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THE SMART POWER OF ABENOMICS: SHADOWS OF JAPANIZATION AND LONG-TERM CHALLENGES

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Abstract
This article discusses the main tasks of the smart power of Abenomics as the basis of the anti-crisis economic policy of modern Japan. The idea is argued that the Abe government proposed a program known as the "Three Arrows of Abenomics", the implementation of which helped Japan get out of deflation, but the economic growth potential remained extremely low.
This economic policy was unique in that the whole range of its measures was adapted to the specifics of the Japanese economy or Japanization.
The experience of modern Japan in the fight against economic stagnation is undoubtedly very valuable for many countries. Having studied the main stages of economic policy, as well as the difficulties faced by Japan during its implementation, each country will develop its own strategy to combat the economic crisis and stagnation, adapted to the characteristics of each of the states.
This article analyzes key aspects of the Abenomics economic reform package. In addition to characterizing individual measures, it focuses on the analysis of outcomes such as deflation, weak economic growth or labor market rigidity.
The characteristic features of the so-called new arrows of Abenomics are identified and

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described, which respond to the successes achieved, as well as to the new challenges of the Japanese economy.

Keywords: Japan, Japanization, Abenomics, reforms, spatial concertation, cluster analysis, savings, Abe Doctrine.

Introduction

The term Abenomics was first used by the media in 2006, when Japanese Prime Minister Shinzo Abe became the prime minister of Japan for the first time. However, we can only talk about the actual implementation of the program since 2012, when Abe was re-elected again. This year, the series of measures will celebrate the eighth year in operation. When Abe as PM announced his program, he attracted the attention of foreign media and investors alike. The reform agenda was so comprehensive that it raised expectations in several ways that Japan would miraculously resolve the years of its withdrawal, which many now call not only the Lost Decade, but the Two Lost Decades. But did Abenomics meet this expectation?

In this paper we analyze the individual measures of this economic package of reforms in connection with the most pressing problems that Japan has been facing since the lost decade. The aim is to identify the extent to which these measures have been successful in resolving the most crucial problems of Japanese economy. Today, several studies, but especially macroeconomic data, show that Abenomics has to some extent been successful[1]. Respectively, it is necessary to ask the question the other way around. What would happen if Abe did not take major reform measures? Where would Japan be today? Although Abenomics has not yet produced amazing results, it is constantly being reformed, as evidenced by a set of new revised measures, also called new arrows.

Besides the focus on labor marker, especially in terms of flexibility, it also covers more measures related to research, innovation and intelligent information technologies, such as big data, AI, robotics, smart cities initiatives. It also focuses on new sectors of the economy especially services, e.g. in the field of social care, and continues in areas such as greater involvement in regional free trade agreements and the support of SMEs[2].

In addition to the analysis of the original and new measures, the article will also address the spatial concentration of the propensity to save in individual prefectures in order to determine how homogeneous the population is in their consumer behavior. Abe's tax increases to raise the amount of money for the health and social care system support have been met with rather strong protests from the working population. In the older population, on the other hand, it further supported savings.

[1] Source: The Government of Japan. 2023. "Abenomics: For future growth, for future generations, and for a future Japan." *JapanGov*, Accessed August 30, 2023. https://www.japan.go.jp/abenomics/index.html.
[2] ibid.

The bubble economy: what goes around comes around

Before we can characterize Abenomics, it is necessary to understand what happened in Japan more than a decade before its adoption. The lost decade that Japan began to face in the early 1990s was caused by two bubbles - one on the stock market and the other on the real estate market. The bubble economy was characterized by rapid acceleration of asset prices and overheated economic activity, as well as an uncontrolled money supply.

