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Conceptual Paper

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Abenomics: from the "Great Stagnation" to the "Three-Arrows Strategy"

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Abstract: This article addresses Japan's economy, its new economic policy package, which is known as Abenomics. The centerpiece of Abenomics has been the three "economic arrows" targeted at aggressive monetary policy, flexible fiscal policy, and growth strategy. This article focuses on Abenomics and shows the measures undertaken by the administration. The research question is: to what extent the policy package contributes to stimulating the economy? This question relates to the main problem of the effectiveness of Abenomics. The main purpose of this article is an attempt to evaluate Abenomics from the perspective of 5 years since the time of its announcement.

Keywords: Abenomics, deflation, stagnation, monetary policy, fiscal policy, economic growth
JEL Classification: E52, E62, O23, O43

1 Introduction

Japan was one of the best performers in the world economy until the end of 1980s. However, Japan experienced more than a decade of stagnation since 1990, and the subsequent decades have been dubbed as the "Lost Decade," the "Lost Two Decades," the "Secular Stagnation," or the "Great Stagnation." Each successive administration implemented policies attempting to overcome the economic malaise, but they managed to achieve only limited success. There is an ongoing new development in the Japanese economy, which was initiated by PM Shinzō Abe in late 2012 and early 2013. The new policy package is known as Abenomics.

Like any other economic policy package, Abenomics has two faces: politics and economics. Regarding politics, it is the outcome of a compromise among several powerful factions or groups within the governing liberal democratic party (LPD). Abenomics is based on three pillars, namely, the "aggressive monetary policy," the "flexible fiscal policy," and the "growth strategy," With reference to a Japanese legend, these three components are referred to as "Three Arrows." The idea of Abenomics was this: an escape from deflation triggered by quantitative and qualitative easing (QQE) and fiscal stimulus would lower the interest rates and stimulate investment, consumption, and—with the yen at least temporarily weaker—exports. However, the key to economic revitalization lies in the growth strategy.

This article focuses on "Three-Arrows Strategy" and reveals the measures undertaken by the administration. The aim of this article is to answer the main research question: to what extent the policy package contributes to stimulating the economy? To evaluate Abenomics and answer the question, statistical analysis was carried out (that required *inter alia* analysis of Tankan index), following the analysis of historical trends relating the Japan's economy. The goal to achieve is to evaluate Abenomics from the perspective of 5 years since the time of its announcement.

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2 Japan's "Great Stagnation"

It is a commonplace of the post-1945 period that Japan, a war-devastated nation, transformed itself into a dominant player on the world's economic stage in a relatively short time. In the mid-1950s, average United States income was 9 times that of Japan, but by 1970, this gap had narrowed to 2.5 times. This rapid catch-up to the United States took place in the context of the high-growth period. In the opinion of Kohama [2007], Japan's high-growth period was a process of shifting from a developing economy to a developed economy.

In the 1970s, the popular image of Japan changed from that of a struggling country relying on U.S. economic support and protection to that of the leading challenger of American economy and competitiveness, and thus, Japan became "*Asia's New Giant*" [Patrick and Rosovsky, 1976]. In 1979, Ezra Vogel published the best-selling book "*Japan as Number One*," which shocked Americans confident in their country's dominance of the world economy. He portrayed Japan as a first-rate political and economic system and explained how Japan had developed into the world's most competitive industrial power and solved internal problems that were also plaguing the United States.

But the last 30 years have not been successful for Japan's economy because they erased that image and replaced it with its opposite. Japan experienced twin bubbles in stock market and real estate, its banking system being on the brink of insolvency, slowdown of annual growth rates, declining population and rapid aging, and general deflation. In addition, the country was affected by the global financial crisis of 2008–2009, the tragic tsunami disaster in March 2011, and finally the breakdown of the nuclear reactor at the Fukushima I Nuclear Power Plant. As a consequence, in 2013, Japan's level of nominal GDP was about 6% lower than it was in the mid-1990s. Wakatabe [2015] used the term "Great Stagnation" to designate the long stagnation of the Japanese economy since 1990.

Some of the major characteristics of Japan's Great Stagnation have been the low GDP growth rate, the output gap, the low inflation rate, the asset price deflation, and the appreciation of the yen.

Japan achieved an average real GDP growth rate of about 4% during the 1980s, but the growth rate declined to less than 2% during the 1990s and approximately 0.8% in the first decade of the 2000s (Figure 1). During the 1990s, the total factor productivity (TFP) declined more than two times. After 1993, the Japanese economy has had a constant output gap, averaging around –2% GDP, with the exception of a brief interval in 1997. After the global financial crisis in 2008–2009, the output gap exceeded more than –7% GDP.

Japan's Great Stagnation was characterized by a low inflation rate and deflation. The trends in standard measures of price inflation (consumer price index (CPI) and the GDP deflator) showed that the Japanese economy has experienced deflation since the mid-1990. Using the United States methodology calculating price index, Broda and Weinsten [2007, p. 3] estimated Japan's deflation average as –1.2% per year since 1999.

