

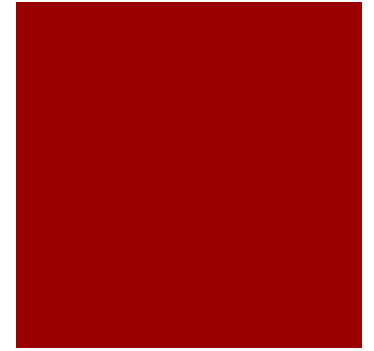


Abenomics and TPP

Motoshige Itoh

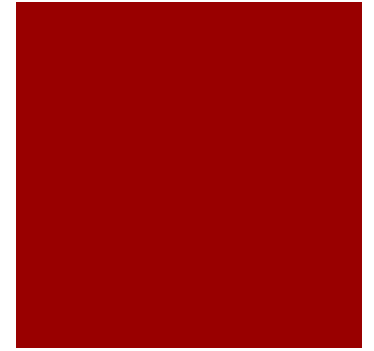
How did deflation change the Japanese economy?

- Prolonged stagnation-deflationary spiral
- Rapidly increasing financial assets of the household sector
- Excess saving (or weak investment) of the corporate sector
- Abundant domestic saving supports government budget deficit
- Deflationary expectation and very low interest rate
- Not much investment for the future



Balance sheet adjustment has almost finished

- Crash of financial bubbles and financial crisis-the main cause of deflation
- Household sector: accumulating debt → ample amount of financial assets
- Corporate sector: heavy balance sheet and over borrowing → not much borrowing and accumulation of saving
- Financial sector: high leverage → inflow of large amount of saving money but not much opportunity for risky investment



Risk off to risk on?

- Better prospect on European crisis
- Currency of emerging countries are appreciating
- Stock market is recovering in the US market
- Safe assets such as government bonds of Japan, US and Germany show increasing rate of return (lower prices)
- Good chance for departing from the deflation trap



Three-arrow policy

- Aggressive monetary policy
 - Introduction of inflation targeting
 - More aggressive monetary policy?
 - The reaction of the market; exchange rate, stock market, interest rates
- Fiscal stimulation
 - smooth introduction of higher value added tax
 - Presence of large public debt
 - Importance of long-term fiscal consolidation program coming in the middle of the year
- Growth strategy
 - Deregulation
 - Pro-business tax scheme
 - Trade liberalization



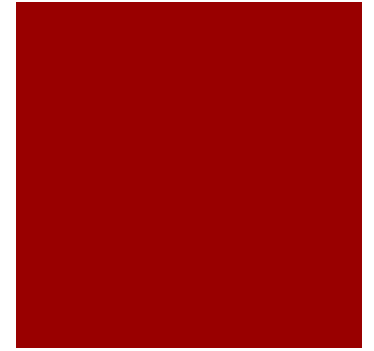
Growth strategy

- Deregulation
 - Three important areas
 - Labor market
 - Energy and environment
 - healthcare
- Trade policies
 - TPP and other EPAs
 - Mr. Abe's negotiation strategy and domestic politics
 - Promotion of domestic reforms
- Pro-business tax policies



Big change in trade policies in Asia in the last 10 years

- Only four countries/region were not in any FTA agreements in the turn of the century among the top 30 countries in GDP
- Japan, China, Korea, and Taiwan
- Rapid speed of expansion of FTA network