There are several causes of crisis. One of them is the Plaza Agreement, after which Japan undertook to appreciate the yen, with the increase representing more than 100% of its value against the dollar in two years (Grabowiecki 2019). The second cause is monetary policy, especially the money growth that was out of control. The growth of the economy was associated with the drop-in short-term interest rates and aggressive monetary easing (OECD 2014). And we can name many others – liberalization and the aggressive bank behavior (Okina, Shirakawa and Shiratsuka 2001), or the Japanese land lease law. The consequences of the crisis have been devastating for Japan. Nikkei lost more than 50 percentage points of its value, banks had a lot of bad loans, an output gap arose, total factor productivity more than doubled, GDP growth since 2000 averaged less than 1% per year (Grabowiecki 2019). Figure 1 and Table 1 show the fluctuations of the Nikkei 225 as well as stock prices from 1980 to 2020.

Figure 1. The bubble of Nikkei 225 and stock prices in Japan

Source: https://www.macrotrends.net/2593/nikkei-225-index-historical-chart-data

Table 1. Nikkei 225 - Historical Annual Data

Year	Average Closing Price	Year Open	Year High	Year Low	Year Close	Annual % Change
2020	22,705.02	23,204.86	27,568.15	16,552.83	27,444.17	16.01%
2019	21,697.23	19,561.96	24,066.12	19,561.96	23,656.62	18.20%
2018	22,310.73	23,506.33	24,270.62	19,155.74	20,014.77	-12.08%
2017	20,209.03	19,594.16	22,939.18	18,335.63	22,764.94	19.10%
2016	16,920.48	18,450.98	19,494.53	14,952.02	19,114.37	0.42%
2015	19,203.77	17,408.71	20,868.03	16,795.96	19,033.71	9.07%
2014	15,460.43	15,908.88	17,935.64	13,910.16	17,450.77	7.12%
2013	13,577.87	10,688.11	16,291.31	10,486.99	16,291.31	56.72%
2012	9,102.56	8,560.11	10,395.18	8,295.63	10,395.18	22.94%
2011	9,425.42	10,398.10	10,857.53	8,160.01	8,455.35	-17.34%
2010	10,006.49	10,654.79	11,339.30	8,824.06	10,228.92	-3.01%
2009	9,346.11	9,043.12	10,639.71	7,054.98	10,546.44	19.04%
2008	12,165.35	14,691.41	14,691.41	7,162.90	8,859.56	-42.12%
2007	17,002.24	17,353.67	18,261.98	14,837.66	15,307.78	-11.13%
2006	16,110.38	16,361.54	17,563.37	14,218.60	17,225.83	6.92%
2005	12,422.58	11,517.75	16,344.20	10,825.39	16,111.43	40.24%
2004	11,179.25	10,825.17	12,163.89	10,365.40	11,488.76	7.61%
2003	9,311.42	8,713.33	11,161.71	7,607.88	10,676.64	24.45%
2002	10,123.14	10,871.49	11,979.85	8,303.39	8,578.95	-18.63%
2001	12,093.56	13,691.49	14,529.41	9,504.41	10,542.62	-23.52%
2000	17,145.01	19,002.86	20,833.21	13,423.21	13,785.69	-27.19%
1999	16,823.41	13,415.89	18,934.34	13,232.74	18,934.34	36.79%
1998	15,355.99	14,956.84	17,264.34	12,879.97	13,842.17	-9.28%
1997	18,397.52	19,446.00	20,681.07	14,775.22	15,258.74	-21.19%
1996	21,094.61	20,618.00	22,666.80	19,161.71	19,361.35	-2.55%
1995	17,329.70	19,684.04	20,011.76	14,485.41	19,868.15	0.74%
1994	19,935.83	17,369.74	21,552.81	17,369.74	19,723.06	13.24%
1993	19,100.00	16,994.08	21,148.11	16,078.71	17,417.24	2.91%