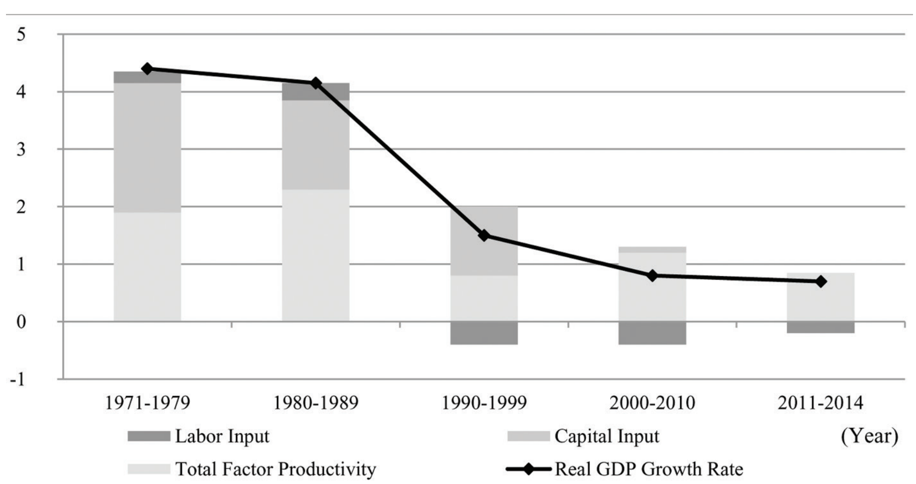

Figure 1. Trends in the real GDP growth rate in Japan (%).
Source: Fukao et al. [2015, p. 15].

Since the mid-1980, until it began bursting in December 1989, Japan was caught up in talk of twin bubbles in stock price and land price. The Nikkei 225 stock index, which had peaked at 37,724 yen on December 8, 1989, fell to only 15,066 on August 10, 1992.[1] In September 1990, land prices had stood at four times their September 1985 level. The stock market crash had a profound and durable impact, leaving banks with bad loans and in many cases technically insolvent, leading, in turn, to “credit crunch” as they could no longer extend long-term financing. The latter had an impact on the industry and, combined with recession and Japan’s *Kūdōka* (“*hollowing out*”), led to a decline in the domestic production and employment. Reinhart and Rogoff [2009] in the comparative post-World War II (WWII) and pre-2008 analysis of major crises in the developed economies argued that the stock market crash in Japan belong to the ones dubbed the “*Big Five*” crises (the Spanish crisis, 1977; the Scandinavian banking crises, Norway, 1987; Finland and Sweden; and Japan, 1992).

An important factor in understanding Japan’s Great Stagnation is the exchange rate because the stagnation started with the appreciation of the yen, which coincided with low inflation and deflation. In the second half of the 1980s, after G5 Plaza Accord, the Japanese government agreed upon the appreciation of the yen to the dollar. From February 4, 1985, to December 14, 1987, there was observed more than 100% appreciation of the yen, from $1 = ¥260.7 to $1 = ¥121.4.[2] The rapid appreciation of the yen hit the Japanese economy severely, with the recession named “*Endaka Fukyo* (*Yen Appreciation Recession*).” The real GDP growth rate plunged to 1.9% in 1986 from 6.3% in 1985, and the unemployment rate increased from 2.7% in September 1985 to 3.1% in May 1987, the highest level since the unemployment statistics were collected in 1953.

Finally, the aging of the population is quite important in understanding Japan’s Great Stagnation. Japan underwent a transition into one of the world’s rapidly aging population. The population was relatively young in the high-growth period and had been aging rapidly since the early 1990s (Figure 2). The shrinking population, attributed to the improving life expectancy of the Japanese elderly and lower fertility rates, continues to depress TFP and growth-shrinking real GDP. Moreover, Japan’s population is almost completely closed to immigration.

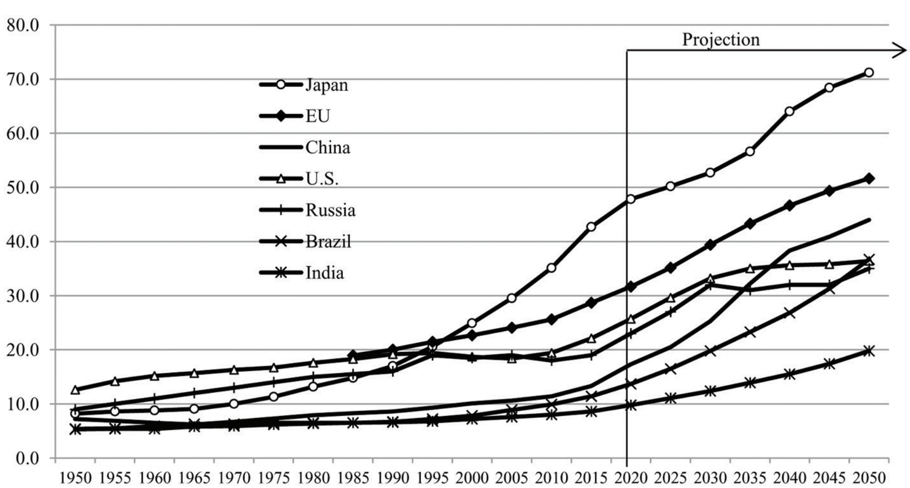

Figure 2. The ratio of the elderly population in major countries (%).
Note: The elderly population (aged 65 or over) divided by the productive population (age 15–64).
Source: [UN, DESA].

