

Discussions on “Making Real a Growth Agenda for Japan”

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Overviews

- A nice presentation that includes several valuable suggestions for Japan's growth agenda.
- Presentation consists of 5 parts.
 - (1) Using trade to reform in Japan
 - (2) Widespread slowdown in productivity growth
 - (3) Fiscal sustainability
 - (4) Monetary policy in the face of an extended slowdown
 - (5) Getting the reforms going despite opposition

1. Using trade to reform in Japan

- External pressures “Gaiatsu” had been useful for structural reform in Japan for a long time.
- But in case of Japan’s international trade, easier parts have already been liberalized.
- Agriculture sector could be a sector which still needs “Gaiatsu”
- But it is politically difficult to reduce high tariff rates in some stable food products especially rice.

1. Using trade to reform in Japan

- After collapse of “Doha Round”, FTA and regional free trade agreements such as TPP and RCEP became alternatives for WTO.
- But Japan faces a serious difficulty in having FTA with Korea or China because average tariff rates in Korea and China are much higher than in Japan.
- Because of growing trade integration, RCEP is a desirable regional trade agreement.
- But to the extent that the tariff rate gaps remain, it would not be easy for Japan to reach an agreement in RCEP.

1. Using trade to reform in Japan

- In contrast, TPP uses WTO's principles and rules, including national treatment and most-favoured-nation treatment.
- WTO's principles and rules are a starting point of negotiations in TPP.
- This makes it difficult for China to join TPP.
- But TPP would be more agreeable for Japan than RCEP.

2. Slowdown in productivity growth

- How to stop the widespread slowdown in productivity growth is also an important agenda.
- Japan had substantial overinvestment in the late 1980s, which led to excess capital stock in the following two decades.
- Not a few Japanese companies now need to replace old capital.
- But since local markets are expected to shrink, they are reluctant to make new innovative investment, which may deter the Shumpeterian growth in Japan.

2. Slowdown in productivity growth

- To understand low productivity growth in Japan, distinguishing the first lost decade and the second lost decade might be important.
- In the 1990s, financial crises and delayed policy responses caused misallocation of credit, which resulted in lower productivity growth.
- In the 2000s, Japan's financial sector became sound and healthy.
- But many of the Japanese companies spent enormous efforts only for cutting their costs and were reluctant to make new innovative investment.
- Due to lack of innovations, many of the Japanese companies had positive but low profit rate (ROE).

3. Fiscal sustainability

- Fiscal reform is now critical for Japan.
- Further increases in consumption tax will be inevitable.
- But under growing aging-society, further increases in social security expenditures will also be inevitable.
- How to restrict the increased social security expenditures is a critical policy agenda, which requires dramatic reforms of social security system in Japan.
- The speed of the reforms seems very slow.

3. Fiscal sustainability

- There are many old infrastructures that need to be renewed.
- But because of reconstruction in Tohoku area and the 2020 Tokyo Olympic game, Japan now has substantial infrastructure investment.
- This causes a serious shortage of labor force and a rise of production materials in the construction industry.
- Due to a serious shortage of labor force and a rise of production materials, the necessarily renewal is now very difficult.

4. Monetary policy

- The BOJ unconventional monetary policy has been successful thus far at changing expectations.
- But the changed expectations have been highly heterogeneous across agents.
- Positive responses in the stock market and in the foreign exchange market were largely driven by foreign investors.
- Inflation expectations increased in consumers and markets.
- But producers are still reluctant in passing the increased costs on to product prices.

4. Monetary policy

- Abenomics, especially the first arrow, has been successful thus far at reducing deflationary gap.
- Japan might be able to recover from secular stagnation.
- But recovering from secular stagnation would not mean high economy growth in Japan.
- Lower potential growth is a serious concern in Japan.
- The first arrow will not be useful in enhancing potential growth in Japan.
- We need the third arrow to enhance potential growth.

5. Getting the reforms going despite opposition

- I completely agree that we need a “Nixon goes to China” approach.
- Despite opposition, Japan needs dramatic reforms to achieve sustained growth.
- Lobbying groups such as JA are not as influential as before.
- Aging-society with lower fertility rate is growing.
- This will be a serious constraint for raising potential growth in Japan.
- Japan needs dramatic reforms to stop vicious cycles with population aging and low fertility rate.