC Monitoring, 2017.

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