1 *Nikkei 225 Index – 67 Year Historical Chart*, https://www.macrotrends.net/2593/nikkei-225-index-historical-chart-data.

2 *Dollar Yen Exchange Rate (USD JPY) – Historical Chart*. https://www.macrotrends.net/2550/dollar-yen-exchange-rate-historical-chart.

3 The "Three-Arrows Strategy"

The first administration of Shinzō Abe started in September 2006 with great hope. He was enthusiastic about "big issues" in Japan's economy. Abe's policy philosophy echoed this view:

> When I assumed the office of the Prime Minister in September last year, I laid out to the people of Japan the vision that the Abe Administration will pursue: "a beautiful country, Japan." A country which is full of vitality, opportunity and compassion; a country which cherishes the spirit of self-discipline; a country which is open to the world; so that it is admired and respected by people all over the world, and our children's generation can possess self-confidence and pride. In order to realize this new vision of Japan, I believe it will be essential to work with the Japanese people and produce results one by one with a sense of speed. I pledge to continue my utmost efforts towards Japan's bright future (Speech on January 26, 2007).

The new administration's plan for revitalizing the Japanese economy assumed a 4% nominal GDP growth rate. It was at this time that the word "Abenomics" was first used in the media discourse. But PM Shinzō Abe resigned in September 2007, when a series of political scandals erupted.

Shinzō Abe was reelected on December 26, 2012, to lift the Japanese economy out of the Great Stagnation. At the turn of 2012 and 2013, a new government was formed, which announced a new policy package of economic reforms. At the beginning of 2013, PM Shinzō Abe declared aiming at achieving a 2% average real GDP growth rate within the subsequent 10 years, support for the private sector, considerable increase in the inflow of foreign direct investment (FDI) and export, related to the creation of infrastructure and also declared making the labor market more flexible and ensuring the greater participation of women in the workforce "800,000 additional women." The plan was based on three components: aggressive monetary policy, flexible fiscal policy, and growth strategy including structural reforms designed to engineer a break from the past to forge a new, progressive future (Figure 3), and is thus often called the "Three-Arrows Strategy."[3] All three arrows combined are expected to lift the Japanese economy out from a deflationary bad equilibrium to a normal good equilibrium with higher growth and 2% inflation [Ito, 2016, p. 21].

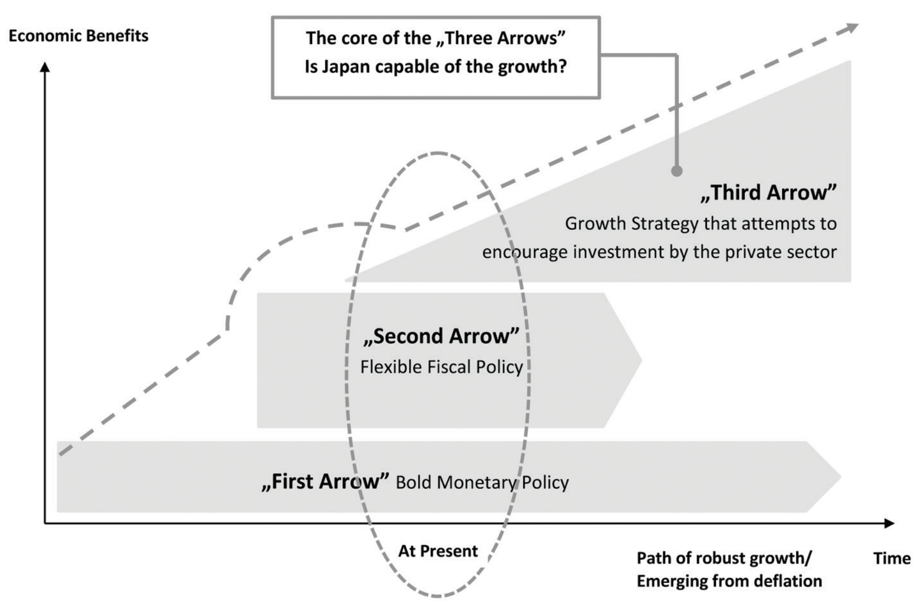

Figure 3. "Three-Arrows Strategy."
Source: MUFG [2018, p. 5].

3 By referring to the rich national culture of Japan, Shinzō Abe evoked the parable from the end of Edo era which implies that a single arrow can easily be snapped, while a bunch of three arrows together or launching one arrow after another guarantees success, for this reason, he decided to "launch three arrows."

Aggressive monetary policy was implemented by Bank of Japan (BOJ), and it includes an inflation target of 2% supported by the QQE, through the purchase of a large number of government bonds and private equities through exchange trade funds. It was already in 2003 that the Japanese government was encouraged by the then chairman of United States Federal Reserve, Ben Bernanke, to undertake monetary activities that aim at overcoming stagnation and constitute the equivalent of American QQE. QQE system in Japan is similar to the activities of Federal Reserve System (FED), with the only difference is the scale of interventions. In accordance with the aggressive monetary policy, the BOJ’s holdings of Japanese government bonds have increased 3.3-fold in 4 years from 2012 to 2016, from 1,253 trillion yen ($15.5 trillion) to 4,177 trillion yen ($38 trillion), while the monetary base expanded 3.6-fold in the period of just under 5 years from December 2012 to August 2017, a remarkable increase compared to the 2.4-fold expansion over the 15-year period from December 1997 to December 2012. Furthermore, the BOJ introduced an unprecedented negative interest rate policy in January 2016 to achieve the inflation target [Ito et al., 2018, p. 1].