1992	18,109.08	23,801.18	23,801.18	14,309.41	16,924.95	-26.36%
1991	24,295.57	24,069.18	27,146.91	21,456.76	22,983.77	-3.63%
1990	29,437.18	38,712.88	38,712.88	20,221.86	23,848.71	-38.72%
1989	34,050.78	30,243.66	38,915.87	30,183.79	38,915.87	29.04%
1988	27,048.26	21,217.04	30,159.00	21,217.04	30,159.00	39.86%
1987	23,232.14	18,820.50	26,646.43	18,544.00	21,564.00	14.58%
1986	16,392.74	13,083.18	18,936.19	12,881.50	18,820.64	43.85%
1985	12,557.45	11,542.60	13,128.90	11,542.60	13,083.18	13.35%
1984	10,567.53	9,893.82	11,577.40	9,703.35	11,542.60	16.66%
1983	8,816.24	8,016.67	9,893.82	7,803.18	9,893.82	23.42%
1982	7,397.27	7,681.84	8,026.99	6,849.78	8,016.67	4.36%
1981	7,518.55	7,150.95	8,019.14	6,956.52	7,681.84	8.76%
1980	6,867.86	6,560.16	7,188.28	6,475.93	7,063.13	7.51%

Source: https://www.macrotrends.net/2593/nikkei-225-index-historical-chart-data

Reinhart and Rogoff (2009) claim that Japanese bubble in the turn of 80's and 90's was one of the Big 5 crisis in the world. Shibata (2017), on the other hand, says the bubble has completely changed Japan's political economy. However, in addition to this crisis, Japan has had to face another serious negative factor in the coming years. Whether it was the Global Financial and Economic Crisis in 2008 or the devastating earthquake in 2011 associated with the tsunami that hit the Fukushima nuclear power plant and caused considerable damage. All this had an impact on the decline in industrial production and manufacturing. In addition, another, very serious problem has been added today, and that is the aging of the population. At the time of the economic miracle, the Japanese population was still relatively young (Grabowiecki 2019). Nowadays, Japan is aging faster than other industrialized nations (Okma and Gusmano 2019). All of these accumulated shortcomings of the Japanese economy are addresses by Abenomics (Bobowski and Drelich-Skulska 2016).

The smart power of Abenomics is that Shinzo Abe's rise to power in 2012 and his early initiatives fundamentally changed Japan's foreign policy and defense policies through the 'Abe Doctrine' (Hughes 2015a; Hughes 2015b). It consists of building up its own defense capabilities and removing restrictions in the military sphere, strengthening and achieving greater integration within the alliance with the United States, as well as implementing the diplomacy of values, on the basis of which Japan pursues the goals of achieving leadership in East Asia and containing China (Dobson 2017, 201-204).

Strengthening the Japan-US security alliance remains Abe's top foreign policy goal. Japan's desire to find an answer to the challenge from China dictates, on the one hand, the strengthening of the alliance with the United States and the revision of certain aspects of defense policy, on the other hand, leads to the intensification of a diplomatic

strategy aimed at forming an anti-Chinese front. The intensification of the struggle for leadership in the region, which culminated in the confrontation between the two countries regarding the ownership of the disputed islands, is largely shaping Japan's new approach to China's offensive policy. Japan also sees a challenge to its national interests in China's actions in the South China Sea, where the main trade communications take place, including the transportation of most of the hydrocarbon resources it imports.

Success and challenges three arrows

Grabowiecki (2019) claims that Abenomics has two faces – political and economic. We agree that the political strength of the measures lies mainly in their engineer itself - Prime Minister Abe. But it is the economic level that is key to restarting Japan. Abenomics consist of three key areas, also called three arrows. The first arrow represents aggressive monetary policy. The second arrow is flexible fiscal policy. The third arrow represents a growth strategy, or otherwise structural reforms (Shibata 2017). The main goal of Abenomics was and still is to escape deflation caused by long-term quantitative easing, to increase demand and consumption and to stimulate investment. (Grabowiecki 2019). Now, let's take a closer look at the individual arrows.

The base of the aggressive monetary policy measure was the inflation targeting (set to 2% at first) and the purchase of government bonds. (Grabowiecki 2019; Shibata 2017; Jones 2013). In the initial phase of Abenomics, the Bank of Japan, led by the new Governor Haruhik Kuroda, launched an unprecedented quantitative and qualitative easing. The volume of asset purchases led to a strong correction of the Japanese yen (Hausmman and Wieland 2015; Fukuda 2012; Fukuda 2015; Grabowiecki 2019; Ito 2021a; Ito 2021b) which allowed the growth of Japanese companies' profits and asset prices in the financial markets. Positive inflation has been reached, but not targeted goal achieved.

