

## Japan embraces era of Abenomics



• Abe's economic policies appear to be working Yoshikazu Iisuno/AFP/Getty Images

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After being stuck in a deflationary spiral for the best part of two decades, “Abenomics” has brought a new sense of optimism to the world’s third-largest economy.

Shinzo Abe’s economic policies of fiscal stimulus combined with monetary easing have helped stock markets fizz higher since he became prime minister in December. Last week the Nikkei hit its highest point since October 2008.

During the same period, the yen, which as a safe-haven currency had been soaring since the global recession, has fallen 15 per cent against the dollar. That has provided a much-needed competitive advantage for Japan’s struggling exporters of cars and consumer electronics.

This is due to Mr Abe’s declaration in November that he would force the Bank of Japan to pump money into the economy and adopt a 2 per cent inflation target. He has implemented both policies since taking office, overriding deep reservations in some quarters.

“Ever since the new government took control, it feels as though Japan is filled with the spirit for economic revival”, said Toyota’s senior managing officer, Takehiko Ijichi, last week, as he announced the carmaker’s first profit in five years.

Takehiko Nakao, the top currency official at Japan’s finance ministry, said: “Last year all the focus was on the euro and the fiscal cliff. Now Japan’s successful economic policies are receiving all the attention.”

Abenomics do appear to be working. Data this week showed that December’s figures for machinery orders, a key indicator of capital spending, rose by 2.8 per cent, confounding expectations of a decline. Japan’s service sector sentiment index also jumped, and the December “Economy Watchers’ Survey”, which measures the mood in companies and households, showed growing confidence in every area.

Even trade with China, Japan’s biggest trading partner, is improving, after a boycott of Japanese products last year. On Friday, Chinese customs figures showed that imports from Japan rose by 15.4 per cent in January, for the first time in six months.

Most economic analysts believe that Japan probably exited recession in the last quarter of 2012. “Monthly economic indicators suggest the economy has already bottomed out and is showing a recovery”, said Tatsushi Shikano, senior economist at Mitsubishi UFJ Morgan Stanley Securities.

Perhaps the most significant trend of all is that wages are showing signs of rising. One of the country’s biggest convenience store chains, Lawson, said last week that it would raise salaries by a deflation-busting 3 per cent.

Jesper Koll, head of Japan equity research for JP Morgan, said: “Japan is running out of labour, so businesses now need to breed loyalty among their staff. Watch for wage inflation to generate a real feel good factor in Japan.”

Japan has had false dawns before, and economists, central bankers and politicians agree that Abenomics will only succeed if the all-powerful bureaucracy can be forced to activate unpopular structural reforms.

Mr Abe has done the easy part – a recent 10.3 trillion yen public spending package is the sort of economic medicine his LDP party (and its backers in the construction industry) has been doling out for decades.

“Getting the BoJ to print more money and building bridges to nowhere is all very well,” Mr Koll added. “The hard part will be deregulating the energy, healthcare and agriculture sectors.”

The first test will be whether Mr Abe decides to stand up to Japan’s rice farmers (and his own party) and agree to join the Trans-Pacific Partnership, a multilateral free-trade pact. If he backs down, the vested interests will have won, and Abenomics may yet prove to be another false dawn.

