

# THE RISING (SUN) ECONOMY – WHAT'S NEXT FOR JAPAN?

Christopher Gannatti — Head of Research, Europe  
04/24/2015

Recently, we attended a panel discussion at the Japan Society entitled “The Sun Also Rises?: Japan’s Potential in the Post-Crisis Global Economy.” The discussion was compelling and offered some of the most bullish and optimistic arguments we have heard in favor of looking at Japan today. Highlights of the discussion: **Tie Backs to the 1980s** In December of 1989, Japan’s [Nikkei 225 Index](#) nearly touched 39,000.<sup>1</sup> What we now know to have been a [bubble](#) started on a very positive foundation (as bubbles often do), namely: 1) one of the most stable policy regimes in the world; 2) Japan’s Income Doubling Plan; and 3) an overall attitude of collaboration between policy makers and business. Today, we look at how prime minister Shinzo Abe declared a snap election on December 14, 2014, to re-affirm public support for his government.<sup>2</sup> Today, it is also very difficult to talk about [Abenomics](#) without talking about the bottom line impact on the wages of Japanese workers and on the point of a collaborative environment between government and business. One panelist noted that Japan is the most professional government in the [G-20](#) right now. Over the last 20 years, this wasn’t always the case. The assumption is that Abe and his government want to turn Japan into a first-rate economic power again. **Japan’s Government Is Taking Action** While it is common practice to dissect and debate the policy actions of many developed market governments, we think it is important to highlight the fact that Japan’s government is taking action. Prime Minister Abe’s regime is universally pro-business. Last year there was fiscal tightening due to the raising of the consumption tax, but further hikes have been postponed. We’re also starting to see some deregulation and some cutting of corporate taxes. The bottom line: The speed of the so-called “[third arrow’s](#)” effectiveness can be debated, but it is crucial to note that the third arrow is making at least some progress, which is more than some other developed market country governments can say about their own policy regimes. **Japan’s Companies Are Innovative and Exciting** As detailed by a panelist, Japanese companies have the cleanest balance sheets and strongest banking systems. Key economic developments include: • Approximately 60% of internal components of global smart phones come from Japanese companies and require a degree of precision that one panelist felt can only come from Japanese companies. • Some of the world’s most environmentally friendly ships are being built by Japanese companies. • In terms of robotics, one panelist noted that Japan is the undisputed global leader, and he expected the world to see some very exciting things on this front as robotic software is further developed. **Japan’s Labor Force Has Enormous Potential** Approximately one-quarter of Japanese children grow up speaking both Chinese and English as well as their native language of Japanese. Other countries, especially those in Southeast Asia, look up to Japan as an example of a country with a strong system of education. Also worth noting: Japanese convenience stores change what is on their shelves three times daily. Think about convenience stores in the United States trying to implement this. The Japanese have the required systems and controls in place to make what sounds like an impossible undertaking not only possible but routine. **Introducing a Two-Part Series: Japan on the Rise** We left the session so inspired that we wanted to share the themes of the discussion, so we’ll be writing a series of blog posts focused on the opportunity of Japan. Look for the other two in the coming weeks: 1) Why Companies Are Starting to Reinvest in Japan 2) Why It’s Good to Be Young in Japan <sup>1</sup>Source: Bloomberg. <sup>2</sup>Source: “Japan Election: Voters Back Shinzo Abe as PM Wins New Term,” BBC News, 12/14/14.

## Important Risks Related to this Article

Investments focused in Japan increase the impact of events and developments associated with the region, which can adversely affect performance.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## DEFINITIONS

**Nikkei 225 Stock Average Index** : A price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

**Bubble** : when market participants drive stock prices above their “fair value” in relation to some system of stock valuation.

**Abenomics** : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan’s economic growth.

**G-7 Countries** : France, Germany, Italy, Japan, United States, United Kingdom, and Canada.

**Third arrow policies** : The part of Japan’s Abenomics process of reform that is focused on structural changes intended to promote economic growth.