Second arrow, flexible fiscal policy actually means the public spending on roads, bridges, infrastructure. The main package initially consisted of 220 billion dollars intended for the infrastructure recovery destroyed by the massive earthquake in 2011. Another 180 billion has been allocated for so called virtuous cycle. Abenomics' flexible approach to fiscal stimulus has enabled the government to implement and enforce several policies (Hoshi and Lipscy 2021). For example, in the area of increasing social security, education, public transport and other areas important for future growth (Hayashida, Yasuoka, Nanba and Ohno 2018; Adachi 2018, 9-11; Pu 2019).

The first and second arrows served for the development of the third arrow, i.e. structural changes and growth strategies. This is called Japan Revitalization Strategy. The basis of this strategy is the support of SMEs, science and research and labour market reform. Measures on the labour market include, for example, an increase in the number of facilities providing day care for children, or the promotion of flexible working hours (Song 2015). The involvement of women in the work process has

increased significantly as a result of these measures. The number of employees visiting through various student and work exchange programs has also rising tendency.

In 2013, OECD published report evaluating the appropriateness of the measures of the individual arrows, where it just emphasized the importance of their interconnection, especially the importance of structural changes (Jones 2013; OECD 2014). Without structural reforms, the effects of the first two arrows would only have a short-term duration. However, Jones (2013) pointed out the need for the fourth pillar, namely fiscal consolidation. It also emphasizes the need to reform the agricultural sector, which, however, has already found its application in the new arrows introduced in 2015. We summarise the original three arrows measures in the Table 2:

Table 2. Three arrows of Abenomics

Arrow	Measures	Goal
Aggressive monetary policy	Q&Q easing Inflation targeting 2 %	Reduction of real interest r. Elimination of deflation
Flexible fiscal policy	Stimulus package: Recovery $ 220 bill. Virtuous cycle $ 180 bill.	Economic growth
Structural reforms	Japan Revitalisation Strategy	Rise of competitiveness and FDI

Source: author's own processing

New arrows and old target

In September 2015, Japanese Prime Minister Shinzo Abe announced New Arrows of Abenomics under the slogan of a society promoting dynamic engagement of all citizens (Chiavacci and Lechevalier 2017; Armstrong 2021; Armstrong and Urata 2023). New arrows are sometimes referred to as Abenomics 2.0. The three new arrows are already focusing on new areas, namely strong economy, support for families with children and social security. In 2018, Japan introduced new social model Society 5.0[3]. The model has two primary goals – to achieve sustainable growth and to solve social problems by using intelligent technologies (Wakatabe 2015a; Wakatabe 2015b).

It can be said that the new Abenomics approaches the measures more complex, which can certainly be attributed to the initial success of the first arrows. The aging population is now seen as an opportunity for new markets - especially in the field of care or even wellness. Modern technologies such as big data, drones, electronic systems, electric cars or smart solutions should become an integral part of all areas of life - healthcare, infrastructure, tourism, business[4]. (JapanGov 2018). In the labour market, women (especially via childcare assistance, education, reduction of any forms

[3] ibid.
[4] ibid.

of violence or despot for single parents) and expatriates will be supported. Emphasis is placed on tourism, with technologies such as Wi-Fi networks to be used for marketing purposes as well as better experiences for tourists. To fully unleash the potential of business, the new Abenomics will focus on SMEs and the reduction of corporate tax below 30%.

In the area of international relations, Japan will strive to bring free trade agreements into force and avoid the impending trade wars such as in 80's with the USA (Lipková and Brocková, 2018; Lipková, Brocková and Baleha 2020). Japan commitment is to be the leader of the free trade. Last but not least, the stronger support for FDI should be secured by the reduction of administrative cost and welcoming the investment outside the major cities and industrial areas (see Table 3).