The transmission channels of the QQE are summarized in Figure 4. The key starting point is the increase in expected inflation rate. If the first arrow, with some help from the second arrow, succeeds in generating enough inflationary expectations, the real interest rate goes down. The decrease in the real interest rate has three consequences. First, it would affect asset prices, especially stock prices. As the present price of stock variables reflects the information about the future, the reduction in real interest rate would translate into an improvement in the discounted present value of the corporate earnings in the future, which leads to an increase in stock prices in the present. Second, the reduction in the real interest rate would depreciate the yen. Finally, the real interest rate could influence investment, although the extent of the sensitivity of investment on real interest rate varies. These effects, combined with an increase in government expenditure induced by the second arrow, would increase aggregate demand, which, in turn, decrease output gap and increase demand for loans and labor [Wakatabe, 2015, p. 120].

Monetary incentive constitutes solely an introduction to subsequent activities, especially with regard to the plan of changing the fiscal policy. Its objectives include the achievement of a record ¥600 trillion economy and primary surplus by 2020, as well as nominal and real GDP growth rates of 3 and 2% respectively, with plans to gradually reduce reliance on government debt. Flexible fiscal policy was conducted by implementing a series of “economic packages” that consisted mainly of public spending on building and maintaining infrastructures, such as roads, bridges, and tunnels in the areas affected by the

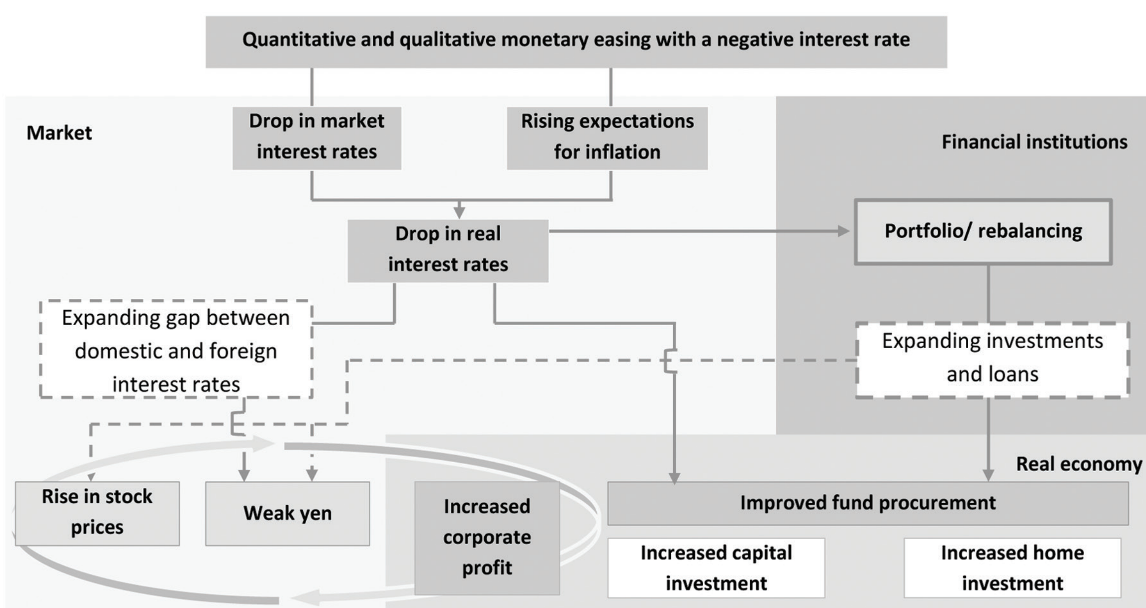

Figure 4. QQE system in Japan.
Source: MUFG [2018, p. 7].

tragic earthquake and tsunami. The main economic packages implemented under Abenomics include the following: 20.2 trillion yen ($220 billion) for an emergency economic recovery package in January 2013; 18.6 trillion yen ($180 billion) for creating the "Virtuous Cycle" in December 2013; and 28.1 trillion yen ($280 billion) for the investment in the future program in August 2016. Reflecting a partly aggressive fiscal policy, government expenditure increased from 191 trillion yen ($2.4 trillion) in 2012 to 195 trillion yen ($2 trillion) in 2013 [Ito et al., 2018, p. 2].

The twin monetary and fiscal stimuli were designed to provide an opening for the third element of the Abenomics, which is the growth strategy. The growth strategy was published under the title of "Japan Revitalization Strategy: Japan is Back" in June 2013, and since then it has been revised annually with different subtitles, such as Challenge for the Future (2014), Investment toward Future, and Productivity Revolution (2016). The title of the document for growth strategy for 2017 was changed to "Investment Strategy for the Future" with the subtitle of "A Revolution for Realization of Society 5.0." The main objectives of the growth strategy are to create an economic and business environment where active investment is undertaken; people can realize their potential to the fullest; new markets are created; and firms and people are integrated into the world. The policy measures designed to achieve those objectives are mainly the implementation of structural reforms and the opening of the closed markets. The companies and sectors that are covered in the growth strategy are broadly ranging from the development of human resources, through small and medium enterprises (SMEs), the information technology sector, promotion of science and technology, and inward FDI, to reforms in the agricultural sector and labor market [Ito et al., 2018, p. 2].

