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Transcript

Japan's Economic Revival

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Prime Minister of Japan

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Shinzo Abe:

My Lord Mayor, distinguished guests, ladies and gentlemen,

It is an honour to have this opportunity to address you here at Guildhall through the kind invitation of the Lord Mayor.

Once upon a time, there was a financier in Japan named Korekiyo Takahashi. His 'story' takes place at a time when Japan was trying to confront the military threat of Czarist Russia. There was a need to have the London banking syndicates underwrite Japanese government bonds at all costs. Takahashi came here to the city as a task force of one, armed with that mission. As he set about this task, there was one person who graciously offered him a helping hand. Who do you think the person was? That was Sir Ewen Cameron, head of the London branch of the Hongkong and Shanghai Banking Corporation, and none other than the great-great-grandfather of Prime Minister David Cameron.

Takahashi served as both prime minister and minister of finance in the 1920's and was a witness to the blossoming of democracy. The year 1925 saw the institution of general elections with suffrage enjoyed by all males. This was a mere seven years behind the United Kingdom.

Despite this distinguished background, it was in fact the 1930's, as the Great Depression gripped the world, that Takahashi fully demonstrated his brilliance. What he accomplished was what can be called the most successful application of Keynesian policies. In 1931, five years before John Maynard Keynes published his General Theory, Takahashi developed policies predating Keynes and succeeded in extricating Japan from deep deflation ahead of the rest of the world. This example of my forerunner Takahashi has emboldened me.

A metaphor for deflation is that your body temperature drops continuously, bit by bit. Should you fail to address this deflation, you will find that consumers are no longer interested in acquiring things. This is because accumulating cash is the most appropriate action if prices next year will be lower than they are this year.

I suspect that Takahashi found himself facing a similar situation. In 1931, upon his comeback as finance minister, he suspended the export of gold that very same day. The key here is that he executed this measure 'that very same day'. This is because it is impossible to get rid of ingrained deflationary psychology unless you clear it out all at once.

I myself have attempted to do exactly that. In order to shift people's expectations upward, I have considered it necessary to hammer out a full range of policies all at one stretch. We had been unable to root out deflation because Japan had been lacking strong political will. But that is what I have brought to the national leadership: strong political will. What I would like you to take home from my address today boils down to this single thought: that my economic policies are backed in all respects by my political will.

Is it for the sake of Japan that I have done so? Most certainly, it is for the benefit of Japan. But indeed, for the sake of the world as well, an expanding Japan is not some superfluous luxury; it is a necessity – a *sine qua non*.

The nation of Japan as measured in nominal GDP is larger than Germany and the UK combined. And what if such a country were to experience negative growth? That would likely be the ultimate recipe for 'beggar thy neighbour'. Japan is a nation that takes responsibility for cultivating a peaceful and stable world order grounded in rules. For that kind of country to contract would already be in my view a cardinal sin in itself.

The Japanese economy is now on track for recovery, having expanded at an annualized rate of 4.1 per cent in the first quarter of 2013. Should the Japanese economy extend this 4.1 per cent growth rate across the whole year, it will have the same effect as a country larger than Israel suddenly emerging.

Our growth rate in the third quarter of 2012 was minus 3.6 per cent. The change in absolute terms was therefore 7.7 points in the positive direction. The mood in Japan has most certainly changed dramatically as a result of the first and second 'arrows' of economic revival that I launched, namely bold monetary policy and dynamic public finance policy.

However, the most important 'arrow' in my armoury is the third, my strategy for growth. The concepts underlying this Growth Strategy are captured in the three key words of 'challenges' - actively taking on challenges – 'openness' - openness to other countries - and 'innovation'.

Before I overview the key points of this Strategy, I would like you to understand that for Japan at this juncture, to echo the approach of the late Baroness Margaret Thatcher, this is a case of TINA – 'there is no alternative'. The reason for this is that Japan faces structural issues—firstly, to extricate itself from deflation; secondly, to improve labour productivity; and thirdly, to maintain fiscal discipline. These threefold structural issues must be resolved simultaneously, and growth is a necessary condition for success.

An open Japan

So how will we achieve growth? We will open up the country and open up Japan's markets. This is a philosophy that has coursed through my veins consistently ever since I entered politics.

When I first became prime minister seven years ago, I accelerated negotiations to conclude the ASEAN–Japan Comprehensive Economic Partnership Agreement. Upon becoming prime minister again, the very first issues were whether or not to embark upon the Trans-Pacific Partnership (TPP) Agreement, which has the United States at the centre, and whether or not to work towards an EPA with the EU.

Opposing voices were heard even among those supporting my own party, the Liberal Democratic Party. I did all I could do to change their views. And I made the determination in the end to participate in the negotiations.

The Japan that I am pursuing is a Japan that leads to being wide open to the entire world. What is necessary for Japan's revival is a powerful catalyst that will restyle the old Japan and then make the 'new' Japan even stronger. These are the expectations I hold towards direct investments into Japan.

By 2020, we will expand the balance of direct investment in Japan by foreign companies to 35 trillion yen, a doubling of the current figure. Converting that at the latest exchange rate, that figure exceeds \$370 billion in scale.