Table 3. New arrows of Abenomics

Arrow	Measures	Goal
Strong economy	SMEs IT Free Trade	Sustainable growth
Support for families with children	Childcare, education for women, support for single parents	Reduction of shrinking of population
Social security	Healthcare, Social services	Solving the aging of population

Source: author's own processing

Consume or save?

One of the goals of Abenomics is to stimulate demand and consumption. The high propensity to save is a traditional problem of Japan, which rather stems from its culture characteristics. Therefore, we make a simple analysis where we will look at how the tendency to save space is distributed in individual prefectures and where there is a higher possibility that people will be willing to spend more. New Abenomics 2.0 has a very specific innovation – some measure will be applied in particular places and then, if successful, will be applied across the country.

To examine the spatial concentration of the propensity to save in individual prefectures, we used cluster analysis, a method that aims to decompose a set of objects into several relatively homogeneous subsets (clusters) so that objects belonging to the same cluster are most similar, while objects from different clusters would be they should be as different as possible (Kushida 2018).

We chose hierarchical cluster analysis, specifically hierarchical agglomeration clustering. The hierarchical system of clusters is characterized in that it creates such a decomposition of the original set of objects, in which each of the partial decompositions is a refinement of the next (so-called agglomerative clustering) or the

previous (so-called divisional clustering) decomposition. In addition, agglomerative clustering is a bottom-up approach. Thus, in this approach, the individual clusters are iteratively joined into larger units.

The set of input data consisted of variables monitored by the Ministry of International Affairs and Communication Japan in 47 prefectures in Japan in 6 years, namely data for household saving as well as the unemployment rate. For the cluster analysis, we chose the Euclidean distance, which is given as:

$$\sqrt{\sum_{i=1}^{n}(x_i - y_i)^2}$$

x_i - value of the variable x for the i-th object
y_i - value of the variable y in the i-th object
n - number of attributes

Ward's minimal variance method was used. In this method, the similarity of objects or clusters is measured as the sum of squares between objects from two clusters, summed over all attributes of the given objects. The results are shown in the Table 4.