It is worth emphasizing that important synergies exist between aggressive monetary easing, fiscal stimulation, and growth strategy. In the structural sphere, economic growth will only increase if complementarities are explored. For example, those exist between deregulation and efforts aimed at developing new markets, between providing risk capital for new investment and opening markets to greater competition, as well as between trade agreements and efforts to spur greater business dynamism [Botman et al., 2015, p. 97].

On September 8, 2013, Tokyo was awarded a mandate to host the Summer Olympic and Paralympic Games for the third time, in many ways, a fitting summary in the first year of Abenomics' achievements.[4] Some researchers and political leaders explained that it's being seen as a "fourth arrow" of Abenomics that could carry PM Shinzō Abe government to reelection in 2016. It is expected that the Olympic Games will contribute to the revival of Japan's long-stagnant economy, deepen the country's integration with the international community, and show Japanese technology and culture to the world. Moreover, by building environmentally responsible infrastructure and sports facilities (Olympics village, transport systems, household electrical appliances, etc.), and integrating leading-edge technology in every aspect of the Olympic Games, the government aims to enhance Japan's role in the world economy and contributes to better understanding among nations, especially through sports and tourism [Mizuho Research Institute, 2014, p. 4].

4 Is Abenomics working?

Abenomics is still in its early stages and we must wait several years for the full assessment. Many signs, however, have been promising. Stock prices have soared: the Nikkei 225 stock index has increased from 10,230 yen on December 26, 2012, to 22,764 yen on December 29, 2017,[5] while the yen has depreciated from $1 = ¥85.15 on December 26, 2012 to $1 = ¥113.48 in December 4, 2017.[6] The effects are felt not only in the financial markets but also in the real economy.

4 In 1940, the Summer Olympic Games in Tokyo were canceled due to Japan's escalating aggression in China. In 1964, hosting the Olympic Games signaled Japan's reacceptance into the international community and showcasing economic achievements after post-war destruction.

5 Its highest level since November 1991 (*Nikkei 225 Index – 67 Year Historical Chart*, https://www.macrotrends.net/2593/nikkei-225-index-historical-chart-data).

6 *Dollar Yen Exchange Rate (USD JPY) – Historical Chart*, https://www.macrotrends.net/2550/dollar-yen-exchange-rate-historical-chart.

So far, the first arrow has been a dominant effect since the QQE has been fully implemented and has been able to contribute to reducing the real interest rate through rising expectations for inflation and increasing investment and thus increasing the real GDP and decreasing the unemployment rate. It is already an apparent success of the first arrow of Abenomics. The average annual growth rate of real GDP reached 1.3% from 2013 to 2017, compared with 0.8% in the first decade of the 2000s. At the same time, the output gap decreased from –2.2 to –0.7%. Private investment has grown by more than 18% in nominal terms. Also, the unemployment rate fell to 2.9%, the lowest since 1993. Even, deflation has been receding. Although the BOJ did not achieve the 2% inflation target, the CPI increased from 0.3 to 0.5% at the same time (Table 1).

An important measure for evaluating Abenomics is Tankan index for all industries and companies of all sizes. The Tankan index is conducted by the BOJ every March, June, September, and December with the purpose of accurately grasping the business trends and applying the findings in implementing monetary policy. The Tankan index of both manufacturing and non-manufacturing companies moved to the levels not reached since before the global financial crisis, driven by the growth in demand for exports and higher-order backlogs (Figures 5 and 6).

The new monetary framework has international implications. In the early phase of Abenomics, several East Asian countries showed serious concern about the yen’s depreciation because of a potential

Table 1. Japan: selected indicators, 2012–2017

Year	Real GDP (in % change)	Output gap (in % change)	Business investment (in % change)	CPI deflator (in annual average)	Unemployment rate (in annual average)
2012	1.5	−3.7	4.1	−0.1	4.3
2013	2.0	−2.2	3.7	0.3	4.0
2014	0.4	−2.6	5.4	2.8	3.6
2015	1.4	−2.0	3.4	0.8	3.4
2016	1.0	−1.8	0.6	−0.1	3.1
2017	1.7	−0.7	2.9	0.5	2.9

Source: IMF [2018b, p. 5].

