

My 'third arrow' will fell Japan's economic demons

Shinzo Abe

Since I introduced a package of measures to revive Japan's economy, there are three questions I am regularly asked about our country's prospects. First, people want to know whether I am genuinely committed to the "third arrow" of Abenomics. Make no mistake: I am. Our structural reforms have shifted up a gear this month. We reduced Japan's corporate taxes by 2.4 per cent this year, and will cut the rate further next fiscal year. We aim to reduce the level of the effective tax rate to the 20s over several years. This will help growth and draw international investors. Strengthening corporate governance is also critical to enhance shareholder value.

This month we established a rule requiring companies to appoint outside directors or explain why they have not done so. By 2015 the Tokyo Stock Exchange will introduce a wide-ranging corporate governance code, also asking that companies "comply or explain". Over 100 institutional investors have adopted a stewardship code, similar to one used in the UK. We are pushing ahead with forward-looking reforms to the Government Pension Investment Fund, which has assets of \$1.2tn. A review of the fund's portfolio will be completed as quickly as possible, benefiting the insured and also bringing investments that foster growth.

We are restoring Japan's venture spirit, creating opportunities for start-ups to bid for government contracts, opening markets and promoting new entrants in areas including energy, agriculture and medical services, and pursuing institutional reforms. We have established National Strategic Special Zones where businesses have been freed from burdensome rules, with further deregulation planned. Selected Japanese cities will be freed from zoning regulations limiting

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building heights. A one-stop process will replace byzantine procedures for starting a company. I have also accelerated negotiations on the Trans-Pacific Partnership and on an Economic Partnership Agreement with the EU in recent months.

A second question I am often asked is: can the Japanese economy withstand the consumption tax increase, which is effective from April. Unlike in 1997, the signs are encouraging. Summer travel reservations are stronger than last year. I am judging that the dip in consumption will be temporary.

The employment market is also improving. The ratio of job offers to job seekers has risen for 18 consecutive months, reaching the highest level in nearly eight years. Many companies, including small and medium-sized ones, have raised wages, resulting in the steepest increases in a decade. Summer bonuses are expected to be strong. Japan's economic recovery has resulted in imports reaching an all-time high of \$800bn last year, contributing to the global economy.

A third question is whether economic growth can be sustained in Japan, with its ageing society and falling birth rate. Here, my answer is clear. We need the support of all citizens. Since I hoisted the banner of "womenomics" in Japan, 530,000 women have entered the labour market. Large companies have vowed to appoint at least one woman to executive ranks. Listed companies will be subject to external checks to verify progress, under rules to be announced this autumn. We will help working mothers by making it possible to hire foreign workers as housekeepers in the special zones.

We need to help people make the most of their talents. The key word is diversity. Inflexible labour systems will be reviewed to enable all people, including women, youths, older workers and people with special talents, to fully display their capabilities. Enabling previously untapped resources to fulfil their potential will bring about robust and sustainable growth.

Fiscal sustainability is crucial. The 2014 budget improved the primary balance by \$50bn, more than the target enshrined in our medium-term fiscal plan. But without economic revival, there can be no fiscal consolidation. We will improve the government's fiscal position through steady revitalisation of the economy.

Our coalition government holds majorities in both houses of the legislature. The political environment is now favourable to advance our reforms. The Japanese public has requested a break from the "politics of indecision". With the public's support, I am absolutely committed to carrying out this reform agenda.

The writer is prime minister of Japan