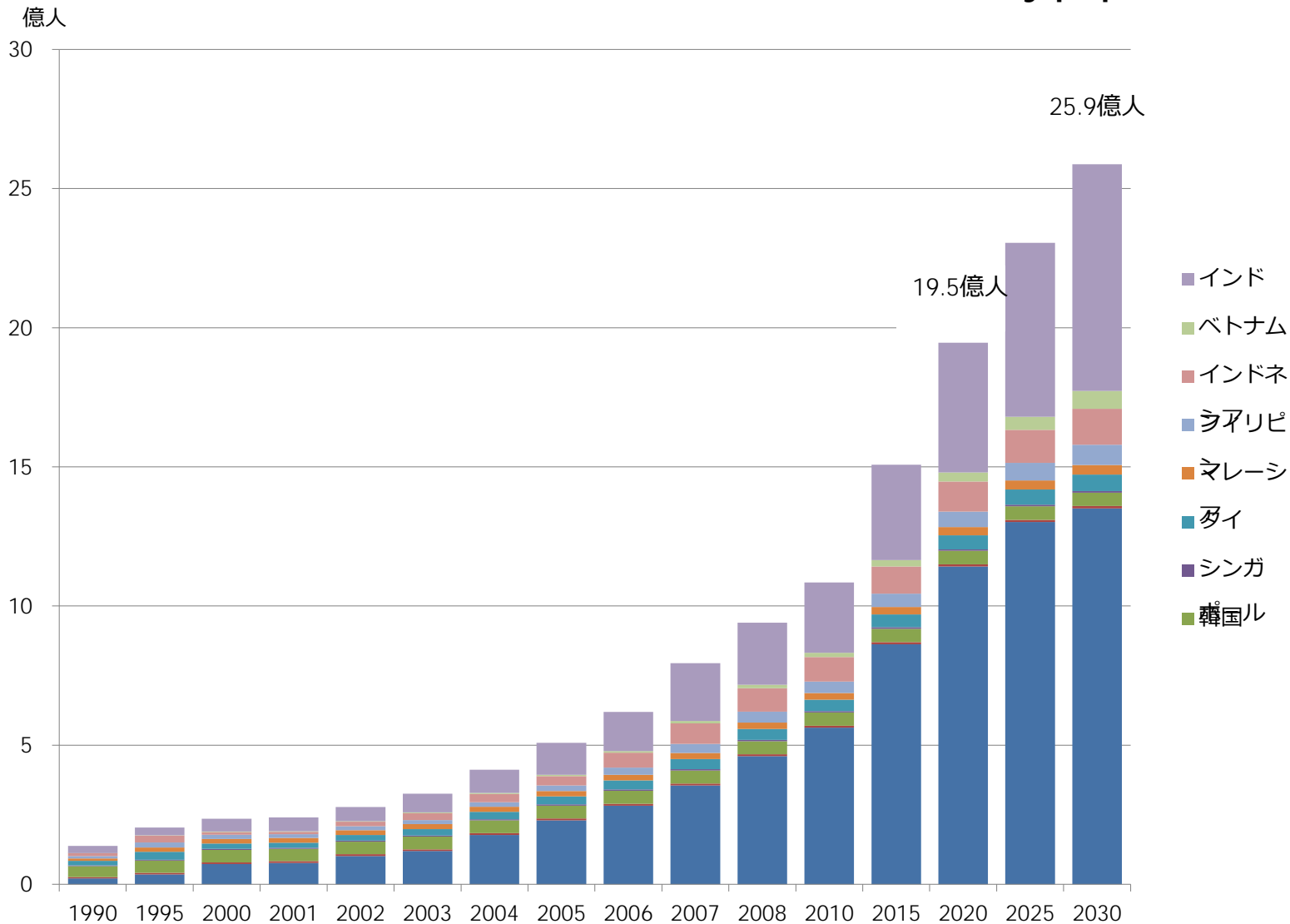
Gravity model

- Importance of distance and size
- Increasing interdependence
 - Export/GDP Japan 14%, Germany 34%
- Industrial structure will change drastically
 - Manufacturing sector
 - Division of labor in Japan → cross border division of labor
 - Increasing importance of intermediate goods and capital goods
 - Consumer's goods
 - Expansion of middle income consumers in Asia
 - Increase by 800 million in the last ten years and will increase by one billion in next ten years