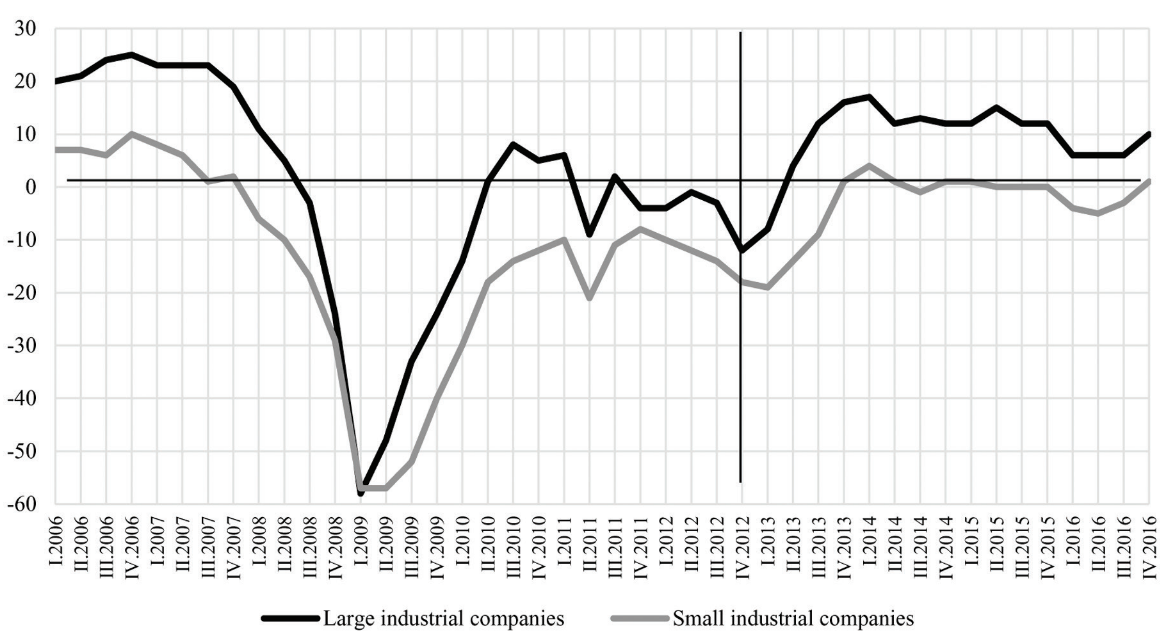

Figure 5. Tankan index for industrial companies.
Source: Own elaboration on the basis of [Bank of Japan].

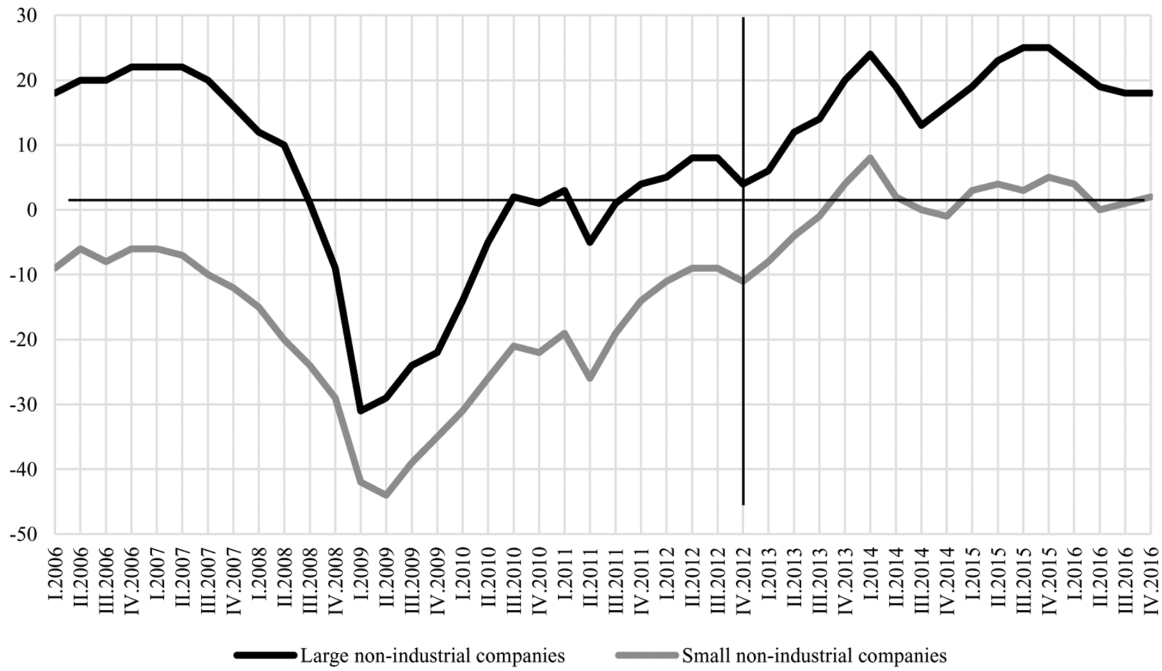

Figure 6. Tankan index for non-industrial companies.
Source: Own elaboration on the basis of [Bank of Japan].

beggar-thy-neighbor effect, resulting in regional competitive devaluation. Empirical results indicate that, contrary to initial concerns, stock markets in East Asia, which had first reacted to the yen's depreciation negatively, came to respond positively as QQE progressed. The fact that may explain the limited role of the yen as an international currency is that in East Asia, the United States dollar is the dominant currency. The other reason is the increased role of the supply chain in East Asia. In the 2000s, several Japanese corporate groups, such as keiretsu,[7] shifted their plants to East Asia. It is likely that a beggar-thy-neighbor effect was very small under increasing overseas production of keiretsu [Fukuda, 2017].