Table 4. Results of the cluster analysis of prefectures

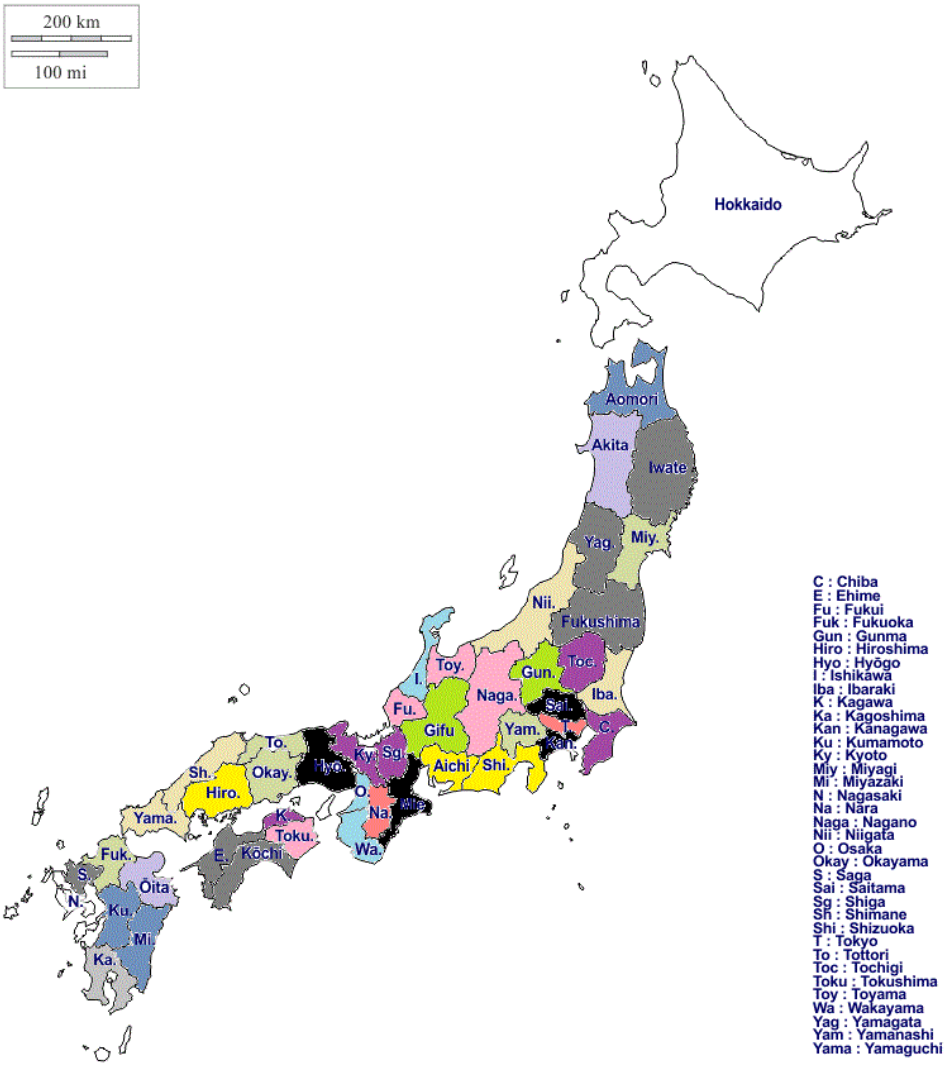
Cluster	**Prefectures**					
1	Nara	Tokyo				
2	Aichi	Shizuoka	Hiroshima			
3	Gunma	Gifu				
4	Ishikawa	Osaka	Wakayama			
5	Tokushima	Fukui	Toyama	Nagano		
6	Niigata	Ibaraki	Yamaguchi	Shimane		
7	Akita	Kagoshima	Oita			
8	Kumamoto	Miyazaki				
9	Aomori	Okinawa				
10	Kyoto	Kagawa	Chiba	Tochigi	Shiga	
11	Yamanashi	Tottori	Okayama	Miyagi	Fukuoka	
12	Kochi	Fukushima	Saga	Iwate	Ehime	Yamagata
13	Hyogo	Kanagawa	Saitama	Mie		

Source: author's own processing

The result of the analysis is the creation of 13 clusters. These clusters do not tell us about the order of a prefecture, but only about the similarity of the data. However, we could simply say that according to the results, the clusters are arranged from 1 to 13 according to the correlation of the propensity to save and unemployment in the prefecture, where cluster 2 has the most unfavourable results. That means, households in prefectures in cluster 1 are saving the most and vice versa, the prefectures in cluster

13 the least. The results are quite surprising for the author, because we expected the least tendency to save from Tokyo, for example. Following Figure 2 show the map of cluster of prefectures according to the cluster analysis.

Figure 2. Clusters of prefectures



Source: author's own processing

The analysis showed us in which prefectures household consumption is the most difficult to stimulate. On the other hand, it must be said that the differences between the individual prefectures are not too visible. At the same time, these are prefectures, where the unemployment rate is also higher, which is why Abenomics's labour market measures can be applied here.

Conclusion and discussion

The successes of Abenomics tend to be evaluated contradictory. There is a group of economists who praise it, then a group that considers some measures to be positive, and finally a group of negativists who are critical of Abenomics. Usually the truth is somewhere in the middle. That means, Abenomics achieves moderate results.

The measures have weakened yen rapidly and raised up stock prices. The positive inflation was achieved, however, the targeted goal not (Hausman and Wieland 2015). Inflation expectations remains around 1% (Shibata 2017). The aggressive monetary policy only had a limited effect on investment stimulation. What actually was achieved, was the rise of Nikkei 225, the GDP growth and the reduction of the output gap (Grabowiecki 2019). Several countries in the Asian region responded to the depreciation of yen by devaluing their currencies as the so-called beggar-thy-neighbour effect.