Allow me to introduce an example. An enormous market with the potential to engender unlimited innovation is now poised to appear in Japan. That is the electricity market.

The rise of the electricity market

The tragedy that struck Fukushima continues on even now. When I think of the hardships of the victims, I feel as though I am unable even to stand under the weight of it all.

However, if we are going to reform the electricity market, then we should turn this extraordinarily terrible crisis into an opportunity. This way of thinking has intensified within me over time. We will make our nuclear power generation increasingly safe while continuing to contribute to the non-proliferation regime. Japan has been at the forefront in both of these areas, and withdrawing from them is simply not an option for us.

At the same time, I believe that Japan is held responsible to bring about innovation in the energy technologies. I think that Japan more than anyone

else should shoulder the responsibility of fusing the vast array of energy technologies around the world. To me, this is the course by which Japan will link the Fukushima tragedy into the future.

In the 2013 fiscal year, Japan's solar power market will once again regain its status as among the largest scale markets in the world. Any number of fertile opportunities lie before us, including wind power, wave energy, biomass, hydrogen, and fuel cells.

We have learned a great deal from Europe's history over more than two decades of liberalizing and then opening up the electricity market, splitting the systems for power generation and power transmission, and tying in and integrating electricity markets.

In Japan as well, just the other day, I took the decision to liberalize the electricity market and move forward with splitting off the generation and transmission of electric power, thereby putting an end to a market oligopoly that has continued for more than half a century.

There is no question that this will trigger a wide spectrum of innovations. We can expect nothing but enormous opportunities to emerge, attracting foreign direct investment.

A Japan seeking challenges

You may ask what kind of Japan I wish to create by inviting in foreign capital while proactively accepting from overseas human resources rich in knowledge and experience. It is a Japan that takes on challenges by boldly taking risks while sparking innovations in new fields, precisely as with our electricity market I just outlined.

The target we intend to achieve includes, for example, the starting of new businesses. Japan will become fully in line with the United States and the United Kingdom in this area.

This autumn, major changes to the tax system will also be added. We will use these tax provisions as incentives in order to facilitate companies' exit and entry, retooling and restructuring.

We will lower taxes on investments, incentivizing companies to take risks and invest in facilities and equipment. Over three years, we intend to restore the level of domestic private-sector investment to its pre-Lehman shock level of 70 trillion yen, which is more than \$700 billion.

My Lord Mayor, since you began your career with S.G. Warburg & Co., I believe you recall very well the early 1980's, the era when City merchant banks established branches in Tokyo, one after the other. I wish to restore all throughout Japan an energy that exceeds even the vibrancy of that era. I hope you all encourage young people to go to Japan to take part in the great revival.

This is because we intend to deregulate thoroughly areas known as 'National Strategic Special Zones' under the direct responsibility of myself as prime minister in order to create in Japan places where capital and intellect gather from all around the world.

We will foster an international business environment that stands shoulder to shoulder with such cities as London and New York. I intend to create cities that bring together technologies, human resources, and capital from throughout the world. We will conduct a review of our systems in order to enable top-class non-Japanese medical doctors to practice in Japan and make it easier to found international schools for children to attend. We will also revise zoning regulations to bring people back to reside right in the heart of our cities. I am totally committed to seeing these through.

We will bring in people, goods, and capital from around the globe and use that to nourish our growth, enabling still further growth. The battle to create such a Japan is a battle in which I myself will be fully engaged.

A Japan that innovates

You know, it's possible that Japan's stagnation is essentially men's fault. The period in which men with uniform ways of thinking dominated Japan's business community was too long. In contrast, women have been engaged in corporate management for much too short a time.

The mission that I have imposed upon myself is to thoroughly liberate the power that women possess. I am determined to encourage women to break through the glass ceiling, and along with this, I will prepare the infrastructure to make that possible. We will eliminate waiting lists for day-care centres for small children and provide assistance so that women who leave their jobs at some point are able to return to work multiple times.

My determination to reform university education is rooted in the same motivation. Innovation is what results when new thinkers bring to bear new ways of thinking. Our expectations towards women and towards young people will increase more and more as we go forward.

I would like to have at least 10 Japanese universities appearing within the rankings of the world's hundred best schools. First of all, we will work to double the number of foreign faculty members at universities where the national government is involved in the administration. We will take comprehensive steps to enhance international awareness and interaction within higher education and send a greater number of young people off to experience the world outside Japan. At the same time, we intend to invite to Japan on a large scale young people from around the globe.

In addition, we should not forget that innovation will also be precipitated by the aging of society. As Japan will occupy a foremost position globally as society ages, we will be in a fortunate position compared to other countries when it comes to devising the services, industries, and technologies suitable for a mature society.

We will expand the health and elderly care markets from the current scale of approximately \$42 billion to more than \$106 billion by 2020. We will also enlarge the scale of the market for medical services-related businesses, including for example medicines, medical equipment, and regenerative medicine, from \$127 billion to almost \$170 billion over this same period. As you are well aware, a large number of innovative European companies are already active in this market.