Fiscal policy has been tried many times in Japan, but it has not succeeded in getting the country out of the Great Stagnation. The attempts of the fiscal consolidation made by successive administrations were partial and inefficient. Thus, Abenomics has revived a great interest in fiscal policy. Japan's debt-to-GDP ratio has ballooned, exceeding the prewar peak that caused drastic inflation in the years immediately after the end of WWII. The general government debt to GDP ratio increased from 229% in 2012 to 235.6% in 2016 and 237.6% in 2017, significantly higher than in Greece, whose ratio was nearly 190% (Figure 7).

The rapid rise in Japan's debt occurred due to a large domestic shock (earthquake, tsunami, and accident at the nuclear power plant Fukushima I in Tōhoku region in 2011[8]) and external shock (global

7 Taking into account the expanded organizational structure and mechanism of functioning, Keiretsu groups are usually analyzed with regard to two aspects: ownership and functionality. In the ownership aspect, there are the so-called horizontal Keiretsu groups, that is, non-hierarchical groups of major companies derived from pre-war zaibatsu conglomerates (e.g., Mitsui, Mitsubishi, Sumitomo) that by means of credits are connected with the mutual leading bank and give preferential treatment to other group members that are either trading partners or joint ventures. In the functional aspect, a separate category is represented by vertical Keiretsu groups as the network of subsuppliers functioning within the frameworks of large corporations subordinated in terms of the capital as well long-term relations connected with production and distribution (e.g., Toyota, Hitachi, Toshiba) [Grabowiecki, 2006].

8 Japan witnessed two most tragic natural disasters since the 1990s: the earthquake in Kobe in 1995 as well as the earthquake, tsunami, and accident at the nuclear power plant Fukushima I in Tōhoku region in 2011. In terms of the material losses, these disasters are listed among the worst natural disasters in the world history. However, the 2011 disaster is presently ranked as the first, while the 1995 disaster is known as the third most expensive natural disaster. The Cabinet Office estimated the direct economic cost of the disaster at 16.9 trillion yen ($210 billion or 3.6% of 2011 GDP) [Grabowiecki and Dąbrowski, 2017].

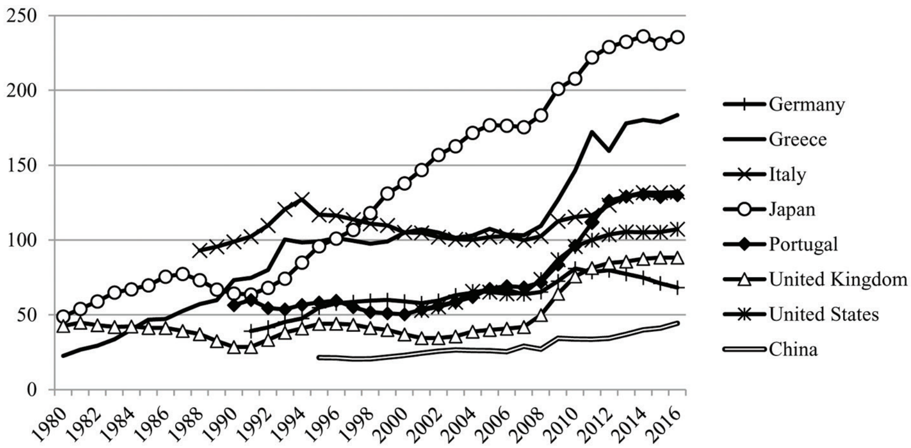

Figure 7. General government gross debt by country (% of nominal GDP).
Source: IMF [2018a].

financial crises), as well as structural one (aging population). The aging population affects the fiscal situation directly and indirectly: directly by putting pressure on social security spending, especially on pension and health and long-term care, and indirectly by reducing economic growth potential [Botman et al., 2015, p. 55].

Despite the fact that Japan has the highest debt-to-GDP ratio among the advanced economies, most of this debt is held domestically, exposing the country to important risks from a negative feedback loop between the sovereign and financial markets. Under the QQE framework, the BOJ has emerged as a key buyer of government bonds. Although financing and refinancing needs are high, domestic investors’ base has provided a stable financial resource and kept yields low, including of high demand for safe assets by the aging population. Thus, the new fiscal stimuli under Abenomics is slowly progressing, but at this stage, it is difficult to say whether the efforts will be sufficient to stimulate the economy.

The third arrow, often named the growth strategy, is most important to the long-run success of Abenomics. Shinzō Abe’s plan, the Japan Revitalization Strategy, first announced in June 2013, and since then revised annually with different subtitles, has the following components: stimulating private investment and innovation, strengthened utilization of human resources, creation of new markets, and integration with the world economy. Wakatabe [2015, p. 130] phrased the third arrow aptly as “a mixed bag of two ideas: industrial policy myth and the structural reforms ideology.”

There is no explicit discussion on how the implementation of the growth strategy has contributed to the achievement of the objectives of Abenomics. But it is important to note that to offset the demographic decline in the labor workforce, the growth strategy aims at increasing labor participation among women, elder workers, and—closely prescribed manner—foreign workers. A lower corporate tax rate and improved corporate governance would stimulate higher investment of companies. The special economic zones could serve as “laboratories” for various forms of deregulation. A range of policies would transform the financial sector into a growth engine. Trade liberalization would help to integrate Japan with the world economy in the future and incentivize much-needed deregulation in the agriculture and service sector.

