

Japan's new start: Abenomics and infrastructure

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A Global Infrastructure Perspective



As dusk fell on 2012, a new light was starting to rise over Japan: Shinzo Abe.

As the leader of Japan's Liberal Democratic Party going into the 2012 election, Mr. Abe had articulated his position on the economy and economic growth. So it came as no surprise that – within weeks of winning the office of Prime Minister – Mr. Abe and his administration had announced a new economic policy designed to end the country's prolonged economic recession and revive the sagging economy.

This new policy, commonly referred to as 'Abenomics', outlines a number of bold actions that the government intends to undertake as part of a three-pronged strategy that will tie together the country's monetary policy, fiscal policy and growth strategy.

Taking radical measures to drive growth

Mr. Abe is clearly being driven by a sense of urgency to do something about the economy. In March 2013, he and his government formulated a 'supplementary budget' of JPY10.3 trillion as an emergency economic measure (thereby bypassing the usually drawn-out budget legislation process) with the intention of having an immediate impact on the national economy. Japan joined the Trans-Pacific Partnership (TPP), in part as a way to dampen the current deficit-led recessionary cycle, and implemented supportive policies that were intended to enhance growth.

On the monetary front, the government and the Bank of Japan promulgated a joint statement on 'Overcoming Deflation and Achieving Sustainable Economic Growth' in January 2013 which, among other things, set the price stability target at 2 percent in terms of the year-on-year rate of change in the consumer price index.

Essentially, the measure represents a policy of bold monetary easing over the coming years which, according to Haruhiko Kuroda, the new Governor of the Bank of Japan, should be achieved as soon as possible. Further steps have also been taken: in April, the Governor announced a new quantitative easing program which is expected to double the country's money supply

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with injections worth some USD1.4 trillion. Measures are also being developed to strengthen the country's competitiveness and growth potential.

Flexible fiscal policy

In the area that – arguably – will have the greatest impact on the infrastructure sector, Mr. Abe has also been a strong advocate for urgent change. A significant portion of the JPY10.3 supplementary budget noted earlier has been earmarked for accelerating the reconstruction efforts in areas damaged by the 2011 earthquake, while sums have also been put aside for strengthening disaster prevention and national resilience.

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Promoting private investment

Another major step forward for Japan came in February when the Industrial Competitiveness Council announced seven areas of focus for the country, many of which will have a direct impact on infrastructure investment within Japan. Specifically, the Council identified a need for:

- promotion of industry regeneration
- reinforcement of human resources and reformation of employment system
- strengthening the competitiveness of business locations
- realization of clean, economic energy supply and demand management
- realization of society with health and longevity
- expansion of produce export and enhancement of competitiveness
- reinforcement of technology innovation and information technology.

Time for strategic action

By all accounts, Mr. Abe's 'Abenomics' seems a welcome change for the country and – if successfully applied – offers a chance for Japan to finally move out of recession and towards sustainable growth. This, in turn, will strongly catalyze the national infrastructure sector which should grow quickly on the back of stronger demand, more supportive fiscal policy and higher levels of investment.

However, for the time being, Japan's government will need to focus on fostering and supporting their new economic position by reinforcing major Japanese industries and by stimulating domestic consumer spending through effective and sustained strategic action.

All of the facts, figures and information found in this article have been obtained from 'Abenomics Brief: Overview of Japan policy under the second Abe administration and major implications on major industries in Japan'.



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