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Global Financial/Economic Landscape

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Speech starting with an excuse.

- My name is Kenichi Ohta.
Not Kenichi Ohmae who is a famous management consultant and an author.
- Please don't expect too much because I am not an economist.
- I will try to focus on Japan's issues whether Japan's recovery is real.

Is Japan's economic recovery real?

- So far Abenomics has been successful to change the air because of Yen depreciation and higher stock price due to drastic quantitative easing.
- Question is whether recovery will continue even though consumption tax rate has been increased up to 8% from 5% on 1st April ,2014. Another 2% increase will be expected in 2015.
- We should have learned the lesson from past experience of tax increase last time in 1997.

Crossing “River of No Return”

- Japan’s QE is similar to US’s since BOJ is buying long term GB which is different from normal financial operation of buying and selling short term government securities.
- It shows strong commitment of “no more deflation”



- Different landscape will be seen compared to last 20 years.

VAT global comparison

Country	Tax Rate
Hungary	27.0%
Belgium	21.0%
Italy	21.0%
UK	20.0%
France	19.6%
Germany	19.0%
China	17.0%
Korea	10.0%
Australia	10.0%
Switzerland	8.0%
Canada	5.0%
Taiwan	5.0%

As of January 2012

US's sales tax rate varies depending on State, County, and City. The case of NY State and NYC is 8.875%.

4 big issues that Japan is facing

1. Government debts(reached up to 200% of GDP. But, 90% financed by local investors in YEN.)
2. Super-aged society(a quarter of population is over 65 years old. Opportunity to first develop new business model for senior people)
3. Securing of Energy (higher energy cost due to Yen depreciation. How was UK's case?)
4. Globalization(50% sales and profit comes from overseas. Where is new frontier?)



What is the solution for above issues in the long run?

How is Japanese GDP Composed?

GDP Composition Breakdown

Household final consumption expenditures	60.7%
Government final consumption expenditures	20.5%
Gross Capital Formation	20.8%
External Balance on Services and Goods	-2%

Data source: World Bank

Risk comes from the fall of middle-class

- Risk is related to consumption due to bipolarization.
- Bipolarization is not US only problem.
- Company's Retained Earnings VS Average Salary
- Tax law is favorable to corporates and rich people.
- Example :

Value-added tax is a kind of subsidy for exporting companies.

Dividends received from subsidiaries and other corporations is tax-free → Official corporate Tax Rate is 35%, but real tax rate is far lower.

Why Consumption Tax impacts negatively on Middle-class's consumption?

- Characteristic of Middle class in Japan
 1. Financial Assets by Japanese
 - mainly bank deposits
 2. Shareholders of Japanese listed companies
 - corporates and foreign investors
 3. Poor People Ratio and Gini coefficient
 - Trickle Down Theory is applicable in Japan?

ASEAN is the most important for Japan's Globalization

- Globalization for Japanese companies means ASEAN.
- Fast grown areas for the future and geographically very near.
- ASEAN Economic Integration will make investment in ASEAN more attractive.
- Future growth of dividends received relies on ASEAN's growth.
- Diversity and common tastes and values co-exist.

In Summary of My Own Views

- Foreign exchange rate is a key for stock performance ,but very volatile from outside events as temporary haven of risk money which leads to Yen appreciation.
- Inflation target will be possibly accomplished , but GDP growth rate is not easy to exceed inflation rate unless labor share is increased and disposable income is increased to stimulate consumption by middle class.
- The government debts is not a problem as long as it is financed by local investors and in Yen currency.
- Super-aged society issue will be solved to extend the working age and bring more women and senior people to the job market .
- In the long run , energy problem will be solved by either Shale revolution or innovation on digging technology.
- Middle class's psychology is a key to GDP growth.

Thank you for your patience.

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