Kondo, Nakazono, Ota and Sui (2020) analysed the demand of Japanese stocks. They claim, that the only way to stimulate the aggregate demand in the situation known as liquidity trap, where Japan has been really trapped for a long period, is to drastically changes the expectation of the markets. In the analysis, they found that investors' expectations had indeed changed and thus that they had responded to the measures. However, the difference was in what type of investors. In the case of Abenomics, this is also very important information. Foreign investors reacted immediately, but not domestic ones. It is the stimulation of domestic investment that is one of Japan's biggest problems. Domestic companies have somehow lost the desire to invest.

Hausman and Wieland (2015) clarify that the growth of nominal wages, in the context of rising inflation, should be a critical factor in describing Abenomics' successes. Aoyagi and Ganelli (2015) found out an obvious increase in real wages, mainly due to the share of lower-paid-time employment. The female employment-to population-ration has also increased. However, they also agreed on that inflation expectation remains only moderate.

Shibata (2017) criticizes the success of the second arrow, expansionary fiscal policy. It emphasizes that the implementation of the stimulus packages has rather exacerbated the already poor state of public finances. Abe also increased his consumption tax, which he resented as consumption began to sag. However, the amount of funds under this Abenomics pillar has declined significantly.

However, there have been positive results in the area of international trade TPP agreement opens up the robust market access and boost competition (Watanabe 2018; Solís and Urata 2018). With the new arrow support for FDI, SMEs and IT this could really mean a positive change for the recovery of the Japanese economy. However, only time will tell how the new arrows can be implemented. In the following Table 4, we summarize the crucial macroeconomic data of Japanese economy.

Table 4. Macroeconomic data of Japanese economy

Period	*Real GDP Growth*	*CPI inflation*	*Interest rate*
1974–92	*4.0*	*4.8*	*6.8*
1993–2007	*1.1*	*0.1*	*0.6*
2008–12	*-0.2*	*-0.2*	*0.2*
2019	*0.7*	*0.3-0.5*	*0,01*

Source: Hausman and Wieland 2015, Bank of Japan

As seen from the Table 4, Abenomics measures improved Japan's macroeconomic indicators, keeping growth and inflation in positive numbers. However, in the context of the current global COVID-19 pandemic, the situation may change rapidly. And it turns out that change has already begun to the detriment of Japan has begun.

Reports from March show that the Japanese economy is entering a recession again. Although it has recovered moderately, the March figures show the opposite trend, and it is not expected to improve until at least the end of June, according to the Chief Economist of the Daichi Research Institute (Hirano 2020). Inflation weakened in February and March, which was also due to falling oil prices and a stagnant economy. This raises fears that Japan will enter a deflationary spiral (Ruan and Leung 2021; Tashiro 2022). In March, there was also a significant decline in tourism in the country, by as much as 93%. Estimates of the decline in tourism for the whole year predict a decline of up to 80% (Sugiura 2020).

Japanese Prime Minister Shinzo Abe has already released a financial package to support during the pandemic, but many are still calling for more money to be released (Aramaki 2018a; Aramaki 2018b). These measures will have a significant impact on public finances. Unfortunately, as a result of the pandemic, the long-awaited Olympic Games were also postponed although Japan has long sought to prevent this (Glawe and Wagner 2021; Yoda 2023).

Japan, like the rest of the world, will have to find its way to overcome the pandemic and deal with its consequences. All that remains is to hope that the situation will develop positively and contribute to harmonious and long-term growth. The measures contained in Abenomics have been on this path.

The increasing importance of the factor of power and the intensification of geopolitical rivalry with China under the slogan of protecting the status quo in the region and in the world determine the emergence of realism in Japan's foreign policy at the current stage. At the same time, focusing on 'hard power' does not mean abandoning 'soft power,' which is based on attraction rather than coercion. On the contrary, 'soft power' during Abe's period in power acquires special significance in Japanese foreign policy tools.

Supplementary material

The supplementary material for this article can be found at https://doi.org10.46991/JOPS/2023.2.5.100

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