The estimated number of middle income and wealthy population in A

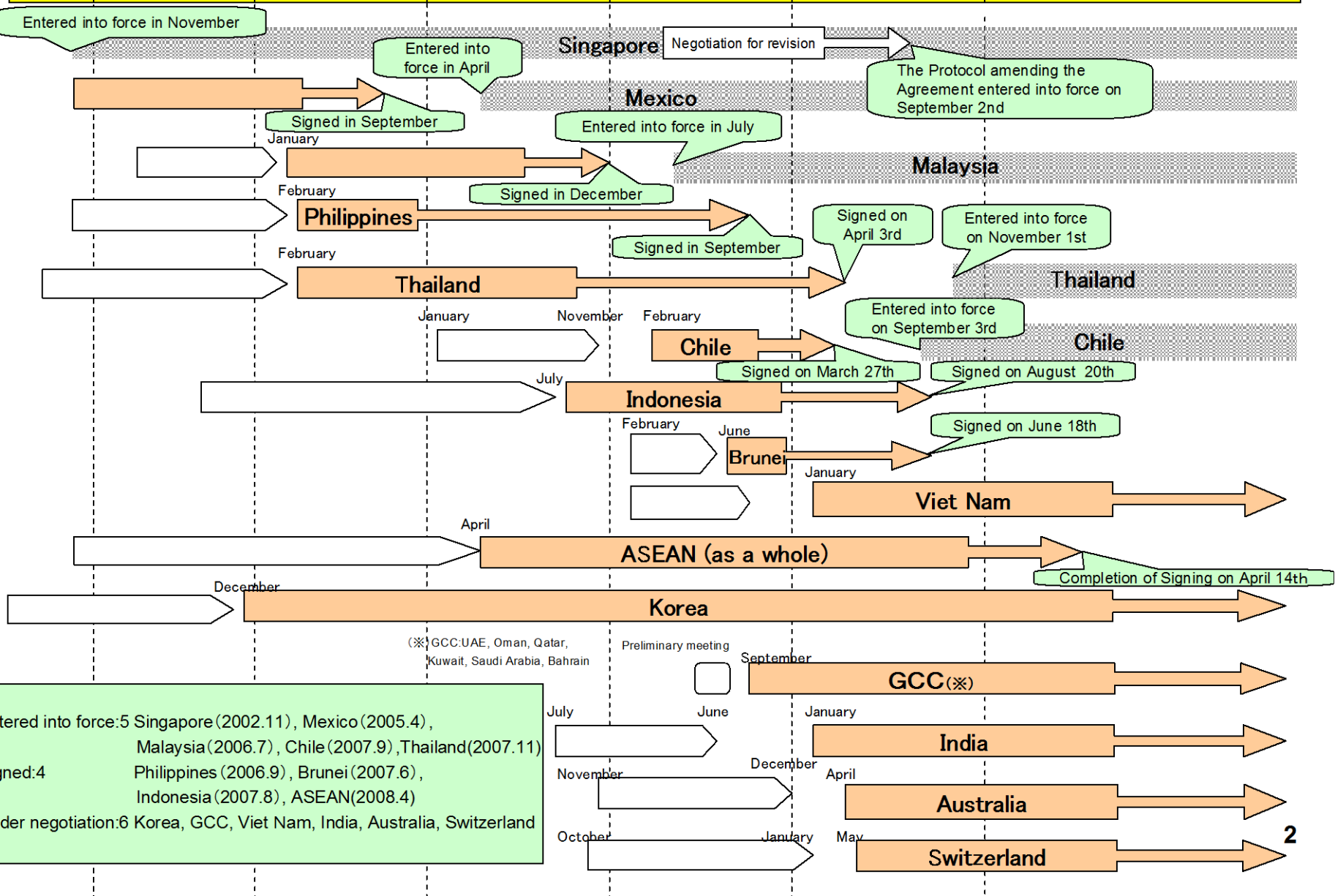


Japan's Current Status of EPA/FTA negotiations

→ :Preliminary discussions etc.
→ :Under Negotiation
→ :Entered into force

May 2008

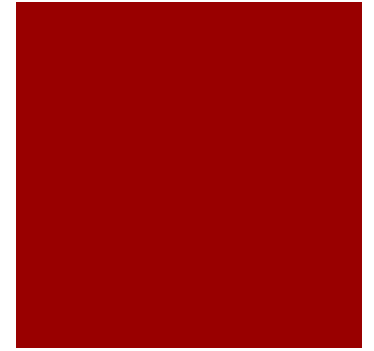
2002 **2003** **2004** **2005** **2006** **2007** **2008**



Entered into force: 5 Singapore (2002.11), Mexico (2005.4),
 Malaysia (2006.7), Chile (2007.9), Thailand (2007.11)
 Signed: 4 Philippines (2006.9), Brunei (2007.6),
 Indonesia (2007.8), ASEAN (2008.4)
 Under negotiation: 6 Korea, GCC, Viet Nam, India, Australia, Switzerland

Trade regime in the 21st century

- Importance of regional frameworks
- Interactions: multilateral, regional, bilateral, and unitary actions
- From the border restrictions to wider issues
 - Harmonization of regulations
 - Internationalization of internal structure



Domestic debate on EPA/FTA in Japan

- Heated discussion on TPP inside Japan
- TPP and ASEAN plus 6; are they competing or complementary?
- Priority of EPA policies in Japan
- Increasing importance of EPA with such countries as Canada, Australia, and EU
- Importance of provoking domestic political debate on the issue of liberalization