Please understand that these players are also an important element forming the third of my three 'arrows' of economic revival. I want to make Japan become 'born again' by opening up Japan to the world, transforming it into a society that takes on challenges in the face of risk, and remake it into a place where innovation blossoms through harnessing the power of women, youth, and people from outside Japan. To draw a parallel here, I want to reshape Japan now so that some 30 or 40 years hence, Japan as a nation will be qualified to play a match on Wimbledon's Centre Court.

Over five years from 2007, Japan lost nearly \$500 billion in gross national income. This is equivalent to a country as big as Norway or Poland simply disappearing from the earth. Naturally, Japan's tax base has contracted, causing us to become dependent on government bonds but also making it impossible to maintain government finances.

In rebuilding our public finances, which options should we pursue? Again, it's clear. There is no way forward other than growth. It is imperative that we undergird our national credibility with absolute certainty. We must indicate to the world that Japan will maintain robust fiscal discipline even as we set the economy firmly on track to sustained growth.

First comes growth. That is where 'Abenomics' comes in. Fiscal reconstruction comes next. Only that way, we will be able to attain our targets regarding our primary balance. For the national and local governments' primary balance, by fiscal 2015 we will slash the deficit ratio to GDP in half compared to the figures for fiscal 2010, and we will achieve a surplus by fiscal 2020 at the latest.

Therefore 'Abenomics' represents a 'win-win' scenario for both the global economy and the Japanese economy. It is also a 'win-win' for Japan in that it engenders both economic growth and fiscal reconstruction.

To rephrase that, the only option for Japan is to pursue these dual 'win-win' scenarios. Truly, there is no alternative.

During my previous term as prime minister, I was forced to step down because of an intractable illness known as chronic ulcerative colitis. That was in 2007. In 2009, I had the good fortune of being able to try a new drug named Asacol. In fact, this same drug had already been on the market in Europe and elsewhere from earlier.

In Japan, the approval of new drugs takes a considerable amount of time. Even should a doctor in Japan think that using a revolutionary new drug from overseas might improve a patient's condition, he or she would be unable to prescribe it.

This is what is known as the 'drug lag'. Here, too, there are deep-rooted regulatory matters that must be reformed. If this drug Asacol had taken more time to appear on the market in Japan, it's quite possible that I would not be where I am today. For that very reason I consider it both my role and my fate to restore and enrich the lives of patients suffering from intractable illnesses.

Beyond that, I consider it both my role and my fate to restore and enrich the power of the nation of Japan. A robust Japan is a Japan that will preserve and cultivate international public goods responsibly. A robust Japan is a Japan that will bring about peace, stability, and prosperity across the entirety of the area connected by wide waters stretching from the Indian Ocean to the Pacific. A robust Japan is a Japan that will alleviate world poverty, stand up to human rights infringements against children and women, and prevent as much as possible the aggravation of disease and degradation of the environment.

It was those thoughts of how I want Japan to be that inspired me to get to my feet once again. And now that I have obtained this second chance as prime minister, such thoughts have only intensified.

My growth strategy cannot become just some essay drafted by the bureaucracy. It is something that I myself am underwriting and executing. I encourage you to take note of the fact that I have been making all-out efforts like never before in order to consolidate the sufficient political capital necessary to carry that out, and I will continue to devote myself to doing so in the months and years to come.

Since taking office as prime minister, I have spent one of the four weekends each month visiting the areas stricken by the great tsunami in order to observe the current situation. I have used another of the four weekends to visit other areas of Japan to sound out Japan's potential in various fields. Yet another I have used to respond to the press and to listen to various people's opinions, and the final one I have used to visit other countries. In the six months since I took office last December, the number of countries I have visited in order to promote Japan politically and economically comes to 13.

Once I return to Japan from this trip, I will be busy due to the elections for the Tokyo Metropolitan Assembly as well as for the House of Councillors. In both of these elections I hope to deliver a resounding victory to the Liberal Democratic Party. That is my goal. This is because there is precious little time allocated to us for transitioning reforms into execution.

And then what will I do after the elections are over? I have positioned the next three years as a period for intense reform. I will be afire, burning with all the political strength I can muster...

Japan's regulatory regime is like solid bedrock. I myself intend to serve as the drill bit that will break through that bedrock. If I am unable to make Japan a great country and a robust country this time around and pass it on to the next generation, then there is no meaning to the life I have lived thus far.

Recalling the golf course that the Lough Erne G8 Summit used as its meeting place until yesterday, it was very clear to me what the designer, golfing great Nick Faldo, wanted to test the golfer on through that final hole – the 18th; a par 3. Should your ball hook even slightly left, you will bounce it off the hotel terrace. And yet near you on your right you find the water and the reeds of the lough. There is for you but a single way forward. Without wavering, you must decide how to address the ball and turn toward the very centre.

I said to my colleagues of the G8 that this was almost as if it were one and the same with the test being put to the leaders from around the world. Courageous and decisive decision-making and execution is the only option for overcoming our difficulties.

Transcript: Shinzo Abe

I hope that you continue to invest in Japan's future. I will conclude my address today asking you to forge a robust Japan together with me.