Japan is a major global player as a trader, FDI investor, and global capital market participant. Thus, Japan’s deeper integration with the world economy—especially with regard to signing free trade agreements (FTAs) and economic partnership agreements (EPAs)—became one of the priorities of Shinzō Abe’s government, which is particularly active in diplomacy. Japan does not participate in the institutional regional economic integration which may be observed in Europe, whereas the cooperation between the Association of Southeast Asian Nations (ASEAN) in general has a functional character. Japan’s deepening intraregional trade has largely been driven by keiretsu outsourcing their production to the neighboring countries, especially China, Hong Kong SAR, and ASEAN. Japan’s stock of FDI is concentrated in the

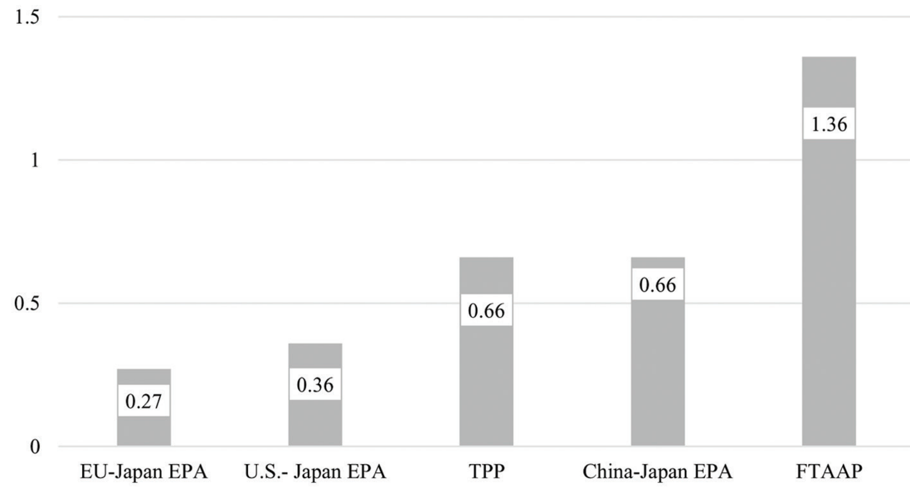

Figure 8. Projected effects of trade liberalization on real GDP (%).
Note: FTAAP denotes free trade area of the Asia-Pacific.
Source: MUFG [2018, p. 32].

United States, followed closely by Asia, reflecting the increased presence of keiretsu in the region. Europe has contributed to attracting around one-fourth of Japan's FDI.

The greater intensity of economic relations with the United States, Asia, and the EU is the factor that makes Japan's economy more dynamic. As of the end of June 2017, Japan had 15 FTAs/EPAs (14 bilateral and 1 regional with the ASEAN) [Solis and Urata, 2018, p. 107]. In the first half of 2013, Shinzō Abe's government announced the opening of negotiations regarding free trade within the frameworks of Trans-Pacific Partnership (TPP), including countries of the Pacific Ocean, and also began the negotiations regarding the establishment of the EPA with the EU. The TPP project had almost been completed, but at the beginning of 2017, it was torpedoed by the newly elected U.S. President Donald Trump who prefers bilateral agreements to the multilateral ones (The Bank of Tokyo-Mitsubishi UFJ, Ltd. 2018). In 2018, Japan and the EU signed EPA, the world's largest bilateral trade pact. Trade liberalization has a great impact on Abenomics (Figure 8).

FDI had been almost completely absent in the Japanese economy until the early 1990s. Several industries have remained like "sanctuaries," where foreign companies were virtually absent. As Bytheway [2014, p. 238] points out, the foreign investors in the Japanese economy after the WWII were, in many ways, more restricted than it had been before the 1930s. Thus, no wonder that the promotion of inward FDI is one of the main policy goals of Abenomics growth strategy. From 2012 to the end of 2017, Japan's inward FDI increased from 19.2 trillion yen to 322.7 billion yen (1.1%) in annual terms, witnessing the fourth successive year of a record high. The Japanese government announced its target of increasing inward FDI stock to 35 trillion yen by 2020.

5 Concluding remarks

Abenomics is entering its seventh year of operation. Recent economic data have been positive for the Japanese economy. Average GDP growth between 2013 and 2017 was 1.3%, and between 2012 and 2017, nominal GDP increased from ¥494 trillion to ¥546 trillion. Since 2013, Japan has experienced inflation every year, except in 2016, indicating that the economy has successfully broken out of deflation. Moreover, the government has reduced corporate taxes, and brought in reforms to corporate governance, and has also worked to stimulate inbound tourism. With regard to the labor market, the government has tightened regulations on working hours and placed compulsory caps on overtime hours. Demand in the labor market has increased, and as of July 2017, the number of employed people had increased by 4 million. In external economic relations, EPA with the EU was signed in 2018, and negotiations on the TPP were concluded at this time. The steady progress of inward FDI is being made.

Despite the increased acceleration in real GDP rate, Abenomics challenges remain serious. Rising government spending, driven by frequent fiscal stimulus packages and population aging, boosted gross general government debt. Even if the government’s target of a primary surplus in 2020 was to be achieved, the debt to GDP ratio would surpass 600% of GDP by 2060 in the absence of further fiscal consolidation [OECD, 2017, p. 6].

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