

ECONOMIC OUTLOOK OF JAPAN AND THE WORLD 2019

February 28, 2019

The 310th meeting of "Foreign Policy Luncheon"* was held on February 28, 2019 on the topic of "Economic Outlook of Japan and the World 2019." The guest speaker was YOSHIZAKI Tatsuhiko (photo below), Chief Economist of Sojitz Research Institute. Outline of his speech is as follows.



IMF's World Economic Outlook

Striking is the fact that the International Monetary Fund (IMF) 'admitted the world economy is slowing down' as seen in the latest *World Economic Outlook* (WEO) published on January 21, 2019, with the title "A Weakening Global Expansion." WEO also indicates some points of note that the Chinese growth rate remains at 6.2% in 2 years straight, and Japanese economy is seen improved by the counter measure for the planned tax increase. On the other hand, the slowdown of the US economy is a concern in that the growth rate was at 2.9% in 2018, then it is expected to be 2.5% in 2019, and 1.8% in 2020.

US-China Trade Strife: Where is it going?

For China, given its own unstable economic situation, to solve the trade issue with the US is the priority. China, however, cannot concentrate to do so as other security issues are mounting, such as of North Korea. My personal observation is that the US-China trade talk will be prolonged beyond the current due in March. Trade imbalance can be dealt with China expanding its export, but structural issue e.g. intellectual property is harder to deal with. The most severe field is in the high-tech, including the private sectors like Huawei, because neither industry of the US or China can make compromise easily in that field, so the issue will remain for a while.

Japan's Economic Expansion

While the ongoing economic boom in Japan is reportedly the most enduring since the end of WWII, surpassing 'Izanami Economic Boom' (Feb. 2002 – Feb. 2008), credibility of this record is rather low, given the recent news of falsified statistics issued by the Ministry of Health, Labor and Welfare. The 'Izanami Boom' during the Koizumi administration was deflation/export-led economic growth that nominal growth rate did not change much while the real growth rate increased. It was not a quality growth as the employment rate did not improve, while this time it remains the real rate at 1% and the nominal rate at 1.7% since the inauguration of Abe administration, therefore it is better growth quality-wise. Having said that, it is difficult to foresee how long it will last, because the interest rate, which would affect the economic climate, has not changed, and the stock cycle is not clear, that the ups and downs of the economy is unclear.

Tax Increase and Future Issues

There are some big events scheduled in Japan in 2019, the election of the House of Councilors, TICAD, G20, or Rugby World Cup, but the most significant one would be the consumption tax hike (from 8% to 10%) in October. I am often asked if the tax hike would be postponed, though I think it would not be the case. The ongoing Diet session is discussing the budget with the scheduled consumption tax increase in mind. Rather concerning, the economic stimulus plans to prepare for the tax increase seems escalating. VAT relief on selected products, easing on car or housing taxes, vouchers and refund to cashless payments, to name some, have not been well discussed as a system, thus require much national discussion.



Employment Increase in Japan

The number of employments has been on the rise since the early 2010, then it hit the highest ever point of 6.67 million at the end of 2018. This figure is striking, given that the national population is decreasing by 400 thousand annually. Actually, though, the consumption has not increased while the employment number had increased. This is due to the fact that the employment increase was realized by employing more female, foreigners and senior citizens over 65 years of age. It is difficult for them to use their earnings directly to their consumption entirely, given the current working environment. So what should be considered is how to create the system to raise their wage so that it will link to their consumption.

(JFIR secretariat is responsible for this summary)

** "Foreign Policy Luncheon" is a monthly meeting organized by JFIR and its two sister organizations, the Global Forum of Japan and the Council on East Asian Community, with a view to providing an occasion for members of the three organizations to meet in an informal and confidential manner with senior officials of the Japanese Government and/or experts and specialists in fields related to international relations.*